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Openings Before Reform:

Socialist China's “Self-Reliant” Trade with the Capitalist West, 1949–1976

A dissertation submitted in partial satisfaction of
the requirements for the degree Doctor of Philosophy
in Sociology

by

Sandy Xu

2026

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ABSTRACT OF THE DISSERTATION

Openings Before Reform:

Socialist China's “Self-Reliant” Trade with the Capitalist West, 1949–1976

by

Sandy Xu

Doctor of Philosophy in Sociology

University of California, Los Angeles, 2026

Professor Rebecca J. Emigh, Chair

How can developing countries simultaneously participate in global markets and maintain economic sovereignty? I address this question by explaining how Maoist China (1949–1976) implemented “self-reliant” trade with the capitalist West, and especially with West Germany. Like other developing countries in the postwar period, Maoist China pursued a form of import-substitution industrialization (ISI). Unlike most other developing countries, however, China’s ISI experience adhered closely to the Maoist slogan of “self-reliance” and did not result in balance-of-payments problems and debt crises in the 1980s. Thus, China entered the decade with no external obligations, an autonomous policy environment for gradualist market reforms, and an industrial base on which to unleash them. Yet Maoist self-reliance is a puzzle for development theory. Lacking a Weberian economic bureaucracy and facing Cold War geopolitical constraints

to accessing global markets, Maoist China's internal and external conditions appear to have been hostile to successful implementation of ISI.

To explain Maoist self-reliance, I reevaluate the internal and external conditions of Maoist development. I argue that the state-formation and state-building processes of the People's Republic China interacted with the expansionary tendency of capital to enable self-reliant trade. First I trace how *intra-elite*, *intra-state*, and *state-society* relations favored *trade bureaucracy* capacity over rational domestic economic governance. Second, I show how the capitalist core saw the Chinese market as a *spatial-temporal fix* for overcapacity—and how the Maoist trade bureaucracy's *semi-withdrawal* from global markets leveraged *capitalist competition* to import technology and other resources on advantageous terms.

This dissertation makes three contributions. First, I develop a heuristic framework for analyzing the social foundations of institutional capacity. The framework relaxes the theoretical juxtaposition of developmental states and pockets of efficiency, inviting more comparative-historical work on variation in capacity both within the state and over time. Second, I find that overcapacity and competition can provide opportunities for geopolitically marginalized states and global capital to defy hegemonic trade policies. This finding has implications for the trade conflicts and the resurgence of industrial policy in the present. Third, I show that Maoist China's socialist development was bound up with the fluctuations of global capitalism.

This dissertation of Sandy Xu is approved.

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2026

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LIST OF ABBREVIATIONS

CCP	Chinese Communist Party
CCPIT	China Committee for the Promotion of International Trade
CEROILFOOD	China National Cereals, Oils, and Foodstuffs Import and Export Corporation
CHINCOM	China Committee of COCOM
CIRECO	China Resources
CNIEC	China National Import Export Corporation
COCOM	Coordinating Committee for Multilateral Export Controls Corporation
CSR	Chinese Soviet Republic
DEMAG	Deutsche Maschinenfabrik Aktiengesellschaft
Eastern Association	German Eastern Business Association (Ost-Ausschuss der Deutschen Wirtschaft)
FRG	Federal Republic of Germany
KMT	Kuomintang
MACHIMPEX	China National Machinery Import and Export Corporation
MACHIMPORT	China National Machinery Import Corporation
PRC	People's Republic of China
ROC	Republic of China
TECHIMPORT	China National Technical Import and Export Corporation

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Introduction | The puzzle of Maoist China's "self-reliant" import-substitution

How can developing countries simultaneously participate in global markets and maintain economic sovereignty? In the postwar period, the answer for "late late" developers was the policy of import-substitution industrialization (ISI).¹ Economies across Latin America, Africa, the Middle East, Asia, Eastern Europe, and the Soviet Union, implemented ISI in different forms, but they all followed the basic rubric of combining trade protection against foreign manufactures with state-led promotion of domestic industries to replace them. First implemented out of necessity following the economic devastation of World War II and then codified in the 1950s, ISI remained a policy trend into the 1970s. However, ISI almost universally led to balance-of-payments problems and contributed to the global debt crises of the 1980s. To address their economic problems, developing countries accepted debt servicing from the Bretton Woods institutions, which demanded that rapid market liberalization policies replace ISI. Yet the dissolution of ISI renewed dependence on primary product exports, diminished economic sovereignty, and ultimately reversed decades of development.² The convergence of poor development outcomes across the Second and Third Worlds, with their variation in both domestic and international conditions, suggests that ISI was unlikely ever going to work.

However, in perhaps the least likely of places, ISI created the conditions for a world-historically unprecedented economic boom. This dissertation explains Maoist China's (1949–1976) exceptional experience with ISI, or what was termed "self-reliance" (*zili gengsheng*).

¹ A. O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," 8–9.

² Therefore, the modal ISI experience seems to show that developing countries' return to economic dependence at the close of the century was, in essence, an outcome of path dependence. Developing countries could not transcend their disadvantaged position in the global economy, into which they been inserted through historical colonial trade relations.

Maoist China imported capital goods from the capitalist world and protected its domestic market from foreign manufactures without creating long-term balance-of-payments problems or external debt obligations. Consequently, Dengist China escaped the debt crises of the 1980s and thus the attendant external pressures to rapidly liberalize its markets. Self-reliance thereby provided not only the autonomous policy environment for the implementation of China's much-lauded gradualist market reforms, but also the industrial base on which to unleash them. Self-reliant trade therefore created the political and economic conditions for the "Chinese miracle."³ It is no exaggeration to say that Maoist China's ISI experience changed global social structure and qualifies as a Sewellian "event."⁴ By positioning reform-era China to develop its export sector on its own terms, Maoist self-reliance changed the structure of the global economy.

Yet Maoist self-reliance is a puzzle for development theory, as the internal and external conditions of Maoist China appear to have been hostile to successful implementation of ISI. Unlike the Northeast Asian developmental states, considered the exception to ISI policy failure, Maoist China lacked a Weberian economic bureaucracy and faced Cold War geopolitical barriers to trade with capitalist countries. Given these constraints to foreign trade, how did Maoist China achieve self-reliance?

The internal and external conditions of postwar ISI

Late (and late late) developers have long attempted to take advantage of trade with early developers while avoiding economic dependence on them. From the nineteenth-century breakthrough of global industrial capitalism through the interwar period, the policies that would

³ Friedman, "Reinterpreting the Asianization of the World and the Role of the State in the Rise of China," 249; Hung, *The China Boom: Why China Will Not Rule the World*, 48–55.

⁴ Sewell Jr., "Historical Events as Transformations of Structures: Inventing Revolution at the Bastille," 842.

later become codified in the 1950s as ISI emerged spontaneously. In the nineteenth century, late developers such as the Ottoman Empire, Imperial Germany, and Meiji Japan implemented ISI in response to the rise of British dominance in manufacturing. In the early twentieth century, the late late developers, most notably in Latin America, implemented ISI in response to various capitalist crises—World War I and the Great Depression, during which economic disruptions cut them off from capital imports from the industrial core and led to a decline in primary product prices, respectively.⁵

Initially, after World War II, developing countries practiced ISI to conserve foreign exchange.⁶ In the 1950s, however, development economists articulated the theoretical basis for ISI, turning the spontaneous reaction to global market conditions into economic orthodoxy. They predicted that the lack of domestic capital formation and the international conditions of free trade, particularly prices for primary products, did not favor developing countries following comparative advantage.⁷ Therefore, developing countries should defy comparative advantage—reflecting the widespread notion that promotion of manufacturing is the *sine qua non* of development—and invest in building up their industrial sectors. However, development economists also predicted that in the absence of profitable raw material exports such as petroleum, ISI would lead to balance-of-payments problems in the long run. Yet even after ISI lost the support of the economic establishment in the 1960s, developing countries continued to pursue it as part of a wave of explicitly nationalist development drives. ISI was the “universal postcolonial solvent.”⁸

⁵ Waterbury, “The Long Gestation and Brief Triumph of Import-Substituting Industrialization,” 327–28.

⁶ Prebisch, *International Cooperation in a Latin American Development Policy*; A. Hirschman, “The Political Economy of Import-Substituting Industrialization in Latin America”; Irwin, “The Rise and Fall of Import Substitution,” 3.

⁷ Irwin, “The Rise and Fall of Import Substitution,” 2; Prebisch, *Toward a Dynamic Development Policy for Latin America*; Singer, “The Distribution of Gains between Investing and Borrowing Countries.”

⁸ Frieden, *Global Capitalism: Its Rise and Fall in the Twentieth Century*, 111.

By the 1980s, almost all developing countries experienced the problems postwar development economists anticipated. Both the state capitalist Third World and the state socialist Second World confronted balance-of-payments problems and unsustainable external debt.⁹ The Northeast Asian developmental states, particularly South Korea, were not untouched by the problems of ISI, but they came out on the other side with strong economies.¹⁰ Analyses of the ISI experiences of the state capitalist Third World, state socialist Second World, and Northeast Asian developmental states have identified the internal and external conditions that can facilitate or constrain implementation of ISI. Given the historical development of ISI, its theorization hews closely to classical theories of capitalist transformation.

Internalist explanations

Internalist explanations highlight the intra-state and state-society relations that inform industrial policy formulation and implementation. As in the cases of early developers, postwar ISI experiments featured the guiding hand of the state.¹¹ State intervention is especially necessary in backward countries. Because the domestic capitalist class is weak, the state must both provide capital and direct its investment toward activities that align with its development goals.¹² States are more likely to accomplish these tasks when their bureaucracies are coherent and “Weberian” (centralized and meritocratic) and when they are simultaneously embedded in, but autonomous from, society.¹³ In the absence of such intra-state and state-society relations, economic activity

⁹ Waterbury, “The Long Gestation and Brief Triumph of Import-Substituting Industrialization,” 334–35.

¹⁰ Wade, “The Asian Debt-and-Development Crisis of 1997-?: Causes and Consequences.”

¹¹ Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*; Reinert, *How Rich Countries Get Rich and Why Poor Countries Stay Poor*.

¹² Gerschenkron, “Economic Backwardness in Historical Perspective”; Waterbury, “The Long Gestation and Brief Triumph of Import-Substituting Industrialization,” 325–28.

¹³ Evans, “Predatory, Developmental and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State”; Evans, *Embedded Autonomy: States and Industrial Transformation*; Rueschemeyer and Evans, “The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective

may not only fail to advance development goals, but can also make ISI, which is expensive to begin with, even costlier.¹⁴

Indeed, unsustainable levels of public spending was a systemic feature of ISI in the state capitalist Third World and state socialist Second World.¹⁵ There, governments suffered from relatively incoherent, personalistic bureaucracies and from a lack of autonomy from social interests. The state capitalist Third World bureaucracies tended to be sprawling and patrimonial, resulting in conflicts within the state administration that challenged rational policy implementation and misdirected or inefficient use of public resources. Compounding incoherence, some Third World administrations also limited the development of the bureaucracy's technical expertise by rotating its staff.¹⁶ Meanwhile, protectionist measures and public investment benefited industrialists and urban middle classes, whose demands both put further financial pressures on the state and limited the state's steering capacity. Unable to incentivize learning and innovation, yet dependent on political support from the industrial sector, the state continued to invest in and protect firms even when their products were uncompetitive on the world market and failed to earn foreign exchange.¹⁷ In Latin America, the nationalistic ISI policy package included welfare provisions for the urban middle class. Together, the industrial and welfare expenditures contributed to inflation, which the states

Intervention"; Chibber, "Bureaucratic Rationality and the Developmental State"; Leftwich, "Bringing Politics Back in: Towards a Model of the Developmental State."

¹⁴ ISI requires foreign exchange not just for the import of capital goods but also for intermediate components. Thus, even when it goes smoothly, it tends to require ever higher levels of investment. Irwin, "The Rise and Fall of Import Substitution," 7; Bruton, "A Reconsideration of Import Substitution," 919.

¹⁵ Waterbury, "The Long Gestation and Brief Triumph of Import-Substituting Industrialization," 335.

¹⁶ Evans, *Embedded Autonomy: States and Industrial Transformation*, 60–70; Gereffi and Fonda, *Regional Paths of Development*, 435–40; Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery*, 393–99; Evans and Rauch, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth," 756–60.

¹⁷ Bruton, "A Reconsideration of Import Substitution," 933; McGuire, "The Politics of Development in Latin America and East Asia," 584–85.

addressed with to periodic pauses in industrial policy.¹⁸ Yet because the state's legitimacy depended on rapid economic growth, it continued its high level of expenditure, financed by foreign borrowing.¹⁹

The state socialist Second World practiced ISI with more centralized administration, detailed development plans, and a completely state-owned economy, but still with constraints from bureaucratic incapacities and from social interests. State socialist bureaucracies were characterized by clientelism and by vertical bargaining between different levels of administration over resource allocation. The two dynamics promoted hoarding, shortages, and inefficiencies in production, along with distortions in economic information.²⁰ Bureaucrats were politically and structurally disincentivized from fully exercising their technical expertise when doing so contradicted the party line or upset more powerful officials in the *nomenklatura*.²¹ In the industrial sector, firms received state support regardless of their performance and produced according to the plan rather than consumer demand, discouraging innovation. The state failed to discipline either firm managers or labor, as firm managers hoarded resources and low wages led to widespread absenteeism.²² Despite denouncing global capitalism, the Soviet bloc increasingly relied on imports of both food and capital goods to address domestic production bottlenecks. Yet attempts to earn foreign exchange to pay for these imports through manufactured exports were unsuccessful, as the bloc's goods were uncompetitive in Western markets. As the state socialist industrial sector fell further and further behind innovations in the West, it increasingly relied on exports of raw materials, which also failed to bring in sufficient revenue.²³ Worsening living

¹⁸ Silva, "The Import-Substitution Model: Chile in Comparative Perspective," 74–75.

¹⁹ Frieden, "Third World Indebted Industrialization," 413–24.

²⁰ Kornai, *The Socialist System: The Political Economy of Communism*, chap. 7; Verdery, *What Was Socialism, and What Comes Next?*, 20–22.

²¹ Pakulski, "Bureaucracy and the Soviet System," 6–14.

²² Kornai, *The Socialist System: The Political Economy of Communism*, chap. 10.

²³ Frieden and Rogowski, "Modern Capitalism: Enthusiasts, Opponents, and Reformers," 419.

standards threatened the legitimacy of the Communist Party, which the population challenged with economic grievances. Unwilling to lower consumption levels, Eastern Europe and the Soviet Union, like Third World developing countries, took on foreign loans to prop up their economies.²⁴

In contrast, the Northeast Asian developmental states boasted centralized, meritocratic bureaucracies that were simultaneously embedded in and autonomous from society. The Northeast Asian economic bureaucracies recruited highly technically competent staff from the most elite programs of elite universities, a background that gave the bureaucrats a sense of unity and of identification with the states' development goals.²⁵ The economic bureaucracies also had dense network ties to the business sector forged by shared educational backgrounds and cultivated through state-supported business councils and trade associations. The bureaucracies' embeddedness facilitated market information collection and public-private partnerships.²⁶ The Northeast Asian developmental states were autonomous from the societies they inherited, which were rendered equally poor by previous land reforms and military conflicts. Consequently, capitalist interests were dependent upon public investment and lacked the leverage to capture rents. Weak civil societies facilitated state discipline of labor, which in turn made minimal expenditure on social policy politically feasible.²⁷ Thus state-society relations enabled the

²⁴ Forestier-Peyrat and Ironside, "The Communist World of Public Debt (1917–1991): The Failure of a Countermodel?," 352–326; Verdery, *What Was Socialism, and What Comes Next?*, 26–29.

²⁵ Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*; Öniş, "The Logic of the Developmental State," 114.

²⁶ Haggard et al., "The Transition to Export-Led Growth in South Korea: 1954–1966."

²⁷ Bruton, "A Reconsideration of Import Substitution," 922; Stubbs, "The Origins of East Asia's Developmental States and the Pressures for Change," 54; Öniş, "The Logic of the Developmental State," 117; Haggard and Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*.

bureaucracy to concentrate on “leading” or “governing” the market towards development goals.²⁸

Externalist explanations

Externalist explanations highlight geopolitical and global market conditions that form the global context of development, mediating development laggards’ acquisition of developmental inputs and the means to pay for them. Facilitative external conditions for ISI include support from the industrial core, international tolerance for protectionist measures, stable global financial markets, global demand for primary products, and access to export markets.²⁹ The global context of development is not solely determined by any one polity. However, states of the industrial core leverage their superior militaries and concentrations of capital to mold its structures and rules to protect and advance their interests. The resulting global political economy tends disadvantage later developers and reproduces external pressures that lock them into weak positions in the international division of labor.³⁰

While external conditions for the ISI in the Third World were initially favorable, they became hostile by the 1970s. In the 1950s and 1960s, high commodity prices, cheap loans, and US tolerance for Third World protectionism fueled state-led development. However, global geopolitical and economic conditions no longer supported Third World ISI in the 1970s, when conflict in the Middle East precipitated the oil crises of the 1970s, inducing a global recession,

²⁸ Wade, “Industrial Policy in East Asia: Does It Lead or Follow the Market?”; Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*.

²⁹ Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, chap. 2; Amsden, “The Wild Ones: Industrial Policies in the Development World,” 95; Frieden and Martin, “International Political Economy: Global and Domestic Interactions,” 121–22.

³⁰ Amin, *Accumulation on a World Scale: A Critique of the Theory of Underdevelopment*; Frank, “What Went Wrong in the ‘Socialist’ East?”; Wallerstein, “Dependence in an Interdependent World: The Limited Possibilities of Transformation within the Capitalist World-Economy.”

the collapse of commodity prices, and prompting hikes in global interest rates.³¹ These fluctuations in interest rates and global commodity prices were similarly deleterious for the Second World, which from the 1960s onward also increasingly relied on Western loans and primary product exports.³²

In contrast, the Northeast Asian developmental states enjoyed a uniquely favorable external environment due to shared histories of Japanese colonialism and a strategic position Cold War geopolitics. Japan's postwar economic steering agency was a direct descendent of the military-industrial administration of its imperial period, during which it passed on manufacturing and planning know-how to its colonies Taiwan and Korea and expropriated native economic elites. Thus the postwar Taiwanese and South Korean states inherited strong foundations for establishing high-performing economic bureaucracies.³³ For the US, Northeast Asian development was central to containing communism. Therefore, the US tolerated large trade deficits with its East Asian allies to promote economic recovery.³⁴ The Korean War, Vietnam War, and overarching Cold War prompted various international financial institutions to contribute military and economic aid to East Asian countries. This aid included not just infusions of capital, but also organizational and technical knowledge, particularly from the United States, to help the expansion of bureaucratic capacity.³⁵ Furthermore, the existential threat posed by Communist neighbors, North Korea and Communist China, helped to justify the

³¹ Frieden, "Third World Indebted Industrialization"; Amsden, "The Wild Ones: Industrial Policies in the Development World"; Fole, "The Historical Origin of African Debt Crisis."

³² Frank, "What Went Wrong in the 'Socialist' East?," 177, 182–83.

³³ Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*; Kohli, "Where Do High-Growth Political Economies Come From? The Japanese Lineage of Korea's 'Developmental State'"; Amsden, "The Wild Ones: Industrial Policies in the Development World," 115.

³⁴ Ikenberry, "American Hegemony and East Asian Order," 355–57.

³⁵ Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences"; Öniş, "The Logic of the Developmental State," 117; Stubbs, "The Origins of East Asia's Developmental States and the Pressures for Change," 55–57.

developmental state's focus on economic growth, stave off social policy demands, and control labor.³⁶ Finally, the East Asian developmental states also had the competitive advantage of the absence of similar institutions and weaker industrial performance in the rest of global economy.³⁷ Their manufactures exports thus faced less competition in global markets. While some East Asian states, most notably South Korea, experienced debt crises in part due to ISI-related borrowing, their indebtedness only became a financial crisis because of global market liberalization and financial deregulations in the 1980s and 1990s—both entailing reduction of targeted US support.³⁸ Thus, ISI succeeded in Northeast Asia with inputs from regional and international powers advancing their own interests.

The puzzle of Maoist China's self-reliant trade

Why did Maoist China's experiment with ISI succeed despite unfavorable internal and external conditions? The People's Republic of China followed the postwar trend of ISI; like other late late developers, China practiced ISI out of necessity. After over two decades of war with the Nationalists and the Japanese, the new socialist party-state had low foreign exchange reserves and sought to minimize its use on imports of consumer goods. Like other late late developers, it infused trade policy with nationalist sentiment, having inherited an economy previously dominated by imperial powers. Maoist China's ISI was an expression of the capacious revolutionary slogan of "self-reliance" (*zili gengsheng*). Encompassing different policies at different administrative levels, at the national level, self-reliance referred to industrial policy that combined trade protectionism with the cultivation of heavy industry. Maoist China pursued

³⁶ Öniş, "The Logic of the Developmental State"; Stubbs, "The Origins of East Asia's Developmental States and the Pressures for Change," 54–56.

³⁷ Öniş, "The Logic of the Developmental State," 122.

³⁸ Wade, "The Asian Debt-and-Development Crisis of 1997-?: Causes and Consequences."

self-reliant trade with both the eastern bloc and advanced capitalist countries.³⁹ As Figure 1.1 shows, from the 1960s onwards, advanced capitalist countries were a more significant source of Maoist China's capital imports than socialist ones. Notably, the leading suppliers, such as Japan, West Germany, and the United Kingdom, were also allied with, and dependent upon, the United States.

That Maoist China managed to implement ISI by trading with US allies and avoiding the financial problems to which other developing countries succumbed is surprising given its apparently unfavorable internal and external conditions of development. Internally, intra-state relations fostered a generally weak, incoherent, and politicized economic bureaucracy, while state-society relations prevented accurate economic information-gathering and consistent economic governance. Externally, Cold War geopolitics constrained China's access to global markets, limiting opportunities to earn foreign exchange and purchase capital imports.

Internal and external challenges to Maoist self-reliance

Internally, political turbulence contributed to the economic bureaucracy's low capacity. Within the state, numerous efforts to rid the party-state administration of political and ideological opponents of the Communist Party tended to result in attacks on technical expertise. These included the Three-anti and Five-anti Campaigns (1951–1952), the Anti-Rightist Campaign (1957–1959), and most notoriously, the Cultural Revolution (1966–1976), a period during which Mao encouraged radicals to attack the bureaucracy from the inside.⁴⁰ The dual administrative structure, with overlapping state and party bureaucracies, dispersed management,

³⁹ For a discussion of its origins and of its varied usage at different levels of administration and during different periods of Maoist China, see Riskin, *China's Political Economy: The Quest for Development since 1949*, Chap. 9.

⁴⁰ MacFarquhar and Schoenhals, *Mao's Last Revolution*.

and lack of durable institutions of economic governance at the local level, contributed to conflicting bureaucratic interests and incoherent administration. Decentralization during the Great Leap Forward and in the early 1970s made intra-state relations even less conducive to rational economic policymaking and implementation. State-society relations also did not favor economic governance. The campaigns against apparent political and ideological threats, along with administrative incoherence, led to incomplete state penetration into rural areas, where most of the Chinese population lived. Mutual distrust between the peasants and local cadres on the one hand and the central state on the other created a bargaining dynamic that culminated in the mass famines of the Great Leap Forward.⁴¹

Externally, Maoist China faced geopolitical constraints to accessing global markets. The United States employed numerous measures to restrict capitalist trade with the socialist bloc. In 1949, it established the Coordinating Committee (COCOM), a multilateral organization comprised of US allies, to enumerate a list of strategic goods it hoped to prevent the Soviet Union and Eastern Europe from acquiring from the West. In 1951, the US passed legislation that allowed the US president to withhold aid to any country that violated COCOM restrictions. During the Korean War, in 1952, COCOM established a related organization to enforce restrictions of strategic exports to China and North Korea, the China Committee (CHINCOM). The CHINCOM restrictions were even harsher than those imposed on the Soviet Union and not entirely lifted until the 1970s. They included not just materiel, but also industrial technology and basic commodities such as rubber.⁴² Lack of recognition by the United Nations and by US

⁴¹ Dreze and Sen, *India: Economic Development and Social Opportunity*; Wemheuer, *Famine Politics in Maoist China and the Soviet Union: Famine Politics in Maoist China and the Soviet Union*.

⁴² Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52"; Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949-1963*; Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 77.

allies further restricted trade possibilities with the West until the early 1970s. Despite these conditions, however, Maoist China imported an industrial base without running up long-term foreign debts and sacrificing its economic sovereignty.

The role of foreign trade in the Maoist economy and in Chinese development

Foreign trade constituted a small percentage of the Maoist economy. The average ratio of foreign trade to GNP during the period 1952–1974, for example, was around 6%.⁴³ Despite its small proportion of GNP, however, trade was qualitatively and quantitatively significant for both Mao-era economic planning and reform-era development.

Qualitatively, foreign trade goals determined the structure of Maoist agricultural and industrial production. Foreign trade planning was an integral process of overall economic governance, and economic planning necessarily required iterative input from the trade bureaucracy. The State Planning Commission began the process with analyzing statistical information received from various sources and looking at overall economic goals to draft estimates and initial control figures of imports and exports for the long-range and annual plans. The Ministry of Foreign Trade (MFT) then used the control figures to create general import and export plans in accordance with existing contractual obligations to foreign trading partners and the PRC's political relations; the composition of import and export commodities involved; global market conditions; domestic demand and export capability; and the amount of foreign currencies and external credits available. Using these general plans, the national foreign trade corporations made their specific import and export plans. After reviewing the national foreign corporations' specific plans, the MFT integrated them into general trade plans and the national

⁴³ Riskin, *China's Political Economy: The Quest for Development since 1949*, 207.

economic plan. After the State Council approved the national plan, the MFT supervised the national foreign trade corporations in executing their specific plans.⁴⁴ Foreign trade thus touched the everyday lives of peasants and workers, whose production goals and consumption levels were informed in some way by the export obligations that supported import plans.

Quantitatively, trade with non-socialist countries, and in particular advanced capitalist countries allied with the United States, contributed significantly to China's economic development.⁴⁵ The story of Soviet and eastern European technology transfer is of course well known. In its early days, the People's Republic followed the Soviet model of industrialization in the 1950s under the direct guidance of Soviet experts, who facilitated one of the largest technology transfers in human history.⁴⁶ However, this was largely a matter of necessity due to the US embargo on China, which preferred technology from the capitalist world. Before the embargo was implemented in late 1950, trade with non-socialist countries accounted for 70% of China's total trade.⁴⁷ Even during the embargo years of 1950 to 1957, non-socialist trade accounted for an average of 38% of total trade.⁴⁸ Even during the height of restrictions from 1952 to 1955, approximately 5% of China's imports of machinery and equipment still came from the capitalist world.⁴⁹

⁴⁴ Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 74–75.

⁴⁵ The CIA also noted its contributions to Chinese military development. See CREST. CIA-RDP85T00875R001600030095-4. "Intelligence Memorandum: US-China Trade Potential." July 1970, p. 5.

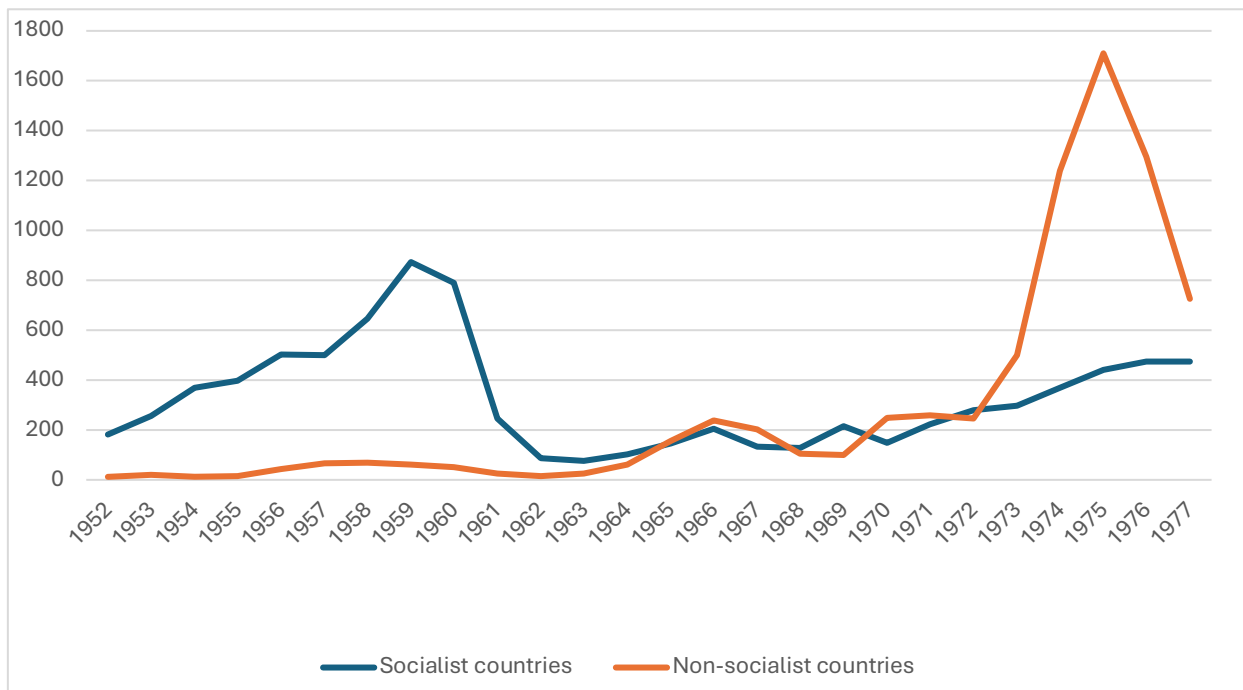
⁴⁶ Bramall, *Chinese Economic Development*, 99.

⁴⁷ CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965." 21 October 1966, p. 21.

⁴⁸ National Foreign Assessment Center, *China*, 9.

⁴⁹ Barnett, *China's Economy in Global Perspective*, 190.

Figure 1.1: China's machinery and equipment imports from socialist and non-socialist countries, 1952–1977 (millions, USD)



“Machinery and equipment” as defined by section 7 (Machinery and Transport Equipment) of the Standard International Trade Classification), which differ from the Soviet classification of machinery, equipment, and transportation facilities. Prices are f.o.b country of origin.

Source: A. Doak Barnett, *China's Economy in Global Perspective* (Brookings Institution, 1981), 190.

Capitalist trade overtook socialist trade in the 1960s. Already in the late 1950s, China began to turn away from the Soviet Union, and in 1960, Moscow suddenly withdrew all its technical experts from China. This began with a massive emergency grain import program in 1960 to address the famine induced by the Great Leap Forward (1958–1962). Once the grain imports stabilized the economy, Maoist China implemented a complete plant import program in the early 1960s. By the late 1960s, China imported nearly all of its grain and chemical fertilizer,

along with more than 90% of its steel and non-ferrous metals, from the industrial West.⁵⁰

Particularly significant were imports of technology for the petrochemical industry. Foreign technology supported both the increase in oil production and the ability to ship it abroad, which quickly became a huge source of foreign exchange. Export in commercial quantities began in 1973 and quickly rose from 1974 to 1975, from constituting 8% to about 12 to 13% of total export earnings. In the 1970s, before China officially “opened up,” the vast majority of China’s trade was with Japan and the West. In 1974, the height of China’s Four-Three technology import program, 87% of China’s imports came from non-socialist countries. Oil exports were crucial in paying for these imports, which concentrated in complete plants meant to improve productivity in the petroleum, energy, metallurgical, and agricultural sectors.⁵¹

The total contribution of these imports, both in immediate and downstream productivity increases, is difficult to quantify, but the example of the expansion of the Wuhan Iron and Steel Corporation (WISCO), the largest single project of the Four-Three program, is illustrative. Built by Western European and Japanese consortia, the expansion of the sprawling complex is estimated to have increased China’s rolled-steel capacity by 25% by the time construction finished in 1979. The investment in the 1970s provided the foundation for subsequent growth. In 2015, WISCO was the eleventh largest producer of steel (by volume) in the world.⁵²

Perhaps the most far-reaching legacy of Maoist China’s self-reliant trade was what it did *not* contribute: balance-of-payments problems and long-term external debt, which in other developing countries resulted in external pressures to adopt rapid market liberalization reforms

⁵⁰ CREST. CIA-RDP85T00875R001600030103-4. “Intelligence Memorandum: Communist China’s Trade with the Industrial West in 1969 and Prospects for 1970.” July 1970.

⁵¹ Eckstein, *China’s Economic Revolution*, 254, 262.

⁵² World Steel Association, “Top Steel-Producing Companies.”

that reversed decades of development.⁵³ In contrast, Maoist China managed to import an industrial base and acquire technological know-how while protecting its balance-of-payments position and without taking on long-term loans. Consequently, reform-era China escaped the 1980s debt crises and was able to continue to formulate its economic policies in an autonomous environment, free from external obligations. As Table 1.2 shows, in 1990, China's debt per capita was only \$47, while in Brazil and Mexico, the total debt per capita was \$789 and \$1,144. Similarly, Figure 1.2 shows that China's debt as a percentage of GDP was far below the low-income country average.

In sum, trade with capitalist countries was qualitatively and quantitatively central to the Maoist economy despite forming a small proportion of GNP. Capitalist trade was a keystone of the planning process, shaped the material conditions of everyday life for ordinary people, ameliorated the Great Leap famine, and fueled Maoist-era industrialization, creating an industrial base for reform-era development. Unlike the Third and Second Worlds, Maoist China's pursuit of ISI avoided balance-of-payments problems and long-term external debt. And unlike the Northeast Asian developmental states, Maoist China accomplished this with intra-state relations and state-society relations that internally constrained the performance of the economic bureaucracy and in hostile geopolitical and global market conditions that externally constrained foreign trade opportunities.

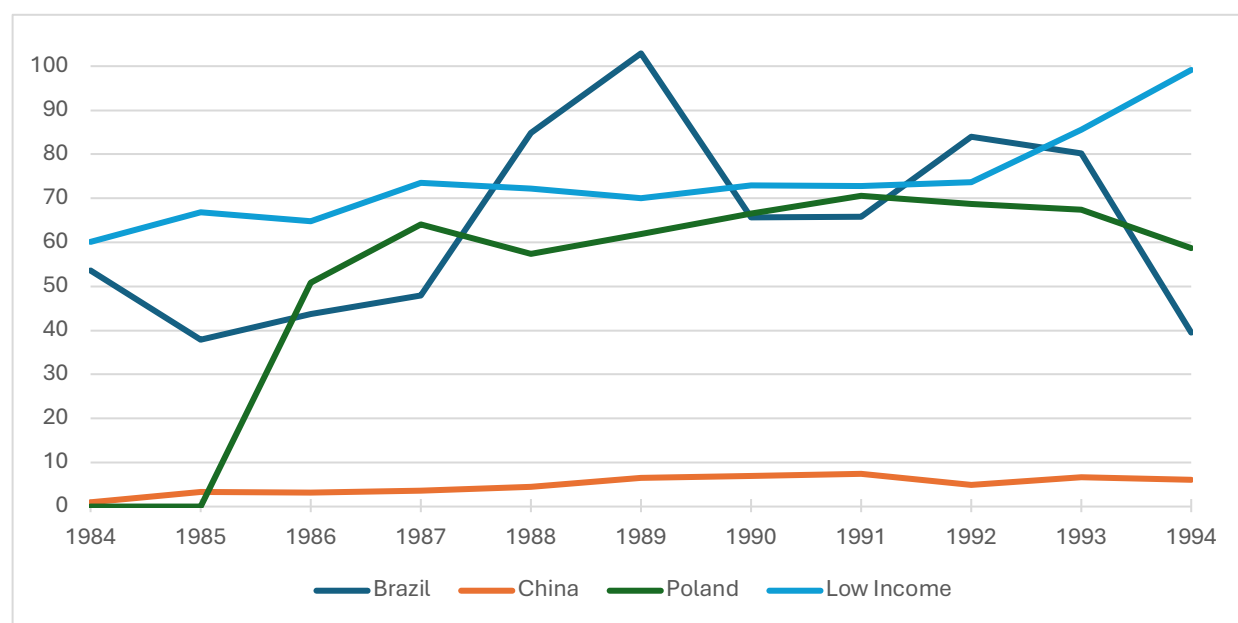
⁵³ Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform."

Table 1.1: Total debt outstanding of the top ten developing-country debtors in 1990

Country	Total debt (millions USD)	Population (thousand)	Total debt/capita (USD)
1. Brazil	116,173	147,300	789
2. Mexico	96,809	84,600	1,144
3. India	70,115	832,500	84
4. Indonesia	67,908	178,200	381
5. Argentina	61,144	31,900	1,917
6. China	52,555	1,130,511	47
7. Poland	49,386	37,900	1,303
8. Turkey	49,149	55,000	894
9. Egypt	39,885	51,000	782
10. Nigeria	36,068	113,800	317

Source: Platte, "China's Foreign Debt," 482.

Figure 2.2: China's debt as percentage of GDP, 1984–1994



Source: International Monetary Fund, "Historical Public Debt Database."

Explaining Maoist China's trade bureaucracy capacity and the global political economy of "self-reliance"

As described above, Maoist China's ISI experience is an apparent paradox for development theory. And yet, since China did succeed in realizing self-reliance, internal and external conditions cannot have been entirely hostile. Therefore, my dissertation reevaluates them, asking two questions:

- 1) How did Maoist China's internal conditions support trade capacity?
- 2) How did external conditions support Maoist China's self-reliance?

Internal conditions: From developmental states and pockets of effectiveness to institutional capacity

To reevaluate the internal conditions of Maoist China's trade capacity, I knit together insights of developmental state theory with those from studies on pockets of effectiveness (PoE). In so doing, I relax the conceptual juxtaposition of the two political and organizational formations. The developmental state, theorizing the unusual and historically specific Northeast Asian ISI experience, boasts high capacity across multiple bureaucracies that work together to achieve development goals.⁵⁴ Meanwhile, the PoE, theorizing uneven public sector performance in developing countries, is an anomaly within an otherwise weak-capacity state.⁵⁵ Neither concept accommodates variation. Capacity is *either* common throughout the administrative apparatus *or* concentrated in bureaucratic niches. But this is not the case for most countries and certainly not in the case of Maoist China. Instead, I reframe capacity as an outcome that can be not only unevenly produced within the state, but also over time. From this starting point, I propose a

⁵⁴ Roll, "Comparative Analysis: Deciphering Pockets of Effectiveness"; McDonnell, *Patchwork Leviathan: Pockets of Bureaucratic Effectiveness in Developing States*; Leonard, "'Pockets' of Effective Agencies in Weak Governance States: Where Are They Likely and Why Does It Matter?"

⁵⁵ Hickey and Pruce, "Pockets of Effectiveness and the Politics of State-Building and Development in Africa," 4.

heuristic model of the social foundations of *institutional capacity* and its *periods of performance*.⁵⁶

My model combines the developmental state and PoE literatures' insights on how intra-elite, intra-state, and state-society relations undergird capacity. First, state institutions are more likely to be effective when power is *concentrated* within a *unified political elite* that *share paradigmatic ideas* for development, and when organizational leaders are both *politically and technically capable*.⁵⁷ Second, a state institution's effectiveness also requires that the *interests, operations, and balance of power across and within the state do not conflict with its work*.⁵⁸ Third, the effective state institutions must be able to overcome or forestall challenges to its work from society, thus requiring *state discipline of society*.⁵⁹ Finally, fluctuations in intra-elite, intra-state, and state-society relations produce variation in the distribution of capacity within the state and over time. Figure 1.3 illustrates the interaction of intra-elite, intra-state, and state-society relations in the form of a triangle, the strongest polygon in geometry. Each point represents one of the facilitative relationships. If any one relationship is missing, the other two points do not form a stable shape.

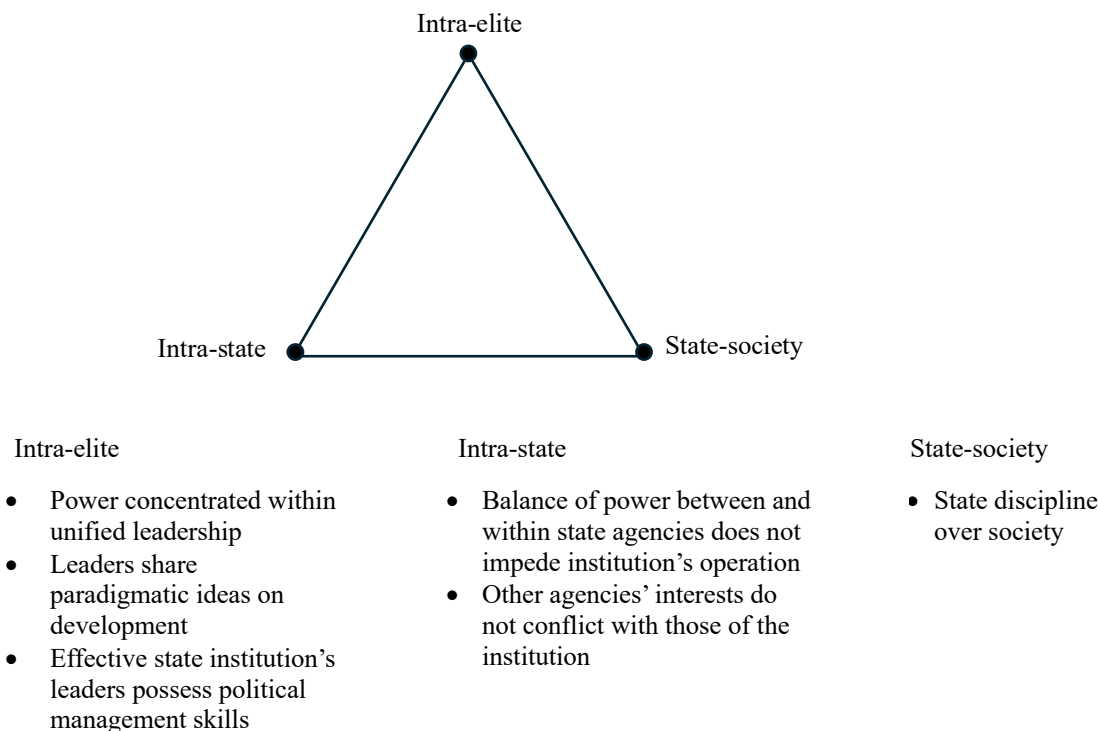
⁵⁶ Kim et al., *Institutional Capacity for Policy Implementation*, 4; Centeno et al., "Unpacking States in the Developing World: Capacity, Performance, and Politics," 422; Hickey and Mohan, "Reconceptualizing the Politics of Pockets of Effectiveness: A Power Domains Approach," 53–54.

⁵⁷ Hickey and Mohan, "Reconceptualizing the Politics of Pockets of Effectiveness: A Power Domains Approach," 36–42.

⁵⁸ Centeno et al., "Unpacking States in the Developing World: Capacity, Performance, and Politics," 10; Chibber, "Bureaucratic Rationality and the Developmental State."

⁵⁹ Centeno et al., "Unpacking States in the Developing World: Capacity, Performance, and Politics," 12; Amsden, "The Wild Ones: Industrial Policies in the Development World"; Evans, *Embedded Autonomy: States and Industrial Transformation*; Lie, "What Makes Us Great: Chaebol Development, Labor Practices, and Managerial Ideology."

Figure 1.3: The social foundations of institutional capacity



The developmental state and PoE literatures—along with critical theories of state power—also show that the establishment of state institutions takes place long before the official founding of the state. State formation occurs as organizations compete for the monopoly of force and shape social relations to serve their goals through bargaining, co-optation, cooperation, and coercion. These processes both create the initial conditions of development and long-run patterns in the distribution of power throughout the state. Therefore, analysis of the internal social foundations of state capacity should begin with tracing state formation.⁶⁰

⁶⁰ Hickey and Pruce, “Pockets of Effectiveness and the Politics of State-Building and Development in Africa”; Stubbs, “The Origins of East Asia’s Developmental States and the Pressures for Change”; Öniş, “The Logic of the Developmental State”; Centeno et al., “Unpacking States in the Developing World: Capacity, Performance, and Politics”; Tilly, *Coercion, Capital, and European States, AD 990–1990*; Mann, *The Sources of Social Power, Vol. 2: The Rise of Classes and Nation-States, 1760–1914*.

My analytical framework makes three contributions to internalist theories of development. First, by relaxing the conceptual divide between developmental states and POEs, I create a straightforward heuristic for assessing the social foundations of capacity. This perspective enables identification of facilitative internal conditions for ISI that a strictly developmental-state or PoE approach might miss. Second, by asking how capacity varies both within the state and over time, I open up new avenues for comparative research. Third, by tracing the social roots of this variation in the state formation process, I advance a historically grounded way of evaluating the “range of possibilities” for development policy.⁶¹

External conditions: The Cold War structure of global capitalism

To reevaluate the external conditions of Maoist self-reliance, I combine global, structuralist approaches to the study of capitalism. I draw on the theory of uneven and combined development and its extensions to consider both China’s and its capitalist suppliers’ positions in the global economy. Trade between countries of differing levels of development engenders contradictory geopolitical and economic interests within them.⁶² Extending this insight to the postwar period, I foreground the contradiction between trade-constraining Cold War strategic priorities on the hand and the expansionary logic of capitalism on the other. With US assistance, postwar Western Europe and Japan enjoyed rapid postwar recovery and resurgence through technological upgrading. As these allies relied less on aid from the US, they were also able to challenge its political and economic dominance.⁶³ Consequently, the global economy became increasingly characterized by capitalist competition.⁶⁴ As productive capacities increased and

⁶¹ Haggard, *Developmental States*, 95.

⁶² Trotsky, *History of the Russian Revolution*, 2–4.

⁶³ Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945–2005*.

⁶⁴ Mandel, “The Laws of Uneven Development”; Mandel, *Late Capitalism*.

domestic markets became crowded, capitalists sought “spatial-temporal” fixes to their declining rate of profit: either entering new markets (the spatial fix) or delaying the moment of profit realization (the temporal fix).⁶⁵ Yet US-led Cold War restrictions on trade limited capital’s access to spatial-temporal fixes in socialist countries’ markets. Socialist countries also imposed their own limitations on trade with US allies by practicing “mercantilist semi-withdrawal” to alter their roles in the global division of labor.⁶⁶ They remained selectively engaged with the global economy while protecting their markets. Thus, during the Cold War, geopolitical calculations from both sides of the Iron Curtain heightened capitalist competition. In this way, it is theoretically possible for buyers from the developing world, rather suppliers from advanced capitalist countries, to have more leverage in trade.

I contribute to externalist theories of development by analyzing the Cold War-context of ISI from a global perspective. This contrasts with a focus on bilateral relationships, as suggested by theories on sanctions-busting, or regional geopolitics, as demonstrated by explanations of the Northeast Asian developmental states.⁶⁷ Rather, my global framework considers interactions of political and economic elites both *within* and *between* the capitalist and socialist blocs—even ones that do not directly involve the country under study. This wide-angle lens reveals otherwise obscured patterns in global trade during the Cold War.

⁶⁵ Harvey, *The New Imperialism*, chap. 3.

⁶⁶ Wallerstein predicted that usage of this technique would be able to alter China’s role in 30 to 50 because in the pre-revolutionary period, it had a “certain minimum strength in terms of skilled personnel, some manufacturing, and other factors.” He also noted that Russia had such an internal economic structure, while Cuba did not. Wallerstein, “The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis,” 33.

⁶⁷ Early, “Sleeping With Your Friends’ Enemies”; Öniş, “The Logic of the Developmental State”; Stubbs, “The Origins of East Asia’s Developmental States and the Pressures for Change.”

Empirical implications, research methods, and materials

With the frameworks described above, I reevaluate the internal and external conditions of Maoist China's implementation of ISI. First, to examine the internal conditions of Maoist China's trade capacity, I disaggregate the economic bureaucracy to home in on the *trade bureaucracy*, the institution within the economic bureaucracy comprising trade officials, researchers, and administrators that coordinated with both domestic and foreign economic actors to formulate and implement trade plans. While there was overlap in the organizational composition of the trade bureaucracy and the weaker, broader *planning bureaucracy*, the institution responsible for domestic economic governance, the trade bureaucracy nevertheless comprised a distinct constellation of state agencies. I do not conceptualize trade bureaucracy strictly as a PoE or as an aberration within the economic bureaucracy, because both institutions' capacities were uneven over time. Rather, I seek to explain why the trade bureaucracy's periods of performance faced less disruption and were longer than those of the planning bureaucracy.⁶⁸ My heuristic model implies that the PRC's state formation processes established facilitative intra-elite, intra-state, and state-society relations whose fluctuations were more disruptive to planning than trade capacity. I assess this empirically through critical reinterpretation of secondary sources.

Second, to examine the external conditions of Maoist China's self-reliance—the ability to both engage with capitalist markets and avoid dependence on them—I trace how Cold War geopolitics and capitalist competition may have favored Chinese trade interests. My global,

⁶⁸ During the Great Leap Forward, it produced inaccurate trade targets, reneged on contracts, and suffered from an inability to generate sufficient export revenue to pay for imports. It subsequently recovered and enjoyed a comparatively long period of performance through the 1970s, experiencing only minor disruptions during the Cultural Revolution. The planning bureaucracy, however, never really recovered from the Great Leap. Naughton, *The Chinese Economy: Transitions and Growth*, 61–62; Bramall, *Chinese Economic Development*, 365; Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 143–56.

structuralist framework implies that US allies may have been emboldened to defy restrictions on trade with China, which presented a spatial-temporal fix to overcapacity in the capitalist core. In turn, capitalist competition enabled Maoist China to practice its mercantilist semi-withdrawal from the global economy from a structurally advantageous position.

I evaluate these empirical implications by triangulating archival sources on Maoist China's foreign trade, particularly with West Germany. My archival sources include news articles, trade journals, US intelligence reports, internal documents of West German firms, and correspondence between members of the Ost-Ausschuss der Deutschen Wirtschaft (German Eastern Business Association). Maoist China's trade with West Germany serves as a strategic research site for three reasons. First, it is substantively significant as one of China's top Western European trade partners. Second, it is more theoretically representative than Japan, China's top trade partner, which had a uniquely close trade relationship with China for historical and geographic reasons. Third, because West Germany was the US's most dependent ally among Western European countries, its defiance of Cold War trade restrictions is especially illustrative of a global political economy structured in favor of Chinese trade interests.

PRC economic history and global China

My explanation of Maoist China's self-reliance both builds on and contributes to explanations of China's unprecedented twentieth-century economic transformation. These have largely focused on the internal conditions of the reform period. They have emphasized idiosyncratic domestic institutions, such as "fragmented authoritarianism," the *hukou* system, "local state corporatism," "adaptive informal institutions," and "directed improvisation," productively

challenging orthodox theories on the necessity of strong property rights and the predictable rule of law for economic growth.⁶⁹

Recently, a growing body of literature on economic relations between Maoist China and the non-socialist world has drawn more attention to the external environment of Chinese development.⁷⁰ While they informed my own research, these studies do not explicitly conceptualize Maoist China's foreign trade policy as ISI or connect it to concrete economic outcomes. The two most prominent studies on the politics of Maoist China's trade are largely concerned with the apparent paradox of economic relations with capitalist states that were previous colonial occupiers, and which were opposed to the socialist development project. First, focusing on Maoist China's trade relationship with the United Kingdom, Jason Kelly traces the development of the PRC's trade institutions and the changing ideological justifications of engagement with the capitalist world. He argues that Maoist trade experience's primary contribution to post-reform development was that of institutional knowledge: that the footholds in external markets, trade experiences, and technical know-how gained during the Maoist period prepared China to navigate otherwise opaque workings of global capitalism after trade liberalization in the late 1970s.⁷¹ Second, describing Sino-Japanese trade, Amy King analyzes the bilateral politics of the five Sino-Japanese trade agreements from 1949 to 1971, during

⁶⁹ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*; Chan and Zhang, "The Hukou System and Rural-Urban Migration in China: Processes and Changes"; Oi, "Fiscal Reform and the Economic Foundation of Local State Corporatism in China"; Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform*; Tsai, "Adaptive Informal Institutions and Endogenous Institutional Change in China"; Ang, *How China Escaped the Poverty Trap*.

⁷⁰ This is part of the broader global turn in the historiography of the Cold War and of state socialism, recent examples of which include: Sanchez-Sibony, *Red Globalization: The Political Economy of the Soviet Cold War from Stalin to Khrushchev*; Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World*; Lovell, *Maoism: A Global History*; Gray, *Germany's Cold War: The Global Campaign to Isolate East Germany, 1949-1969*; Fardella et al., *Sino-European Relations During the Cold War and the Rise of a Multipolar World*; Cain, *Economic Statecraft During the Cold War: European Responses to the US Trade Embargo*; Lüthi, *Cold Wars: Asia, the Middle East, Europe*.

⁷¹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 4-6.

which China and Japan were still officially at war. King highlights the ideas that motivated Maoist China to choose Japan as its most important economic partner. She argues that the CCP viewed Japan as a suitable model, because it had a similar economic profile to China and was the only Asian country to have developed a modern, industrialized economy.⁷²

Another body of literature on Maoist China's foreign economic relations foregrounds the Cold War dimensions of Maoist China's trade with the capitalist world. Shu Guang Zhang focuses on the policy decisions of American and Chinese officials vis-à-vis the international US-led embargo. He argues that the embargo, in forcing China to become excessively dependent on the Soviet Union, ultimately helped the US achieve its strategic goal of ending the Sino-Soviet alliance. In turn, conflict with both the US and the USSR catalyzed China to expand its foreign economic relations, interpreting them as more strategically than economically motivated.⁷³ In contrast, Chad Mitcham and Bingyi Gong highlight Western and Japanese business interests' roles in eroding the trade embargo.⁷⁴

Finally, I have drawn on studies of Maoist China's trade with West Germany, all of which underscore historical commercial ties during the nineteenth and early twentieth centuries and the allure of the huge Chinese market.⁷⁵ Both Giovanni Bernadini and Tao Chen analyze semi-official Sino-West German trade during the 1950s and 1960s from the perspective of its primary German interlocutors, the Eastern Association of German Industry, tracing how its

⁷² King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 10.

⁷³ Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949-1963*; Zhang, *Beijing's Economic Statecraft during the Cold War, 1949-1991*.

⁷⁴ Mitcham, *China's Economic Relations with the West and Japan, 1949-1979: Grain, Trade, and Diplomacy*; Gong, "Computers for China," 2025.

⁷⁵ These may be understood as part of a wave of recent interest in Maoist China's relations with Western Europe. Cain, *Economic Statecraft During the Cold War: European Responses to the US Trade Embargo*; Schaufenbuehl et al., "Europe and China in the Cold War: Exchanges Beyond the Bloc Logic and the Sino-Soviet Split"; Zanier, "Forging New Meanings of Europe. The Cross-Ideological Logic of Western Business Interest Associations (BIAs) Promoting Trade with Mao's China"; Zanier, "'Energizing' Relations."

leaders managed relations with the West German government and its Chinese counterpart.⁷⁶ Fei He describes the methods of transaction settlement.⁷⁷ Chung Cham Ching identifies the domestic and international politics on both Chinese and German sides that shaped the volume and composition of trade.⁷⁸

My dissertation departs from existing studies by studying Maoist self-reliance as a case of ISI, and thus from the perspective of comparative development. I do not interpret Maoist China's engagement with the capitalist world as a strategic and ideological paradox; solely a response to the US-led embargo and the Sino-Soviet split; or a (very constrained) continuation of historical trade relations. Rather, I recognize it as a policy choice that many developing countries made in the postwar period. Thus, what is surprising and puzzling is not that Maoist China had economic relations with capitalist countries at all, but rather the outcome: the fact that ISI did not result in balance-of-payments problems or long-term foreign debt as it did in other developing countries.

Preview of the argument and chapter outline

I argue that the state-formation and state-building processes of the People's Republic China interacted with the expansionary tendency of capital to enable Maoist self-reliant trade. First, the PRC's revolutionary state formation process produced intra-elite, intra-state, and state-society relations that strategically and operationally favored international trade over domestic economic governance. These relations protected the trade bureaucracy from the capacity-

⁷⁶ Bernardini, "West-German—Chinese Trade Experiences in Historical Perspective"; Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958"; Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War"; Chen, "Otto Wolff's Trip to China and the West German-Chinese Trade Agreement in 1957."

⁷⁷ He, "From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972."

⁷⁸ Ching, "Trade Without Flag: West Germany and China 1949–1972."

weakening campaigns of the late Maoist period. Second, combined and uneven capitalist development facilitated Maoist self-reliance, as the Chinese market served as a spatial-temporal fix for overcapacity, and the Maoist trade bureaucracy leveraged capitalist competition to import technology and other resources on favorable terms.

I develop my argument over four chapters, the first two concerning the internal conditions of Maoist self-reliance and the last two the external conditions. Chapter 1 explains the development of the trade bureaucracy as constitutive of the PRC's state formation process, which I trace via intra-elite, intra-state, and state-society relations from the founding of the CCP through the period of early Maoism (1921–1956). Chapter 2 shows how intra-elite, intra-state, and state-society relations enabled the trade bureaucracy to prevail through social and economic turbulence of high socialism (1957–1976). Chapter 3 explains how the spatial-temporal fix of the Chinese market motivated West German industry to defy US trade restrictions in the 1950s and 60s and to deepen trade with China after Sino-American rapprochement in the 1970s. Chapter 4 illustrates the concrete ways the Maoist trade bureaucracy practiced mercantilist semi-withdrawal from the global economy—namely, how it pitted competitors against each other to stretch its limited financial resources and to maintain a stable balance of payments position. I conclude with the implications of my theoretical and empirical work for the study and practice of development.

Chapter 1 | Chinese state formation and trade capacity development, 1919–1956

“When we have beaten the internal and external reactionaries by uniting all domestic and international forces, we shall be able to do business and establish diplomatic relations with all foreign countries on the basis of equality, mutual benefit and mutual respect for territorial integrity and sovereignty.”

—Mao Zedong, “On the People’s Democratic Dictatorship,” June 30, 1949

Introduction

Why was capacity unevenly distributed within the Maoist economic bureaucracy? Why did the trade bureaucracy exhibit higher performance, and for longer periods, than the institutions of domestic economic governance? Reevaluating PRC historiography to trace the construction of the trade bureaucracy from the founding of the Chinese Communist Party to its seizure of power (1921–1949), I show how the state formation process generated intra-elite, intra-party, and party-state relations that facilitated trade capacity over economic governance, or planning, capacity.

In fact, I propose that the development of the trade bureaucracy and formation of the Communist Chinese party-state are inseparable. Maoist China’s trade capacity developed from both Communist political philosophy and revolutionary exigencies. In intra-elite relations, party leaders *shared paradigmatic ideas* on Chinese development and the importance of controlling trade. Through the long decades of the revolution, the leaders also developed the *technical expertise* and *political management skills* that protected the trade bureaucracy from the top. In intra-party relations, the demands of warfare led to the operational and structural prioritization of trade, leading to establishment of trade infrastructure long before systematic economic governance. In party-state relations, military trade operations and territorial expansion behooved the CCP to create institutions to *discipline* the countryside and *extract* rural resources. By the

time Mao declared the founding of the PRC, much of the trade bureaucracy was already in place, and the social relations that supported it institutionalized.

I also show that the early days of party-state construction (hereafter early Maoism, 1949–1957) reproduced revolutionary dynamics as intra-elite, intra-state, and state-society relations that further entrenched the uneven capacities within the economic bureaucracy. The party elite shared the same vision for economic recovery, accepting Soviet-style developmental institutions and priorities. Their realization in the First Five-Year Plan established a fundamental intra-state dynamic whereby heavy industry took precedence over improving domestic consumption. Economic planning served to support the import of industrial technology. Finally, the CCP both reinforced revolutionary institutions of domination and introduced new mechanisms of controlling rural labor and output, securing agricultural products for export.

The CCP's anti-imperialist origins and the ideological cohesion of its leaders, 1919–1927

The CCP was predisposed to favoring developing trade capacity over planning capacity because of its anti-imperialist, nationalist origins. The intellectuals that founded the Party came of age in the political economy of semi-colonialism. Intra-elite relations facilitated developing trade capacity, as the founders of the CCP, including Mao Zedong, were united in the belief that China must reclaim control over its economy and its participation in world markets.

Beginning in the mid-nineteenth century, over a series of military defeats, foreign powers increasingly gained control over the Chinese economy. The resulting “unequal treaties” imposed upon the Qing and Republican governments conferred upon foreigners the rights of extraterritoriality, the right to establish manufacturing facilities in treaty ports, and restricted Chinese customs duties. By 1931, half of accumulated total foreign investment directly served

the needs of foreign inhabitants via public utilities, banks, real estate, and inventories.⁷⁹ Foreign enterprise also made up a disproportionate share of value-added industry. In 1933, this was 42.2% in cotton spinning, 57.8% in shipbuilding and repair, and 63.3% in the tobacco industry. In the same year, foreign firms employed about half of the industrial workers in Shanghai, China's most industrialized city.⁸⁰ While the actual degree to which imperialism contributed to China's underdevelopment is matter of debate,⁸¹ the intellectuals' perception of the imperialist threat was critical for the formation of the Chinese Communist Party.⁸²

This is evident in early CCP documents. In the June 1922 "Statement of the CCP on the Current Situation," which announced the immediate aims of the political struggle, overturning imperialist trade policies is the first task. The party sought "[r]eform of the tariff system; abolition of extraterritoriality and the special privileges of the great powers in China, estimated of railway subsidies by foreign capital, and immediate transfer of all railways to state management." The "elimination of warlords" was secondary and workers' rights took fourth and fifth place.⁸³ The first CCP document to articulate the party's overarching revolutionary goals, the 1922 "Manifesto of the Second National Congress of the Chinese Communist Party," began with a section titled "International imperialism has wreaked havoc on China," containing a lengthy analysis of the consequence of rivalries between the United States, Japan, and European powers on Chinese development.⁸⁴ In particular, it references the 1919 Treaty of Versailles, which dictated that Germany transfer its Chinese territories in Shandong province to Japan, and

⁷⁹ Riskin, *China's Political Economy: The Quest for Development since 1949*, 13–14.

⁸⁰ Kraus, *Economic Development and Social Change in the People's Republic of China*, 17.

⁸¹ Riskin, *China's Political Economy: The Quest for Development since 1949*, 14–15.

⁸² Meisner, *Mao's China and After: A History of the People's Republic*, 12–19.

⁸³ Chinese Communist Party, "Statement of the CCP on the Current Situation (15 June 1922)," 37–38.

⁸⁴ Chinese Communist Party, "Manifesto of the Second Party Congress (July 1922)," 40.

intensified resentment against both the weak Chinese government and the foreign powers that dominated it.⁸⁵

Not coincidentally, the Party was founded in Shanghai, China's most industrialized city and the most important treaty port, accounting for nearly two thirds of China's foreign trade in 1870 and nearly half of direct foreign investment in 1931.⁸⁶ The indigenous Chinese capitalist class was weak, produced by and largely dependent on foreign imperialist forces.⁸⁷ Thus, anti-capitalism presupposed anti-imperialism, and the revolution was to be national rather than social.

To support the national revolution the CCP allied, at the behest of the Comintern, with the KMT in 1924, forming the First United Front. Working within the KMT, Communists promoted a mass revolutionary movement of workers and peasants. The May Thirtieth Movement of 1925 was the most radical and militant phase of the revolution, beginning with a wave of workers' strikes in Shanghai that then spread to Guangzhou and Hong Kong. For the workers, their brutal working conditions were inseparable from foreign imperialism, as they lived in foreign-dominated cities and labored in foreign-owned factories. In the countryside, Communists encouraged equally militant peasant uprisings against the gentry. Nevertheless, the party remained a largely urban organization, with headquarters in Shanghai, and the rural movements organized by revolutionary young intellectuals.⁸⁸ The peasant committee was not formed until November 1926.⁸⁹

⁸⁵ Meisner, *Mao's China and After: A History of the People's Republic*, 17.

⁸⁶ Riskin, *China's Political Economy: The Quest for Development since 1949*, 11, 13.

⁸⁷ Meisner, *Mao's China and After: A History of the People's Republic*, 5.

⁸⁸ Meisner, *Mao's China and After: A History of the People's Republic*, 24–25.

⁸⁹ Saich, *The Rise to Power of the Chinese Communist Party: Documents and Analysis*, 108.

The Chinese Soviet Republic and the Long March 1927–1935

The first United Front lasted only three years. Alarmed by the radicalism and scale of support the CCP attracted in both urban and rural areas, in 1927, the KMT launched a counterrevolution that nearly extinguished the CCP.⁹⁰ What remained of the party left KMT-controlled territories, many of which were major cities, and fled to remote mountainous regions in the southwest, and established the Chinese Soviet Republic. There, the difficulties of waging revolution catalyzed the rise of two key intra-party and party-society relations. First, removed from the cities and cut off from KMT resources and logistical networks, the CCP rapidly developed its own trade infrastructure. Beyond an anti-imperialist approach to economic policy, controlling trade became a matter of military survival, engendering the intra-party arrangement of economic governance serving the needs of trade. Second, the period necessitated the CCP's penetration into rural society. To extract agricultural resources, it began to develop the techniques of mobilizing and disciplining the rural population.

Finally, the period also established two core intra-elite relationships. First, in overseeing military affairs, Zhou Enlai, for a time Mao Zedong's superior, learned how to manage the difficult future Chairman. Second, it also provided the opportunity for Mao to distinguish himself and rise in the ranks of the party leadership. Thus it was formative for "the two men who, in the half century to come, would lead the Chinese Communist Revolution to victory and then rule the Chinese Communist state."⁹¹

First phase of civil war and the Chinese Soviet Republic, 1927–1934

In late 1926, just a few months before the KMT White Terror, the CCP's Central Committee transferred Zhou from Guangzhou to work at headquarters in Shanghai, to serve as a member of

⁹⁰ Meisner, *Mao's China and After: A History of the People's Republic*, 23–27.

⁹¹ Jian, *Zhou Enlai: A Life*, 98.

the party's Central Military Commission and a secretary of the party's Central Personnel Department.⁹² As such, he managed two of the most important tasks of the Party, its military and organizational affairs.⁹³ Zhou remained in Shanghai after the implosion of the First United Front, eventually controlling its security and intelligence services (which he established), as well as nearly all of the CCP's organizational links.⁹⁴ In this capacity, Zhou was Mao's superior and learned how to manage Mao's "patriarchal tendency."⁹⁵

While Zhou oversaw CCP operations from Shanghai, Mao, along with other Communists led the Red Army through a series of peasant uprisings in the southwest.⁹⁶ It was here that Mao formulated and showed the effectiveness of his peasant-centered revolutionary strategy and guerilla warfare tactics, laying the foundations of the CCP's strong connection to the countryside. The CCP learned how to mobilize the peasantry and understood that they were willing to sacrifice for the Red Army if it guaranteed their security and if it carried out land reform with the participation of peasants in each village. The participatory approach would be later refined into campaign-style mobilization.⁹⁷ However, the Red Army's increasingly radical expropriation of landlords and rich peasants, conducted under the banner of "class struggles," in actuality served to obtain resources for the war effort.⁹⁸ Thus the CCP began to develop the institutions that supported the party-society relations that facilitated domination of rural resources.

⁹² Zhou Enlai taught at the Whampoa Military Academy from 1924 to 1926, where gained military experience and taught students who later became high-ranking commanders in the CCP and KMT. Sun Yat-sen established the Whampoa Military Academy in 1923 with the support of the Comintern and Soviet Russia to train revolutionary officers. Jian, *Zhou Enlai: A Life*, 73.

⁹³ Jian, *Zhou Enlai: A Life*, 83.

⁹⁴ Jian, *Zhou Enlai: A Life*, 91.

⁹⁵ Jian, *Zhou Enlai: A Life*, 99.

⁹⁶ Jian, *Zhou Enlai: A Life*, 97–100.

⁹⁷ Meisner, *Mao's China and After: A History of the People's Republic*, 31–34.

⁹⁸ Jian, *Zhou Enlai: A Life*, 130.

However, because the available resources were insufficient, the CCP was forced to develop its own trade infrastructure. Throughout the late 1920s, the CCP captured discontiguous territories in the provinces of Fujian, Jiangxi, Hunan, Hubei, and Anhui, which it declared the Chinese Soviet Republic (CSR) in 1931, with Mao as Chairman. The CSR made its headquarters in the largest constituent territory, the Jiangxi Soviet, which occupied a mountainous area straddling southern Jiangxi and western Fujian. While the mountains provided some protection from the KMT, they also cut the CCP off from crucial supplies. The area was rich in tea, wood, tungsten, and rice, but was short on medicine, cloth, salt, oil, and industrial products.⁹⁹

Chen Yun, who would later oversee the PRC's economic affairs, came up with the trade strategy to get the needed goods into Jiangxi. He deployed his knowledge of markets, gained from his previous experience as a salesman, to find products to export. He also realized that the base area had to pay overseas merchants according to outside market prices, not to prices in the Jiangxi Soviet base currency, which he himself had helped to develop.¹⁰⁰ The Chinese Soviet Tungsten Company was established in 1932, while the People's Committee of National Economy, which was to oversee both the Border Trade Bureau and the Tungsten Company, was only established in 1933. The Company organized more than 5,000 workers to mine for tungsten, increasing the tungsten production rapidly. The tungsten was then transported by small boats and bamboo rafts to Junmen ridge, which connected Jiangxi to Guangdong and Fujian, both coastal provinces in the south that had long been important in the history of Chinese trade. The CCP also exported rice and paper from the CSR. The CCP's major trade partners were Guangdong warlord

⁹⁹ Luo, "The Development of the Border Trade between the Chinese Soviet Republic and the White Area from 1931 to 1934: A Case Study of the Tungsten Ore Trade," 1212.

¹⁰⁰ Vogel, "Chen Yun: His Life," 745.

Chen Jitang and the Nineteenth Route Army, an ROC unit that rebelled against the KMT regime in 1933. The CCP imported salt, cloth, medical products, and communication equipment.¹⁰¹

The CSR lasted for three years, until the KMT descended upon it in October 1934. As with the KMT crackdown of 1927, the CCP came out the other side severely diminished. The CCP escape took the form of the grueling 6,000-mile, year-long Long March, of which fewer than 10,000 of the 80,000 revolutionaries survived.¹⁰²

The Long March, 1934–1935

Mao's leadership during the Long March contributed to his rise within the Party. As the CCP spymaster, Zhou Enlai received intelligence of an impending KMT attack on the Jiangxi Soviet and convinced the leadership to abandon it. He, along with Qin Bangxian, then the General Secretary of the CCP and commonly referred to by his alias Bo Gu, and Otto Braun, the military advisor of the Comintern, formed the "three-person group" that directed the evacuation of the CSR.¹⁰³ By the time the Red Army took over the city of Zunyi, Guizhou, in January 1935, a few months into the Long March, it had suffered several major losses. So, Politburo held a meeting, later known as the Zunyi Conference, to reflect on strategy. There, Mao successfully argued that the fault lay in the Bolshevik military strategy and became one of the most powerful men of the CCP. He was appointed to key leadership positions, including to the five-person Secretariat, where he joined Zhou Enlai and Bo Gu of the "three-person group," Chen Yun, who had overseen trade in the Jiangxi Soviet, and Zhang Wentian, who supported Mao's arguments and replaced Bo Gu as General Secretary. He was also to serve on the CCP Central Military

¹⁰¹ Luo, "The Development of the Border Trade between the Chinese Soviet Republic and the White Area from 1931 to 1934: A Case Study of the Tungsten Ore Trade," 1212–15.

¹⁰² Meisner, *Mao's China and After: A History of the People's Republic*, 33.

¹⁰³ Jian, *Zhou Enlai: A Life*, 134.

Leadership Group under Zhou, as his chief assistant. He thus gained the right to be involved in all party and army decisions.¹⁰⁴

As in the Jiangxi Soviet, economic and military affairs were inseparable during the Long March, and trade was of utmost strategic importance. As the following sections will show, the men who responsible for supplying the Red Army during the Long March—such as Ye Jizhuang, Li Fuchun, and Chen Yun—later assumed top roles in economic and trade administration.¹⁰⁵

The revolutionary antecedents of the trade bureaucracy

The Long March ended in October 1935 in the northwestern China on the border of the provinces of Shaanxi and Gansu. There, the remnants of the CSR joined forces with a separate group of communists that had already established a guerilla base in the area.¹⁰⁶ As CCP presence in the area grew to also include parts of Ningxia province, it formed the Shaan-Gan-Ning border region, of which Yan'an (in Shaanxi) was the capital.

The difficulties of the Yan'an period intensified the intra-elite, intra-party, and party-society relations that emerged in the Chinese Soviet Republic and during the Long March. Once again, the CCP was hemmed in a remote, rural region, one that was much poorer than that of its previous territory in the south. The Party responded to the brutal conditions there by developing a centralized trade administration, setting up outposts in Hong Kong, refining its mechanisms of rural resource extraction, and promoting an ethos of patriotic poverty and self-reliance. Mao consolidated both his organizational power and his moral authority.

¹⁰⁴ Saich, *The Rise to Power of the Chinese Communist Party: Documents and Analysis*, 524.

¹⁰⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 41; Vogel, "Chen Yun: His Life," 745; Song 宋, "Hongse Guanxia Ye Jizhuang (红色管家叶季装)." ."

¹⁰⁶ Meisner, *Mao's China and After: A History of the People's Republic*, 120.

Yan'an was the de facto capital of CCP territory from 1935 to 1948. However, after 1945, Manchuria became the focus of administration, as the Communists gained access to the region from the Soviet Union, who seized it from the Japanese. A center of heavy industry and home to critical railway and shipping networks, Manchuria gave the CCP the opportunity to further develop its trade capabilities and connections to global markets. The strategic importance of these tasks gave the elite cadres that led them political capital, which facilitated further development of trade capacity in Mao's China. With Soviet guidance in Manchuria, the CCP also made its first forays into central planning and statistical information gathering. However, because neither Yan'an nor Manchuria representative of the economic diversity of the vast territory that would constitute the People's Republic, these combined administrative experiences contributed far more to an effective trade bureaucracy than national planning apparatus.

The Yan'an period (1935–1948) and the Sino-Japanese War (1937–1945)

Establishing a centralized trade administration was essential for addressing the existential threat posed by the inherent weakness of the Shaan-Gan-Ning region and economic blockades. Initially, the CCP funded its operations with by extracting local resources.¹⁰⁷ From 1935 to 1936, the party relied on income from expropriating the local gentry, confiscations, fines, taxation, and bank loans and was limited from external resources due to blockades imposed by the KMT. However, Japanese invasion in 1937 put a pause in the civil war. From 1937 until 1940, the CCP and KMT formed the Second United Front, providing the Communists with external support, on which it heavily depended; in 1939 it is estimated to be as high as 89.89%.¹⁰⁸ To handle these funds and

¹⁰⁷ Meisner, *Mao's China and After: A History of the People's Republic*, 37.

¹⁰⁸ The KMT had been receiving aid from the Allies. Zhou Enlai flew to meet with Chiang Kai-shek to iron out the terms of a united response. The terms were rebuffed initially but then in August the KMT hand was forced to

coordinate with the KMT, the CCP began set up offices in Nationalist-controlled cities, including the previously evacuated Shanghai. The “Eighth Route Army” and “New Fourth Army” offices—named after the two main Communist armies they supported—became strategic outposts. By the end of the Sino-Japanese War, the CCP had over fifty such offices.¹⁰⁹

One of the Eighth Route Army offices was opened in Hong Kong in 1938, providing access to world markets and a base from which to solicit donations from overseas. The office was disguised as a tea shop named Yuehua Tea Company, which became a bustling hub for not just trade, but also intelligence and propaganda work. Because of the conspicuousness of Yuehua’s anti-Japanese activities, Japanese officials successfully pushed Hong Kong authorities to shut the operation down in 1939. However, the Yuehua staff continued their work in Hong Kong.¹¹⁰

The party had also opened another Hong Kong office in 1938, one that had no discernable ties to Yuehua, but nevertheless run by the same people. This was the import-export firm Liow & Company, which served as a front for logistical activities such a renting warehouse space and arranging shipping contracts. Liow & Company continued to operate even after the Japanese took Hong Kong in 1941. Qin Bangli, the head of the company and the brother of Bo Gu, subsequently returned to the mainland, but visited Hong Kong regularly to oversee the company.¹¹¹

While the CCP gained foreign trade experience in Hong Kong, it also began to develop a centralized trade bureaucracy. In 1940, the Japanese “three-all” offensive reduced the communist

cooperate as Shanghai erupted in a battle between Chiang’s and Japanese armies Esherick, *Accidental Holy Land: The Communist Revolution in Northwest China*, 172..

¹⁰⁹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 16.

¹¹⁰ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 20–25.

¹¹¹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 26–28.

territory and population behind Japanese lines—areas whose surpluses had supported Shaan-Gan-Ning. To make up for the shortfall, the party taxed the local population more heavily, but the revenue was insufficient. The CCP experienced further economic problems when cooperation ended in 1941 when relations between the KMT and CCP once again soured.¹¹² This led to a reinstatement of the economic blockade, which ended trade between Communist and Nationalist territories.

In the winter of 1940, the CCP could no longer import cotton from the Nationalist stronghold of Xi'an. And it endured a financial crisis from 1941 to 1943, for exporting cash crops was the only answer.¹¹³ To do so, the CCP primarily exported opium,¹¹⁴ euphemistically called a “special product” (*techan*). Beginning early in 1941, the party set up a trade bureau and started to centralize control over the publicly owned businesses to facilitate import of needed goods. At first, the trade bureau was an affiliate of the border region bank, but to strengthen its power, the party placed it under the Economic Construction Department of the border region government. This bureau oversaw a wide network of branches in big cities and branch bureaus with their own trade centers in smaller cities and towns. The bureau was to stimulate production and trade of local products. In August 1941, the bureau established the Northwestern Local Product Company, namely to sell opium. This company had six branches and twenty-two shops throughout the border region. In late 1942, a decision to overhaul of the financial system of the border region led to further centralization of trade management. The various organizations involved in trade—Guanghua Enterprise, the Salt Company, the Trade Bureau, and the Local

¹¹² New Fourth Army Incident, when fighting broke out between Nationalist and Communist forces in Anhui province. The ROC and PRC have differing accounts as to which army was responsible for the conflict (cites).

¹¹³ Raising taxes incited peasant discontent and was not politically sustainable. Printing more money without increasing the supply of domestic commodities led to inflation. (cite)

¹¹⁴ A small proportion of export (only 13.59% in 1943) was salt, which had been mined in along the Ningxia-Shaanxi border for hundreds of years. Japanese occupation of coastal areas cut off Nationalist territory of eastern Gansu and central Shaanxi was cut off from a supply of sea salt. (cite)

Product Company—were all put under the administration of the Bureau of Commodity Supply. Theoretically affiliated with the border region government, the Bureau of Commodity Supply actually took orders from the party center. The opium trade was so profitable that the border region currency “eventually won autonomy, ceasing to fluctuate in value relative to the unstable Nationalist currency.” There is evidence that the CCP continued to export opium until at least 1948.¹¹⁵

In 1940, CCP Central Committee began to articulate a coherent policy framework to support its expanding trade operations. The Secretariat told Communist bases to use taxation and administrative controls to align trade with the Party’s goals. It essentially instructed officials to implement a version of import-substitution. Officials were to import only goods that were essential or that could not be produced locally, and to pay for them with “appropriate” exports. Officials in the bases were also to establish trade bureaus to manage these tasks.¹¹⁶

The development of the trade bureaucracy was intimately tied up with intra-elite dynamics, as personal relationships informed the assignment of leadership positions. Ye Jizhuang, who oversaw logistics during the Long March, became chief of the Commodity Supply Bureau—and later, the first Minister of Trade. Qin Bangli, the man in charge of Liow & Company, the front for the CCP’s logistical activities in Hong Kong, was recommended to the post by his brother Qin Bangxian, the former General Secretary who went by Bo Gu, to Chen Yun. Chen Yun, in turn, who had been responsible for supplies during the Long March, was head of the party’s Organization Department, which handled personnel matters, in Jiangsu.¹¹⁷ Liao Chengzhi, who led the Yuehua Tea Company, was assigned to the position by Zhou Enlai, who

¹¹⁵ Yung-fa, “The Blooming Poppy under the Red Sun.”

¹¹⁶ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 29.

¹¹⁷ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 27.

oversaw the office from Wuhan, where he headed the Central Yangtze River Bureau, managing operations in Hong Kong and Macau.¹¹⁸

The most consequential intra-elite dynamic, of course, was between Mao and Zhou. While Mao would not declare the founding of the PRC until 1949, the “Mao era began in Yan’an,” and he soon maneuvered to surpass Zhou in authority.¹¹⁹ Zhou spent most of his time outside of Yan’an, leading the Central Yangtze River Bureau in Wuhan and then for its replacement, the Southern Bureau, in Chongqing. But he was personally involved in setting up and maintaining communication channels with Yan’an. A leader of CCP intelligence activities since the late 1920s, he also established institutions and networks for intelligence activities just a few short months after arriving in Chongqing in 1938.¹²⁰ Zhou Enlai continued to cement his reputation as someone who gets things done.¹²¹ During an October 1937 meeting in Yan’an between Mao and Liao Chengzhi, the head of Yuehua, Mao supposedly told Liao that “Comrade Zhou really knows how to choose people” and that he “knows how to gauge them and assign them to the right positions.”¹²²

Because of his political shrewdness and strategically critical work in overseeing CCP diplomacy with the KMT and the wider world, Zhou was so important that he managed to escape Mao’s Rectification Campaign for the first two years. Mao did not want to incite stronger resistance from the party and army, because Zhou was highly respected.¹²³ Mao began preparations for the Campaign to ideologically and operationally transform the party to reflect his, rather than the Soviet, vision of socialism, in 1941 by disseminating writings on Mao

¹¹⁸ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 20–21.

¹¹⁹ Esherick, *Accidental Holy Land: The Communist Revolution in Northwest China*, 196.

¹²⁰ Jian, *Zhou Enlai: A Life*, 180–83.

¹²¹ Jian, *Zhou Enlai: A Life*, 180.

¹²² Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 21.

¹²³ Jian, *Zhou Enlai: A Life*, 213.

Zedong Thought. The astute Zhou established study groups in 1941 to advance the Rectification Campaign even before he was formally ordered to do so.¹²⁴

However, after two years of “thought reform,” Mao had consolidated his authority enough to extend his disciplinary attention to Zhou, the principal target of the new phase of the Rectification Campaign. In 1943, the Politburo passed resolution to establish a new Central Secretariat with Mao as the Chairman, making him the undisputed leader of the Party.¹²⁵ Mao then summoned Zhou from Chongqing to participate in a series of Politburo meetings to criticize the mistakes of the Jiangxi years and early stage of the war against Japan.¹²⁶ This was a veiled attack on Zhou, who had formulated the strategy of that time. Anticipating the criticism, Zhou prepared lengthy self-criticisms, which he delivered over five day.¹²⁷ The deferential posturing continued throughout the Yan’an period. In 1945, for example, at the CCP’s Seventh Congress, Zhou was the only one of seven keynote speakers at the opening session to end his speech by shouting “Long live comrade Mao Zedong!”¹²⁸

While Mao concentrated party power in his hands, the CCP developed institutions to dominate the countryside. To penetrate rural society, the party coopted local secret societies and bandits in forming united fronts with them against the Japanese and later, the KMT.¹²⁹ It recruited members individually rather than as a group to join the army so that they could isolate them and political education would be more effective.¹³⁰

¹²⁴ Jian, *Zhou Enlai: A Life*, 209.

¹²⁵ Jian, *Zhou Enlai: A Life*, 214.

¹²⁶ Jian, *Zhou Enlai: A Life*, 219.

¹²⁷ Jian, *Zhou Enlai: A Life*, 216–20.

¹²⁸ Jian, *Zhou Enlai: A Life*, 224.

¹²⁹ Keating, “The Yan’an Way of Co-Operativization,” 1029.

¹³⁰ Chen, *Making Revolution: The Communist Movement in Eastern and Central China, 1937-1945*, chap. 9.

In Yan'an, the party combined participatory politics, which it had learned in the Jiangxi Soviet, with authoritarian leadership. Collectivization reduced the villagers' ability to bargain with the state by severing trans-village linkages, limiting rural markets, reducing farming-family sidelines, and instituting rationing. These structures and institutions enhanced CCP command of rural resources.¹³¹ Land reform broke the power of rural elites, which won the CCP popular rural support.¹³² While the initial territory was poor and lacked a strong gentry, later expansion to an old garrison area around Suide forced the party to learn how to control local elites. The methods they developed would serve them well in the rest of north China and later, during the "socialist high tide" campaigns in the mid-1950s, and the GLF.¹³³

Finally, perhaps the most lasting legacy of Yan'an for party-society relations is the "Yan'an spirit," of which "self-reliance" was a keystone. The "Yan'an spirit" extended the ascetic values on which Long March veterans credited their survival.¹³⁴ War and economic blockades exacerbated the preexisting harshness Shaan-Gan-Ning border region, which was a poor area to being with, demanded that revolutionaries be diligent and practice frugality and self-discipline.¹³⁵ Thus "self-reliance" became a popular slogan in the late 1930s. While it fell out of use through most of the 1950s, it reemerged along with the "Yan'an spirit" in the campaigns of the later Maoist period to ask not just party cadres, but all workers and peasants to work tirelessly to meet ambitious production and procurement goals.¹³⁶ By encouraging average citizens to find ways to provide for themselves, self-reliance relieved the state of development responsibilities.¹³⁷ It not merely justified, but even glorified low consumption levels, and enabled

¹³¹ Keating, "The Yan'an Way of Co-Operativization," 1026–27.

¹³² Selden, *The Political Economy of Chinese Socialism*, 8–9.

¹³³ Esherick, *Accidental Holy Land: The Communist Revolution in Northwest China*, 191.

¹³⁴ Meisner, *Mao's China and After: A History of the People's Republic*, 35.

¹³⁵ Meisner, *Mao's China and After: A History of the People's Republic*, 47–49.

¹³⁶ Riskin, *China's Political Economy: The Quest for Development since 1949*, 205.

¹³⁷ Keating, "The Yan'an Way of Co-Operativization," 1026.

the state to impugn the moral character of those who objected to high extraction levels and cast them as enemies of the revolution.

Manchuria and the second phase of civil war, 1945–1949

Fighting between the CCP and KMT resumed after Japan's defeat in WWII. While Yan'an remained the headquarters for the bulk of the revolutionary period, the focus of the CCP's economic administration turned to the northeast. In 1945, the Soviet Union allowed the CCP to establish a base there after the Soviet Red Army seized Japanese-controlled Manchuria. The CCP's entry into Manchuria expanded its administrative remit, giving it experience with heavy industry, Soviet-style planning, and centralizing the trade bureaucracy. The experience of administering Manchuria was therefore critical for subsequent intra-state relations.

Chen Yun guided the rapid expansion of the CCP's trade infrastructure in the north. With control of Manchuria came access to the port city of Dalian. Dalian was nominally a free port open for all nations to use under the agreement it made with the KMT in August 1945 (the Sino-Soviet Treaty of Friendship and Alliance), but in fact the Soviet military limited access to it to a few vessels. With the protection of the Soviet forces, the CCP established "private" companies to produce goods and "receive" enemy property. Dalian also gave the CCP railway connections to Harbin, another city in the northeast of which the CCP took control in April 1946 after the Soviets departed.¹³⁸ From June 1946, Chen Yun led trade in Harbin as a member of the Northeast Bureau Standing Committee, taking care of finance, economics, and logistics. In July 1946, he argued that the Party needed to export the region's grains in order to import daily essentials.¹³⁹

¹³⁸ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 31.

¹³⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 33.

He established connections between Manchurian grain production to Dalian's port facilities and finally to Hong Kong markets.¹⁴⁰ During the Civil War, the CCP exported grain, meat, and eggs, among others, to the Soviet Union and North Korea, while importing goods for the military, railways, and industry. Through the Manchuria-Hong Kong connection, the CCP imported items made in capitalist countries such as rubber products, electrodes, penicillin, streptomycin, and leather.¹⁴¹ Finally, Dalian offered the CCP access to Western trade interests, including those of the Americans, British, French, with whom the CCP established contacts.¹⁴²

Meanwhile, Zhou Enlai expanded trade operations in the south. In 1946, he told Qin Bangli, the former head of Liow & Company, to move back to Hong Kong to establish a shipping route along China's coast, carry out various "financial tasks" such as arranging insurance and exchanging currencies, and to train more cadres to carry out foreign trade work. Qin moved the office to a new location and gave it a new name: the Lianhe Import-Export Company. He also created a branch office in Guangdong, Tianlong Hang, to facilitate trade between Hong Kong and mainland China.¹⁴³

With the rapid expansion and increasingly complicated nature of trade operations, the CCP began to think about centralizing their administration. Li Fuchun, the second most important official in Manchuria, and one of the revolutionaries who managed supplies for the Red Army during the Long March, argued that the centralization of foreign trade would enable the party to better achieve its development goals.¹⁴⁴ He suggested that the party forbid the

¹⁴⁰ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 34.

¹⁴¹ Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 108.

¹⁴² Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 32–33.

¹⁴³ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 34–35.

¹⁴⁴ Gao Gang was the head of Manchuria. One of the founders of the Yan'an Soviet, he was sent to Manchuria in 1945 and by 1947 was running it like his own fiefdom, becoming known as the "King of the Northeast." Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 106.

importation of consumer goods and luxury items to prevent deficits, then a widespread problem among the provincial governments under CCP control. Li's Long March experience taught him that economic and military affairs were closely entwined, and highlighted the need to control trade to prevent domination by imperialists, feudalists, and bureaucratic capitalists.¹⁴⁵ After Liberation, Li's report on the matter became a resource for the Central Committee's thinking on trade policy.

With help from the USSR and the leadership of Chen Yun, Manchuria became the site of CCP experimentation with Soviet-style economic planning and created an administrative model for other territories. The foray into centralized economic administration began in August 1946 with the founding of the Northeast Administrative Commission (NAC) in Harbin, the administrative center for CCP-controlled areas in Manchuria.¹⁴⁶ The CCP made its first economic plan for industry in 1947, when the NAC created the Outline of the Plan for Economic Construction of 1948.¹⁴⁷ The NAC consolidated control over income sources, such as taxes and revenues from SOEs, taking over from county- and provincial-level authorities. Two years later, in August 1948, the CCP expanded this regional approach to administration by creating five more "greater administrative regions," so that the early PRC consisted of the six regions of North China, Northwest, Northeast (Manchuria), East China, Central and South, and Southwest.¹⁴⁸ Chen Yun was appointed director of the Northeast Financial and Economic Commission. Then in

¹⁴⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 41–42.

¹⁴⁶ The NAC was restructured as the Northeast People's Government in August 1949 Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 106..

¹⁴⁷ The plan was revised with the 1948 capture of southern Manchuria Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 106..

¹⁴⁸ Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 106.

January 1949, another body was formed within this commission, the Northeastern Economic Planning Committee, once again with Chen Yun as its leader.¹⁴⁹

In 1948, the CCP established its first regional statistics office to aid economic administration of Manchuria. That year, Wang Sihua was assigned to direct the Statistical Survey Unit within Chen Yun's Northeast Finance and Economics Commission. In 1950, Wang and his statistical work was elevated to higher importance with the establishment of the Northeast Statistics Bureau (NSB), of which he was made director. He brought with him a wealth of experience. He came to the position having spent nearly a decade in Yan'an, teaching political economy at the Central Party School and conducting an agricultural survey in northern Shaanxi within the Central Research Institute.¹⁵⁰ Then in 1943, he became deputy director of the Northwest Financial Planning Council, working under Chen Yun. In 1947, he was appointed deputy secretary-general of Heilongjiang province and director of the both the Northeast Statistics Office and the Standing Finance Committee.¹⁵¹ Wang attended Peking University in the 1920s and subsequently spent four years studying in France and England. While he brought his elite education to the CCP's budding statistical capabilities, however, the economic bureaucracy generally suffered from a shortage of trained and educated personnel.¹⁵²

¹⁴⁹ Hirata, *Making Mao's Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 106–7.

¹⁵⁰ The purpose of the 1930s rural surveys was to facilitate extraction: that is, estimate production and inform taxation. This experience informed the design of surveys in the early 1950s Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 44..

¹⁵¹ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 37–39.

¹⁵² Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 180.

State formation during the eve of Liberation, 1949

As mentioned in the previous section, efforts to centralize sprawling border and foreign trade operations of the revolutionary period, which connected northern ports to Hong Kong, began soon after the end of World War II. In 1949, with victory was in sight, the CCP began to make plans for the administration of the future People's Republic. There was much overlap in the leaders involved in building trade and planning capacities.

The exigencies of military conflict continued to determine the timing and direction of the development of the trade bureaucracy. On January 15, 1949, Communist troops took control of the city of Tianjin, an industrialized city of roughly two million and the largest port in north China, from the KMT. Tianjin presented a number of challenges to which the CCP responded by further expanding trade capabilities. The sudden change in port administration disrupted shipping operations, a big threat to the economy. The CCP also confronted a large population of foreigners in the city. The CCP aimed to take advantage of the foreigners' connections with global markets, which were essential for the recovery of the Chinese economy, while maintaining China's independence and sovereignty. Li Fuchun's 1947 report on the need to control trade, the Central Committee ordered the North China's People's Government to establish a foreign trade bureau in Tianjin that would handle permits, approvals, and draft a trade plan that would integrate trade with the CCP's larger development goals. Zhou Enlai wrote, with Mao's approval, an early articulation of CCP trade policy. In January 1949, the Central Committee circulated a directive that declared that the CCP would abolish all standing treaties with the West rather than renegotiate terms after they seized power. The CCP would not reestablish formal relations with any nation that rejected the terms of new China.¹⁵³

¹⁵³ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 45–48.

At the Second Plenum of the Seventh Central Committee, held in March 1949, the top leadership further articulated the foundational policy positions of the People's Republic. The top leadership of the Politburo agreed that trade with capitalist markets would benefit China's development. Mao himself also strongly believed in the importance controlling trade. He wanted to protect China from capitalists and imperialists. He also thought China was an attractive market for capitalists, who were always looking for new markets.¹⁵⁴

In mid-July 1949, the CCP began to formally establish the Ministry of Trade, which was supposed to oversee all trade, foreign and domestic, with special divisions for each.¹⁵⁵ Lin Haiyun staffed the Foreign Trade Division with cadres who had learned about trade through their work in the financial offices of the Party's North China People's Government. He also hired non-party members, including bureaucrats who had worked for the Nationalist regime and stayed after the Nationalist defeat to build a new China. Many of these KMT officials had studied abroad. Lin also recruited recent graduates from the elite universities of Peking University, Tsinghua University, and Fu-er University, now known as Beijing Normal University. Then, through channels such as the Ministry of Foreign Affairs and the Hong Kong office of the Xinhua News agency, he recruited overseas Chinese interested in rebuilding China. Many of these people returned to China after studying abroad.¹⁵⁶

In late September, the CCP ratified a document called the "Common Program," a de facto constitution that articulated the policy of positions the soon-to-be-founded People's Republic. Article 57 announced the foreign trade policy, stating that the new state would restore and develop commercial and trade relations with foreign countries "on a foundation of equality and

¹⁵⁴ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 51.

¹⁵⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 72.

¹⁵⁶ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 75.

mutual benefit,” a repudiation of the relations that characterized Chinese trade in the nineteenth and early twentieth centuries.¹⁵⁷

The development of planning capabilities sequentially and functionally followed the development of trade. Chen Yun led the creation of a centralized economic bureaucracy in the spring of 1949. At the front of his mind of foreign trade, because in May, the party seemed on the verge of taking Shanghai, the richest and most developed urban economy in China, and the busiest trading port. Due to the city’s dependence on imported resources, Shanghai’s numerous economic and logistical issues were all tied up in some way with trade. A shortage of cotton in the city threatened the textile industry and therefore the entire city’s economy. Cotton could be imported from Hong Kong, but getting it to the harbor would require clearing the waterways of sunken junks and half-submerged ships. The city’s power supply relied on imported oil. Shanghai also depended on imports for food, with the US government providing nearly 60 percent of the basic supply because the KMT had scorched surrounding market gardens in preparation of the CCP attack.¹⁵⁸ Managing these issues required large-scale economic coordination. Thus the Central Committee created a new governance body, the Central Finance and Economics Committee (CFEC), that would oversee all financial and economic work, including foreign trade, at the national level. Liu Shaoqi drafted the outline while Mao and Zhou fleshed out the text. In June 1949, Zhou announced that Chen Yun and Bo Yibo would lead it.¹⁵⁹ Chen Yun responded to the Shanghai economic crises by expanding the Dalian-Hong Kong

¹⁵⁷ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 62, 64.

¹⁵⁸ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 54.

¹⁵⁹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 53.

shipping route to include a stop in Shanghai, so that Soviet ships could transport cotton and other resources there along their journeys to the north.¹⁶⁰

During this time, the CFEC was the key national coordinating institution for statistical reports. Statistical work was otherwise scattered among statistics divisions in regional and provincial governments, various ministries, and finance and economics committees and statistical departments and branches. The only specialized bureau for statistical work until 1952 was Wang Sihua's Northeast Statistics Bureau, responsible for statistics in Manchuria. The CFEC would not hold discussions to create a national statistical system until 1951.¹⁶¹

The early Mao years, 1949–1956

By the time Mao Zedong declared the founding of the People's Republic of China on October 7, 1949, much of the trade bureaucracy, along with the infrastructure and relationships for its operations, was already in place. The CCP had a national logistics network, with both shipping and rail transport, connecting ports in the north and the south. It already had two decades of experience with trade planning, which had become more territorially expansive and operationally complex as the revolutionary conflict progressed.

Meanwhile, the CCP party-state had not articulated its economic development strategy and did not begin to set up the state agencies to support it until several years into the new regime. Once it did, intra-state relations facilitated neither accurate statistical information-gathering nor coherent integration of statistical data into the economic planning process. By the mid-1950s, the preeminent statistician Wang Sihua complained that statistical work could not meet the needs of the State Planning Commission.¹⁶²

¹⁶⁰ Qin Bangli's Hong Kong firm, renamed China Resources, coordinated these shipments Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 63..

¹⁶¹ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 130–31.

¹⁶² Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 130.

Uneven development of the trade bureaucracy and planning capabilities

After the official founding of the People's Republic, the party leadership quickly expanded the trade bureaucracy. In January 1950, just a few months after the proclamation of the PRC's founding, Mao ordered Zhou Enlai and the Central Committee to develop a trade plan for 1950 that included Great Britain, France, the Netherlands, Belgium, Australia, Japan, Canada, and the United States, along with the Soviet Union and other socialist states.¹⁶³ In its first full year of existence, the People's Republic did roughly 74 percent of trade with capitalist countries.¹⁶⁴ To augment the Foreign Trade Division of the Ministry of Trade with further on-the-ground expertise, Lin Haiyun, the official tasked with the initial mapping out of the trade bureaucracy, created the International Trade Association (ITA) in July 1950. The ITA was a network of people interested in foreign trade that included state workers, academics, bankers, and customs officials¹⁶⁵. Shanghai boasted the largest branch, with a membership of 730 individuals, which included individuals from the Shanghai Customs Office, the Minsheng Transport Ship Company, Fudan University, the Bank of Shanghai, the China Insurance Company, and government officials from the municipal Bureau of Trade and Industry and the East China Regional Trade office. In 1951, the Ministry of Trade established commercial offices in Europe within PRC embassies. These officials negotiated deals directly with capitalist partners, signed contracts, arranged insurance and shipping, arranged cargo inspections. They also did research on European markets, collecting data on market trends and new technologies.¹⁶⁶

However, the planning bureaucracy developed not only later than the trade bureaucracy, it also developed more slowly. From 1949 to 1952, planning capabilities lacked a key institution: a

¹⁶³ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 68.

¹⁶⁴ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 38.

¹⁶⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 75–76.

¹⁶⁶ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 81–86.

national system for collecting statistical information. The only specialized bureau for statistical work in the PRC was the Northeast Statistics Bureau (NSB), responsible for statistics in Manchuria. Statistical work during this time was scattered among statistics divisions in regional and provincial government, various ministries, and finance and economics committees and statistical departments and branches.¹⁶⁷ The CFEC initiated discussion about a national statistical system only in the summer of 1951, when Li Fuchun, a deputy director of the Committee, chaired a national-level conference, later dubbed the First National Meeting on Statistical Work, to discuss how to create a one based on the Northeast model. In his speech, Li stated that the tasks of national construction, planning, and economic work were not possible without statistical data.¹⁶⁸ The same Li Fuchun had proposed centralizing foreign trade in 1947, both to ensure that exports and imports served the war effort rather than consumption, and to prevent foreign domination.¹⁶⁹ Wang Sihua was the one who proposed establishing a national statistics agency to centrally guide statistics work.¹⁷⁰

The State Statistical Bureau (SSB), the national statistics agency, was set up in 1952, nearly a year after discussions for centralization began.¹⁷¹ Xue Muqiao, who was also on the CFEC, was appointed the director of the SSB. When Bureau operations began in September of that year, not all its departments were operational. While it had departments for industrial, agricultural, trade, capital construction, and communications statistics, along with sections for labor wage statistics, distribution of goods, and the world economy, it had not set up departments

¹⁶⁷ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 149.

¹⁶⁸ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 130–31.

¹⁶⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 41–42.

¹⁷⁰ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 131.

¹⁷¹ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 130.

for cultural and education and social statistics.¹⁷² Neither were there statistical offices in each province. By the end of June 1953, the provinces of Liaoning and Qinghai had yet to set up regional-, provincial-, or city-level statistics offices.¹⁷³

While intra-elite shared a consensus on the importance of statistical work, the intra-elite dynamics also resulted in the adoption of statistical methods that were inherently technically problematic. At the Second National Meeting on Statistical Work, Zhu De, the vice chairman of the central government, declared that statistical work was the basis of a planned economy.¹⁷⁴ The party elite, influenced by Soviet experts, shared a distrust of “bourgeois” statistics. Furthermore, intra-state dynamics and state-society relations exacerbated its technical problems.¹⁷⁵

Intra-state relations did not support statistical information-gathering because the central administration did not have much authority or oversight of local statistical offices. Per the dictum of centralized leadership and dispersed management, the SSB could only offer recommendations on methods, while provincial-, city-, county-, and village-level offices carried out the actual work and were coordinated by the various bureaus at each level. Unlike the Soviet model, which utilized a unified chain of command insulated from local interference, the PRC’s statistical offices were beholden to a dual leadership structure. A statistical unit at any given level was answerable not only to the SSB in Beijing but also to the party committee and people’s committee at its own level. This meant a provincial bureau could be caught between the center

¹⁷² Notably, these departments collected information relating to living standards. The state prioritized instead information collection for to aid production and extraction, rather than redistribution or consumption. Ghosh, *Making It Count: Statistics and Statecraft in the Early People’s Republic of China*, 132.

¹⁷³ Ghosh, *Making It Count: Statistics and Statecraft in the Early People’s Republic of China*, 133.

¹⁷⁴ Ghosh, *Making It Count: Statistics and Statecraft in the Early People’s Republic of China*, 132.

¹⁷⁵ My analysis thus differs from Ghosh’s because emphasize the social foundations of the technical problems, rather than the actual methodological issues.

and the demands of local elites, who maintained significant say over the bureau's organization and could issue their own requests for data.¹⁷⁶

The periodic reporting system was ill-suited to this kind of administrative structure. It resulted in large quantities of data that the SSB had difficulty making sense of. The methodology adopted did not produce statistical information that was easy to use. The “socialist” method of exhaustive enumeration relied on periodic complete counts, that data collected at regular intervals. The reports could cover timeframes as short as ten days or as long as a year, as well as other possibilities in between.¹⁷⁷

The Korean War, CHINCOM, and the trade bureaucracy's international collaboration
Not long after the official founding of the People's Republic, the CCP once again found itself cut off from global trade. These conditions had profound effects on the formation of the economic bureaucracy, for both development goals and for the trade bureaucracy. The existential, external threat once again promoted elite cohesion regarding trade policy, expressed through further investment in trade institutions. In turn, this further entrenched the intra-state dynamic of structurally prioritizing trade over domestic economic governance.

In the fall of 1950, after Chinese forces moved into North Korea, the US quickly imposed an embargo on all exports to China and seized bank accounts and other assets own by the Chinese. As the fighting progressed, the US and UK governments were under pressure to expand sanctions. By May 1951, the US succeeded in getting other Western nations to restrict trade with China through a UN resolution.¹⁷⁸ It also limited trade with China through COCOM. But China proved to be a thorn for US postwar foreign policy. Thus 1952, US officials established the

¹⁷⁶ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 138–40.

¹⁷⁷ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 41–43.

¹⁷⁸ Cain, “The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52,” 45–47.

China Committee (CHINCOM) to enforce stronger restrictions on China (and North Korea). As a result, China relied much more on trade with socialist countries, and the capitalist share of its trade dropped to 21%.¹⁷⁹

At the same time, the capitalist West indicated interest in trading with the People's Republic. A group of left-leaning entrepreneurs from Western Europe and United States, along with citizens from several socialist states interested in trading across the Cold War divide, initiated the Moscow Conference of 1952.¹⁸⁰

Zhou was involved in selecting the delegates to the Moscow Conference. He, Lei, and others chose Nan Hanchen, governor of the People's Bank of China to lead the delegation.¹⁸¹ The preparations proceeded alongside the disruptions of the Three and Five Anti Campaigns,¹⁸² which was targeting the types of people the Ministry of Trade hoped to recruit: those with knowledge or experience with capitalist trade and industry.¹⁸³ Lei, then the vice minister of the Ministry of Trade, in fact was so preoccupied with the Three and Five Anti Campaigns that he could only arrive in Moscow four days after the rest of the delegation.¹⁸⁴

However, the domestic political campaign did not derail the trade-deal making. These figures were able to appeal to market logic in their arguments to promote trade. Lei for example noted that because importing Chinese coal would be cheaper for Japan than importing for elsewhere, Sino-Japanese trade could lower production costs for Japanese industries.¹⁸⁵ Over the course of the conference, the Chinese delegation signed trade contracts with representatives from

¹⁷⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 38.

¹⁸⁰ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 86.

¹⁸¹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 89.

¹⁸² Three Antis: CCP cadres, state bureaucrats, and managers of factories and firms viewed to be corrupt. Five Antis: bribery, tax evasion, theft of state property, abuse of government contracts, and theft of state secrets.

¹⁸³ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 88.

¹⁸⁴ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 89.

¹⁸⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 91; King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 84-85.

the Holland, France, Belgium, West Germany, Italy, Pakistan, Ceylon, Finland, Switzerland, and Indonesia. Most of the deals fell through because COCOM restrictions made their fulfillment either difficult or impossible. Nevertheless it does indicate that there was great interest in trade across the Cold War divide.¹⁸⁶ The CCP framed its participation as an advance for free trade and contribution towards, according to the People's Daily, the "smashing [of] the American imperialist policies of embargo and blockade."¹⁸⁷

The Conference also led to reorganization of the trade bureaucracy. Delegates agreed to establish national committees that would promote international coordination of trade "on the basis of equality and with due regard to the needs of the industrialization of underdeveloped countries." China therefore created the China Committee for the Promotion of International Trade (CCPIT), which absorbed the ITA, and appointed Nan Hanchen as its first president.¹⁸⁸ The CCPIT inaugurated a new and explicit division of labor for the trade bureaucracy. The CCPIT Research Committee assigned responsibility for various trade topics to different groups: import and export companies, the Foreign Trade Division at the Ministry of Trade, the Foreign Operations Bureau at the People's Bank of China, the GAC, the Renmin University, and the CCPIT itself. Topics included shipping trends, country studies, foreign currency, and trade theory. True to the goals articulated during the Moscow Conference, the CCPIT maintained relationships with other national committees and other foreign business and trade associations.¹⁸⁹

The First Five-Year Plan and the reorganization of the trade bureaucracy
China's participation in the Moscow Conference and formation of the CCPIT was not just the product of international interest, it was part of the realization of China's First Five-Year Plan

¹⁸⁶ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 91–92.

¹⁸⁷ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 92.

¹⁸⁸ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 94.

¹⁸⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 95.

(1953–1957), which was in preparation before the Moscow Conference. The First Five-Year Plan was to commence in 1953. Forecasting trade developments was important for planning. This included forecasting remittances from abroad, shipping rates, insurance premiums, and packaging costs; revenues from exports of rice, tea, and other commodities. The forecasts were essentially goals the needed to be met for the success of the overall plan. A lack of hard currency could be devastating for domestic economic goals, as it could mean shortages of technology and other imported inputs.¹⁹⁰

The First Five-Year Plan followed the “big push” Soviet playbook, focusing on investment in heavy industry and relying heavily on Soviet assistance. Soviet-aided complete plant projects, mostly ferrous metallurgy, machinery, and electric power industries accounted for almost half of all investment in the First Five-Year Plan.¹⁹¹ However, Mao was uneasy with becoming beholden to any country, even to Soviet “big brother.” In January 1950, when Mao, for example, negotiated the Treaty of Friendship, Alliance, and Mutual Assistance with Stalin, he requested a loan much smaller than those given to other socialist allies, explaining that it was better “to borrow less than to borrow more at present and for several years.”

However, trade with the capitalist world was also essential because of an anticipated decline in foreign exchange due to a decrease in the amount of overseas remittances and trade obligations with the socialist world reduced the supply of exports China could sell for cash in capitalist markets.¹⁹² China traded through barter and relied on loans from the eastern bloc, but still needed foreign exchange. Despite the CHINCOM restrictions, it still imported technology

¹⁹⁰ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 96.

¹⁹¹ Naughton, *The Chinese Economy: Transitions and Growth*, 66.

¹⁹² Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 117.

from the West.¹⁹³ For example, China signed three unofficial trade agreements signed in quick succession in the early 1950s with Japan (1952, 1953, 1955). Japan exported medical instruments, spinning machinery, textiles, iron and steels products, and chemical goods used to produce fertilizer. China exported soy beans and coal.¹⁹⁴ Furthermore, insurance and shipping costs were paid in US dollars, Swiss francs, Hong Kong dollars, and British sterling. And the PRC needed foreign exchange to fund its foreign policy expenses that had to be paid for in local currencies, such as embassy buildings and diplomats' expenses.¹⁹⁵

Fulfilling the First Five-Year Plan required more systematic coordination and specialized agencies, so the Party gave foreign trade its own ministry. Thus the Ministry of Trade was dissolved and the Ministry of Commerce was established to oversee domestic trade, while the Ministry of Foreign Trade focused on foreign trade, and would be under the leadership of the CFEC.¹⁹⁶ Lei Renmin was appointed vice minister of foreign trade.¹⁹⁷

The pressures of meeting the export goals to meet the earning targets of the First Five-Year Plan led to rapid growth of the trade bureaucracy. Zhou, with Mao's support, encouraged for international exchange with experts from the capitalist world; Mao noted that the capitalist world offered "exceptional" science, technology, and management techniques.¹⁹⁸ To facilitate exports, the Ministry of Trade expanded its international presence.

¹⁹³ Sino-Japanese trade was 1.4 percent of China's total trade in 1953 to 4.5 percent of China's total trade in 1957. In comparison trade with the Soviet Union was about half. King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 91.

¹⁹⁴ King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 90–91.

¹⁹⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 117.

¹⁹⁶ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 96–97.

¹⁹⁷ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 98.

¹⁹⁸ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 118.

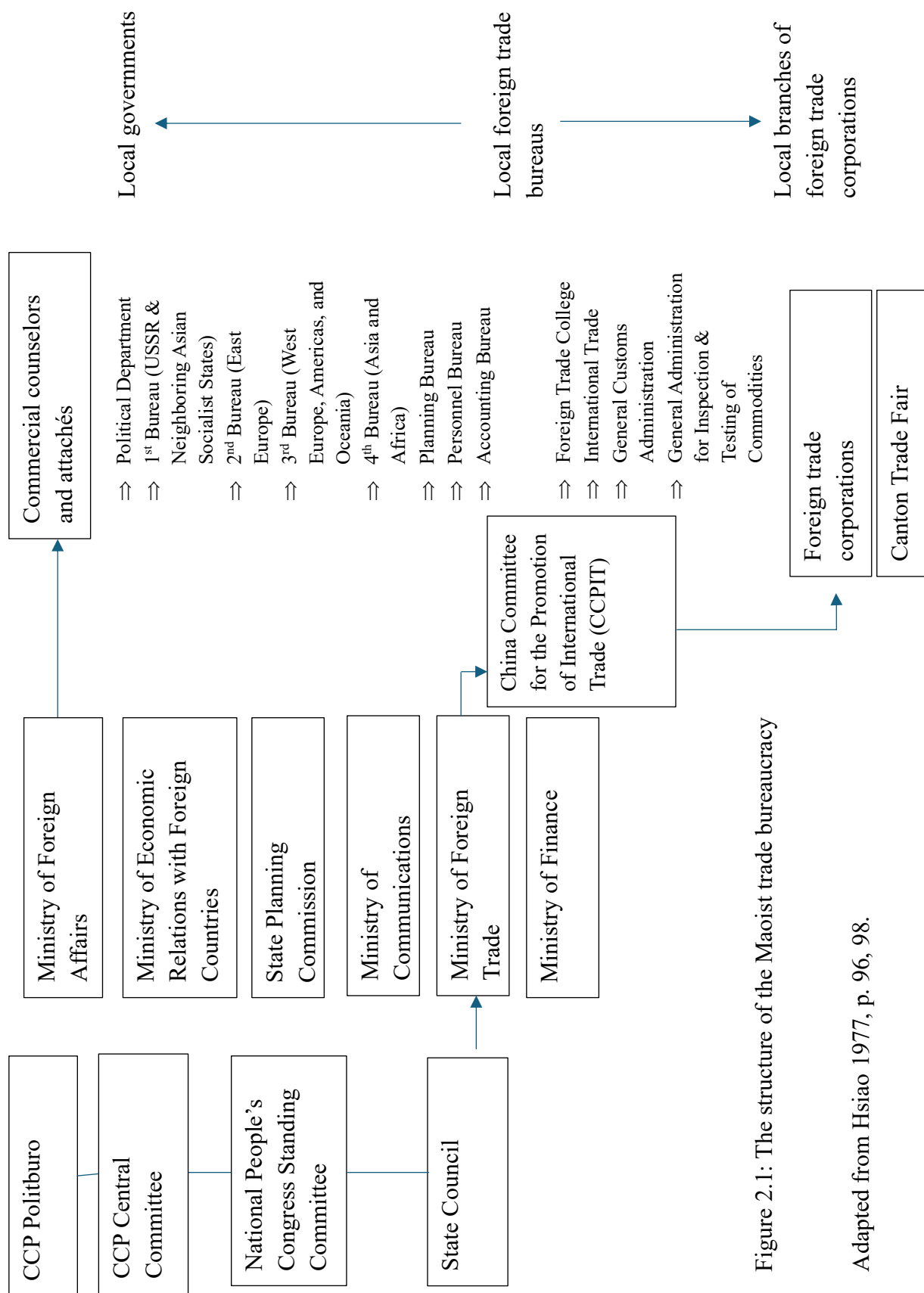


Figure 2.1: The structure of the Maoist trade bureaucracy

Adapted from Hsiao 1977, p. 96, 98.

“By the end of 1955, the Ministry of Foreign Trade had over 33,000 specialists working in 382 different offices at home and abroad. Most staff worked in China, where they served as customs inspectors, municipal trade officials, workers in state-owned trade firms, and instructors at the ministry’s Foreign Trade Institute in Beijing. But hundreds were posted overseas in China’s nineteen foreign commercial offices—not just in Europe, but also in East and Southeast Asia, the Middle East, and North Africa.”¹⁹⁹ One of these offices was the China National Import and Export Corporation in East Berlin (CNIEC). This new office also established a relationship with the London Export Corporation, which handled CNIEC correspondence for trade in the UK. By 1954, there were as many as 400 people working at CNIEC in East Berlin.²⁰⁰

Zhou also spearheaded an effort to attract Western trade from within China. In 1956, a trade official in Guangdong named Yan Yijun proposed building an exhibition to promote Chinese trade with the capitalist world. His proposal reached Zhou Enlai, who took a special interest in the project, and was so involved that he made recommendations on the location, policies, and responsibilities, and the name of the new exhibition hall. Guangzhou would be easily accessible to foreign visitors because of its proximity to Hong Kong, which provided access to British networks. And it was close to Southeast Asia, which the Ministry of Foreign Trade considered increasingly important. Asian and African markets were identified as important to Chinese trade both as sources of raw materials and as destinations for Chinese goods. The Canton Exhibition Hall opened in the spring of 1957 and showcased goods such as silks, teas, fruits, handicrafts, and equipment. More than 1,200 people from 19 countries and territories visited the first fair, which lasted a month.²⁰¹

¹⁹⁹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 118.

²⁰⁰ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 98–99.

²⁰¹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 121–24.

Implementation of the First Five-Year Plan demanded greater state control over the economy. 88.8% percent of state capital investment would go toward heavy industry, while only 11.2 would go to light industry, with minimal investment in agriculture.²⁰² 97% of the investment for the First Five-Year Plan came from China; Russian financial aid only account for 3 percent of the total Chinese state investment.²⁰³ In the cities, this first involved the nationalization of most of the remaining private sector between 1953 and 1956. But the Plan largely depended on control of rural labor and resources. The state accomplished this through land reform, collectivizing agriculture, and controlling rural-urban migration. To implement these changes, tesymbolic domination, material incentives, and legal mechanisms. In addition to using emotion work and material incentives to inspire peasant acceptance of party authority, the state introduced two new mechanisms to discipline the countryside: limiting rural-urban migration and taking over the purchase and sale of grain. Consequently, peasants lost the ability to decide for themselves what the produce, or to seek livelihoods in the city, or to have sources of income outside those provisioned in the economic plan.²⁰⁴

Conclusion

I have traced the PRC's state formation process, showing how the revolutionary period established intra-elite, intra-state, and state-society relations that supported the uneven development of trade planning and economic governance capabilities. Trade capacity was important from the start due to the CCP's nationalist, anti-imperialist ideological orientation. Subsequently, revolutionary conflict exigencies promoted development of a relatively high-capacity trade bureaucracy. Trade capabilities became inseparable from military capabilities. The

²⁰² Meisner, *Mao's China and After: A History of the People's Republic*, 112.

²⁰³ Meisner, *Mao's China and After: A History of the People's Republic*, 112–14.

²⁰⁴ Liu, "Why Did It Go So High? Political Mobilization and Agricultural Collectivization in China," 732–41.

KMT forced the CCP into poor, remote rural areas from which they developed the antecedents of the PRC's centralized trade bureaucracy. To get the supplies necessary to support its military, the party's arranged its organizational structure and resources towards cultivating the technical skill, logistical networks, and administrative capacity to facilitate the earning of foreign currency and transport of goods to and from hostile territories and external markets. The CCP only gained experience with centralized economic planning when it took over administration of Manchuria in 1945, two decades after it began to develop its trade capabilities. Furthermore, it did not invest in statistical work until the late 1940s, and even then, its scope was regionally limited. Until Manchuria, the CCP consisted of a decentralized association of rural guerilla units, where local party organizations managed economic policies. Nor did the experience of economic governance of non-contiguous rural bases did prepare the CCP for the complexities of national economic planning for a vast territory, and one with great variation in development levels.

Thus, the revolutionary state formation process behooved the CCP to develop a centralized trade bureaucracy while it led to a comparatively late introduction to centralized economic planning. Indeed, the very conditions that inhibited the formation of national economic governance capabilities necessitated the formation of trade capabilities.²⁰⁵ A large economic bureaucracy failed to emerge earlier during the revolution while the CCP bases were in economically backwards and sparsely populated areas. And it is precisely because CCP bases were economically backwards and sparsely populated that they needed to trade for needed materials. Finally, the CCP established party-society relations that supported trade capacity by developing institutions that enabled domination of the countryside, and thus agricultural surplus. These were land reform, which both eliminated the gentry's control of rural resources and

²⁰⁵ This point draws on Bachman (1991:135).

inspired popular support for the CCP; techniques of mass mobilization, which both discipline rural labor and made peasants feel that they had a stake in revolutionary changes; methods of “thought reform” or symbolic domination and promoting ascetic values, which justified the extraordinary demands the CCP made of the population.

After seizing power in 1949, the fledgling Chinese Communist party-state faced external threats from the United States. Trade continued to be a strategic as well as economic concern, reproducing the political elite’s shared paradigmatic ideas regarding the importance of strengthening trade capabilities. As such, intra-elite relations supported building up the technocratic character of the trade bureaucracy. Within the party-state, the adoption of Soviet-style “big push” industrialization, with its emphasis on the development of heavy industry, further entrenched the operational and structural bias toward trade over domestic economic governance. Five-year plans institutionalized this bias as production goals were made to serve import goals. Meanwhile, the new Chinese state was slow to establish central economic governance institutions. Finally, the state both deepened and extended control over agricultural surplus through the cooperative farming movement and increasing grain taxes; yet it did so while distributing power to the village level. Thus state-society relations facilitated resource extraction and at the same time created structural barriers to accurate information collection.

Chapter 2 | Domestic economic governance, trade capacity, and the contradictions of high socialism, 1957–1976

*“[We would] rather ourselves not eat or eat less, not use or use less, and fulfill the contracts already signed.”*²⁰⁶

—Zhou Enlai, 1958

*“That people must eat and must wear clothes really can be a problem!”*²⁰⁷

—Mao Zedong, 1965

Introduction

Why did the Maoist trade bureaucracy have the capacity to achieve self-reliant trade even when high socialist projects weakened domestic economic governance?

Thus far, I have traced the uneven development of trade and planning capacities from state formation during the revolutionary period to the early years of state building of the People’s Republic. I argued that military and strategic threats engendered intra-elite, intra-state, and state-society dynamics that favored the development of a centralized, technocratic trade bureaucracy. As the goal of wresting control of trade from imperial powers inspired the founding of the CCP, party leaders, even the radical Chairman Mao, *shared paradigmatic ideas* on foreign economic relations that facilitated trade capacity. Military challenges subsequently necessitated the party’s development of its own trade infrastructure. The CCP elite gained *technical knowledge* through more twenty years of trade administration over the revolutionary state formation process. They also gained *political capital* and *political management skills* through experiencing (and surviving) the revolution and the rise of Chairman Mao. During the revolution, the *balance of power* between party organizations favored the trade bureaucracy, because its activities served

²⁰⁶ Qtd. in Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 149.

²⁰⁷ Qtd. in Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 75.

the import needs of the military. During the early PRC, big-push industrialization institutionalized this balance of power, while the the First Five-Year Plan articulated it. Finally, the party and the party-state created effective mechanisms to *discipline society*, particularly in the countryside. Through both symbolic domination and material incentives, the party and party-state replaced existing rural social structures with ones that enabled control of agricultural products, its main export.

In contrast, military and strategic exigencies generated social relations that constrained development of durable, high-capacity institutions for coherent planning. Intra-elite relations dominated by Mao, with his penchant for mass mobilization, might have served well the CCP's revolutionary warmaking, but also strongly disincentivized dissent from other leaders who favored systematic and realistic production goals. Fragmented intra-party and intra-state relations of economic governance, along with party-society and state-society relations defined by emotive, campaign-style administration, were effective for local war mobilization and one-off development projects in dispersed, rural territories. However, they precluded streamlined, sustained information-gathering, reporting, and verification across a vast and economically varied country.

In this chapter, I show how transformations of intra-elite, intra-state, and state-society relations contributed to the trade bureaucracy's relatively high—and longer period of—performance from the end of the First Five-Year Plan to Mao's death, the PRC's period of “high socialism.”²⁰⁸ From the mid-1950s onwards, the uneven distribution of capacity between trade and planning became even more pronounced as the Chairman launched multiple attempts to pursue his own paradoxical vision of development. Chinese heavy industry was to advance more

²⁰⁸ I adopt the term and adapt its periodization (ending in 1976 rather than 1980) from Brown and Johnson, *Maoism at the Grassroots*, 6–7.

rapidly than the pace suggested by the Soviet model and was to do so through guerilla-style mass mobilization scaffolded by Mao's own charismatic authority. However, rapid industrialization of the economy required centralized, technocratic administration, which conflicted with Mao's anti-bureaucratic ethos and personalistic approach to rule. Mao's high socialist development projects, particularly the Great Leap Forward (1958–1962), upended intra-elite, intra-state, and state-society relations in ways that diminished both trade and planning capacities. Yet, while social relations that facilitated trade bureaucracy effectiveness were restored after the Great Leap, they did not facilitate equal effectiveness in domestic economic governance.

Mao's consolidation of power and the Great Leap Forward, 1957–1961

In the second half of the 1950s, transformations in intra-elite, intra-state, and state-society relations generated trade and planning incapacities of world-historical proportions. The Great Leap Forward threw the entire economic bureaucracy into disarray, resulting in anarchic trade operations and the deadliest famine in history. In intra-elite relations, ideational cohesion that previously supported a technocratic trade bureaucracy dissolved when Mao favored instead decentralized economic governance. Furthermore, the political management skills of trade bureaucracy leaders proved no match for Mao's charismatic authority, newly augmented by party purges. The balance of power within the state no longer ensured that foreign technology imports adhered to a comprehensive plan and a balanced budget. In intra-state relations, the devolution of power from the trade bureaucracy to local governments on the one hand, and increased promotion of heavy industry over the agricultural sector on the other, limited the central government's ability to prevent local governments from purchasing more than the state could afford. At the same time, local governments had neither the technical expertise nor even the time to accurately gather local economic information. Finally, in state-society relations, political

pressures from the center incentivized villages to deploy problematic methods of enumeration that made verification and reconciliation of data difficult and incentivized overreporting, leading to unsustainably high procurement rates. The resulting “three years of great famine” stretched from 1959 to 1961.

In trade, the dissolution of coherent planning led to serious and, as Chapter 5 describes, rather embarrassing failures to meet export obligations. Within the first six months of 1958, local officials placed orders for imports that would cost over twice the US\$45 million the Ministry of Trade had budgeted for localities for the entire year. Further, the ministry faced a shortage in foreign exchange earnings, having not met its export targets for the first half of 1958, and risked defaulting on import contracts.²⁰⁹ By 1960, there was a great imbalance in exports and imports. In July of that year the Ministry had already met 52.7 percent of its annual import goal, while in August, it had only collected 43.3 percent of its original procurement goal and only 38 percent of planned exports had left China.²¹⁰

Intra-elite relations

Between 1957 and 1958, Mao relied on both his charisma and refashioning party-state structures to consolidate his authority. As a result, leaders were unable to exercise their political management skills and technical knowledge to maintain balanced foreign trade. While the political elite still shared the idea that technological imports from capitalist countries were necessary for development, they diverged on the structure of trade planning.

The transformations were catalyzed by perceived threats to party-state legitimacy, as the Hundred Flowers Campaign (1956–1957), during which Mao encouraged ostensibly free

²⁰⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 143–44.

²¹⁰ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 164.

political discourse, unleashed extensive criticism of the CCP's unrealistic development goals.²¹¹ Subsequently, in mid-1957, Mao launched the Anti-Rightist Campaign (1957–1959) to attack the critics who had spoken out during the Hundred Flowers. About 800,000 people were removed from their jobs.²¹² The Anti-Rightist Campaign coincided with the drafting of the Second Five-Year Plan, which involved conflicts between moderates who wanted to implement a tempered version of the First Five-Year Plan and the Maoists who favored making even more ambitious development goals that would lead China to surpass the US in less than a decade.

The Anti-Rightist transitioned from disciplining cadres and non-Party intellectuals with views deemed conservative to targeting officials, including Zhou Enlai and Chen Yun, who opposed to the “rash advance” towards rapid industrialization. Mao's methods included public attacks and forcing humiliating “self-criticisms” at high-level meetings and reducing the power of the State Council, headed by Zhou. Instead, five new groups in charge of finance, legal matters, foreign affairs, science and culture and education would report directly to the Politburo and the Secretariat, whose members all feared being purged.²¹³ Mao thus controlled economic policy, which, through a combination of top-down sloganeering and experimentation at the provincial level, became the Great Leap Forward.²¹⁴ By 1958, Chen Yun and Zhou Enlai lacked the authority to change the increased grain procurement and agricultural exports needed to pay for the Great Leap's increased import volumes.²¹⁵

²¹¹ Teiwes, *Politics and Purges in China*, 217.

²¹² Naughton, *The Chinese Economy: Transitions and Growth*, 69.

²¹³ Lieberthal, *Governing China*, 101–4; Jian, *Zhou Enlai: A Life*, 412–15; Teiwes, *Politics and Purges in China*, chaps. 7–8.

²¹⁴ Lieberthal, *Governing China*, 102–5; Teiwes and Sun, *China's Road to Disaster: Mao, Central Politicians, and Provincial Leaders in the Unfolding of the Great Leap Forward 1955-1959*, chap. 2.

²¹⁵ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 40.

Intra-state relations

Having cowed opposition from the party elite, Mao was able to change the structure of state administration (by decentralizing economic governance), the activities it entailed (by prioritizing ideological work), and intensify its orientation towards rapid development of heavy industry. These intra-state changes upset the balance of power that facilitated technocratic, centralized trade operations. As a result, import orders skyrocketed while the trade bureaucracy's ability to meet the export obligations to pay for them declined precipitously.

Decentralization of state administration proceeded rapidly. From 1957, economic administration was transferred from central planning institutions to provinces, municipalities, and large-scale economic enterprises; from 1958 onwards, economic decision-making power was transferred to basic production units. In these production units, according to Maoist logic, the people themselves were to participate in the planning of their own communities, as they were the ones who best understand local resources; such localized democratic administration would unleash the creativity of the masses. Indeed, the rural commune was a product of such popular creativity. Radical local activists in Henan formed the first communes in 1958 and spontaneously spread throughout northern China without guidance from Beijing (but certainly with ideological approval from Mao and his supporters) over the spring and summers. The Central Committee officially endorsed the commune as the appropriate organizational form to accelerate socialist construction in the fall, and by the end of the year, virtually all of rural China, 750,000 collective farms, were organized into 24,000 people's communes.²¹⁶

Decentralization and the reduction of technical capacity went hand in hand. With centralized planning agencies now redundant, some administrative offices were even emptied as

²¹⁶ Meisner, *Mao's China and After: A History of the People's Republic*, 207–18.

officials from the centralized planning bureaucracy were “sent down” to join workers in manual labor in factories and on farms.²¹⁷ The State Statistical Bureau (SSB), for example, was hollowed out from a high of 200,000 personnel in 1956 to 20,547 by 1962.²¹⁸ These dismissals exacerbated the already weakened technical capabilities of the Maoist state, which, as mentioned in the previous section, suffered losses during the Anti-Rightist Campaign. Among the hundreds of thousands of specialists dismissed from 1957–1958 were at least 188 cadres from the Ministry of Trade, purged for such offenses as “serious rightist sentiments,” “serious individualism,” “malfeasance,” “sleeping around” and “hedonism.” To further demonstrate its commitment to anti-rightism, the Ministry of Foreign Trade adjusted its training, otherwise focused on foreign language training, accounting, and trade economics, to include ten hours per week for “rectification and reform.”²¹⁹

The transfer of decision-making power to local authorities entailed a transfer of power to lower levels of the state that both lacked the skills to assume its new responsibilities and experienced political pressures to show enthusiasm for the Great Leap. As a result of decentralization, communes served as both production units and statistical offices.²²⁰ At the local level, cadres also issued “arbitrary and inappropriate production orders” that resulted in wasted labor and resources and lower productivity.²²¹ Furthermore, individuals who frequently had no statistical training became responsible for gathering economic data, and in an environment that promoted exaggeration.²²² Understanding that radical behavior would be rewarded, party

²¹⁷ Meisner, *Mao's China and After: A History of the People's Republic*, 207–18.

²¹⁸ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 277.

²¹⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 131–32.

²²⁰ Lardy, *Agriculture in China's Modern Economic Development*, 41–43.

²²¹ For example, in Qingpu county, Jiangsu province, cadres promoted doubling-cropped, which required more fertilizer and labor than that traditional rice-beans cropping pattern and prevented the fall planting of broad beans. Lardy, *Agriculture in China's Modern Economic Development*, 43.

²²² Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 280.

officials competed in reporting inflated production numbers.²²³ The SSB was aware of this exaggeration, but it did not have the authority to correct them through promoting alternative statistical methods.²²⁴ In December 1958, grain production for the year was reported at 375 million metric tons, or about double the 1957 output.²²⁵ Believing they had doubled grain production in 1958, planners actually reduced the total sown area for 1959 by 5%, leading to grain to fall to 170 million tons, a 25-million-ton drop in grain output. The state shifted a larger share of the remaining, smaller sown area to industrial crops to fuel the rapid urban industrialization goals. As a result, the Party Center set high procurement rates while reducing food production.²²⁶

Nearly all trade work was decentralized. Ministry of Trade transferred responsibility for export production and logistics from the central ministry to localities. Local authorities were to also oversee their own accounting and pass profits up to higher levels as appropriate, while foreign exchange earnings would remain at the local level. Provincial, municipal, and autonomous regions' authorities, rather than the central ministry, began the trade planning process by drafting their own balanced import and export plans, which they reported up to the National Economic Commission and the Ministry of Foreign Trade.²²⁷ The lack of central oversight, however, resulted in import orders and export obligations that were impossible to reconcile.

²²³ Kung and Chen, "The Tragedy of the Nomenklatura," 35–43; Lieberthal, *Governing China*, 106–9.

²²⁴ Ghosh, *Making It Count: Statistics and Statecraft in the Early People's Republic of China*, 280.

²²⁵ In fact, a 1961 verification estimated the 1958 harvest to be 200 MMT. Bernstein, "Stalinism, Famine, and Chinese Peasants," 351.

²²⁶ Bernstein, "Stalinism, Famine, and Chinese Peasants," 351.

²²⁷ However, the Ministry of Foreign Trade retained the authority to negotiate deals with foreigners, maintaining the PRC's monopsonic buying power. Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 136.

State-society relations

Ideological work and new governance institutions enhanced state discipline over society, and in particular the state's extractive capabilities. This fueled the "wind of exaggeration" that contributed to the Great Leap Famine.

While the Anti-Rightist Campaign had an urban focus, it also extended Maoist revolutionary energy to the countryside with the methods of "emotion work" and exemplary punishment used in previous periods. Generally, anti-rightist slogans were forbidden among the peasantry, but rural cadres' arrest of landlords and rich peasants "undoubtedly instilled fear in the wider circles of peasants."²²⁸ Additionally, the Anti-Rightist Campaign spread into the villages as the party transferred its urban cadres to the countryside and systematically encouraged urban youth and intellectuals to rusticate themselves to deepen their revolution sensibilities and serve rural development.²²⁹ As such, villagers keenly felt pressure to fulfill the dictates of the Great Leap, from increasing production to reducing consumption, lest they be accused of counterrevolutionary machinations. Indeed, "the central government made it clear that the fulfillment of export quotas was more important than food consumption. For example, on March 16, 1959, the State Council instructed that no pigs should be slaughtered for local private consumption in the countryside for three months and people in the cities should eat less in order to meet the quotas for the export of frozen meat."²³⁰

Beyond such means of symbolic domination, the state also extended control of rural resources through new governance institutions. First, the communalization movement shut down

²²⁸ Teiwes, *Politics and Purges in China*, 253.

²²⁹ The unpublicized reason for rustication was alleviation of urban unemployment. Yihong, "An Examination of the Goals of the Rustication Program in the People's Republic of China," 364–68; Bernstein, "Stalinism, Famine, and Chinese Peasants," 350.

²³⁰ Wemheuer, *Famine Politics in Maoist China and the Soviet Union: Famine Politics in Maoist China and the Soviet Union*, 51.

nonstate markets and abolished private plots, thus incorporating the entirety of the rural economy in the state plan and eliminating peasants' freedom to make their own farming decisions.²³¹ Second, the Great Leap relied on production or direct planning. Central authorities set production (procurement) targets for farm output in quantity terms rather than in prices; commune-level authorities then determine specific cropping patterns.²³² Third, the state not only increased the proportion of agricultural surplus it extracted but also redefined the term "surplus." Under the "comprehensive guarantee system" (*baogan zhi*) introduced in 1958, the government began to formulate procurement targets based on highly optimistic *projected* output rather than historical benchmarks.²³³ As the next section will show, the state's domination also enabled the state to make extraordinary demands on the peasantry during the readjustment period.

Economic readjustment, 1961–1965

Intra-elite, intra-state, and state-society relations that facilitated unsustainably high grain procurement and import orders continued through 1960. That year, top party leadership began to acknowledge that the Great Leap caused severe grain shortages and the Soviet Union suddenly withdrew its specialists and promises of technical industrial and military assistance, exacerbating China's economic problems. The government took emergency steps to address the famine at the end of 1960, but only began formal readjustment in the second half of 1961. In intra-elite relations, the readjustment entailed Mao's (temporary) retreat from economic affairs and the reinstatement of more moderate leaders. However, Mao took note of the ways they assessed the causes of the Great Leap's disastrous outcomes, which informed the targets of his

²³¹ Lardy, *Agriculture in China's Modern Economic Development*, 41.

²³² Lardy, *Agriculture in China's Modern Economic Development*, 19–20.

²³³ Bernstein, "Stalinism, Famine, and Chinese Peasants," 353.

subsequent campaigns. In intra-state relations, the government directed more investment into agricultural development, recentralized the economic bureaucracy, and reduced direct controls over the rural economy. Finally, state-society relations saw several developments that, in different ways, reinforced existing party discipline of the countryside. Together, the readjustments enabled China to regain capacity in both domestic economic governance and foreign trade. At great cost to the peasantry, China paid off its debt to the Soviet Union, built up a large commodity surplus with the Soviet bloc, and stabilized the food supply.²³⁴

Intra-elite relations

Within the elite, the moderates regained influence over economic affairs. A series of changes in top-level trade administration began in the summer of 1960, over a year before the formal readjustment of broader domestic economic governance. First, the Central Committee placed control over trade in the hands of Zhou Enlai, Li Fuchun (the head of the State Planning Commission), and Li Xiannian (the Minister of Finance), or the Li-Li-Zhou commission. Any future additions to that year's import schedules had to be personally approved by Li-Li-Zhou commission. Second, Li Xiannian was also to recentralize control over trade through leading the newly created "Foreign Trade Headquarters."²³⁵ Third, Zhou Enlai took charge of the Ministry of Foreign Trade's grain purchases from the West, a program he managed from August 1960 until his death in 1976. One of his top economic advisors Ding Kejian was appointed chairman and CEO of China Resources, the Hong Kong trade company founded by the CCP during the revolution.²³⁶

²³⁴ Riskin, *China's Political Economy: The Quest for Development since 1949*, 155.

²³⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 163–64.

²³⁶ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 51.

In the spring of 1961, Mao retreated to the “second line” of Party leadership, enabling the Ministry of Foreign Trade and the State Planning Commission to repudiate the anarchic practices of the Great Leap.²³⁷ Then in the fall, the leadership introduced and approved Li Fuchun and Zhou Enlai’s “new” policy of readjustment: gradualist development targets, increasing agricultural production, and deepening trade with the West and Japan.²³⁸ At Mao’s request, Zhou wrote the document that officially ended the Great Leap: the “Urgent Directive Letter on Current Policies for Rural People’s Communes,” published in the November 1961.²³⁹

For future economic planning, in 1962, the Party Center decided to revive the Central Finance and Economics Committee (CFEC), the body established on the eve of liberation in 1949 to oversee all financial and economic work, including foreign trade, at the national level. Chen Yun was made the head of the committee (again), Li Fuchun and Li Xiannian the deputy heads, and Zhou was a member. In a radical departure from the “big push” industrialization policies of the First Five-Year Plan, the CFEC determined that development should focus on agriculture and the market rather than industry and transportation. Production should address the most urgent needs, and materials should be comprehensively balanced. They also suggested decollectivization and basing household income on output. However, Mao was adamantly opposed.²⁴⁰

Indeed, while Mao retreated from economic policy, he still derived prestige from his reputation as a military leader. In 1962, a military conflict with India and challenge from Taiwan provided him an opportunity to flex his position as the supreme commander of the People’s

²³⁷ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 182.

²³⁸ The CCP Central Committee approved this strategy on September 30. However, it took seventeen months for the leadership to work out the practical details of the policy. Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 46.

²³⁹ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 52–53.

²⁴⁰ Jian, *Zhou Enlai: A Life*, 464–67.

Liberation Army and mobilize the masses, enabling him to reenter the first line in the policymaking circles. Consequently, by the time the Party Center held a work conference in Beijing in February 1963, Mao was able to hijack the agenda (drafted by Zhou), redirecting the focus from economic recovery to opposing revisionism. However, Mao still allowed Zhou to play a central role in managing the Chinese economy.²⁴¹

Similarly, in 1962, during a large party work conference in Beijing, Mao continued to intimidate fellow top officials. Mao remembered everyone who criticized him when discussion of the Great Leap Forward arose. By now exceedingly familiar with Mao's ability to hold a grudge, Zhou shrewdly emphasized his own responsibility for the mistakes and defended the Chairman. In contrast, Peng Zhen, the mayor of Beijing and a committed Maoist, suggested—in terms that were nevertheless obsequious—that Mao could make mistakes. Uncoincidentally, he was one of the first top officials to be later purged during the Cultural Revolution.²⁴²

Intra-state relations

With their power restored, moderate leaders recentralized administration and shifted the balance of intra-state relations to promote agricultural development. In trade, decision-making power was transferred from local authorities to Li Xiannian's Foreign Trade Headquarters, which reduced imports, managed procurement, and streamlined exports.²⁴³ By 1962, trade with the capitalist world was almost in balance.²⁴⁴

While the central state recentralized planning, it also reduced control over rural production by downgrading the economic authority of the commune. Starting in 1959, the CCP

²⁴¹ Jian, *Zhou Enlai: A Life*, 483, 487.

²⁴² Jian, *Zhou Enlai: A Life*, 461–62.

²⁴³ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 163–64.

²⁴⁴ Riskin, *China's Political Economy: The Quest for Development since 1949*, 155.

began reopening rural markets across the country, and by 1961, there were roughly 40,000 active markets handling a quarter of all rural trade. The state also once again allowed private plots, reduced procurement rates, invested more in agricultural technology, and returned to indirect, or price-based, planning.²⁴⁵ By 1961, both the urban and rural economies were largely stabilized.²⁴⁶

State-society relations

While rural society regained a degree of autonomy, the state did not retreat from the countryside. State domination of rural society was essential for both a return to routinized economic planning and coherent trade operations. The wheat import program initiated in 1960 depended on the peasantry's continued acceptance of the state's central production goals and limits on consumption. To pay for wheat, China exported rice. Because the caloric values of rice and wheat are roughly equivalent, and the world price of rice was higher than that of wheat, trading rice for wheat brought in more calories. In addition to cash crops, China also exported textiles to earn the foreign exchange to pay for grain imports. Textiles increased from comprising about 25 percent of exports in 1959 to roughly 40 percent in 1961 and 1962.²⁴⁷ The high level was possible by "cutting domestic textile rations to the bare bones."²⁴⁸ Thus the logic of recovery from the Great Leap "demanded illogical faith from local farmers."²⁴⁹

Moreover, as the party dismantled the radical economic structures of the Leap, it did not relinquish political authority, instead redeploying campaign-style governance to enforce ideological conformity and adherence to procurement quotas. Beginning in 1963, the state launched the Socialist Education Movement, which lasted until 1965, sending urban "work

²⁴⁵ Lardy, *Agriculture in China's Modern Economic Development*, 18–19, 43–44.

²⁴⁶ Meisner, *Mao's China and After: A History of the People's Republic*, 250–51.

²⁴⁷ Eckstein, *China's Economic Revolution*, 251–53.

²⁴⁸ Eckstein, *China's Economic Revolution*, 253.

²⁴⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 174.

teams” into the countryside to root out corrupt and dissident rural authorities through the “Four Cleansings” and promoting ceaseless work and self-reliance through promoting the exemplar of the Dazhai production brigade. The Movement also entailed reclassification of peasant classes based on behavior rather than an ascribed economic position, which motivated peasants to show revolutionary zeal. As in the revolutionary period and in the early years of state-building, work teams accomplished such discipline of rural society through participatory, public, and theatrical criticisms of the offending individuals.²⁵⁰

The rise of the Petroleum Group and the Third Front, 1963–1966

After a short-lived period of relative stability, Mao reasserted his contradictory vision of rapid industrialization and mass mobilization. Consequently, the two major recipients of investment from the second half of the 1960s through the 1970s were the Third Front, an attempt to militarize China’s hinterlands, and the Daqing oil field. Between 1965 and 1970, 52.7 percent of China’s construction investment went to the Third Front.²⁵¹ Both the Third Front and Daqing elevated the status and influence of the Ministry of Petroleum Industry, and in particular its head, Yu Qiuli, collectively known as the Petroleum Group. The Group changed intra-elite and intra-state relations in ways that ultimately supported foreign trade capacity and weakened domestic economic governance.

In intra-elite relations, Yu’s rise shifted the balance of power in favor of increasing trade capacity. Despite coming into prominence as a model practitioner of Mao’s high socialism, Yu valued technical expertise. At the same time, his apparent fondness for mass mobilization earned

²⁵⁰ Friedman et al., *Revolution, Resistance, and Reform in Village China*, 53–54; Teiwes, *Politics and Purges in China*, chap. 11.

²⁵¹ Hirata, *Making Mao’s Steelworks: Industrial Manchuria and the Transnational Origins of Chinese Socialism*, 249.

them Mao's approval. In intra-state relations, the rise of the petroleum sector created a new source of demand and of support for increasing technology imports from capitalist countries.

Intra-elite relations

The ascent of the Petroleum Group resulted in new allies for the moderate, technocratically inclined leaders who valued coherent trade planning. During the planning of the Third Front, Zhou Enlai politically managed Mao and positioned himself to maintain influence in economic affairs.

Yu Qiuli earned praise from Mao and entered the party elite because he and his work at Daqing was symbolized the power of revolutionary will. Yu was from the Jinggangshan area, the first CCP base established in Jiangxi. Yu did not have a formal education, joined the Red Army as a teenager, became a Party member at seventeen, and survived the Long March, during which he lost an arm. He worked his way up the PLA, eventually getting put in charge of the Financial Department of the Central Military Committee, which later merged with the Central Logistics Department to become the equivalent of the Central Planning Commission in the army. In 1958, during the Great Leap Forward, he became the Minister of the Petroleum Industry. Under his leadership, the Ministry of the Petroleum Industry drilled four times as many wells in 1958 than it had in the previous year, an unprecedented and enormous expansion of oil production.²⁵² Daqing was discovered in 1959 and began operation in 1960.²⁵³ Yu motivated Daqing workers not with material incentives, but with ideological mobilization, having workers read Mao's works and describing Daqing operations in terms of a revolutionary military campaign. The Daqing oil field was divided into five "sub-battlefields" and working there was "joining a

²⁵² Li, *Building for Oil: Daqing and the Formation of the Chinese Socialist State*, 23.

²⁵³ Wei, *Oil in China: From Self-Reliance to Internationalization*, 16.

battle.”²⁵⁴ With its rapid increase in production of such a precious resource, Daqing was the one exception to the economic disaster of the Great Leap.

Thus, in 1964, when Mao began to envision a direction for development that diverged from that of the State Planning Commission’s draft of the Third Five-Year Plan, a continuation of post-Leap readjustment, he chose Yu to realize it. Yu’s PLA background, revolutionary enthusiasm, and experience in heavy industry seemed well suited to the project of the rapid military-industrial build up. Mao was inspired by a report on the national economy’s readiness for a sudden attack. The report noted that China’s industry, population, and transport infrastructure was concentrated in coastal cities (the First Front) and the areas immediately behind them (the Second Front), both easily reachable by enemy bombers. If China were to be less vulnerable to attacks, its industry should be better dispersed to a “Third Front” inland. However, the draft of the Third Five-Year Plan emphasized investment for “eating, clothing, and daily essentials” rather than for steel production.²⁵⁵ Li Fuchun and Liu Shaoqi, members of the State Planning Commission, only integrated portions of Mao’s suggested Third Front industrialization into their draft plan and insisted on focusing on improving agriculture and consumption levels.²⁵⁶

In contrast, rather than opposing Mao, Zhou praised his vision and even proposed the large-scale transfer of industrial enterprises to southwest China, even though Zhou had previously given his full support to the draft Third Five-Year Plan.²⁵⁷ Zhou also diplomatically

²⁵⁴ Li, *Building for Oil: Daqing and the Formation of the Chinese Socialist State*, 23, 42–43; Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 52.

²⁵⁵ Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 53–54.

²⁵⁶ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 188; Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 75.

²⁵⁷ Early in 1961, Zhou Enlai ordered China’s nuclear program to relocate to “mountainous, dispersed, and hidden” sites, just a few months before Mao would begin thinking along these lines. Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 50; Jian, *Zhou Enlai: A Life*, 489.

did not blame the State Planning Commission for its limited support for the Third Front, blaming instead Soviet calculating methods learned during the First Five-Year Plan.²⁵⁸ As a result, Zhou maintained his authority in economic affairs even as Li Fuchun and Liu Shaoqi were sidelined. Mao assigned Zhou to work with Yu Qiuli to form a new economic staff known as the “small planning committee” that functionally, if not formally, replaced the State Planning Commission. Zhou and Yu’s small planning committee made a new economic plan emphasizing war preparation in the Third Front.²⁵⁹

Intra-state relations

With its strategic importance and interest in foreign technology, the petroleum sector tilted the balance of power within the state in favor of deepening foreign trade capacity and technocratic administration. Daqing oil became essential after the Sino-Soviet split, fueling the Chinese economy after China lost its main supplier of crude oil.²⁶⁰ In November 1963, Yu Qiuli told the National People’s Congress that the oil sector had far surpassed its Great Leap production goals, the one economic sector to do so. In 1963, Daqing accounted for 46 percent of the total availability of petroleum in the country, including both domestic production and imports.²⁶¹ In late 1963, Zhou Enlai announced that China had become completely “self-reliant” when it came to oil.²⁶² The Petroleum Group was excited by western technology, to which they were exposed during tours abroad at various exhibitions in 1963–64.²⁶³ To expand Daqing production capacity, China imported a series of refining equipment in 1963 through 1965.²⁶⁴

²⁵⁸ Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 58.

²⁵⁹ Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 75.

²⁶⁰ Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 53.

²⁶¹ Wei, *Oil in China: From Self-Reliance to Internationalization*, 18.

²⁶² Wei, *Oil in China: From Self-Reliance to Internationalization*, 4.

²⁶³ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 182.

²⁶⁴ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 195.

The rise of the petroleum sector helped to normalize central administration and expertise. Despite the “redness” of Yu Qiuli and his colleagues in the petroleum sector, they shared much in common with the cosmopolitan Ministry of Foreign Trade. Like the Ministry of Foreign Trade, it was an elite institution, attracted the best and brightest, and was spun off from a parent organization, when planners found that a specialized division for its technically complex work was needed.²⁶⁵ The Daqing oil field and the city that developed around it were run as one self-contained complex centrally administered by the Ministry of Petroleum Industry. Yu also established a system to integrate more technocrats into the Party by selecting young talent to succeed their senior counterparts and integrating them into Party organs at every organizational level.²⁶⁶

The Cultural Revolution, 1966–1976

Just as the Third Front was to defend China’s socialist project against external threats, Mao launched the Cultural Revolution to defend Chinese socialism against threats from within, the pernicious forces of capitalism and of Soviet revisionism. While the Cultural Revolution weakened domestic economic governance, intra-elite and intra-state relations buffered trade operations from serious disruptions.²⁶⁷ In fact, where domestic production failed, the foreign trade sector prevailed. To make up for shortages in industrial production, for example, the State Council spent \$40 million originally budgeted for wheat imports on 100,000 tons of rolled steel, 300,000 tons of scrap steel, and raw materials for the chemical industry.²⁶⁸

²⁶⁵ Wei, *Oil in China: From Self-Reliance to Internationalization*, 18–20.

²⁶⁶ He also ensured that technical experts were “red” by having them work in the field, rather than from a distance. Wei, *Oil in China: From Self-Reliance to Internationalization*, 22–23.

²⁶⁷ Work units related to national security generally received protection from central officials. See Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 143.

²⁶⁸ MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 220.

In intra-elite relations, Zhou Enlai's protection of top officials and personal intervention in disruptions to trade events enabled the trade bureaucracy to continue its work. In intra-state relations, trade remained centrally administered, while the strategic importance of the petroleum sector enabled it to restore routine operations, including resuming imports of foreign technology.

Intra-elite relations

Trade capacity during the Cultural Revolution had much to do with Zhou Enlai, who thanks to his maneuvering during the readjustment period and Third Front planning had more power than he did during the Great Leap Forward. Zhou's authority also stemmed from his extraordinary abilities. As the CIA noted, Zhou's "ability to appear occasionally out of step with the Cultural Revolution in some respects while retaining a position close to the top of the political hierarchy is a reflection both of his adroitness and of the fact that he is a close to being the indispensable man as any official in China today."²⁶⁹ Zhou took on additional administrative responsibilities during the Cultural Revolution "almost by default, for he is the only one of the ruling triumvirate with sufficient vigor to engage in the day-to-day direction of the gigantic government machinery."²⁷⁰

In 1966, Ye Jizhuang, the longtime Minister of Foreign Trade, and Lei Renmin, the vice minister, were purged.²⁷¹ However, Zhou able to protect the other officials important in the trade bureaucracy, such as Li Xiannian. He also coordinated with Li Fuchun to allow some officials, including Liao Chengzhi, Yao Yilin, and Qian Zhiguang, to temporarily live inside Zhongnanhai,

²⁶⁹ CREST. CIA. Weekly Summary Special Report: Chou En-lai and the Cultural Revolution. 8 September 1967, p. 9.

²⁷⁰ CREST. CIA. Weekly Summary Special Report: Chou En-lai and the Cultural Revolution. 8 September 1967, p. 4.

²⁷¹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 188; Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 198.

safe from rebel attacks. In April 1967, when Red Guards threatened to disrupt the Canton Trade Fair, Zhou personally intervened. Red Guards descended upon the trade fair building days before the fair was scheduled to open and physically attacked trade officials and other fair staff. They also intended to destroy “counterrevolutionary” products on display for export. Zhou flew to Guangzhou to mediate between the fair staff and the Red Guards. He reframed the Canton Trade Fair—an event that attracted 63 different countries to send more than 7,800 visitors—as a critical front in China’s revolutionary struggle, arguing that the spring fair was a “new battle campaign.”²⁷²

Zhou was also protected Yu Qiuli. In a sharp reversal of Mao’s sentiments from just a few years prior, the lauded Daqing, its director Yu Qiuli, and his colleagues in the Petroleum Group came under attack for prioritizing production and expertise over class struggle.²⁷³ Zhou protected Yu from persecution by the Red Guards by arguing that Yu enjoyed Mao’s confidence. In 1967, for example, he gave a speech for oil and national planning personnel that Yu had earned Mao’s protection because of his contributions.²⁷⁴

Intra-state relations

The Cultural Revolution did not structurally alter the trade bureaucracy or reduce the influence of the petroleum sector due to their strategic importance. Domestic economic governance, however, suffered from political interference.

In 1966, during the early days of the Cultural Revolution, the Ministries of Foreign Trade and Foreign Affairs “had virtually halted their usual work as they focused on Maoist ideological study.”²⁷⁵ However, administration remained centralized, and the trade bureaucracy continued its

²⁷² Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 191–92.

²⁷³ Wei, *Oil in China: From Self-Reliance to Internationalization*, 85.

²⁷⁴ Wei, *Oil in China: From Self-Reliance to Internationalization*, 89.

²⁷⁵ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 188.

work, if at a reduced volume and pace.²⁷⁶ According to CIA estimates from 1972, China's total trade volume decline by about 8% in 1967 and 3% in 1968. They attribute the decline not just to the Cultural Revolution, but other developments as well: 1967 brought strong grain harvests, which reduced China's need for grain imports by 20%. Furthermore, the closure of the Suez Canal at the start of the Six-Day War in June 1967 made imports from Europe more expensive and Chinese agricultural exports less competitive.²⁷⁷

In fact, the trade bureaucracy's strategic responses to such challenges indicate coherent planning and high capacity. To prevent balance of payments problems, no new contracts for the import of complete factories were made.²⁷⁸ The trade bureaucracy also changed the composition of trade, suspending all imports of non-essential equipment, cutting back on foreign wheat imports, and investing instead in imports of Western and Japanese chemical fertilizer to improve domestic agricultural output.²⁷⁹

The internal organization and relative leverage of the petroleum sector also supported the continued operation of complex trade operations. First, revolutionary factionalism did not spill over into the Ministries of Petroleum Industry, which, unlike other ministries, was internally cohesive.²⁸⁰ Second, the petroleum sector also enjoyed protection from the PLA due to Yu Qiuli's personal connections and the military's organizational interests. Yu was the former director of the PLA's Logistics Department. Having been promoted to Lieutenant General in 1955, Yu used his rank to protect both himself and the oil facilities. The military also had an interest in protecting their petroleum supplies, on which it became increasingly dependent as it mechanized.²⁸¹

²⁷⁶ Riskin, *China's Political Economy: The Quest for Development since 1949*, 186.

²⁷⁷ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 189.

²⁷⁸ Kang, *Technologie-Transfer nach China 1949–1983*, 150.

²⁷⁹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 196.

²⁸⁰ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 84.

²⁸¹ Wei, *Oil in China: From Self-Reliance to Internationalization*, 89–90.

Consequently, between 1967 and 1971, several thousand PLA troops were stationed in Daqing to protect it from the Red Guards, who were controlled by Lin Biao, the Minister of National Defense and Mao's unofficial successor.²⁸²

Despite Lin's seniority and formal leadership over the PLA, Yu had closer connections to the military. Military engineers and technicians even stepped in to fill vacancies created by 10,000 workers who left Daqing to participate in Cultural Revolution rallies, mitigating the labor shortage to a degree.²⁸³ The PLA sent previous officials to nearby May 7th cadre schools and allowed them to consult with the military and regular Daqing staff to maintain drilling, while keeping "revolutionary rebels" in formal positions with restricted duties.²⁸⁴ Third, as mentioned above, Zhou Enlai's protection also allowed the oil sector to recover from the Cultural Revolution more quickly than others.²⁸⁵ As soon as 1969, Daqing was once again hailed as a model of socialist industrialization, and formerly purged Daqing cadres were reinstated to their posts.²⁸⁶ Production at Daqing recovered quickly after a drop from 1966 to 1967, from 14.5 MMT to 13.9. In fact, Daqing achieved huge gains from 1968 through 1970, to the extent that it exceeded the Third Five-Year Plan of 18.5 MMT by 66%. This was critical because the central government increasingly depended on revenue from the petroleum sector.²⁸⁷

While the domestic and international climate (the Vietnam War and COCOM restrictions) did not permit high volumes of trade from 1966 to 1970, the Petroleum Group and trade bureaucracy maintained relations with the capitalist world. Between 1966 and 1967, petroleum officials visited Japan to learn about offshore survey and drilling technology and purchased

²⁸² Wei, *Oil in China: From Self-Reliance to Internationalization*, 90.

²⁸³ Wei, *Oil in China: From Self-Reliance to Internationalization*, 90.

²⁸⁴ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 193.

²⁸⁵ Wei, *Oil in China: From Self-Reliance to Internationalization*, 101.

²⁸⁶ Wei, *Oil in China: From Self-Reliance to Internationalization*, 92–93.

²⁸⁷ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 192.

equipment for geophysical surveys from France. In 1969, they purchased a \$11 million drill ship from Japan.²⁸⁸

In contrast, the Cultural Revolution cannibalized broader economic administration. Statistical work “deteriorated to the point that the central government was unable to prepare an economic plan for 1968.”²⁸⁹ By 1969, statistical work had all but ceased.²⁹⁰ Administration of the Third Front deteriorated as Lin Biao’s Central Military Commission’s Administrative Group, took control over the defense sector from Zhou Enlai’s State Council. This resulted in some extreme implementation of the brief of creating factories in “mountainous, dispersed, hidden” locations. For example, in Shanxi, a tank production facility was spread out over a 120-kilometer area connected by 100 kilometers of railroads, leading some workers to joke that the inefficiency of the “people’s war” (*renmin zhanzheng*) through industrial development was better called a “people’s money war” (*renmin bi zhanzheng*).²⁹¹

State-society relations

State-society relations saw a reinstatement of the mechanisms of rural control from the Great Leap: symbolic domination, physical violence, and planning mechanisms that limited peasant’s planting decisions.

During the late 1960s, the party revived ritualized rural class struggle, which criminalized perceived opposition to state production goals and promoted ascetic values. In its most violent period, the “cleansing of class ranks” (roughly 1968–1971), roughly 36 million people were persecuted for alleged capitalist tendencies.²⁹² Persecution took the familiar forms of public

²⁸⁸ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 195.

²⁸⁹ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 197.

²⁹⁰ Ghosh, *Making It Count: Statistics and Statecraft in the Early People’s Republic of China*, 278.

²⁹¹ Meyskens, *Mao’s Third Front: The Militarization of Cold War China*, 152–53.

²⁹² MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 278.

struggle sessions and forced self-criticisms along with outright public executions.²⁹³ More generally, revolutionary slogans such as “practice frugality while making revolution” and the Mao personality cult promoted ascetic values, justifying low consumption levels.²⁹⁴

The central state returned to direct or quantity planning. The central state reduced the use of price incentives by raising prices in 1966 and keeping them virtually the same for twelve years, while lower-level cadres drew up sown area and output targets for individual crops and transmitted them down to production units.²⁹⁵ There was great regional and temporal variation in agricultural productivity and the state’s extractive capabilities.²⁹⁶ In parts of rural China, Cultural Revolution disruptions led to delayed or cancelled collection of agricultural taxes.²⁹⁷ Thus for some peasants, the Cultural Revolution meant fuller bellies.²⁹⁸ Overall, however, these controls enabled the state’s program of agricultural exports to not just remain intact, but to expand over the course of the Cultural Revolution. From 1966 to 1977, national grain output increased by an average of 2.6% per year.²⁹⁹

Decentralization, the Four-Three Plan, and intra-party power struggles, 1970–1976

From the 1970s onwards, trade and planning capacities continued to diverge, largely due to the uneven effects of administrative decentralization on intra-elite and intra-state relations. While the decentralization created intra-state barriers to coherent economic planning, it also empowered moderate leaders and the trade bureaucracy to deepen foreign economic relations with the capitalist world.

²⁹³ MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 254–56.

²⁹⁴ MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 262–69.

²⁹⁵ Lardy, *Agriculture in China’s Modern Economic Development*, 46–48.

²⁹⁶ MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 268–72; Kueh, “Mao and Agriculture in China’s Industrialization: Three Antitheses in a 50-Year Perspective,” 714–16.

²⁹⁷ MacFarquhar and Schoenhals, *Mao’s Last Revolution*, 271.

²⁹⁸ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 197.

²⁹⁹ Kueh, “Mao and Agriculture in China’s Industrialization: Three Antitheses in a 50-Year Perspective,” 711–15.

Intra-elite relations

Intra-elite relations went through several changes in the 1970s that ultimately further empowered leaders who favored expanding trade. In 1970, Mao believed that war was imminent, so the paramount central task was to prepare for a massive foreign invasion. To do so, the entire country was divided into ten “coordination regions,” and the provinces in each region were instructed to establish independent and comprehensive industrial sectors so that they would be better prepared to defend themselves.³⁰⁰ As regional governments gained more autonomy in 1970, the State Council—comprising the Vice Premiers, state councilors, heads of government ministries and the secretary-general—was also reorganized. Policymaking authority became further concentrated in the hands of Zhou Enlai, the head of the State Council, because more than eighty ministries and commissions were eliminated, downsized, or merged with others.³⁰¹ The unexpected death of Lin Biao also cleared opposition to more moderate economic policy.³⁰² In 1972, Zhou began to reinstate bureaucracies with staff that had been purged during the early years of the Cultural revolution. He submitted over four hundred names to Mao, who approved.³⁰³ This included the restoration of the statistical infrastructure.³⁰⁴ Li Xiannian, whom the Red Guards had attacked in 1967, followed suit later that year, recommending that the Ministry of Foreign Trade recruit young people, women and men from their twenties through forties, with foreign language abilities. They were to be recruited from the Party’s “May Seventh” cadre schools, where intellectuals and professionals had been “sent down” during the Cultural Revolution to learn from peasants through reeducation.³⁰⁵

³⁰⁰ Jinglian and Guochuan, “Reforms of the Economic Administration System During the Maoist Era,” 54.

³⁰¹ Lieberthal and Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, 196.

³⁰² The Third Front also began to wind down in 1972 following Sino-American rapprochement.³⁰²

³⁰³ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 197–98.

³⁰⁴ Ghosh, *Making It Count: Statistics and Statecraft in the Early People’s Republic of China*, 287.

³⁰⁵ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 197–98.

The decentralization also to increased the power of the Petroleum Group, which in turn favored expansion of trade bureaucracy work. The State Economic Commission, the Office of Industry and Transportation, the Bureau of Material Supplies, the Ministry of Geology, the Ministry of Labor, the State Statistical Bureau, and the Central Relocation Office were all merged into the State Planning Commission, of which Yu Qiuli was made director.³⁰⁶ Yu's colleague Gu Mu, who had a leading role in the Third Front, became director of the State Basic Construction Commission, the product of a merger of the Ministry of Building Construction and the Ministry of Construction Materials. In 1973, Gu Mu also joined Yu on the State Planning Commission as a vice director. Kang Shi'en, who led Daqing during the Cultural Revolution and refused to cave into pressure from the Red Guards to denounce Yu Qiuli, became the Ministry of Fuels and Chemical Industry, which absorbed the Ministry of Petroleum Industry, the Ministry of the Chemical Industry, and the Ministry of the Coal Industry.³⁰⁷

In January 1972, Li Xiannian received a briefing on economic affairs that suggested that China take advantage of the economic crisis in the capitalist West, as prices were going down.³⁰⁸ So, the State Planning Commission, under the leadership of Yu Qiuli, submitted several import plans to purchase entire industrial production lines and equipment from the capitalist world: chemical, petrochemical, steel, fertilizer, synthetic fiber, and power generation industries. The composition of imports reflected his background in heavy industry and the petroleum sector.³⁰⁹ In December 1972, Zhou instructed the State Planning Commission to integrate import proposals from various ministries and bureaus (such as metallurgy, light industry, aviation, hydropower, and railways) into a coherent plan. In January 1973 State Planning Commission submitted the

³⁰⁶ Li, *Building for Oil: Daqing and the Formation of the Chinese Socialist State*, 170.

³⁰⁷ Li, *Building for Oil: Daqing and the Formation of the Chinese Socialist State*, 170.

³⁰⁸ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 198.

³⁰⁹ Li, *Building for Oil: Daqing and the Formation of the Chinese Socialist State*, 171.

final version of plan to buy \$4.3 billion in new technologies and equipment from the capitalist world within 3-5 years.³¹⁰ Financed in large part through thinly disguised loans, the Four-Three Plan temporarily caused balance of payments problems that contributed to factionalism within the party leadership. This in turn prevented the formulation of a coherent economic plan. While this meant domestic economic governance lacked direction, it also meant that the Four-Three Program escaped interference from potentially conflicting economic mandates such as those seen from the Great Leap Forward and the Cultural Revolution.

Intra-state relations

While decentralization of 1970 ironically further centralized trade administration, it created structural barriers to domestic economic governance. Materials balance planning was restricted on a regional basis. For a brief period, central planners were only responsible for transferring resources between provinces, without compiling a “balance sheet” of individual suppliers and users.³¹¹ As a result, localities competed amongst each other for resources. There were several attempts to reconsolidate between 1971–1973 after Lin Biao’s death and again under Deng in 1975, but no clear alternative developed.³¹² Thus Chinese planning became “coarse, incomplete, and inconsistent.”³¹³ Economic administrative authority was transferred to local governments, which tended to lack the skill to wield it effectively.³¹⁴

³¹⁰ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 199–200.

³¹¹ Naughton, “The Pattern and Legacy of Economic Growth in the Mao Era,” 243.

³¹² Jinglian and Guochuan, “Reforms of the Economic Administration System During the Maoist Era,” 54–55; Naughton, “The Pattern and Legacy of Economic Growth in the Mao Era,” 244.

³¹³ Naughton, “The Pattern and Legacy of Economic Growth in the Mao Era,” 244. As Naughton puts it: “It was coarse in the sense that only a relatively small number of materials were allocated by planners; incomplete, because with local industry under local control, central planners never had a monopoly over even the output of the most crucial sectors; and inconsistent because planners were often allocating only a portion of needed resources, requiring local bodies to supplement those allocations by “mobilizing” local resources.”

³¹⁴ Naughton, “The Pattern and Legacy of Economic Growth in the Mao Era,” 244.

Conclusion

The resumption of the trade bureaucracy's effectiveness after the Great Leap Forward had much to owe the intra-elite, intra-state, and state-society relations developed over the preceding decades of revolutionary state-formation and the early state-building processes of the People's Republic. Zhou's technical skills and practice of political management reproduced intra-elite relations that gave him the latitude to intervene in subsequent Maoist projects. Trade leaders also restored facilitative intra-state relations by recentralizing foreign trade. State domination over society, reproduced through numerous campaigns, continued to enable extraction of rural surplus and inhibit demands for higher consumption levels. The subsequent reassertions of Maoism—the Third Front and the Cultural Revolution—introduced new facilitative intra-elite and intra-state relations. The rise of the Petroleum Group, a fresh generation of technocratically-inclined officials that Mao also found ideologically suitable, provided more support for foreign trade from the top, while the rise of the petroleum sector created new intra-state relations in which influential state agencies became dependent on the trade bureaucracy. Finally, continual deployment of rural campaigns hindered peasants' ability to divert resources from state trade goals. In contrast, the foundation for domestic economic governance was barely laid before the Great Leap Forward upended planning capacity, and Maoist projects repeatedly interrupted subsequent attempts to restore it.

This is not to say, however, that the relatively strong performance of the trade bureaucracy was inevitable. Many aspects of the intra-elite and intra-state relations of the economic bureaucracy, such as the rise of the petroleum sector and its leader Yu Qiuli, for example, were outcomes of entirely contingent events. That such a strategically and economically significant commodity as oil would be available in significant quantities in

China, and that such an embodiment of Maoist slogans such as Yu would manage its production, were accidents of history. At the same time, such an apparent quirk of Mao-era politics is in fact not unique, given the widely noted significance of raw material exports such as petroleum in maintaining stable balance-of-payments positions.³¹⁵

³¹⁵ Waterbury, “The Long Gestation and Brief Triumph of Import-Substituting Industrialization,” 335.

Chapter 3 | The global political economy of Maoist self-reliance, 1949–1976

*“That huge country [China] is like a dry sponge for all kinds of merchandise.”*³¹⁶
—Alfred Schulz, Export Manager, DEMAG, March 1966

Introduction

In Chapters 1 and 2, I showed that intra-elite, intra-state, and state-society relations facilitated the relatively high capacity of the Maoist trade bureaucracy. In this chapter, I pull back from the domestic social processes scaffolding Maoist China’s self-reliant trade to ask: what *external* forces enabled China to overcome US-led Cold War economic and political isolation? Indeed, why did US allies seek out trade with Maoist China at all?

In this chapter, I draw on structuralist perspectives on to argue that global capitalism facilitated the PRC’s primitive socialist accumulation, tracing why and how Western business interests defied US trade controls. Namely, Japanese and Western European firms, which had previously profited from extensive business interests in China, viewed the huge market of the People’s Republic as a spatial-temporal fix for the typically capitalist problem of excess capacity. The US tolerated its allies’ trade with China because the Japanese and Western European postwar economy recovery was a more immediate strategic concern than the containment of communism. I focus on Maoist China’s trade relationship with the conservative Federal Republic of Germany, which among the US’s European allies adhered to the strictest compliance with embargos against the socialist world.

³¹⁶ *Time Magazine*, “Trade: Busy Boats to China.”

Reestablishing Germany's presence in China, 1949–1952

After World War II, German industrial and mercantile interests, along with their counterparts in Japan and other Western European countries, were eager to return to the profitable Chinese market, which had long absorbed foreign goods.³¹⁷ In the nineteenth and early twentieth centuries, Germany was a major European colonial presence in China. Even when the Third Reich switched from supporting the Republic of China to the Japanese during the Sino-Japanese War and forbade trade outside of Japanese territories, German industry used intermediaries and triangular routes to revive trade with the KMT. Thus, West German industry also resisted U.S. postwar controls on trade with the east, shaped by the Marshall Plan and later COCOM and CHINCOM. Enforcement of the sanctions also proved both technically difficult to enforce and politically fraught as Washington balanced embargoes with the economic and strategic costs to allied economies, particularly those of West Germany and Japan.

West German defiance of American controls on China was a part of a broader trend of Western European countries hoping to resume their substantial, centuries-long trade with the east.³¹⁸ In the nineteenth century, Prussia, and then the German Empire, was one of the major European colonial powers in China, with concessions in the cities of Hankou, Jiaozhou, and Tianjin. After Germany's defeat in World War I, its economic ties to China only deepened. German firms' activities in China, which offered affordable raw materials and a huge market for industrial products, helped to make up for the poor economy of the Weimar Republic. During this period, German companies accounted for 17% of Chinese trade, while in the mid-1930s, China had become Germany's third biggest trade partner and recipient of foreign direct

³¹⁷ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 87.

³¹⁸ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 34.

investment. Particularly significant players were iron and steel companies, which worked closely with the Republican government to develop railways and roads. Otto Wolff, named after its co-founder Otto Wolff and one of the first German firms to set up a branch in Shanghai after World War I (and a major participant in Germany's trade with Russia), built the 500 km-long Zhejiang-Jiangxi railway.³¹⁹

German firms continued their activities in China, supplying the Nationalist government, even after the German government, following its strategic priorities to side with Japan, ordered all German "advisers" to leave China in 1938, a year after the beginning of the Sino-Japanese war. German companies were only officially allowed to operate within the Japanese puppet state of Manchukuo. However, firms like Siemens, Otto Wolff, and IG Farben defied the sanction throughout the war, as business with the Republic of China was more lucrative than exclusive cooperation with Japan.³²⁰ Between 1936 and 1939, for example, Otto Wolff delivered approximately 5,000 chassis from Daimler-Benz. Delivery of the trucks, however, no longer became possible with the outbreak of World War Two. The KMT nevertheless repeatedly expressed interest in continuing the imports. Discussions of resuming the truck imports were held in 1947 and 1948, but resumption of business was not possible due to limited production capabilities in Germany, which was still recovering from the war.³²¹

Nevertheless, major orders for other commodities began in 1948. Otto Wolff, now under the control of Otto Wolff von Amerongen, the son of the founder Otto Wolff, worked with Fu Sze, an import-export company in Tianjin, which imported German tinplate from the Otto Wolff

³¹⁹ Metz, "The Founding of the Ost-Ausschuss in 1952," 14.

³²⁰ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 83-84.

³²¹ Rhine-Westphalia Wirtschafts Archive (hereafter RWWA). 72-671-20. Memorandum of 17 February 1951 attached to letter of 21 February 1951 from Otto Wolff von Amerongen to Ludwig Erhard.

plant in Rasselstein to China for the first time that year. To evade American oversight, which could deploy occupation law in West Germany to punish unwelcome competitors in industry, Otto Wolff collaborated with numerous additional intermediaries to disguise trade through clandestine triangular deals. The transport went via the Netherlands and Switzerland handled financing. The Zurich-based trading company E. Ott & Co.'s well-connected branch in Hong Kong received the goods and shipped them to China.³²²

In 1948, hoping to curb such trade through the Marshall Plan, the United States threatened to withdraw aid to “any recipient country that exported any product that might contain a US-supplied commodity that would ordinarily be refused a US export license,” and began to create additional lists of goods subject to export controls.³²³ From the earliest days of the Marshall Plan and its attendant restrictions on trade, West German business interests discussed creating an organization similar to the Russian Committee that could overcome political barriers to trade with the east.³²⁴

European countries quickly held a meeting in early 1949 in Paris to discuss resistance to the US-imposed trade controls to the East. West Germany, which was not yet a sovereign state at the time, did not attend the meeting. Seeing how much resentment the trade controls aroused, US created the Coordinating Committee for Multilateral Export Controls (COCOM) to oversee the controls and monitor compliance.³²⁵ That same year, US anticipated the Communist defeat of the Nationalists in China, and implemented a trade embargo adopting some components of COCOM on the CCP, largely to prevent goods from entering North Korea and the Soviet Union through

³²² Bernd Ziesemer, *Maos Deutscher Topagent. Wie China Die Bundesrepublik Eroberte* (Campus Verlag, 2023), 68–71.

³²³ Cain, “The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52,” 34.

³²⁴ Metz, “The Founding of the Ost-Ausschuss in 1952,” 2–6.

³²⁵ Cain, “The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52,” 35.

China.³²⁶ The US launched this embargo just four weeks after the CCP proclaimed the founding of the People's Republic on October 1, 1949.³²⁷

From the start, US officials were aware that the embargo would hurt the economies of Japan and Germany. In the spring of 1950, for example, the Defense Department wanted to reclassify rail and railway equipment from 1B, the quantitatively controlled list, to 1A, the embargoed list reserved for military equipment, to rescind the sale of 15,000 tons of German-made rails to the People's Republic. However, the State Department refused, arguing, "The repercussion which such a reversal would produce in Germany might exacerbate the difficulty of enforcing other and more important aspects of our security program over the longer period ahead."³²⁸

The China embargo escalated after Chinese forces entered North Korea in October 1950, yet Western goods still entered China, as revealed by increasing media coverage of such throughout 1951. That year, China also began exhibiting at the Leipzig Trade Fair to promote exports to the non-socialist world.³²⁹ This created political pressure from the US Congress to intensify trade controls.³³⁰ China thus came to be treated as a special case of eastern trade controls. With the impending end of the Korean War and domestic pressures in the US, the US established the China Committee (CHINCOM), a group within COCOM, in September 1952 to oversee Chinese trade controls, examining all trading deals on a case-by-case basis. As the CHINCOM controls created the "China differential," as its restrictions much harsher than the COCOM controls for the Soviet Union and Eastern Europe.³³¹

³²⁶ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 38.

³²⁷ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 39.

³²⁸ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 42.

³²⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 121.

³³⁰ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 47-48.

³³¹ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-52," 45-50.

On top of COCOM, and then CHINCOM measures, West German companies faced unique restrictions that meant all trade was only possible indirect ways.³³² Until 1955, there was no direct shipping from West Germany to China; goods thus passed through third countries and particularly Hong Kong. This added much time and costs to Sino-West German trade.³³³

In 1951, during escalated tensions between China and the US, the US warned West Germany that violation of the China embargo could jeopardize negotiations of the end of Allied occupation. The US doubled down on its threats after it discovered numerous violations. Through the Allied High Commission, the US ordered the West German central bank, *Bank deutscher Länder* (BdL), to freeze Chinese credits and money transfers, creating a ban on payment transactions. Under US pressure, FRG government also made it more difficult to grant export permits for goods on restricted lists and banned all West German shipping to China in 1951. Payment for the little trade between the two countries was handled through the Swiss branch of a French bank.³³⁴ Until June 1951, West German companies were prohibited from setting up branches in other countries and from building its own ships. As a result of these measures, trade with China, even in goods not on the controlled lists, virtually ceased in summer 1951.

Despite the threats from the US and the newly established CHINCOM controls, West German trade with the PRC, nearly all of which was conducted through barter, even increased from 1952 to 1953.³³⁵ In 1952, the People's Republic began preparations for its First Five-Year

³³² Ching, "Trade Without Flag: West Germany and China 1949–1972," 185.

³³³ Ching, "Trade Without Flag: West Germany and China 1949–1972," 185.

³³⁴ Ching, "Trade Without Flag: West Germany and China 1949–1972," 189–93.

³³⁵ He, "From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972," 539–535.

Plan (1953–1957), creating a tremendous demand for capital goods that West German firms were eager to supply. Indeed, the West German government was unable to entirely control German firms' activities. For example, in 1952, the Allied High Commission blacklisted eighty-seven West German firms from American aid after being investigated for violating the embargo policy. The new US Secretary of State, John Foster Dulles (1888–1959), warned Chancellor Konrad Adenauer (1876–1967) that continued violations with result in the withdrawal of all financial aid to Germany.³³⁶ Yet the US never followed through on either the threat of extending Allied occupation or of withdrawing aid.

For its part, the West German government chafed under US economic dictates. From the earliest days of the Federal Republic, Ludwig Erhard (1897–1977), the Minister of Economic Affairs, feared a growing trade deficit with the US and possible payments difficulties following the conclusion of the Marshall Plan. The Plan provided a supply of US dollars for purchases of Western goods, but was due to run out in 1952, and the new Deutsche Mark had only limited convertibility. Thus a dollar gap loomed on the horizon and Minister Erhard strove to redirect purchases from the dollar zone to the East. It was already rumored that other countries like France and Britain flouted COCOM restrictions on eastern trade.³³⁷

Founding of the Ost-Ausschuss der Deutschen Wirtschaft (German Eastern Business Association), 1952

Erhard's geopolitical concerns and the economic interests of West German capital were thus aligned. In 1952, when the Federal Republic gained more sovereignty, the Ministry of Economic Affairs and West German business leaders were able to establish an organization to coordinate

³³⁶ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 88.

³³⁷ Metz, "The Founding of the Ost-Ausschuss in 1952," 13.

east–west commerce, the Ost-Ausschuss der Deutschen Wirtschaft (German Eastern Business Association, hereafter Eastern Association). The “semi-official” organization would nominally operate independently and its activities would not represent the government of the Federal Republic. In practice, however, the Economic Affairs and Foreign Affairs ministries worked closely with the Eastern Association to balance both the economic interests of West German capital and the strategic interests of the federal government, especially with regard to the United States.

The organization of the Eastern Association began in the spring of 1952, after the April 1952 “World Economic Conference” in Moscow, jointly organized by the Soviet Union and China to promote trade between the Eastern bloc and “friendly firms” of the capitalist world.³³⁸ While Britain and other West European countries sent prominent representatives of business and politics, West Germany, less inclined to indicate such official support for trade with China, sent nineteen less-prominent businessmen. They returned with four separate trade agreements with the Soviet Union, China, and Romania, all needing official approval. These initiatives alarmed Hans Kroll, the Ministry for Economic Affairs Envoy for East-West Trade, as official approval would be geopolitically untenable.³³⁹ Shortly after the Moscow conference, Kroll called representatives from the Federation of German Industries (Bundesverband der Deutschen Industrie, BDI) and German Chamber of Commerce and Industry (Deutsche Industrie- und Handelstag, DIHT) to the Ministry of Economic Affairs. There, the Managing Director of BDI, Hans-Wilhem Beutler, proposed that the federal government and the business community work together to create a committee to coordinate east-west trade.³⁴⁰ Most of them in fact had wished

³³⁸ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 86.

³³⁹ Metz, “The Founding of the Ost-Ausschuss in 1952,” 17–19.

³⁴⁰ Metz, “The Founding of the Ost-Ausschuss in 1952,” 20–21.

to reestablish trade ties with the East since the end of the war, as German trade with the Soviet Union had been extensive during the interwar period.³⁴¹ Trade then was facilitated by an organization called the Russian Committee of the German Economy, which served as a model for the new eastern trade organization.³⁴²

In May 1952, West Germany's sovereignty advanced due to the signing of the General Treaty, wherein the Allies agreed to end the occupation regime. That month, Bundestag took advantage of its increased autonomy by resolving unanimously that "the remaining limits on German freedom of action in the control of merchandise trade and in the conclusion of trade treaties with East bloc countries must be eliminated as soon as possible."³⁴³ Not long after, in the fall of 1952, Minister Erhard approved the founding of the Eastern Association in a meeting with firm and sectoral representatives.³⁴⁴ The organization was officially established in December.

The deep interest in trade with the east is evident from the list of "founding fathers" of the association, which reads like a "who's who" of the German economy. Representatives of the West German government, in addition to Minister Erhard and Hans Kroll of the Economic Affairs Ministry, included the Chairman of the Federal Parliamentary Committee for Foreign Trade Christian Kuhlemann, and Bremen state senator Hermann Wenhold, who had previously worked for a Bremen import-export company and represented the German Chamber of Commerce and Industry. In addition to Beutler of the Federation of German Industries,

³⁴¹ Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War," 87–88; Spaulding, "'Reconquering Our Old Position': West German Osthandel Strategies of the 1950s," 132.

³⁴² Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War," 88; Braun, *The Germany Economy in the Twentieth Century: The German Reich and the Federal Republic*, 127–29.

³⁴³ Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War," 87; Spaulding, "'Reconquering Our Old Position': West German Osthandel Strategies of the 1950s," 132.

³⁴⁴ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949–1958," 89; Metz, "The Founding of the Ost-Ausschuss in 1952."

participants from the business community included Gerard Schauke of the steel and iron group Mannesmann and Wilhem Alexander Menne (1904–1993) of the chemical company Hoechst. Hans Reuter, the general manager of DEMAG (Deutsche Maschinenfabrik AG), a machine manufacturer, and son of its founder Wolfgang Reuter, was appointed the chair of the organizing committee of this new association.

Numerous business associations along with individual companies nominated themselves for positions in the Eastern Association. The Committee sought sponsor organizations as well as industry representatives for positions in the executive board, main committee, and three technical working groups. There would also be three regional working groups: one for the Soviet Union, one for eastern European countries (Poland, Hungary, Czechoslovakia, Romania, Bulgaria, and Albania), and one for China.³⁴⁵ Only business associations were allowed to nominate members. These associations included big organizations such as the Iron and Steel Federation (Wirtschaftsvereinigung Eisen- und Stahlindustrie) and the Chemical Industry Association (Verband der Chemischen Industrie), both which sought to occupy dozens of positions, and smaller ones such as the Export Chamber of Southern Württemberg-Hohenzollern and the Confederation of Manufacturers of Transmission Belts, Technical Leather Goods, and Automobile Service Equipment.³⁴⁶

During the founding meeting of the Eastern Committee with Erhard, Kroll declared that establishing trade relations with the PRC was the organization's top priority.³⁴⁷ West Germany's captains of industry appeared to agree, as disputes over appointments to the China Working Group (Arbeitskreis China) were particularly contentious. The nomination lists were compiled

³⁴⁵ Metz, "The Founding of the Ost-Ausschuss in 1952," 27.

³⁴⁶ Metz, "The Founding of the Ost-Ausschuss in 1952," 26.

³⁴⁷ Metz, "The Founding of the Ost-Ausschuss in 1952," 33.

by staff from the BDI, the DIHT, the Federal Association of Wholesale, Foreign Trade, and Services (Bundesverband Großhandel, Außenhandel, Dienstleistungen, BGA). Wilhelm Alexander Menne, of the chemical company Hoechst was vocal about his desire to be the deputy chairman of the Eastern Association “under the condition that he be the only deputy.” He also advocated for a chemical industry candidate as chairman of the China Working Group. In addition to his position at Hoechst, Menne was the president of the Chemical Industry Association (Verband der Chemischen Industrie, VCI) and the vice president of the BDI. In 1952, he also became the chairman of the Society for the Promotion of German-American Trade (FÖRDAH), making him extremely politically well-connected. Given his influence, Menne was successful in both becoming the deputy chairman and in placement a chemical industry representative as chairman of the China Working Group. As one member of the organizing committee noted, “We fear considerable differences with Mr. Menne unless we give in.”³⁴⁸

The first executive board of the China Working Group consisted of three of the “founding fathers” Reuter, Menne, Wenhold, as well as Hermann Josef Abs (1901–1994), a board member at Süddeutsche Bank who was widely esteemed as a model of a modern German banker. Consequently, the Federal Association of Private Banks became one of the Association’s sponsoring organizations.³⁴⁹ Thus, the executive board of the China Working Group comprised leading figures in machine manufacturing (via Reuter of DEMAG), the chemical industry (via Menne of VCI), trade (via Wenhold of DIHT), and finance (via Abs of Süddeutsche Bank). The great enthusiasm for trade with socialist countries is further evidenced by the fact that the Eastern Committee was self-funded. The BDI covered most costs for running the main office in

³⁴⁸ Metz, “The Founding of the Ost-Ausschuss in 1952,” 27.

³⁴⁹ Metz, “The Founding of the Ost-Ausschuss in 1952,” 27.

Cologne, while the committees were staffed by businessmen volunteering their own time and resources.³⁵⁰

Initial discussions for a Sino-West German trade agreement, 1952-1954

Even before the formal establishment of the Eastern Association, Hans Kroll of the Economic Affairs Ministry and who had become the West German representative in the COCOM and CHINCOM, and Dietrich Eberhard Groß, the managing director of the German Asia-Pacific Business Association (Ostasiatische Verein), laid the groundwork for forging connections with the China National Import Export Corporation (CNIEC), one of the state-owned trade corporations of the PRC, and which had just opened an office in East Berlin. Kroll and Groß discussed the possibility in August 1952, and in October 1952, Kroll held the first official meeting with the CNIEC's East German branch director, Shi Zhi'ang.³⁵¹ This occurred even though there was no significant change in trade controls, to which the US Congress and American public were sensitive.³⁵²

Initially, the CNIEC rebuffed the West German overtures to trade, as the Chinese representatives strongly implied that they could rely on the Soviet Union instead.³⁵³ However, as soon as the Korean War appeared to end in May 1953, the CNIEC proposed a bilateral trade agreement (Waren- und Zahlungsabkommen) of a defined length. China's new desire to deepen trade with West Germany was likely not just due to the higher quality of Western goods, but also China's desire to avoid dependence on the Soviet Union.³⁵⁴ The trade agreement would be made

³⁵⁰ Zanier, "Forging New Meanings of Europe. The Cross-Ideological Logic of Western Business Interest Associations (BIAs) Promoting Trade with Mao's China," 16.

³⁵¹ Ching, "Trade Without Flag: West Germany and China 1949–1972," 202.

³⁵² Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 93.

³⁵³ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 95.

³⁵⁴ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 97.

between the Eastern Association and the China Committee for the Promotion of International Trade (CCPIT). Negotiations for the agreement, conducted over mail, stretched into 1954.³⁵⁵

Face-to-face negotiations at 1954 Geneva Conference, helped to move things along. Held from April to July, the Geneva Conference was officially held to discuss Korea and Indochina, but it also provided opportunity for China to convene high-level trade talks with European states. Among the Chinese delegates were Premier Zhou Enlai, Vice Minister of Foreign Trade Lei Ren-min, Shi Zhi'an, the Deputy Director of the CNIEC, and Hsu Hsueh Han, a high-ranking official from the Ministry of the Economy.³⁵⁶ The West German delegation included two members of the Eastern Association, the Soviet Union Working Group's Otto Wolff von Amerongen (of the steel company Otto Wolff) and the China Working Group's Heinrich Köhler (of the chemical company Bayer). In the capacity of private citizens (as emphasized by West Germany's Ministry of Foreign Affairs), they advanced discussions regarding the trade agreement with Shi and Hsu.³⁵⁷

While representing West German industry in a semi-official capacity, Otto Wolff von Amerongen also had a personal stake in advancing trade. His own firm, Otto Wolff, was at the time handling several difficulties in trade with China. One of them was getting official approval for the export of diesel trucks. Entering markets early, his firm argued, was essential for future business, because the fleets of entire industries tend to be tailored to a specific make of vehicle. This guarantees more profits down the road, because spare parts deliveries are worth millions

³⁵⁵ Ching, "Trade Without Flag: West Germany and China 1949–1972," 204–5.

³⁵⁶ Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 34; Bernardini, "West-German—Chinese Trade Experiences in Historical Perspective," 96.

³⁵⁷ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949–1958," 96.

and guarantee exports for many years to come. Furthermore, “the German automotive industry urgently needs orders” and Germany’s “foreign competitors are leaving no stone unturned in their efforts to obtain export licenses for trucks to China.” Thus the export controls were not just a problem for Otto Wolff, but the entire German automotive industry. Perhaps “foreign automakers will receive information much earlier when a product is lifted from the embargo and, as has often been the case, will beat us Germans.”³⁵⁸ Indeed, the Geneva Conference would have made the competition clear. In addition to West German industrial interests, the Chinese delegation met with businessmen from the United Kingdom, Italy, France, Belgium, and the Netherlands.³⁵⁹

By fall 1954, a comprehensive draft of the trade agreement almost ready for signing. The CCPIT invited the China Working Group to Beijing for a signing ceremony.³⁶⁰ However, domestic conditions turned against the trade agreement. The federal government once again made payment transactions more difficult, requiring that Chinese importers pay in full once exporters could prove that products were in shipment.³⁶¹ Much to the frustration of Eastern Association, the Adenauer government did not allow a German delegation to sign the agreement in Beijing.³⁶² Walter Hallstein, the de facto Foreign Minister, personally met with Eastern Association leaders, including Otto Wolff von Amerongen, to discuss this decision. Hallstein listed numerous political justifications for pausing trade and in effect told the Eastern

³⁵⁸ RWWA. 72-389-1. Arthur Fette. Memorandum. Betr.: Ausfuhr nach der Volksrepublik China – Diesel- LKWs. 24 February 1954.

³⁵⁹ Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 34; Bernardini, “West-German—Chinese Trade Experiences in Historical Perspective,” 96.

³⁶⁰ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 205.

³⁶¹ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 212.

³⁶² Bernardini, “Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958,” 98–100.

Association to stall negotiations by focusing on technical details.³⁶³ The Chinese appeared to retaliate by reducing imports from West Germany.³⁶⁴

International capitalist competition and pressure on CHINCOM, 1953–1957

While the negotiations for the Sino-West German trade agreement stalled, global competition for the huge market of the PRC chipped away at CHINCOM trade controls. In fact, in 1955, the US State Department reported that CHINCOM trade controls did not “significantly” prevent China from importing essential commodities, because “all CHINCOM controls have been subject to frequent circumvention and some violation.”³⁶⁵ Mounting Japanese and British complaints and resistance in the mid-1950s led to the dissolution of CHINCOM in 1957.

The CHINCOM embargo was particularly hard on the Japanese economy, which was heavily dependent on US alliance, and which experienced recessions in 1951 and 1953–54. Varied interests across the political spectrum—“Japanese business groups, the left-wing opposition, and even the conservative Japanese government”—viewed increasing trade with China as a solution for the struggling economy. Major Japanese conglomerates such as Mitsui and Mitsubishi, themselves beneficiaries of the Japanese government’s investment in the heavy and chemical industries, began to publicly support trade with China in the Japanese press. Japan’s small and medium enterprises participated in Japanese trade exhibitions in Beijing and Shanghai and also began lobbying the government to open trade with China. The Japan-China Trade Promotion Diet Members League, comprised over 300 politicians from all political parties in Japan. Companies such as Sumitomo (which produced fertilizers) and Komatsu (which produced arms) also directly contacted the China’s Foreign Trade Ministry asking to visit China

³⁶³ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 210.

³⁶⁴ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 212.

³⁶⁵ Foreign Relations of the United States, 1955–1957, Volume X (Washington: Government Printing Office) 2018x, Document 43. <https://history.state.gov/historicaldocuments/frus1955-57v10/d43>

to build trade, even though the US-led trade embargo was still ongoing and prohibited the export of such strategic goods.³⁶⁶

US government officials understood Japan's economic situation and some even viewed the trade controls with sympathy. For example, in 1953, James Martin, Jr, Chief of the Economic Section in the American consulate in Kobe-Osaka wrote:

The harsh economic realities require a greater volume of export trade from Japan before she can be said to be self-supporting. But trade outlets are denied or limited in some directions by high tariffs, closed in others by bitter memories of war, and in the direction of Red China and the USSR they are held to a trickle by –let us be honest with ourselves—by the insistence of the United States in the first instance and only secondarily by the conviction of the Japanese Government, and scarcely even remotely by the agreement of the Japanese people.³⁶⁷

US intelligence also found that the political climate in Western Europe did not favor CHINCOM enforcement, either. Much of it had to do with the individual countries' own strategic interests: a) "reluctance of some countries to adopt enforcement measures unless all interested countries adopt similar measures; b) emphasis on foreign government economic agencies on trade promotion rather than trade control; c) commercial secrecy resulting from fear of competition; d) confidential nature of controls in some countries." Enforcement was also difficult due to the lack of technical capacity, the personal reluctance of enforcement personnel to discuss problems with US embassy officers, and the personal risk to officials under libel and slander laws. The technical differences between controlled and uncontrolled items also presented a challenge, as the average enforcement official was not trained to recognize them.³⁶⁸

³⁶⁶ King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 103–4.

³⁶⁷ King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 102–3.

³⁶⁸ CIA Records Search Tool (hereafter CREST). CIA-RDP63-00084A000100160002-7. CFEP Drafting Group. Economic Defense Policy Review. "U.S. Policies on Enforcement of Controls." Revised Draft of June 20, 1955, p. 14.

The US could do little to officially enforce COCOM and CHINCOM controls, because they were informal, voluntary arrangements, not based on any diplomatic treaty or agreements.³⁶⁹ As such, monitoring and enforcement of export controls occurred through the mutual trust and discipline of member governments, which still had the final say in trade matters.³⁷⁰ COCOM and CHINCOM decisions meant literally nothing in international legal terms and had no real veto power.³⁷¹ US however could punish violators indirectly through blacklisting firms from the offending nation and depriving them of U.S. export license facilities.³⁷²

The only strategic leverage the US had was threatening to withdraw aid. However, discontinuing aid to bilateral trade partners for CHINCOM violations was deemed a greater threat to US interests than not stopping the shipments of embargoed goods to China. As the US Council on Foreign Economic Policy noted in 1955 study on sanctions enforcement:

On eight occasions prior to July 1, 1955, [President Eisenhower] has announced his decision to continue aid to specific countries when there had been shipments of items specified under Category B Title I of the Battle Act, on the basis that it would be contrary to U.S. security interests to terminate aid. These shipments have amounted to \$17.6 million.

In fact, most of the COCOM countries received Battle Act exceptions. And conflicts over embargo violations never actually resulted in termination of aid.³⁷³

³⁶⁹ Hunt, "Multilateral Cooperation in Export Controls - The Role of Cocom," pt. 1285-1298, p. 1287.

³⁷⁰ Hunt, "Multilateral Cooperation in Export Controls - The Role of Cocom," pt. 1285-1298, p. 1287.

³⁷¹ Webster, *COCOM: Limitations on the Effectiveness of Multilateral Export Controls*, 120.

³⁷² Webster, *COCOM: Limitations on the Effectiveness of Multilateral Export Controls*, 128.

³⁷³ Hunt, "Multilateral Cooperation in Export Controls - The Role of Cocom," pt. 1285-1298, p. 1297; Webster, *COCOM: Limitations on the Effectiveness of Multilateral Export Controls*, 109.

Given these circumstances, Western European countries and Japan made “[e]xtensive and increasing use of exceptions procedures...to license shipments to Communist China” in the mid-1950s. Whereas in 1954 the reported worth of shipments made under the exceptions procedure was worth \$1.7 million, the amount grew to \$5.5 million for 1955 and soared to \$7.5 million just for the first five months of 1956. In addition to trade approved through the CHINCOM exceptions procedure, US intelligence found that “the quantity and value of known diversions to China via the European Soviet Bloc and Western countries [had] been significant.” Facilitating such diversions were the bread and butter of “professional East-West Traders” who represented a “constant challenge” to the enforcement of the embargo, because they have “always been available to the Bloc for the procurement of strategic commodities,” “experienced in commercial matters,” “possess[ed] an on-the-spot familiarity with East-West trade opportunities,” and deployed their “ingenuity” to bypass enforcement officials of COCOM and CHINCOM member countries.³⁷⁴

West German business interests kept a close eye on their competitors’ policies toward trade with China. In May 1955, for example, the German-East Asian Society (Deutsch-Ostasiatische Gesellschaft) urged the Ministry of Economy to take “immediate steps” to align West German regulations with those of the British, who in January had removed Hong Kong from the UK’s list of restricted countries. As a result, British firms no longer needed to apply for export licenses beyond those required for deliveries to all other British territories and Western countries. The Society argued that the measure provided relief to the British economy.

³⁷⁴ CREST. CIA-RDP63-00084A000100160002-7. CFEP Drafting Group. Economic Defense Policy Review. “U.S. Policies on Enforcement of Controls.” Revised Draft of June 20, 1955, p. 14.

Originally, Hong Kong was included on the UK's list of restricted countries to prevent the re-export of goods to China. The relaxation of trade with Hong Kong thus indicated official support for Sino-British trade.³⁷⁵

The Japanese made the first proposal for deletion of the China differential in October 1955, by submitting a list of 111 items they wished the United States to decontrol. In December, the British Foreign Office protested CHINCOM directly, announcing that the UK government could no longer defend the China differential and that beginning January 15, 1956, it would begin to revise their control lists for China so that they followed the looser COCOM lists instead. US officials recognized that given economic competition between them, "members of CHINCOM would for the most part not enforce more stringent controls than those enforced by any one of them." Therefore, the British action was a serious threat and would "terminate" the China differential. To mitigate the Japanese and British defiance of CHINCOM, the US agreed to a special exception with Japan on wooden fishing vessels. It also opened bilateral negotiations to downrate or decontrol a number of items in the CHINCOM lists, first with Japan and then the United Kingdom.³⁷⁶

However, postwar economic recovery and competition for the Chinese market compelled further open defiance of the China differential. In May 1956, for example, the US National Security Council reported several troubling developments. In April 1956, for example, a Japanese Foreign Ministry official told American embassy officials that the Japanese government felt "compelled to authorize" Japanese firms to exhibit embargoed goods at Japanese trade fairs in China. The Japanese government would face domestic pressure if they did

³⁷⁵ RWWA. 175-3-3. Deutsch-Ostasiatische Gesellschaft to the Bundeswirtschaftsministerium "Betr.: China-Embargo." 10 May 1955.

³⁷⁶ CREST. CIA. Current Intelligence Office. Current Intelligence Bulletin. 6 December 1955, p. 3.

not permit the embargoed goods and it came to light that other nations did. He also referred to the French exhibition of strategic goods at the recent Leipzig Trade Fair. Furthermore, Japan's decision was justified by the absence of uniform rules and lack of agreement in CHINCOM. Indeed, CHINCOM controls contained "no specific CHINCOM prohibition against display of strategic goods at trade fairs in Communist China." The National Security Council understood the Japanese decision as "indicative of a general dissatisfaction among CHINCOM members concerning the strictness of the trade controls applied against [Beijing] as compared to those against the USSR and the European Satellites." More generally, the Japanese felt that the China differential disadvantaged them vis-à-vis the Western European nations whose exports to Eastern European nations could be transshipped to China. The Japanese argued that isolation made little strategic sense, because China was developing in spite of it anyway. In fact, the isolation only supported Sino-Soviet cooperation, and expanding Western trade with China instead would serve to weaken it. The National Security Council observed a growing stream of Japanese visitors to the Communist bloc countries and that Japan led other countries in the number of visitors to China. Thus, "the Japanese government, while ostensibly attempting to restrain the popular trend for relations with the Communist Chinese, has apparently encouraged unofficial contacts with [Beijing] and permitted the conclusion of private trade and fishery pacts."³⁷⁷

Japanese competition was the primary concern for West German industry. Bayer, for example, complained in a June 19, 1956 letter to the Eastern Association about losing business to the Japanese. A representative in Hong Kong informed Bayer that exports of intermediary products to China were expected to decrease because China was instead turning to Japanese suppliers. The Chinese imports of Japanese intermediary products amounted to over 3 billion

³⁷⁷ CREST. CIA-RDP79R00890A000700050011-3. National Security Council Briefing. "Current Japanese Trends." 15 May 1956, p. 5.

USD. Bayer, describing this trend as “extremely depressing” (“sehr betrüblich”), declared that it was time to normalize economic relations with China.³⁷⁸

With intensifying competition and open resentment towards the China differential, CHINCOM member countries’ trade with China rose rapidly. The CIA found that China’s “trade with the Free World in 1956 rose by more than one-third and accounted for almost one-fourth of China’s total trade, compared with less than one-fifth in 1955.” Increasing use of the CHINCOM exceptions procedure led to a decrease in unrecorded imports, from \$76 million in 1955 to \$65 million in 1956. The amount of trade licensed under the exceptions procedures in 1956 were approximately \$82 million, a huge leap from with a total of about \$15 million for the preceding 4 years.³⁷⁹

While the US tried to preserve CHINCOM by making further concessions, member countries overwhelmingly supported ending the China differential. During multilateral CHINCOM trade negotiations in May 1957, the US instead proposed a relaxation, not abolition, of controls “in the form of a tight embargo on the 25 items under quantitative control to the European Soviet Bloc and a special treatment for the 63 items under surveillance control for the European Soviet bloc.” However, twelve of the fifteen countries, led by the United Kingdom, supported the French proposal of “immediate abolition of all special China controls except for the 25 items under quantitative control to the Soviet Bloc; quantitative limits for the export of these items to China were to be set within six months.” West Germany, the Benelux countries, Italy, Turkey, and Greece were willing to accept the US compromise. The Japanese delegate said

³⁷⁸ RWWA. 175-3-3. Letter of 19. Juni 1956 from Farbenfabriken Bayer Aktiengesellschaft to Arbeitsgemeinschaft Außenhandel der Deutschen Wirtschaft Ost-Ausschuß.

³⁷⁹ CREST. CIA. RDP85S00362R000400040002-1. Untitled analysis of developments in Chinese trade during 1956 and prospects for 1957, Dec. 1957, p. 1.

claimed that while “he *personally* [emphasis mine] favored the compromise proposal, he was not authorized to support it.” France, Norway, Denmark, and Portugal, led by the UK, opposed the compromise. Ultimately, “determined efforts to sway these countries were unsuccessful; at least in the case of France, there was every indication that there must have been a prior, binding commitment to support the U.K. position to the end.” So the British declared that they would abolish the differential entirely, which encouraged other countries to follow suit. Consequently, CHINCOM dissolved.

Deepening Sino-West German trade relations and the 1957 trade agreement, 1955-1958

In the second half of the 1950s, West German trade with China was defined by a persistent tension between Chancellor Konrad Adenauer’s Cold War diplomacy and the economic ambitions of West German industry. Initially constrained by Adenauer’s need to balance relations with both the Soviet Union and the United States and the strictures of CHINCOM trade controls, West German policy eventually buckled under intense lobbying from the Eastern Committee and the fear of losing market share to competitors. This shift culminated in the landmark 1957 “semi-official” trade agreement between the Eastern Association and the CCPIT, which not only bypassed diplomatic hurdles but also positioned West Germany as the top European technological supplier for China.

While Japan and the UK, West Germany’s top competitors for trade with the PRC, made increasingly bold objections to CHINCOM trade controls in the mid-1950s, Sino-West German trade faced unique geopolitical constraints, preventing the signing of the trade agreement under discussion since 1953. Adenauer was uneasy about trade with China due to concerns about German reunification, which demanded balancing relations with the US and the Soviet Union. In

1955, the Eastern Association was told to stall negotiations with the CCPIT as Adenauer focused on securing the Soviet Union's cooperation in German reunification. As a result of his visit to Moscow that year, the FRG and USSR established diplomatic relations.³⁸⁰ Thus negotiations for the Sino-West German trade agreement stretched from 1955 into 1956. The CCPIT began to lose patience with the prolonged negotiations, and tensions rose when the West German government turned down a new request to visit Beijing. Meanwhile, the Eastern Association increasingly felt that West German industry was losing out to competitors from the UK, France, and Italy.³⁸¹

The Eastern Association began a campaign to drum up support for increasing trade with China. There was a public campaign to promote the idea that politics was harming the German economy. Otto Wolff von Amerongen, for example, gave a speech to the Cologne Chamber of Commerce on this topic.³⁸² Then in parliament, it seems likely that the Eastern Association leaked information to both the Free Democrats and the Social Democrats, as both parties pressed the government to advance trade relations with China. The power of the two parties together was significant because the Free Democrats was part of the governing coalition, while the Social Democrats formed that largest opposition party.³⁸³ Simultaneously, German industry lobbied at the highest level. In early 1957, Fritz Berg, the president of the BDI, one of the main sponsors of the Eastern Committee, wrote directly to Chancellor Adenauer, delaying the visit to Beijing would play into the hands of their political opponents.³⁸⁴

³⁸⁰ Ching, "Trade Without Flag: West Germany and China 1949–1972," 209.

³⁸¹ Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War," 100–101.

³⁸² Bernardini, "Between Economic Interests and Political Constraints: The Federal Republic of Germany and the People's Republic of China During the Early Cold War," 101.

³⁸³ Ching, "Trade Without Flag: West Germany and China 1949–1972," 216.

³⁸⁴ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949–1958," 101–2.

The US told the Adenauer government to not give into the campaign, but Eastern Association lobbying and the weakening—and eventual abolition—of CHINCOM trade controls empowered the Foreign Office to withstand the American pressure. “In 1956, missions from Austria, Belgium, Britain and France visited Beijing. At the same time, China and Italy were engaging in trade negotiations in London. Bonn could thus point to the fact that it was only following the example of the others.”³⁸⁵ Thus, in 1957, after CHINCOM dissolved, the West German government permitted the Eastern Association permission to negotiate a “private agreement” with the Chinese. The negotiations involved several visits by the China Working Group to China, culminating with a signing in Beijing in September 1957. While the signing was supposed to take a week, it ended up taking 20 days of negotiations, which Otto Wolff von Amerongen, described as “the hardest.”³⁸⁶ The trade agreement between the CCPIT and the Eastern Committee for the exchange of goods worth 230 million DM (each way) until October 12, 1958.³⁸⁷ As a result of the agreement, direct trade increased from 35% of trade between the two countries to 86% at the agreement’s expiration.^{388,389} The period of the Eastern Association-CCPIT trade agreement corresponded with the technological purchasing spree of the Great Leap Forward, and China’s suspension of with Japan,³⁹⁰ helping to position West Germany as one of China’s top technology suppliers.

³⁸⁵ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 216.

³⁸⁶ Bernardini, “Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949–1958,” 103.

³⁸⁷ Zanier, “Forging New Meanings of Europe. The Cross-Ideological Logic of Western Business Interest Associations (BIAs) Promoting Trade with Mao’s China,” 15.

³⁸⁸ Bernardini, “Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949–1958,” 105.

³⁸⁹ The 1957 trade agreement was not renegotiated when it expired in September 1958, likely because the Great Leap Forward disrupted China’s ability to plan trade. See Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 39.

³⁹⁰ Japan was China’s top trade partner until two incidents soured Sino-Japanese relations in 1958. In March, Taiwanese President Chiang Kai-shek threatened to boycott Japanese exports in protest of the fourth trade agreement signed between the CCPIT and three Japanese organizations. The agreement included a novel promise of reciprocation of trade offices and representatives between China and Japan, which the Taiwanese perceived as a step

The 1960s global economic slowdown and the US's waning control over allies, 1960-1968

The global geopolitical and economic conditions of the 1960s were advantageous for China's turn to the West following the Sino-Soviet split. Capitalist competition aided China's recovery from the Great Leap famine and the complete plant import program of the mid-1960s. The gains of the export-dependent model of European industry were slowing down, and the Chinese market offered a solution for excess capacity. US influence over its allies waned as they gained the confidence to defy trade restrictions on China. In the case of West Germany, the geopolitical goal of reunification conflicted with the economic pressures to compete to maintain its Chinese market share. This resulted at first in a failed attempt to negotiate an official Sino-West German trade agreement and delays in offering the financing terms Japanese and Western European competitors began to extend. However, as the recession in West Germany deepened and West German firms began to lose substantial contracts, Bonn approved, despite US opposition, five-year-long, government-backed credit guarantees to China—financing terms that it did not offer the Soviet Union.

Overcapacity, recession, and intensifying global competition for Chinese trade

In the early 1960s, China's trade focused on grain imports from the west to address the famine and agricultural shortages caused by the Great Leap Forward. Both US geopolitical concerns and international capitalist competition facilitated the grain import program. For example, the Canadian Wheat Board, which had produced a bumper crop, agreed to sell barley to the Chinese

toward Japan's official recognition of China. To appease the Taiwanese, Japan's Prime Minister Kishi Nobusuke decided to cancel the sections on the agreement on quasi-diplomatic exchange and honor only the sections on trade. Then, in May, two Japanese youths tore down the PRC flag at a trade exhibition in Nagasaki and Kishi failed to denounce their actions. China retaliated by cancelling trade with Japan entirely that month and turning instead to Western European suppliers. See King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949-1971*, 135-136.

after its chief commissioner W.C. McNamara got wind the US would also be able to participate in the grain export business. There previously been domestic political opposition to Sino-Canadian grain trade, as the Canadian Cabinet feared that it would generate downward pressures on surplus grain disposal from the US and Australia, which had also experienced bumper crops.³⁹¹ Furthermore, the US essentially allowed John Diefenbaker's Progressive Conservative government to make an agreement of the US\$50 million credit guarantee over six months because it knew that it was under pressure from the domestic grain lobby.³⁹² In 1958, Progressive Conservative's federal election campaign depended on support from prairie farmers, to whom it had promised to expand exports to new markets.³⁹³

While Canada and Australia were China's biggest grain suppliers, West Germany, too, participated in the grain import program due to domestic economic problems. In January 1961, West German firms offered flour at a lower price than their Canadian and Australian counterparts. West Germany had likely been importing US wheat to keep their flour mills operating and exported it to China as flour.³⁹⁴ In 1962, West German exports to China totaled 124.5 million DM, 49 million of which was flour.³⁹⁵

In West Germany, manufacturing profitability fell by 30 percent between 1960 and 1965.³⁹⁶ The European recession of the 1960s hit the steel industry particularly hard. Steel prices had been weak since 1960 due to overcapacity. Yet, investment continued to increase.³⁹⁷ West

³⁹¹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 56–57.

³⁹² Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 61.

³⁹³ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 34.

³⁹⁴ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 57.

³⁹⁵ RWWA. 175-6-1. Aktennotiz zum Warenverkehr Bundesrepublik/Volksrepublik China für 26.3.1965 OAV, Bremen.

³⁹⁶ Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945–2005*, 75.

³⁹⁷ Mandel, "The Economics of Neo-Capitalism," 64.

Germany was the biggest producer of steel in Europe, but in 1966, even with declines there, along with France and Austria, because of a big increase in Italy and a modest one in Britain, total production still rose. While US steel relied largely on the domestic market, the European producers depended heavily on exports. The creation of the tariff-free European Coal and Steel Community (comprising France, Germany, Italy, Belgium, the Netherlands, and Luxembourg) also created more competition in the European export market. As a result of the falling rate of profit, there was a wave of mergers among big steel producers. For example, in West Germany, in 1964, August Thyssen and Phoenix-Rheinrohr merged to form the biggest steel company in Western Europe, and the fifth in the world. A steel executive commented that even with the mergers, "there are still 17 of us in Germany and there should be only three."³⁹⁸

It was with great optimism that the China Working Group viewed the Sino-Soviet split, as China would then have to rely on trade with Western countries even more deeply.³⁹⁹ In this context, Western European industry hoped to increase exports to China. At the spring 1963 Canton Trade Fair, Gerhard Flatow, an associate of Otto Wolff, observed, "The ironclad consistency and continuity with which the English continue to pursue their business in China are truly astonishing. Even more astonishing, however, is the massive effort being undertaken by the French—an effort that is forging ahead with full force on the mainland, notwithstanding their official political recognition of the Kuomintang government in Taiwan."⁴⁰⁰

After a short respite during strained Sino-Japanese relations, Western Europe also once again faced competition with Japan in 1960, when the resignation of Prime Minister Kishi

³⁹⁸ Mooney, "Steel Slump Hits Europeans Again; Excess Capacity Weakens Prices--Mergers Rise in France and Germany," 43.

³⁹⁹ RWWA, 175-6-1, Report received on 2 September 1964, "Gedanken über China 1964."

⁴⁰⁰ RWWA. 72-382-2. Tonband-Diktat von Herrn Flatow aus Hong Kong vom 26. Mai 1963, p. 4.

opened the door to rehabilitating Sino-Japanese trade.⁴⁰¹ China recommenced trade with “friendly” Japanese firms, outside of a framework of a trade agreement.⁴⁰² Then, the Japanese regained their advantage in Chinese trade through the Liao-Takasaki Trade Agreement, an unofficial pact covering 1963 to 1967 that provided a framework for foreign exchange-saving barter trade, initially for a value of \$100 million. Chinese would trade soybeans, maize, coal, iron ore, salt, and tin for Japanese steel, chemical fertilizer, insecticides, agricultural machinery, and complete industrial equipment. Competition with Japan would have been palpable when, West Germans visiting the fall Canton Trade Fair in November 1963—shortly after the Japanese government had just announced details of the Liao-Takasaki negotiations—reported that they were “upstaged” by representatives from 230 Japanese “friendly firms” at this time.⁴⁰³

For Japan, trade with China was so promising that it was willing to jeopardize its trade relationship with Taiwan. During Liao-Takasaki negotiations, Taiwan threatened to cancel contracts with Japanese conglomerates if Japan pursued trade with China. Taiwan made good on the threat in 1964, when China purchased one *million* tons of ammonium sulphate, rather than the 50,000 tons stipulated in the Liao-Takasaki agreement. The huge purchase was critical for the Japanese chemical fertilizer industry, which had been operating well below capacity until that year.⁴⁰⁴

In the face of this competition, West Germany fought hard to maintain its share of Chinese trade. Indeed, West Germany was China’s largest West European source of complete plant

⁴⁰¹ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 178.

⁴⁰² Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 46–47.

⁴⁰³ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 98, 124.

⁴⁰⁴ King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949–1971*, 182.

imports from 1963 to 1968.⁴⁰⁵ This position was threatened when other Western European countries began to extend state-backed loans to China, which enabled competitors to offer supplier's credits of higher values and longer terms.⁴⁰⁶ West German export contracts with China only offered short-term credits of less than five years.⁴⁰⁷ The risk of West German industry losing ground became evident after China signed contracts with firms from countries that offered more competitive financing. For example, in December 1963 the Italian company Societa Nazionale Metanodotti beat out other Western European competitors to that sell China its first major oil refinery technology, a 150,000-200,000 ton p.a. capacity. The Italian government facilitated the sale by providing a five-year credit guarantee.⁴⁰⁸ By 1964, the UK, Netherlands, and France were also extending five-year-long credit guarantees. That year, France also officially recognized the PRC.⁴⁰⁹

In September 1965, a study by the VDMA (Verein Deutscher Maschinenbau-Anstalten), a network of West German machinery and equipment manufacturers and member of the Eastern Association, emphasized that West German trade with China could have much improved. It noted a steady increase in the proportion of direct imports (as opposed to an intermediary country) from 35.8% to 57% since 1959, and a huge 70% increase in West German exports to

⁴⁰⁵ CREST. CIA-RDP85T00875R001700010096-4. Communist China: Highlights of Trade with Western Europe. 1 August 1971, p. 4.

⁴⁰⁶ In 1962, the European Economic Community decided to limit export credits to communist countries to five years, a period that followed Bern Union limits. The US supported this as long as the credits did not practically become foreign aid. Adenauer agreed with the US, opposing state-backed export credits to the east, in particular to East Germany, due to concerns that they may lead to increasing demands for credits or import obligations, leading to political and economic problems. Ching, "Trade Without Flag: West Germany and China 1949–1972," 241fn.457.

⁴⁰⁷ Ching, "Trade Without Flag: West Germany and China 1949–1972," 241.

⁴⁰⁸ This was likely purchased for the construction of the Daqing refinery and a Beijing petrochemical plant. Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 127.

⁴⁰⁹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 118–19, 126–27.

China from 1963 to 1964 (totaling 61 billion DM).⁴¹⁰ Even so, trade with China accounted for only a .25% of West German exports. This was “a very distorted picture” of how things should be, when one considers that “West German is second in world trade and China is the most populous country on Earth.”⁴¹¹

Sino-West German trade agreement negotiations, 1963-1964

In fact, while Japan and other Western European countries were increasing support for trade with China, West Germany sought to keep up by negotiating an official trade agreement with China. In the fall of 1963, the Ministry of Foreign Affairs began discussing trade agreement with China that would include a clause stating that the FRG represented West Berlin.⁴¹² In November 1963, China invited the China Working Group visit the Canton Trade Fair and then to meet with the CCPIT and the Foreign Trade Minister Ye Jizhuang in Beijing for negotiations.⁴¹³ The delegation included Otto Wolff von Amerongen, Krupp representatives, and Fritz Cordt, the Economic Referee of the Consulate-General Hong Kong.⁴¹⁴ Cordt engaged in secret dialogue with Chinese officials on signing an official trade agreement in Canton. The competition for the Chinese market would have been very visible, as trade delegations from Japan, Britain, France, Belgium, Italy, Sweden, and Finland were also in attendance.⁴¹⁵

When the delegation returned home in early 1964, the Eastern Association increased pressure on Bonn to conclude a Sino-FRG trade agreement, establish reciprocal trade offices,

⁴¹⁰ RWWA, 175-6-1, Letter from Carnap to Hufnagel, “Handel der Bundesrepublik Deutschland mit der Volksrepublik China,” 19 March 1965.

⁴¹¹ RWWA. 175-6-1. “Gedanken über China 1964.” 2 September 1964.

⁴¹² Ching, “Trade Without Flag: West Germany and China 1949–1972,” 104–5.

⁴¹³ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 236.

⁴¹⁴ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 105; Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 132.

⁴¹⁵ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 237.

and offer long-term credit guarantees.⁴¹⁶ The domestic political situation also favored facilitating more trade with China, because Ludwig Erhard, the former Minister of the Economy and proponent of trade with the east in the 1950s, had become Chancellor.⁴¹⁷ And Gerhard Schröder, the Foreign Minister since 1961, hoped that closer relations with China could help to weaken the eastern bloc and ultimately serve German reunification.⁴¹⁸

France recognizing China in early 1964 got in the way of the Sino-West German negotiations because France did not also sever ties with Taiwan. By maintaining relations with both the ROC and the PRC, France implied that there were two Chinas, and the West Germans were wary that France would then apply the same logic to the German Question and diplomatically recognize East Berlin. Taiwan promptly ended diplomatic relations with France and tried to seek recognition from the FRG. The FRG was also caught in the middle of Franco-American relations, because the French recognition of China strained relations with the US. The FRG was forced to pick a side.⁴¹⁹

Despite the geopolitical tensions, the Eastern Association moved forward in trade agreement negotiations with Chancellor Erhard's blessing in May 1964. However, the West German government felt obliged to discuss the matter with the US, due to the US's military support in the face of threats from the Soviet Union.⁴²⁰ The Foreign Ministry tested the American reaction during a meeting of Western powers in the Hague and received an

⁴¹⁶ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 132,141.

⁴¹⁷ Ching, "Trade Without Flag: West Germany and China 1949–1972," 104.

⁴¹⁸ The Foreign Affairs Ministry and the Eastern Association, it should be noted, wanted slightly different things. Neither was interested in normalization, but the Foreign Affairs Ministry was not interested in setting up trade representation in China. Ching, "Trade Without Flag: West Germany and China 1949–1972," 104–5, 108–9.

⁴¹⁹ Ching, "Trade Without Flag: West Germany and China 1949–1972," 111–13.

⁴²⁰ Ching, "Trade Without Flag: West Germany and China 1949–1972," 115, 119.

unexpectedly negative response. The US ambassador to the Netherlands considered the West German trade agreement a reward for Beijing's aggressive foreign policy.

In the face of US opposition, the Eastern Association proposed downgrading the official trade agreement to a product exchange agreement and lost credibility with the CCPIT.⁴²¹ US opposition only increased in the summer of 1964 due to mounting tensions in Vietnam.

Ultimately, the Sino-West German negotiations broke down because the two sides could not agree on the nature of the agreement (official and comprehensive or semi-official and limited to barter trade) and on the description of West Berlin.⁴²² In January 1965, the Chinese indicated that while they were interested in promoting bilateral trade, they were no longer wished to negotiate a trade agreement of any form.⁴²³

Deepening recession and West Germany's defiance of the US, 1965–1968

After the failure of the trade agreement negotiations, the West German Foreign Ministry and Eastern Association continued to find other ways to promote trade with China while minimizing strain on West Germany's relations with the US. On January 14, 1965 in Bonn, for example, the Eastern Association met with ministers from the Foreign Affairs Ministry to discuss the Eastern Association's upcoming visit to the Chinese embassy in Bern. They lamented that the "opportune moment" for deepening trade with China had passed, as China preferred to award contracts to suppliers from countries with which it signed trade agreements. Even more worrying the fact that in some cases, the Chinese had made purchases from the Federal Republic through these countries with agreements. However, West Germany was in a difficult position because the

⁴²¹ Ching, "Trade Without Flag: West Germany and China 1949–1972," 119–20.

⁴²² Ching, "Trade Without Flag: West Germany and China 1949–1972," 135.

⁴²³ Ching, "Trade Without Flag: West Germany and China 1949–1972," 238.

US, while positive about the FRG's recent expansion of official trade relations with the Soviet Union and eastern European bloc states, it appeared completely opposed to parallel efforts towards China and Asian socialist bloc states. Meanwhile, China viewed the FRG's differential trade policy as discriminatory. Therefore, to promote trade, West Germany would need to continue with private or unofficial trade contacts. The Foreign Affairs Ministerial Director, Dr. Sachs, also expressed this "personal opinion" that payment terms for China should be the same as those for other eastern bloc countries. In a separate preparatory conversation among industry representatives, the Eastern Association agreed that German supply offers needed to include credits to be competitive.⁴²⁴

As a result of these conversations, in March 1965 the Federal Cabinet secretly approved a new credit policy allowing government-backed loans, or Hermes guarantees, for Sino-West German trade. To minimize American criticism, the West German government decided to follow the Bern Union convention of limiting credit periods to five years.⁴²⁵ The West German government went ahead with this despite objections from Moscow, which complained that five-year-long credits had not yet been extended to the Soviet Union.⁴²⁶

West Germany did not reveal to the US that it had changed its credit policy for China until 1966. In the intervening period, the Vietnam War escalated, and the US pushed for a stricter embargo against China. In July 1965, for example, the US suggested changing COCOM regulations to make it more difficult to issue export permissions for restricted products bound for China. However, rather than complying with US demands as it had in 1964 during trade

⁴²⁴ RWWA. 175-6-1. Besprechung betr. VR China am 14. Januar 1965 in Bonn, pp. 1-4.

⁴²⁵ Ching, "Trade Without Flag: West Germany and China 1949-1972," 243.

⁴²⁶ RWWA. 175-6-1. *Politik und Wirtschaft*. Nr.7. 27 January 1965.

agreement negotiations, the West German government objected, arguing that restricting trade with China did not serve West Germany's economic interests.⁴²⁷

By the fall of 1965, the deepening economic problems in capitalist countries led the US to tolerate more trade between its allies and China.⁴²⁸ For example, in December 1965, the US did not attempt to stop the West German firm Henschel from selling the Chinese six 4,000 hp diesel locomotives, worth a total of \$2.5 million. The negotiations had been going on since 1961, and the US Treasury Department had been thinking about the consequences of the deal since at least May 1963, because Henschel AG had recently become 49 percent owned by Morgan of New York.⁴²⁹ The West German business community also noted with great interest that Sino-Italian trade increased during the second half of 1965; Italy, along with West Germany, were the two countries that most closely adhered to the US's China trade policy.⁴³⁰ And by 1966, when the FRG government announced that it had extended Hermes guarantees to China, "Washington's surprisingly mild response was to ask the FRG government to notify it prior to signing credit deals with Cuba and North Vietnam."⁴³¹

While the executive branch of the US government seemed to tolerate trade with China, however, the American public and Congress had more objections, to which the West German government paid little heed. West German firms' offer to build a large, state-of-the-art steel-rolling mill complex in Wuhan, the home of China's automotive industry, became the symbol of US allies' traitorous relations with China. Negotiations for the project began in 1965. The complex would produce at least one million tons each of finished hot rolled wide sheet steel

⁴²⁷ Ching, "Trade Without Flag: West Germany and China 1949–1972," 244.

⁴²⁸ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 178.

⁴²⁹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 182–83.

⁴³⁰ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 178.

⁴³¹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 155.

and finished cold rolled wide sheet stainless steel per year, which would be useful for producing cans, construction sheeting, and automotive bodies. In particular, the complex would help turn Wuhan's truck production facilities into China's largest and technologically advanced. West European and Japanese consortiums competed for contracts for the project.⁴³² The West German firm DEMAG led the Western European consortium for the project. Other German firms involved were Siemens, AEG, Linde, Otto Wolff, and Schloemann, along with firms from France, England, Italy, and Switzerland.⁴³³

Shortly after the US learned about the Wuhan project, the American political context of Chinese trade changed. The US had been considering loosening controls on non-strategic trade with China, but then Chinese government claimed that the PLA shot down yet another US-made high-altitude military reconnaissance aircraft. The US gave reassurances that despite not changing its position on Vietnam, it wanted to deepen contacts with China, but Beijing alleged that the US was still hostile and also complained about US presence in Southeast Asia. Given the renewed tension in Sino-American relations, the Wuhan project provoked debate in Washington over the China embargo. The project contributed to growing Congressional pressure to tighten the restrictions on strategic trade, the definition of which was a matter of disagreement between the US and its allies.⁴³⁴ However, the West German government was not cowed by US disapproval. During discussions on the final specifications for the Wuhan steel complex in July 1966, DEMAG representatives told American officials that the West German government would likely allow the deal to proceed because the US itself was considering selling grain to the

⁴³² Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 184–85.

⁴³³ RWWA. 72-388-4. TECHIMPORT-DEMAG Aktiengesellschaft Konsortialangebotespreise Stand: Febr. 1966.

⁴³⁴ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 185–86.

PRC.⁴³⁵ West German domestic politics also favored the project, as it was supported by the West German public, and news coverage of US opposition was critical.⁴³⁶ Therefore, the FRG Cabinet could not oppose West German construction of the steel mill “without appearing utterly subservient to Washington.”⁴³⁷

Ultimately, the Wuhan steel mill contract negotiations failed, but not because of political objections from the US. Rather, when contract negotiations were on the verge of concluding, the Cultural Revolution disrupted the project, as it did foreign trade as a whole. With the Cultural Revolution ramping up, in the fall of 1966, the Chinese government had suspended all foreign imports of non-essential equipment.⁴³⁸ Though talks resumed in 1967 and 1968, they collapsed over price disagreements and the internal coordination failures wrought by the Cultural Revolution.⁴³⁹

Normalization of Chinese trade relations and the economic crises of the 1970s

As U.S. policy toward China softened in the late 1960s and early 1970s, Western trade with the PRC expanded rapidly. West Germany, after a hesitant and politically fraught decade, moved from cautious, semi-official engagement to full diplomatic normalization in October 1972. American tolerance for exceptions to COCOM controls, growing commercial pressure from Japan and other Europeans, and shifting domestic politics in Washington opened space for large West European and Japanese technology and steel contracts, while China’s Four-Three procurement wave in 1973–74 and the global oil shock produced a volatile mix of soaring

⁴³⁵ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 190.

⁴³⁶ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 187–90.

⁴³⁷ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 190.

⁴³⁸ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 196.

⁴³⁹ Louven, “Bilaterale Außenwirtschaftsbeziehungen Zwischen Der Volksrepublik China Und Der Bundesrepublik Deutschland,” 769; Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 196–98.

imports, inflationary costs, and then a rapid adjustment as China exploited rising oil exports and depressed world prices to cut its deficit. By the mid-1970s—despite earlier disruptions from the Great Leap Forward and the Cultural Revolution—China’s trade position had stabilized, with West Germany remaining a leading Western supplier even as competition and geopolitics continued to shape commercial ties.

Sino-American rapprochement and Sino-West German diplomatic normalization

While there was popular opposition to the DEMAG project, there were numerous signs that the US executive branch was beginning to reconsider its China trade controls. Consequently, in 1966, Japan resolved to push for more Sino-Japanese contact and for the US to end the China embargo.⁴⁴⁰ President Johnson considered approaching Beijing through Moscow and asked for updated recommendations on American China policy. During 1967, China specialists, testifying before the US Joint Economic Committee, spoke out in favor of relaxing China trade controls.⁴⁴¹

At the end of the 1960s, West Germany was China’s largest trading partner in Western Europe,⁴⁴² but trade had begun to slow down in 1968. This was partly due to the Cultural Revolution, which reduced China’s reduced export capacity and, by extension, foreign exchange reserves. However, it was also because of West Germany’s *Ostpolitik* and the lack of official trade regulations with China. The former was a thorny geopolitical issue because West Germany was warming up to the Soviet Union just as Sino-Soviet relations were under increasing strain, erupting into deadly border clashes in 1969. The latter led to issues with credits and terms of payment transactions contributed to a Chinese trade deficit, a problem for the CCP’s

⁴⁴⁰ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 190.

⁴⁴¹ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 189.

⁴⁴² CREST. CIA. Communist China’s Trade with the Industrial West in 1969 and Prospects for 1970, p. 5. July 1970.

commitment to maintaining a trade balance.⁴⁴³ “The political issues between the FRG and the PRC were often mentioned during business negotiations between the PRC and West German companies in 1970 and 1971,” even after Cultural Revolution disruptions to trade had subsided. “The PRC also refused to make its economic plans public to West Germany. At the same time, other Western European countries entered the Chinese market on a large scale.”⁴⁴⁴

If West Germany did not normalize relations with China, it would lose its dominance in Western European trade with China. Therefore, the China Working Group complained that the federal government’s “neglect” of East Asia was starting to threaten Sino-West German trade. Bonn took the complaints so seriously that in January 1972, the Foreign Minister Walter Scheel personally met with the China Working Group to assure them that change was on the horizon. West Germany would diplomatically recognize China once it addressed its *Ostpolitik*: namely, when the main Eastern Treaties for Europe were ratified. “At this meeting the participants reached a gentlemen’s agreement to satisfy diplomats and China traders. The businessmen agreed not to make any open moves or statements with regard to China in the following months.”⁴⁴⁵

Meanwhile, beginning in 1968, as the Vietnam War became increasingly unpopular and economic problems in the US deepened, the political climate in Washington became friendlier to trade with China.⁴⁴⁶ US business and farm lobby groups wanted the government to address balance of payments problems, the outflow of gold from domestic reserves, the weakening US

⁴⁴³ He, “From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972,” 544–45.

⁴⁴⁴ He, “From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972,” 544.

⁴⁴⁵ Albers, “Business with Beijing, Détente with Moscow: West Germany’s China Policy in a Global Context, 1969–1982,” 240–41.

⁴⁴⁶ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 205.

dollar, domestic grain surpluses, industrial overcapacity, and underemployment.⁴⁴⁷ Starting in 1969, Washington began to remove restrictions on trade with China for US businesses.⁴⁴⁸ A General Motors strike in autumn 1970 deepened these economic concerns and further generated interest in trade with China.⁴⁴⁹

In 1972, US State and Defense Departments debated changes to China trade control. US State Department argued that the “China differential” in COCOM, which had briefly returned due to the Vietnam War, was more harmful to the US than its allies because the very areas in which US offered the most technically advanced products—namely, computers—were caught by the embargo while the products of those less advanced producers were not. Nixon listened to the State Department over the warnings of the Defense Department.⁴⁵⁰ By the 1970s, however, these sanctions lost their power and member nations threatened to withdraw from CHINCOM if their exceptions requests were not approved.⁴⁵¹

Once US businesses were no longer restricted by China trade controls, the US actually became a frequent requester of COCOM exception. “Although the United States had traditionally been viewed as the COCOM member most concerned with maintaining a strict embargo, it supported the liberalization and submitted the majority of all exception requests submitted to COCOM. The United States' increasing numbers of exception requests influenced other COCOM nations to submit more exceptions requests. Exceptions to the embargo became

⁴⁴⁷ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 206.

⁴⁴⁸ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 250.

⁴⁴⁹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 208.

⁴⁵⁰ Gong, “Computers for China,” 2025, 391–92.

⁴⁵¹ Webster, *COCOM: Limitations on the Effectiveness of Multilateral Export Controls*, 128–29.

commonplace in the 1970's.”⁴⁵² In fact, by 1973, the US displaced West Germany as China's second largest trading partner.⁴⁵³

In October 1972, West Germany normalized diplomatic relations with China. The normalization of relations with China enabled huge increase in technological imports from 1973-1974, as demanded by the Four Three Program. One of the largest projects was the Wuhan steel complex previously under discussion in the mid-1960s. Western European-Japanese competition for the 1.2 to 1.3 billion DM project was fierce. The West European consortium led by DEMAG hoped to finally receive the contract it had nearly concluded in 1966. However, the Japanese consortium made an offer hundreds of millions of DM cheaper. In August 1973, *Süddeutsche Zeitung* reported that even if DEMAG were to win the contract, it and its consortium members would only make a small profit.⁴⁵⁴ In the end, both consortia were contracted in 1973-1974 to install the \$550 million complex in Wuhan.⁴⁵⁵

China's escape from the global economic crises of the 1970s

China's position in the global political economy enabled it to escape the economic crises of the 1970s. While the volume of the purchasing spree of the Four-Three program led to a dreaded trade deficit for China, the global oil crisis prevented it from being bigger and lasting longer than it otherwise would have been. The technology imports of 1973 and 1974 added more to China's ledgers because of global double-digit inflation, while the global recession reduced demand for

⁴⁵² Webster, *COCOM: Limitations on the Effectiveness of Multilateral Export Controls*, 6.

⁴⁵³ Eckstein, *China's Economic Revolution*, 256.

⁴⁵⁴ *Süddeutsche Zeitung*, “China-Auftrag Noch Nicht Perfekt. Japaner Beträchtlich Billiger.”

⁴⁵⁵ Eckstein, *China's Economic Revolution*, 261; MCI, “History of Wuhan Iron & Steel: WISCO Business Timeline”; Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 213.

many of its exports.⁴⁵⁶ As with the trade deficits following the Great Leap and the Cultural Revolution, China restored balance by trimming imports.

The 1973 oil crisis also coincided with China's increased oil export capabilities; China began to export oil in commercial quantities that year, mostly to Japan.⁴⁵⁷ OPEC oil prices more than tripled: in 1972, China exported about 1 million tons worth \$30 million, and in 1973, it exported about 4 million tons for \$425 million. In 1975, "oil saved the day for Chinese exports" as sales of crude oil and petroleum products contributed to China reducing its deficit with the non-Communist world by one half to \$585 million.⁴⁵⁸

Combined with reduced purchasing volumes, depressed global prices lowered China's import bill, so that the trade balance improved sharply.⁴⁵⁹ The 1973 oil crisis contributed to another steel crisis in the US and Western Europe, as the global recession reduced demand. China took advantage of this in 1974 by stockpiling steel at low world prices.⁴⁶⁰ Throughout the 1970s, iron and steel constituted the single largest category of China's imports.⁴⁶¹ The purchases were a boon to West Germany, the second largest supplier of steel to China after Japan.⁴⁶² In 1975-1977 China also took advantage of low world agricultural prices for commodities such as cotton, sugar, soybeans, and soybean oil.⁴⁶³ After dipping into its foreign exchange reserves in

⁴⁵⁶ Eckstein, *China's Economic Revolution*, 276; Riskin, *China's Political Economy: The Quest for Development since 1949*, 193.

⁴⁵⁷ Eckstein, *China's Economic Revolution*, 262.

⁴⁵⁸ Batsavage and Davies, "China's International Trade and Finance," 712-13.

⁴⁵⁹ Batsavage and Davies, "China's International Trade and Finance," 714, 720.

⁴⁶⁰ Batsavage and Davies, "China's International Trade and Finance," 714.

⁴⁶¹ CREST. CIA. China: The Steel Industry in the 1970s and 1980s. A Research Paper. May 1979, p. 5.

⁴⁶² CREST. CIA. China: The Steel Industry in the 1970s and 1980s. A Research Paper. May 1979, p. 6.

⁴⁶³ Batsavage and Davie, "China's International Trade and Finance," 719.; CREST. CIA-RDP79B00457A000600050001-2. China: A Year of Rebuilding in Foreign Trade. July 1977, p. 3.

1974, China's hard currency trade balance with non-Communist countries shifted to record \$745 million surplus in 1976.⁴⁶⁴ Thus, in 1976, the year of the deaths of both Mao and Zhou Enlai, and the eve of "opening up and reform," China's balance of payments was stable.⁴⁶⁵

Conclusion

I have developed a global, structuralist analysis of Maoist China's self-reliance, with a focus on Sino-West German trade. I have argued that the United States' effort to contain communism constrained China's foreign economic relations, yet geopolitical priorities—rebuilding postwar Europe and Japan—created room for commercial engagement that Beijing skillfully exploited. Faced with Western demand for markets and suppliers seeking to offload excess capacity, the PRC used capitalist competition to extract technology, resources, and favorable terms without incurring long-term debt, and to turn embargoes and political hostility into bargaining leverage. West German industry and its semi-official Eastern Association were emblematic: pressing Bonn for access, lobbying for credits and guarantees, and ultimately helping bring about normalization in 1972 as competition from Japan and other Europeans intensified. As U.S. policy softened through the 1960s and into Nixon's rapprochement, COCOM restrictions transformed into routine exceptions.

My global, structuralist analysis both builds on and goes beyond liberal explanations of "sanctions-busting," which rely on a triadic model of interaction between the sending state, target state, and third-party sanctions buster.⁴⁶⁶ In showing that West German businesses sought trade with the PRC to revive their previously profitable colonial activities in China and lobbied

⁴⁶⁴ CREST. CIA. CIA-RDP79B00457A000600050001-2. China: A Year of Rebuilding in Foreign Trade. July 1977, p. 1.

⁴⁶⁵ CREST. CIA. CIA-RDP79B00457A000600050001-2. China: A Year of Rebuilding in Foreign Trade. July 1977, p. 6.

⁴⁶⁶ Early, "Sleeping With Your Friends' Enemies," 51–52.

their government to facilitate higher trade volumes, I confirmed that both colonial ties and commercial interests encourage sanctions-busting and that state leaders derive foreign policy preferences from core constituents.⁴⁶⁷

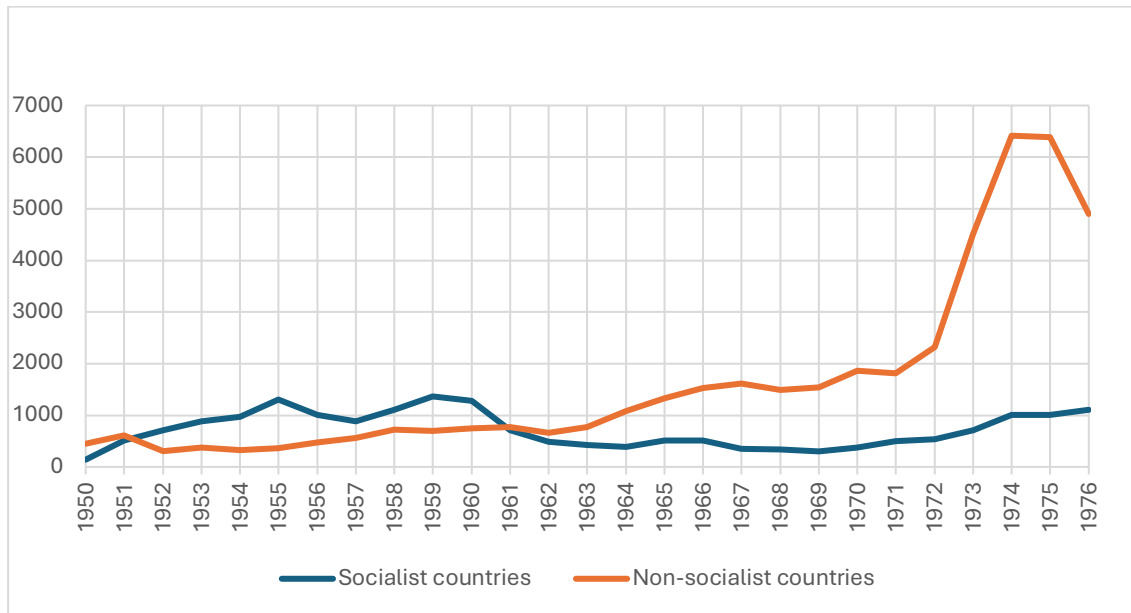
By going beyond a triadic model to consider the global political economy, I identify additional motivations for, and consequences of, sanctions busting. I show, for example, that both West German firms and West German federal government felt pressure to improve trade with China because *other countries* also did so. The specifically *capitalist* nature of the competition—the demand for a spatial-temporal fix for overcapacity—explains why West German firms did business with China even when profit margins are low: they delayed the moment of profit realization, expecting more lucrative deals in the future.⁴⁶⁸ The global interest in trade with China also produced global methods of circumventing the sanctions, as seen in the indirect trade schemes of the 1950s, and in international collaboration to gain leverage in negotiations with the monopsonic Maoist trade bureaucracy, as seen in Western European steel and fertilizer consortia of the 1960s and 1970s. The US embargo on China contained the seeds of its own destruction.

Because of Sino-American rapprochement, explaining sanctions busting only explains China's self-reliance through the 1960s. By enabling explanation of China's escape from the economic crises of the 1970s, the analytical framework of global capitalism accounts for self-reliance through to end of the Maoist period.

⁴⁶⁷ Early, "Sleeping With Your Friends' Enemies," 54–57.

⁴⁶⁸ Harvey, *The New Imperialism*, chap. 3.

Figure 3.1: China's total imports, 1950–1977 (million US\$)*



*F.o.b., country of origin. 1978 prices.

Source: CIA, National Foreign Assessment Center, China: International Trade, 1976-1977. November 1977, p. 9

Chapter 4 | Maoist China's mercantilist semi-withdrawal and trade with West Germany, 1949–1976

“Without wishing to sound like I am complaining, I would like to add a few words here regarding the ease—or lack thereof—of traveling and working in China. The sheer volume of travel, the negotiations, the appointments, and the various obstacles one must overcome are extraordinarily exhausting.”¹

—Gerhard Flatow, 1963

Introduction

How did Maoist China pursue import substitution without long-term debt and balance of payments problems? I have thus far examined the internal and external conditions necessary for the successful implementation of industrial policy—Maoist China's version of import substitution, self-reliance—possible in the first place. I have previously argued that domestic social forces—the state formation process of the People's Republic and the intra-elite, intra-state, and state-society relations of late Maoism—reproduced the trade bureaucracy as a pocket of effectiveness within the broader, weaker economic bureaucracy. I have also argued that the global social forces of Cold War geopolitics and capitalist competition endowed Maoist China with the market power to negotiate favorable trade arrangements despite its international political and economic isolation.

In this chapter, I tackle the trade operations of Maoist self-reliance in earnest. I examine the meso-level interaction of the Maoist trade bureaucracy and West German trade partners, showing how the global political economic processes described in the previous chapter were

¹ RWWA. 72-382-2. “Tonband-Diktat von Herrn Flatow aus Hong Kong vom 26. Mai 1963.”

instantiated in the specific methods that enabled the PRC to make the most of its limited financial resources and to keep its balance of trade in check. I describe China's sources of hard currency, how contract negotiations proceeded, how Sino-West German trade got around geopolitical barriers, and how payment transactions worked. When domestic economic conditions did not support trade, the Chinese cut back on imports by reducing purchases and postponing or even cancelling deals. To conserve foreign exchange, China aggressively pushed down prices and got suppliers to extend short- and medium-term credit. In this way, China was never directly beholden to commercial lenders, and its suppliers instead assumed the risk of the loans, which beginning in the 1960s was backed by the suppliers' governments. In many transactions, China avoided using foreign exchange altogether by conducting barter and countertrade and by settling transactions in its own *renminbi*.

That is to say, I trace the trade practices of Maoist China's "mercantilist semi-withdrawal" from the world system. These practices tended to make trade with China, according to Gerhard Flatow, an employee of Otto Wolff, a major West German steel company, "extraordinarily exhausting." Sometimes the profit margins were not even very high for China's trade partners. However, West German firms, along with their competitors in Japan and Western Europe, tolerated the trouble, motivated by the promise of securing more lucrative business in the long run.

Early PRC trade and the Cold War, 1949–1956

Upon seizing power in October 1949, the CCP had planned on continuing trade with capitalist countries. In fact, in the first year of the People's Republic, trade with capitalist countries constituted the majority of foreign economic engagement, accounting for 70% of total trade in

1950.² This despite the fact that the PRC was subject to COCOM restrictions during this period, as restrictions for China were more relaxed than those for the Soviet Union.³ Trade with the capitalist world dropped precipitously once Chinese forces entered North Korea in October 1950. The US quickly imposed a complete embargo on all exports to China, seized US-based Chinese bank accounts and assets, and banned all American ships and aircraft from China, Hong Kong, and Macao. A UN resolution in May 1951 expanded the China embargo to include Hong Kong. For US security planners, however, these policy instruments failed to sufficiently limit China's trade with US allies. Consequently, in 1952, the US established the China Committee (CHINCOM), a trade control organization within COCOM expressly to restrict trade with China.⁴ The CHINCOM controls were much stricter than those of COCOM. And, as explained in Chapter 4, West German trade with China faced additional restrictions due to the Federal Republic's occupation by Allied forces and its dependence on US economic aid.

Together, these measures reduced, but did not completely stop, China's import of technology from the West. While largely depending on the Soviet Union for technology through the 1950s, the PRC's First Five-Year Plan was so ambitious that it required Japanese and Western European imports to supplement Soviet support. China was able to earn some foreign exchange through exports, sale of precious metals, and remittances. The US freeze on China's assets held in American banks and ban on using US dollars limited China's ability to pay for Western imports, and CHINCOM controls restricted the types of goods member countries could sell to China. China instead settled transactions in Swiss francs and pounds sterling through banks in Europe and saved on foreign exchange through barter exchange and countertrade deals. To get

² CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965." 21 October 1966, p. 21.

³ Ching, "Trade Without Flag: West Germany and China 1949–1972," 185.

⁴ Cain, "The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947–52," 45–50.

around the CHINCOM restrictions, China and its capitalist partners moved funds and goods through a global network of intermediaries, including Swiss banks, British shipping companies, brokers in Hong Kong, and Eastern European countries with major ports. Thus, the American campaign to isolate the People's Republic ironically reproduced China's previous connections to the world economy for the socialist regime—and led its capitalist trade partners to engage in smuggling and in the decidedly *uncapitalist* economic practice of barter.

Nevertheless, the trade restrictions succeeded in holding back Maoist China's industrialization, as the workarounds made trade both expensive and risky. For example, the CIA estimated that if controls had been abolished during 1953, China might have been able to increase its total volume of imports by 20%, or roughly \$200 million. Had that \$200 million been available, China would have been able to its imports of capital goods by 50% year.⁵ China's capitalist trade partners, meanwhile, viewed the challenging transactions as an investment in entry to the world's biggest market.

Earning foreign exchange

When the CCP declared the founding of the PRC, it had almost no international financial resources. However, it was able to build up holdings of Western currency and gold by imposing trade and foreign exchange controls, borrowing the Soviet Union, obtaining remittances, and seizing foreign exchange and gold from private individuals.⁶ Shortly after the conclusion of the civil war, the CCP (as well as the KMT) also sold such a great amount of silver in Hong Kong, which would then shipped to the United States, that it caused a fall in the New York market

⁵ CREST. CIA-RDP79R01012A006200030012-9. "Controls on Trade with Communist China." 11 January 1955, pp. 12-13.

⁶ CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965," p. 6-7.

price. The silver was imported in 1949, mostly from Mexico, when the price was lower in New York than in East Asia, and sold when the price was higher in New York. Remittances were a source of foreign exchange, as the PRC banks retained them and pay the recipient in RMB. In July 1950, the CIA estimated that official remittances through Hong Kong varied between US \$40,000 to US \$100,000 a week. Exports were by far the largest source of foreign exchange. In February and March of 1950, exports to countries other than the USSR averaged about \$2.5 to 3.5 million a week, while exports to the USSR probably brought in at least \$5 million in both US dollars and convertible sterling.⁷ Due to CHINCOM, foreign exchange earnings from exports to non-Communist countries peaked in the last half of 1950. They were worth about \$400 million in 1950, \$335 million in 1951, and \$270 million in 1952, and consisted of agricultural products for Southeast Asia and Western Europe.⁸ Some industries in the non-communist world were strongly dependent on Chinese exports. For example, in 1953, the German Bedfeather Industry Association reported that the PRC was West Germany's top supplier of feathers, comprising over 30% of feather imports! Between January to November 1954, the imports were worth DM 20.4 million, or roughly \$4.9 million.⁹

However the balance of payments position was precarious. With the PRC cut off from its accounts in US banks and the US market, trade planners had to be careful in their use of precious foreign exchange.

⁷ CIA. RDP82-00457R0520023006-7. "Acquisition of Foreign Exchange by Chinese Communists," 19 July 1950, p. 1-2.

⁸ Foreign Relations of the United States, 1952–1954, China and Japan, Volume XIX, Part 1, eds. David W. Mabon, Harriet D. Schwar, and John P. Glennon (Washington, Government Printing Office, 1985), Document 82. <https://history.state.gov/historicaldocuments/frus1952-54v14p1/d82>

⁹ RWWA. 175-3-3. "Betr.: Handelsverkehr mit China." Letter of 31 January 1955 from Arbeitsgemeinschaft der Deutschen Bettfederindustrie to Arbeitsgemeinschaft Außenhandel der Deutschen Wirtschaft, Ost-Ausschuß.

CHINCOM, barter trade, and countertrade

The Maoist trade bureaucracy and its capitalist trade partners devised creative solutions to conduct business under the trade restrictions of the early Cold War. The following saga of a “peanuts for trucks” barter deal provides a colorful example of how the Maoist trade bureaucracy conserved foreign exchange and negotiated with its suppliers on the one hand, and how eager West German industry was to reestablish earlier trade relations with China. Indeed, early PRC trade built on continuities from the Republican period.

The peanuts for trucks deal grew out of Otto Wolff’s decades-long business in China. In 1932, it began to assist the Republican government with improving transportation infrastructure, namely improving the railway network and road system. As part of this business, it was also a major supplier of diesel trucks.¹⁰

In August 1949, when Communist victory was all but guaranteed, Tianjin, now under the control of the CCP, wished to purchase trucks and motors from West Germany as soon as possible.¹¹ West German mercantile and industrial capital had no qualms about conducting business with the new regime. Gerhard Flatow, who ran Fu Sze in Tianjin, had previously acted in some currency transactions for both the Germans and the Japanese after 1939 and smuggled arms for the Chongqing Nationalist government.¹² Otto Wolff and Daimler-Benz had sold between 5,000 and 6,000 trucks to China before the war. For Otto Wolff, its leading position in the Chinese market “must absolutely be defended.”¹³

¹⁰ China Automotive Company, an Otto Wolff subsidiary in Shanghai, handled this business.

¹¹ RWWA. 72-383-1. Aktenvermerk über die Besprechung bei Daimler-Benz, Stuttgart-Untertürkheim am 3. August 1949 nachmittags. 8 August 1949.

¹² CREST. CIA-RDP82-00457R001800930006-8. “1. Corporations organized by the Kungs. 2. German nationals and firms in China.” 14 September 1948.

¹³ RWWA. 72-383-1. Aktenvermerk über die Besprechung bei Daimler-Benz, Stuttgart-Untertürkheim am 3. August 1949 nachmittags. 8 August 1949.

On June 26, 1950, the North China Import Company (NCIC) and Otto Wolff agreed on a barter deal for 40 omnibus chassis and barrel sheets.^{14,15} The NCIC paid for the chassis, worth US\$900,000, with a delivery of 5,000 tons of peanut kernels, which Otto Wolff would sell to the Margarine Sales Union for West German margarine production.^{16,17} The deal was approved by all the relevant German and Allied authorities. The Chinese peanuts were shipped to Germany and “consumed in the form of margarine by the German population,” but only one-third of the chassis could be delivered to China before China’s entry into the Korean War in December 1950 and trade restrictions tightened.¹⁸ The sale of peanuts generated \$894,209.56, while the delivered chassis and barrel sheets were worth \$230,122.26, leaving a balance of \$664,087.30.¹⁹

Otto Wolff tried several methods to complete the transaction. These included returning the \$664,087.30 in US dollars. However, because of a shortage of foreign exchange, Otto Wolff would need to first sell items to a dollar-using country. This ended up not being possible because its Rasselstein plant lacked the capacity to produce these items. Then, Otto Wolff considered making an alternative delivery of items not on the list of sanctioned exports.²⁰ By June 1951, it

¹⁴ RWWA. 72-621-20. Memorandum of 17 February 1951 attached to letter of 21 February 1951 from Otto Wolff von Amerongen to Ludwig Erhard

¹⁵ RWWA. 72-408-3. Letter of 1 June 1951 from Arthur Fette of Otto Wolff-Köln to North China Import Corp., Tianjin.

¹⁶ RWWA. 72-408-3. Letter of 3 June 1952 from Otto Wolff von Amerongen to Kurt Walters. This source appears to make two errors. First, the Tianjin company is referred to as NCJC, but this must be a typo, because the source in fn.16 is a letter to North China Import Corporation. Second, this source states that the Chinese exchanged soybeans for the chassis. However, I defer to multiple other sources refer instead of an exchange of peanuts. These include all the relevant documents in the RWWA folders 72-671-20 (e.g. Memorandum of 17 February 1951 attached to letter of 21 February 1951 from Otto Wolff von Amerongen to Ludwig Erhard); and 72-389-1 (e.g. Fette to Gallati. “Gegenseitigkeitsgeschäft Erdnusskerne gegen Stahl-erzeugnisse mit der North China Import Corporation, Tientsin.” 22 May 1951).

¹⁷ RWWA. 72-621-20. Memorandum of 17 February 1951 attached to letter of 21 February 1951 from Otto Wolff von Amerongen to Ludwig Erhard.

¹⁸ RWWA. 72-621-20. Memorandum of 17 February 1951 attached to letter of 21 February 1951 from Otto Wolff von Amerongen to Ludwig Erhard.

¹⁹ RWWA. 72-671-20. “Aktenvermerk über meinen Besuch...am 10.11. Mai 1951” attached to Otto Wolff von Amerongen to Dr. Kroll. 16 May 1951.

²⁰ RWWA. 72-389-1. Fette to Gallati. “Gegenseitigkeitsgeschäft Erdnusskerne gegen Stahl-erzeugnisse mit der North China Import Corporation, Tientsin.” 22 May 1951.

became clear that Otto Wolff would be unable to make the remaining deliveries. It attempted to pay the remaining balance in Swiss francs instead, but this too was impossible due to West Germany's shortage of foreign exchange.²¹

In August 1951, under pressure from the US government, West Germany implemented a payment embargo on China. Transfers to the People's Republic in deutschmarks, in addition to US dollars, would be automatically blocked. The remaining balance of \$664,087.30 this was a considerable sum.²² The China Export Corporation, the East German intermediary for China and Western Europe until it was replaced by the PRC-owned China National Import Export Corporation in 1952,²³ held only \$300,000 to \$400,000 in its Swiss accounts at the time.²⁴ In October 1951, Fu Sze's Gerhard Flatow, one of Otto Wolff's representatives in the deal, was arrested by Tianjin police. Otto Wolff von Amerongen speculated that the unfulfilled barter exchange was the reason behind Flatow's arrest.²⁵ However, confirmation of this will only be possible when Chinese records on the matter become available to the public.²⁶

Flatow was imprisoned for five years, not released until the fall of 1956.²⁷ In the meantime, business continued between China and Otto Wolff, which continued to attempt to make payments. In the summer of 1952, for example, having earned the foreign exchange, Otto Wolff attempted to pay NCIC through its blocked account with the Banque de L'Indochine in Paris via the Hamburg bank Brinkmann-Wirtz. However, due to various complications of

²¹ RWWA. 72-408-3. Letter of 1 June 1951 from Arthur Fette of Otto Wolff-Köln to North China Import Corp, Tianjin.

²² Ziesemer, *Maos Deutscher Topagent. Wie China Die Bundesrepublik Eroberte*, 82.

²³ CREST. CIA-RDP79T01049A001600310002-8. "China National Import Export Corporation." 1956, p. 2.

²⁴ Ziesemer, *Maos Deutscher Topagent. Wie China Die Bundesrepublik Eroberte*, 82.

²⁵ RWWA. 72-408-3. Letter of 3 June 1952 from Otto Wolff von Amerongen to Kurt Walters.

²⁶ The story of Flatow's arrest and five-year-long imprisonment, alas, falls outside the scope of this dissertation. See Ziesemer's *Maos Deutscher Topagent. Wie China Die Bundesrepublik Eroberte* pp. 92-97 on the lack of information about Flatow's imprisonment. The rest of the book tells a thrilling tale of how, following his release from prison, Flatow served as a CCP spy, advancing the PRC's interests in West Germany.

²⁷ RWWA. 72-408-3. Sekretariat Wolff von Amerongen to Heinz Hufnagel. 22 September 1956.

international and private law, the payment remained with Brinkmann-Wirtz.²⁸ Ultimately, after many difficult negotiations between, deliveries for the remaining amount were made through East Berlin in 1952 and 1953, but for different items than originally intended.²⁹

In June 1955, Otto Wolff received word from a trading firm Jebsen & Jessen, with which it had previously done business, that authorities in Tianjin want to buy a small assortment of spare parts for chassis delivered in 1950.³⁰ Negotiations took place over the second half of 1955 with the Tianjin branch of the China National Import Export Corporation (CNIEC), who had taken over the operations previously conducted by the NCIC.³¹ By this time, trade controls had relaxed; it would be possible to sell the spare parts. West Germany's Central Export Control in Frankfurt informed Otto Wolff that it would be possible to obtain an export license for them if the firm could provide proof of the previous export of the trucks for which the spare parts were requested. However, restrictions on payment still remained. CNIEC proposed paying with a letter of guarantee through the Bank of China in London that would be redeemable after the spare parts were cleared at the final port of destination. CNIEC also wanted to be able to make claims for incorrect delivery within two months of the goods' arrival at Tianjin, should they not pass the inspection by the government acceptance office.³² Yet such terms, in which payment was conditional upon presentation of documents that the seller cannot obtain independently of the buyer, or upon customs clearance of the goods or passing inspection of their condition, was forbidden by the West German Ministry of the Economy.³³ Instead, Otto Wolff and CNIEC signed a contract for countertrade (*Gegenseitigkeitsgeschäft*) or linked trade (*Junktim-Geschäft*).

²⁸ RWWA. 72-408-3. Letter of 12 July 1952 from Otto Wolff von Amerongen to Kurt Walters.

²⁹ RWWA. 72-389-1. Dieter Flatow. "Memorandum über noch zu klärende Angelegenheiten betreffend die frühere Vertretung in China." 10 May 1955.

³⁰ RWWA. 72-389-1. Christian Albers to Otto Wolff von Amerongen. 20 June 1955.

³¹ RWWA. 72-389-1. Aktenvermerk. Betrifft: Daimler-Benz, Ersatzteile für Lastwagen und Busse. 31 August 1955.

³² RWWA. 72-389-1. Drossel to Otto Wolff von Amerongen. 18 July 1955.

³³ RWWA. 72-389-1. Drossel to Otto Wolff von Amerongen. 22 July 1955.

In countertrade transactions, the buyer pays in cash, and the seller agrees to purchase a certain quantity of goods in return. In this way, the seller's "counterpurchase" repays the cash the buyer used for the transactions. Because the purchase is conditional on the seller's agreement to make a counterpurchase, the two obligations are "linked." The seller is often allowed to select the items from an agreed upon list of goods.³⁴

Countertrade required bringing additional trade companies. Melchers and Bolland was an option for receiving and reselling the Chinese imports. On the export side, there was the French company Société de Représentations Industrielles et Commerciales (SORICE).^{35, 36} It had an office in Moscow and in constant contact with the Central Export Control, and could handle various delivery options to China, which would need to be transshipped in an Eastern European country. Neither SORICE nor Otto Wolff thought a countertrade was very practical, but they went with it because it would have a better chance of receiving government approval.³⁷

It is likely that the countertrade succeeded. In the last trace of the business, Otto Wolff expected the export license for the spare parts for Tianjin to arrive in 2-3 weeks (November 1955), because the Central Export Control forwarded the application to COCOM from Frankfurt with a positive recommendation. West German authorities were hopeful that COCOM could approve the application, because the French had recently received permission through the exceptions procedure to export a big order of galvanized steel sheets to China in

³⁴ McVey, "Countertrade and Barter: Alternative Trade Financing by Third World Nations," 200–202; Ronald J. DeMarines, *Analysis of Recent Trends in U.S. Countertrade*, 1–8.

³⁵ Laurence Badel, "France's Renewed Commitment to Commercial Diplomacy in the 1960s," *Contemporary European History* 21, no. 1 (2012): 76.

³⁶ RWWA. 72-389-1. Mutzke to Otto Wolff von Amerongen. 14 December 1955.

³⁷ RWWA. 72-389-1. Mutzke to Otto Wolff von Amerongen. 14 December 1955.

exchange for soy beans, and Japan received permission to exchange 15,000 tons of galvanized steel sheets for 400,000 tons of coking coal.³⁸

The strain of the Great Leap Forward, 1957–1959

After years of getting around CHINCOM trade restrictions by using the exceptions procedure, hiding Chinese trade through third countries in the Eastern bloc, and complaining about the deleterious economic consequences of limiting trade with the world's largest market, a coalition of US allies, led by the UK, succeeded in ending the "China differential" in May 1957.³⁹ This meant that the less restrictive COCOM controls applied instead.⁴⁰ The Chinese themselves had anticipated a relaxation of the embargo and began to lay the groundwork for increasing trade with capitalist trade partners accordingly. Already in late 1955, the CNIEC office in East Berlin, for example, indicated that they were very seriously expecting a loosening of the embargo and dangled the tantalizing prospect of buying 2000 tons of material *a month* from Otto Wolff.⁴¹

The end of CHINCOM, in turn, facilitated the signing of a semi-official Sino-West German 1957 trade agreement in September 1957, as described in Chapter 3. The China Committee for the Promotion of International Trade (CCPIT) and the Eastern Association, both organizations nominally independent of their respective governments, agreed to an exchange of goods worth 230 million DM (each way), until October 12, 1958.⁴² As a result of the agreement,

³⁸ RWWA. 72-389-1. Mutzke to Otto Wolff von Amerongen. 29 October 1955.

³⁹ Foreign Relations of the United States, 1955–1957, Foreign Aid and Economic Defense Policy, Volume X. eds. Robert J. McMahon, William F. Sanford, and Sherril B. Wells (Washington: Government Printing Office, 1989), Document 175. <https://history.state.gov/historicaldocuments/frus1955-57v10/d175>

⁴⁰ In fact, given that the capital import goals of the Great Leap Forward could hardly have been achieved without the end of CHINCOM, it is both tempting and reasonable to suspect that the Great Leap was partly a response to the relaxed trade controls.

⁴¹ RWWA. 72-389-1. Drossel on behalf of Mutzke to Otto Wolff von Amerongen. 14 November 1955.

⁴² Valeria Zanier, "Forging New Meanings of Europe. The Cross-Ideological Logic of Western Business Interest Associations (BIAs) Promoting Trade with Mao's China," *Business History*, 2022, 15.

direct trade increased from constituting only 35% of trade between the two countries to 86% by the time of its expiration.⁴³

In the trade agreement, CCPIT made certain to protect China's trade balance by stipulating that all trade occur "on the basis of equality and mutual benefit."⁴⁴ The trade agreement also stipulated that all payments be made in Deutschmarks or other currencies agreed upon by the buyer and sellers through letters of credit, unless otherwise agreed between the buyer and seller. But in truth, barter and countertrade continued to constitute a significant portion of Sino-West German trade, because the Great Leap Forward strained the PRC's already low foreign exchange supplies. In 1958, 60% of China's steel imports came from West Germany, much of it paid for in produce.⁴⁵ As the following examples show, non-cash transactions "on the basis of equality and mutual benefit" gave the Maoist trade bureaucracy additional negotiating leverage with which to protect China's interests when the Great Leap disrupted agriculture so much that China had little to export. Due to the shortages of the Great Leap Forward, China's imports from West Germany fulfilled the trade agreement, but West Germany's imports from China amounted to barely 50 million DM.⁴⁶

Claiming penalties

Trade on the basis of equality and mutual benefit, not to mention the very principle of countertrade, required West German firms to make counterpurchases equal those of the China's

⁴³ Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations During the Early Cold War, 1949-1958," 105.

⁴⁴ RWWA. 175-5-1. Handelsabkommen zwischen dem Ostausschuss der Deutschen Wirtschaft und dem China-Komitee zur Foerderung des Internationalen Handels.

⁴⁵ RWWA, 175-7-2, Letter of 27 November 1958 from O. Kees & Co. to the German Foreign Trade Information Office.

⁴⁶ RWWA. 72-382-1. Gesprächsnotiz attached to letter of 5 November 1958 from Schmitt to Otto Wolff von Amerongen.

imports. Yet the alternatives could be unsuitable, not able to be sold in the German or European market for various reasons, leaving West German firms unable to fulfill their purchase quotas. Trade contracts contained protections for such an eventuality, enabling Chinese trade corporations to claim penalties.

Such was the case when China National Machinery Import Corporation (MACHIMPORT) ordered Lorenz hobbing (gear grinding) machines from Otto Wolff. Negotiations for the deal began in the fall of 1958, during the period covered by the semi-official trade agreement.⁴⁷ When MACHIMPORT felt that Otto Wolff's countertrade terms were unsatisfactory, it exerted pressure by reminding Otto Wolff that they could "transfer our orders at any time to our other friends who is [sic] making the same kind of machines either in Germany or England."⁴⁸ In late 1958, Otto Wolff and MACHIMPORT agreed to that Otto Wolff would sell 5 gear and hobbing machines from Lorenz A.G.,⁴⁹ worth DM 1,908,011.⁵⁰ Otto Wolff, through a trading company Deufra, was obligated to make a purchase of Chinese produce of equal value. After failure to complete the purchase within four months, the time limit would be automatically extended on the condition that Otto Wolff pay a penalty of 3% of the difference. The expiration of the extended time limit, Otto Wolff had to pay another penalty of 3% of the difference.⁵¹

In October, Otto Wolff had planned to purchase egg products, feathers, groundnut kernels and groundnuts in shells, horse beans, sausage casings, apricot and peach kernels, broad beans,

⁴⁷ RWWA. 72-382-1. Letter of 19 September 1958 from Mutzke to Ruperti.

⁴⁸ RWWA. 72-382-1. FS-Eingag von CHICOMOFF Bern am 16.12.58 17,50 an OW Export Köln.

⁴⁹ RWWA. 72-382-1. Letter of 2 December 1958 from Deufra to Otto Wolff. "Gegenseitigkeitsgeschäft Lorenz Gear and Hobbing Machines gegen chinesische Landesprodukte."

⁵⁰ RWWA. 72-382-1. Letter of 29 June 1959 from Otto Wolf, China-Büro, to DEUFRA Handelsgesellschaft.

"Gegenseitigkeitsgeschäft Lorenzmaschinen gegen chinesische Landesprodukte—meine Nr. 10/6801-02"

⁵¹ RWWA. 72-382-1. Letter of 2 December 1958 from Deufra to Otto Wolff. "Gegenseitigkeitsgeschäft Lorenz Gear and Hobbing Machines gegen chinesische Landesprodukte."

and rice.⁵² By first months of 1959, none of the desired items were available. Deufra was only able to purchase silkworm pupae worth DM 80,000. By June, Deufra's purchases still left a balance of DM 88,972, which meant that the first penalty payment, 3% of DM 1,908,011, or DM 57,240.33, was due. Otto Wolff transferred this amount to Deufra's account at the Bank für Gemeinwirtschaft AG, Düsseldorf, to be forwarded to MACHIMPORT.⁵³ In July, Otto Wolff anticipated further issues with offset purchases in the immediate future and discussed delaying the payment of the second payment until the end of the year in the hope that new barter opportunities might emerge, especially at the fall Canton Trade fair.⁵⁴ The documentary trail for the settlement of the Lorenz deal ends here, but because the Otto Wolff archive appears biased toward the more complex or difficult transactions, it seems reasonable to presume that Deufra was ultimately able to fulfill the remaining balance.⁵⁵

Reducing export obligations

To protect China's balance of trade and avoid missing export obligations, the Maoist trade bureaucracy trimmed its import bill by postponing or cancelling ongoing negotiations. While this was relatively easy to do when negotiations were in the early stages, it was far more difficult when contracts were already signed. The example of a 1958–1959 oxygen plant deal illustrates

⁵² RWWA. 72-382-1. Aktennotiz für Herrn Krauss. "Reise mit Herrn Wesseloh nach Bern zwecks Einführung in die z.Z. schwebenden Otto-Wolff-Geschäfte." 11 October 1958.

⁵³ RWWA. 72-382-1. Letter of 29 June 1959 from Otto Wolf, China-Büro, to DEUFRA Handelsgesellschaft. "Gegenseitigkeitsgeschäft Lorenzmaschinen gegen chinesische Landesprodukte—meine Nr. 10/6801-02"

⁵⁴ RWWA. 72-382-2. Aktenvermerk. „VR China/Lorenz-Geschäft“ Mutzke. 1 July 1959.

⁵⁵ Beyond the limited supply of Chinese exports, there were other reasons for the difficulty in fulfilling the trade agreement. Chinese goods entered West Germany largely through Eastern Bloc states. Therefore, these were not counted towards the bilateral agreement. However, the Eastern Committee assumed that the indirect trade would count. The Chinese goods coming indirectly were priced more competitively than those exported directly. See RWWA. 72-382-1. Gesprächsnotiz attached to letter of 5 November 1958 from Schmitt to Otto Wolff von Amerongen.

how monopsonic structure of the Maoist trade bureaucracy augmented the Chinese trade corporations' market power, which it deployed in aggressive bargaining tactics in negotiations with West German trade partners. That the oxygen plant deal ultimately fell through shows how interactions of Great Leap economic disruptions and fluctuations in the world economy complicated the already convoluted process of countertrade.

In August 1958, during the height of the Great Leap import frenzy, the Qingdao branch of China Transport Machinery Import Corporation (TRANSMACH) ordered from Otto Wolff an oxygen plant from the Frankfurt firm Messer, then valued at approximately DM 1.6 million, through a countertrade agreement stipulated by a "provisional confirmation note." While Messer began production of the oxygen plant, Otto Wolff discussed counterpurchase options, such products as chemicals and frozen pork,⁵⁶ with various Chinese export corporations, none of which resulted in a sufficient order. TRANSMACH Qingdao then transferred the transaction to TRANSMACH Beijing, with whom Otto Wolff representatives met in Beijing in September. Discussions in Beijing revealed that TRANSMACH believed that it had only made a non-binding, preliminary reservation, yet by October, plant components valued at approximately DM 750,000 were ready for shipment. Messer was anxious to ship the components already manufactured. Since the discussion still had not resulted in a satisfactory purchase order, they continued in Guangzhou at the Canton Trade Fair in October.⁵⁷

In Guangzhou, Otto Wolff's Mr. Mutzke met with Mr. Wang of TRANSMACH Qingdao, who had been dispatched to the Fair with the express purpose of handling the oxygen plant sale. TRANSMACH would not accept the plant unless it was shipped along with the auxiliary

⁵⁶ RWWA. 72-382-2. China National Transport Machinery Import Corporation to Otto Wolff, Köln. 27 September 1958.

⁵⁷ RWWA. 72-382-1. Mutzke to Otto Wolff. "Sauerstoffanlage für Tsingtao." 29 April 1959.

equipment, valued at approximately DM 1.3 million, at 15% below the asking price. However, this offer was too low for Otto Wolff, so negotiations continued until the end of November, the final day of the fair on which the TRANSMACH delegation was still authorized to conclude the Qingdao deal. The negotiations nearly fell apart when Otto Wolff offered a 6% discount, but TRANSMACH insisted on 15% instead. At the very last minute, the evening of November 30, TRANSMACH and Otto Wolf signed Provisional Contract No. 8GT39551D, covering both the main plant and the auxiliary parts, for 8% below the list price. In fact, Mutzke was authorized to go as low as 9% below the asking price. As such, the TRANSMACH delegation had practiced effective bargaining skills. Nevertheless, Mutzke believed that this outcome was still “entirely acceptable” because the cost calculations included not only a standard profit margin but also a sufficient buffer to accommodate barter arrangements. The additional costs of barter arrangements would have been not insignificant for the oxygen plant deal, involving additional costs for transport and brokers.

To pay for TRANSMACH’s oxygen plant purchase, the China’s National Tea Export Corporation was to sell green tea worth at least DM 2.4 million to the firm Bolland, which had provided a list of products it was interested in buying. Bolland planned to resell the green tea to Algiers in cooperation with another firm, Hälssen & Lyon of Hamburg. However, to hedge for the possibility that the green tea deal might not be concluded before December 5, the date on which the National Tea Export Corporation was to permanently disband, Mutzke inserted an additional clause to the provisional contract, stipulating that, should a contract not be signed before December 5, he would submit a new barter list before December 20.

Indeed, the green tea deal was not finalized before December 5. Mutzke stayed in Canton until December 7 to try to conclude the tea deal with a new interlocutor, the Shanghai Tea

Corporation, which made several offers. However, changes in the global political economy rendered these offers unusable. Between the writing of the provisional contract and transfer of green tea negotiations from the National Tea Export Corporation to the Shanghai firm, Charles de Gaulle returned to power and devalued the franc to stabilize the French economic. Consequently, the buyer in Algiers, paying with depreciated francs, was unable to place an order with Hälssen & Lyon.

With the failure of the green tea deal, Mutzke submitted new counterpurchase proposals on December 19. However, none were accepted, because the desired goods were not in stock. Later, Mutzke learned that, due to the issues in agricultural production resulting from the Great Leap, already in the first quarter of 1959, no export products were available. At the fall trade fair, not even the “traditional” exports of egg products or feathers were available.

Otto Wolff thus could not fulfill its end of the countertrade exchange. To continue negotiations for the counterpurchase, Mutzke returned to China to attend the spring 1959 Canton Trade Fair, where TRANSMACH warned that Otto Wolff was in danger of breaking the contract. Should Otto Wolff fail to obtain an export license permitting the shipment of the large storage tanks, one of the main plant components, within a one-week grace period, the company would be held responsible for the losses sustained by TRANSMACH, which also reported that preliminary work for the assembly of the plant. Otto Wolff’s headquarters proposed dividing the order described in the provisional contact into two smaller contracts because it would be easier to obtain the export license if TRANSMACH Qingdao ordered the oxygen plant and TRANSMACH Beijing ordered the auxiliary equipment. TRANSMACH however doubled down against dividing the contract, explaining that it would not risk being left with an incomplete plant should one contract not be fulfilled.

Otto Wolff requested to get the export license even though TRANSMACH acknowledged that, for several reasons, provisional contract could not be breached, as it had not even come into effect in the first place. For example, the contract stipulated that TRANSMACH establish an irrevocable letter of credit for the full contract value in favor of Otto Wolff through the Bank of China. TRANSMACH, however, did not open the letter of credit. Additionally, in the event that the green tea deal fell through, another clause stated that the contract would only become effective after TRANSMACH approved of a new list for counterpurchases, which it had yet to do.

According to the German Canton Fair delegation, TRANSMACH appeared to want out of the contract because they could not provide any counterpurchase goods. Furthermore, it appeared that, to avoid making export obligations it would not fulfill, TRANSMACH had already obtained the desired oxygen plant from an Eastern Bloc country.

In the meantime, new trade regulations were put into place prohibiting the export of liquid oxygen storage tanks with capacities of 25,000 liters, the size requested in the TRANSMACH contract. Tanks with a capacity of 1,800 liters, however, were permitted. Despite these difficulties, and the impression that the Chinese wanted to get out of the deal, Messer was still interested in selling the smaller storage tanks.⁵⁸ Ultimately, however, TRANSMACH was not interested in the smaller oxygen storage tanks. With countertrade arrangement possible, no option of cash payment, and the export license for larger tanks unobtainable,⁵⁹ the oxygen deal was called off in May 1959, after ten months of negotiations.⁶⁰

⁵⁸ RWWA. 72-382-1. Mutzke to Otto Wolff. "Sauerstoffanlage für Tsingtao." 29 April 1959.

⁵⁹ RWWA. 72-382-2. Telegram of 5 May 1959 from Otto Wolff Köln to Otto Wolff Hong Kong.

⁶⁰ RWWA. 72-382-2. Telegram of 7 May 1959 from Otto Wolff Hong Kong to Otto Wolff Köln

Post-Great Leap recovery: Western grain imports and expanding exports, 1960–1969

For several years following the Great Leap famine, China's trade operations revolved around grain purchases from the West. In these grain purchases, the Maoist trade bureaucracy skillfully exploited their market position to get as many calories as they could for their cash. Sino-Soviet "friendship" had been strained since the mid-1950s, and the Great Leap Forward was a pointed rejection of Soviet leadership in socialist development. In 1960, the Soviet Union suddenly withdrew its technicians from China and was thus not considered an option for food aid.

From 1961 to 1965, grain purchases from the West cost an average of \$400 million a year.⁶¹ This is considerable given that the total imports from the non-Communist countries in 1961 was valued at \$775 million and \$1260 in 1965—that is, roughly half and a third of import spending, respectively.⁶² Because the Great Leap Forward strained both its hard currency holdings and its export capabilities, the People's Republic took on loans from the non-socialist world for the first time, but only in the form of short- and medium-term credits. Chinese foreign trade corporations of course also used their aggressive bargaining techniques and monopsonic market power to push prices down. Consequently, Maoist China avoided long-term debt and balance of payments problems from its grain purchases. In the immediate post-Leap period, 1961–62, the PRC obtained nearly \$360 million in short-term credits to finance \$630 million worth (f.o.b.) of grain imports and \$25 million in short and medium-term credits for other purchases. Because repayments were largely scheduled within 9 to 18 months, all but about \$170 million of this indebtedness was paid off by the end of 1962.⁶³

⁶¹ CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950-1965." 21 October 1966, p. 24.

⁶² CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950-1965." 21 October 1966, p. 39.

⁶³ FOIA. 0000107492. CIA Intelligence Report. "Communist China's Balance of Payments, 1950–1965." May 1966, p. 9.

The Ministry of Trade also initiated an export drive to earn foreign exchange, which it called *yijin yangchu*, or “using imports to cultivate exports.” This involved diversifying trade to import raw materials it could export as value-added finished products, mostly to southeast Asia. As with the clandestine trade work of the Korean War, the PRC’s export drive took advantage of its access to both British and Japanese colonial trade networks via Hong Kong.

Western grain credits

The previous experience turned out to be critical for the grain import program, which began in late 1960. China had made forays into purchasing foreign grain in 1955, 1957, and 1958.⁶⁴ To ship the grain, China used China Resources (CIRECO), the Hong Kong trading company founded in 1948 to support the CCP during the Chinese Civil War.⁶⁵ The Ministry of Foreign Trade chose to primarily purchase grain from Canada and Australia, noting that both countries had bumper harvests in 1960. Because they had alternating growing seasons, Canada and Australia would also be able to supply grain to China throughout the year. CIRECO already had relationships with Canadian and Australian contacts and established groups to negotiate with Canadian and Australian grain exporters.⁶⁶ Another state organization responsible for grain imports was the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (CEROILFOOD). Together, CIRECO and CEROILFOOD took advantage of the grain suppliers’ domestic political pressures and international economic pressures to negotiate lower prices and favorable loan conditions.⁶⁷

⁶⁴ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 51.

⁶⁵ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 169.

⁶⁶ Kelly, *Market Maoists: The Communist Origins of China’s Capitalist Ascent*, 171.

⁶⁷ Grain deliveries sometimes arrive to China indirectly via Albania. See Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 53.

Initially, China paid for the emergency grain imports on cash terms. Due to the bumper harvest, Canadian, Australian, and even US farm lobby groups pressured their respective governments to reduce supplies. The Australian Wheat Board agreed to sell wheat at a discount, accept payment in sterling, and begin initial shipments in late December before the contract was actually signed and payments made. CIRECO timed and publicized negotiations to maximize its leverage. On January 3, 1961, CIRECO officials arrived in Canada to negotiate contracts for wheat and barley, hoping that the publicity would also generate support from the grain lobby. The next day, China Resources officials in Hong Kong signed a contract to purchase Australian flour, hoping this would bring further attention to competition for the Chinese grain market. Around the same time, West German firms offered flour at a lower price than their Canadian and Australian counterparts had quoted. Again this was due to domestic grain surplus problems. In Germany it was both domestic overproduction and a large volume of grain imports. It appears that West Germany had been importing US wheat in order to keep their flour mills operating and exported it to China as flour, because FRG flour exports to China and grain imports from China both increased after 1960.⁶⁸

However the PRC could not sustain large cash purchases of Western grain. Finance officials in the State Council expected an estimated \$190 million shortfall in export earnings for 1961. The Ministry of Trade had no choice but to resort to foreign loans.⁶⁹ Thus, that year, China received credits from the West for the first time.⁷⁰ Between February and June 1961, China pitted grain suppliers against each other, setting off a “credit race.”⁷¹

⁶⁸ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 51–57.

⁶⁹ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 170.

⁷⁰ FOIA. 0000107492. CIA Intelligence Report. “Communist China's Balance of Payments, 1950–1965.” May 1966, p. 12.

⁷¹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 61.

The trade bureaucracy was not above bluffing in its negotiations. When the Canadian Wheat Board (CWB) visited Beijing in April 1961, for example, CEROILFOOD officials told them that in meetings with CIRECO in Hong Kong, Australian Wheat Board (AWB) negotiators offered grain at below the price extended to the UK and the European Economic Community, with payments to be made in twelve months. Both CEROILFOOD officials and Ye Jizhuang, the Minister of Foreign Trade, insisted that an AWB–CIRECO agreement had already been signed. Concerned that CWB and AWB officials would compare notes about their respective negotiations with CIRECO and CEROILFOOD, “the Chinese had ensured that, when the Canadian negotiating team left Beijing for Hong Kong, they did not meet the Australians who were en route to the PRC’s capital.” However, the Canadians later learned that the CEROILFOOD and Minister Ye had lied to pressure CWB officials into agreeing to Chinese terms.⁷²

The Canadian and Australian terms put pressure on other grain suppliers. Shortly after, in May/June 1961, for example, West German firms sold approximately 200,000 tons of flour, financed with 9 months of credits through West European banks and no down payment.⁷³ In 1962, China and France signed a grain agreement with an 18-month loan, the first commodity transaction to break the unwritten understanding that Western-aligned nations extend to China credit terms of no longer than 12 months. With this breakthrough, China threatened to pause Canadian grain imports unless the Canada agreed to improve its terms of trade and receive more Chinese textiles. As a result, the Canadian cabinet agreed to extend credit terms from 9 to 12 months.⁷⁴

⁷² Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 62.

⁷³ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 63.

⁷⁴ Mitcham, *China’s Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 95–98.

Post-Great Leap export growth

The grain imports resulted in trade deficits and strained China's hard currency supplies. Moreover, the Ministry of Trade did not expect Canada and Australia to continue to offer such favorable pricing and financing indefinitely. Therefore, in 1960, the Ministry of Trade implemented *yijin yangchu*, or "using imports to cultivate exports," by developing permanent export production "bases" that would expand and improve exports. These bases would respond to the needs of consumers in foreign markets, largely in other developing countries, and aim to deliver goods competitive in price and quality.⁷⁵

The export drive relied heavily on the colonial trade networks to which Hong Kong offered access. From 1958–1964, China's trade and commercial activity in Hong Kong contributed 47 percent of total foreign exchange earnings of \$4.7 billion. In 1965, trade through Hong Kong contributed about half of China's total earnings of foreign exchange from capitalist countries. Only a third of exports was meant for the Hong Kong domestic market. Two thirds of China's foreign exchange earnings came from exports of food, textiles, and other goods, largely to other developing countries.⁷⁶ China's trade with developing countries, with which it ran a trade surplus, almost doubled between 1959 and 1965; over half of the trade was conducted with Argentina, Indonesia, Malaysia, Singapore, the United Arab Republic, and Sri Lanka.⁷⁷ Of these, Singapore was especially important, as it handled about 80 percent of Chinese exports to the comparatively high tariff country of Malayasia, from whence the goods would be later re-exported to destinations such as Thailand. New shipping agreements with the Japanese also

⁷⁵ Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 175–76.

⁷⁶ CREST. CIA-RDP79T01003A002400020001-2. "Rise in Communist China's Earnings of Convertible Foreign Exchange from Hong Kong," September 1965, pp. 1-4.

⁷⁷ CREST. CIA. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965." 21 October 1966, p. 29.

facilitated exports to the Philippines via Japan and Taiwan.⁷⁸ A smaller portion of Chinese exports, agricultural and industrial raw materials also went to Western Europe, with which China even managed a small export surplus in 1964.⁷⁹ Between 1963 and 1965, China had a roughly \$400 million trade surplus with Hong Kong, which just about paid for grain imports from the West.⁸⁰

China also made money from commercial enterprises. The PRC's investment in and ownership of Hong Kong banks, property, and other businesses—including retail stores—increased substantially after 1963 and likely contributed significantly. US intelligence inferred this from Chinese purchases of sterling, which were much larger than could be accounted for by official Sino-Hong Kong trade statistics. In 1964, China might have earned as much as \$500 million a year through its various activities in Hong Kong.⁸¹

Domestic economic readjustment and global relaxation of trade restrictions, 1963–1969

Due to the grain import program and export drive, by 1963, for the first time since 1950, trade with capitalist countries accounted for more than half—55%—of China's foreign trade.⁸² By 1963, the Chinese economy had also stabilized enough to once again permit import of capital goods, rather than just grain. In the mid-1960s China's capital import program concentrated on complete plants for the petrochemical and steel industries. The credit race of the 1961 grain

⁷⁸ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 160.

⁷⁹ CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965." 21 October 1966, pp. 27-28.

⁸⁰ CREST. CIA-RDP79T01049A003300110001-2. "International Trade of Communist China, 1950–1965." 21 October 1966, p. 30.

⁸¹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 160.

⁸² FOIA. 0000107492. CIA Intelligence Report. "Communist China's Balance of Payments, 1950–1965." May 1966, p. 12.

purchases established a precedent for financing these imports. In addition to cash payments, China began to take on thinly disguised loans called “deferred payment” schemes.

As with the credits for grain purchases, Maoist trade bureaucracy avoided indebtedness and balance of payments problems by only accepting short- and medium-term credits for the “deferred payment” schemes. These credits were extended by suppliers; that is, Japanese and Western European firms, not the Chinese foreign trade corporations, were the ones with direct obligations to commercial banks. Chinese foreign trade corporations, therefore, assumed rather little risk these loans. Its trade partners were willing to offer “deferred payment” because, with Europe facing economic slowdowns in the 1960s, competition for the Chinese market only intensified.

Additionally, to avoid developing a dependence on any one country for technology (as it had previously with the Soviet Union), China split its purchases between many suppliers. In the 1960s, 30% of its complete plant business went to Japan, 25% to West Germany, 20% to the United Kingdom, and the rest went to other European countries.⁸³ Barter and countertrade continued in the 1960s, but infrequently. In 1967, a Hong Kong company facilitated such exchanges as frozen Chinese pork for West German trucks.⁸⁴

Even with the new financing method of deferred payments and increased export revenue, the capital imports put pressure on hard currency holdings. By 1966, the PRC’s balance of payments position was tight.⁸⁵ To prevent further strain on its payment capabilities during the economic disruptions of the Cultural Revolution, the Ministry of Trade canceled or postponed projects and restricted imports only to those deemed strategically essential.

⁸³ CREST. CIA-RDP86T00608R000500200025-9. “China’s Industrial Plant Import Program.” December 1975.

⁸⁴ RWWA, 72-459-4 Walter M. Sulke to Otto Wolf von Amerongen, 24 June 1967.

⁸⁵ FOIA. 0000107492. CIA Intelligence Report. “Communist China’s Balance of Payments, 1950–1965.” May 1966, p. 16.

Deferred payments and leveraging international capitalist competition

Canadian and Australian grain credits paved a new way for China to finance its foreign technology purchases. After receiving grain credits, short- and medium-term loans with terms of up to five years euphemistically called “deferred payments” followed. Between 1961 and 1965, 60% of grain, 14% of capital equipment, and 39% of fertilizer imports were financed in this way. China tended to avoid long-term term credits due to uncertainty over its long-run hard currency payments prospects and the higher interest charges associated with long-term borrowing.⁸⁶

Rather than borrow directly from a bank, Chinese trade corporations received credits from their suppliers. Deferred payments typically included a roughly 20% down payment and subsequent payments made over a five-year period after the plant is completed. 6% annual interest is included in the purchase price.⁸⁷ Between 1961 and 1965, the credits drawn amounted to almost \$1.4 billion. Most of them involved government guarantees to commercial banks.⁸⁸

Due to US pressure, West Germany was, compared to Austria, the UK, and France, slow to offer government guarantees. Until 1965, when Bonn approved extending Hermes guarantees to exports headed to China, West German firms took on all the financing risks themselves. The lack of government-backed credits limited suppliers to offering only short-term loans for smaller amounts.⁸⁹

⁸⁶ CREST. CIA. RDP79T01003A002500110001-1. “The Role of Credits in Chinese Communist Purchases from the Industrial West and Japan.” 1966, p. 1-3.

⁸⁷ Hans Heymann, Jr., *China’s Approach to Technology Acquisition: Part III—Summary Observations*, 39.

⁸⁸ CREST. CIA. RDP79T01003A002500110001-1. “The Role of Credits in Chinese Communist Purchases from the Industrial West and Japan.” 1966, p. 3.

⁸⁹ Ching, “Trade Without Flag: West Germany and China 1949–1972,” 241–42; He, “From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972,” 541–42.

From the beginning of the mid-1960s complete plant imports, the Maoist trade bureaucracy leveraged increasing international capitalist competition for the Chinese market to secure the most favorable payment schemes and receive supplier's credits when possible. This is evident in what was likely China's first purchase of a Western cracking unit and extraction plant, which would produce a wide range of petrochemicals—perhaps most importantly, plastics.⁹⁰ In the spring of 1964, Dai Nippon/Nichibo lobbied the Japanese government to extend a long-term (more than five year) Ex-Im Bank credit guarantee to enable it to sell China National Technical Import and Export Corporation (TECHIMPORT) a vinylon plant larger than the one for which it had already signed a contract.⁹¹ When it appeared that the Ikeda government was going to walk back advances in deepening trade with China, TECHIMPORT suddenly agreed to purchase its first West German industrial plant, a perlon nylon synthetic fiber plant worth \$1.75 million from Uhde, entirely financed by a medium-term supplier's credit. That same month, 1964, TECHIMPORT purchased a West German oil cracking and olefin separation plant from Lurgi for \$12.5 million, financed by six-month credits.⁹² The diverted business put pressure on the Japanese government to reconsider Ex-Im Bank financing for trade with China.⁹³

TECHIMPORT similarly pitted competitors against each other in negotiations for a 1965 contract for a \$12 million steel converter plant, China's first large purchase of Western steel production equipment.⁹⁴ Already in 1963, the CCPIT had held in Beijing initial discussions with representatives of Vereinigte Österreichische Eisen-und Stahlwerke (VÖEST), the Linz-based firm

⁹⁰ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 135.

⁹¹ The Liao-Takasaki Memorandum, signed November 9, 1962, had already permitted Chinese traders to import Japanese goods using a deferred payment structure that relied on credit from the Bank of Japan. Kelly, *Market Maoists: The Communist Origins of China's Capitalist Ascent*, 179.

⁹² Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 135.

⁹³ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 119, 135.

⁹⁴ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 182.

that had developed the Linz-Donawitz (L-D) steel production technology in 1949.⁹⁵ In 1964, the CCPIT announced to the press that the Chinese were particularly interested in acquiring L-D technology, as its construction and production costs for which were about 30% and 60% respectively lower than for open hearth plants of equivalent capacity. Yet throughout 1965, CNITC conducted serious negotiations with the West German steel company Krupp along with VÖEST. TECHIMPORT requested Krupp agree to payment terms involving a 10% down payment, additional payments totaling 35% spread across various stages of shipping and construction, and the remaining 55% paid over a five-year period at 5.5% interest. When Krupp could not extend such terms, as the West German government would not approve them, TECHIMPORT replied that its Japanese partners offered five-year long supplier's credits at 6% interest.⁹⁶ Amid concern for the Austrian economy, wariness of France's diplomatic recognition of the PRC, and of recent developments in Sino-West German trade, Austria extended government-backed five-year credits, even though it possessed limited capital compared to its Western European neighbors. Thus VÖEST could offer a supplier's credit, and Krupp lost the contract.⁹⁷

The structure of cash payments

While China succeeded in financing its capital imports through deferred payments, it paid for the vast majority in cash. China became known for being prompt in payment.⁹⁸ A 1964 deal for more than 30 million DM worth of marine diesel engines illustrates both the structure of such cash transactions, terms of which favored the Chinese foreign trade corporation.

⁹⁵ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 149.

⁹⁶ He, "From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972," 541–42.

⁹⁷ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 141, 182.

⁹⁸ Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 146.

In November 1964, China National Machinery Import and Export Corporation (MACHIMPEX), the successor of the China National Machinery Import Corporation (MACHIMPORT), ordered 200 marine diesel engines manufactured by Maybach Mercedes-Benz from Otto Wolff. Along with additional parts, the entire deal was worth DM 33 million.⁹⁹

To distribute the risk of production, delivery, and payment issues, the deal was split into two nearly identical contracts. The main risk was that the engines and transmissions would be added to the COCOM blacklist within the next two years of the deal, necessitating the application for, and denial of, a special license.¹⁰⁰ The first contract was for 100 engines, with a net value of 16,096,759.90 DM. Delivery would be spread out from June 1965 through the end of May 1966.¹⁰¹ The second contract, also for 100 engines, had a net value of 15,231,081.40 DM. Otto Wolff was to ship 12 to 18 sets of engines per month, before May to December 1966.¹⁰² Both contracts included a 11% discount and calculated for f.o.b. Hamburg and included seaworthy packing charges.

Both contracts stipulated that MACHIMPEX make an advance payment of 10% of the value of the shipment, but only after Otto Wolff opened an irrevocable letter of guarantee issued by Deutsche Bank, Köln, guaranteeing the return of the advance payment with a 6% annual interest rate from the date of the receipt of the advance payment in the event of the cancellation of the contract. Upon receipt of shipping advice from Otto Wolff, MACHIMPEX would open an irrevocable letter of credit with the Bank of China, Beijing, for 90% of the total value of the

⁹⁹ RWWA. 72-691-8. Beiliegende Verträge abgeschlossen am 10. November 1964 für Otto Wolff mit der China National Machinery Corp. in Peking über die Lieferung von 100 resp. 200 Maybach Dieselmotoren mit Zubehör. 12 November 1964.

¹⁰⁰ RWWA. 72-691-8. Letter of 23 November 1964 from Count Schulenburg, Cologne to W. M. Sulke, Hong Kong. "Betr.: Lieferung von 200 Maybach-Motoren mit Gebtriebe und Zubehör nach der VR-China."

¹⁰¹ RWWA. 72-691-8. Contract No. 4MCT11602 D between China National Machinery Import and Export Corporation and Otto Wolff-Köln. 10 November 1964.

¹⁰² RWWA. 72-691-8. Contract No. 4MCT11604 D between China National Machinery Import and Export Corporation and Otto Wolff-Köln. 10 November 1964.

shipment. Otto Wolff would first open an irrevocable letter of guarantee indicating the return of
Within 10 days after signing the contract, the TECHIMPORT would present an irrevocable letter
of guarantee issued by the Bank of China, Beijing, stipulating that “for the balance of 90% of the
total value of this Contract L/Cs will be opened for each part shipment, 20-25 days prior to the
date of delivery until complete delivery has been made.”¹⁰³

Curtailed trade during the Cultural Revolution

Post-GLF recovery and readjustment did not last long, as the Chinese economy experienced
upheaval once again, this time due to the Cultural Revolution. The years-long negotiations,
running from 1965 to 1968, for a state-of-the-art steel rolling mill complex during this period
illustrate both how important the Chinese market had become for beleaguered industrialists of
the capitalist world and how China trimmed its import bill when domestic political and economic
conditions were unfavorable.

Beginning in 1965, TECHIMPORT solicited offers from rival West European and
Japanese consortiums¹⁰⁴ to provide equipment, technology and engineering services for a steel
complex project in Wuhan. The project was worth at least 600 million DM, or \$150 million, and
would be largest purchase by the PRC since its founding.¹⁰⁵ As such, competition for project was
fierce, and to support the struggling West German steel industry, Bonn decided to approve

¹⁰³ RWWA. RWWA. 72-691-8. Contract No. 4MCT11602 D and Contract No. 4MCT11604 D between China
National Machinery Import and Export Corporation and Otto Wolff-Köln. 10 November 1964.

¹⁰⁴ The Chinese must have realized that it would be useful to do business with such consortiums because, when
working together, powerful business interests wielded even greater international political influence which could help
further erode the China trade controls. See Mitcham, *China's Economic Relations with the West and Japan, 1949–
1979: Grain, Trade, and Diplomacy*, 184–85.

¹⁰⁵ CREST. CIA. RDP79T01003A002500110001-1. “The Role of Credits in Chinese Communist Purchases from the
Industrial West and Japan.” 1966. Summary.

Hermes government guarantees¹⁰⁶ of five years for exports to China.¹⁰⁷ This appear to have helped, as TECHIMPORT signed contracts for an air liquefaction and separation plant from Wiesbaden's Linde and a cold strip rolling mill from Düsseldorf's Schloemann. The equipment was likely associated with the Wuhan complex, indicating that the consortium led by the West German firm DEMAG won the project.¹⁰⁸ In March 1966, TECHIMPORT's negotiations with DEMAG reached a final stage, and the German government approved a Hermes guarantee of 300 million DM, or \$87 million, to cover the West German portions of the contract.^{109,110} Negotiations began to stall, as beginning in the summer of 1966, the Chinese Ministries of Foreign Trade and Foreign Affairs had, in the run up to the Cultural Revolution, stopped work on foreign economic relations and focused instead on Maoist ideological study.¹¹¹ In the fall, the Chinese government suspended all foreign imports of non-essential equipment, and in September 1966, TECHIMPORT told DEMAG executives that the steel-rolling plant project had been postponed indefinitely.¹¹² Negotiations resumed in April 1967, but fell apart.¹¹³ They resumed once again in May 1968, but failed due to divergent price expectations. Later, it became evident that that Chinese were experiencing coordination issues, likely due to the Cultural Revolution.¹¹⁴

¹⁰⁶ The Hermes Guarantee, a measure developed after WWII to support the export sector, stipulated that if foreign purchases were not able to pay for West German deliveries, the government would cover part of the loss. He, "From the Berlin Wall to the Great Wall: Payment Transactions and Financing of Business between West Germany and Communist China, 1949 to 1972," 542.

¹⁰⁷ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 185; Ching, "Trade Without Flag: West Germany and China 1949–1972," 245.

¹⁰⁸ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 184–85.

¹⁰⁹ *The New York Times*, "3 Senators Urge Protest to Bonn, Demand U.S. Condemn Sale of Steel Mill to China"; Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 185.

¹¹⁰ Internal sources suggest the value was close to 690 million DM. See RWWA. 72-388-4. TECHIMPORT-DEMAG Aktiengesellschaft Konsortialangebotspreise Stand: Febr. 1966.

¹¹¹ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 188.

¹¹² Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 193, 196.

¹¹³ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 198.

¹¹⁴ Louven, "Bilaterale Außenwirtschaftsbeziehungen Zwischen Der Volksrepublik China Und Der Bundesrepublik Deutschland," 769.

After China restricted trade only for essential goods, agricultural technology constituted the majority of imports. Here, too, China took advantage of capitalist competition. Chinese purchases of chemical fertilizer were so large that in October 1966, Japan and Western European producers made an agreement to maintain a floor on prices. However, the prospect of exports to China were so alluring that in November 1967 NITREX, the West European consortium, in which West German firms dominated, violated the agreement. NITREX agreed to sell 3 million tons of fertilizer at a price much lower than the established with JASEA, the Japanese consortium. Because the Liao-Takasaki Trade Agreement was due to expire in November 1967 and Japanese elections were imminent, the Chinese realized they had a lot of bargaining power. So, after securing the NITREX deal, the Chinese successfully demanded that JASEA sell them another 1.5-2 million tons at the same low price.¹¹⁵

Deepening global economic integration, 1970–1976

Domestic and international conditions facilitated the resumption of China's foreign trade on a large scale from the early to mid-1970s. The worst of the Cultural Revolution ended in 1969, enabling the trade bureaucracy to return to more systematic trade planning and economic activity. The same year, Sino-American relations began to thaw. In October 1971, the United Nations officially recognized the People's Republic. Just a few weeks later, Lin Biao, the leader of a political faction opposed to increasing foreign trade (and Mao's presumed successor) died in a plane crash. This enabled the moderates led by Zhou Enlai and Yu Qiuli of the petroleum faction to embark on another wave of capital imports (see Chapter 4). The Four-Three Program would increase China's domestic production of grain, fertilizer, steel, and cotton with complete

¹¹⁵ Mitcham, *China's Economic Relations with the West and Japan, 1949–1979: Grain, Trade, and Diplomacy*, 197.

plant purchases to boost China's electric power, metallurgical, and petrochemical industries.¹¹⁶ Between 1970 and 1977, China's imports from non-Communist countries totaled \$33.6 billion, roughly \$6 billion of which were industrial plants, transport equipment, specialized machinery, and scientific instruments. These imports also entailed technical assistance in the form of over 3,000 experts providing help on the ground in China, and more than 2,500 Chinese receiving training abroad.¹¹⁷

The Four-Three program did result in a trade deficit, which became a focus of the intra-party power struggles during the mid-1970s. While the conflict prevented coherent economic planning, the Ministry of Trade worked quickly to reduce the deficit to ensure that China's foreign debt position was "kept well within safe limits." Even with the huge Four-Three import program, trade never went beyond 6 percent of GNP, "a small share even for a large country like the PRC."¹¹⁸

The trade bureaucracy continued to protect China's balance of payments position by aggressively pushing down prices and only accepting short- and medium-term deferred payment schemes. Deferred payments, or supplier's loans, continued on a much larger scale than it did during the mid-1960s and financed much of the complete plant imports. In 1973, more than \$760 million of the \$1.3 billion worth of plants was financed by suppliers' credits; in 1974, about \$550 million of the \$884 million was financed under medium-term credits.¹¹⁹ As during the Great Leap and Cultural Revolution, the Ministry of Trade also cut back on imports when its balance of payments position.

¹¹⁶ China continued to need to import grain, which were paid for with short-term credits of six to 18 months. CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 5.

¹¹⁷ CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 4-5.

¹¹⁸ CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 7.

¹¹⁹ CREST. CIA. CIA-RDP86T00608R000500200025-9. "China's Industrial Plant Import Program." December 1975.

The 1970s also introduced two new methods for earning and conserving foreign exchange. First, the Ministry of Trade initiated a second export drive, this time benefitting from increased domestic production capacity—and international demand—for petroleum amid the 1973–1974 OPEC oil shock. Second, a new method of conserving foreign exchange also emerged from the collapse of the Bretton Woods system in 1971: payment in *renminbi*.

Payment in renminbi

Following the 1970–1971 crisis of fluctuating values of the German mark and the Swiss franc, the Chinese negotiated the use of both pounds sterling and Chinese *renminbi* in trade with the British. At the time, *renminbi* was recognized as strong, stable, currency and China had an impeccable record of trade payments, making it a welcome form of payment.¹²⁰ Use of *renminbi* rapidly expanded to transactions with other countries. In the case of West Germany, the first official trade agreement with the PRC in 1973 permitted payment in *renminbi* in addition to the German mark or other freely convertible currencies.¹²¹ By the fall of 1974, the use of *renminbi* was reportedly stipulated in many of China's trade contracts with more than sixty countries.¹²²

Renminbi payments in common for projects with the Japanese,¹²³ which constituted more than one-third of the complete plant purchases.¹²⁴ *Renminbi* payment terms were also combined with other financing methods. For example, a \$26 million joint Japanese-West German project contract signed in March 1973, with delivery/construction from 1974–1976, comprising an ethylene vinyl acetate plant and polyvinylalcohol plant. The Japanese Ex-Im/Commercial Bank financed the deal for the Japanese side with Kuraray Industries. A 30% down payment, and 70%

¹²⁰ Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 146.

¹²¹ RWWA. 175-41-1. *Agreement between the Government of the Federal Republic of Germany and the Government of the People's Republic of China on Trade and Payments*. 1973.

¹²² Hsiao, *The Foreign Trade of China: Policy, Law, and Practice*, 146.

¹²³ Hans Heymann, Jr., *China's Approach to Technology Acquisition: Part III—Summary Observations*, 52–63.

¹²⁴ CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 4.

in 10 semiannual installments in *renminbi* over 5 years at 6% interest per year beginning after the final shipment. Bayer, the contracted West German company, received a lump sum payment directly from the PRC.¹²⁵

Export expansion and China's petroleum industry

To boost export earnings, the China invested in upgrading both production and transportation infrastructure. Before the 1970s, foreign importers tolerated Chinese goods' "deficiencies in style, quality, and delivery schedules" because of their low prices. Beginning in 1972, however, the Ministry of Trade told manufacturers to increase the quality and packaging of their products. Chinese trade delegations advertised the improved exports when during visits to the growing number of Western countries recognizing the PRC and through overseas trade fairs.¹²⁶

As it had in previous decades, the Maoist trade bureaucracy continued to emphasize that trade had to follow the principle of equality and mutual benefit. Following a 1973 meeting with Zhou Enlai, for example, a West German trade representative relayed to fellow industrial leaders to take the Chinese desire for an equal balance seriously. He even implied that West German partners had to be willing to pay above market price for Chinese goods, noting that even the Japanese, China's top trade partner, had to resort to such measures: the Japanese paid exorbitant prices for Chinese wares at the 1973 Canton Trade Fair.¹²⁷ Similarly, during the first meeting of the German-Chinese Joint Commission in 1974 in Bonn, Sun So-chang, the Deputy Director at the Ministry of Foreign Trade, repeatedly brought up with Ambassador Dr. Hermes that the

¹²⁵ Hans Heymann, Jr., *China's Approach to Technology Acquisition: Part III—Summary Observations*, 61.

¹²⁶ CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 5.

¹²⁷ RWWA, 175-46-1, Eindrücke und Erfahrungen einer Reise in die Volksrepublik China im Frühsommer 1973, pp. 9-10

importance of maintaining an equal balance of trade. At the time, China's exports to West Germany amounted to roughly half the value of its imports from West Germany.¹²⁸

To handle to higher trade volume, China also launched a major port improvement program and expanded its international fleet. The value of China's exports to the non-Communist world grew from \$1.6 billion in 1970 to \$6 billion in 1976. While these prices were inflated due to global price increases, the rise in exports was still significant, roughly doubling over this period. In fact, there was global demand for even more; in 1973, *Xinhua*, China's state-run news agency, reported that Chinese production was insufficient to meet the demands of its growing foreign trade. The most profitable of these exports was crude oil,¹²⁹ which benefited from the global rise in oil prices in 1973. Oil soon contributed significantly to export earnings, largely due to sales to Japan. In 1975, it made up 11% of export earnings.¹³⁰

Big projects, multiple payment terms: The Wuhan steel complex

The most expensive complete plant purchase of the Four-Three program was the roughly \$500 million Wuhan steel complex, revived after negotiations for it failed in 1968.¹³¹ Its construction and payment terms illustrate not only the new scale of deferred payment financing of the 1970s, but also how China continued to practice self-reliance by avoiding dependence on any one supplier.

Negotiations for the Wuhan steel complex restarted after West Germany and China's first official trade agreement, signed in July 1973. As in the mid-1960s, rival West European and

¹²⁸ RWWA. 175-79-3. "Erste Tagung der deutsch-chinesischen Gemischten Kommission am 10. und 11. Juni 1974 in Bonn.

¹²⁹ Daqing, the oil complex discovered and constructed in the 1960s, produced much of this oil. See Wei, *Oil in China: From Self-Reliance to Internationalization*, 128–29.

¹³⁰ CREST. CIA-RDP80T00702A000200060012-0. "China: Foreign Trade Policy in the 1970s." August 1978, p. 5.

¹³¹ Hans Heymann, Jr., *China's Approach to Technology Acquisition: Part III—Summary Observations*, 52–63.

Japanese consortia competed for the project. During negotiations, TECHIMPORT cited the competitors' prices, until in a "typically Chinese comprise," it awarded the West European consortium, led by DEMAG, the cold steel rolling mill in March 1974, and Japanese consortium, led by Nippon Steel, the hot steel rolling mill, in May-June 1974.^{132,133}

TECHIMPORT did not ask for any supplier credits from the DEMAG consortium.¹³⁴ Instead, TECHIMPORT paid for the \$198 million cold steel rolling mill through progress payments. TECHIMPORT transferred 90% of the purchase price in DM to Deutsche Bank/Duisburg. 10% of the down payment was released from this initially, another 10% installment after 9–10 months, and the remaining 70% paid out over the 13th through 33rd months. The final 10% was paid in two installments of 5%, the first after the conclusion of performance tests and verified material guarantees. The final installment was due March 1979.¹³⁵ The steel complex added roughly 25% to China's rolled steel capacity.¹³⁶

While previous Sino-Japanese contracts were denominated and payable in *renminbi*, the Nippon Steel contract for the \$228.5 million hot-rolled steel-sheet and strip mill department was denominated and payable in yen, likely as a condition of Nippon Steel's competitive pricing. The terms involved a 10% deposit, 20% to be paid on shipment, 10% upon trial operations, and the remaining 60% reportedly paid through deferred payments.¹³⁷

¹³² Louven, "Bilaterale Außenwirtschaftsbeziehungen Zwischen Der Volksrepublik China Und Der Bundesrepublik Deutschland," 770.

¹³³ In fact, China rejected a lower-price offer from US firms, because the United States had not yet extended official diplomatic relations. Gong, "Computers for China," 2025, 392.

¹³⁴ RWWA. 72-1428-11. Letter of 10 May 1973 from Schaefer to Wolff. "China-Reise von Herrn Dr. Herrhausen."

¹³⁵ Hans Heymann, Jr., *China's Approach to Technology Acquisition: Part III—Summary Observations*, 52–53.

¹³⁶ Louven, "Bilaterale Außenwirtschaftsbeziehungen Zwischen Der Volksrepublik China Und Der Bundesrepublik Deutschland," 770.

¹³⁷ Hans Heymann, Jr., *China's Approach to Technology Acquisition: Part III—Summary Observations*, 54.

In addition to these two main projects, TECHIMPORT made supplemental plant and equipment purchases that it also split between two other West European and Japanese consortia. From the West European consortium DEMAG, Mannesman, and Switzerland ConCast, TECHIMPORT purchased a \$58 million continuous casting mill, financed with progress payments. From the Japanese consortium comprising Kurita Water Industries and Chiyoda Chemical Engineering and Construction, TECHIMPORT signed a \$65 million contract for a surface water recirculation and disposal plant; transformers; a desulfurization plant for coke oven gas; and related steel construction materials and pipes.¹³⁸

Trimming the import bill

The Four-Three program resulted in an unexpectedly high trade deficit with the West. The global economic crises of the early 1970s led to inflated prices for imports on the one hand and depressed demand for Chinese exports on the other. By 1973, Beijing had committed to \$1.3 billion in whole plant contracts, placing considerable strain on its financial resources. In the second half of the year, bulk repayments on 1973 grain credits fell due and a global recession constricted the market for Chinese exports. The hard currency trade deficit soared to \$440 million—over five times the previous year’s surplus—sustained largely by credit financing.

In response, the Ministry of Foreign Trade canceled contracts, delayed agricultural deliveries, and scaled back machinery and equipment purchases. However, these measures only limited the damage: the trade deficit with the West surged to a record \$1.2 billion in 1974. In 1975, trade bureaucracy followed with an even deeper retrenchment of trade. Improved harvests also reduced the need for agricultural imports, while increased oil deliveries offset declines in

¹³⁸ Hans Heymann, Jr., *China’s Approach to Technology Acquisition: Part III—Summary Observations*, 54.

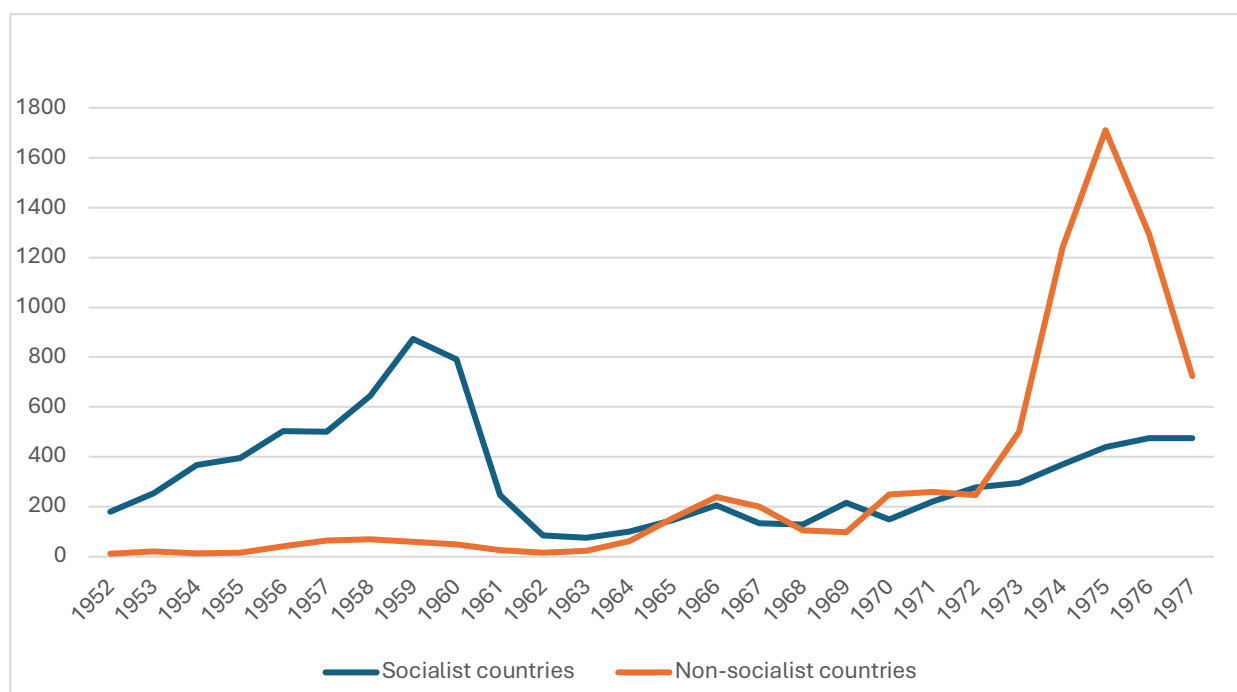
traditional exports to recession-hit Western markets. This allowed China to halve its hard currency deficit, alleviating some balance-of-payments pressure.

In 1976, the last year of the Maoist period, imports continued to decrease while exports continued to rise. The trade bureaucracy planned to continue to restrict imports. Intra-party struggles disrupted drafting a new five year plan for 1976–1980 and prevented the Ministry of Trade from formally articulating this policy.¹³⁹ Nevertheless, reduced import volumes continued in practice due to both the leadership struggles and, subsequently, mourning for Chairman Mao, Zhou Enlai, and Zhu De, which caused suspension of trade negotiations at various periods. Exports also recovered, aided in part by economic recovery in developed countries. As a result, the Maoist period ended with a \$900 million trade surplus and a \$745 million hard currency trade surplus with non-Communist countries.¹⁴⁰

¹³⁹ CREST. CIA-RDP80T00702A000200060012-0. “China: Foreign Trade Policy in the 1970s.” August 1978, p. 5-6.

¹⁴⁰ CREST. CIA-RDP79B00457A000600050001-2. “China: A Year of Rebuilding in Foreign Trade.” July 1977, p. 1.

Figure 4.1: China's imports of machinery and equipment, 1952–1977 (millions, USD)



“Machinery and equipment” as defined by section 7 (Machinery and Transport Equipment) of the Standard International Trade Classification), which differ from the Soviet classification of machinery, equipment, and transportation facilities. Prices are f.o.b country of origin.

Source: A. Doak Barnett, *China's Economy in Global Perspective* (Brookings Institution, 1981), 190.

Conclusion

China's “mercantilist, semi-withdrawal” from the world economy was not just a means of protecting itself from capitalist imperialism, it was also externally imposed by the United States.

This created numerous challenges to the acquisition of much-needed technology from the capitalist world. Nevertheless, the monopsonic Maoist trade bureaucracy took advantage of robust competition between suppliers to trade according to the principle of “equality and mutual benefit.” The PRC avoided long-term debt and balance of payments problems by aggressively pushing down prices, engaging in barter and countertrade exchanges, accepting only short- and medium-term deferred payment schemes/supplier's loans (and never taking on debt from

commercial banks), paying in *renminbi*, and scaling back on imports when trade deficits got high. The Maoist period achieved rapid industrialization and concluded with a hard currency trade surplus with capitalist countries and a stable balance of payments position.

Would this be possible for other developing countries? Maoist China derived its leverage in trade not just from the size of its domestic market, but also the concentration of its purchasing power into a centralized, monopsonic trade bureaucracy. As few economies can boast markets as large China's, regional cooperation between developing countries could boost their positions in the world economy.

Is Maoist China's trade experience *desirable* for other countries? The Maoist regime squeezed resources from the only source available to it: the Chinese population. In the quest to avoid external obligations, it demanded that its urban citizens accept ascetic consumption levels and its rural citizens, the vast majority of the population, to fulfill punishing—and during the Great Leap Forward, even fatal—production quotas. The regime achieved this through a combination of propaganda and coercion. As discussed in Chapters 1 and 2, authoritarian politics was essential for the implementation of self-reliant trade. Such an arrangement can hardly be recommended. Should the international community organize a means to deliver development assistance without incurring dependence, however, the brutality of Maoist China's mercantilist, semi-withdrawal from the world system might be discouraged.

Conclusion | The particularities and implications of Maoist China's self-reliant trade

Developing countries have long sought to reap the rewards of participation in global markets while avoiding its pitfalls. By trading with more technologically advanced countries, developing countries can acquire productivity-enhancing inputs that promote economic growth. However, such trade can also expose developing countries to external shocks and to influence from foreign economic and political actors whose interests run counter to their own. In the postwar period, “late late” developers attempted to mitigate the risks of trade by pursuing some form of ISI, shifting the composition of from consumer to capital goods. Nearly all of them, from both the Third and Second Worlds, ended up with balance-of-payments problems and in debt crises in the 1980s. Lack of bureaucratic capacity internally constrained cultivation of domestic industry while global economic fluctuations externally limited foreign exchange earnings and increased dependence on external loans.¹⁴¹ To address their economic problems, developing countries accepted debt servicing from international financial institutions in return for structural adjustments. However, the dissolution of ISI renewed dependence on primary product exports, diminished economic sovereignty, and ultimately reversed decades of development. Due to their regional histories and positions in Cold War geopolitics, the Northeast Asian developmental states enjoyed uniquely favorable internal and external conditions for economic “catch-up” and formed rare examples of ISI success.¹⁴²

This dissertation has addressed a puzzle infrequently included in the comparative analysis of ISI: that of Maoist China's achievement of “self-reliance.” During the Maoist period (1949–

¹⁴¹ Bruton, “A Reconsideration of Import Substitution,” 923–26; Stallings et al., “International Influence on Economic Policy,” 49–52.

¹⁴² Öniş, “The Logic of the Developmental State”; Stubbs, “The Origins of East Asia's Developmental States and the Pressures for Change.”

1976), China was exceptional in avoiding balance-of-payments problems and long-term external debt—to which even the exemplar developmental state South Korea eventually succumbed—despite seeming to lack facilitative internal and external conditions for development. To address the puzzle of self-reliance, I reevaluated Maoist China’s conditions of development and identified the historically specific internal and external factors that made it possible.

I argued that the state-formation and state-building processes of the People’s Republic China interacted with global capitalism’s expansionary logic to enable Maoist self-reliant trade. First, I showed that from the founding of the CCP through the turbulence of the high socialist, or late Maoist period, intra-elite, intra-party/intra-state, and party-society/state-society relations generally hinged on the ideological and strategic importance of avoiding external dependencies. Domestic politics thus facilitated relatively high capacity for the trade bureaucracy even as it constrained domestic economic governance. Second, I showed that overcapacity in the capitalist core, exacerbated by Cold War foreign trade restrictions enacted by both sides of the Iron Curtain, enabled Maoist China to exercise market power in trade with its suppliers. In sum, Maoist China’s economy was organized around avoiding external dependencies, while the structure of capitalism during the Cold War created historically specific opportunities for favorable trade terms. In what follows, I reconstitute my analytical approach and findings. Then, I draw out the implications of the Maoist China’s ISI experience for development studies and policy.

Explaining the puzzle of Maoist China’s self-reliance

Maoist China’s achievement of self-reliance is puzzling because the internal and external conditions of Chinese economic development appeared hostile to ISI, contradicting theories of

development. Maoist China successfully implemented ISI despite a less-than-Weberian economic bureaucracy and economic and geopolitical isolation from technology suppliers in the industrialized, capitalist core. Yet China imported goods from the capitalist world even during the height of US-led trade restrictions in the early 1950s; and, in the 1960s and 1970s, trade with US allies far outstripped trade with socialist countries. Furthermore, when foreign trade expanded during the 1970s, China did not suffer the downturns of the decade like much of the rest of the global economy. Ultimately, Maoist self-reliance left reform-era China with a stable balance-of-payments situation and no long-term external debts, providing both an industrial base and the autonomy to experiment with market liberalization without interference from foreign interests.

Reprise of my analytical framework

Internal explanations of development outcomes examine the strength or weakness of state institutions. Theories of the developmental state have been particularly influential in the explanation of ISI outcomes. The ideal-typical developmental state, theorized from the ISI experiences of capitalist Northeast Asia, possesses a centralized, meritocratic bureaucracy that is simultaneously embedded in and autonomous from society.¹⁴³ Maoist China's economic bureaucracy, however, did not resemble that of the Northeast Asian developmental state.

To reevaluate the internal conditions of Maoist trade capacity, I disaggregated the Maoist economic bureaucracy to examine the uneven distribution of institutional capacity, or varying periods of performance, between the trade and planning bureaucracies. Synthesizing insights

¹⁴³ Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*; Öniş, "The Logic of the Developmental State"; Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences"; Evans and Rauch, "Bureaucracy and Growth: A Cross-National Analysis of the Effects of 'Weberian' State Structures on Economic Growth"; Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*; Chibber, "Bureaucratic Rationality and the Developmental State."

from theories of pockets of effectiveness (PoE) and of developmental states, I evaluated the intra-elite, intra-state, and state-society relations that favored longer and more stable periods of performance of the trade bureaucracy than of the planning bureaucracy.¹⁴⁴ Following the historical approach of both PoE and developmental state literatures, I traced the development of these relations through the processes of state formation and state building.

External explanations of development outcomes examine states' geopolitical and market positions within the global political economy. Not coincidentally, the Northeast Asian developmental states enjoyed facilitative external conditions for ISI, occupying favorable structural positions because their economic development served the strategic interests of the postwar hegemon, the United States.¹⁴⁵ In contrast, Maoist China's economic development constituted a strategic threat to capitalist Northeast Asia.

To reevaluate the external conditions of Maoist self-reliance, I drew upon theories of uneven and combined development. Combining their insights created a global, structuralist framework to analyze China's and its capitalist suppliers' positions in the global economy. These approaches implied that Cold War geopolitics intensified competition in the capitalist core, which was already prone to overcapacity because of the expansionary tendency of capital. Developing countries, whose markets presented a spatial-temporal fix for the falling rate of profit, could theoretically negotiate trade deals from a structurally advantaged position.¹⁴⁶

¹⁴⁴ Hickey and Pruce, "Pockets of Effectiveness and the Politics of State-Building and Development in Africa"; Leonard, "'Pockets' of Effective Agencies in Weak Governance States: Where Are They Likely and Why Does It Matter?"; McDonnell, *Patchwork Leviathan: Pockets of Bureaucratic Effectiveness in Developing States*; Centeno et al., "Unpacking States in the Developing World: Capacity, Performance, and Politics"; Kim et al., *Institutional Capacity for Policy Implementation*; Chibber, "Bureaucratic Rationality and the Developmental State"; Evans, *Embedded Autonomy: States and Industrial Transformation*; Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*.

¹⁴⁵ Stubbs, "The Origins of East Asia's Developmental States and the Pressures for Change"; Öniş, "The Logic of the Developmental State."

¹⁴⁶ Arrighi, "The African Crisis"; Trotsky, *History of the Russian Revolution*; Mandel, "The Laws of Uneven Development"; Mandel, *Late Capitalism*; Brenner, *The Economics of Global Turbulence: The Advanced Capitalist*

Thus, my analytical framework guided examination of the intra-elite, intra-state, and state-society relations underlying the capacity of Maoist China's trade capacity and the global political-economic conflicts that gave Maoist China leverage in trade with the capitalist world. It enabled identification of facilitative internal conditions for ISI that a strictly developmental-state or PoE approach would have missed and revealed otherwise obscured patterns in global trade during the Cold War.

The internal and external conditions of Maoist China's self-reliance

Deploying my analytical framework, I traced the internal and external conditions of Maoist China's self-reliance across four empirical chapters.

In Chapter 1, I showed that the state formation process created uneven capacities within the Maoist economic bureaucracy, favoring the development of trade capabilities over domestic economic governance. Intra-elite relations supported trade capacity from the beginning, as the founders and leaders of the Chinese Communist Party were united in their anti-imperialist revolutionary motivations. Further facilitative intra-party and party-society relations developed in response to the military exigencies of the revolution. Operating from remote and discontinuous rural bases, the CCP developed a centralized apparatus to navigate external markets, which provided the means of warfare, and institutions to extract agricultural surplus from rural society, which provided the means of paying for them. In this way, the trade bureaucracy developed in lockstep with the People's Liberation Army. The decades of operating from poor, discontinuous rural bases, however, did not prepare the CCP for general economic governance of a vast and economically varied territory. Its planning apparatus only emerged in

Economies from Long Boom to Long Downturn, 1945—2005; Harvey, *The New Imperialism*; Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis."

the final years of the revolution when the CCP entered Manchuria to administer an industrial area for the first time. The economic recovery and state building of the early PRC further entrenched the uneven distribution of capacity across the trade and planning bureaucracies. While planning institutions were only established several years into the new regime, the strategic threat of the US-led trade embargo reinforced intra-elite support for expanding trade capacity already two decades in the making. The First Five-Year Plan, based on Soviet-style “big push” industrialization, relied on imports of technology for heavy industry and institutionalized previous intra-party arrangements that favored meeting trade goals over domestic economic governance into an official intra-state administrative structure. The Plan initiated the socialization of agriculture through the cooperative farming movement, producing state-society relations that facilitated resource extraction. However, it lacked the development of durable institutions of rural administration, creating structural barriers to the accurate collection of economic information and the rational organization of agricultural activity.

In Chapter 2, I showed how the state-building processes of late socialism both entrenched existing unevenness in capacities between the trade and planning bureaucracies and introduced new social relations that further favored foreign trade. During the Great Leap Forward, the opening salvo of high socialism, the administrative decentralization of the state upset the social foundations of both trade and planning capacity. After the resulting economic and humanitarian disasters, intra-elite, intra-state, and state-society relations generally realigned to enable the trade bureaucracy to return to relatively long and stable period of high performance, while the planning bureaucracy did not experience a similar recovery. The party leadership returned management of trade to technical experts and recentralized both trade and planning administration. The subsequent rise of petroleum sector, which both enjoyed support from the

party elite, relied on foreign technology, and had close ties with the PLA, introduced new intra-elite and intra-state relations that further shifted the balance of power in favor of developing trade capacity. In contrast, planning capacity remained low as institutions of domestic economic governance went through further decentralization and Cultural Revolution disruptions. Meanwhile, the state continually reproduced its discipline of rural society through symbolic domination and material incentives, all directed towards siphoning agricultural surplus and blunting demands for improved consumption levels. Yet these disciplinary mechanisms did not include the establishment of anything more than ad hoc institutions of central state penetration, and as such failed to augment planning capabilities. Thus the economic bureaucracy served the goals of foreign trade rather than routine domestic economic governance.

In Chapter 3, I showed that Cold War geopolitics and international capitalist competition made trade with China not just possible, but also desirable for Western industrial capital. The huge Chinese market offered a spatial-temporal fix for US allies' overcapacity. To maintain its position as a top technology supplier and stake out future growth, West German industry invested significant resources into lobbying the West German government to stand up to the US government's embargo. Even before Japan and other Western European countries initiated the end of CHINCOM restrictions, West German industry conducted trade with China.

In Chapter 4, I identified how the Maoist trade bureaucracy leveraged its monopsonic market power and capitalist competition in its practice of mercantilist semi-withdrawal from the world economy. To avoid long-term debt and balance-of-payments problems, it negotiated multiple ways to save foreign exchange and balance trade. To save foreign currency, it engaged in barter and countertrade. When it did make cash payments, it pitted suppliers against each other and pursued aggressive bargaining tactics to secure low prices. When it relied on credit, the

financing arrangement was euphemistically called “deferred payment” and never arranged directly with foreign commercial banks but rather through suppliers, and only for short and medium terms. To avoid debt, China even rejected long-term loans even though its capitalist trade partners were willing to provide them. Finally, even during the global economic crises of the 1970s, which coincided with Sino-American rapprochement, China occupied a favorable market position. The rise of China’s petroleum exports took advantage of the OPEC embargo, while its imports of raw materials took advantage of depressed global commodity prices.

Thus, the contradictions of Cold War capitalism created opportunities for Maoist self-reliant trade. In seeking to economically isolate China, the US confronted and attempted to subvert capital’s expansionary logic. Yet restricting global capitalism conflicted with US’s strategic interest in rebuilding and stabilizing its allies’ economies. Ultimately, the expansionary logic of capital prevailed.

Theoretical implications of Maoist self-reliance

In the past decade, global economic turbulence has inspired a resurgence of ISI, reviving the long-running debate as to how, and under what conditions, ISI may or may not facilitate more self-sufficient economic growth.¹⁴⁷ As I have shown throughout this dissertation, Maoist China’s achievement of self-reliance was the product of a convergence of historically specific internal and external social processes. However, my analysis also has implications for the study and practice of development. These implications are particularly relevant for both the global resurgence of ISI and for contemporary Chinese development, which is once again guided by the slogan of self-reliance.

¹⁴⁷ Irwin, “Import Substitution Is Making an Unwelcome Comeback | PIIE.”

First, under conditions of domestic resource constraints and the absence (or rejection) of external aid, states wishing to minimize external obligations in their implementation of ISI may face the challenge of managing *consumption*. In the case of Maoist China, this entailed reproducing particular state-society relations to manage popular expectations regarding improvements in its living standards—namely, keeping them low. Of course, the development literature examines the state’s ability to guide economic activity, but it has largely focused on *production*, focusing on the institutional arrangements and policy instruments of the state direction of firms and on the mechanisms of labor discipline.¹⁴⁸ But neither has it entirely ignored consumption. ISI, after all, requires reducing demand for imported consumer goods. Moreover, theories of ISI note the association between the developmental state and minimalist/productivist welfare regimes, along with how consumer preferences influence the sequencing of industrial investment and growth of domestic markets.¹⁴⁹

Maoist China’s ISI experience throws the economic significance of the realm of consumption into sharper relief. As mentioned in the introduction, in the Third and Second Worlds, ISI resulted in external debt in part because the governments’ legitimacy depended on public spending that they could not afford. Third World governments experienced social pressures to maintain high growth rates and relatively generous social policies, while Second World governments experienced increasing social dissent as their economies declined and living standards worsened. In contrast, Maoist China linked the promise of economic development with the expectation of self-sacrifice and asceticism from its population. The state realized this in the most extreme form during the Great Leap Forward and the subsequent famine relief efforts. That

¹⁴⁸ Evans, *Embedded Autonomy: States and Industrial Transformation*; Amsden, “The Wild Ones: Industrial Policies in the Development World.”

¹⁴⁹ Felix, “Import Substitution and Late Industrialization: Latin America and Asia Compared,” 1460–66; Haggard and Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*, 52–63.

the CCP maintained legitimacy after demanding that hungry peasants put off feeding themselves and grow cash crops to pay for imported grain is an extraordinary, if grim, achievement. While the contemporary varieties of ISI tend to target narrower sectors of the economy, it is reasonable to expect states to face the challenge of adjusting consumer behavior, and doing so without undermining their own legitimacy.

This leads to the second implication: *ideology* plays a critical role in the management of consumption. More broadly, ideology can facilitate industrial policy, as the state directs resources toward activities that may not immediately benefit, or indeed may be disagreeable, to the population. Historical examples suggest that the coercion of authoritarian governance, while not uncommon among the postwar practitioners of ISI, is insufficient for ensuring policy-aligned resource allocation.¹⁵⁰ In Maoist China, as in other developing countries, nationalism was critical in engendering support for, or at least mitigating resistance to ISI.¹⁵¹ However, Maoist self-reliance seemed to enjoy particularly robust support because the Maoist China's nationalism was also bound up with the party-state. As Chapters 1 and 2 described, the CCP disciplined rural society through both symbolic domination and material incentives, and in ways that made peasants feel personally connected to the goals of the party-state. Future research may compare party/state-society relations across other historical state socialist countries to elucidate why the Maoist state was able to manage consumption better than its Soviet and Eastern European counterparts. Ideology and symbolic domination will be especially important in facilitating contemporary iterations of ISI, given that, since the 1980s, the global trend of market

¹⁵⁰ Haggard, *Developmental States*, 47–52.

¹⁵¹ Stubbs, “The Origins of East Asia’s Developmental States and the Pressures for Change”; Silva, “The Import-Substitution Model: Chile in Comparative Perspective.”

liberalization and administrative fragmentation has diluted states' control over their economies, and thus their capacity to leverage material incentives.

Third, both the *size* and the *organization* of the domestic market matters for a state's position in global trade. Theories of ISI have emphasized the size of domestic markets vis-à-vis their ability to absorb increasing industrial capacity.¹⁵² In contrast, as mentioned above, Maoist self-reliance had little to do with domestic absorption of industrial capacity. Rather, China negotiated favorable trade terms not only because its attractive, huge domestic market offered future profits for its suppliers, but also because (except during Great Leap Forward) its trade bureaucracy exercised monopsonic and monopolistic control over imports and exports, respectively. The centralized administration of trade enabled China to take full advantage of capitalist competition. Indeed, the trade imbalance of the Great Leap Forward negatively illustrated the importance of centralized trade administration, as the decentralization of trade led to higher import prices and unsustainable export obligations. Comparison of the Maoist trade bureaucracy's negotiation experiences with those of the less successful Second World would be theoretically generative, clarifying how the factors of market size and the organization of trade institutions interact with other domestic political-economic arrangements in shaping ISI outcomes. In turn, this may offer more general insights as to how firms and states may align (or not) to advance industrial policy.

Fourth, even relatively geopolitically and economically isolated states are embedded—and can even exercise market power—in global markets, but the manner and extent of their embeddedness is not easily discerned if viewed through the lens of a liberal international order. As Chapters 3 and 4 showed, even during the isolation of the Maoist period, the combined and

¹⁵² A. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America."

even development of capitalism linked the fates of Chinese peasants, West German factory workers, French merchants, Hungarian dockworkers, Swiss bankers, Japanese CEOs, and Australian wheat farmers, to name a few. The economic linkages took the form of “semi-official” trade, barter, “deferred payment,” and outright smuggling—all seemingly marginal forms of exchange that defy the rules and conventions of the liberal international order. These linkages changed the structure of the global economy despite forming in its murky interstices. A deeper understanding of development, therefore, demands a global perspective that looks beyond the rules and geopolitical and economic boundaries set by hegemonic states.

Taken together, the implications point to the tenuousness of contemporary China’s grip on its industrial policy. Internally, facilitative state-society relations are now more vulnerable to political and economic upset than they were during the Maoist period. While it has not revived the ascetic ideals of the socialist era, the contemporary Chinese state continues to prioritize investment in export manufacturing over promoting domestic consumption, even as global demand for Chinese exports slows.¹⁵³ For several decades following market reform, the structural imbalances of Chinese development did not threaten the regime’s performance legitimacy so long as the economy continued to grow.¹⁵⁴ However, as China’s economic problems deepen and the regime stands by its development model, it will likely confront intensified grievances regarding consumption. Externally, China is, of course, far more exposed to fluctuations of the global economy today than it was during the Maoist period. As it doubles down on industrial investment and competes with the US, China will continue to be dependent not just on global demand for manufactures, but also imports of raw materials. Sino-American

¹⁵³ Lubin, “‘Structural Divergence’ in China’s Economy Exposes a Growing Problem | Chatham House – International Affairs Think Tank”; Hung, “China’s Long Economic Slowdown.”

¹⁵⁴ Yang and Zhao, “Performance Legitimacy, State Autonomy and China’s Economic Miracle”; Zhao, “China’s Prolonged Stability and Political Future.”

competition in artificial intelligence development, for example, has also entailed competition for sources of critical minerals.¹⁵⁵ Therefore, even as China emerges as a “rule maker” of the global economic order,¹⁵⁶ developing countries may yet find that they have opportunities to advance their own trade interests.

Development, institutional capacity, and the global political economy

I return now to the question that opened this dissertation: how can developing countries participate in global markets and maintain their economic sovereignty? As mentioned in the Introduction, states have confronted this question since the nineteenth-century breakthrough of global industrial capitalism and have answered it with various forms of ISI. Yet few attempts at ISI have succeeded. In the postwar period, the main examples of success come from capitalist Northeast Asia. As such, the Northeast Asian ISI experience informed internalist and externalist explanations of development, respectively inspiring theories of the developmental state and extending structuralist theories to account for “development by invitation” from the core.¹⁵⁷ Thus, the Northeast Asian answer to the problem of balancing trade and economic sovereignty is as follows: it is possible to reap the rewards of trade and avoid external dependencies if the developing country is governed by a strong, Weberian economic bureaucracy, and if it receives assistance from a more advanced and powerful ally.

Maoist China’s experience of self-reliance presents a different answer. It suggests that it is possible for a developing country to reap the rewards of trade and avoid external dependencies if its intra-elite, intra-state, and state-society relations support the pursuit of economic sovereignty

¹⁵⁵ Okolo, “Global Majority Countries Must Embed Critical Minerals into AI Governance.”

¹⁵⁶ Zhou and Esteban, “Beyond Balancing”; Gallagher and Chin, *China and the Global Economic Order*.

¹⁵⁷ Wallerstein, “Dependence in an Interdependent World: The Limited Possibilities of Transformation within the Capitalist World-Economy,” 80.

above other development goals; if economic problems in the core motivate foreign capitalists to seek spatial-temporal fixes for overcapacity; and if the developing country takes full advantage of international capitalist competition by controlling all trade activities through a centralized trade bureaucracy. I have shown that in Maoist China, intra-elite relations facilitated trade capacity because power was generally concentrated in leaders who shared paradigmatic ideas on the importance of avoiding external obligations and who possessed the political management skills to protect trade operations from domestic disruptions. In intra-state relations, power was generally distributed in a way that facilitated trade operations: the trade bureaucracy was centralized, and the Five-Year Plans prioritized investment in industry over agriculture. Further, other prestigious and strategically significant state sectors, such as the petroleum sector and the military, relied on foreign technology. Finally, state-society relations were such that, through both symbolic domination and material incentives, the state was able to both direct production and discipline consumption to advance trade goals. These social relations developed from the founding of the CCP through the turbulent, decades-long state formation process. In the later decades of the People's Republic, they experienced disruptions, but nevertheless were stable enough to support periods of performance of sufficient length and strength to support ISI.

I have also shown that economic downturns triggered the expansionary tendencies of capitalism, which prevailed over the Cold War restrictions on global trade. With US assistance, postwar Western Europe and Japan enjoyed rapid postwar recovery and resurgence through technological upgrading. As these allies relied less on aid from the US, they were also able to challenge its political and economic dominance. As productive capacities increased and domestic markets became crowded, capitalists sought to enter new markets and to delay the moment of profit realization. Maoist China presented an opportunity to achieve both, and it made the most

of capitalist competition through centralized state control over trade. As a result, it concentrated its market power and was able to negotiate favorable terms.

In explaining Maoist self-reliance, I have intervened in both internalist and externalist explanations of development. To explain the internal conditions of Maoist self-reliance, I relaxed the theoretical juxtaposition of PoEs and developmental states to instead examine institutional capacity and periods of performance. Future comparative research on other countries and historical periods could contribute to more robust theory on how capacity varies both within the state and over time. Future research could also further articulate the specific content of intra-elite, intra-state, and state-society relations undergirding this variation.

To explain the external conditions of Maoist self-reliance, I drew on theories of uneven and combined development to look beyond the bilateral and regional geopolitics of the Cold War and the cliché of great power competition vis-à-vis the capitalist and socialist blocs. This wide-angle lens revealed otherwise obscured patterns in global trade during the Cold War. Indeed, it highlighted the irony of the United States, the postwar superpower and defender of capitalism, attempting—and failing—to tame capitalism’s expansionary tendencies. In the context of heightened interstate rivalry, such as the one in which we find ourselves now, the official categories and stated agendas of its most prominent participants can easily color analyses of global political-economic change. Yet the systemic issues of capitalist overcapacity and competition can provide poor and geopolitically marginalized states opportunities to defy the hegemon.

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