



Chinese Economic Statecraft from 1978 to 1989

The First Decade of
Deng Xiaoping's Reforms

Edited by Priscilla Roberts



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PREFACE

The origins of this volume can be traced to an interest in recent Chinese diplomacy shared by the editor and one of the contributors. In 2014, Shu Guang Zhang produced a massive and pathbreaking survey of Chinese Cold War economic statecraft.¹ He was also one of the contributors to a collection on China and Hong Kong during the Long 1970s, edited by Priscilla Roberts and Odd Arne Westad, published in 2017.² All three have been long-time collaborators in the Cold War International History Project, which first brought them together during the 1990s.

From 2017, Shu Guang Zhang and Priscilla Roberts were both working in Macau. Propinquity led them to decide to take their shared interest in Chinese economic diplomacy further, by embarking on a series of workshops on the subject. The first of these took place in May 2018 and attracted a group of distinguished scholars from Macau, Hong Kong, China, Taiwan, Great Britain, Japan, and the United States. A selection

¹ Shu Guang Zhang, *Beijing's Economic Statecraft During the Cold War 1949–1991* (Baltimore, MD, and Washington, DC: Johns Hopkins University Press and Woodrow Wilson Center Press, 2014).

² Priscilla Roberts and Odd Arne Westad, eds., *China, Hong Kong, and the Long 1970s: Global Perspectives* (Cham, Switzerland: Palgrave Macmillan, 2017).

of papers delivered there was recently published as a special issue of the *Journal of Current Chinese Affairs*.³

The second meeting, a workshop focused more specifically on Chinese Economic Statecraft during the Long 1980s, was held in Macau in January 2020, just a few weeks before the impact of the COVID-19 pandemic made such gatherings impossible. Once again, an array of scholars from Macau, China, Taiwan, Hong Kong, Singapore, Malaysia, Japan, Great Britain, the United States, and Czechoslovakia came together, for intensive discussions of the subject. As evening fell, they could look across to the high-rises and lights of Zhuhai, one of the two first Special Economic Zones established in 1979, as Deng Xiaoping launched China's Era of Reform.

Most of the chapters in this volume originated in papers delivered at that meeting. Some potential contributors who were unable to attend came on board later, writing chapters during the pandemic. Modern technology may have its imperfections, but without it, this book would not have been possible.

The workshop on which this volume is based benefited from generous financial support from the Macao Foundation and the Faculty of Business of City University of Macau. The event itself would have been impossible without the assistance of the administrative staff of the Faculty of Business, especially the tireless Miss Katherine Chan; the Finance Office and the Information Technology Office of City University of Macau; and two student assistants, Mr. Oliver Liang Zixu and Mr. Thomas Sayers. Warm thanks go to all of them.

Taipa, Macau

Priscilla Roberts

³ Priscilla Roberts, guest ed., Special Issue: "PRC Economic Statecraft Explored: How Uniquely Chinese Are Its Characteristics?" *Journal of Current Chinese Affairs* 50: 3 (December 2021): 267–437, <https://journals.sagepub.com/toc/ccaa/50/3>, accessed 20 April 2022.

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ABBREVIATIONS

ADB	Asian Development Bank
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
AmCham	American Chamber of Commerce in Hong Kong
AMCPLA	Academy of Military Science of the Chinese People's Liberation Army
APEC	Asia-Pacific Economic Cooperation Forum
ASEAN	Association of Southeast Asian Nations
BEPC	Beijing Electron-Positron Collider
BOC	Bank of China
BP	British Petroleum
bpd	Barrels Per Day
CAIEME	Chinese Association of Industrial Enterprise Management Education
CAS	Chinese Academy of Sciences
CASS	Chinese Academy of Social Sciences
CC	Central Committee
CCC	Commodity Credit Corporation
CCP	Chinese Communist Party
CDC	Career Development Center
CDU-CSU	Christian Democratic Union-Christian Social Union
CEMA	Chinese Enterprise Management Association
CEO	Chief Executive Officer
CFR	Council on Foreign Relations
CIA	Central Intelligence Agency
CIB	China Investment Bank

CIDA	Canadian International Development Agency
CITIC	China International Trust Investment Corporation
CMSN	China Merchants' Steam and Navigation Company
CNOOC	China National Offshore Oil Company
COCOM	Coordination Committee for Multilateral Export Controls
CPC	Communist Party of Czechoslovakia
CPIFA	Chinese People's Institute of Foreign Affairs
CPM	Communist Party of Malaysia
CUSPEA	China-U.S. Physics Examination and Application
CV	Curriculum Vitae
DMD	Data, Models, and Decisions
EC	European Commission
ECU	European Currency Unit
EDI	Economic Development Institute
EEC	European Economic Community
EPC	Electron-Positron Collider
ETDZ	Economic and Technical Development Zone
EU	European Union
Ex-Im	Export-Import Bank, Japan
FDI	Foreign Direct Investment
G-7	Group of Seven
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GDR	German Democratic Republic (East Germany)
GLF	Great Leap Forward
GNP	Gross National Product
GRE	Graduate Record Examination
GSP	Generalized System of Preferences
HAR	Hainan Autonomous Region
HR	Human Resources
IBM	International Business Machines Corporation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDCA	International Development Cooperation Agency
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFF	International Faculty Fellow
IFL	Swedish Management Institute
IFO	International Financial Organization
IIASA	Institute for Applied Systems Analysis
IIE	Institute of Industrial Economics
IMBA	International Master of Business Administration
IMF	International Monetary Fund

IO	International Organization
ISI	Import substitution industrialization
JCC	Joint Commission on S&T Cooperation
JNOC	Japan National Oil Corporation
KIEO	Key International Economic Organization
MBA	Master of Business Administration
MEP	MIT-China Management Education Project
MFN	Most Favored Nation
MIT	Massachusetts Institute of Technology
MITI	Ministry of International Trade and Industry
MOE	Ministry of Education
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOFERT	Ministry of Foreign Economic Relations and Trade
MOU	Memorandum of Understanding
NASA	National Aerospace and Science Administration
NATO	North Atlantic Treaty Organization
NCUSCR	National Committee on US–China Relations
NGO	Non-Governmental Organization
NIE	Newly Industrialized Economy
ODA	Official Development Assistance
OECF	Overseas Economic Cooperation Fund
PBOC	People’s Bank of China
PhD	Doctor of Philosophy
PKP	Party Kommunistang Philippines (Philippine Communist Party)
PLA	People’s Liberation Army
PRC	People’s Republic of China
PTA	Preferential Trading Agreement
R&D	Research and Development
RMB	Renminbi
ROC	Republic of China
S&T	Science and Technology
SC	Security Council
SEM	School of Economics and Management, Tsinghua University
SIEC	State Import–Export Commission
SIME	Shanghai Institute of Mechanical Engineering
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SOM	School of Management, Fudan University
SPPM	School of Public Policy and Management, Tsinghua University
SUNY	State University of New York
TA	Technical Assistance
TAC	Treaty of Amity and Cooperation (ASEAN)

TC	Trilateral Commission
TDP	Trade Development Program
TOEFL	Test of English as a Foreign Language
TVE	Township and Village Enterprise
UBC	University of British Columbia
UN	United Nations
US	United States
USSR	Soviet Union (Union of Soviet Socialist Republics)
ÚV KSČ	Central Committee of the Communist Party of Czechoslovakia
ÚV KSS	Central Committee of the Communist Party of Slovakia
WB	World Bank
WDI	World Development Indicator
WDR	World Development Report
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom, and Neutrality

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Introduction

Chinese Economic Statecraft from 1978 to 1989: The First Decade of Deng Xiaoping's Reforms

Priscilla Roberts

For China, the 1980s were above all the decade of Deng Xiaoping. In September 1976, when Mao Zedong, Chairman of the Chinese Communist Party (CCP) since 1943 and his country's paramount leader ever since 1949, finally succumbed to assorted ailments and died in office, Deng was already seventy-two years old. A veteran revolutionary who had taken part in the Long March and fought tenaciously against first the Japanese armies during World War II and then the Chinese Nationalist forces during the Chinese Civil War, within the CCP Deng was associated with pragmatist rather than radical elements. Purged not once but twice during the leftist Cultural Revolution that Mao encouraged from

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1966 to 1976, as a means of maintaining his own grip over Chinese politics, when Mao finally, as he himself put it, went to meet Marx, Deng was in disgrace. Within a year of Mao's death, Hua Guofeng, the chairman's chosen successor, who sought to eliminate ultra-radical elements within the CCP and focus upon economic development, restored Deng to his former positions as Vice-Chairman of the Central Committee, Vice-Chairman of the Military Commission, and Chief of the General Staff of the People's Liberation Army. Deng had sharp elbows. When the Third Plenum of the 11th CCP Central Committee Congress was held in December 1978, it became apparent that Deng and likeminded allies had effectively wrested control of the party and its policies from Hua Guofeng. In 1980, the latter ceded his official position of premier to Zhao Ziyang, and in 1981, Hu Yaobang replaced him as party chairman while Deng Xiaoping took over the role of Chairman of the Central Military Commission.

Once in power, Deng focused single-mindedly upon promoting economic reform and development within the People's Republic of China (PRC), championing the program of the Four Modernizations (of agriculture, industry, science and technology, and the military) that he believed essential if China was to experience national regeneration and regain the status of an Asian great power. The origins of this program dated back to the early 1960s. In 1963, in the aftermath of the disastrous Great Leap Forward and Great Famine, Premier Zhou Enlai had called upon professionals and scientists to work on the Four Modernizations, but the Cultural Revolution precluded their implementation. In January 1975, shortly before his death, the much respected premier once more publicly called for China to embark on the Four Modernizations, to repair the damage the Cultural Revolution had wreaked on the country. Ironically, by eroding central party control at the regional, municipal, and local level, the Cultural Revolution itself often encouraged relatively small-scale moves toward a free-market economy, unplanned experiments that served as prototypes for innovations subsequently introduced with official government backing.¹ As the 1970s ended and he took over the reins of power, Deng proclaimed ambitious goals for his country: doubling China's Gross National Product (GNP) by the end of the 1980s, to

¹ Lynn T. White III, *Unstately Power*, 2 vols. (Armonk, NY: M. E. Sharpe, 1998); and Frank Dikötter, *The Cultural Revolution: A People's History, 1962–1976* (London: Bloomsbury, 2016).

ensure that all people in the PRC had adequate food and clothing; quadrupling China's GNP by the year 2000, a goal actually reached ahead of schedule in 1995; and raising per capita GNP to the level of medium-developed countries by 2050.

In most states, governments seek to improve the well-being of their own people and declare themselves successful if they can accomplish this. Yet external factors also drove Chinese leaders to embark on what quickly became a relentless quest for modernization. In the late 1960s, border clashes with the Soviet Union impelled China to turn toward the United States, previously considered the greatest ideological enemy of the PRC. By the later 1970s, China faced what appeared to be a major expansion of Soviet power in its neighborhood. The withdrawal of U.S. forces from Vietnam following the Paris Peace Accords of 1973, and North Vietnam's subsequent invasion and annexation of South Vietnam in 1975, represented major ideological and territorial victories for the international communist camp, but for China soon proved a poisoned chalice. United Vietnam swiftly moved closer to the Soviet Union, which had provided major military support during the 1960s and 1970s, and in 1979 granted the Soviets a 25-year lease on the naval base of Cam Ranh Bay previously used by the U.S. military. The facility, which underwent a fourfold expansion by 1987, soon became the largest Soviet naval base outside Russian territory, greatly boosting the tenant's ability to project its naval power into the South and East China Sea. Further north, the Soviets also expanded their Vladivostok naval base, headquarters to the Soviet Pacific Fleet. On both their northern and southern borders and along their entire coast, Chinese leaders felt ever more exposed to what they considered an increasingly strong and hostile enemy.

In December 1978, these fears intensified when after two years of military clashes with neighboring Kampuchea (Cambodia), Vietnam—with Soviet backing—invaded the country and swiftly overthrew the communist Khmer Rouge government headed by the genocidal Pol Pot, that had by then been responsible for the deaths of one-quarter of his own country's population. Despite these excesses, China enjoyed a patron-client relationship with the Khmer Rouge, and feared the expansion of Vietnamese power, believing that all Indochina was falling under Soviet influence. A brief Chinese invasion of Vietnam in early 1979 gave humiliating proof that the Chinese military was no match for the battle-hardened Vietnamese forces. Pragmatically, after 24 days of fighting, Deng declared

that the Chinese troops had fulfilled their mission of teaching the Vietnamese a lesson and ended the operation. Until 1989, however, Vietnam's forces remained in Cambodia, a constant irritant to China and a reminder of just how little influence the PRC possessed over its much smaller but truculent neighbor. In December 1979, the Soviet military intervention in Afghanistan, which had a narrow strip of mountainous border abutting northwestern China, aroused yet further apprehensions of hostile encirclement within the PRC leadership. Demands that Soviet forces leave both Cambodia and Afghanistan would become standard, near formulaic features of Chinese foreign policy rhetoric of the late 1970s and 1980s.²

By the late 1970s, Chinese officials recognized that developing and modernizing their country at the speed they contemplated would require access to expertise, capital, and technology that only non-communist countries—especially the United States—possessed. Reform would therefore be contingent on opening up to the outside world, mandating a break with the autarkic policies of self-reliance China had previously embraced. This new emphasis in turn implied major adjustments to Chinese economic statecraft. Shu Guang Zhang's massive volume on the PRC's economic statecraft during the Cold War devotes greatest attention to the pre-Reform Era years, when much of China's policy was either defensive in nature or designed to boost its international standing in the developing world. One major objective of Chinese economic policies was to reduce the impact of the international sanctions regime introduced in the early 1950s at the insistence of the United States and intended to restrict both China's external trade and its access to "strategic" raw materials, manufactured goods, and foreign exchange. To do so, China attempted to develop two-way trade with business interests in Western Europe, Canada, Australia, and non-communist Asia and to persuade the governments involved to ignore restrictions imposed on dealings with China. Beyond sanctions-busting, China sought to use foreign aid to developing countries not just to enhance its own prestige, but also to win support and useful votes in international organizations, especially the United Nations. In the 1960s, following the Sino-Soviet split, China consciously deployed the economic assistance it offered to other countries in efforts to compete with and undercut the Soviet Union, a strategy that backfired rather dramatically with its two largest recipients, Albania and

² John W. Garver, *China's Quest: The History of the Foreign Relations of the People's Republic of China* (New York: Oxford University Press, 2016), 383–400.

Vietnam, once budgetary difficulties during the 1970s compelled China to cut back its largesse.³ Being too poor to be a generous donor was itself an international liability, limiting China's capacity to offer economic inducements to win over external powers.

As Lawrence Reardon describes (Chapter 2), at the top levels of policymaking, from 1979 on, the road of China's economic reform and opening to the outside world was less than smooth, with the initial opening in 1979 of experimental Special Economic Zones (SEZs) in Shenzhen, adjoining the British-run city of Hong Kong, and Zhuhai, next to Portuguese-administered Macau, followed by a hiatus of readjustment from 1982 to 1984. Two years later, a coastal development strategy devised by Premier Zhao Ziyang was implemented, opening 14 cities on or near China's eastern seaboard to foreign investment. The integration of China's coast into the global economy continued even after Zhao fell from power during the protests of May and June 1989, as China's reform policies remained in place, defying ideological attacks, to be revitalized and greatly expanded after Deng Xiaoping's much-publicized spring 1992 Southern Tour of Guangzhou, Shenzhen, Zhuhai, and Shanghai.

From the late 1970s to at least the early 1990s and perhaps even beyond, Deng's role in spearheading, promoting, and advocating reform was indeed crucial. Not only did he make the key decisions; he had the political clout, toughness, and tenacity to push them through over considerable opposition. One early judgment call came when he decided that, given that full diplomatic normalization with the United States was essential if China was to receive Most Favored Nation (MFN) commercial status and access to advanced American technology, this represented a higher priority than regaining Taiwan in the immediate future. Earlier, back in 1974, the status of Taiwan had been the major impediment to opening relations, with Chinese officials including Foreign Minister Qiao Guanhua and Vice Foreign Trade Minister Yao Yilin informing visiting U.S. governors from states that were eager to export wheat and sell

³ Shu Guang Zhang, *Beijing's Economic Statecraft during the Cold War 1949–1991* (Baltimore, MD, and Washington, DC: Johns Hopkins University Press and Woodrow Wilson Center Press, 2014). On China's efforts to compete with both the Soviet Union and the United States in gaining Third World loyalty and support, see Gregg A. Brazinsky, *Winning the Third World: Sino-American Rivalry during the Cold War* (Chapel Hill: University of North Carolina Press, 2017); and Jeremy Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World* (Chapel Hill: University of North Carolina Press, 2015).

aircraft and advanced agricultural, mining, and spinning and weaving technology to China that such deals were contingent upon an acceptable Taiwan settlement and full diplomatic normalization.⁴ However keen American businesses were to enter the China market, these rather unsubtle Chinese efforts to use economic leverage to force concessions on Taiwan proved unavailing. By 1978, it was clear that, while the United States might withdraw formal diplomatic recognition from the island, the U.S. Congress would not simply abandon an unwilling Taiwan to takeover by the PRC. Perhaps recognizing that, in practice, unification would be difficult if not impossible to accomplish while the PRC lagged economically and Taiwan's total GDP surpassed that of the mainland, Deng effectively chose to defer the issue. The joint U.S. and Chinese announcement of recognition was followed almost immediately by the open assumption of power in Beijing by Deng and his allies.⁵

Within weeks, as Lu Sun describes (Chapter 3), China's outgoing new paramount leader toured the United States, charming and intriguing his American hosts in Washington, Texas, Atlanta, and Seattle and establishing a good rapport with President Jimmy Carter. Accompanied by an entourage including numerous scientists and technocrats, he visited American automobile and aircraft plants and oil refineries, proclaiming his admiration for their advanced technology. Deng's overriding objective was access to U.S. science and technology, investment capital, and markets.

Shu Guang Zhang and Hua Zheng describe in greater detail (Chapter 4) just how successful Deng was in accomplishing these objectives. Boosting China's capabilities in science and technology became a top priority. Deng rehabilitated China's leading scientists, most of whom had been targeted during the Cultural Revolution, and poured resources into developing younger intellectual talent. During the 1980s, the government invested heavily in key research projects intended to enhance China's performance in biology, space, information and data, automation, energy, and oceanography. Exchanges with overseas scientists and technicians were encouraged, with Chinese personnel dispatched

⁴ See reports of conversations with Qiao Guanhua, Li Xiannian, and Yao Yilin, in David Bruce, *Window on the Forbidden City: The Beijing Diaries of David Bruce, 1973–1974*, ed. Priscilla Roberts (Hong Kong: Centre of Asian Studies, University of Hong Kong, 2001), 478–484.

⁵ Garver, *China's Quest*, 404–408.

abroad to upgrade their skills and highly qualified foreign experts invited to spend time in China, training Chinese students and colleagues. A range of official exchange agreements the two governments negotiated during and after Deng's visit facilitated such arrangements, with eminent Chinese American scientists, including Nobel laureate Tsung-Dao Lee, particularly prominent in setting them up. Meanwhile, with assistance from American businesses that sought to access the China market, throughout the 1980s China persistently and for the most part successfully pressured the United States to dismantle its continuing controls on the transfer to China of specific advanced technologies. In addition, China was able to access generous funding from U.S. trade development programs, money that financed much of the advanced equipment Beijing acquired. Foreign Direct Investment (FDI) in China by U.S. businesses also soared, with the United States becoming China's second largest source of investment capital by 1988, surpassed only by Hong Kong. Sino-American trade also rose dramatically, with the balance first favoring the United States, but shifting within a decade in China's favor.

Julian Gewirtz has shown that in modernizing China, outside intellectual expertise and knowledge were as much in demand as foreign technology and capital.⁶ As Peter E. Hamilton demonstrates (Chapter 5), one area where American influence was particularly pronounced was the revival of management education in China. Mid-level managers in Chinese enterprises were encouraged to undergo retraining for the Reform Era by studying for Master of Business Administration (MBA) degrees modeled on leading North American programs in Canada and the United States. Future premier Zhu Rongji, appointed in 1979 to head the research office of the Institute of Industrial Economics (IIE), part of the Chinese Academy of Social Sciences (CASS) in Beijing, established a postgraduate program in management that year, to train experts to staff his own institute. The IIE also sponsored the creation of the Chinese Association of Industrial Enterprise Management Education, which by 1981 had produced a textbook that sought to reconcile socialist precepts with efficient management practices. Across China, by 1984 at least 50 institutes of economic management had been established. By the second half of the decade, Chinese universities were beginning to establish formal joint MBA programs with leading U.S. universities, a

⁶ Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Cambridge, MA: Harvard University Press, 2017).

process initially spearheaded by Zhu Rongji, appointed founding dean of Tsinghua University's School of Economics and Management in 1984. Even after becoming first deputy party secretary of Shanghai in 1987 and then the city's mayor, Zhu remained a dedicated backer of upgrading Chinese management education. Despite numerous difficulties, in the mid-1990s these efforts began to bear fruit when both Tsinghua and Fudan Universities established joint international MBA programs with MIT Sloan Business School of Boston, Massachusetts. These in turn provided models that were adopted by the Chinese Ministry of Education and implemented in other Chinese universities.

While the United States was China's most significant partner, economically and in terms of exchanges, other states and institutions also loomed large. In a sophisticated analysis, Kai Yin Allison Haga (Chapter 6) highlights the degree to which China was forced to look beyond its borders for economic expertise. Here, too, Deng's personal experiences proved to be important drivers of his reform policies. Even before he came to the United States, in late 1978 Deng visited both Japan and Southeast Asia. The progress Japan and Singapore had each made over the previous two to three decades greatly impressed him. While particularly eager to obtain advanced technology from the United States, he also viewed both Japan and European states as valuable alternative sources of modern equipment, machinery, and expertise, together with the funding China required for such purchases.

One major concern on Deng's part was how to maintain his country's independence from Western domination, most especially by the United States, even as he sought assistance from beyond China. Here, bilateral partnerships with major international financial organizations, especially the Bretton Woods organizations, the World Bank and the International Monetary Fund (IMF), and also the Asian Development Bank (ADB), proved extremely useful. Robert McNamara, president of the World Bank from 1968 to 1981, was particularly eager to work with China, and despite appreciable opposition from the U.S. Congress, the PRC joined the Bank in 1980, replacing Taiwan. Not only did China rapidly become a significant presence in these institutions; it also won massive concessional loans on exceptionally favorable terms from the International Development Association (IDA), part of the World Bank family of institutions. World Bank studies of China's economy, undertaken in partnership with teams of Chinese experts, including Zhu Rongji, provided insights and

ammunition that Chinese reformers could use when developing policies and pushing for these. During the 1980s, the Bank also organized economic training programs for around 1,500 Chinese officials, many of whom filled influential positions in their ministries and institutions. In addition, after reaching a compromise arrangement whereby Taiwan was allowed to retain its membership, in 1986 Beijing joined the ADB, which virtually immediately became an additional source of substantial loans to strengthen China's banking system.

Engagement with Japan, then the largest as well as the most advanced economy in Asia, was in some respects easier for China than working with the United States. Culturally, the two countries were more compatible, sharing a lengthy if sometimes tortured history of interactions dating back many centuries, if not millennia. As Wendy Leutert describes (Chapter 7), given its spectacularly rapid economic development following World War II, Japan also offered a model to which China could relate, as Beijing sought to replicate Japan's economic miracle. From the late 1970s onward, top Japanese economists served as advisers to China's State Council. At slightly less exalted levels, formal and informal Sino-Japanese exchanges of every kind flourished, complementing the massive economic and financial assistance China received from Japan and providing much of the intellectual underpinning for China's reforms. Seminal works on the Japanese and Chinese economies and business written by Japanese authors were translated into Chinese and circulated widely throughout the country. Japanese experts urged the Chinese to focus upon importing advanced foreign technology, as Japan itself had done in previous decades, a lesson China was eager to embrace. Japanese exhortations that China should improve the management of its businesses were perhaps more limited in impact.

While Japan was China's most significant partner in Asia, elsewhere in the region Deng Xiaoping sought to improve relations with China's non-communist Southeast Asian neighbors, both individually and through the Association of Southeast Asian Nations (ASEAN), founded by Thailand, Singapore, Malaysia, Indonesia, and the Philippines in 1967. Most shared China's suspicion of the growing Soviet presence in Vietnam and feared what they suspected was Vietnam's quest for regional military predominance. Given Communist China's long record of ideological and financial support for radical insurgent movements in their own countries, when Deng came to power, most ASEAN states were equally distrustful of the PRC's good faith. ASEAN governments also feared that China

sought to win the loyalties of their own substantial populations of overseas Chinese.⁷

As K. S. Nathan describes (Chapter 8), from the late 1970s onward, Deng and other Chinese officials moved to defuse these apprehensions and encourage a sense of shared China-ASEAN solidarity, emphasizing China's endorsement of key ASEAN principles, including non-intervention in the affairs of other states. Although initially reluctant to do so, by the late 1980s China had ceased backing radical insurgent movements, persuading Chin Peng, leader of the Communist Party of Malaya (CPM), to end 41 years of armed struggle and guerrilla warfare and reach an accord with the Malaysian government in 1989. In 1990, Indonesia and Singapore became the last two ASEAN states to establish diplomatic relations with China, as Malaysia had done in 1974 and Thailand and the Philippines in 1975. China also signed trade protection and investment guarantee agreements with ASEAN and with individual states. Between 1984 and 1991, bilateral China-ASEAN trade more than doubled, while ASEAN investment in China increased tenfold. 73% of such investment came from Singapore, a state that—despite the absence of diplomatic ties—Deng had visited in 1978 and considered an impressive example of what a Chinese-run government could achieve.

Venturing further afield, China likewise viewed individual West European states and the European Economic Community (EEC) as potential economic partners. Despite U.S. efforts to isolate China by blocking all Western commercial dealings with the PRC, from the 1950s onward business groups in West Germany, France, and the United Kingdom were all eager to trade with China.⁸ As Laurens Hemminga recounts (Chapter 9), the reopening of official contacts between China and the United States in the early 1970s and China's turn toward economic reform and development following Mao's death gave new impetus to these aspirations. The EEC's European Council played an important facilitating role, signing broad trade agreements with China in 1978 and 1985, including China in its Generalized System of Preferences, sending delegations of business executives on tours of China, promoting technological cooperation programs of every kind, launching an MBA program

⁷ Garver, *China's Quest*, 378–380.

⁸ Martin Albers, *Britain, France, West Germany and the People's Republic of China, 1969–1982* (London: Palgrave Macmillan, 2016).

for Chinese economic cadres in 1985, and establishing an office in Beijing in 1988. EEC member states, reluctant to be drawn into any kind of anti-Soviet confrontation, were nonetheless wary of the incessant declarations of obdurate hostility to the Soviet Union uttered by Chinese officials.

Within this broad framework of encouragement, during the 1980s each West European state competed—with varying degrees of good fortune—for its share of what was expected to be the lucrative China market, while seeking to establish joint ventures and develop bilateral exchanges. West Germany proved exceptionally skilled in building on its position since the 1950s as Europe's leading exporter to China, consolidating its advantages in this area with large-scale sales to China of advanced industrial technologies. France succeeded in developing assorted cultural exchanges, but the economic relationship remained disappointing, well below French expectations. In the early 1980s, relations between the Netherlands and China endured a major downturn after the Dutch government authorized the sale of two submarines to Taiwan, prompting China to withdraw its ambassador in 1981 and cancel a bilateral air transport agreement. Only in 1984, after The Hague refused an export license for further submarine sales to Taiwan, would the Chinese ambassador return. Thereafter, Sino-Dutch trade relations improved and major Netherlands firms embarked on several joint ventures in China.

China's readiness to retaliate economically against the Netherlands over sensitive sales to Taiwan was concrete evidence that the PRC would not hesitate to use economic leverage against other states to promote its own political objectives. As Kazushi Minami demonstrates (Chapter 10), China likewise proved itself a hard bargainer in the sensitive field of offshore oil exploration, extracting tough terms from foreign firms that reserved control to the Chinese, while expecting external businesses to conduct the preliminary surveys and drilling, carry most of the risks, and transfer to China all the technologies involved. While availing itself of their expertise to increase production, China sought to avoid dependence on foreign oil companies, an objective in which it largely succeeded. However alluring the prospects of investing in China might seem, outside firms often found joint ventures far less profitable than they had once anticipated. Doing business in the PRC was not for the fainthearted.

Among the major centerpieces of Deng Xiaoping's strategy of encouraging domestic enterprises and attracting foreign investment were the Special Economic Zones (SEZs), with the first two established in 1979, immediately adjoining the two foreign-run enclaves of Hong Kong and

Macau.⁹ Zhou Taomo (Chapter 11) recounts how construction of the early infrastructure of Shenzhen, the larger of the two, bordering on Hong Kong, was initially undertaken by 20,000 troops from the People's Liberation Army (PLA) Engineering Corps, who were redeployed to what was then a remote border town surrounded by farmland, and put to work building government offices, factories for foreign investors, including the Japanese firm Sanyo, high-rises, and roads. After demobilization in 1983, many of these soldiers remained in Shenzhen, with some absorbed into the administrative structure of the local government and others setting up or working for newly established businesses of various kinds. Most renowned among them is Ren Zhengfei, the founder of Huawei, now one of the world's leading businesses in electronics and artificial intelligence and a globally recognized flagship Chinese enterprise. While many among these soldiers prospered under the new dispensation, especially those with access to education and some social capital, others proved less fortunate, with a significant number finding themselves unemployed and left with few if any assets when businesses employing them were closed down. This division neatly encapsulated the degree to which the benefits of China's reforms were unequally distributed within the Chinese population. Those who succeeded often did so thanks in part to their military training, which had instilled in them a spirit of prevailing at all costs, and also due to strong social networks binding them to other former soldiers.

Shenzhen soon became a showcase of China's reforms, a city where Chinese leaders and officials proudly displayed their accomplishments to foreign visitors of all stripes, politicians, businessmen, representatives of international organizations, and potential investors. By the late 1980s, as Mikhail Gorbachev, who became Soviet general secretary in 1985, embarked on the economic reform program he termed *perestroika* or restructuring, other communist regimes in the Soviet satellites of Eastern Europe contemplated introducing similar measures. Depending on their ideological and personal predilections, the degree of enthusiasm leaders within the Soviet bloc brought to the task varied greatly.

Jan Adamec (Chapter 12) explores how Czechoslovak Communist officials reacted to China's reforms in the later 1980s. As tensions between the Soviet Union and China steadily declined during Gorbachev's tenure, Czechoslovakia followed the lead of its Soviet patron and relations with

⁹ Garver, *China's Quest*, 372–375.

China became decidedly warmer. Between 1987 and 1989, assorted top officials from Czechoslovakia, including the president, prime minister, party secretary, general secretary, and foreign minister, all toured China. While they initially hoped to sell Czechoslovak goods and industrial technology to China, they realized that Czechoslovakia would face difficulties in competing with what China was already receiving from Japan, the United States, and Western Europe. As they wondered how best to implement economic reforms within their own country, while retaining their hold on power, Czechoslovakia's communist elite showed special interest in China's SEZs, touring Shenzhen and also having lengthy discussions on reform strategy with Chinese General Secretary Zhao Ziyang. The last such visit was that of foreign minister Jaromír Johanes in October 1989, who considered Shenzhen a potential model for Czechoslovakia, reporting back to Prague that China had maintained socialist control of joint ventures by insisting that Chinese party and labor representatives be involved in managing them. Johanes also suggested that Czechoslovakia should bid for tenders that Shenzhen was offering, especially in such fields as energy production and building power plants. He told his Chinese interlocutors that the Czechoslovak government intended to implement its own reform program in January 1990. These plans proved fruitless, aborted by the Velvet Revolution that began in mid-November 1989. By the end of the month, the Czechoslovak government had fallen from power, a fate it shared with all its fellow communist regimes in Eastern Europe.

Earlier that year, China had experienced its greatest internal crisis since the Cultural Revolution, an event with major international reverberations, that called into question external assumptions that the PRC had embarked on reforms to which it was irreversibly committed. By 1989, an overheating economy, high inflation, and shortages of various consumer goods had sparked considerable social discontent. For several years, intellectuals and journalists had advocated moves toward greater freedom of expression and some degree of democracy. The death in April 1989 of former CCP general secretary Hu Yaobang, a leading reformer whom conservatives within the Chinese Politburo had ousted from power in 1987, sparked massive protests in Beijing and elsewhere in the country. Students demanding democracy took over Tiananmen Square, the symbolic political heart of Beijing and a frequent venue for mass rallies. In late May, General Secretary Zhao Ziyang, another leading reformer, who had replaced Hu Yaobang two years earlier, publicly expressed support for

the demonstrators, which led the Chinese Politburo to dismiss him too from office and place him under house arrest. After several weeks, on 3–4 June 1989 the Chinese military violently suppressed the protests, which had by then attracted massive media coverage around the world.

With uncertainty rife over precisely what had happened in China and just who was running the government, the future prospects of the policies of Reform and Opening Up seemed questionable. The damage to China's international image was immense. While the communist government of Czechoslovakia expressed fraternal support for China's actions (Chapter 12), Western governments publicly condemned the crackdown and the G-7 leading industrial countries imposed economic sanctions on China, as did international organizations including the European Council. The United Nations likewise censured China. The EEC and the United States imposed an arms embargo on China that remains in force in 2022. Loans from international financial institutions, including the World Bank, IMF, and ADB, were halted, and aid programs dried up.¹⁰ Yet, once it became clear that Deng Xiaoping had retained his position as China's paramount leader, the impressive international diplomatic, economic, and intellectual connections the PRC had accumulated over the previous decade proved their worth.

It is well known that President George H. W. Bush, who had headed the U.S. Liaison Office in Beijing from 1974 to 1975, felt a deep personal commitment to the relationship with China. Although he expressed his country's shock and dismay after 4 June 1989, and acquiesced in congressional sanctions on China, he was determined to maintain lines of communication with reformist elements in China. In July 1989 and again in December, Bush dispatched Brent Scowcroft, his national security adviser, on secret missions to Beijing, to meet with top Chinese leaders and seek to repair relations.¹¹ But other states, individuals, and institutions had an equally compelling economic or emotional investment

¹⁰ Garver, *China's Quest*, 486–488.

¹¹ Maureen Dowd, "2 Officials Went to Beijing Secretly in July," *New York Times*, 19 December 1989, <https://www.nytimes.com/1989/12/19/world/2-us-officials-went-to-beijing-secretly-in-july.html>, accessed 28 September 2021; Christopher Preble, "When Brent Scowcroft Saved the US-China Relationship," *The Hill*, 24 August 2020, <https://thehill.com/opinion/international/513333-when-brent-scowcroft-saved-the-us-china-relationship>, accessed 28 September 2021; George Bush and Brent Scowcroft, *A World Transformed* (New York: Knopf, 1998), 89–91, 98–111; Jeffrey A. Engel, *When the World Seemed New: George H. W. Bush and the End of the Cold War* (New

in China's reforms, sometimes both, and wished to continue the ties that they had developed with likeminded Chinese partners. K. S. Nathan notes (Chapter 8) that the events of 1989 had little impact upon China's relations with the ASEAN states, who prioritized non-interference in the affairs of other nations above human rights issues. Kai Yin Allison Haga (Chapter 6) describes how the World Bank, the associated IDA, and the ADB resumed lending to China in 1990. If anything, the crisis ultimately strengthened ties between these organizations and reformist Chinese officials.

In 1990, the G-7 nations, led by Japan, began relaxing sanctions on China. Even before then, various European nations had begun working around the economic boycotts and bans on high-level bilateral contacts with China the EEC imposed on its members in late June 1989 (Chapter 9).¹² Businessmen interested in cracking the China market or investing in joint ventures, notably American oilmen (Chapter 10), also lobbied to drop embargos and allow exports of oil and gas equipment to China, as early as February 1990 prevailing upon the U.S. Export-Import Bank to lend US\$9.75 million to the China National Offshore Oil Company. The continuation of China's MFN trading status, granted conditionally to China in 1980 and the subject of heated annual battles in the U.S. Congress from 1990 until 2000, likewise won backing from major American businesses and from their umbrella organization, the U.S.-China Business Council.¹³ On occasion, as when in 1991 the Chinese Ministry of Education approved nine provisional MBA programs based on U.S. models that Chinese universities wished to introduce, the resumption of pre-existing exchange relationships became an opportunity for Chinese officials to signal that their country's reforms were still on track (Chapter 5).

For America's professional China-watchers, the twists, turns, and disappointments of China's Reform Era were not necessarily surprising. In

York: Houghton Mifflin Harcourt, 2017), 175–198; Garver, *China's Quest*, 498–502; and Zhang, *Beijing's Economic Statecraft during the Cold War*, 289–298.

¹² See also Zhang, *Beijing's Economic Statecraft during the Cold War*, 304–307; and Garver, *China's Quest*, 494–498.

¹³ Christian Talley, *Forgotten Vanguard: Informal Diplomacy and the Rise of United States-China Trade, 1972–1980* (Notre Dame: University of Notre Dame Press, 2018), 128–130; and Garver, *China's Quest*, 530–534.

recent years, commentators have suggested that the U.S. foreign policy community, especially the China experts congregated within government, academe, and the cluster of associated think tanks and non-governmental organizations (NGOs) with an interest in China and Asia, greatly overestimated their ability to influence the country's internal economic, political, and social evolution. The policy elite also stands accused of massive over-optimism over how China would act internationally and deal with other countries. In 2018, for example, two former officials who served in the State Department and National Security Council under President Barack Obama argued:

Across the ideological spectrum, we in the U.S. foreign policy community have remained deeply invested in expectations about China—about its approach to economics, domestic politics, security, and global order—even as evidence against them has accumulated. The policies built on such expectations have failed to change China in the ways we intended or hoped.

Greater commercial interaction with China was supposed to bring gradual but steady liberalization of the Chinese economy... Growth was supposed to bring not just further economic opening but also political liberalization. Development would spark a virtuous cycle, the thinking went, with a burgeoning Chinese middle class demanding new rights and pragmatic officials embracing legal reforms that would be necessary for further progress... U.S. policy aimed to facilitate this process by sharing technology, promoting people-to-people exchanges, and admitting hundreds of thousands of students to American universities.¹⁴

Close examination of the thinking of American China experts in the later 1970s and 1980s suggests that this portrait is not entirely fair. Priscilla Roberts (Chapter 13) argues that U.S. China-watchers of this period were in reality quite restrained in their hopes and expectations of how China might develop. With financial backing from the major philanthropic foundations, think tanks and associated non-governmental organizations, including the Council on Foreign Relations (CFR), the Asia Society's China Council and Williamsburg Conferences, the National Committee on U.S.-China Relations (NCUSCR), and the Trilateral Commission,

¹⁴ Kurt M. Campbell and Ely Ratner, "The China Reckoning: How Beijing Defied American Expectations," *Foreign Affairs* 97: 2 (March/April 2018): 60–70, <https://www.foreignaffairs.com/articles/china/2018-02-13/china-reckoning>, accessed 28 September 2021.

made sedulous efforts to prepare the ground for the resumption of relations between the United States and China, to provide Americans with accurate information on China, to facilitate exchange relationships of all kinds, and to integrate China into existing international institutions and the global system. Elites not just from North America but also from Western Europe and non-communist Asia engaged in these endeavors. But when one turns to the analyses of China's policies and forecasts of the PRC's potential trajectory that the China specialists among them produced, one finds ample recognition of the limitations on any influence that external powers possessed, in terms of affecting the course of events within China. Nor were their predictions as to China's dealings with other powers and the courses its leaders might steer, domestically and internationally, especially roseate or optimistic. Any rapture displayed was distinctly qualified, with healthy skepticism and modest expectations much in evidence. This was a relationship that was still finding its way.

The various elite think tanks and American and international NGOs with close links to official policymaking helped to weave together much of the detailed fabric of China's burgeoning relationship with the liberal and capitalist powers of the West. Following Tiananmen, in conjunction with other international organizations including the major international financial institutions, they too worked to maintain ongoing dialogues with China and to mitigate the ultimate impact of the sanctions imposed upon the PRC. While strongly condemning the violent repression of the June 1989 protests, organizations such as the Asia Society, the NCUSCR, and the Ford Foundation did not break off all contacts. The Ford Foundation's new Beijing office stayed open and in operation, while the NCUSCR postponed but did not cancel a forthcoming U.S.-China Dialogue meeting between leading China specialists and retired officials and policymakers from the United States and their Chinese counterparts, an event organized by the Chinese People's Institute of Foreign Affairs (CPIFA) in Beijing. Originally scheduled for July 1989, it eventually took place in Beijing in late February and March the following year. Robert McNamara, who as president of the World Bank had orchestrated China's entry into that organization, was one of the U.S. delegation. Even though both sides often talked past each other, with the Chinese participants particularly hostile and defensive, they were at least communicating. The

Americans also met Premier Li Peng and several other prominent Chinese officials, an encounter reported in the official Chinese press.¹⁵

Although China was reasonably successful in overcoming the sanctions and censure it experienced after June 1989, from then onward the PRC suffered from a problematic public image. Even so, assisted by the influential allies and partners acquired in the previous two decades, many of whom pinned their hopes on the belief that ultimately the reformers would win out in the ongoing struggles within the Politburo over China's future direction, the country successfully weathered the storm. China's dramatic economic growth continued largely unchecked, especially after Deng Xiaoping's now legendary Southern Tour early in 1992. Since at least the early 1970s, China's leaders had assumed that Beijing could pressure and manipulate Western governments to change their policies by offering or withholding the economic advantages of access to the China market. In 1970, China canceled its normal large purchases of wheat from Australia for three years, switching to suppliers from Canada and elsewhere. The underlying purpose was to convince Australian farmers to pressure their government to grant diplomatic recognition to the PRC, as Canada had already done, and also to lift existing bans on exports of nonstrategic materials to China. When these tactics proved successful, Beijing not unnaturally interpreted the outcome as evidence that this was one form of negative economic statecraft that could be relied upon to work.¹⁶ Throughout the 1970s and 1980s, the crush of foreign businesses keen to sell to China and invest there, usually backed by governments equally eager to facilitate these deals, offered further proof positive that on the international scene, economic advantage would usually trump any other concerns.

This lesson was perhaps intensified by the degree to which, during the 1970s and even more the 1980s, the extremely hard-line version of free-market economics known as neoliberalism became intellectually predominant across the West, to the point where it became a near orthodoxy. At least rhetorically, when Ronald Reagan became president of the

¹⁵ Priscilla Roberts, "Our Friends Don't Understand Our Policies and Our Situation": Informal U.S.-China Dialogues Following Tiananmen," *Journal of American-East Asian Relations* 27: 1 (March 2020): 58-95.

¹⁶ Nicholas Thomas, "Sino-Australian Relations in the Long 1970s," in *China, Hong Kong, and the Long 1970s: Global Perspectives*, eds. Priscilla Roberts and Odd Arne Westad (Cham: Palgrave Macmillan, 2017), 208-212.

United States in 1981, dismantling all forms of governmental economic regulation and restraints and unfettering unbridled capitalism and the free market, preferably while shrinking the apparatus of the social welfare state, was one overriding preoccupation of his administration. The same was true of his ally and soulmate Margaret Thatcher, Conservative Prime Minister of Great Britain from 1979 to 1990. Debate is still in progress as to whether China's economic reforms can genuinely be classified as a species of neoliberalism. Isabella Weber perceptively observes that "China has been integrated into global neoliberalism while not pursuing a neoliberal economic policy." During the 1980s, with the assistance of the World Bank and the American Economic Association, China hosted conferences where leading neoliberal free-market advocates from Eastern Europe (most of them in exile) and the United States offered advice and guidance to Chinese would-be reformers. Graduate students and economic cadres received fellowships to study in the United States at key academic centers propounding this outlook, especially the University of Chicago.¹⁷

The most prominent neoliberal to visit China was the Nobel laureate Milton Friedman, acclaimed leader of what was termed the "Chicago School" of economics, an articulate, passionate, and tireless exponent of the fundamental necessity for market freedom as a *sine qua non* of an efficient and functioning economy and society. There were, as Weber notes, important differences between Friedman's thinking and those of Chinese reformers, especially Zhao Ziyang, in terms of the role that China reserved for the state. Friedman visited China twice, in 1980 and 1988, delivering lectures and meeting top Chinese economists and academics. While Friedman found his first trip somewhat disappointing, during his second he met with General Secretary Zhao Ziyang, on whom he urged the need for China to introduce privatization and decentralization. In October 1993, less than two years after Deng's Southern Tour, Friedman made a third visit, meeting Jiang Zemin, the new general secretary. Even

¹⁷ Isabella Weber, "Origins of China's Contested Relation with Neoliberalism: Economics, the World Bank, and Milton Friedman at the Dawn of Reform," *Global Perspectives* 1: 1 (9 April 2020): 1–14, quotation from 1. See also Isabella M. Weber, "China and Neoliberalism: Moving Beyond the China is/is not Neoliberal Dichotomy," in *The Sage Handbook of Neoliberalism*, eds. Damien Cahill, Melinda Cooper, Martijn Konings, and David Primrose (London: Sage, 2018), 219–233; and Isabella M. Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (New York: Routledge, 2021).

though he found developments in China difficult to comprehend, the renewed pace of reform astounded him.¹⁸

Whereas Friedman's dealings with China were somewhat tortuous, he had fewer reservations when admiring Hong Kong, the then British-run capitalist enclave that had since 1949 provided a variety of valuable economic benefits to communist China, serving as a conduit for China's external trade and funneling foreign exchange into the PRC. As he often proclaimed, Hong Kong seemed to him a model of what free markets and non-interventionism could achieve. Within Hong Kong, Friedman's outlook was considered something of an orthodoxy, admired by British government officials and leading tycoons, and promulgated at local universities by his disciples, notably Stephen Cheung, head of the Department of Economics at the University of Hong Kong, who was an economic adviser to Zhao Ziyang, and Cheung's colleague and fellow member of the fiercely neoliberal Mont Pèlerin Society, Richard Y. C. Wong. Cheung, a former student of Friedman's, organized his trips to China, disseminated his mentor's teachings across Hong Kong and within China, and took one of the most iconic photographs of Friedman.¹⁹

Yet for neoliberals including the Czechoslovak economist Friedrich Hayek, as well as Friedman and his followers, democracy and free-market capitalism were by no means natural partners. In a stimulating recent study, the historian Quinn Slobodian argues that what Friedman and his fellow neoliberals found most attractive about Hong Kong was indeed the fact that it was "a remarkable example of the neoliberal fix in a basic form: a non-majoritarian market economy that limited popular sovereignty while maximizing capital sovereignty with a much-touted free trade policy, a robust bank secrecy law, and a low corporate tax rate." Most "admirable" of all, for its neoliberal admirers, "in fact, was its solution to the disruptive problem of democracy." The absence of universal suffrage meant that no great pressure existed to tax the wealthy

¹⁸ Friedman gave his own account of these visits in Milton Friedman, *Friedman in China* (Hong Kong: Chinese University of Hong Kong Press, 1990). See also the works by Weber; Julian Gewirtz, "The Little-Known Story of Milton Friedman in China," *Cato Policy Report* 39:5 (September/October 2017), <https://www.cato.org/sites/cato.org/files/serials/files/policy-report/2017/9/cpr-v39n5-1.pdf>, accessed 1 October 2021; and Gewirtz, *Unlikely Partners*, 83–87, 210–214, 229–230, 257–258.

¹⁹ Weber, "Origins of China's Contested Relation with Neoliberalism."

or business profits to fund massive social welfare programs, nor indeed to regulate living and working conditions.²⁰

Neoliberal plaudits for the Hong Kong government's policies of highly restricted electoral politics and what it termed "positive non-interventionism" were perhaps hyperbolic. From the 1950s onward, in response to repeated episodes of popular riots sparked as much by inadequate basic economic living standards as by political discontent, the British authorities cracked down sharply on disorder but subsequently greatly expanded affordable public housing and heavily subsidized mass health care and education. Monopolistic companies, the suppliers of water, gas, and electricity, were subject to public regulation.²¹

While expertise, technology, and capital from North America, Western Europe, East Asia, and Singapore all made great contributions to China's economic development during the 1980s and beyond, one should remember that the role of Hong Kong was just as significant. As Hamilton points out (Chapter 5), leading Hong Kong tycoons who were themselves often alumni of leading U.S. business schools assisted with the introduction to China of MBA programs modeled on those in North America. More broadly, from the 1970s on, Hong Kong businessmen played a crucial interstitial role in mediating and facilitating mainland China's burgeoning economic relationship with the outside world, especially the United States. Some, especially those whose families had fled the mainland in 1949, together with Western businesses that had seen their assets confiscated in the early 1950s, were initially hesitant to believe that China now offered genuine opportunities for profitable trade and investment. Li Ka-shing, a billionaire and the richest man in Hong Kong, at first stated that he would not invest in China, a stance he later reversed. Others, such as Gordon Wu of Hopewell Holdings, who pushed to develop first the highway infrastructure linking neighboring Guangdong Province to Hong Kong and then to build a bridge connecting the two former colonial enclaves of Macau and Hong Kong to the mainland, were more

²⁰ Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA: Harvard University Press, 2018), 235–236, quotations from 236; on the significance of Friedman's thinking for Hong Kong, see also Tai Wei Lim and Xiaojuan Ping, *Tycoons in Hong Kong: Between Occupy Central and Beijing* (London: Imperial College Press, 2016), 5–11.

²¹ For further details, see Steve Tsang, *A Modern History of Hong Kong: 1841–1997* (London: I.B. Tauris, 2003).

enthusiastic, perceiving opportunities rather than risks. This was particularly true of those “red capitalists” who had maintained close links with the mainland authorities. Hamilton goes so far as to argue that: “Around 1984 senior PRC officials and Hong Kong elites made a bargain.... In exchange for autonomy after 1997, Hong Kong elites agreed not to execute the exit strategies that they had prepared since the communist transition. In return, they would midwife China’s reintegration into global capitalism.”²²

The events of May and June 1989 shook confidence across Hong Kong, with one-quarter of the population attending marches to show solidarity with the protesters. Even mainland institutions, such as the Bank of China headquarters and the New China News Agency (Xinhua), China’s de facto representative office in Hong Kong, displayed mourning banners, with Xu Jiatur, director of the latter, fleeing to the United States a few months later. Most of Hong Kong’s top businessmen, though initially stunned, nonetheless soon began to adjust to changed circumstances. Hong Kong executives, including representatives not just of Hong Kong businesses but also those from leading American firms, soon came together in a lobbying campaign to block efforts by the U.S. Congress to remove China’s MFN status. Most belonged to the American Chamber of Commerce in Hong Kong (AmCham), which worked in conjunction with the Hong Kong government to argue that excluding the PRC from the MFN regime would further weaken reformers within China, while hurting Hong Kong, through which much of this trade was routed. Early in 1990, the first overseas branch of the Asia Society was established in Hong Kong. Financially independent of the New York parent, it was largely funded by local businessmen, including Sir Quo-Wei Lee, chairman of Hang Seng Bank, and Ronnie Chan, a local property tycoon with major business interests in both China and the United States. Its first Hong Kong executive director, Burton Levin, a former U.S. Consul General in Hong Kong from 1981 to 1986, spent much of his early months doing his best to persuade American businesses that the

²² See Peter E. Hamilton, *Made in Hong Kong: Transpacific Networks and a New History of Globalization* (New York: Columbia University Press, 2021), chs. 6–8, quotation from 277; Zhang, *Beijing’s Economic Statecraft during the Cold War*, 300–301; Xu Jiatur, *Xu Jiatur’s Memoirs: My Career in Hong Kong* (Hong Kong: Xianggang lianhebao, 1994), unofficial translation, chs. 9–10; the descriptions of the activities of specific major firms and their leading figures in Lim and Ping, *Tycoons in Hong Kong*; and Garver, *China’s Quest*, 580–595.

situation in China would improve and they should continue their Hong Kong operations, rather than moving their Asian offices elsewhere.²³

It remains an open question just how far both self-interest and the fervent adherence of Hong Kong businesses to the neoliberal outlook that became increasingly dominant in Britain and the United States in the 1980s influenced their reform-minded Chinese communist associates. Although the British-run government in practice responded quite effectively to expressions of popular discontent and political or social unrest, investing heavily in housing, health, and education, establishing a network of elected local bodies to administer social welfare, and employing various consultative mechanisms to gauge public sentiment, Hong Kong provided a template of a governmental system that had decoupled ostensibly free markets from democracy. The teachings of hard-line opponents of state intervention, such as Friedman and his Chinese acolytes, Stephen Cheung and Gregory Chow, may also have emboldened Chinese enterprises now run on market lines to dismantle the social security provisions that had guaranteed at least minimal subsistence to most of China's population, prompting the kind of discontent expressed in Shenzhen by those demobilized PLA engineering troops who fared poorly when the businesses employing them were privatized or wound up (Chapter 11).

The lessons that Chinese leaders drew from 1989 were in many ways understandable: that the country's economic heft and its political influence within transnational institutions gave it the resources and resilience to weather international storms and crises, and that in doing so it could count on finding powerful allies from within the business sectors and political elites of other states. To quote Shu Guang Zhang, "expanded US-China economic exchange in the 1990s crippled, if it did not altogether demolish, the international economic sanctions on China." Thereafter:

The seemingly successful end result once again reassured the PRC leadership that if managed prudently, its foreign economic statecraft would help the government survive even the most devastating external pressure. So long as China's power kept on growing, and so long as it continued engaging the outside world, Beijing would inevitably become more capable

²³ Hamilton, *Made in Hong Kong*, 266–277.

of exercising economic statecraft either positively or negatively in international diplomacy, and in the end would thrive both economically and politically.²⁴

A second lesson was that, if the CCP wished to maintain its hold on power, economic modernization and attempts to introduce greater democracy might well be incompatible. The collapse of communism in the Soviet Union and its East European satellites, following Gorbachev's efforts to combine *perestroika* (economic restructuring) with *glasnost* (openness), served as a dreadful warning to socialist Chinese leaders that their own hold on power might prove equally fragile should they likewise experiment with democratic reforms. When the Soviet Union itself dissolved in the early 1990s, fragmenting into its various component states, this lesson was still further reinforced.²⁵ On some level, the existence of Hong Kong, which under British rule was, as Xu Jiatus of the New China News Agency described in his memoirs, extremely prosperous but by no means democratic, seemed to offer proof positive that unbridled free-market capitalism and liberal democracy need not inevitably accompany each other.

This lesson was not, however, without its own dangers. Perhaps ironically, Hong Kong prided itself for decades on its invariably high standing in annual rankings of the world's most free markets. But just how far its economy was genuinely open to free competition became increasingly problematic. Beginning in the late 1940s, Hong Kong boasted many entrepreneurs—quite often refugees—who started with little and became tycoons. By the 1980s, however, these new oligarchs had established sprawling conglomerates that effectively dominated major economic sectors, including real estate, construction, major supermarket and retail chains, shipping, transport, telecommunications, and finance. Most enjoyed close relations with government officials, effectively benefiting from what might plausibly be termed cronyism. Sons and daughters of wealthy founding tycoons luxuriated in numerous opportunities to amass new entrepreneurial fortunes, but—talented entertainers and creative artists excepted—interlopers from outside these charmed circles faced sharply limited options. Despite poorly conceived

²⁴ Zhang, *Beijing's Economic Statecraft in the Cold War*, 310.

²⁵ Garver, *China's Quest*, 524–527.

and implemented government-backed efforts to encourage technological innovation, entrepreneurship, and start-ups, stock market speculation and playing the property market offered the most lucrative prospects. Constant officially sponsored campaigns encouraging Hong Kong people to tackle environmental problems did little to halt continuing and accelerating degradation of air and water quality, biodiversity loss, and accumulating landfill waste and plastic pollution. In practice, the absence of democracy permitted Hong Kong to function as an oligopoly, dominated by a relatively small number of politically influential large businesses that controlled major portions of the local economy, profited astronomically from an inflated housing market and property sector and stock market speculation, and benefited from low personal and corporate tax rates. Given these shortcomings, Hong Kong was far from an ideal model to emulate.

As noted earlier, until the late twentieth century, Chinese economic statecraft had been primarily defensive in nature, intended to mitigate the severity of the economic and political isolation to which the United States in particular sought to condemn the PRC, or to boost China's ideological standing and political influence in the developing world. China's use of economic statecraft was considered too limited even to feature significantly in the original edition of David A. Baldwin's study of the subject, first published in 1985.²⁶ In an afterword written thirty-five years later, by contrast, Ethan B. Kapstein discussed at length China's extensive and still expanding use of economic statecraft in the intervening period.²⁷

Zhang's massive survey of Chinese economic statecraft during the Cold War noted how, facing some party and popular skepticism over just how effectively China had deployed its foreign aid in the past, and indeed whether the still developing PRC could afford to spare funds for this purpose, in 1979 Deng Xiaoping decreed that, while China would continue to extend such assistance, more emphasis would be placed upon using it efficiently and on ensuring that China as well as the recipient countries gained some tangible benefit from these expenditures. From then on, Beijing sought to use its limited aid resources to ensure that China received long-term advantages of some kind. Likewise, foreign

²⁶ David A. Baldwin, "Preface," *Economic Statecraft*, new ed. (Princeton, NJ: Princeton University Press, 2020), xi.

²⁷ Ethan B. Kapstein, "Afterword: Economic Statecraft: Continuity and Change," in Baldwin, *Economic Statecraft*, new ed., 391, 405–428.

trade was now considered part of China's diplomatic portfolio, as were the promotion of Foreign Direct Investment (FDI) and transfers of advanced technology, and the expansion of Chinese exports of manufactured goods. By the end of the decade, growing Chinese prosperity meant that the PRC could provide aid to additional recipient countries in Africa, Asia, and Latin America, with the number rising to 83, up from 64 in the early 1980s. China also participated in numerous United Nations training and technical assistance projects, contributing expert personnel.²⁸

The funds that China assigned to foreign aid of various kinds were in considerable part the fruit of its successes throughout the preceding decade in boosting external trade, transfers of technology, FDI, and educational exchanges. In the aftermath of June 1989, external aid also attained renewed prominence in Chinese foreign policy, as part of a strategy of boosting international backing for China among Third World and developing countries. From July 1989 onward, China dispatched numerous high-profile delegations on official missions to a wide range of states across Africa, Asia, and Latin America. Jiang Zemin, the new party secretary who had replaced Zhao Ziyang, Premier Li Peng (widely believed responsible for the violence of June 1989), and Foreign Minister Qian Qichen each led foreign tours, with Li visiting no less than 20 of China's neighbors in Asia by the end of 1991. South Korea, which had still to open diplomatic relations with China, became an important target, as were Indonesia and Singapore, both of which formally recognized China in 1990. Advantageous trade and investment deals sweetened these arrangements. Top leaders from nations that hosted Chinese officials during these difficult times made reciprocal visits to Beijing, returning home with tangible evidence of Chinese generosity and funding for projects and exchanges of all kinds. China's new-found wealth was used to good effect, allowing the PRC to deploy both commercial inducements and economic aid programs to shore up its standing across the developing world and regionally and to win diplomatic support from the beneficiaries of Chinese largesse.²⁹

Given that their nation had spent almost thirty years in a state of near isolation from the liberal-capitalist West, China's leaders and cadres displayed considerable skill in familiarizing themselves with key economic

²⁸ Zhang, *Beijing's Economic Statecraft during the Cold War*, 261–270, 278–289.

²⁹ Garver, *China's Quest*, 490–494.

and political institutions. In doing so, they were facilitated by a level of goodwill which initially surprised many Chinese, that meant elites and even ordinary people were prepared to welcome representatives of mainland China and facilitate its integration into the prevailing global order. Until 1989, China generally enjoyed a good press. Although its public image changed, with assistance from a range of outside businesses, institutions, and political allies, Beijing was nonetheless able to navigate the far more difficult and turbulent international currents of the 1990s, its external clout and political influence increasing as China's economy grew at near breakneck speed. The tactics that Chinese leaders used when fighting the international sanctions imposed on them and battling to retain their MFN status in the United States were excellent examples of how, in Kapstein's words, "China makes deft use of 'fifth columns' of business elites within target countries as part of its economic statecraft, creating pressure points that can act on its behalf."³⁰

In his pathbreaking study of recent Chinese economic statecraft, William J. Norris suggests that "China's sophisticated use of economics in its foreign policy is still a fairly recent phenomenon."³¹ Yet Zhang highlights a number of general principles dating back to the time the PRC was established that seem to have remained consistent themes ever since. Overall: "Chinese leaders seemed to have understood and to be culturally familiar with the political instrumentality of economic power." The earliest goal of Chinese economic statecraft, one that continued throughout the 1980s and 1990s, was to "use... economic and political measures to counter and break foreign economic sanctions." Even when they sought foreign assistance, moreover, they "consistently tried to strike a balance between maximizing economic benefits from and minimizing political influence by the sender." The PRC habitually used "economic inducements" in its efforts "to cultivate 'friendly' relations with carefully selected countries, Communist and non-Communist alike." As it sought "economic leverage over the targets of its aid, Beijing never hesitated to employ negative economic measures when inducement proved ineffective." Lastly, as China's modernization became an overriding objective,

³⁰ Kapstein, "Afterword," 426; see also Garver, *China's Quest*, 530–534.

³¹ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016), 6.

“Beijing in the end turned development into a strategic objective of its economic statecraft.” Ultimately, Zhang argues:

China’s reforms at home and its opening to the West under Deng and his associates brought to Beijing more opportunities than ever before for practicing its brand of economic statecraft, and more challenges as well. While opening the Chinese market to the Western world, the PRC seized the opportunity to manipulate the expectations and realizations of business shares and gains by the industrial countries in pursuit of its foreign policy objectives.³²

These principles—often magnified by the massive increase in China’s own economic resources—seem distinctly to resemble those followed by Beijing up to the present time. Their successful implementation required a reasonably sophisticated understanding of the workings of target institutions, businesses, organizations, and governments. Norris, who defines economic statecraft as “the state’s intentional manipulation of economic interaction to capitalize on, reinforce, or reduce the associated strategic externalities,” points out that, since “commercial actors, rather than states per se, conduct the majority of international economic activity,” in many cases such efforts involve “the intentional attempt of the state to incentivize commercial actors to act in a manner that generates security externalities that are conducive to the state’s strategic interests.”³³ When dealing with Japan, Western Europe, and in some cases the United States, Zhang suggests, “PRC leaders expected the anticipated economic reward for a changed foreign policy to first hook the business community, which would then put pressure on the government.”³⁴

This was indeed a classic Marxist ploy, based on the assumption that in Western politics, capitalist big business ultimately called the shots. During the 1980s and 1990s, there was indeed much evidence that might suggest this interpretation was well justified. Though even then, at least in the 1980s, the profound intellectual and strategic antagonism toward Soviet communism that both Margaret Thatcher and Ronald Reagan shared might have given Chinese leaders pause for thought. As good Marxists, albeit socialists with Chinese characteristics, they gave rather short

³² Zhang, *Beijing’s Economic Statecraft during the Cold War*, 314–322.

³³ Norris, *Chinese Economic Statecraft*, 11–14.

³⁴ Zhang, *Beijing’s Economic Statecraft during the Cold War*, 329.

shrift to the role of ideology in international affairs. By the 1990s, realist theories of the primacy of the national interest, unrelenting competition among states, and the need to maintain a balance of power favorable to one's own nation, were also driving much Chinese thinking on foreign relations. Economic strength was expected to translate automatically into strategic predominance. As Zhang, Kapstein, and several chapters in this volume highlight, Beijing employed a carrots-and-sticks approach; should positive economic inducements prove insufficient, Beijing showed no hesitation in switching to the use of negative pressure, sometimes exerted to intimidate individual businesses, sometimes employed to coerce entire national governments to change policies that China opposed.³⁵ At every level, the conduct of international affairs was perceived in Beijing as primarily transactional, a function of power, whether economic or military. As time would show, this fundamentally zero-sum and perhaps simplistic approach to the outside world had its limitations.

Kerry Brown (Chapter 14) concludes this volume by noting how, despite a widely told narrative within China that hails December 1978 and the beginning of Reform and Opening Up as a new departure, in reality important continuities in personnel and indeed policies linked the periods preceding and following that date. Despite the expectations of many in the West, Brown states, Beijing never intended to import foreign attitudes wholesale; instead, Chinese leaders sought to utilize practical knowledge and mechanisms from outside, while avoiding foreign ideological contamination. Brown focuses upon the formulation in 1990 of Deng Xiaoping's famed "24-character strategy," guidance for the future that exhorted his country, facing international backlash over Tiananmen and the collapse of communist regimes in the Soviet Union and Eastern Europe, to: "Observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership."³⁶ The Deng Doctrine was, he suggests, an effort to reassure China's neighbors and partners that China would function "as a new kind of power, one honest to its unique cultural and historic

³⁵ Zhang, *Beijing's Economic Statecraft during the Cold War*, 320–321, 329–330; and Kapstein, "Afterword," 393–394, 419–426.

³⁶ "Deng Xiaoping's '24-Character Strategy'," *GlobalSecurity.org*, 28 December 2013, <https://www.globalsecurity.org/military/world/china/24-character.htm>, accessed 2 October 2021.

traditions, that were, by its own account, neither bellicose and disruptive, nor subservient and servile, but aware of the need to win a rightful, exceptional space.”

Brown views Deng’s words as the progenitor of the subsequent concepts of “Peaceful Rise,” “Harmonious China,” the “China Dream,” and the “Belt and Road Initiative” articulated by China’s leaders in the twenty-first century. He concludes by suggesting that the template of foreign relations Deng and his allies developed during the 1980s proved remarkably resilient, and that China followed it consistently. Any major alterations to the Deng Doctrine, Brown argues, are unlikely to be due to “a transformation China itself has sought,” but brought on by shifting circumstances, because “the global ‘facts’ around China have evolved in such a way that the country under Xi [Jinping] has no alternative but likewise to follow them.”

Brown’s argument that China has not deliberately sought to create an international environment hostile to itself has considerable merit. Chinese officials often seem taken aback, dismayed and baffled by the global cooling and international big chill Beijing has recently encountered across much of the world. Their past experience has, however, been somewhat limited, with their understanding confined and perhaps even distorted by the very specific conditions that prevailed when they came of age intellectually, with economic considerations prioritized and the maximization of profits reigning supreme. In numerous respects, the international system of the 2020s is no longer that of the 1980s or even the 1990s, when China embarked on a trajectory of meteoric economic growth, with impacts that would not simply affect the PRC internally but would prompt reverberations felt across every other nation. Striking transformations within China prompted equally dramatic and consequential changes to the international system to which China inescapably belonged. In a climate decidedly more uncongenial than three decades earlier, the world’s most populous nation now faced the challenge of adapting venerable but dated and simplistic approaches to meet the demands of a largely uncharted and hazardous new era. In Deng’s words, China would once again have to cross a perilous and unpredictable river by feeling the stones.

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Seven Policies That Opened China to the Outside World, 1979–1990

Lawrence C. Reardon

China attracted more Foreign Direct Investment (FDI) in 2020 than the United States.¹ By 2023, the Centre for Economics and Business Research predicts that China will be transformed into a high-income country with a gross national income per capita of \$12,536. By 2030, China will have replaced the United States as the most important economy in the world, in part due to China’s “skillful management of the pandemic and the hits to long-term growth in the West,” its improved

¹ Paul Hannon and Eun-yong Jeong, “China Overtakes U.S. as World’s Leading Destination for Foreign Direct Investment,” *Wall Street Journal*, 24 January 2021, <https://www.wsj.com/articles/china-overtakes-u-s-as-worlds-leading-destination-for-foreign-direct-investment-11611511200>, accessed 17 April 2021.

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technological competitiveness, labor market flexibility, and ease for doing business.²

China's transformation into a global economic superpower suggests that the COVID-19 pandemic could be a *deus ex machina*. The pandemic and Western countries' inability to deal with the crisis have, however, merely accelerated China's pathway toward economic supremacy. The primary reason was China's transformation between 1978 and 1990 from an inward-oriented to an outward-oriented economy. For the first thirty years after the founding of the People's Republic of China (PRC) in 1949, Chinese leaders adopted either a semi-autarkic or an import substitution industrialization (ISI) development strategy to establish a self-reliant economy insulated from the global economy. Following Mao Zedong's death in 1976, the new paramount leader Deng Xiaoping rejected Mao's semi-autarkic approach and authorized experimentation with a variation of outward-oriented development, the coastal development strategy. The party-state issued seven key documents that promoted greater integration between the global and coastal economies, while limiting its impact on the less competitive interior economy. These seven documents laid the foundation for China's emergence as a global economic superpower in the twenty-first century.

During the **initial policy phase**, the State Council adopted document 1979.202 that strengthened and adapted export promotion policies promulgated during the previous two decades to finance the readjusted ISI strategy. The Central Committee issued document 1979.50 that allocated decision-making authority to the southeastern provinces of Guangdong and Fujian to establish Special Economic Zones (SEZs) in the border towns of Shenzhen opposite Hong Kong and Zhuhai adjoining Macau, followed one year later by further SEZs in Guangdong's Shantou and Xiamen in Fujian.

While the decentralization experiment jumpstarted the Guangdong and Fujian economies, it also created new opportunities for economic crimes. During the **policy readjustment phase**, the party-state halted further expansion of the experiment and readjusted policies. The Central Committee thus issued the Emergency Circular of January 1982 that recentralized party control, authorized investigation of serious economic

² Centre for Economics and Business Research, "World Economic League Table 2021," 12th ed. (London, United Kingdom: December 2020), <https://cebr.com/reports/world-economic-league-table-2021/>, accessed 17 April 2021.

crimes, and imposed a moratorium on expanding the SEZ experiment. Beijing leaders thus recognized the positive effects of decentralization and foreign investment on provincial growth rates, but also gained insight into the problems of liberalizing China's economy.

After a two-year readjustment period, Deng Xiaoping initiated the **policy expansion phase** of the coastal development strategy. The Central Committee issued the fourth key document 1984.13, which allowed foreign investment in fourteen coastal cities and established new regional export processing zones. The State Council issued document 1988.24 in April 1988 that established Hainan Island as a separate province and a SEZ. During the final **policy adoption phase**, Deng Xiaoping officially approved Zhao Ziyang's coastal economic development strategy and the integration of China's coast with the global economy. Central Committee document 1990.100 was the final document that approved Shanghai's Pudong New Area and signaled an introduction of outward-oriented development to the interior economy.

With the implementation of these seven documents during the first decade of China's "opening to the outside world," party elites began China's transition to outward-oriented development. Deng's indispensable role was to approve the various stages of China's coastal development and to defend the experiment against domestic critics. Yet beginning in the early 1980s, Premier Zhao Ziyang was responsible for blazing the visionary path of integrating China's coastal areas into the world economy.

INITIAL PHASE: DOCUMENT 1979.202

Expanding Foreign Exchange Revenue Under the Plan

During the PRC's first three decades, Chinese elites steadfastly pursued the party-state's long-term goals: building a strong national defense, developing a self-sufficient economy, and guaranteeing the party's hegemonic control of the state, the economy, and the people.

Elites disagreed, however, on the strategy to achieve these goals, resulting in a cycling of two variations of Stalinist economic development from the 1950s to 1970s. Mao promoted the "first way" of normative semi-autarkic development (development model 1), which utilized ideology and mobilization techniques characteristic of revolutionary Stalinism (1929–1934), to implement the Great Leap Forward (GLF), the

Third Front, and the Cultural Revolution. Zhou Enlai, Chen Yun, and eventually Deng Xiaoping promoted the “second way” of remunerative, import substitution industrialization (development model II), which was adapted from the bureaucratic Stalinist model (1934–1953). These ideas inspired Chinese leaders to formulate the Four Modernizations strategy, and its Four-Three (*sisan fang’an*) and the New Ten-Year ISI plan variations.³

Following Mao’s death, Chairman Hua Guofeng continued the “second way” of Import Substitution Industrialization (ISI) development by adopting the Ten-Year Plan in 1978, which authorized the importation of 120 large-scale turnkey plants valued at over US\$6.5 billion.⁴ Outlined in Yu Qiuli’s State Planning Commission report of July 1977, this “New Great Leap” included the construction of a nuclear power plant, hydroelectric power stations, various types of petrochemical plants for industry and agriculture, synthetic textile plants, and large-scale steel complexes, including Shanghai’s Baoshan steel complex that was to cost US\$4.8 billion in foreign exchange and RMB 21.4 billion to finance the infrastructure.⁵ By 1978, China had signed contracts worth \$7.8 billion to import ISI turnkey projects, which required another US\$5 billion to build the support infrastructure.⁶ Deng Xiaoping was especially intrigued by the European willingness to finance China’s ISI dreams.⁷ According

³ For a more detailed analysis, see Lawrence C. Reardon, *Reluctant Dragon: Crisis Cycles and Chinese Foreign Economic Policy* (Seattle, WA: University of Washington Press, 2002); and Reardon, *A Third Way: The Origins of China’s Current Economic Development Strategy* (Cambridge, MA: Harvard University Asia Center, 2020).

⁴ Hua Guofeng, “Report on the Work of the Government,” *Peking Review* (10 March 1978), 7–41.

⁵ “Guanyu Shanghai xinjian gangtiechang de changzhi xuanze, jianshe guimo he youguan wenti de qingshi baogao” [Report and Request for Instructions Concerning the Site Selection and Construction Scale of Shanghai’s New Steel Mill], submitted by the State Planning Commission et al. and approved by the State Council on 11 March 1978, in Fang Weizhong, *Zhonghua Renmin Gongheguo jingji dashiji (1949–1980)* [A Chronology of Major Events in the PRC’s Economy (1949–1980)] (Beijing: Zhongguo Shehui Kexue Chubanshe, 1984), 597.

⁶ Li Xiannian, “Zai zhongyang gongzuo huiyishang de jianghua” [Speech to the Central Work Conference], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong quanhui yilai zhongyao wenxian xuanbian* [Selected important documents issued since the Third Plenum] (Beijing: Renmin Chubanshe, 1982), 117.

⁷ Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2011), 221–227.

to Ezra F. Vogel, Deng responded to the conference decision to import \$18 billion in ISI projects, by asking, “Why not US\$80 billion?”⁸ Deng thus fully shared the enthusiasm of Hua Guofeng and Li Xiannian to use foreign capital to accelerate the ISI program and to break away from Mao’s semi-autarkic strategy.⁹

Deng’s radical tendencies were tempered, however, by moderate bureaucratic Stalinists such as Chen Yun, who adamantly opposed Hua Guofeng’s New Great Leap strategy.¹⁰ Chen Yun strongly opposed the decisions reached at the July–September 1978 State Council Ideological Discussion Conference to accelerate implementation of the Four Modernizations’ ISI program.¹¹ He advocated a severe cutback of Hua’s mega-import program and argued that new ISI projects must be “carried out in an orderly fashion, and not ineptly implemented because of poor planning.”¹² Having learned economic planning in the Soviet Union of the early 1950s, Chen Yun believed that a realistically designed state plan focusing on moderate, balanced growth could bring about steady growth. Chen Yun’s balanced approach thus restrained Deng’s radicalism, brought an end to Hua Guofeng and his New Great Leap, and initiated a three-year period of economic readjustment, including canceling many of Hua’s large-scale turnkey ISI projects.

⁸ *Ibid.*, 226.

⁹ Deng Xiaoping, “Gaoju Mao Zedong sixiang qizhi, jianchi shishi qiushi de yuanze” [Raise High the Banner of Mao Zedong Thought, Uphold the Principle of Seeking Truth from Facts], Deng Xiaoping, *Deng Xiaoping wenxuan, 1975–1982* [Collected Works of Deng Xiaoping, 1975–1982] (Beijing: Renmin Chubanshe, 1983), 123.

¹⁰ Zhao Ziyang, *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang* (New York: Simon and Schuster, 2009), 92.

¹¹ Fang Weizhong, *Zhonghua renmin*, 603; Chen Yun, “Tiaozheng guomin jingji, jianchi anbili fazhan” [Readjust the national economy, support proportional development], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 76–77; and Chen Yun, “Zai caijing weiyuanhui zhaokai de huibaoshang de fayan” [Speech to the report-back meeting of the Finance and Economic Commission], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 172, 173.

¹² Long Chucai, *Liyong waizi gailun* [An introduction to the use of foreign capital] (Beijing: Zhongguo Duiwai Jingji Maoyi Chubanshe, 1985), 253, 288, 300; and Zhao Ziyang, “Jinnian jingji xingshi he ‘liuwu’ jihua shexiang” [Tentative ideas about this year’s economic situation and the “6.5 economic plan,” report to the political bureau delivered on 2 September 1980, in Zhao Ziyang, *Zhao Ziyang wenxianji (1980–1989)* [The collected works of Zhao Ziyang (1980–1989)], vol. 1 (Hong Kong: Chinese University Press, 2016), 1: 79–88.

While the new Beijing leadership needed to increase export production to finance the remaining ISI projects, domestic producers were unwilling to increase exports as profit margins on domestic sales were higher. On 13 August 1979, the State Council therefore issued document 1979.202, that included fifteen regulations strengthening existing export promotion policies for the planned economy.¹³ The second regulation bolstered export promotion programs from the late 1950s, including the Five-Priorities Policy on export production and the *yijin yangchu* (using imports to develop exports) program.¹⁴ This new iteration allowed exporters to set export prices according to actual production costs and thus enjoy a reasonable profit.

To break the monopolistic control of the foreign trade organizations, local governments and localities, including eight cities along the Yangtze River, were given a greater role in managing foreign trade. It established specialized trading companies (*zhuanYe maoyi gongsi*) to focus on the export of local goods and oversee needed imports. Guangdong, Fujian, Hebei, and Liaoning provinces were allowed to establish provincial foreign trade organizations, which could establish offices in Hong Kong and overseas and also send foreign trade delegations abroad. Central ministries and the Bank of China established programs to upgrade export manufacturing technology, improve export product quality and packaging, and increase research and development funds. The State Council document also expanded the number of export processing zones first established in 1960 in China's interior and coastal provinces, increased their access to foreign exchange, and granted them "Five Priority" status. They revived the foreign exchange retention scheme (*waihui liucheng*), which allowed localities to retain a larger percentage of their foreign exchange profits. They also reduced or eliminated the commercial and industrial tax on twenty major categories of processed export goods, as well as the import and export customs duties levied for enterprises involved in compensation trade or processing and assembling. Finally,

¹³ "Guanyu dali fazhan duiwai maoyi zengjia waihui shouru ruogan wenti de guiding" [Regulations regarding problems in putting great effort in developing foreign trade and increasing foreign exchange revenue], State Council document 1979.202, issued on 13 August 1979, translated in Lawrence C. Reardon, "China's Coastal Development Strategy, 1979–1984 (I)," *China Law and Government* 27 (May/June 1994): 9–18.

¹⁴ Reardon, *Reluctant Dragon*, 97–128.

the State Council promoted exports by devaluing the Chinese Yuan and granted exporters a more favorable internal exchange rate.

By adapting and strengthening these export promotion policies, Beijing hoped to guarantee foreign exchange receipts to finance the national development strategy. Simultaneously, the Central Committee embarked on a new decentralization experiment focused on expanding the role of the domestic and international marketplace in China's development.

INITIAL POLICY PHASE: DOCUMENT 1979.50

Establishing the SEZ Experiment

Central Committee document 1979.50 was the archetypal policy document that initiated experimentation with China's policy decentralization and outward-oriented development in the 1980s. Perhaps the document's most controversial proposal was the establishment of Special Economic Zones in Shenzhen and Zhuhai, which heralded a new phase of China's engagement with the world.

While the New Great Leap was rejected, Hua Guofeng's foreign economic innovations became the foundation for China's opening in the 1980s. Hua approved a limited number of processing and assembly projects,¹⁵ initiated compensation trade agreements, permitted foreign direct investment in new construction projects, and also accepted capital from foreign governments and international organizations, including officially supported buyers' credit.¹⁶ Hua also approved the April 1978 Report of the State Planning Commission and the Ministry of Foreign Trade (MFT) that proposed the establishment of an export processing zone in the areas opposite Hong Kong and Macau, which had first been

¹⁵ "Kaizhan duiwai jiaogong zhuangpei yewu shixing banfa" [Trial Procedures for Developing Processing and Assembly Operations for the Foreign Market], State Council document 1978.139, issued on 15 July 1978, cited in Zhejiangsheng Sifating, Zhejiangsheng Duiwai Jingji Maoyiting, *Duiwai jingji falü zhengce huibian* [A selection of foreign economic laws and policies] (Zhejiang: Zhejiangsheng Sifating, Zhejiangsheng Duiwai Jingji Maoyiting, March 1985), 1: 475–477.

¹⁶ "Guanyu xishou huaqiao, waijiren deng zijin xingjian luyou luguan wenti de baogao" [Report on the Problem of Absorbing Capital from Overseas Chinese, Foreigners and Others to Construct Tourist Hotels], Jiji 78.583, submitted by the SPC on 26 August 1978, as cited in Zhejiangsheng Sifating and Zhejiangsheng Duiwai Jingji Maoyiting, *Duiwai jingji*, 2: 787–789.

established in the early 1960s and revived and expanded in the early 1970s.¹⁷ With Chen Yun's support, Deng Xiaoping expanded Hua's use of foreign capital and investment, including the establishment of 100-percent foreign-owned ventures and the establishment of a new type of export processing zone, the SEZs.¹⁸ They supported experimentation with foreign capital and investment as long as there was minimal disruption of the domestic economy and the party's control.

Premier Zhou Enlai had argued previously that coastal cities such as Shanghai and Tianjin had the industrial expertise and infrastructure to be China's primary export producers.¹⁹ Leaders delayed granting these coastal cities expanded foreign trade authority during the 1980s, however, as they needed to guarantee the uninterrupted flow of foreign exchange revenue. Instead, leaders looked to the southeastern provinces of Guangdong and Fujian. The Third Front strategy of economic development of the 1960s had devastated the southeastern coastal economy by establishing a "political frontier defense" and redirecting investment and human capital from the coastal areas to the interior.²⁰ Provincial officials estimated that over 300,000 Fujianese were unemployed, while over 120,000 had escaped to Hong Kong from Guangdong since the establishment of the PRC in 1949.²¹ Yet across the border in Hong Kong, the British colony's economy was booming, while the Taiwanese economy

¹⁷ Li Xiannian, *Li Xiannian zhuan, 1949–1992* [The biography of Li Xiannian, 1949–1992] (Beijing: Zhongyang Wenxian Chubanshe, 2009), 1071; and "Guanyu jianli chukou shangpin shengchan jidi de qingshi baogao" [Report and Request for Instructions on Establishing an Export Commodity Production Base], submitted by the MFT and approved by the CCP Central Committee on 30 June 1960, in Dangdai Zhongguo de Jingji Guanli Bianjibu, ed., *Zhonghua Renmin Gongheguo jingji guanli dashiji* [A chronicle of the PRC's economy and administration] (Beijing: Zhongguo Jingji Chubanshe, 1986), 143, as translated in Reardon, *Reluctant Dragon*, 229–230.

¹⁸ Chen Yun, "Jingji xingshi yu jingyan jiaoxun" [The Economic Situation and Lessons from Experience], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 601.

¹⁹ Zhonggong Zhongyang Wenxian Yanjiushi, *Zhou Enlai nianpu (1949–1976)* [A chronicle of Zhou Enlai's life (1949–1976)] (Beijing: Zhongyang Wenxian Chubanshe, 1997), 2: 424–425.

²⁰ Zhao Ziyang, "Sanxian qiye tiaozheng bixu gao junmin jiehexing" [Readjustment of Third Front Industries must take an integrative nature], 16 August 1984, in Zhao Ziyang, *Zhao*, 2: 447–450.

²¹ Shenzhenshi Renmin Zhengfu Bangongting, ed., *Shenzhen jingji tequ jiben qingkuang jieshao* [Introduction to the basic conditions of the Shenzhen SEZ] (Shenzhen: n.p., 1983), 21.

was evolving from light industrial production to more sophisticated manufacturing. Chinese elites hoped that these overseas Chinese investors would revive the southeastern economy, which would strengthen exports to Hong Kong and foreign markets while staunching the outflow of Chinese economic migrants fleeing to Hong Kong.²²

In October 1978, the Chinese Ministry of Transport and Communications therefore ordered Yuan Geng, the director of its Hong Kong affiliate China Merchants' Steam and Navigation Company (CMSN), to expand its Hong Kong operations.²³ Seeking an alternative to the rising costs of production in Hong Kong, CMSN looked across the border to Bao'an County as a more economical source of land and labor. By January 1979, Beijing approved the request from Yuan Geng and Guangdong party officials to establish the Shekou industrial zone opposite Hong Kong, to be managed by CMSN.²⁴ Later, Shekou was incorporated within the Shenzhen SEZ proposal, but maintained its autonomous identity as a Ministry of Communications/CMSN fiefdom. Shekou became famous not only for introducing new personnel management procedures and directly electing its management committee,²⁵ but also for its promotional slogan, "Time is money, and efficiency is life," which was emblazoned on the Shenzhen float at the 1984 celebrations of the thirty-fifth anniversary of the People's Republic of China (PRC).

During a March 1979 Central Committee meeting, Guangdong Party Chairman Xi Zhongxun and Yang Shangkun, his Vice Chairman, used their strong personal connections with Deng Xiaoping to argue that Guangdong should be delegated greater provincial authority over its

²² Tan Qingfeng, Yao Xuecong, and Li Shusen, eds., *Waimao fuchi shengchan shijian* [The practice of supporting foreign trade production] (Beijing: Zhongguo Duiwai Jingji Maoyi Chubanshe, 1984), 136.

²³ Huang Zhenzhao and Chen Yu, *Xiwang zhichuang* [Window of hope] (Beijing: Guangming Ribao Chubanshe, 1984), 150.

²⁴ "Guanyu wozhu Xianggang Zhaoshangju zai Guangdong Bao'an jianli gongyequ de baogao" [Report on Hong Kong China Merchants' Steam and Navigation Company establishing an industrial zone in Bao'an county], submitted by the Guangdong Revolutionary Committee and the Ministry of Communications on 6 January 1979 and approved by Li Xiannian on 31 January 1979, in Shenzhen Jingji Tequ Nianjian Bianji Weiyuanhui, *Shenzhen jingji tequ nianjian* [Shenzhen Special Economic Zone yearbook] (Hong Kong: Xianggang Jingji Daobao Chubanshe, 1984), 232.

²⁵ *Shenzhen Daily*, 14 July 2008.

own economic and foreign trade plans. They hoped to harness overseas Chinese capital to build Guangdong's infrastructure, to employ its workers, and to accelerate provincial economic development.²⁶ Five months later, on 15 July 1979, the Central Committee issued document 1979.50, approving "The Two Reports of Guangdong and Fujian Provincial Committees Concerning the Carrying Out of Special Policies and Flexible Measures in Foreign Trade Activities" granting the two provinces control over domestic and foreign economic policy for five years.²⁷

With this unprecedented decentralization of economic authority, the two provinces financed provincially-designed development plans using retained domestic and foreign trade revenue, regulated material pricing, distributed resources allocated by the state plan, and implemented banking and salary reforms.²⁸ To expand their traditional export products and to develop higher quality exports, provincial leaders could attract foreign capital investment to expand processing and assembly activities, establish equity joint ventures, and engage in compensation trade, as well as open provincial investment companies.

Document 1979.50's most risky experiment with decentralization was the construction of the two Special Economic Zones in the Guangdong towns of Shenzhen and Zhuhai along the Pearl River opposite Hong Kong and Macau; one year later, the Central Committee approved the establishment of the Shantou and Xiamen SEZs. Deng formally proposed their establishment during the April 1979 Work Conference and assumed direct responsibility for their implementation.²⁹ Unlike China's

²⁶ Sun Ru, ed., *Qianjinzhong de Zhongguo jingji tequ* [The Chinese SEZs on the move] (Beijing: Zhongguo Caizheng Jingji Chubanshe, 1983), 12–13.

²⁷ "Guangdong shengwei, Fujian shengwei guanyu duiwai jingji huodong shixing texu zhengce he linghuo cuoshi de liangge baogao" [The approval and transmittal of the "Two reports of the Guangdong and Fujian Provincial Committee concerning the implementation of special policies and flexible measures in foreign trade activities"], Central Committee document 1979.50, issued by the Central Committee and State Council on 15 July 1979, translated in Reardon, "China's Coastal Development Strategy (I)," 19–44.

²⁸ Guangdong Jingji Xuehui, ed., *Guangdong jingji tizhi gaige yanjiu* [Studies on Guangdong economic structural reforms] (Guangzhou: Zhongshan Daxue Chubanshe, 1986), 117.

²⁹ "Guanyu jingji tequ he yanhai chengshi jinyibu kaifang de ruogan qingkuang" [Certain conditions for the SEZs and the coastal cities to further open their economies], in Zhongguo Jingjixue Tuanti Lianhehui Jingji Kexue Peixun Zhongxin, ed., *Jingji gaige yu duiwai kaifang (shang)* [Economic reform and opening to the outside world] (n.p., 1985), 256.

export commodity processing bases that had operated since the early 1960s, the SEZs would be free from the command economy and could approve foreign-invested factories and joint ventures that received preferential tax treatment and could repatriate legal profits.³⁰ The SEZs would enjoy a greater degree of autonomy than the two provinces, including a liberalized banking system, simplified visa rules, and a higher wage structure. Jiang Zemin, Vice Chairman of the State Import-Export Commission (SIEC), described these zones as more comprehensive than existing Chinese export zones, as they could use foreign capital and technology in a wide variety of agricultural, industrial, and tourist industries, housing construction, and high-tech research companies.³¹ Unlike export processing zones in other countries, however, these zones were also designed to experiment with domestic economic and management reforms.

POLICY READJUSTMENT PHASE: EMERGENCY CIRCULAR OF 11 JANUARY 1982

Economic Chaos

In January 1982, the Central Committee issued an Emergency Circular that temporarily halted the expansion of the Guangdong and Fujian experiment, including their SEZs. During the next two years, elites debated whether the decentralization experiment would accelerate China's domestic development or drain the "lifeblood" from China's economy by allowing rampant capitalism to erode the legitimacy of the Chinese Communist Party (CCP). The Emergency Circular thereby forced Beijing and provincial elites to analyze the policy implementation problems, to readjust the experiment, to prosecute miscreants, and to deal with ideological critics.

With the adoption of Central Committee documents 1979.50, 1980.41, and 1981.27, Beijing directed provincial officials to gain

³⁰ Reardon, "China's Coastal Development Strategy, 1979–1984 (I)," Regulation 8, 14.

³¹ Jiang Zemin, "Shezhi jingji tequ, jiakuai jingji fazhan" [Setting up the economic zone, and accelerating economic development], 21 August 1980, in Jiang Zemin, *Jiang Zemin wenji* [The collected works of Jiang Zemin] (Beijing: Renmin Chubanshe, 2006), 1: 1–4.

experience developing the Shenzhen and Zhuhai SEZs as comprehensive development zones that relied on foreign investment to develop industrial, commercial, and agricultural export processing industries as well as housing, tourism, and other infrastructural development. The smaller Xiamen and Shantou SEZs were treated more like foreign export processing zones, directed to focus on export processing and developing their tourist industries.³² By November 1981, the SIEC Vice-Chair Jiang Zemin, who took primary responsibility for SEZ affairs in Beijing, reported that the Shenzhen SEZ had signed 720 contracts, including seventeen 100-percent foreign-owned operations, seven joint ventures, and 623 processing, assembling and compensation trade agreements worth HK\$2.48 billion, and employing 17,500 people.³³

Yet these glowing statistics masked a far more complicated situation. Provincial officials were responsible for codifying rules and regulations that guided industrial and commercial development and oversaw policy implementation. Yet inexperienced SEZ authorities were unable to gain cooperation from Beijing ministries. Several key Beijing bureaucracies refused to loosen economic controls and hindered the implementation of the provincial decentralization experiment.³⁴ Personnel problems also hindered early SEZ development as the local officials, the “old Bao’an” cadre, duplicated traditional bureaucratic structures and methods to manage the zones.³⁵

Financing the early stages of the SEZ experiment became the zone’s most crucial obstacle. After Chinese leaders readjusted Hua Guofeng’s Ten-Year Plan in the late 1970s and implemented its three-year plan

³² “Guangdong, Fujian liangsheng huiyi jiyao de pishi” [Comment on the “Summary of the Conference on Guangdong and Fujian Provinces”], Central Committee document 1980.41, issued on 16 May 1980; and “‘Guangdong, Fujian liangsheng he jingji tequ gongzuo huiyi jiyao’ de tongzhi” [Circular promulgating the “Summary of the Guangdong, Fujian and SEZ Work Conference”], Central Committee document 1981.27, issued by the Central Committee and the State Council on 19 July 1981, translated in Reardon, “China’s Coastal Development Strategy (I),” 45–58, 59–79.

³³ Li Lanqing, *Breaking Through* (Hong Kong: Oxford University Press, 2009), 41.

³⁴ Reardon, “China’s Coastal Development Strategy (I),” 62.

³⁵ Po Di, “Shenzhen lingdaocong de mingzheng andou” [Clear infighting within the Shenzhen leadership], *Baixing* (April 1987): 54–56; “Construction and Development in the Shenzhen Special Economic Zone, *Jingji ribao*, 11 December 1985, translated in *FBIS—China*, 24 January 1986, P1.

of “readjustment, reform, reorganization, and improving standards,”³⁶ Beijing elites admitted that they lacked the capital to finance SEZ development; between 1980 and 1981, they even reduced SEZ construction funding by RMB 10 million.³⁷ Later in this volume, Zhou Taomo describes in detail how, between 1979 and 1983, 20,000 construction troops from the Engineering Corps of the People’s Liberation Army (PLA) were redeployed to assist in building Shenzhen’s infrastructure, to be ultimately demobilized and returned to civilian life (Chapter 11).

Just as foreigners had provided financing for the two-square-kilometer Shekou Industrial Zone, Beijing leaders hoped that the overseas Chinese and foreigners would likewise fund the SEZ’s infrastructure, including the roads, communications, and buildings spanning 327.5 square kilometers of underdeveloped land in Shenzhen. Unfortunately, Shenzhen lacked CMSN’s access to Hong Kong development capital. Within the first year of operation, the “old Bao’an” leaders realized that simple processing and assembly ventures would not finance SEZ construction. With limited central investment, local authorities focused on projects requiring little investment and high returns, such as housing and tourism, to build the basic infrastructure as well as entrepôt trade.³⁸ Foreign investment therefore rose from RMB 5.5 million in 1979 to RMB 135.3 million in 1981, mostly concentrated in real estate and tourism projects.³⁹

Yet ideological opponents of the decentralization strategy vehemently faulted the SEZ leaders’ success in attracting foreign investment and revenue. By allowing foreigners to build apartment buildings, businesses,

³⁶ Li Xiannian, “Zai zhongyang gongzuo huiyishang de jianghua” [Speech to the Central Work Conference], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 109, 121.

³⁷ “Shenzhen’s Zou Erkang on successes, problems,” *Ta Kung Pao*, 26 July 1985, translated in *FBIS—China*, 1 August 1985, W1; Li, *Breaking Through*, 124–126.

³⁸ “Guangdong, Fujian liangsheng huiyi jiyao de pishi” [Comment on the “Summary of the Conference on Guangdong and Fujian Provinces”], Central Committee document 1980.41, translated in Reardon, “China’s Coastal Development Strategy (I),” 45–58.

³⁹ Shenzhen Jingji Tequ Nianjian Bianji Weiyuanhui, *Shenzhen jingji tequ nianjian* [Shenzhen Special Economic Zone yearbook] (Hong Kong: Xianggang Jingji Daobao Chubanshe, 1986), 247.

and restaurants, they claimed, the “old Bao’an” cadre had sold the Motherland to capitalist forces and created “another version of foreign concessions or colonies.”⁴⁰ The SEZs had become dens of bourgeois capitalist culture characterized by the decadent Hong Kong lifestyle of drinking, eating, gambling, pornography, and womanizing. Such debauchery would lead the Chinese people into a dark world of smuggling and bribery, where they would rely on luck and connections, thereby completely losing their socialist cultural values.

Decentralization proponents and critics were equally concerned over the involvement of Chinese party members, the military, and local businesspeople in the entrepôt and smuggling trade that threatened the party-state’s integrity. The Central Committee had approved the SEZs’ rights to import duty-free machines, equipment, spare parts, and in certain cases consumer goods. Chinese production units and consumers paid exorbitant prices for such durable goods that were scarce or non-existent on the domestic market. Central and provincial departments therefore opened SEZ representative offices that facilitated the re-exportation of durable goods to the Mainland.

According to the Central Military Commission and State Council, over 250,000 televisions, 480,000 radio cassette players, 1,160,000 calculators, and 180,000 wristwatches passed illegally through the Shantou customs office between 1979 and 1980.⁴¹ By 1981, Guangdong had bypassed all customs and foreign exchange controls to import “tens of thousands” of automobiles.⁴² Officials established black markets for smuggled goods throughout coastal Guangdong and Fujian provinces,

⁴⁰ Li, *Breaking Through*, 150; and Luo Ping, “The Shenzhen ‘Earthquake’ and Inner-Party Struggle,” *Zhengming* (1 August 1985), 9–13, translated in *FBIS-China*, 7 August 1985, W1–8.

⁴¹ “Guanyu jiaqiang dui Huaqiao, Gang’ao, Taiwan tongbao jinkou wupin guanli he daji zousi, touji daoba huodong de baogao” [Report on strengthening management of imported materials from overseas Chinese, Hong Kong, Macau and Taiwan compatriots and attacking smuggling, engaging in speculation, and profiteering activities], State Council document 80.184, State Council and Central Military Commission document 1980.184, translated in Reardon, “China’s Coastal Development Strategy (II),” 12.

⁴² “Guanyu jinkou xiaoqiche de chuli he zuojia wenti de baogao de tongzhi” [Circular on the report on handling the imported car problem and its pricing], State Council Office document 1981.81, submitted by the State Planning Commission and transmitted by the State Council Office on 14 October 1981, in Zuo Chuntai and Song Xinzhong, eds., *Zhongguo shehui zhuyi caizheng jianshi*, [A simple history of Chinese socialist finance] (Beijing: Zhongguo Caizheng Jingji Chubanshe, 1988), 117.

which had a long history of smuggling similar goods from Taiwan. The PLA carried out large-scale smuggling of televisions, radio cassette players, and calculators, which were put into sealed containers marked “defense materials” and shipped on special vehicles and helicopters.⁴³ Even the temporary secretary of the Shenzhen Party Committee who oversaw the China Electronics and Technology Import–Export Corporation was accused of using the corporation to smuggle 850,000 cassette players, 135,000 television sets, and 86,500 radio-tape players.⁴⁴ By redirecting scarce foreign exchange to purchase illegally imported goods, these illegal imports had a detrimental impact on state procurement quotas and exacerbated the domestic inflation rate.⁴⁵ As Chinese consumers preferred to buy higher quality foreign durable goods, the illegal trade threatened domestic competitors producing less desirable wares.

Chen Yun therefore persuaded Deng Xiaoping to issue the Emergency Circular of 11 January 1982 and carry out a fundamental policy review. Chen Yun criticized the 1980–1981 review and readjustment of the decentralization experiment, the ineffectiveness of the new anti-smuggling regulations, and the failure of the new foreign exchange certificates to control foreign exchange outflows. He was especially concerned that Central Committee document 1981.27, that launched the socialist spiritual campaign in 1981, had failed to staunch the serious economic crimes committed by party and military personnel in Guangdong and Fujian.⁴⁶ As the senior economic expert in the party’s

⁴³ State Council document 80.184, State Council and Central Military Commission document 1980.184, translated in Reardon, “China’s Coastal Development Strategy (II),” 13.

⁴⁴ Xianggang Zhongguo Jingji Tequ Nianjian Bianjibu, *Zhongguo jingji tequ nianjian, 1982* [Chinese special economic zone yearbook, 1982] (Hong Kong: Xianggang Jingji Tequ Nianjian Chubanshe, 1983), 294.

⁴⁵ “Guanyu jiaqiang wujia guanli, jianjue zhizhi luanzhangjia he bianxiang zhangjia de tongzhi” [Circular on strengthening price administration, and firmly preventing indiscriminate price inflation and covert inflation], issued by the Central Committee and the State Council on 8 April 1980, in Zhongguo Shehui Kexueyuan and Zongyang Dang’anguan, eds., *Zhonghua Renmin Gongheguo jingji fagui xuanbian, 1979.10–1981.12* [Collection of economic laws and regulations of the People’s Republic of China, October 1979–December 1981] (Beijing: Zhongguo Caizheng Jingji, 1982), 38.

⁴⁶ Chen Yun, “Dui jingji gongzuo de jidian yijian” [Some views on economic work], in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 1059; and “Guangdong, Fujian liangsheng huiyi jiyao de pishi” [Comment on the “Summary of the Conference

Standing Committee and chair of the party's Discipline and Inspection Commission, Chen Yun called for a renewal of central planning control, to begin in December 1981, as well as a rigorous investigation into decentralization problems, especially those involving the SEZs. While agreeing to limit the scope of the campaign against economic crimes, Chen Yun worked with Deng Xiaoping and Premier Zhao Ziyang to strengthen macro-management controls, especially over foreign trade activities, establish the new Ministry of Foreign Economic Relations and Trade (MOFERT), and strengthen controls over import permits and foreign exchange. Having blocked the setting up of SEZs in the Shanghai and Fuzhou areas, Chen Yun also prevented the establishment of any new SEZs, arguing that the leaders first needed to "summarize experiences."⁴⁷

POLICY EXPANSION PHASE: CENTRAL COMMITTEE DOCUMENT 1984.13

The 14 Coastal Cities

After two years of intensive investigations, prosecutions, reorganization, and new rules and regulations, Deng Xiaoping was satisfied that the problems with the decentralization experiment had been resolved. While not allaying all of Chen Yun's concerns, Deng Xiaoping promoted Premier Zhao Ziyang's vision of coastal development by expanding the decentralization experiment to encompass Chinese coastal cities.

One month after the issuance of the Emergency Directive of January 1982, Beijing convened the Guangdong and Fujian Provincial Conference to discuss and improve the decentralization experiment, including the elimination of "capitalist ideology and bourgeois lifestyles" and illegal economic criminal activities.⁴⁸ To strengthen Beijing's direct control over SEZ development, the State Council reorganized the SIEC, which was

on Guangdong and Fujian Provinces"], Central Committee document 1981.27, translated in Reardon, "China's Coastal Development Strategy (I)," 69.

⁴⁷ Zhao, *Prisoner of the State*, 102; and Chen Yun, "Dui jingji gongzuo de jidian yijian," in Zhonggong Zhongyang Wenxian Yanjiushi, ed., *Sanzhong*, 1059.

⁴⁸ "Guangdong, Fujian liangsheng zuotanhui jiyao' de tongzhi" [CCP Transmits and Approves the "Circular on the Summary of the Guangdong and Fujian Conference"], Central Committee document 1982.17, translated in Reardon, "China's Coastal Development Strategy (I)," 82–83.

superseded in June 1982 by the State Council Office of the SEZs.⁴⁹ The “old Bao’an” cadre were replaced with more capable bureaucrats from Beijing and Guangzhou, who started newspapers and other media to help build socialist spiritual civilization. Helped by a new 109-km barbed wire fence erected between Shenzhen and the interior economy, they also severely restricted importation of seventeen durable goods, including televisions, motorcycles, and watches. To quote Chen Yun in December 1982: “You cannot keep the bird in your hand since it will die. You must let it fly. But you can only let him fly inside the cage, otherwise he will fly away.”⁵⁰

Other regional leaders were undoubtedly disappointed by the impact of the Emergency Directive, as they had lobbied for equal access to the expanded decision-making authority the two southeastern Chinese provinces enjoyed. They were intrigued by Premier Zhao Ziyang’s State Council speech of April 1981, in which he advocated a division of labor between the coastal and interior regions so that each area could use their strengths to accelerate China’s development.⁵¹ All coastal areas would be granted greater economic decision-making rights to develop export-oriented industries resembling those of Japan, South Korea, and Singapore. While Shanghai, Tianjin, and Guangzhou would become more integrated with the global economy, this dual-track approach continued to protect the less competitive interior economy that would remain under the state plan. Interior provinces would manufacture goods needed for the domestic market and learn to absorb the managerial and technological know-how of the coastal industries.

In November 1981, leaders from Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, and Guangxi met with Zhao Ziyang and central government bureaucrats to discuss Zhao’s coastal development strategy. Yet Chen Yun’s criticisms in December 1981 and the

⁴⁹ Xianggang Zhuanshang Xuesheng Lianhui, *Jingji tequmian mianguan* [Views on the SEZs] (Hong Kong: Guangjiaojing Chubanshe, 1983), 30–31; and George T. Crane, *The Political Economy of China’s Special Economic Zones* (Armonk, NY: M. E. Sharpe, 1990), 52–55.

⁵⁰ *Renmin ribao*, 3 December 1982, 1 August 1985.

⁵¹ Zhao Ziyang, “Guanyu jingji fazhan zhanlüe de jige wenti” [Several problems regarding the economic development strategy], speech to the entire State Council, 14 April 1981, in Zhao Ziyang, *Zhao*, 1: 172–174.

1982 Emergency Circular ended discussions of policy expansion and initiated instead the two-year period of reassessment and SEZ moratorium. The resulting coastal conference report issued by the Central Committee four days after the Emergency Circular clearly stated that conditions were not “ripe to approve the implementation of self-managed foreign trade, in establishing local fiscal responsibility and assuming responsibility for profits and losses.”⁵² Hu Qiaomu subsequently called for a nationwide campaign against the new Southern China bourgeoisie who threatened China’s socialist spiritual civilization, which subsequently became the 1983 Anti-Spiritual Pollution Campaign.⁵³

Deng Xiaoping revived Zhao Ziyang’s coastal development vision in 1984 when he embarked on his first “journey to the South” [*nansun*] from 24 January to 5 February 1984. Visiting the Shenzhen and Zhuhai SEZs and the two Guangdong cities of Guangzhou and Zhongshan, as well as Shanghai, Deng ended the two-year reassessment period and the Anti-Spiritual Pollution Campaign by proclaiming:

The SEZs are windows to the outside world. They are windows of technology, they are windows of management techniques, they are windows of knowledge, and they are windows of foreign policy.... [There has been a] vast improvement of employment opportunities, [also] an increase in salaries and the rise in material standards of living. In effect one can see that spiritual civilization comes from material civilization . . . right!⁵⁴

⁵² “Tongzhi pizhuan ‘Yanhai jiu sheng, shi, zizhiqu duiwai jingji maoyi gongzuo zuotanhui jiyao’” [Circular promulgating the “Summary of the Conference of Nine Provinces, Municipalities, and Autonomous Regions on Foreign Economic Trade Work”], issued by the Central Committee and State Council on 15 January 1982, translated in Reardon, “Coastal Development Strategy (II),” 45–98.

⁵³ Hu Qiaomu, “Ruhe kandai fandui zousi douzheng” [How one should view the struggle against smuggling], 12 February 1982, in Hu Qiaomu, *Hu Qiaomu, di san juan* [Collected works of Hu Qiaomu, vol. 3] (Beijing: Renmin Chubanshe, 2012), 194.

⁵⁴ Deng Xiaoping, “Banhao jingji tequ, cengjia duiwai kaifang chengshi” [Make a success of the SEZs and open more cities to the outside world], in Deng Xiaoping, *Deng Xiaoping wenxuan, di san juan* [The selected works of Deng Xiaoping, vol. 3] (Beijing: Renmin Chubanshe, 1993), 52.

Deng even praised the very capitalist slogan of the Shekou Industrial Zone within the Shenzhen SEZ that proclaimed, “Time is money, efficiency is life,” which would echo throughout China in 1984, including during the thirty-fifth anniversary celebration of the PRC’s founding. Thus, State Council document 1985.46 authorized a second five-year extension of Central Committee document 1979.50, including the SEZs.

One month later, Hu Yaobang, Zhao Ziyang, and key government ministers convened a second coastal conference with leaders from eight coastal municipalities (Tianjin, Shanghai, Dalian, Yantai, Qingdao, Ningbo, Wenzhou, and Beihai), the four SEZs (Shenzhen, Zhuhai, Shantou, and Xiamen), and the Hainan Administrative Region (HAR), as well as provincial officials from Liaoning, Shandong, Zhejiang, Fujian, Guangdong, and the Guangxi Autonomous Region. As the Central Committee issued document 1984.13, Chinese elites expanded the 1979 decentralization experiment to encompass 14 coastal cities ranging from Dalian in the north to Beihai in the south. Each coastal city would submit plans to modernize its economy and promote greater integration with the global economy. As with the 1979 decentralization experiment, Beijing did not provide the capital, but instead granted approval rights over foreign-investment projects as well as the retention and use of foreign exchange. They also could grant tax-free importation of advanced technology and a reduced tax rate, or even a temporary tax holiday for foreign-invested enterprises, to attract technologically advanced industries. Instead of establishing SEZs, some of the cities would be allowed to establish Economic and Technical Development Zones (ETDZs), which relied on local skilled technicians and development capital to attract Chinese–foreign equity joint ventures, cooperative ventures, and foreign-invested enterprises to develop high-technology manufacturing for export.

As Zhao Ziyang had first suggested in April 1981, Central Committee document 1984.13 proposed that the coastal economy would pursue an outward-oriented development strategy, while the interior economy would remain within the state planning structures. Deng Xiaoping thereby accepted Zhao Ziyang’s vision and expanded the decentralization experiment to the coastal areas, including Hainan Island that was established as a separate province and SEZ.

POLICY EXPANSION PHASE: STATE
COUNCIL DOCUMENT 1988.24

The Hainan Island SEZ

During the early 1980s, the Central Committee faced the difficult problem of Hainan's underdevelopment, with a population resentful of the PLA's dominance. Only after resolving another case of "unhealthy tendencies" involving entrepôt trading could Beijing include Hainan in the post-1984 policy expansion phase and establish China's fifth SEZ in Hainan.

A beautiful tropical island in the South China Sea that is 500 square miles smaller than Taiwan, Hainan was a poor area managed by Guangdong province but dominated by the PLA, whose Production and Construction Corps established agricultural farms in the 1950s specializing in rubber production. PLA relations with the local Hainan population grew tense over the following decades, as the PLA-managed rubber farms dominated local production while state-owned logging operations used slash and burn techniques to reduce Hainan's natural forests. By the 1970s, military-civilian tensions were running high, as the local population destroyed state property and damaged rubber trees.⁵⁵

To tackle Hainan's economic and social problems, in July 1980 the State Council issued document 1980.202 that sought to redress the grievances of Hainan farmers. It also promised that Hainan would take a greater role in foreign trade, as it would enjoy decision-making rights modeled on those of the Shenzhen and Zhuhai SEZs.⁵⁶ Three years later, in April 1983, the Central Committee followed up with document 1983.11 that focused on improving Hainan's infrastructure, as well as giving Hainan greater autonomy to "undertake all capital construction projects in which it can arrange for capital, the raw materials, fuel and power, transport, commodity marketing, foreign exchange, etc."⁵⁷

⁵⁵ "Hainandao wenti zuotanhui jiyao" [Conference report on the Hainan problem], State Council document 1980.202, approved and transmitted on 24 July 1980, translated in Reardon, "China's Coastal Development Strategy (II)," 79.

⁵⁶ Reardon, "China's Coastal Development Strategy (II)," 77.

⁵⁷ "Circular" approving/transmitting "Jiakuai Hainan kaifa jianshe wenti taolun jiyao" [Summary of a discussion on the problem of accelerating Hainan Island's development and construction], Central Committee document 1983.11, approved and transmitted by the

In light of the Emergency Circular of 1982, Central Committee document 1983.11 clearly stated that Hainan would not be a designated SEZ. The state granted the HAR, however, the right to approve foreign joint ventures, retain foreign exchange earned above the export plan, and retain any foreign exchange from foreign trade and tourism. Having revived document 1979.50's decentralization experiment following his first *nansun*, in February 1984 Deng therefore called for the rapid development of Hainan Island.⁵⁸

While these reforms accelerated the island's economic development,⁵⁹ Hainan's annual fiscal revenue was growing too slowly to be capable of financing infrastructure development. Hainan's party-state leaders therefore decided to take advantage of their expanded decision-making authority granted in Central Committee document 1983.11 to import more than 90,000 cars and motorcycles, as well as electronic equipment, that were resold to the Mainland for over US\$1 billion.⁶⁰ The State Council and the Central Commission for Discipline Inspection held a series of meetings in 1985 and investigated over 2,000 cases, in which more than 700 cadres were accused of corruption. Deng Xiaoping downplayed the incident, arguing that such mistakes were inevitable and would not impede China's continued opening.⁶¹ As Hainan's Special District Administrator Lei Yu had used the entrepôt trade to finance the building of Hainan's roads, bridges, and dormitories, Beijing decided to reassign Lei Yu as Shenzhen's new vice-mayor.

Central Committee and State Council on 1 April 1983, translated in Reardon, "Coastal Development Strategy (II)," 90.

⁵⁸ Deng Xiaoping, "Banhao jingji tequ," Deng Xiaoping, *Deng Xiaoping wenxuan, di san juan*, 52.

⁵⁹ "Guanyu dangqian Hainandao qingkuang he xuyao bangzhu jieju wenti de huibao de tongzhi" [Circular of the SEZ Office's report on the current situation on Hainan Island and the necessary help to resolve the issue], State Council document 1985.142, issued by the State Council Office on 16 December 1985 and approved by the State Council on 24 December 1985, in Guowuyuan Tequ Bangongshi and Guowuyuan Bangongting Mishuju, eds., *Yanhai chengshi kaifang he tequ gongzuo wenjian xuanbian* [A selection of public documents relating to the opening of the coastal cities and the special economic zones] (Beijing: Guowuyuan Tequ Bangongshi, Bangongting Mishuju, May 1986), 1: 87–96.

⁶⁰ Ezra F. Vogel, *One Step Ahead in China: Guangdong under Reform* (Cambridge, MA: Harvard University Press, 1990), 292–293; and *Renmin ribao*, 1 August 1985.

⁶¹ Deng Xiaoping, "Gaijie shi Zhongguo de dierci geming" [Reform is China's second revolution], Deng Xiaoping, *Deng Xiaoping wenxuan, di san juan*, 113–114.

Beijing also provided Guangdong province with financing to dispose of the 57,422 impounded vehicles and new regulations to prevent the future resale of such goods.⁶² Addressing a February 1986 conference on Hainan's development attended by members of the Central Discipline and Inspection Commission, Zhao Ziyang expressed his desire that "the development of Hainan is not hindered by the car incident. This was just one event. I have already stated that we cannot make the punishment and legal sanctions against those who made mistakes also apply to the several millions of people living in Hainan."⁶³

Two years later, in December 1987, as the newly appointed general secretary of the CCP and head of the Central Economic and Financial Leading Group, Zhao Ziyang readdressed the Hainan problem.⁶⁴ The Conference on the Further Opening to the Outside World and the Acceleration of Economic Construction held in Hainan resulted in State Council 1988.24, establishing Hainan as a separate province and as China's fifth and largest SEZ.⁶⁵ Accelerating Hainan's entry into the world economy, in 2020 the Central Committee and State Council announced plans to transform the Hainan SEZ into a free trade port that would be closely linked to the economies of the Association of South-east Asian Nations (ASEAN) and compete directly with Hong Kong and Singapore.⁶⁶

⁶² Zhao Ziyang, "Zhazha shishi de ba Hainan de kaifa jianshe sheye jinxing xia qu" [Vigorously implementing the task of opening and developing Hainan], delivered on 14 February 1986, in Zhao Ziyang, *Zhao*, 3: 288.

⁶³ Zhao Ziyang, "Zhazha shishi," in Zhao Ziyang, *Zhao*, 3: 288.

⁶⁴ Zhao, *Prisoner of the State*, 211.

⁶⁵ "Guanyu Hainandao jinyibu duiwai kaifang jiakuai jingji kaifa jianshe de zuotanhui jiyao' de tongzhi" [Circular on the Conference on the Further Opening to the Outside World and the Acceleration of Economic Construction], State Council document 1988.24, issued on 14 April 1988, in Guowuyuan Tequ Bangongshi and Guowuyuan Bangongting Mishuju, eds., *Yanhai*, 3: 14–21.

⁶⁶ Xinhua News Agency, "Zhonggong zhongyang Guowuyuan yinfa Hainan Ziyou Maoyigang jianshe zongti fangan" [CCP Central Committee and State Council issue the Hainan Free Trade Port Construction Plan], 6 January 2020, 中共中央 国务院印发海南自由贸易港建设总体方案_中央有关文件_中国政府网 (www.gov.cn), accessed 17 April 2021.

POLICY ADOPTION PHASE

Coastal Development Strategy and Outward-Oriented Development

While preparing the Sixth Five-Year Plan in April 1981, Premier Zhao Ziyang spoke to an extended meeting of the State Council to propose his dual-track vision of development: coastal areas pursuing outward-oriented development and the interior economies learning to develop behind a protective wall of trade and investment barriers. Seven years later, Deng Xiaoping approved Zhao's vision of outward-oriented development, which established the foundation for China's rise as a global economic superpower.

As Kai Yin Allison Haga demonstrates later in this volume (Chapter 6), Chinese leaders realized that a crucial component of outward-oriented development was China's participation in the international trade regime. China had already joined most of the key international financial organizations, including the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) in the early 1980s, and the Asian Development Bank in 1986. As a non-market, command economy, China was barred from joining the global trade regime, the General Agreement on Tariffs and Trade (GATT), and so could not enjoy the privileges of membership, including nondiscrimination against its goods and trade dispute resolution facilities. On 25 December 1982, Zhao Ziyang's State Council therefore approved "Request for Instructions concerning China's Participation in GATT."⁶⁷ In 1986, China gained GATT observer status and announced its intentions of applying for GATT accession, which occurred fifteen years later, in December 2001.

Zhao Ziyang still needed to persuade Deng Xiaoping and Chinese elites that dual-track development would benefit all of China: the coastal areas would pursue an outward-oriented development strategy while the interior economy would continue the older, inward-oriented ISI strategy. To gain provincial support, in autumn 1987 Zhao visited Fujian, Guangdong, Zhejiang, and Jiangsu provinces to promote this efficacious strategy

⁶⁷ State Council, "Guanyu canjia guanshui yu maoyi zongxieding de qingshi" [Request for instructions concerning China's participation in GATT], 25 December 1982, in Scott W. Harold, *Freeing Trade: Negotiating Domestic and International Obstacles on China's Long Road to the GATT/WTO, 1971–2001* (PhD dissertation, Columbia University, 2008), 133–136.

and its impact on 100–200 million coastal inhabitants.⁶⁸ He continued to build support for his views at the 5 November 1987 Work Conference, arguing that China’s greatest resource was the low-cost labor of inhabitants of its coastal areas. “It is completely possible that in the future, China’s coastal areas will primarily be dominated by the TVEs [Township and Village Enterprises], which will rely on low-cost labor with low wages to produce labor-intensive products. They will dominate the international market.”⁶⁹ Several weeks later, at the Suzhou Work Conference, Zhao enticed coastal leaders by describing the benefits of the coastal strategy, where 70 to 80% of the population would be engaged in export production, making profits that would provide “a ready cash flow to enable them to import and export large amounts of goods.” The central and western economies engaged in ISI development “would be swept along in the development of the coastal areas.”⁷⁰ Finally in his January 1988 report on “The Problem of the Coastal Economic Development Strategy,” Zhao argued the pressing need for China’s leaders to take advantage of coastal areas’ competitive edge in attracting foreign investment in labor-intensive and knowledge-intensive production. Since coastal areas could more readily attract foreign capital investment, the interior economies still engaged in ISI would retain access to domestic capital resources.⁷¹

Upon reading Zhao’s January 1988 report, Deng Xiaoping approved it immediately, adding: “We especially must act boldly and accelerate its implementation. By all means we cannot lose this opportunity.”⁷² In his 1988 work report to the National People’s Congress, Premier Li Peng put forward the coastal strategy approved by Deng, together with the State Council document 1988.24 establishing Hainan as China’s newest province and fifth SEZ.

⁶⁸ Zhao, *Prisoner of the State*, 149–150.

⁶⁹ Zhao Ziyang, “Zai Zhongyang Gongzuo Huiyi jiesushi de jianghua” [Speech at the conclusion of the Central Committee Work Conference], in Zhao Ziyang, *Zhao*, 4: 271.

⁷⁰ Zhao Ziyang, “Dui woguo yanhai diqu fazhan waixiangxing jingji de zhanlüe sikao” [Strategic thinking concerning China’s coastal areas developing an outward-oriented economy], Zhao Ziyang, *Zhao*, 4: 306.

⁷¹ Zhao Ziyang, “Yanhai diqu jingji fazhan de zhanlüe wenti” [The problem concerning coastal economic development strategy], in Zhao Ziyang, *Zhao*, 4: 342–355.

⁷² Zhao, “Yanhai diqu jingji fazhan de zhanlüe wenti,” Zhao Ziyang, *Zhao*, 4: 342.

POLICY ADOPTION PHASE: CENTRAL
COMMITTEE DOCUMENT 1990.100

The Pudong New Area

By 1989, General Secretary Zhao Ziyang had hoped not only to persuade Deng Xiaoping and the Chinese elders of the effectiveness of a dual development strategy, but also to introduce political reforms by eliminating the party core groups that imposed hegemonic party control over the local, provincial, and national government bureaucracies.⁷³ Following the June Fourth Incident of 1989, Zhao Ziyang was put under house arrest for the rest of his life, with his contributions to China's development strategy erased from Chinese history books. While Jiang Zemin, the new General Secretary, reinstated and strengthened party controls over the state, he adapted and expanded Zhao's coastal development strategy. Jiang continued to promote outward-oriented development, including expanding the role of the five SEZs, the fourteen coastal cities, and their ETDZs, as well as negotiating for China's accession to the GATT.⁷⁴

As the former party leader and mayor of Shanghai, however, Jiang Zemin adapted the strategy of expanding that city's role in outward-oriented development. With the adoption in 1990 of Central Committee document 1990.100, Shanghai was to assume a greater foreign trade role by developing the Pudong New Area located on the eastern side of the Huangpu River.⁷⁵ Eventually, following his second *nansun* Southern Tour of February 1992, Deng put a decisive end to criticisms of the outward-oriented strategy. Following internal and external negotiations, China joined the World Trade Organization (formerly the GATT) in December 2001. While the term coastal development disappeared from use, in his memoirs Zhao Ziyang stated that "it was because of the sustained development of the coastal economy that the nation reached

⁷³ Shiping Zheng, "New Era in Chinese Elite Politics," *Issues and Studies* 41: 1 (2005): 197–200.

⁷⁴ Margaret Pearson, "The Case of China's Accession to GATT/WTO," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978–2000*, ed. David M. Lampton (Stanford: Stanford University Press, 2001), 346–350.

⁷⁵ "Guanyu kaifa he kaifang Pudong wenti de pifu" [Approval of the development and opening of Pudong], Central Committee and State Council document 1990.100, issued on 2 June 1990, in Guowuyuan Tequ Bangongshi and Guowuyuan Bangongting Mishuju, eds., *Yanhai*, 5: 44–45.

large export volumes in just a few years and foreign reserves grew to a huge amount. It was all because of having taken this path, was it not?”⁷⁶

CONCLUSION

For thirty years, Chinese elites disagreed over the best strategy to achieve the Stalinist economic development paradigm of building a strong national defense, creating an inward-oriented self-sufficient economy, and guaranteeing the party’s hegemonic control of the state. China’s foreign economic policy therefore cycled between Stalinist strategies of inward-oriented development: a normative, semi-autarkic strategy, or a remunerative import substitution industrialization strategy.

After Mao Zedong’s death in 1976, Chinese leaders discarded semi-autarky and agreed to downsize temporarily the ISI approach until China’s economy had recovered. In the isolated southeastern provinces, moreover, elites agreed to experiment with outward-oriented development, which had proved so successful in the rest of Asia’s booming economies. During the initial policy phase, Guangdong and Fujian provinces enjoyed greater decision-making rights, including engaging the international economy and running the SEZs. To prevent further economic crimes, during the policy readjustment phase, elites increased the party-state’s oversight of the decentralization experiment. Later during the policy expansion and adoption phases, elites agreed to promote a coherent coastal development program that emphasized the coastal areas’ outward-oriented development while protecting the inward-oriented economies of the interior. Their agreement accelerated China’s progress in becoming an economic superpower.

Like Mao Zedong, Deng Xiaoping was not an economist but an impressive visionary who foresaw the potential for China’s growth. Unlike Mao, Deng compromised with other elites to resolve implementation problems and promote his grand vision. But the true architect of the vision was Premier Zhao Ziyang, who in the early 1980s first described his outward-oriented strategy that embraced the international market as an engine of development. While Zhao Ziyang would be erased from China’s history following the events of 4 June 1989, his coastal vision remained intact. Subsequent leaders adapted the outward-oriented development strategy, expanding the role of Shanghai and aggressively encouraging

⁷⁶ Zhao, *Prisoner of the State*, 149.

international investment in the northeastern and western provinces. The seven policies described in this chapter are the interlocking building blocks that form the foundation of China's current outward-oriented development strategy.

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Deng Plays the “China Card”: Deng Xiaoping’s Visit to the United States and Its Implications for China’s New Long March to Modernization

Lu Sun

INTRODUCTION

The diplomatic metaphor of the “China card” won great popular currency in the early 1970s. In this new era of détente, many international actors were apparently rushing in competition to deploy this card, as Russians, Americans, Europeans, and even international institutions such as the North Atlantic Treaty Organization (NATO) and the International Monetary Fund (IMF) attempted to integrate China into the games they

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played, the stories they told, and the shows they put together.¹ The celebrated and oft-recounted American narrative was that the United States played the “China card” to counterbalance the security threat from Moscow, with the two men who legendarily “opened” China to the West—President Richard Nixon and his National Security Adviser and eventual Secretary of State Henry Kissinger—receiving tremendous credit for single-handedly cracking the bamboo curtain. By availing itself of the “China card,” the United States gained leverage over the Soviet Union on such matters as the Strategic Arms Limitation Treaty (SALT), cornering its opponent into an inescapable dead end. Within the framework of “triangular diplomacy,” the United States attained the upper hand through its strategic management of relations between the rival Communist giants. Due to the de facto alliance between Communist China and the United States, the Soviet Empire eventually capitulated to the demands of the United States and collapsed.²

By comparison with the voluminous literature on the dealings of Nixon and Kissinger with Chinese leaders Chairman Mao Zedong and Premier Zhou Enlai, the China policy of the subsequent era of Chinese vice-premier Deng Xiaoping and President Jimmy Carter has attracted comparatively little attention. Arguably, Nixon’s flamboyant grand trip to “open” the long-shut door of Red China was an American story designed primarily for American consumption, especially to give the Republican administration an advantage in its political jousting with the Democratic Party, which was saddled with the historical past responsibility of “losing” China to Communism. According to their narrative, Nixon and Kissinger simply brought salvation to this story and repaired the situation by reclaiming China on their own terms and placing it back within the American-dominated world system. Two undeniable cornerstones of the new understanding between the two nations were the 1972 Shanghai Communiqué, followed by the 1978 Sino-U.S. Communiqué on the establishment of diplomatic relations. Nixon’s 1972 visit paved the way

¹ A few random contemporary examples include R. G. Pradhan, *America and China: A Study in Cooperation and Conflict* (New Delhi, India: UDH Publishers, 1983); Gerald Segal, ed., *The China Factor: Peking and the Super Powers* (London: Croom Helm, 1982); and at a slightly later date, William Safire, “Moscow’s China Card: Why Reagan is Losing at Summit Poker,” *New York Times* (8 September 1986): A23.

² Nancy Bernkopf Tucker, “China as a Factor in the Collapse of the Soviet Empire,” *Political Science Quarterly* 110: 4 (Winter 1995–1996): 501–518.

for diplomatic normalization between the United States and China, with the subsequent Joint Communiqué issued in Shanghai constituting the foundation stone of reconciliation between the two countries. The process of normalization nonetheless proved unexpectedly slow, with an interval of almost seven years before full diplomatic relations were attained.

If we seek to reach a more comprehensive and nuanced understanding of the role of the “China card” in these events, this must include the perspective of the country which had the greatest impact in playing this hand: China itself, and the man who completed the “China card” story in the Cold War’s final tumultuous decade. Granted, throughout the 1970s, China was the new kid on the block, poor and backward. Deng Xiaoping, the seasoned communist revolutionary who emerged victorious from the succession struggles following the death in 1976 of China’s pre-eminent political figure, Chairman Mao Zedong, undoubtedly had his own agenda, one that he sought to impose upon the superpowers. He was the man who made it crystal clear that the Soviet Union rather than the United States constituted China’s primary adversary. Deng, a longtime Chinese Communist Party (CCP) leader, spearheaded the drive to modernize China that began in the late 1970s. A Communist to his core, Deng was a Long March veteran who had experienced more political comebacks than even President Richard Nixon. Indeed, American media hailed him as “a Nixon of China.”³ An economic pragmatist, Deng was best known for his 1962 slogan: “It doesn’t matter if the cat is white or black, so long as it catches mice.” Although holding only apparently modest positions, as vice-premier together with vice-chairman of the party, Deng was indisputably the most powerful Chinese politician since Mao Zedong, steering the historic changes decreed at the Third Plenary Session of the Eleventh Central Committee of the CCP that effectively launched what would become known as the Deng Era (1978–1992).

As the historian Odd Arne Westad points out, Deng and his modernizers “felt convinced that they could develop Mao’s tenuous opening to the United States into a de facto alliance that would, at least for a

³ Ross Terrill, “On the Brink of Ambiguity: China without Mao,” *New Republic* (25 September 1976): 26.

while, both improve China's security and provide access to the technology China needed to develop."⁴ Deng's China allied with Washington in denouncing the Soviet invasion of Afghanistan, while attacking neighboring Vietnam, which had become a Soviet ally, and also boycotting the 1980 Moscow Olympic Games. On the American side, President Jimmy Carter continued the efforts of his predecessors, Presidents Richard Nixon and Gerald Ford, to "create a new strategic alignment with a friendly China at America's side."⁵ In partnership with the Carter administration, Deng completed what Nixon had begun by implementing full diplomatic normalization of relations. In East Asia, a new power alignment was established—the Washington-Peking-Tokyo triangle—an arrangement that, as CCP Chairman Hua Guofeng commented, was "neither an alliance nor an axis."⁶

As Shu Guang Zhang and Hua Zheng describe in detail later in this volume (Chapter 4), Deng's mission was to seek American credit and technology to modernize his backward nation. The roots of Deng's modernization dream can be traced back to China's history one hundred years earlier, when the barbarians knocked at the Southern gate. Ever since the first arrival of Western powers equipped with the forces of modernization, Chinese elites had confronted this task of *fuguo qiangbing* (achieving wealth and power). From Prince Gong's Self-Strengthening Movement and Sun Yat-sen's Three Principles, through Mao Zedong's revolutions and convulsions, attempts to reclaim China's greatness rarely encountered plain sailing. Chinese *laobaixing* (ordinary Chinese people) became distraught with chaos and violence in the vortex of currents forcibly pulling their country along different and opposing paths of modernization. As leaders vied for power, millions of Chinese perished in the wars, famines, and catastrophes that had wreaked havoc on China throughout the previous century. Deng Xiaoping was the man who instituted the sweeping economic reforms that unleashed the energies of individuals, transforming urban and rural landscapes alike.

⁴ Odd Arne Westad, "The Great Transformation: China in the Long 1970s," in *The Shock of the Global: The 1970s in Perspective*, eds. Niall Ferguson, Charles S. Maier, Erez Manela, and Daniel J. Sargent (Cambridge, MA: Harvard University Press, 2011), 76.

⁵ Warren I. Cohen, *America's Response to China: A History of Sino-American Relations*, 5th ed. (New York: Columbia University Press, 2010), 227.

⁶ Fox Butterfield, "Encirclement Takes On a Different Meaning in Asia," *New York Times* (24 December 1978): E2.

Deng’s enthusiasm for opening to the United States betokened not just a pragmatic choice but also a national impulse and desire to modernize. If Mao’s collaboration with the American imperialists was a tactical anti-Soviet expedient, Deng’s opening to America was “a major shift in emphasis” in the history of both China and the world.⁷ By reversing the inward-looking, xenophobic policies of the Maoist era, Deng’s China, in the words of Harvard historian Ezra F. Vogel, “truly joined the world community, becoming an active part of international organizations and of the global system of trade, finance and relations among citizens of all walks of life.”⁸ In Vogel’s view, the leaders of other large countries, including India, Russia, and Brazil, failed to match the scope and depth of China’s globalization as championed by Deng.⁹

On the American side, mounting political changes fueled renewed progress in U.S.-China relations. Jimmy Carter, who took the oath of office as thirty-ninth President of the United States on 20 January 1977, soon reaffirmed his commitment to the Shanghai Communiqué.¹⁰ As an outsider, the incoming president was determined to clean up Washington politics and, although his top foreign policy priorities were the Panama Canal and the Middle East, he also sought to resolve what had effectively become a stalemated China policy. In July 1977, Carter wrote in his diary of the impasse in U.S.-China relations: “The basic question still remains how to establish diplomatic relations with the People’s Republic of China and preserve the guarantee of a peaceful life for the Chinese on Taiwan.” As Carter explained in his memoirs: “The PRC... comprised about one billion people—almost one-fourth of the world’s population.”¹¹ Welcoming U.S. Secretary of State Cyrus R. Vance back from his first official visit to China, Carter described it as “a country of central

⁷ Priscilla Roberts, “Introduction,” in *China, Hong Kong, and the Long 1970s: Global Perspectives*, eds. Priscilla Roberts and Odd Arne Westad (London: Palgrave Macmillan, 2017), 12.

⁸ Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2011), 696.

⁹ *Ibid.*, 698.

¹⁰ Jimmy Carter, The President’s News Conference, 12 May 1977, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244214>, accessed 1 October 2020.

¹¹ Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), 186–187.

importance and also influence in the world.”¹² The U.S. government simply could not ignore China’s “conspicuous permanent and strategic importance in international affairs,” Carter wrote.¹³ In a much quoted speech in May 1977 at the University of Notre Dame, he acknowledged “the American and Chinese relationship as a central element of our global policy and China as a key force for global peace.”¹⁴ In terms of the realm of Cold War efforts to win hearts and minds, Carter also hoped to play the “China card” to “quietly sway some third-world countries” over to the American side.¹⁵ Within eight weeks of taking office, on 17 March 1977 Carter—with, he later recalled, the PRC specifically in mind—proclaimed to the United Nations: “Through the world, we are ready to normalize our relationships and to seek reconciliation with all states which are ready to work with us in promoting global progress and global peace.”¹⁶

Carter’s strongly anti-Soviet National Security Adviser, Zbigniew Brzezinski, sought to enhance his own country’s geopolitical position by playing the “China-center” in the strategic contest with the Soviet Union. He openly told Chinese officials that playing the “China card” would help Carter “to negotiate with the Soviet Union from a position of superiority in an attempt to check the momentum of Soviet expansion and to fortify the global strategic status of the United States.”¹⁷ China, despite being the weakest among the three powers, could in practice play a significant role as the balancer in U.S.-USSR power relations. To extract the maximum tactical value from the “China card,” Brzezinski wished to exploit China as a counter to Soviet power, while simultaneously avoiding

¹² Jimmy Carter, Secretary of State Vance’s Trip to the People’s Republic of China: Remarks on Secretary Vance’s Return, 27 August 1977, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244156>, accessed 1 October 2020.

¹³ Carter, *Keeping Faith*, 187.

¹⁴ Jimmy Carter, Address at Commencement Exercises at the University of Notre Dame, 22 May 1977, The American Presidency Project, <https://www.presidency.ucsb.edu/node/243018>, accessed 1 October 2020.

¹⁵ Carter, *Keeping Faith*, 195.

¹⁶ Jimmy Carter, United States Participation in the United Nations: Message to the Congress Transmitting a Report, 17 March 1977, The American Presidency Project, <https://www.presidency.ucsb.edu/node/242456>, accessed 1 October 2020.

¹⁷ Ministry of Foreign Affairs of the People’s Republic of China, “The Establishment of Sino-U.S. Diplomatic Relations and Vice Premier Deng Xiaoping’s visit to the United States,” https://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18007.shtml, accessed 1 October 2020.

a “China tilt” in U.S. policy. When engaged in balance-of-power politics, he tried to maintain even-handedness between the other two sides of the U.S.-Chinese-Soviet triangle, stating: “Our interest is to improve relations with both Peking and Moscow, and to avoid allowing one to use us against the other.”¹⁸

With the Carter administration ready to move expeditiously toward normalization in accordance with the Shanghai Communiqué agreements, American capital, responding to the severe economic crisis that began in 1974, also sought new markets and investment opportunities. Ironically, Republicans—long-standing friends of business interests—were particularly prominent in pushing for further improvements in ties with Communist China. The Shanghai Communiqué had an important bearing on China’s ability to develop relations with not just the United States but also Japan and Western Europe. As Premier Zhou Enlai had anticipated, following its conclusion, the doors to other countries allied with the United States opened automatically. With companies from Japan and Western Europe now eagerly seeking collaboration and cooperation with China, the new China market seemed to be up for grabs. “The fruit of the establishment of Sino-US relations lies in this,” Zhou observed in 1972.¹⁹ According to the Communiqué:

Both sides view bilateral trade as another area from which mutual benefit can be derived, and agreed that economic relations based on equality and mutual benefit are in the interest of the people of the two countries. They agree to facilitate the progressive development of trade between their two countries.²⁰

¹⁸ Memorandum from the President’s Assistant for National Security Affairs (Brzezinski) to President Carter, Washington, 25 January 1979, Subject: Your Meeting with Deng Xiaoping, Document 196, U.S. Department of State, *Foreign Relations of the United States 1977–1980*, vol. 13: *China* (Washington, DC: Government Printing Office, 2013), 718, <https://history.state.gov/historicaldocuments/frus1977-80v13/d196>, accessed 15 July 2021.

¹⁹ “Zhou Enlai and Kim Il-Sung Meeting Brief, 24 August 1972,” in Jin Chongji and the Central Archive Research Unit of the Chinese Communist Party, eds., *Zhou Enlai Zhuan (1949–1976)* [A Biography of Zhou Enlai, Part II (1949–1976)] (Beijing: Zhongyang Wenxian, 1998), 1110.

²⁰ Richard Nixon, “Joint Statement Following Discussions with Leaders of the People’s Republic of China, Shanghai: Commonly Known as the Shanghai Communiqué,” 27 February 1972, The American Presidency Project, <https://www.presidency.ucsb.edu/node/255131>, accessed 1 October 2020.

Even though the National Committee on U.S.-China Trade was founded in Washington on 31 May 1973, and a burgeoning trade and commercial relationship existed, initially this had largely served political rather than economic purposes, with the annual amounts involved decreasing steadily in the mid-1970s. American business was ready to jump aboard the China bandwagon.²¹

Carter himself openly admitted: “We’d like to increase trade with the People’s Republic, as Japan has already done.”²² With the United States afflicted by inflation and unemployment, the Carter administration saw overseas trade, particularly with countries that previously had limited or nonexistent business dealings with the United States, as offering potential relief. Dubbing himself “a staunch advocate of global commerce,” Carter believed trading and commercial ties would encourage interdependence and peace, as illustrated by his country’s relationships with such former adversaries as Japan and Germany, now its closest allies in Europe and Asia.²³ If American exports could penetrate the Chinese market, this would help to shrink the large adverse trade balance of the United States, which would in turn strengthen the dollar and thereby assist in alleviating inflationary pressures. Carter considered exports a high priority and was determined to strengthen his country’s global trade position.²⁴ While seeking to proceed expeditiously with the normalization of relations with China, Carter worked assiduously to eliminate existing barriers immediately impeding trade with China. He removed or modified assorted obstacles, including various aspects of the Export–Import Bank Act and the Jackson-Vanik Amendment to the 1974 Trade Act, that denied Most

²¹ File PRC 086, 1/8/79, U.S.–China Economic Relations: Confidential, Box 72, NSC Institutional Files (H-Files), Jimmy Carter Presidential Library, Atlanta, Georgia [hereafter JCPL].

²² Jimmy Carter, Interview with the President Question-and-Answer Session with Western European and Japanese Reporters, 11 July 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/247764>, accessed 1 October 2020.

²³ Jimmy Carter, Remarks at the Opening Session of the 26th World Conference of the International Chamber of Commerce, Orlando, Florida, 1 October 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/243641>, accessed 1 October 2020.

²⁴ Jimmy Carter, The State of the Union: Annual Message to the Congress, 25 January 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/250253>, accessed 1 October 2020.

Favored Nation (MFN) trade status and export credits to certain countries with non-market economies that restricted emigration.²⁵ Finally, in September 1978, the president authorized “commercial or financial transactions” with China except those involving strategic goods.²⁶

Piecing together information from newspapers, journal articles, governmental documents, and memoranda, as well as the recollections of key players on both the Chinese and American sides, this chapter focuses primarily upon Deng’s historic visit to the United States and its subsequent impact on Chinese modernization efforts. As the historian John Pomfret has noted, too many American accounts have treated China as “a passive partner in the dance with the United States.”²⁷ Adopting Paul A. Cohen’s “China-center” approach, this chapter seeks to give greater agency to the Chinese leadership and their perspectives, while exploring from both sides the course and complexities of Deng’s visit to the United States.²⁸

Economic statecraft was the key to understanding Deng’s “China card.” Deng recognized that American business interests and government officials would find highly alluring the policy of turning China outward and the huge potential of the China market. In May 1978, during an exploratory visit to Beijing by Carter’s National Security Adviser, Zbigniew Brzezinski, Deng somewhat inadvertently spoke of economic reciprocity and the trade opportunities associated with normalization, making it invitingly clear that: “Our policies draw a distinction between countries which have normalized relations with us and those which have not. We will prioritize those countries that have established a normal

²⁵ Jimmy Carter, The President’s News Conference, 12 December 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244139>, accessed 1 October 2020.

²⁶ Jimmy Carter, Embargo Regulations under the Trading with the Enemy Act: Letter to the Speaker of the House and the President of the Senate, 8 September 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/247673>, accessed 1 October 2020.

²⁷ John Pomfret, *The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present* (New York: Henry Holt, 2016), 449.

²⁸ Paul A. Cohen, *Discovering History in China* (New York: Columbia University Press, 2010).

relationship with us, in terms of economic, scientific, and business intercourse.”²⁹ On 5 July 1978, soon after this conversation took place, Huang Hua, the PRC Foreign Minister, and Leonard Woodcock, Chief of the U.S. Liaison Office in Beijing, began to negotiate the normalization of U.S.-China relations. Deng continued to play the economic card, stressing the distinction between the situations of countries that had normalized relations with China and those that had not when he met Austrian visitors on 6 August 1978: “It’s reasonable that we will prioritize those countries which normalized relations with us with the same conditions and technology. We will make it clear to Americans as the two countries have not normalized yet.”³⁰

The Carter administration reciprocated. When asked about potential exports of agricultural products to mainland China, Carter said his administration would meet the Chinese “half way in order to enhance American sales...through trade” and thereby improve bilateral relations overall. In his sweeping view, under the new leadership of Hua Guofeng and Deng Xiaoping, “the Chinese are going to expand their interrelationship with other countries on a foreign trade basis, and perhaps we can benefit from that.”³¹ Given his own background as a peanut farmer, Carter emphasized the importance to international trade of agricultural exports. While signing that year’s Agricultural Trade Act on 21 October 1978, two months before normalization became effective, Carter announced that he had authorized short-term Commodity Credit Corporation (CCC) loans to China to finance orders for American wheat, sorghum, and corn.³² His administration planned to capitalize on normalization to boost American

²⁹ Deng Xiaoping, Report on the meeting with Zbigniew Brzezinski, the President’s Assistant for National Security Affairs, 21 May 1978, in Leng Rong, ed., *Deng Xiaoping Nianpu, 1975–1997* [The Chronicle of Deng Xiaoping, 1975–1997] (Beijing: Zhongyang Wenxian, 2004), 1: 314.

³⁰ PRC Ministry of Foreign Affairs Archives [Waijiao bu dang’an guan], *Weiren de zuji—Deng Xiaoping waijiao huodong dashiji* [The Footsteps of a Great Man: The Chronology of Deng Xiaoping’s Diplomatic Activities] (Beijing: Shijie Zhishi Chubanshe, 1998), 178.

³¹ Jimmy Carter, Farm Newspaper Editors of America: Interview with Members of the Organization, 30 September 1977, The American Presidency Project, <https://www.presidency.ucsb.edu/node/242588>, accessed 1 October 2020.

³² Jimmy Carter, Remarks at a Bill Signing Ceremony for S. 3447, Wichita, Kansas, 21 October 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244258>, accessed October 1, 2020.

agricultural exports to the PRC, home to one-quarter of the earth’s population, which had already made heavy purchases of farm products from Canada, Argentina, Australia, and Brazil.³³

Since 1971, Presidents Nixon and Ford had both visited Beijing, and top-level American officials had made fourteen trips to China, but no Chinese leaders of commensurate standing had made any return visits.³⁴ Liaison offices were established in Beijing and Washington in 1973. In 1978, over 120 Chinese delegations visited the United States, while even more Americans went to Beijing.³⁵ The Chinese had, however, made their position on Taiwan very clear: that a state visit to Washington would be inappropriate before relations between their two countries were normalized. As negotiations progressed, the Americans and Chinese reciprocally modified the details, until the decisive moment was reached on 16 December 1978, when both sides reached agreement on mutually acceptable terms for normalization. The United States ceased to insist on maintaining its defense treaty with Taiwan or keeping American troops on the island. At the White House Briefing immediately following his official announcement, Carter assured the American people that normalization would usher in “a new vista for prosperous trade relationships with almost a billion people in the People’s Republic of China.”³⁶

MR. DENG XIAOPING TAKES AMERICA BY STORM

Following the prompt exchange of trade missions, the American side extended an invitation to Deng Xiaoping to make a state visit, which he accepted without hesitation just twenty-four hours later. Immediately after supplanting Hua Guofeng as China’s paramount leader in December

³³ Jimmy Carter, The President’s News Conference, 12 December 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244139>, accessed 1 October 2020.

³⁴ File Policy Process: 10–11/78. Top Secret; Sensitive; Eyes Only, Box 57, National Security Affairs, Staff Material, Far East, Oksenberg Subject File, JCPL.

³⁵ Jimmy Carter, Visit of Vice Premier Deng of China: Toasts at the State Dinner, 29 January 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/248077>, accessed October 1, 2020.

³⁶ Jimmy Carter, Diplomatic Relations Between the United States and the People’s Republic of China: Remarks at a White House Briefing Following the Address to the Nation, 15 December 1978, The American Presidency Project, <https://www.presidency.ucsb.edu/node/244243>, accessed 1 October 2020.

1978, Deng declared “unprecedented seismic reform and an opening to the outside world to bring the Four Modernizations to China.”³⁷ Touting China’s new “Open Door” policy, he embarked on a historic mission to seek aid and allies in the United States. When Foreign Minister Huang Hua asked Deng why the first foreign country he would visit after winning political ascendancy should be the United States, he replied that all America’s allies were wealthy and strong; if China wished to become rich and strong too, this would call for massive amounts of American capital and technology.³⁸ Deng recognized that American capital and technology had paved the way for the East Asian postwar “economic miracle.” Mastering Western technology and management skills had been crucial to the success of the more sophisticated economies of South Korea, Taiwan, Hong Kong, and Singapore. He wanted the same for China.

Deng’s arrival marked the highest level Chinese state visit to the United States since that of Madame Chiang Kai-shek in 1943, when the two countries were allied in fighting a common enemy, Japanese fascism. In a manner slightly reminiscent of Soviet leader Nikita S. Khrushchev’s 1959 trip to the United States at the height of the Cold War, in terms of the “excitement and attention it garnered,” Deng’s arrival twenty years later far eclipsed visits by all other foreign leaders.³⁹ A White House ceremony greeted Vice Premier Deng Xiaoping, ranking only third in the formal CCP hierarchy, with a 19-gun salute, usually reserved for heads of state. All involved assumed that Deng functioned as the de facto head of government and dominant policymaker in Beijing. Politicians and business executives rushed to obtain coveted invitations to the exclusive state dinner honoring Mr. Deng. Journalists and cameramen from major newspapers and media networks scrambled for tickets to interview the new Chinese leader. In the words of James Reston, White House correspondent for the *New York Times*, the entire well-orchestrated tour was truly “an exercise in public relations and propaganda.” Deng’s personal charm had a decidedly positive impact on bilateral relations, as he displayed all the zest of a seasoned American politician while taking the U.S. capital by storm. In Washington, Reston observed, Deng carried himself with

³⁷ Li Xiaobing, “Deng Xiaoping (1904–1997),” in *Encyclopedia of Chinese-American Relations*, ed. Yuwu Song (Jefferson, NC: McFarland, 2009), 92.

³⁸ Pomfret, *The Beautiful Country and the Middle Kingdom*, 482.

³⁹ Terence Smith, “President and Teng Confer Four Hours,” *New York Times* (30 January 1979): A1.

“a kind of calm but puzzled serenity.”⁴⁰ He was, reported *U.S. News and World Report*, “controlled, tough-minded and self-confident... capable of holding his own with Jimmy Carter or any other world leader.”⁴¹

“I was favorably impressed with Deng,” wrote Carter on 29 January 1979, finding him “small, tough, intelligent, frank, courageous, personable, self-assured, friendly.”⁴² The strong personal rapport between the two leaders set the tone for future U.S.-Chinese relations, as they reached agreement on a wide range of scientific and cultural exchanges, and exchanged views on assorted geopolitical issues around the world, including Iran, Afghanistan, Pakistan, the Middle East, southern Africa, Central Europe, Korea, and Indochina. At the welcoming ceremony on the White House South Lawn, Deng spoke in his thick Sichuan accent of the “great possibilities,” “broad vistas,” and “fruitful results” that Sino-American reconciliation would afford.⁴³ After “traveling a tortuous course” for almost three decades, China’s leader claimed, the situation between the two countries had now finally been normalized, a strengthening of bilateral ties that came “because both sides sought the long-term strategic considerations.”⁴⁴ Toward the end of the welcoming ceremony, Deng even veered off script, impulsively grabbing Carter’s hand and holding it high on the White House lawn. “This is a historic meeting. You are witnessing the takeoff of Sino-American relations,” commented one White House aide.⁴⁵

Deng’s style effectively dramatized the changes in bilateral relations, presenting China as humane and non-belligerent. His skilful sense of self-promotion and public relations undoubtedly impressed Americans, rendering his visit “a media extravaganza.” Wherever he toured, his lively delegation attracted great attention. He kissed American children at the Kennedy Center, waved to the crowd like a Western politician,

⁴⁰ James Reston, “Washington: When Strangers Meet,” *New York Times* (31 January 1979): A23.

⁴¹ J. Fromm, “Teng face-to-face: controlled, tough, confident,” *U.S. News & World Report* 86 (12 February 1979): 24.

⁴² Carter, *Keeping Faith*, 202.

⁴³ Jimmy Carter, Visit of Vice Premier Deng Xiaoping of the People’s Republic of China: Remarks at the Welcoming Ceremony, 29 January 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/247953>, accessed 1 October 2020.

⁴⁴ Smith, “President and Teng Confer Four Hours,” A1.

⁴⁵ “Teng’s triumphant tour,” *Time* 113 (12 February 1979): 10–16.

and sampled a Texas-style barbecue. The *Wall Street Journal* described in lavish detail his baby-kissing style: “He grasps the child’s ears with his hands, plants a firm smack on top of his (or her) head, then follows that up with another smack on the forehead.” Perhaps no image better captured the spirit and mood of Deng’s visit than the 74-year-old Chinese leader waving a ten-gallon cowboy hat in a stagecoach in Simonton, Texas. The rodeo extravaganza became a public relations hit. “He’s a fantastic advocate for his country...he has such a warm, friendly smile,” commented Henry M. Jackson, Washington’s influential Democratic Senator.⁴⁶ Jim Casey of the *Everett Herald*, the local newspaper of the town where Deng visited a Boeing Aircraft plant, described the Deputy Prime Minister of China as “the hottest celebrity Seattle had seen since the departure of King Tut, and the best draw until the coming of Neil Diamond.”⁴⁷

Deng’s excursions to three well-chosen industrial American centers “dramatized China’s quest for U.S. technological aid in its drive toward modernization.”⁴⁸ The selected sites “concentrated on some of the key industries and plants that helped build the booming Southern and Western industrial crescent.”⁴⁹ In the postwar years, these areas had experienced rapid population growth and economic development spurred by tremendous technological advances. Whisked off by limousine for short tours of a Ford Motor Company plant outside Atlanta, Georgia, the Lyndon B. Johnson Space Center in Houston, Texas, and the Boeing Aircraft plant near Seattle, Washington, Deng glimpsed the best of the Sun Belt American businesses and industries: the automobile, aerospace, and petroleum sectors. The intoxicating touch of America’s greatest material successes enthralled him. Glittering examples of consumer capitalism—shopping malls, hotels, hospitals, and mechanized

⁴⁶ James M. Perry and Karen Elliott House, “After Taking Capital by Storm, Mr. Teng Marches on Sun Belt,” *Wall Street Journal* (2 February 1979): 1.

⁴⁷ Phil Dougherty, “Chinese Vice Premier Deng Xiaoping (or Teng Hsiao-ping) arrives in Seattle for a two-day visit on February 3, 1979,” *HistoryLink.org*, 14 April 2008, <https://www.historylink.org/File/8588>, accessed 2 January 2020.

⁴⁸ “China’s Teng Ends U.S. Visit; Tours 3 Cities before Leaving,” *Facts on File World News Digest* 82 (9 February 1979): C2.

⁴⁹ “Teng’s American Business Trip: Goal of Modernization by 2000,” *New York Times* (31 January 1979): D1.

factories—dazzled Deng, reinforcing his determination to bring comparable Western-style prosperity to his own country. As he would soon proclaim to the Chinese people: “Poverty is not socialism... To get rich is glorious.” Recalling his late 1920 sojourn as a young man in Marseilles, France, he discovered a world of material abundance he coveted for China. “We felt that China was weak, and we wanted to make it strong... We thought the way to do it was through modernization. So we went to the West to learn,” Deng revealed to the American media, when speaking of his early life.⁵⁰

One purpose of Deng’s visit, beyond celebrating the normalization of relations between the two nations, was to convey a flattering message by demonstrating unequivocally just how much the Chinese, highly respectful of American technical and managerial prowess, wished to work with the United States. Deng’s 75-member delegation included numerous scientists and journalists, as well as Vice Premier and Science Adviser Fang Yi and Foreign Minister Huang Hua. Clad in his usual dark gray Mao suit, Deng served as an unusual salesman for his country, stressing the mutual benefits of bilateral relations. “We in China are faced with the task of transforming our backwardness and catching up promptly with the advanced countries of the world,” Deng told Southern politicians and business figures.⁵¹ Addressing an ebullient gathering of 1,400 civic and business leaders in Atlanta, Deng did not hesitate to proclaim his oft-repeated admiring references to America, “particularly in the South, what you call the Sun Belt. We can learn much from you.”⁵² The *Atlanta Constitution*, a flagship local newspaper, commented on Deng’s gestures of friendship: He was bidding for the Sun Belt’s favors. While in Houston, he designated the city a “center of the petroleum industry” and underscored his determination to “learn about your advanced experience in the petroleum industry and other fields.”⁵³ During a television interview in Washington, Deng bluntly stated that the purpose of his visit was to “get to know all about American life” and to “absorb everything of benefit”

⁵⁰ William R. Doerner, “The Comeback Comrade,” *Time* 127 (6 January 1986): 1.

⁵¹ Fox Butterfield, “China’s Road to Progress Is Mostly Uphill,” *New York Times* (4 February 1979): E1.

⁵² Perry and House, “After Taking Capital by Storm, Mr. Teng Marches on Sun Belt,” 1.

⁵³ Joseph Lelyveld, “‘Astronaut’ Teng Gets New View of World in Houston,” *New York Times* (3 February 1979): 1.

to the Chinese.⁵⁴ Some skeptical American observers complained that the Chinese visitors only captured small and restricted glimpses of American society, while deliberately ignoring other aspects of American life and the country's democratic tradition. "He [Deng] is not especially interested in the United States as the United States," remarked one critic, "but as a fount of technology and trading opportunities that help carry China to a certifiably 'modern,' if still unknown, future."⁵⁵

While Deng did indeed travel to America to solidify potential U.S.-China trade benefits, he did so with his domestic audience in mind. A Chinese Central Television crew gave extensive daily coverage of Deng's visit, from White House meetings with President Carter to a rodeo ride in Texas. Modern media technology was applied to shape the impressions of the Chinese masses. Hundreds of millions of Chinese watched the transmitted image of an elderly Premier Deng sitting in a lunar rover in Houston, Texas. Back home, Deng's American policy won less than unanimous support. Learning advanced science and technology from developed countries was criticized as "*chongyang meiwai*" (blindly worshipping foreign things) or "*waiguo de yueliang bijiao yuan*" (the moon is rounder abroad). Indeed, as historian Paul A. Varg commented, for a long time in China, "technology was identified with a foreigner. The importation raised questions concerning the social, political, and cultural consequences of technological changes."⁵⁶ By selectively showcasing American technological progress and corporate prowess, Deng sought to convince his people of the advantages of a relationship with the United States, a wealthy and technologically advanced country that deserved some measure of respect and emulation. Deng's objectives in doing so were to diminish enduring hostility toward the United States, sell his American policy publicly, and mute potential criticism from the Politburo.

Deng unabashedly reminded Americans of the underlying anti-Soviet rationale of the budding friendship. He made several attempts to push

⁵⁴ Fox Butterfield, "Teng Again Says Chinese May Move Against Vietnam," *New York Times* (1 February 1979): A16.

⁵⁵ Joseph Lelyveld, "Reporter's Notebook: For Teng, Only Oblique Vision of America," *New York Times* (2 February 1979): A9.

⁵⁶ Paul A. Varg, review of Michel Oksenberg and Robert B. Oxnam, *Dragon and Eagle: United States-China Relations: Past and Future* (New York: Basic Books, 1978), *Pacific Historical Review* 49:3 (August 1980): 548.

for an explicit anti-Soviet alliance, underscoring shared interests in confronting Soviet expansion or what the Chinese preferred to term hegemonism. In an interview with Hedley Donovan, editor-in-chief of *Time* magazine, Deng warned that Soviet expansionism was the chief threat to world peace. During a luncheon at Blair House with selected American journalists, he blurted out that the Soviet Union was “the hotbed of war,” whose military strength “may surpass that of the United States in the near future.”⁵⁷ Deng’s anti-Soviet rhetoric and his comments opposing SALT II irritated Moscow and unnerved Washington, as Deng made his pugnacious anti-Soviet gesture in the U.S. capital. Years later, Deng worked hard to patch up the ideological split with the Soviets and in 1989 moved to repair the thirty-year rift by inviting Soviet leader Mikhail Gorbachev to visit Beijing. A decade earlier, his strategy was perhaps a throwback to the way that China managed old foes and new adversaries during the imperial period: he wanted China to become the fulcrum between the barbarians of the East and West by allying with the weaker against the stronger. China expert David Shambaugh noted that Deng Xiaoping’s 1974 address to the Sixth Special Session of the United Nations General Assembly described the world situation as “one superpower on the wane and the other in the ascent.”⁵⁸ Clearly, drawing on the CCP’s domestic political experience, China’s strategy was to press the weaker to join the “broad united front” against the stronger. At this point in history, Deng recognized the United States as a force that could be utilized and included in the common front.⁵⁹ On 9 January 1979, shortly before he visited the United States, when Deng met a delegation of U.S. senators in Beijing, he quipped that when President Gerald Ford and Secretary of State Kissinger had met Mao in 1975, the ailing Chinese leader had urged, “let’s all get together to fight the bastards.”⁶⁰

⁵⁷ Fromm, “Teng face-to-face: controlled, tough, confident,” 24.

⁵⁸ David Shambaugh, *Beautiful Imperialist: China Perceives America, 1972–1990* (Princeton, NJ: Princeton University Press, 1991), 42.

⁵⁹ File Policy Process: 10–11/78. Top Secret; Sensitive; Eyes Only, Box 57, National Security Affairs, Staff Material, Far East, Oksenberg Subject File, JCPL.

⁶⁰ Telegram from the Liaison Office in China to the Department of State, 11 January 1979, Document 191, U.S. Department of State, *Foreign Relations of the United States 1977–1980*, vol. 13: *China*, 703–711, quotation from 711, <https://history.state.gov/historicaldocuments/frus1977-80v13/d191>, accessed 15 July 2021.

CONCLUSION

With characteristic pragmatism, after domestic politics on both sides had interrupted the entire process ever since 1972, Deng finalized the normalization of diplomatic relations between China and the United States. Deng Xiaoping, the *New York Times* editorialized, “carried his American connection far beyond the balance-of-power diplomacy that preoccupied Prime Minister Chou Enlai when he toasted Mr. Nixon.”⁶¹ By primarily emphasizing economic aspects of Sino-U.S. relations, Deng ingeniously bypassed ideological differences and astutely postponed the question of Taiwan. The result was that bilateral trade relations strengthened and deepened and the two nations made great breakthroughs on a broad range of issues. The signing of U.S.-China trade agreements on 14 May 1979 resolved the MFN issue and accelerated bilateral trade. The U.S. Congress eventually ratified the trade treaty on 24 January 1980 and it became effective on 1 February 1980. As Shu Guang Zhang and Hua Zheng describe in greater detail (Chapter 4), on the basis of burgeoning economic and trade links, ties between the United States and China expanded far and wide, to encompass the scientific and technological fields, including agriculture, energy, space, health, the environment, earth science, engineering, and the management of science and technology, as well as educational and cultural exchanges.

The momentous nature of Deng’s American visit is perhaps best gauged by the substantial growth in wide-ranging and highly significant opportunities for interchanges between American businesses, schools, and the media and their PRC counterparts, partnerships that helped to structure the conditions under which China functioned in the external world. Various agreements on science and technology, cultural exchanges, and consular arrangements were concluded.⁶² Two of Carter’s key cabinet officers, Secretary of Commerce Juanita Kreps and Treasury Secretary Michael Blumenthal, soon visited Beijing to facilitate negotiations on

⁶¹ Joseph Lelyveld, “Resilient Chinese Leader: Teng Hsiao-ping Man in the News Will Travel,” *New York Times* (29 January 1979): A8.

⁶² For details of the agreement, see Jimmy Carter, Visit of Vice Premier Deng [sic. Deng] of China: Agreement between the United States and China on Cooperation in Science and Technology, 31 January 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/248726>, accessed 1 October 2020.

MFN, export credits, and Claims and Assets. The Deng-Carter consultations also led to the end of discriminatory legislation, an aviation agreement, and exchanges of students and journalists. Just one month after Deng’s visit, in the first major cultural exchange event since normalization, the Boston Symphony Orchestra visited Beijing.⁶³ One year later, Temple University of Philadelphia, which had conferred an honorary doctorate of law on Deng during his visit, sent assorted scholars to China to explore educational collaboration and exchange opportunities. As part of “normalization,” U.S. newspapers and media networks opened additional bureaus in China.

Deng’s visit helped the new Sino-American relationship to take off and boosted the budding friendship between the two countries. More importantly, he offered “potentially lucrative avenues of trade and new perspectives on world politics.”⁶⁴ Deng’s endeavors “led to the development of full relations between the two countries, including trade, education, technology, and cultural exchanges.”⁶⁵ Ending his weeklong visit to the United States, Deng announced that he had achieved gratifying results and would return home cherishing good feelings toward the American people and media:

We believe our visit was successful and smooth. Our work is in keeping with the aspirations of the world. I also want to thank our friends in the American Press. You followed us across the country, reporting detailed stories about our visit. You helped greatly to promote understanding between the Chinese and American peoples.⁶⁶

If coldblooded calculations and tactical expediency characterized the era of Nixon and Mao, Deng’s trip brought a touch of cordiality and sentimentalized the bilateral relationship. Charles W. Freeman, Nixon’s

⁶³ Jimmy Carter, Visit of Vice Premier Deng of China: Remarks Following a Performance at the John F. Kennedy Center for the Performing Arts, 29 January 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/248127>, accessed 1 October 2020.

⁶⁴ “Man of the Year: Visionary of a New China: Teng Hsiao-ping,” *Time* 113 (1 January 1979): 12–20.

⁶⁵ Li Xiaobing, “Deng Xiaoping (1904–1997),” 92.

⁶⁶ Documentary film, *Mr. Deng Goes to Washington*. Directed by Hongxing Fu. Produced by New Oriental Education and Technology Group, 1982.

interpreter-in-chief during his 1972 China trip, aptly described the trajectory of U.S.-China relations as “married first, loved later.”⁶⁷ Reports on Deng’s visit dominated the front pages and headlines of major American mainstream news outlets, including the *Washington Post*, *New York Times*, *Wall Street Journal*, and others. As Stephen Orlins, a future President of the National Committee on U.S.-China Relations, pointed out, when President Jimmy Carter extended full diplomatic recognition to the People’s Republic of China as of 1 January 1979, the relationship only existed on paper. But “when Deng came, it was real...U.S.-China relations was in the forefront of everybody’s mind.”⁶⁸

An amiable Deng Xiaoping successfully projected the image of a more outward-oriented China eager to absorb advanced scientific knowledge and managerial know-how, particularly from America. At this point in history, China was “behaving more like a frisky young lamb than a surly old dragon.”⁶⁹ A national poll taken before Deng’s visit revealed that the American public viewed Beijing more favorably than Moscow.⁷⁰ In the 1980s, in contrast to the “stagnant and hostile” Soviet Union, China seemed to be the “communist giant that the West loved to love.”⁷¹ Embracing a new open-door policy that was encouraged by recognition from the United States after a thirty-year lapse, China was keen to spur economic development based on extensive collaboration with America, the leader of a global alliance of capitalist countries.

Deng’s visit apparently heightened the national American fascination with the fabled China market, ushering in a new gold rush era in Asia. Since the days of the Yankee Clipper Ships, American merchants had dreamed of selling to hundreds of millions of consumers in China. In the United States, China’s rapprochement with the West and Deng’s visit spurred a revival of interest in China trade. From US\$5 million in 1972, bilateral trade rose to US\$500 million by 1978 and then doubled in 1979. Numerous business executives scrambled to cash in on the China

⁶⁷ Li Qing, “Zhongguo cengjing xiang lingyige xingqiu” [China used to be like another planet], *Sanlian shenghuo zhongkan* [Sanlian Life Weekly] 1 (2009): 79.

⁶⁸ *Mr. Deng Goes to Washington*.

⁶⁹ “Come on In, Folks,” *National Review* (10 November 1978): 1396.

⁷⁰ Adam Clymer, “Poll Finds Public Looks on Peking More Favorably Than on Moscow: Improvement Appears Dramatic,” *New York Times* (2 February 1979): A3.

⁷¹ Rana Mitter, *Modern China: A Very Short Introduction* (New York: Oxford University Press, 2016), 62.

market, with Coca-Cola, Heinz, and General Foods among the first American corporations to invest in China. “You had companies talking about selling a billion toothbrushes to China, about a two-billion-armspit market,” said William Clark, director of the China section of the U.S. Commerce Department.⁷² Among the guests invited to Deng’s Atlanta reception were Henry Ford 2d, chairman of Ford Motor Company, and J. Paul Austin, chairman of Coca-Cola, which weeks earlier in December 1978 had signed an agreement with Deng’s government permitting Coca-Cola to penetrate the mainland market.⁷³ Kazushi Minami (Chapter 10) explores how, using funds earned by exporting oil from offshore oilfields, China negotiated with major American companies such as Exxon and Philips Petroleum for joint exploration projects. As described by Shu Guang Zhang and Hua Zheng (Chapter 4), Deng’s government also labored assiduously to persuade the United States to relax its restrictions on technology transfers.

Ultimately, Opening Up essentially meant opening up to the United States. In the wake of his official visit to the United States, Deng went full throttle for modernization and flung wide the investment floodgates, attracting massive amounts of American capital. “Billions of dollars poured into the country, more than could be readily absorbed,” according to historian Warren I. Cohen.⁷⁴ John Pomfret shrewdly observes, “China’s modernization and its normalization with America were inseparable.”⁷⁵ As the Peking University historian Yuan Ming has commented: “The American factor was, in the end, the all-encompassing factor in China’s modernization.”⁷⁶ Unfettered by ideological dogma, Deng Xiaoping’s pragmatic upheaval of the Chinese economy transformed his country’s landscape at breathtaking speed. The long 1980s was a time of rapid economic expansion and triumphal improvisation, fueled by growing American capital and investment. As Deng himself

⁷² Jonathan Kaufman, “Euphoria on China Yields to Realism at Trade Seminar,” *Wall Street Journal* (25 February 1980): 24.

⁷³ “Teng’s American Business Trip: Goal of Modernization by 2000,” D1.

⁷⁴ Warren I. Cohen, *East Asia at the Center* (New York: Columbia University Press, 2000), 443.

⁷⁵ Pomfret, *The Beautiful Country and the Middle Kingdom*, 480.

⁷⁶ “PKU Professor Yuan Ming Gives Speech to Principals of Top Schools,” 4 October 2020, https://newsen.pku.edu.cn/news_events/news/focus/10199.htm, accessed 10 October 2020.

declared, “we can utilize foreign funds and technology, and overseas Chinese and foreign citizens of Chinese origin should be allowed to establish factories in China.”⁷⁷ Thanks to massive American orders for textiles, handicrafts, and manufactured goods, the Chinese economy took off. The Special Economic Zones (SEZs) pioneered in Guangdong and Fujian provinces, described in more detail in this volume by Lawrence C. Reardon (Chapter 2) and Zhou Taomo (Chapter 11), ignited an explosion of exports in the coastal cities, which became particularly attractive to foreigners.

Opening Up to America and domestic reforms proceeded synchronously. Deng, a seasoned revolutionary, fully realized what a colossal task he and his team of colleagues were tackling in modernizing a backward country with a population of 900 million. As he had admitted in December 1978: “The basic point is: we must acknowledge that we are backward, that many of our ways of doing things are inappropriate, and that we need to change.”⁷⁸ Internally and externally, Deng’s China sought out acceptable capitalists to help China modernize, while entrepreneurs, technocrats, and intellectuals played key roles in this historical transformation. Deng’s China called upon overseas Chinese from the United States, Japan, the ASEAN nations, and elsewhere, and marshaled broad support for his modernization policy. Within the ensuing two decades, China emerged as one of the fastest expanding economies in world history. As hundreds of millions of Chinese were lifted out of poverty, the daily lives and aspirations of ordinary Chinese were transformed.

In Jimmy Carter, Deng had the great good fortune to find a sympathetic partner, one moreover who firmly believed that the magic power of trade and economic reciprocity would work wonders in terms of

⁷⁷ Deng Xiaoping, “We Should Make Use of Foreign Funds and Let Former Capitalist Industrialists and Businessmen Play Their Role in Developing The Economy,” 17 January 1979, in Deng Xiaoping, *Selected Works Of Deng Xiaoping, Vol. 2 (1975–1982)*, 2nd ed. (Beijing: Foreign Languages Press, 1995), 119.

⁷⁸ Li Xiangqian and Han Gang, “Xin faxian Deng Xiaoping yu Hu Yaobang deng sanci tanhua jilu” [Newly Discovered Record of Three of Deng Xiaoping’s Talks with Hu Yaobang and Others], *Bainianchao* 3 (1999): 4–11, reprinted in Xie Chuntao, ed., *Deng Xiaoping xiezhen* [A Portrait of Deng Xiaoping] (Shanghai: Shanghai Cishu Chubanshe, 2005), 192.

correcting distorted perceptions and healing historical wounds.⁷⁹ Soon after Deng’s visit, Carter told potential critics “that it’s to China’s advantage in their major modernization program which affects everyone in China to retain these newly formed diplomatic, political, and trade relationships with countries throughout the world.” Among these, the president believed: “Ours is perhaps the most important in their eyes.”⁸⁰ Many years later, in a 2014 interview with the Asia Society marking thirty-five years since the resumption of diplomatic relations, Carter admitted that he had found a good partner in Deng Xiaoping.⁸¹

In the words of Odd Arne Westad, Deng’s trip to the United States “radicalized him and made him more determined to experiment in order to secure China’s rapid development.”⁸² American officials recognized that Deng sought to “‘broaden and thicken’ the US–PRC relationship across the board” to bolster China’s modernization endeavors as well as his own political position and agenda.⁸³ In the wake of Deng’s visit, Sino-American friendship flourished, as political, economic, and cultural ties continued to be strengthened and deepened on a long-term basis, despite Beijing’s spasmodic beratings over Washington’s refusal to end arms sales to Taiwan.

Deng’s rather self-effacing, unprepossessing style was encapsulated in his dictum “*taoguang yanghui*” (hide your ambitions and disguise your claws). During the 1980s, this maxim became one of the prime tenets of Chinese foreign policy. Given parallel Chinese and American strategic interests in the Asia Pacific region, shared concerns that the United States could be guaranteed to safeguard, in the 1980s Deng’s China

⁷⁹ Jimmy Carter, National Governors’ Association: Remarks and a Question-and-Answer Session with Members of the Committee on International Trade and Foreign Relations, 25 February 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/248929>, accessed 1 October 2020.

⁸⁰ Jimmy Carter, Interview with the President: Remarks and a Question-and-Answer Session With Editors and News Directors, 9 February 1979, The American Presidency Project, <https://www.presidency.ucsb.edu/node/248644>, accessed 1 October 2020.

⁸¹ Asia Society, “A Debate: Thirty-Five Years of Sino-US Relations,” 6 November 2014, <https://asiasociety.org/video/jimmy-carter-i-had-good-partner-deng-xiaoping>, accessed 1 October 2020.

⁸² Westad, “The Great Transformation,” 77.

⁸³ File China: Vice Premier Deng Xiaoping, 1/28/79–2/1/79: 1/25/79 Briefing Book [I]. Secret; Sensitive, Box 2, National Security Affairs, Brzezinski Material, VIP Visit File, JCPL.

“benefited from the American security imperative in more senses than one.”⁸⁴ With Cold War rivalries apparently globally entrenched, China was protected by the American security shield, meaning that its leaders and population could single-mindedly dedicate themselves almost entirely to achieving material success at warp speed. By spearheading, highlighting, and prioritizing economic issues, recognizing the complexity of the Taiwan situation, and downplaying ideological disagreements, Deng’s statecraft placed relations with the United States on a constructive footing that set China on the road to long-term revival and regeneration as a major power.

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⁸⁴ Odd Arne Westad, *Restless Empire: China and the World Since 1750* (New York: Basic Books, 2012), 325.

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Toward Technological Statecraft: Revisiting Beijing's Economic Statecraft in the 1980s

Shu Guang Zhang and Hua Zheng

INTRODUCTION

In *Beijing's Economic Statecraft during the Cold War* (2014), the years from 1979 to 1989 were treated as a new stage in China's economic statecraft. With Deng Xiaoping's vigorous push for Reform and Opening Up, as well as rapprochement with the West, Beijing reoriented its economic exchanges with the Western world. Its Opening Up to Western goods, capital, and technology accorded the People's Republic of China (PRC) not only unprecedented economic opportunities but invariably strategic potentials that would prove instrumental to its pursuit of foreign policy objectives on the course to becoming a great power. Revisiting the previous findings and exploring new material on this dynamic period of

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the 1980s, it becomes interesting and important to examine specifically how science and technology (S&T) played out in the evolution of China's economic statecraft toward the end of the twentieth century and gave rise to the development of technological statecraft.

Science and technology invariably constitute an integral part of economic statecraft. From a geopolitical perspective, S&T resources and capabilities contribute to national power and support the pursuit of foreign and defense objectives, positively as a provider of economic incentives and negatively as a source of deterrence, compellence, or punishment. From a geoeconomic perspective, a state's developmental imperatives require technological progress through legal and sometimes illegal means but, at the same time, technological independence or autonomy, a paradox that economic statecraft would have to resolve.¹ Addressing how the PRC faced up to the imperative for development via Opening Up and Reform, this chapter examines Beijing's strategic thinking about, policymaking on, and behavior in advancing China's S&T capacity through seeking cooperation with the West, especially the United States, while striving to maintain independence. It will then address how these new experiences may possibly have prepared Beijing, for better or worse, to grow technological statecraft for its next stage of global engagement, into the 1990s and beyond.

SCIENCE AND TECHNOLOGY IN CHINA'S MODERNIZATION

Beijing embarked upon a new era in the 1970s: Reform and Opening Up. As "Opening Up" largely demanded re-engagement with the Western world, China had to drastically reorient its international diplomacy, which consequently shaped its economic statecraft in the 1980s.

At the core of China's new diplomacy lay a set of new foreign policy objectives. Viewing the 1980s as "an important decade in the evolution of our Party and country," Deng Xiaoping, then the paramount leader of China, declared at the opening session of the Twelfth Party Congress on 1 September 1982 that, in addition to "national unification" and "opposition to hegemony and protection of world peace," speeding up

¹ Kristi Govella, "The Adaptation of Japanese Economic Statecraft: Trade, Aid, and Technology," *World Trade Review* 20: 2 (April 2021): 186–202; and Elizabeth Thurbon and Linda Weiss, "Economic Statecraft at the Frontier: Korea's Drive for Intelligent Robotics," *Review of International Political Economy* 28: 1 (February 2021): 103–127.

“socialist construction toward modernization” would naturally become China’s strategic goals in the coming decade. Of the three, economic development would be the “fundamental determinant” of China’s success in “resolving international and domestic problems” that it faced.²

Such a reorientation derived largely from the changing strategic world outlooks of the post-Mao leadership. Several such views figured prominently in Chinese official statements of the 1980s. First and foremost, the Deng leadership believed that “peace” and “development” were tending to replace wars and “struggles” in contemporary global politics. If Mao’s belief in the inevitability of another world war had directed the PRC’s foreign and defense policies up to the mid-1970s,³ China’s post-Mao leaders believed that the likelihood of international stability was now becoming greater than that of world conflict.⁴

The Deng leadership then recognized that the ideology-driven Cold War logic should no longer be key guidelines of China’s foreign policymaking and execution. Instead, national interests should substitute for ideology as the intrinsic determinant of all foreign policy thinking and making. Given the trends of economic globalization and technological progress, Deng and his associates viewed promoting economic development and technological advances as China’s most vital and critical interests. In March 1986, Deng declared that, if China adhered to this position for “at least 30 to 50 years,” its development would become “closer to the level of developed countries.”⁵

Understandably, the Deng leadership treated “Opening Up” to and re-engagement with the developed countries as the long-term foreign strategy of China. To catch up with the prevailing trends of economic

² Deng Xiaoping, speech at the opening session of the Twelfth Party Congress, 1 September 1982, Deng Xiaoping, *Deng Xiaoping Wenxuan* [Selected Works of Deng Xiaoping] (Beijing: Zhongyang Wenxian, 1993), 3: 3.

³ See Shu Guang Zhang, *Deterrence and Strategic Culture: Chinese-American Confrontations: 1949–1958* (Ithaca, NY: Cornell University Press, 1992), Chapter 1.

⁴ Ministry of Foreign Affairs Archives, *Weiren de Zuji: Deng Xiaoping Waijiao Huodong Dashiji* [To Trace the Footsteps of a Great Leader: The Chronicles of Deng Xiaoping’s Diplomatic Activities] (Beijing: Shijie Zhishi, 1998), 159, 161; and Deng Xiaoping, speech at an enlarged Central Military Commission meeting, 4 June 1985, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 3: 126–127.

⁵ Minutes (excerpts) of a conversation between Deng Xiaoping and a Japanese trade and economy delegation, 4 March 1985, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 3: 104–105; see also *Weiren de Zuji*, 323.

globalization and technological progress, Deng told the top CCP leaders on 8 July 1983 that China had no other choice but to “open up further,” because this was a “strategic” requirement.⁶ Only by carrying out the “Opening Up” policy and acting on the basis of “the five principles of peaceful co-existence,” Deng proclaimed on 1 October 1984, could China in the long run “establish and develop political, economic and cultural relations with all other countries.”⁷ Provided China persisted in Opening Up until the end of the twentieth century, Deng explained to Britain’s prime minister Margaret Thatcher on 19 December 1984, it would be unlikely to close up again in the twenty-first century, because “our economic exchanges with the international [community] will be more frequent [than ever before], becoming so much more interdependent and so much more integrated that there will be less chance [for China] to change the Opening Up policy.”⁸ A long-term “Opening Up” would not merely allow China to learn from the developed countries how to promote a modern economy and advanced technologies but, in Deng’s view, in about fifty years China would become “a medium developed country” or a medium power.⁹ To ensure that Opening Up would remain unchanged, the revised PRC constitution of December 1982 stipulated that “Opening Up” was “a fundamental national policy” of China.¹⁰

Opening Up to the West did not, however, necessarily imply that Beijing would renounce its long-cherished “independent diplomacy.” On 2 August 1982, Deng told Claude Cheysson, France’s Foreign Minister, that he greatly appreciated the diplomatic independence that France had demonstrated throughout the Cold War. He made it clear that China, sharing the same positions as Paris on many international issues and employing largely similar methods in tackling them, “is also following

⁶ Minutes (excerpts) of a conversation between Deng Xiaoping and other top CCP leaders, 8 July 1983, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 3: 32.

⁷ Speech, Deng Xiaoping, at the national day ceremony, 1 October 1984, *ibid.*, 3: 70.

⁸ Minutes of a conversation between Deng Xiaoping and British Prime Minister Margaret Thatcher, 19 December 1984, *ibid.*, 3: 103.

⁹ Deng Xiaoping, speech at the international conference on “China in the 1990s and the world,” 3 June 1988, *ibid.*, 3: 266–267; see also Ye Zicheng, *Xinzhongguo Waijiao Sixiang: Cong Mao Zedong Dao Deng Xiaoping* [New China’s Diplomatic Thinking: From Mao Zedong to Deng Xiaoping] (Beijing: Beijing Daxue, 2001), 328–330.

¹⁰ Yan Shengyi, *Dangdai Zhongguo Waijiao* [Contemporary Chinese Diplomacy] (Beijing: Zhongguo Shehui Kexue, 1987), 341.

an independent foreign policy.”¹¹ China had, Deng explained on 29 November 1983 to Canada’s Prime Minister Joseph Pierre Trudeau, learned painful lessons from its experiences of “leaning-to-one-side” during the 1950s and “standing-in-one-line” in the 1970s, namely, that “it is absolutely essential for countries such as ours to adopt an independent foreign policy.”¹² The key to ensuring independence, he pointed out at a meeting with Brazilian President João Baptista de Oliveira Figueiredo on 29 May 1984, would square well with a “true non-aligned” line.¹³ Under no circumstances, then Premier Zhao Ziyang stressed in his report of 25 March 1986 on China’s seventh five-year plan, would China abandon its pursuit of independent diplomacy.¹⁴

These beliefs, values, and visions of Deng and his reform-minded associates seemed to have guided Beijing’s quest to promote science and technology via re-engagement with the Western world. From the outset, however, China’s pursuit of Western science and technology was not without challenges. Facing these challenges, Deng again played a critical—almost decisive—role in, for example, building up political consensus, setting strategic directions, launching new policy lines and plans, and, most importantly, paving the way toward developing technological statecraft as a new dimension of China’s economic statecraft.

Deng had been persistently eager to promote S&T. Even two months before he officially returned to power in July 1977, he explored with Fang Yi, who had served as Minister of Liaison with Foreign Economies before the Cultural Revolution, how best to set quickly about restoring a national commission on science and reenergizing the Chinese Academy of Sciences (CAS) to support scientific and technological research and development. Deng was outraged that because “the Gang of Four practiced a policy of ‘self seclusion’,” in consequence, China had been left

¹¹ Minutes (excerpts) of a conversation between Deng Xiaoping and French Foreign Minister Claude Cheysson, 2 August 1982, Deng Xiaoping, *Deng Xiaoping Nianpu, 1975–1997* [The Chronicle of Deng Xiaoping, 1975–1997] (Beijing: Zhongyang Wenxian, 2004), 2: 835–836.

¹² Minutes (excerpts) of a conversation between Deng Xiaoping and Canadian Prime Minister Joseph Pierre Trudeau, 29 November 1983, *ibid.*, 2: 947.

¹³ Minutes (excerpts) of a conversation between Deng Xiaoping and Brazilian President João Figueiredo, 29 May 1984, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 3: 56–57.

¹⁴ Zhao Ziyang, speech, “On the Seventh Five-Year Plan,” 25 March 1986, cited in Yan Shengyi, *Dangdai Zhongguo Waijiao*, 339.

far behind by the Western world as the latter's science and technology "saw tremendous development on a daily basis." If China was resolved to catch up, he believed, "scientific research and technological progress must be the forerunner and vanguard."¹⁵ Once back in power, Deng "volunteered" to take charge of education and scientific matters.¹⁶ At a meeting on science and education in August, he declared that whether or not China succeeded in catching up with the Western world would hinge on "science and education," because "the key to modernization rests with scientific and technological progress that invariably relies on [S&T] education."¹⁷

The National Congress on Science of 18 March 1978 then became a landmark in China's quest to catch up with the West in science and technology. In his keynote speech, Deng affirmed that to achieve the comprehensive modernization of agriculture, industry, national defense, and science and technology by the end of the twentieth century "shall be the grand historic mission of our people." Without the "Four Modernizations," he asserted, it would be impossible to advance "social productivity," strengthen "national power," and raise up "the standard of material and spiritual lives of the people," and it would therefore be impossible to "hold up firmly to our socialist political and economic systems" at a level that would warrant "a reliable assurance of our national security." Of the four modernizations, he pointed out, the most important one was science and technology, as "it would not be possible to build modern agriculture, modern industry, or modern defense without modern science and technology, nor would it be possible to achieve rapid national economic development without rapid advances in science and technology."¹⁸

With the promotion of S&T established as a top national policy priority, however, the Deng leadership understood the urgent need to address some of the grave challenges and opposition it faced domestically. Firstly, how best to rectify Maoist policies toward scientists and

¹⁵ Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 158–159.

¹⁶ Wang Suli, "On Deng Xiaoping's Strategic Thinking on Science and Technology Development," *CCP Party History Studies*, 16 July 2014, <http://www.dswxyjy.org.cn/n/2014/0716/c349708-25289680.html>, accessed 6 May 2021.

¹⁷ Deng Xiaoping, *Deng Xiaoping Wenxuan*, 2: 48, 40.

¹⁸ *Ibid.*, 2: 86–90.

intellectuals became an outstanding issue. Throughout the Cultural Revolution (1966–1976), the scientific establishment was severely attacked. In some extreme cases, scientists were treated as “counter-revolutionaries,” subjected to political criticism and personal assaults. Most scientists and researchers were forcibly “re-educated” through hard labor in the countryside and spent months or years separated from their families.¹⁹ Deng took the lead in handling this horrific dogma. Invoking the teachings of Marxist classics, he advocated that “science and technology are an integral part of social productivity.” At the 1978 National Congress on Science, Deng further claimed that a majority of scientists and intellectuals “have already become members of the working class and the difference between them and physical workers lies only in the difference of labor division in any society.” Calling for a halt to anti-intellectualism, he declared that scientists, engineers, educators, and intellectuals were “the core force [*shenglijun* in Chinese] for the construction of socialist modernization,” and China “must build a powerful force of science and technology that is red and dedicated [*youhong youzhuan*].”²⁰

Long-suppressed scientists and intellectuals hailed Deng’s declarations as a blossoming of the “spring of science and technology.” To restore the respect and esteem in which scientists and intellectuals were held, the reform-minded leaders redoubled their efforts to rebuild the administrative and service system and mechanisms to support scientific research and technological innovation. In Deng’s view, for example, encouraging the development of talented scientists and technologists depended on three factors: “first, personal effort, second, policy incentives, and third, systematic support and insurance.” “The world history of science” suggested, he explained, that “it’s usually the young and middle aged who make the greatest achievements in the field of science”; therefore, China should “establish the systems of academic degrees and technological titles as quickly as possible” so as to cultivate expertise among its young scientists and intellectuals. “Provided they are accomplished in their research and

¹⁹ Chinese Academy of Sciences, “Intellectuals: From ‘Stinking People’ to ‘Members of the Working Class’,” *Science Times*, 14 March 2008, https://www.cas.cn/zt/jzt/kxhyzt/ctdjbjnqgkxdhzk30zn/mtbd/200803/t20080314_2664402.shtml, accessed 6 May 2021.

²⁰ Deng Xiaoping, *Deng Xiaoping Wenxuan*, 2: 89, 91; see also Xinhua News Agency, “Archives of New China: Deng Xiaoping Declares Science and Technology as the First Priority,” 10 October 2010, http://www.gov.cn/test/2009-10/10/content_1325113.htm, accessed 6 May 2021.

scholarly work and are qualified to be professors and research fellows,” he directed, “even if at the age of 30 years old, they should be promoted and granted the academic ranks and titles they deserve.”²¹ Following these lines, in December 1978 the Organizational Ministry of the CCP Central Committee issued “a directive on implementation of the party’s policy on intellectuals,” which assigned clear priority to identifying and cultivating able personnel to encourage scientific and technological progress.²²

As the 1980s began, how best to further galvanize scientists and intellectuals became an urgent concern for the CCP Central Committee. Led by the reformist Hu Yaobang, in October 1981 the Organizational Ministry sent out an official circular requiring all agencies of the central government to “review and report” specifically on their progress in implementing the new policy toward senior scientists and intellectuals. An attachment to this document gave detailed guidelines on the required review. Information required included: first, the number of cases of “mistreatment and wrong doing” toward senior scientists and intellectuals that had already been rectified and the subsequent treatment of those affected, and how many outstanding cases requiring review and rehabilitation still remained unresolved, and why; second, the numbers of senior scientists and intellectuals who had been mistreated politically because they had returned from abroad or had relatives in foreign countries; third, the numbers of senior scientists and intellectuals who were now accepted as party members and appointed to leadership positions; fourth, how many senior scientists and intellectuals had not been given proper work, nor assigned a research assistant; fifth, the numbers of senior and middle-aged scientists and intellectuals who still endured long-distance marriages, had not been accommodated with better apartments or residential quarters, or continued to have difficulties in, for example, seeing doctors for medical treatment, finding transport to work,

²¹ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu, 1975–1997* [The Chronicle of Deng Xiaoping Thought, 1975–1997] (Beijing: Zhongyang Wenxian, 1998), 137; see also Wang Xuan, “Deng Xiaoping and the Springtime of China’s Science and Technology Development,” 1994, http://www.93.gov.cn/zhuanti/dxpzt/lw/dxp100_lw17.htm, accessed 6 May 2021.

²² Organizational Ministry of the CCP Central Committee, “A Directive on Implementation of the Party’s Policy on Intellectuals,” [undated] December 1978, in China News Centre, *The Chronicle of the CCP (1978)*, 26 June 2006, <http://news.sina.com.cn/c/2006-06-26/122410256337.shtml>, accessed 6 May 2021.

or going abroad for research or conferences.²³ The required review was re-emphasized once more in early January 1982, this time by the Central Committee, which also attached two policy documents: one jointly issued by the Ministries of Organization, Propaganda, and United Front Affairs on granting permission to scientists and professionals to travel abroad²⁴; the other by the State Council on how to ensure that young and middle-aged scientists and intellectuals already in leadership positions would play a greater role.²⁵

These directives seem to have achieved the desired results. A report by the Chinese Academy of Science in early 1982 revealed progress in several areas. The first was the rehabilitation of those who had been wrongly treated. Throughout the Cultural Revolution, leftists controlled the Academy via a revolutionary committee, formed on 30 July 1967 (in 1970 the State Commission on Science was abolished and placed under this committee), which subjected a total of 154 scientists to house arrest and sent some to prison, where as many as 26 had died. By the end of 1981, the CAS officially declared that all those who had endured persecution were victims of the Maoists' anti-intellectual policy and should now return to work. Second, scientists regained control of research and academic work. After the restoration in January 1979 of the academic divisions [*xuebu*], formed by the top Chinese scientists in different fields, as many as 283 were selected as members in 1981.²⁶ At the fourth meeting of all of the members on 11–20 May, Lu Jiayi (Chia-Si Lu), a Chinese physicist who had returned to China with a PhD from the UK and had undertaken postdoctoral work in the U.S., was elected as CAS president. Five of the six new vice-presidents were

²³ Wang Suli, "On Deng Xiaoping's Strategic Thinking on Science and Technology Development"; see also Chen Kangpu, "Deng Xiaoping and the Spring for Intellectuals of the Jiusan Society," August 2004, http://www.93.gov.cn/zhuanti/dxpzt/lw/dxp100_lw27.htm, accessed 6 May 2021.

²⁴ Ministries of Organization, Propaganda and United Front Affairs, "Report on granting permission to scientists and professionals to travel abroad," January 1982, cited in Wang Suli, "On Deng Xiaoping's Strategic Thinking on Science and Technology Development."

²⁵ State Council, "Instruction on How to Augment the Roles of the Young and Middle-Aged Scientists and Intellectuals in Leadership Positions," January 1982, cited in *ibid*.

²⁶ Wang Yangzong, "Reflections on the History of the CASAD at its 60th Anniversary," *Bulletin of the Chinese Academy of Sciences*, 30: 3 (7 May 2015): 414–420.

internationally renowned scientists. In addition, 345 senior and middle-aged scientists were appointed as directors and vice-directors of research institutes, centers, and programs. Third, the CAS helped a large number of senior scientists resolve personal and family difficulties: As many as 193 were provided with new and comfortable residential quarters, 47 were reunited with their spouse, and 22 had their children relocated back to Beijing and assigned jobs.²⁷

Having previously promised to take charge of “logistics” for scientists and intellectuals, Deng believed that these services should be long-term and, more importantly, should cultivate and develop talented young people. Speaking on 7 March 1985 at the National Conference on Science and Technology, he reiterated the importance of creating a political environment that would warrant free thinking and innovation by scientists and intellectuals and, in particular, encourage the young to grow and mature quickly, which was “what I’m most concerned about.” To this end, Deng directed that all authorities at the central and local levels should, first of all, ensure “having some concrete problems and difficulties resolved for [scientists and] intellectuals every year that should be tangible and entail real effects”; and secondly, work hard to “forge an environment in which the real high fliers can shine.” Expanding on the second point, he explained, “one of the objectives of our reform is to create such an environment” for talent cultivation, without which many of the able young “are stifled or even wasted, just because they are not all-around talent, or not a party member or lacking in standard education.” Deng then made it clear that “one of the criteria to measure the maturity of a political leader is to see if he or she is good at cultivating talent, being supportive of talent, and experienced in working with talent.”²⁸

Deng was not disappointed on this front. In March 1982, the Chinese Academy of Science launched a research fund for science and opened it to

²⁷ Zhang Beiyong, *Wo Canjia Gaigekaifang de Qingshengjinli* [Personal Recollections of My Experiences in China’s Reform] (Haikou: Hainan Press, 2013), 19–20, 22; see also Xue Lan, *Zhongguo Keji Fazhan yu Zhengce (1978–2018)* [Chinese Science and Technology Development and Policies, 1978–2018] (Beijing: Academy of Social Sciences Press, 2018), 14–54.

²⁸ Deng Xiaoping, “Reforming the Science and Technology System Will Enhance Productivity,” 3 March 1985, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 3: 108–109; see also Shi Xiaolei, “Deng Xiaoping and the Modernization of Science and Technology,” *Xuexi Shibao* [Reading Times], 21 March 2018, <http://www.71.cn/2018/0321/991666.shtml>, accessed 6 June 2021.

nationwide competition. In January 1984, the CCP Central Committee announced its decision to establish a “president’s responsibility system” in CAS that granted the president predominant authority over all aspects of academic and research work and confined the party secretary to being a logistical service provider. Subsequently, the CAS president declared on 1 April 1985 that he would put into effect the director’s responsibility system for each research institute and center. To help young scientists develop quickly, the CAS also set up a number of postdoctoral programs that were open to national competition, and took the lead in establishing “open laboratories,” making two research institutes and 17 laboratories the first such labs, open to scientists not only within the Academy but from universities and enterprises and, more note-worthy, from different disciplines.²⁹

Accompanying these systematic changes came a focused push to develop advanced science and technology. Around the mid-1980s, the rapid growth of cutting-edge science and technology in the West became a hot topic not just among scientists but also for youthful students of science and technology. Books translated into Chinese, including, among others, *The Third Wave*, *Megatrends*, and *The Coming of Post-industrial Society*, gave rise to heated discussions over how China should move ahead.³⁰ Initiatives launched by the Western world, for example, the Star Wars Initiative of the United States in 1983, Eureka from France and Western Europe in 1985, as well as Japan’s Policy Outline on Revitalizing Science and Technology, put the Deng leadership on high alert.³¹ Sensing the global advent of a new revolution in science and technology, in 1984 the CCP Central Committee issued a document entitled “the new revolution in science and technology,” which not only described how the new S&T revolution had evolved and why it should be pursued

²⁹ Chinese Academy of Sciences, Annual History, 1989, <https://www.cas.cn/jzky/ysss/bns/>, accessed 6 May 2021; see also Lu Yongqiang, “Historic Changes Have Taken Place with Chinese Science and Technology,” *Qjushi* [Truth Seeking], 21 October 2008, <http://www.chinanews.com/gn/news/2008/10-21/1419925.shtml>, accessed 6 May 2021.

³⁰ Wang Suli, “On Deng Xiaoping’s Strategic Thinking on Science and Technology Development.”

³¹ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu*, 350–351.

as a historic opportunity for China's development but also recommended strategic policies for China in response.³²

Against this backdrop, on 3 March 1986, four top scientists submitted a policy proposal “on how to track high-tech development around the world” to Deng Xiaoping and Hu Yaobang, then the CCP's general secretary. In this document, Wang Daheng, Director of the CAS Department of Science, Wang Ganchang, deputy director of the Nuclear Industry Ministry's Science and Technology Committee, Yang Jiachi, deputy director of the Science and Technology Committee of the Academy of Space Technology, and Chen Fangyun, a member of the Science and Technology Committee of the State Commission on the Defense Industry, suggested that China should observe closely progress in cutting-edge technologies around the world and make strategic plans for Chinese research and development accordingly, just like those Western governments formulated.³³ Reading the proposal two days later, Deng found it “very important” and directed Premier Zhao Ziyang to follow it up by “initiating discussions with specialists,” as well as responsible leaders, to “hear them out so as to make a decision.” He made it clear that “this matter is of great urgency and should be decided upon swiftly without any delay.”³⁴

Zhao did as Deng instructed. While all involved agreed with the four scientists' suggestion that such a program was urgently needed, they failed to reach a clear consensus on exactly which areas of research and development China should prioritize and how incremental this R&D would be. Some argued that China should prioritize advanced technologies that would help upgrade national industries and hence the economy. Others, particularly those from the Ministry of Defense and defense-related industries, believed that national security ought to rank foremost in planning for high-tech R&D. Since these differences were almost impossible to reconcile, Zhao took the issue to Deng, who then decreed on 4 April that

³² Wang Suli, “On Deng Xiaoping's Strategic Thinking on Science and Technology Development.”

³³ Changsha Evening News Net, “Atomic Scientists Appealed to Deng Xiaoping Through a ‘Back Door’,” 16 January 2017, https://www.icswb.com/newspaper_article-detail-219706.html, accessed 6 May 2021.

³⁴ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu*, 348–349.

the plan should “follow the policy line of ‘military-civilian integration but with civilian use as a priority’.”³⁵

Once these differences were settled, the reinstated State Commission of Science and Technology formed an ad hoc group, consisting largely of top scientists, to lead the planning. After several rounds of consultations, the draft was completed in mid-September 1986, and on 25 September Premier Zhao submitted it to Deng, Secretary General Hu Yaobang, President of the State Li Xiannian, and CCP Standing Committee member Chen Yun. After going over the plan carefully, Deng gave his approval on 6 October and further directed that “the plan, after final approval by the Politburo, should be carried out right away (even if it may have some shortcomings, it can be upgraded in the process of implementation).”³⁶

One month later, both the CCP Central Committee and the State Council officially approved the plan, now entitled “Outline of the Plan for Advanced Technological Research and Development,” and also known for short as the “863 Plan” to commemorate the 3 March 1986 proposal by the four scientists. In light of the general world trends of S&T research and development as well as China’s needs for economic development and defense enhancement, the plan selected seven fields where R&D efforts and resources would be primarily allocated. They included: biotechnology, space technology, information technology, advanced defense technology, automation technology, energy exploitation technology, and new materials development technology. While mandating close monitoring of how these cutting-edge technologies developed in the Western world, the plan stipulated a total of 15 projects as key ones for hopeful breakthroughs in research and development in China, to be supported by a research fund of 10 billion RMB, about 5% of the 1987 national budget.³⁷ It is interesting to note that it took the Deng leadership only eight months to transform the initial proposal into a national plan for high-tech R&D that would go well beyond simply supporting China’s drive for the Four Modernizations. Once implemented in 1987, the “863

³⁵ Lu Jia, “Deng Xiaoping and China’s Development of Science and Technology,” 31 December 2014, <http://cpc.people.com.cn/n/2014/1231/c69113-26308785.html>, accessed 6 May 2021.

³⁶ Lu Jia, “Deng Xiaoping and China’s Development of Science and Technology.”

³⁷ Sciencenet, “The ‘863’ Plan: Inside Stories of a Grand Science and Technology Project,” November 2016, <http://news.sciencenet.cn/htmlnews/2016/11/361343.shtm>, accessed 6 May 2021.

Plan” galvanized over 10,000 scientists to devote their research efforts to the fields of biology, space, information and data, automation, energy, new materials, and oceanography.³⁸

Following Deng’s request to prioritize economic development in high-tech R&D, in August 1988 the State Commission of Science and Technology came up with a new plan. Entitled “Development Plan for High-Tech Industries” and also known as the “National Touch Plan,” this initiative was intended to promote the application and commercialization of new advanced technologies, particularly those emerging from the “863 Plan.” For stage one, the plan was to incubate and grow as many as 200 high-tech enterprises and develop and commercialize a total of 2,000 high-tech products, of which 30% were to bring in foreign currency exchange via exports and 70% were to contribute to the formation and expansion of large-scale domestic industries. To support these objectives, the plan called upon local governments to establish a number of high-tech industrial development zones that would attract foreign investment in high-tech manufacturing by offering international businesses tax breaks and other incentives.³⁹

From 1986 onward, China tried assiduously to build a three-layered national strategy and policy to promote S&T research and development. In addition to the advanced technology development largely facilitated by the “863 Plan” and the “Touch Plan,” the two other layers entailed programs to support R&D for economic construction and basic and applied research. Of the six national plans for the first layer, the National Key Technologies R&D Program, Science, and Technology R&D Program (or Spark Program), and Key Research Achievements Promotion Program stood out. The Spark Program, for example, initiated in 1986 and intended to upgrade agricultural production via new technologies, invested a total of 8.75 billion RMB in as many as 14,600 projects, which were bringing formidable returns by 1988. For the third layer, the basic and applied research program was expected to support the construction of national key research laboratories, science capital construction, and the national foundations of natural science. The

³⁸ Lu Jia, “Deng Xiaoping and China’s Development of Science and Technology.”

³⁹ Sciencenet, “The ‘863’ Plan: Inside Stories of a Grand Science and Technology Project.”

Large Electron–Positron Collider in Beijing, National Synchrotron Radiation Laboratory in Hefei, the Robot Demonstration Project in Shenyang, the Xinglong 2.16-m Telescope, and North and South Microelectronics R&D Base were just some of the many direct outcomes of these S&T investments.⁴⁰

CHINA SEEKS ACCESS TO SCIENCE AND TECHNOLOGY FROM THE UNITED STATES

While establishing progress in S&T as a strategic priority of its Reform and Opening Up policies, the PRC leadership understood the importance of assistance from and cooperation with the Western world, particularly the United States. During the 1980s, it was indeed Deng Xiaoping who almost singlehandedly pushed for China’s Opening Up to the west in S&T.

Deng’s pursuit of scientific and technological Opening Up stemmed primarily from his belief that China’s Opening Up should begin by learning about modern and advanced technology from the industrialized countries. Science and technology, he pointed out on 29 September 1977, during a meeting with the Eurasian writer Han Suyin, saw “unprecedented and rapid advances from the 1960s through the early 1970s, with every field developing extremely fast.” In his view, as a result of Mao’s “closed-door” policy, China had lagged far behind technologically: “Japan now is fifty years ahead of us,” not to mention the United States, the UK, France, or West Germany. He believed, however, that “the Chinese people are smart people” and “if we do away with the closed-door [policy], and utilize the world’s most advanced [technology] as our base [for development],” within the foreseeable future China would

⁴⁰ Chinese Academy of Sciences, *Zhongguo Kexue Jishushi* [A History of Chinese Science and Technology], 27 January 2021, <https://baike.baidu.com/item/%E4%B8%AD%E5%9B%BD%E7%A7%91%E5%AD%A6%E6%8A%80%E6%9C%AF%E5%8F%B2/14351599>, accessed 6 May 2021. See also Wang Yangzong and Cao Xiaoye, *Zhongguo Kexueyuan Jigou Jianshi* [A Short History of the Research Institutes and Centers of the Chinese Academy of Social Sciences] (Beijing: Science Press, 2010), Volume 1; and Chinese Ministry of Science and Technology, “Revisit Comrade Deng Xiaoping’s Important Instructions on Science and Technology Work: To Shoulder the Historic Tasks of Implementing the Innovation-Driven Development Strategy,” *Keji Ribao* [Science and Technology Daily], 22 August 2014, <http://www.ahinfo.org.cn/content/detail/5881ae549442b13a4ba0 added 6 May 2021.>

“have a hope” of catching up with the modern nations.⁴¹ Speaking later the same day to a group of prominent overseas Chinese businessmen, Deng repeated that China was economically and technologically “backward” and it was therefore imperative that China should “learn from and take advantage of the most advanced [technologies] around the world” by re-engaging with the industrialized world. To that end, “we are practicing the doctrine of take”: to modernize China by taking advantage of western S&T accomplishments.⁴²

Deng undoubtedly expected the technological Opening Up to facilitate China’s drive to upgrade agriculture, industry, and defense. The reason why “Opening Up” must be a long-term policy, he explained in March 1978 at a National Convention on Scientific Development, was that S&T modernization represented “the key to China’s modernization.” Even when “our science and technology reach the level of the world’s developed countries” in the future, he proclaimed, China would “still need to learn” from these countries.⁴³ Believing that science and technology should be “open to all mankind,”⁴⁴ he explained in May that China should “recruit as much international assistance as possible.” In his view, “the importation of advanced technologies and equipment from the world” must therefore be considered the “starting point of our development.” It was at least possible to explore “technological cooperation” with the industrialized countries.⁴⁵

This belief, interestingly, derived from a number of visits that Deng and his associates made to the Western world. In spring 1978, Deng asked Vice Premier Gu Mu, at that time in charge of foreign trade and the economy, to visit Western Europe, “mainly to see with your own eyes at

⁴¹ Minutes (excerpts) of a conversation between Deng Xiaoping and Han Suyin, 29 September 1977, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 210.

⁴² Minutes (excerpts) of a conversation between Deng Xiaoping and Overseas Chinese, 29 September 1977, *ibid.*, 1: 211.

⁴³ Deng Xiaoping, speech at the opening session of National Convention on Scientific Development, 18 March 1978, *ibid.*, 1: 281–282.

⁴⁴ Minutes (excerpts) of a conversation between Deng Xiaoping and Wang Hao, 3 November 1977, *ibid.*, 1: 235–236.

⁴⁵ Minutes of a conversation between Deng Xiaoping and a Madagascar trade delegation, 7 May 1978, Deng Xiaoping, *Deng Xiaoping Wenxuan*, 2: 91.

what level their industrialization stands, how they have managed development and what lessons we can learn, lessons of success and failure.”⁴⁶ Spending over a month (2 May–6 June 1978) in France, Switzerland, Belgium, Denmark, and West Germany, the delegation visited over 80 factories, research institutes, and universities in as many as 25 cities. The heads of government of these countries gave Gu a splendid welcome, while many businessmen approached him about joint venture opportunities, offering not just capital but advanced technologies. Upon his return, Gu put together a written report and on 30 June briefed Deng and other top leaders. First of all, he explained that since the end of World War II, West European countries had experienced unprecedented development, which was facilitated largely by advanced technologies, “particularly electronic technologies that transformed productivity.” Compared to these countries, “China was lagging behind by over 30 years at least.” Second, since they were experiencing a period of economic stagnation, “these countries are looking for new outlets for their capital, technologies and goods” and hence seemed “anxious” to collaborate with China. Third, China should “waste no more time” but begin working with them by “accepting some internationally accepted practices such as compensation trade, joint venture, and foreign direct investment.” Gu’s report prompted heated discussions among the top leaders that lasted for seven hours. Marshals Ye Jianying and Nie Rongzhen, who were concerned about defense technology, took the lead in supporting Gu’s proposals.⁴⁷

Deng likewise seemed convinced. Shortly after this briefing, in a private meeting with Gu in early July 1978, he expressed explicit approval for Gu’s suggestions, instructing him, in particular, to speed up negotiations with western corporations on technology transfer and foreign investment. Shortly after, the State Council invited a number of scientists, technology experts, and economists, as well as senior officials responsible for economic dealings with foreign countries, to brainstorm how best to accelerate technological Opening Up. The discussions lasted almost one month, culminating on 9 September in a lengthy minute, in which

⁴⁶ Central Television of China, *Daxing Dianshi Jilupian Deng Xiaoping* [TV Documentary Series of Deng Xiaoping] (Beijing: Zhongyang Wenxian Press, 1997), 191.

⁴⁷ Tian Yi, “An Oral History of Yang Bo: The Trip Led by Gu Mu to Western Europe,” 2 July 2008, <https://business.sohu.com/20080702/n257870275.shtml>, accessed 6 May 2021.

the participants expressed their enthusiasm for the “successes and experience” of the Western world in economic and technological development and, most importantly, concluded that China should focus on technology transfer, foreign investment, and export expansion. Indeed, this report served as a policy guideline for the upcoming Third Session of the Eleventh Party Congress.⁴⁸

Apparently impressed by the report, in late 1978 Deng went on four overseas trips, touring a total of eight Asian countries. As Wendy Leutert describes (Chapter 7), during his visits to Japan on 22–24 October and Singapore on 12–14 November, he was “shocked” by how rapidly advanced technologies could facilitate the rapid growth of modern industries, manufacturing, and services alike.⁴⁹ Deng later recalled that these trips showed him exactly what modernization meant and how it could be accomplished.⁵⁰ If Japan and Singapore could industrialize so quickly, West European countries should demonstrate at least comparable attainments. In order to explore technological cooperation, in 1978 and 1979 China dispatched a total of 21 delegations, numbering among their leaders as many as 13 Vice Premiers and Vice Chairmen of the People’s Congress, who visited 15 European countries in these two years.

To launch the S&T Opening Up, Deng thought that it was most practical to focus on inviting scientists and technological experts from the West to China and dispatching S&T students to the West. Deng told Fang Yi in August 1978 that, since “we lack experience in and knowledge about building a modern country,” the government “should by no means be afraid of spending money on inviting foreign experts to help us,” making the best possible use of “international expertise” to China’s advantage. Urging the dispatch of more students to study abroad and sending young scholars and scientists to work in internationally renowned universities or laboratories, he strongly supported inviting West European and Japanese scientists, technicians, educators, and even managers to work in China and, in particular, to “be placed to work on the key projects.” He

⁴⁸ Ibid.; see also Liu Li, “Four Landmarks in China’s Science and Technology Policies Since the Reform and Opening-Up,” 9 October 2015, <http://2015.casted.org.cn/web/index.php?ChannelID=10&NewsID=3392>, accessed 6 May 2021.

⁴⁹ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu*, 89–91.

⁵⁰ Wang Suli, “On Deng Xiaoping’s Strategic Thinking on Science and Technology Development.”

thought it was high time that China should learn more about “advanced scientific, technological, and managerial knowledge” and “any knowledge and cultures that will benefit us from the capitalist countries.”⁵¹

In terms of implementing China’s technological Opening Up, the United States slowly but surely became one of the most ideal target partners. Interestingly, though, Deng Xiaoping and his associates had mixed feelings about acquiring economic and technological assistance from Washington. On the one hand, given that their country was still subject to U.S. economic and technological sanctions, they cautioned that China must make every effort to retain S&T independence and not become over-reliant on American technologies. On the other hand, they believed that, if skillfully managed, anticipated access to the China market through either trade or direct investment would prove so attractive to the American business community that its members would pressure the U.S. government to relax or even lift the decades-long S&T embargo on China.⁵²

Seeking to achieve the latter outcome, Deng Xiaoping himself exploited the lure of the China market when dealing with Washington. At a private meeting in Beijing on 21 May 1978 with Zbigniew Brzezinski, President Jimmy Carter’s National Security Adviser, Deng pointed out that only when outstanding political issues had been resolved and U.S.-China diplomatic relations were fully resumed could trade, technology transfer, and educational and cultural exchanges likewise be normalized. This was, he explained, because “our policy toward the countries with which we have normal relations is virtually different from the ones without”; consequently, in the areas of technological and business exchanges, all things being equal, “under the same conditions” China would give preference “only to those countries that have already established diplomatic relations with us.” Ongoing U.S. restrictions on the export of high-tech products to China were, on the contrary, exacerbating the situation. Deng then cited a failed U.S.-China trade deal to elaborate on his point: China had once proposed purchasing a high-speed computer from an American company, but the U.S. government blocked the deal

⁵¹ Minutes (excerpts) of a conversation between Deng Xiaoping and Fang Yi, 18 August 1978, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 359.

⁵² Yan Shengyi, *Dangdai Zhongguo Waijiao*, 225–227; see also Shu Guang Zhang, *Beijing’s Economic Statecraft during the Cold War, 1949–1991* (Baltimore, MD: Johns Hopkins University Press), Chapter 8.

on the grounds of “national security concerns”; China then approached a Japanese provider, but Washington likewise blocked this deal, as the Japanese product contained American technologies; denied outside help, China was compelled to rely on its own research strengths and ultimately succeeded in producing on its own a computer of almost the same quality. By highlighting this case, Deng implied that the U.S. embargo would only hurt American business without damaging China.⁵³

Meeting on 10 July 1978 with U.S. presidential adviser on science and technology Frank Press, Deng argued that a collaborative S&T relationship between China and the United States would entail “significant implications.” Since American science and technology was more advanced than that of other industrialized countries, “we are prepared to buy your technologies.” Though pleased to learn that in 1979 American universities would admit as many as 500 Chinese students, he added that China should try to send as many as possible. To expand such exchanges, Deng then proposed to invite “many more” American scientists, engineers, and scholars to China, particularly “to help us upgrade some of our industries.” Beyond these plans, however, he stressed that he was “more concerned about your [restrictions on] technology transfer” and “hope that you will relax these restrictions.” Should “your capital, technology and advanced equipment” be allowed to enter China “freely,” he claimed, they would “definitely be paid back with our manufactured products.”⁵⁴ Deng’s skillful manipulation of the U.S. business community’s expectations on trade with and investment in China may have proved effective.

When Washington and Beijing declared in a joint communiqué on 16 December 1978 that full U.S.-China diplomatic relations would be officially established on 1 January 1979, Carter invited Deng Xiaoping to make a state visit to the United States.⁵⁵ Deng, already seventy-four years old, speedily accepted Carter’s invitation for a seven-day visit to the United States, to take place from 28 January to 5 February

⁵³ Minutes of a conversation between Deng Xiaoping and Zbigniew Brzezinski on 21 May 1978, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 313–314.

⁵⁴ Minutes of a conversation between Deng Xiaoping and Dr. Frank Press, 10 July 1978, *ibid.*, 1: 339–340.

⁵⁵ Yan Shengyi, *Dangdai Zhongguo Waijiao*, 228–229. On Carter’s China policy, see Jean A. Garrison, *Making China Policy: From Nixon to G. W. Bush* (Boulder, CO: Lynne Rienner Publishers, 2005), 34–78.

1979, and prepared meticulously for his upcoming high-profile trip. The mid-January “instructions on the activity arrangements and negotiation plans of Vice Premier Deng Xiaoping’s visit to the U.S.” stipulated that the visit was intended to “explore opportunities for an all-round and comprehensive collaboration” between the two countries.⁵⁶ Treating diplomatic normalization as only the first step, Deng would deliver a clear and strong message to the American government and public alike that, both politically and economically, a long-term “friendly and cooperative relationship” between China and the United States would be “mutually beneficial.” Following that line, one of his chief missions was to press the Carter administration to lift the still effective restrictions on sales of strategic materials and advanced technologies to the PRC.⁵⁷

As Lu Sun recounts in greater detail in the previous chapter (Chapter 3), Deng did exactly that and much more besides. On the evening of 19 January 1979, in a brief speech to the audience at the John F. Kennedy Center for the Performing Arts, he stated explicitly that “arts are the most effective instruments to promote understanding among all peoples and thereby eliminate barriers to contacts between peoples.” On China’s behalf, he therefore extended a warm welcome to exchanges of personnel between China and the United States, including artists and scientists.⁵⁸ Attending a banquet on 30 January hosted by six non-governmental organizations committed to promoting U.S.-China normalization, including the National Committee on U.S.-China Relations, the Committee on Scholarly Communication with the PRC, and the National Committee on American Foreign Policy, he declared that “the American people are great people and have made an outstanding contribution to human civilization and the world’s progress.” The Chinese people “have for long harbored a friendly feeling toward the American people, profoundly respect your pragmatic and innovative spirit, and can learn a great deal from you” in the years ahead. Should the economic, technological, and cultural contacts between the two nations

⁵⁶ Deng Xiaoping, instruction on a Foreign Ministry report, “Instructions on the Activity Arrangements and Negotiation Plans of Vice Premier Deng Xiaoping’s Visit to the U.S.,” 17 January 1979, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 472.

⁵⁷ See Deng Xiaoping, instructions on Foreign Ministry reports on draft speeches for Deng’s visit to the United States, 21 and 23 January 1979, *ibid.*, 1: 473.

⁵⁸ Deng Xiaoping, speech (excerpts) at the Kennedy Arts Center, 29 January 1979, *ibid.*, 1: 477.

expand, “our friendship will surely be enhanced.” To that end, he urged his audience to turn their attention from differences over ideologies to “the commonalities” in pursuing social and economic development that the two nations shared and “adopt a long-term and strategic view in treating and managing U.S.-China relations.”⁵⁹

Meeting with Richard Nixon on 31 January, Deng even urged the former U.S. president to help arrange for Chinese engineers and technicians to obtain advanced training from American manufacturers.⁶⁰ Visiting Temple University in Philadelphia on 31 January and touring factories in Atlanta, Houston, and Seattle in the first five days of February, he appeared immensely impressed by how much the United States had accomplished in terms of technological progress and repeatedly stressed how enormously he and the Chinese people admired the remarkable achievements of the American people in science and technology, how eagerly China would like to “learn from” the United States, and just how much “large room” for technological cooperation existed, that the two countries could and should explore.⁶¹

One feasible mode of cooperation Deng suggested was “compensation trade,” an idea that he deliberately raised during his 31 January luncheon with journalists from major U.S. newspapers and magazines, including the *New York Times*, *Washington Post*, *Chicago Tribune*, *Los Angeles Times*, *Times Magazine*, *Newsweek*, *Wall Street Journal*, and *U.S. News & World Report*. If the U.S. government would lift the decades-long embargo on exports of high-tech products and technology transfers to China, American manufacturers would surely make huge profits; if American businesses should be concerned over just how China would pay for these badly needed imports, he proclaimed that China had many surplus commodities and goods it could export, “such as coal, non-ferrous metals, rare metals, chemical products, and handicraft products,” trade that would enable China “to pay back the U.S. investment and

⁵⁹ Deng Xiaoping, speech (excerpts) at a banquet hosted by six American organizations, 30 January 1979, *ibid.*, 1: 478–479.

⁶⁰ Minutes (excerpts) of a conversation between Deng Xiaoping and Richard Nixon, 31 January 1979, *ibid.*, 1: 480.

⁶¹ Yan Shengyi, *Dangdai Zhongguo Waijiao*, 231; Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 479–485.

technology transfer.”⁶² Should the U.S. business community find such transactions acceptable, he declared while touring a Boeing assembly line on 4 February, China would even consider purchasing jumbo passenger aircraft from America.⁶³

Deng’s determined persuasion campaign soon bore fruit. On 31 January 1979, various agreements on bilateral exchanges were signed with the Carter administration, as the U.S.-China Science and Technology Agreement, or the S&T agreement, among the first batch. Supplementing this understanding, Vice Premier Fang Yi also signed three protocols with Carter’s science adviser Frank Press, covering scholarly and student exchanges, agricultural technology cooperation, and space research, and an implementing agreement with Energy Secretary James Schlesinger on high-energy physics cooperation.⁶⁴ Moving beyond scholarly exchange and S&T information and knowledge sharing, the United States agreed to sell China a large proton synchrotron for research purposes and assist with China’s construction of a satellite communication system for domestic use.⁶⁵ Deng and Carter also agreed that the bilateral S&T relationship would be coordinated through two mechanisms: the Joint Commission on S&T Cooperation (JCC), which was to meet every other year to review and explore key themes in the S&T cooperation, and the S&T Executive Secretaries, which served as the secretariat to the high-level JCC.⁶⁶

⁶² Deng Xiaoping, speech to American print media journalists, 31 January 1979, *ibid.*, 1: 481.

⁶³ Deng Xiaoping, speech at a Boeing assembly line in Seattle, 4 February 1979, *ibid.*, 1: 485.

⁶⁴ Yan Shengyi, *Dangdai Zhongguo Waijiao*, 231; see also Minutes (excerpts) of a conversation between Deng Xiaoping and Jimmy Carter, 30 January 1979, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 477.

⁶⁵ Jing Xiaoming, “Deng Xiaoping and China-U.S. Cooperation on Science and Technology,” n.d., 2–3, <https://china-us.uoregon.edu/pdf/Deng%20Xiaoping%20and%20Sino-US%20S&T%20Cooperation.pdf>, accessed 6 May 2021.

⁶⁶ United States, Office of Science & Technology Cooperation, Bureau of Oceans and International Environmental and Scientific Affairs, “United States-China Science and Technology Cooperation,” Biennial Report to the U.S.-China Economic and Security Review Commission, December 2006, 11–12, <https://2001-2009.state.gov/documents/organization/96437.pdf>, accessed 6 May 2021.

The S&T Agreement, Deng commented at the signing ceremony, marked “a new beginning” in robust science and technology collaboration between the two countries. To follow up, Frank Press came to Beijing to attend the first JCC meeting in late January 1980, which resulted in six more protocols on cooperative research on earthquake monitoring and geoscience, as well as assistance from the National Aeronautics and Space Administration (NASA) with China’s land-resources ground satellite station.⁶⁷ Meeting with the JCC members, Deng expressed his satisfaction on the effective implementation of the S&T agreement. Although “there is a large room for China and the U.S. to expand S&T cooperation,” he stressed, “this [cooperation] should still be viewed from political and strategic perspectives and as part of overall [bilateral relations].” He then explained that “China’s becoming more powerful than now won’t be necessarily a bad thing, because a powerful China will not invade anyone” but stand as “an additional force for world peace.” China needed a “peaceful environment” to pursue its Four Modernizations. Finally, Deng told his American visitors that although several agreements had been signed, “there are still many [requests for high-tech cooperation] that we have not raised with you and, hence, I believe that Chinese-American cooperation will develop and expand step by step.”⁶⁸

One prompt achievement of U.S.-China S&T cooperation was the rapid expansion of two-way flows of S&T experts and students. This had indeed been an important aspect of Beijing’s technological Opening Up. On 23 June 1978, while visiting Tsinghua University, China’s foremost center for scientific and technological research and education, Deng pointed out that S&T development required “breaking away from tradition”; one of the most effective measures for the next five years, in his view, was “to dispatch students overseas mainly to study natural science, in numbers reaching tens of thousands, not just eight or ten.”⁶⁹ By the same token, he directed that China should explore all possibilities to

⁶⁷ Zhang Jing, “Deng Xiaoping and the Start of China-U.S. Science and Technology Cooperation, 1977–1979,” *Dangdai Zhongguoshi Yanjiu* [Contemporary Chinese History Studies], 3 August 2014, <http://theory.people.com.cn/n/2014/0803/c83867-25392250.html>, accessed 6 May 2021.

⁶⁸ Jing Xiaoming, “Deng Xiaoping and China-U.S. Cooperation on Science and Technology,” 8–9.

⁶⁹ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu*, 71.

“invite foreign experts to help with the development of key industries” that required the most advanced technologies. Some of those scientists and technology experts might, he suggested, be invited to deliver lectures on their research. One of the most promising and feasible avenues, in his view, would be to approach “overseas Chinese scientists and scholars,” seeking their assistance in “advancing our science and technology.”⁷⁰

Since the U.S.-China S&T agreement provided for scholarly and student exchanges, increasing numbers of overseas Chinese scientists began to visit China. Among them were the world-renowned physicists and Nobel laureates Tsung-Dao Lee, Chen-Ning Franklin Yang, and Samuel C. C. Ting; biologist Man-Chiang Niu from Temple University; mathematician Shiing-shen Chern from UC-Berkeley; nuclear physicists Chien-Shiung Wu and Chia-Liu Yua; Lee C. Teng, an accelerator physicist from the Argonne National Laboratory; the mechanical mathematician Hao Wang; the material scientist Yi-chang Chou; the virologist Zhenpian Li; and Chia-Chiao Lin of MIT, a space scientist and applied mathematician. When they visited, Deng Xiaoping would find time to meet them, persistently urging these top scientists based in the United States to help with Beijing’s pursuit of “development and introduction of advanced science and technologies, as well as the cultivation of talents in science and technology, lending their best efforts to help maximize China’s limited resources and influence.”⁷¹

These Chinese-American scientists and technology specialists did not disappoint Deng, playing a key role in building up and expanding S&T collaboration between the two countries. One outstanding figure was the Nobel laureate Tsung-Dao Lee. Delivering lectures in China, Lee was so touched by the enormous enthusiasm among young Chinese scientists and students for pursuing advanced study in natural sciences in the United States that in 1979–1980 he created a set of unusual procedures for graduate school application, assessment, and admission: Instead of sitting for TOEFL and GRE tests, then not accessible to applicants in China, Chinese students were allowed to take written exams

⁷⁰ China Association of Science and Technology, “A Leader of Logistic Services Whom Scientists and Technology Experts Remember Forever: To Commemorate Comrade Deng Xiaoping’s 110th Birthday,” 24 August 2014, https://www.cast.org.cn/art/2014/8/24/art_365_31839.html, accessed 6 May 2021.

⁷¹ Zhang Jing, “Deng Xiaoping and the start of China-U.S. Science and Technology Cooperation, 1977–1979.”

in physics monitored by Lee and his Chinese colleagues and be interviewed by American scientists or admission officials; if admitted, the students would enjoy full scholarships throughout, until completing their doctoral degrees. Endorsed first by Columbia University and soon by 53 more universities, the China-U.S. Physics Examination and Application (CUSPEA), formally launched by Lee on 1 February 1980, lasted until 1989, a decade during which a total of 915 Chinese students were selected to study in as many as 97 universities in the United States and Canada in the fields of physics, material science, information technologies, and life sciences. The majority of them became established scientists in their specialties, with a large number holding the titles of academician in China or becoming members of the American Academy of Arts and Sciences and fellows of British royal scientific societies.⁷² To ensure that those students would return to China after finishing their studies, Lee wrote twice to Deng Xiaoping, in March 1983 and again in May 1985, proposing to set up postdoctoral centers equipped with cutting-edge facilities and apparatus that would enable the CUSPEA scientists to continue with their research after returning. With Deng's approval, China's postdoctoral program became operational in July 1985. A few years later, Lee was able to convince the Chinese leadership to launch a national fund to support postdoctoral research in science.⁷³

Tsung-Dao Lee also helped with the development of China's high-energy physics, or what became known as the "87 Project." In the late 1970s, the Chinese Academy of Sciences proposed to speed up the construction of an accelerator for high and nuclear energy research. The projected budget of 1 billion RMB for 1982–1987 aroused fiscal concerns among some top leaders. Deng, however, was determined that China must expedite progress in high-energy research and development, and asked then Vice Premier and Commissioner of Science and Technology Fang Yi to consult with top scientists. Since China and the United States had signed an agreement for research collaboration in physics, Lee, together with his colleagues on the China-U.S. Joint Committee on High Energy Physics, formulated a new proposal to build a 2×2 hundred MeV electron-positron collider (EPC), which, although rather small, would

⁷² Fan Pu, "A Forest Is Up After 10 Years: A Review of Li Zhengdao's CUSPEA Program After 40 Years," 21 November 2019, <https://www.163.com/dy/article/EUGHNCMP05327918.html>, accessed 6 May 2021.

⁷³ *Ibid.*

function in the same way as a larger high-energy accelerator but at much lower costs.⁷⁴ Deng accepted Lee's idea and in April 1983 approved the building of one EPC in the Beijing suburbs, with a budget of 240 million RMB. Attending the Beijing Electron–Positron Collider (BEPC) groundbreaking ceremony on 7 October 1984, he reassured Lee and the other leaders that “this is the right thing to do.” After BEPC was built, Deng visited it on 24 October 1988 and again acknowledged Lee's “highly valuable” advice, hoping similar practices would be duplicated in every collaborative project between China and the United States. He then reiterated that China “must hold a formidable share of advanced science and technology in the world,” as this was “a strategic requirement for our long-term national interest.”⁷⁵

Yet U.S.–China S&T cooperation remained fragile, becoming fraught when Ronald Reagan took office in January 1981. Still suspicious toward a communist regime in China and deeply concerned by domestic economic difficulties, Reagan declared that, rather than expanding economic and technological relations with the PRC, he would consider elevating the level of arms sales to Taiwan. These policy changes irritated Beijing, which soon launched fierce propaganda accusing the Reagan administration's China policy of deliberately damaging American businesses and the economy.⁷⁶ Under pressure from Beijing and the U.S. business community, in December 1981 the Reagan White House agreed to negotiations over the dispute, resulting in a joint communiqué issued on 17 August 1982, also known as the “8.17 communiqué.” A compromise was reached: Beijing would accept Washington's pledge gradually to reduce the amount of arms sales to Taiwan and keep these below the

⁷⁴ Lu Jia, “Deng Xiaoping and China's Development of Science and Technology.”

⁷⁵ Circular Electron Positron Collider, “CEPC: Carrying Out Dreams and Leading the Future,” (Beijing: Institute of High Energy Physics, 2013), 14–15, *cepc-introduction* (1).pdf; see also Lu Jia, “Deng Xiaoping and China's Development of Science and Technology.”

⁷⁶ Minutes (excerpts) of a conversation between Deng Xiaoping and the editor-in-chief, *Christian Science Monitor*, 15 November 1980, Deng Xiaoping, *Deng Xiaoping Nianpu*, 1: 691; Deng Xiaoping conversation with Alexander Haig, 16 June 1981, *ibid.*, 2: 971; Deng Xiaoping, speech to the CCP Standing Committee on meetings with Ronald Reagan, 16 November 1981, *ibid.*, 2: 778; Yan Shengyi, *Dangdai Zhongguo Waijiao*, 235–236; and letter, Deng Xiaoping to President Reagan, 17 August 1982, *ibid.*, 238–239.

level that had existed before the opening of diplomatic relations with the PRC.⁷⁷

Pleased with Reagan's change in policy, the PRC leadership resumed its effort to promote S&T cooperation while pressing Washington to relax further the embargo on high-tech exports to China. Meeting with former President Richard Nixon in Beijing on 8 September 1982, Deng complained that "although many agreements on science and technology cooperation were signed during my visit to America and since normalization, the U.S. has yet to sell us any significant or advanced technology." The U.S. government took several years, for example, to approve the sale of computers to China that the United Nations aid project on the national population census required. This was simply because "the U.S. has for long confined China to the Y category, the second last of the [English] alphabet order." Deng urged Nixon to convince Reagan to lift the ban, if Washington expected to expand business in China.⁷⁸

The Reagan administration seemed receptive. Late in 1982, it approved additional sales to China of defense and high-tech products worth \$500 million. Probably viewing China as a significant market to increase U.S. exports and relieve domestic economic pressure, in May 1983 U.S. Secretary of Commerce Malcolm Baldrige informed his hosts in Beijing of Washington's decision to relax significantly restrictions on technology transfer to China.⁷⁹ On 21 June 1983, the Reagan White House announced that as a friendly but non-aligned country, China had been moved up to the V category of the export control system, meaning more specifically that the embargo on exports to China of no less than 16 items of national security concern was lifted. On 27 August 1983, Deng told visiting Democratic Senator Henry M. Jackson in Beijing that he "welcomed" this new U.S. policy on high-tech transfer to China, expressing the view that the key to how much further the United States would relax its controls upon technology transfer to China would hinge upon "what type of friends China and America can become, that is,

⁷⁷ Yan Shengyi, *Dangdai Zhongguo Waijiao*, 235–240.

⁷⁸ Jing Xiaoming, "Deng Xiaoping and China-U.S. Cooperation on Science and Technology," 15.

⁷⁹ China Today, *Dangdai Zhongguo Duiwai Maoyi* [Contemporary China's Foreign Trade] (Beijing: Zhongguo Shehui Kexue, 1992), 1: 394–395; and Yan Shengyi, *Dangdai Zhongguo Waijiao*, 347.

[whether we would become] ordinary friends or close friends,” a choice that rested, he hinted, with Washington.⁸⁰

It transpired that the Reagan administration wished Chinese-American relations to be better than ordinary. After President Reagan’s visit to China in April 1984, the U.S. government pledged to speed up the review and approval process on technology transfer to China and removed from the control list a further ten items related to short-wave communications, aerial navigation, lasers, digitally controlled machines, and civilian aircraft. During a visit to Beijing in October 1985, Vice President George H. W. Bush told the Chinese leaders that as many as 27 items of advanced technologies and equipment would soon be eliminated from the list restricting trade with China. From then on, the Reagan administration moved ever further toward relaxing export controls on selling high-tech products to China. In 1985, it approved as many as 9,089 export deals on high-tech products, 99.1% of the total, amounting to \$5.46 billion; in 1988, it gave the green light to a total of 6,200 high-tech export requests, 91% of the total, worth \$3.1 billion.⁸¹ Meanwhile, China had developed a working relationship with the U.S. International Development Cooperation Agency (IDCA). Through trade development programs (TDP), China would annually receive from the U.S. government as much as \$40 million in aid for economic and technological development projects. By the end of 1988, a total of 65 TDP projects had been funded, which supported technology transfers to China worth \$300 million.⁸²

Beijing also expected to acquire more advanced technologies by attracting American investment to China, which indeed became mutually beneficial. For China, foreign investment would bring in not just badly needed capital but also advanced technologies to boost the country’s economic development; for the United States, it would open up China’s growing markets to American business expansion. By the end of

⁸⁰ CCP Central Archives and Manuscripts Division, ed., *Deng Xiaoping Sixiang Nianpu*, 264–265; and Jing Xiaoming, “Deng Xiaoping and China-U.S. Cooperation on Science and Technology,” 16.

⁸¹ Jing Xiaoming, “Deng Xiaoping and China-U.S. Cooperation on Science and Technology,” 16–17; see also Chinese Academy of Science and Technology for Development, “30 Years of China’s Science and Technology Cooperation with Foreign Countries,” 8 January 2009, <http://2015.casted.org.cn/web/index.php?ChannelID=17&NewsID=3545>, accessed 6 May 2021.

⁸² China Today, *Dangdai Zhongguo Duiwai Maoyi*, 1: 397.

1986, the total amount of committed U.S. direct investment in China had reached \$2.627 billion, of which as much as \$400 million was earmarked for 62 joint ventures and \$600 million for joint exploration of offshore oil resources, as Kazushi Minami describes in greater detail (Chapter 10). U.S. direct investment ranked second among sources of all Foreign Direct Investment in China, surpassed only by that from Hong Kong.⁸³ By the end of 1988, the total number of U.S. direct investment projects had increased to 660, amounting to \$3,365 billion, making up 14% of all FDI in China and now ranking largest among all sources. American investment did indeed come bearing advanced technologies with it. The most noticeable was a 1986 agreement on joint manufacturing of MD-82 passenger aircraft between McDonnell Douglas aerospace manufacture and a Shanghai aircraft company, a deal worth \$540 million, with 30% designated as compensation trade. American expertise and technological blueprints undoubtedly enabled China to develop its own commercial aircraft industry. Meanwhile, U.S.-China trade experienced annual growth of 11.8%, reaching \$8.26 billion by the end of 1988, with China's imports worth \$5.05 billion and its exports \$3.21 billion, amounting to 10.3% of China's foreign trade that year. Consequently, the United States became China's third largest trading partner, with China carrying the largest trade deficit of any of America's bilateral trading partners.⁸⁴

Beijing-Washington cooperation in science and technology grew increasingly extensive in the second half of the 1980s. With frequent high-level visits by government officials, a series of bilateral agreements were signed between China and the United States, including but not limited to: an extended agreement on S&T cooperation and an agreement on industrial technology cooperation in January 1984; two MOUs on industrial technology cooperation and S&T information exchange in May 1984; and several agreements on the peaceful use of nuclear energy, educational cooperation, and fishing rights in July 1985.⁸⁵ These agreements helped greatly in advancing cooperative research across a remarkably diverse range of fields, including fisheries, earth and atmospheric sciences, basic

⁸³ China Today, *Dangdai Zhongguo Duiwai Maoyi*, 1: 393-396; and Yan Shengyi, *Dangdai Zhongguo Waijiao*, 347.

⁸⁴ China Today, *Dangdai Zhongguo Duiwai Maoyi*, 1: 395-396; and Yan Shengyi, *Dangdai Zhongguo Waijiao*, 347.

⁸⁵ Yan Shengyi, *Dangdai Zhongguo Waijiao*, 346-347.

research in physics and chemistry, a variety of energy-related areas, agriculture, civil industrial technology, geology, health, and disaster research. They also provided for exchanges of scientists, scholars, specialists, and students, and of S&T information and documentation, as well as for joint planning and implementation of programs, courses, conferences, seminars, and projects, joint research, development and testing, and the exchange of research results and experience between cooperating Chinese and American entities.⁸⁶ Throughout the entire 1980s, S&T collaboration stood out as one notable success story in the bilateral relationship.

CONCLUSION

The PRC's quest of the 1980s for advanced science and technology featured as an interesting and important aspect of China's economic statecraft in transition in the age of Opening Up and Reform. This chapter, though preliminary, discovered several meaningful findings that may prompt new discussions on the evolution of Beijing's economic statecraft. Hopefully, further and more systematic efforts may be devoted to this so far greatly understudied issue area.

Beijing's pursuit of enhanced high-tech capabilities in the 1980s should undoubtedly be understood as a continuation of its consistent response to the U.S.-led international embargo on exports to China of security-sensitive technologies. Largely due to geopolitical concerns, the leadership under Deng Xiaoping still harbored the belief that the acquisition of advanced defense and/or dual-use technologies would serve the PRC's foreign and defense objectives. Just as strategic concerns had driven Mao's relentless desire for nuclear weaponry, Deng and his associates, for example, Marshals Ye Jianying and Nie Rongzhen, persevered in developing core high technologies—such as an electron-positron collider or high-energy accelerator and a satellite communications system—as part of their own efforts to continue the expansion of China's strategic assets. Diplomatically, their successful acquisition or enhancement of high technologies would further weaken the international embargo regime

⁸⁶ United States. Office of Science & Technology Cooperation, Bureau of Oceans and International Environmental and Scientific Affairs, "United States-China Science and Technology Cooperation," 11–12.

against China, demonstrating the failure of the Western world's negative economic statecraft.

Beijing's categorization of S&T modernization as a top national priority aimed to promote badly needed economic development. Intent on achieving the Four Modernizations first defined in Mao's later years, the Deng leadership viewed S&T modernization as the slow but sure key to success in the other three. In a developmental sense, the fact that Deng and his associates stressed as strongly as possible high-tech R&D, as well as the commercialization of new and advanced technologies, suggests that they expected ultimately to transform China's industries, manufacturing and services alike, from labor-intensive to high-tech intensive. The more high-tech intensive industries China built, the easier it would become to resist the international economic embargo or sanctions, and the more instruments it could add to the toolbox of China's positive economic statecraft, enabling China eventually to transform from a target to a sender status. This geoeconomic calculation would eventually open a potential new dimension of economic statecraft for China.

Resolved to push for economic development via Opening Up and Reform, the Deng leadership strove to find ways to acquire high technology from the United States and other industrialized countries but without becoming technologically dependent. Like any other sender-target relationship, cooperation between China and the United States in science and technology represented a paradox to Beijing: with the unpleasant memories of Soviet technological aid still fresh, Deng and his associates felt the need to obtain high-tech transfer or assistance from the United States despite their limited hard currency yet simultaneously feared becoming high-tech dependent upon the United States. Deng's solution was compensation trade, which used the lure of the China market to persuade the American business community to press the White House to lift existing bans on the transfer of high-tech products and knowledge to China and allowed Beijing to learn from, copy and upgrade advanced U.S. technologies. Still adhering to the principles of self-reliance and independence, in years to come the PRC would move toward technologicalization, ultimately albeit gradually escaping from the dark shadow of being a target that had so long overhung the country.

The Deng leadership's achievements during the 1980s in advancing S&T laid the solid foundation for the PRC's high-tech parity with or even predominance over the Western world. Soon, the drive to become technologically powerful would inevitably move China to further develop

technological statecraft as a critical component of its economic statecraft. Along with other economic sources of influence such as trade, investment and aid, the PRC's expansion of S&T expertise and its subsequent growing share—even dominance—of international high-tech markets would enable Beijing to pursue both geopolitical and geo-economic objectives from what was increasingly and surely a sender's stance. Unfortunately, though, China's S&T cooperation with industrialized countries came to a sudden halt, due to the international sanctions imposed on Beijing following the 1989 Tiananmen Square incident. Intriguing issues for further exploration include the questions of how the Deng and post-Deng leadership dealt with and countered the international restrictions on high-tech transfer to China during the 1990s; whether and how far the PRC's technological statecraft survived or thrived; what lessons Beijing derived from these experiences; and what additional insights China's high-tech strategies of the 1990s offer in terms of Beijing's economic statecraft.

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The Revival of Management Education in Reform-Era China

Peter E. Hamilton

INTRODUCTION

In 1991, nine universities inaugurated mainland China's first permanent Master of Business Administration (MBA) programs. By 2006, there would be 100 such programs in the People's Republic (PRC), while by 2015 the number had reached at least 236.¹ On one level, this explosive growth testifies to a long history of Chinese engagement with the concept of “scientific management” (科學管理) over the twentieth century. As I am exploring in a larger book project, this engagement took root in the early Republican era primarily through transpacific circuits of translation and knowledge exchange led by figures such as the industrialist

¹ For the 2006 figure, see Paula Cronin, “Making a Difference, 1996–2006” (Cambridge, MA: MIT Sloan School of Management, 2006), 11. For the 2015 figure, see Gabriel Wildau, “Wang Chungqi, China's First MBA Graduate,” *Financial Times*, 25 January 2015.

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Mu Xiangyue (穆湘玥) and the academic Yang Xingfo (杨杏佛). “Scientific management” had continued to shape both Nationalist and early PRC state planning before the Great Leap Forward (1958–1962) and Cultural Revolution (1966–1976). In this light, the Reform-Era revival of management education represented a return to modernizing and developmentalist practices that had been derailed by the ideological excesses of the Mao era.

On another level, these business programs posed a paradox. Although PRC officials have long considered education a culturally and politically sensitive area, these MBA programs were heavily derived from U.S. models and often established in partnership with American universities. From their curricula and case-study methodologies to even teaching from the same textbooks, their academic content was heavily American in origin, while the funding also often came from overseas, including from Hong Kong-based alumni of these U.S. institutions. As such, the revival of management education in the PRC could also be seen as state-sanctioned overseas and capitalist influence.

This chapter is a first attempt to explore the revival of management education in Reform-Era China. Previous scholars have emphasized the role of foreign expertise and transnational academic exchange in the Reform Era’s restoration of higher education.² In turn, scholars have also studied the evolution of grassroots management practices in factories, state-owned enterprises (SOEs), and new private firms.³ Yet scholars have not examined the concomitant revival of management education as a key component in the reform process. This chapter is a first attempt to fill that gap. In so doing, it seeks to advance new links between scholarship on the Reform Era and Sino-U.S. relations, incorporating increased attention to non-state actors and flows in both fields.

² For one overview of the social sciences during the 1980s, see Nina Halpern, “Social Scientists as Policy Advisers in Post-Mao China: Explaining the Pattern of Advice,” *The Australian Journal of Chinese Affairs* 19/20 (January–July 1988): 215–240. For a recent foregrounding of economic exchanges in China’s reforms, see Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Cambridge, MA: Harvard University Press, 2017).

³ See, for example, Andrew G. Walder, “Factory and Manager in an Era of Reform,” *China Quarterly* 118 (June 1989): 242–264. A more recent overview of this literature is Anne S. Tsui and Chung-Ming Lau, eds., *The Management of Enterprises in the People’s Republic of China* (Boston, MA: Kluwer Academic Publishers, 2002).

The first section explores the earliest initiatives to revive management education and the entwined discourse of management as a “science.” While Tsinghua University opened a Department of Management and Information Systems in 1979, elite universities did not lead this revival. Instead, a broader spectrum of government agencies, state-owned enterprises, and technical institutes spearheaded the most influential efforts to retrain mid-career managers in both the Chinese Communist Party (CCP) and industry. With political support from Bo Yibo (薄一波), for example, the First Ministry of Machine Building hired an MIT PhD student in 1979 to organize a management training program for its cadres, ideologically disguised as “systems engineering.” Simultaneously, with the establishment of the Chinese Academy of Social Sciences (CASS) in 1977, a number of rehabilitated economists and state planners, such as Ma Hong (马洪), Jiang Yiwei (蒋一苇), and Xu Dixin (许涤新), gathered and spearheaded new research and training in “management science,” including the first new management textbook to be published since the Cultural Revolution.

In the second section, I explore the renovation and expansion of management education at China’s premier universities over the late 1980s and 1990s. Focusing on Tsinghua and Fudan, I analyze a substantial evolution in the content, structure, and pedagogy of these programs as they developed a transformative partnership with MIT’s Sloan School of Management. Leading figures in this process, such as Zhu Rongji (朱镕基) and Zhao Chunjun (赵纯均) at Tsinghua or Zheng Shaolian (郑绍濂) at Fudan, had previously approached management from mathematical and engineering perspectives. Yet, with the formation of the MIT-China Management Education Project (MEP) in 1996, they began to incorporate American-modeled courses in topics such as leadership, entrepreneurship, and finance. In particular, the MIT-China MEP helped to revamp these programs by sponsoring Tsinghua and Fudan faculty to study at MIT and subsequently transfer whole courses and textbooks into China. Through the National MBA Education Supervisory Committee (全国工商管理硕士教育指导委员会), which disseminated this content throughout Chinese management education, these renewed transpacific circulations of translation and exchange in their turn had an even more scaled impact than in the early Republican era.

RESTORING “SCIENCE” TO MANAGEMENT, 1978–1984

As Chinese officials and economists began to experiment with Reform, most sought to loosen state control and increase autonomy and accountability in an economy that would remain fundamentally state planned. Yet, as scholars have stressed, there was no master plan and reformers continually debated over how best to pursue the Four Modernizations, with debate particularly active throughout a web of new economic think tanks.⁴ Due to the traumas of the Cultural Revolution, however, a basic logic embedded across the reformist spectrum was shifting Chinese industrial management priorities away from political ideology and toward facts, efficiency, and ideals of science. Put simply, many officials and economists had concluded that the Cultural Revolution’s prioritization of ideological correctness had encouraged gross incompetence and waste throughout the nation’s enterprises. Yet, as Andrew Walder has stressed, we should recognize that Mao-era ideals of management were not necessarily incompetent. Instead, they charged cadres with different goals, such as enforcing ideology and sometimes ensuring community welfare.⁵ Thus, while macro-scale policy shifts have drawn the lion’s share of scholarly attention, a more mundane but equally vital aspect of the Reform Era was the widespread retraining of ordinary managers throughout the party and thousands of SOEs. This shift not only reversed ideological precepts engrained since the 1960s, but also interwove two of the Four Modernizations by reapplying notions of science to industry.

One institution where these ideas were pressing was the First Ministry of Machine Building or *Yijibu* (第一机械工业部 or 一机部). Under socialist planning, heavy industry had been organized under a dizzying array of national ministries, the military, and provincial authorities. The *Yijibu* was one of the single largest pieces in the civilian industrial sector, supervising the production planning, allocation of materials, and daily operations of thousands of factories and millions of workers across the PRC, producing everything from trucks and tractors to blast furnaces, automobiles, and consumer products. In turn, the *Yijibu* also ran its own

⁴ Barry Naughton, “China’s Economic Think Tanks: Their Changing Role in the 1990s,” *China Quarterly* 171 (September 2002): 625–635. For a new work in this conversation, see Isabella M. Weber, *How China Escaped Shock Therapy: The Market Reform Debate* (New York: Routledge, 2021).

⁵ Walder, “Factory and Manager in an Era of Reform,” 249.

educational system of colleges separate from the Ministry of Education. These colleges focused on engineering and industrial management, including the Shanghai Institute of Mechanical Engineering (SIME, 上海机械学院) and the Harbin Institute of Technology (哈尔滨工业大学). As such, the Yijibu had a vast and unwieldy portfolio of responsibilities and reformists quickly grasped this behemoth's need for reorganization and increased efficiency.

Yet the Yijibu's bureaucracy was deeply entrenched and foreign "management science" sounded very much like capitalism. As such, the decision was made to tap a foreigner and rephrase his teaching assignment. In the fall of 1978, Yijibu officials approached a young MIT doctoral student studying in Beijing named Joseph Battat (巴塔特) about starting a program in "systems engineering" at one of their colleges. A Lebanese Canadian citizen, Battat had previously worked as an engineer at IBM before pursuing his doctorate in international business and economics at MIT Sloan under Richard "Dick" Robinson, a pioneer in the study of adapting American corporate management for international contexts. With Robinson's aid in securing a Canadian fellowship, Battat traveled to China in early 1978 to study Marxist political theory on exchange at Peking University in order to understand different approaches to economics. Fluent in Chinese and versed in the political rhetoric, Battat was well situated in Yijibu officials' eyes. He was bilingual and knowledgeable about computers—a key area of interest—but also available, willing, and politically expendable should it all fall apart.⁶

Yet any educational program requires resources and in 1978 that meant high-level political approval. Behind the Yijibu's initiative was Bo Yibo, recently rehabilitated by Deng Xiaoping and soon to be appointed the Vice-Premier in charge of the economy. In October 1978, the director of the new Hong Kong and Macau Affairs Office and longtime Bo ally Liao Chengzhi (廖承志) met with Battat and senior Yijibu officials. Acting as Battat's "*houtai*" (后台) or handler on Bo's behalf, Liao instructed an Yijibu deputy ministry to provide Battat with all the materials he might require. The task was a mammoth one. Battat first spent three weeks touring the Yijibu's factories and universities, before returning to Beijing to report to Liao Chengzhi. He delicately conveyed his poor impressions

⁶ Kathleen and Robert Thurston-Lighty, *The Stars Aligned: Celebrating the 20-Year Anniversary of the MIT-China Management Education Project* (水到渠成) (Cambridge, MA: MIT Sloan, 2016), 21–22.

and secured permission to return to the United States and Canada with US\$100,000 in order to hire foreign faculty and purchase computers and teaching materials.⁷

By his return, the Yijibu had selected SIME as the new program's location, and Battat moved to Shanghai to launch his program in early 1979. At first, the ministry insisted that it would select and assign (被分配) its own faculty members to be retrained by this program. Yet Battat fought successfully for it to be an application-based program, even taking out advertisements in several major newspapers. With about 12 initial faculty and 50 students, this "systems engineering" program was an MBA program in all but name, lacking only instruction in finance. Unsurprisingly, the first term was messy, lasted just four months, and only conferred a certificate. Yet the program gradually developed in size and quality, introducing case studies, prestigious faculty, and hands-on assignments in Yijibu factories. Some projects, for example, focused on introducing computers into the production process, a trend of growing interest. Hong Kong's *Ta Kung Pao* reported in May 1980 that the Shanghai No. 6 Weaving Factory had introduced computer monitoring the previous September, creating "a more reliable basis for scientific management" and increasing production.⁸ Utilizing personal networks, Battat and Robinson also co-organized a delegation of Yijibu officials and economic advisors to visit MIT in 1979, which was reciprocated by a return-delegation led by then-Dean William "Bill" Pounds.⁹ By 1981, SIME and the Ministry of Education formalized this initiative as a degree-granting program, where Battat continued to teach after receiving his PhD in 1984. These transnational networks also led to a joint conference on foreign investment between MIT Sloan and the CASS in Hangzhou in March 1985.

⁷ Author's interview with Joseph Battat, 19 November 2020.

⁸ "用電腦監測織布機，上海試用半年成功，使科學管理有更可靠依據" ["Yong diannao jiance zhibuji, Shanghai shiyong bannian chenggong, shi kexue guanli you geng kekao yiju"] ["Using Computers to Monitor Looms, a Six-Month Shanghai Experiment Has Success and Creates a More Reliable Basis for Scientific Management"], *Ta Kung Pao* (TKP, 大公報) (31 May 1980): 2.

⁹ Cronin, "Making a Difference," 54.

While SIME's program developed through experimentation and informal links, the first international university to extend formal management education opportunities into China seems to have been the University of British Columbia (UBC). The university first signed a Memorandum of Understanding (MOU) with Peking University in March 1980 to allow for exchanges of faculty and advanced students between their Geography departments.¹⁰ A few months later, Dean Peter Lusztig of the Faculty of Commerce and Business Administration launched a special fellowship to support one senior Chinese scholar to spend up to four months at UBC in 1980–1981. This fellowship was partially funded by CITIC and the scholar was chosen by Rong Yiren (荣毅仁) himself.¹¹ Over the next two years, four Chinese scholars would come to UBC to lecture and study management. As these relationships matured, by the mid-1980s the Canadian International Development Agency (CIDA) awarded financial support for UBC to help develop management education at Shanghai's Jiaotong University.¹²

Alongside such internationally connected programs, Chinese officials were also launching government research into “management science” and encouraging reform throughout the nation's management practices. In March 1979, for example, the State Economic Commission set up the Chinese Enterprise Management Association (CEMA) as a coordinating body in Beijing to advance socialist modernization through the promotion of improved industrial management. By 1983, there were 23 affiliated associations spread throughout the country. In turn, as Malcolm Warner has analyzed, CEMA framed its mission in explicitly scientific terms, declaring that “modern industry needs a scientific management system” and that “management, a branch of science, is governed by its own law.” Only by “strictly studying and following this law” could enterprises “bring into full play the potentialities of the manpower and material

¹⁰ Haochen Li, Robert Matas, and Yves Tiberghien, *UBC-China: One Hundred Years of History, 1915–2015* (Vancouver, Canada: UBC China Council, 2016), 18, https://chinacouncil.sites.olt.ubc.ca/files/2017/01/ChinaCouncil_3Ed_ENG_web.pdf, accessed 3 March 2021.

¹¹ Douglas T. Kenny, *The President's Report 1979–80, The University of British Columbia* (1980), 12, <https://www.library.ubc.ca/archives/pdfs/presidents/1980.pdf>, accessed 3 March 2021.

¹² Li, Matas, and Tiberghien, *UBC-China*, 19–20.

resources, and... gain greater economic results.”¹³ Again, this emphasis on scientific laws, facts, and efficiency reflected the traumas of the Cultural Revolution. Similarly, numerous rehabilitated economists, state planners, and other scholars were coalescing at the CASS under its first president, historian Hu Qiaomu (胡乔木). As a result, in 1979 the CASS subdivided its Institute of Economics into five separate institutes. Each focused on different areas of economic policy, but all shared an explicit emphasis on “scientific” research, which primarily meant the use of quantitative methodologies.¹⁴ For management, the most important was the Institute of Industrial Economics (IIE), which was established under the economist and CASS vice-president Ma Hong. China’s inefficient management practices were one of Ma’s top concerns and he recruited former protégés to pursue new research. One was future premier Zhu Rongji, whom Ma tasked with heading the IIE’s research office.¹⁵

Such government initiatives quickly moved from state-sponsored research into the establishment of hands-on training programs aimed at CCP and SOE managers. Thus, while the IIE was primarily a think tank, it also began its own postgraduate program in management, as well as a national distance-learning course.¹⁶ Twenty-two Master’s students enrolled in 1979 for a three-year program, followed by four more in 1984. By that point, Warner estimated that at least 50 institutes of economic management had spread throughout the country, each training from 50 to 1,000 students.¹⁷ In turn, in 1979 the IIE began publishing the monthly *Business Management Journal* (经济管理). In 1983, this periodical provided the basis for the distance-learning program known as the “Periodical University.” By 1984, its roughly 10,000 students could either study the magazine on their own and sit for examinations or pass an entrance examination and attend two to three weekly lectures

¹³ Malcom Warner, “The ‘Long March’ of Chinese Management Education, 1979–84,” *China Quarterly* 106 (June 1986): 328.

¹⁴ Manoranjan Mohanty, “Social Sciences on a New Footing,” *Economic and Political Weekly* 14:34 (August 1979): 1458–1459. See also Naughton, “China’s Economic Think Tanks,” 626–627.

¹⁵ Zhu Rongji, “Speech at the First Plenary Session of the Ninth Shanghai People’s Congress,” 25 April 1988, *Zhu Rongji on the Record: The Shanghai Years, 1987–1991*, trans. June Y. Mei (Washington, DC: Brookings Institution Press, 2018), 95–96.

¹⁶ Halpern, “Social Scientists as Policy Advisers in Post-Mao China,” 236.

¹⁷ Warner, “The ‘Long March’ of Chinese Management Education,” 333–334.

in one of 66 locations across China. The vast majority of its students were party or SOE managers seeking promotion.¹⁸ Beyond the CASS, over the early 1980s the Beijing municipal government and the Beijing Economic Commission set up their own Beijing Management Academy to offer short, hands-on training courses to the roughly 95,000 managers of the capital's more than 1,000 enterprises. Its primary international collaborator was the Swedish Management Institute (IFL), and by 1984 over 3,450 Beijing cadres had received some training, with plans afoot to build permanent buildings with funds from the Beijing Economic Commission.¹⁹ Similarly, in 1983 the Shanghai government began to sponsor its own annual twelve-week summer management program for senior managers from across the city's enterprises in conjunction with the Chinese University of Hong Kong's MBA program. After ten weeks of intensive study, the program concluded with two-week placements in Hong Kong companies and institutions.²⁰

For now, it is difficult to assess either the quality or content of these government initiatives. In addition to issues of expertise, most party and SOE managers had little experience as formal students. As of 1986, Warner estimated that as much as two-thirds of this demographic had no education beyond a middle school level.²¹ In terms of content though, we gain key insight through the first Chinese-language management textbook to be published after the Cultural Revolution. In 1980, the IIE had sponsored the establishment of the Chinese Association of Industrial Enterprise Management Education (CAIEME, 中国工业企业管理教育研究会), which in turn sponsored the 1981 publication of the textbook *Industrial Enterprise Management* (工业企业管理) (Fig. 5.1). Written between March 1979 and August 1980, its authors were a CAIEME writing group comprised of 27 faculty from 14 universities and institutes around China. Most of these scholars, such as Wang Dezhong (王德中) and Hao Gengguan (郝艷桓) at the Sichuan and Tianjin Colleges of Finance and Economics, respectively, had begun teaching economics, business administration, and industrial

¹⁸ Ibid., 336–337.

¹⁹ Ibid., 332–333.

²⁰ Dartmouth Class of 1926, “Pan, Francis Kuang-Chiung, 1926,” *1926 Smoke Signals* (September 1984), The Rauner Special Collections, Rauner Library, Dartmouth University, Hanover, NH.

²¹ Warner, “The ‘Long March’ of Chinese Management Education, 1979–1984,” 326.

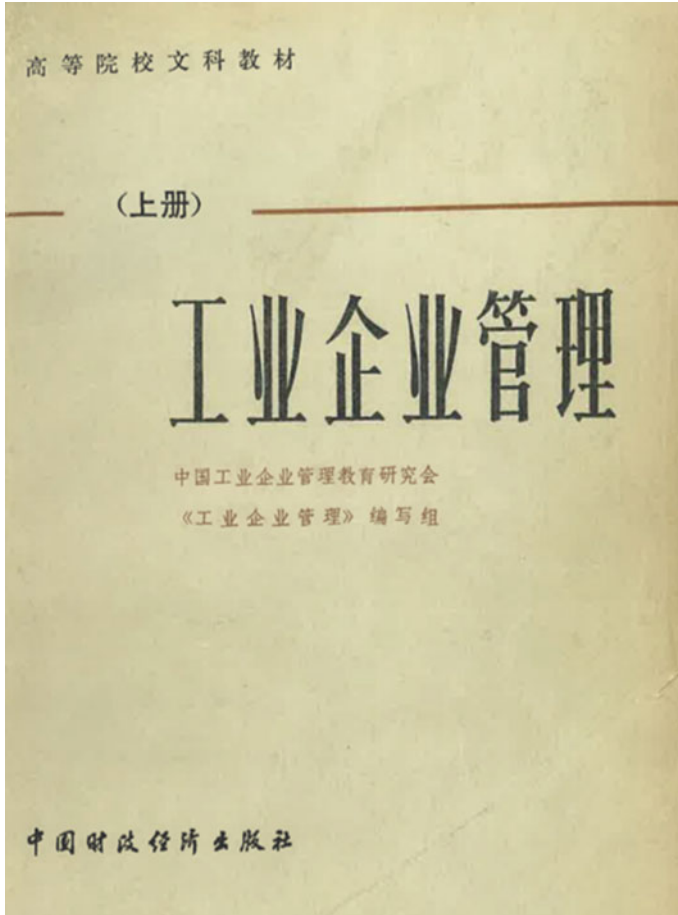


Fig. 5.1 *Industrial Enterprise Management* (工业企业管理), 1981. Tsinghua University Library

management in the 1950s. At least one, Li Baokun (李葆坤) of the Shanghai College of Finance and Economics, had earned an MBA in the United States in 1949. Predictably, their careers had been disrupted over the Mao era and most were still re-establishing their departments. As such, this textbook also functioned as a larger statement about the revival and purpose of their disciplines in China's new era. After revisions and consultations, the textbook

received final approval from the IIE in early 1981, with “active support” from Ma Hong.²² Reflecting strong sales, the volume would enter its fourth edition by 1986.²³

The central mission of the first edition was to reconcile two concepts: Chinese socialism and “scientific management.” The textbook repeatedly declared that future SOE managers must understand that “enterprise management is a science” and that the improvement of China’s management was a “necessary condition” for socialist modernization.²⁴ Simultaneously, the text studiously avoided bourgeois terms such as efficiency, company, or profit, favoring instead euphemisms such as “economic results” (经济效果). Given the disruptions of the previous decades and the low educational levels of most SOE managers, the authors assumed virtually no background knowledge. As a result, the text started at the most basic level and used very simple and direct language. Beginning with an overall summary and introduction to the history of management in Chapter 1, the next three chapters reviewed the basic purposes and operations of socialist industry, the responsibilities of a manager, and the content and aims of workers’ political and ideological work. Of the remaining seven chapters, three were devoted to various aspects of planning, with just one chapter apiece focused on factory layout, quality control, and new product development, and a cursory concluding chapter on technology and innovation. Throughout, there was constant attention to re-establishing management as both a supposedly scientific discipline and a key tool of state planning. As such, it no longer emphasized mass participation or militarized rhetoric, as had Soviet-influenced management textbooks of the 1950s. Instead, the text marshaled Marx himself to declare that large-scale production would “inevitably produce supervisory labor and command labor,” just as “a single violin player can direct himself, but an orchestra requires a conductor.”²⁵ Lenin too was enlisted to give his blessing, declaring that large-scale industry “required

²² The Chinese Association of Industrial Enterprise Management Education (CAIEME, 中国工业企业管理教育研究会), *Industrial Enterprise Management* (工业企业管理) [Gongye qiye guanli] (Beijing: Zhongguo Caizheng Jingji Chubanshe, 1981), Compiler’s Preface (编写说明). Yifu Hall, Main Library, Tsinghua University.

²³ Warner, “The ‘Long March’ of Chinese Management Education,” 338.

²⁴ “企业管理是一门科学” and “必要条件.” CAIEME, 工业企业管理, 1, 3, 11.

²⁵ “一个单独的提琴手是自己指挥自己, 一个乐队就需要一个乐队指挥” and “都必然会产生监督劳动和指挥劳动.” CAIEME, 工业企业管理, 2, 5.

the unconditional and strictest unified will of hundreds, thousands, even tens of thousands of people united in common work.”²⁶

Chapter 1 performed the most important ideological lifting to reconcile socialism and “scientific management.” In particular, this chapter was tasked with establishing an explicit theoretical basis for socialist China to learn and borrow “scientific” methods from capitalist management. Since the CCP also considered Marxist theory to be “scientific,” squaring all this was no easy lift. Both Soviet and PRC management texts from the 1950s had always stressed that economics was subordinate to politics and party leadership—an obviously unscientific precept.²⁷ Rather than now deny this principle, Chapter 1 instead put forth an innovative theory of management’s “dual nature” (二重性). In this theory—visualized in Fig. 5.2—the CAIEME writing group argued that capitalist and socialist systems of management had but one “common nature” (共性) when it came to shared practices of honing ever-more efficient forces of production (生产力) based on facts, experience, and reason, meaning that in this realm, Chinese management could learn from capitalist management. Yet when it came to the social relations of production (生产关系), capitalist and socialist systems of management had distinct “individual natures” (个性).²⁸ Here there would be no borrowing, and this separation would enable China to appropriate from capitalist methods without sacrificing ideology. In particular, the text stressed the maintenance of state ownership as key insurance to preserve the correct social relations of production. Through this “dual nature” theory of management—probably inspired by Marx’s theory of the dual nature of the value of commodities—China would learn from capitalist management practices to boost productivity, drive innovation, and deliver greater material rewards, while preventing exploitation and even raising workers’ political consciousness through more effective political and ideological work.²⁹

One particularly fascinating angle is that this theory effectively returned Chinese management theory to the “scientific” claims of Taylorism in the

²⁶ “任何大机器工业—却社会主义的物质的，生产的泉源和基础—都要求无条件的和最严格的统一意志，以指导几百人，几千人以至几万人的共同工作。” Ibid., 2.

²⁷ Deborah A. Kaple, *Dream of a Red Factory: The Legacy of High Stalinism in China* (New York: Oxford University Press, 1994), 61.

²⁸ CAIEME, 工业企业管理, 7–8, 11–12.

²⁹ Ibid., 3–4, 7–8.

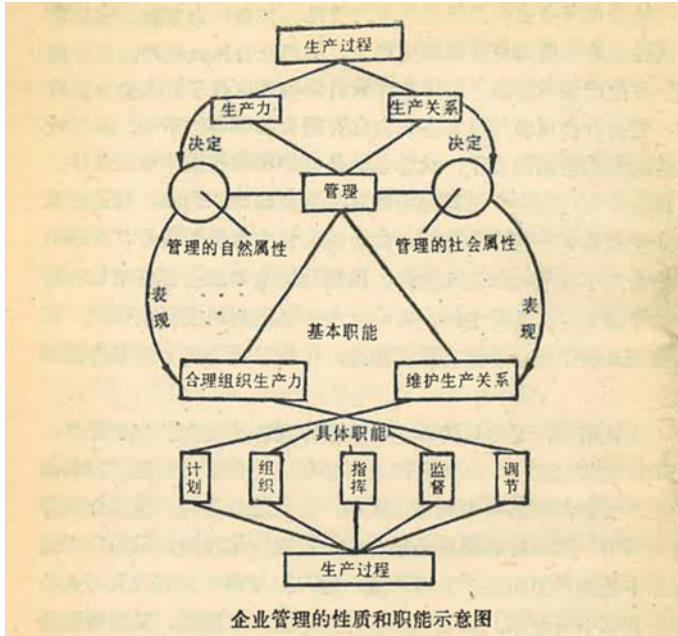


Fig. 5.2 A schematic of the nature and function of enterprise management. This fascinating diagram begins at the top with “the production process,” which is divided into “the forces of production” (生产力) on the left and the “social relations of production” (生产关系) on the right. Proceeding downward through “decisions” (决定) by management on both sides, management steers its “natural properties” on the left and its “social properties” on the right. These are then “manifested” (表现) in accomplishing the twin “foundational functions” (基本职能) of socialist management: “rationally organized productive forces” (合理组织生产力) and “safeguarded social relations of production” (维护生产关系). These two goals then work in tandem through the five “specific functions” of management in the production process, derived primarily from the French theorist Henri Fayol and including planning, organization, command, supervision, and adjustment

1910s. The writing group’s effective claim was that, far from creating conflict between workers and managers, the revitalization and increased efficiency of China’s management practices would obviate such conflict and even strengthen socialism: “Strengthening management is thus a way

to maintain and improve the socialist relations of production: uniting the interests of the country, the enterprise, and staff; promoting the enthusiasm and initiative of staff; and improving the rapid development of industrial production.”³⁰ In both the 1910s and 1980s, these claims of management’s “scientific” nature drove a shared fantasy that human workplaces could achieve machine-like efficiency.

This creative justification for injecting foreign “management science” into Chinese socialism had implications far beyond this textbook or even management education. Coming at the very forefront of the PRC’s ideological revisions in the Reform Era, the “dual nature” theory of management effectively encapsulated and justified the entire logic of many reformers in the early 1980s. Appearing in the same year as the official *Resolution on CPC History (1949–1981)*, this textbook likewise articulated a crucial narrative of the previous 30 years and squared the circle in pursuing market-driven reforms. The textbook repeatedly referenced the Cultural Revolution, acknowledging that “in the past, the proliferation of extreme leftism in enterprise management” had led to the “complete rejection” of useful insights from capitalist countries, causing “serious harm to the development of management science in our country.”³¹ This was a firm statement that scientific learning from foreign capitalists was not incompatible with socialism. The text then underscored that in “normal times” there should be no conflict between the “objective laws” of “scientific management” and the party’s dictates: “Acting in accordance with objective laws is not inconsistent with implementing the party and state’s lines, guidelines, and policies, because under normal conditions, the lines, guidelines, and policies of the party and state are established on the foundation of a correct understanding of objective laws and reflect the requirements of objective laws, so they can guide enterprise management.”³² Again, the text firmly declared that sound management

³⁰ “加强管理，就是为了维护和完善社会主义生产关系，把国家、企业和职工三者利益结合起来，发扬职工的积极性和主动性，促进工业生产的迅速发展。” Ibid., 4.

³¹ “过去，由于极左思潮泛滥，在企业管理上，只讲社会属性，不讲自然属性，放松对生产力的研究，对资本主义企业在这方面积累的有用经验，则一概拒绝。这种只讲个性，不讲共性，极端片面的观点，给我国管理科学的发展造成了严重的危害。” CAIEME, 工业企业管理, 8–9.

³² “按客观规律办事与贯彻执行党和国家的路线、方针、政策等并不矛盾。因为在正常条件下，党和国家的路线、方针和政策是建立在正确认识客观规律基础上的，反映客观规律的要求，所以能对企业管理起指导作用。” CAIEME, 工业企业管理, 13.

and sound state policy should be based on facts, science, and reason. Perhaps most surprising, the textbook even underscored that the most “important content” of ideological and political work was to “educate workers to understand objective laws, act according to the requirements of objective laws, and under specific material and technological circumstances, give full play to subjective energies and initiatives in order to strive for the largest economic result.”³³ In no uncertain terms, the CAIEME writing group intended their reinvigoration of “management science” to serve as a bulwark against the ideological extremes and economic fantasies of the Mao era. Simultaneously, the “dual nature” theory also foreclosed any discussion that improving Chinese management might require changes to the ownership or organization of state-owned industries.

Indeed, this reinvigoration of “management science” was instead explicitly in service to strengthening state economic planning, not reducing or removing it. In articulating the five core functions of industrial management—planning, organization, command, supervision, and adjustment—the textbook acknowledged that these ideas were primarily adapted from the French theorist Henri Fayol.³⁴ Yet its emphases differed from those of Fayol. While Fayol had, for example, emphasized planning as crucial and difficult, now planning was “the primary function of enterprise management.”³⁵ Moreover, while all five functions were intended to be performed rationally and scientifically, the textbook instructed that “the centralized command of socialist enterprises is based on the promotion of democracy,” meaning that command “must be combined with strengthening ideological and political education to continuously inspire and raise the socialist consciousness of the majority of employees.”³⁶ Thus, while recommitting to science, facts, and reason, the CAIEME writing group was also recommitting Chinese “management science” to advancing and deepening state-led socialism and even more intently shaping workers’ thoughts.

³³ “思想政治工作的重要内容就是教育企业职工认识客观规律,按客观规律的要求办事,在一定的物质技术条件下,充分发挥主观能动性,争取最大的经济效果。” *Ibid.*, 13.

³⁴ *Ibid.*, 19–20.

³⁵ “计划是企业的首要职能。” CAIEME, 工业企业管理, 9.

³⁶ “社会主义企业的集中指挥是建立在发扬民主的基础上的...集中指挥还要同加强思想政治教育相结合,不断启发和提高广大职工的社会主义觉悟。” *Ibid.*, 10.

Industrial Enterprise Management's efforts to reconcile “scientific management” and Chinese socialism are perhaps best embodied by its juxtaposed histories of capitalist and Chinese management. While offering some critiques, its history of capitalist management primarily signaled respect.³⁷ The textbook laid out a narrative that began with “traditional” nineteenth-century methods, proceeded to early twentieth-century “scientific” management, and concluded with post-1940s “contemporary” management. It praised numerous foreign thinkers, particularly Americans. It singled out Frederick Winslow Taylor (泰罗) as the “founding father” of “scientific management” due to his advocacy that “all management problems should and may be researched and solved with scientific methods.”³⁸ The only non-American to receive such attention was Fayol, credited as the second great leader of the “scientific” era. Yet, even in the contemporary age, the authors highlighted Harvard’s controversial Elton Mayo (梅约) for pioneering “behavioral science.” This history concluded with an assessment of current trends in capitalist management, such as leadership and decision-making, corporate diversification, systems management, new technologies, and continuous employee retraining. Only one current trend received clear skepticism: the use of “clever” (巧妙) but “deceptive” (欺骗) methods to motivate employees, such as “merit-based” bonuses. The authors then concluded by declaring that capitalist management could be cruel, but had been extremely successful in driving productivity and innovation. Relying on the “dual nature” theory, China could now study capitalist management “in accordance with science and what is suitable for our country’s needs, and transform the tools of capitalism into the tools of socialism in order to improve the management level of our country’s enterprises and accelerate the modernization of socialism.”³⁹ By focusing on what was supposedly “scientific” about management, the PRC would enjoy the best of both worlds.

The CAIEME writing group carefully reinterpreted the Mao era through the prism of “scientific management.” Effectively ignoring capitalist industry in China before 1949, the authors presented the CCP’s

³⁷ “有资产阶级的阶级偏见。” *Ibid.*, 23.

³⁸ “他主张一切管理问题都应当而且可能用科学的方法去加以研究和解决。” *Ibid.*, 18–19.

³⁹ “学习它的合乎科学的, 适合我国需要的东西, 把它由资本主义的工具变成社会主义的工具, 以提高我国企业管理水平, 加速社会主义现代化建设。” CAIEME, 工业企业管理, 23.

efforts to launch small-scale industry in Yan'an as the beginning of Chinese management, establishing first principles such as adherence to party leadership, compliance with state planning, and a focus on small-scale producers. Things became interesting, however, with the text-book's account of the 1950s and 1960s. Regarding the first Five-Year Plan (1953–1957), the text credited Soviet management methods with reshaping Chinese practices, particularly through expert planning, technical training, and the expansion of large-scale heavy industry. Yet the text was cagey on whether Soviet methods were scientific, presenting them as “mainly conforming with the demands of objective laws” and as “placing our country's enterprise management onto the road toward scientific management.”⁴⁰ Following this oblique comment came direct criticism of the “shortcomings” of Soviet management, particularly over-centralization and disregard for “democratic management.” Such framing allowed the authors to present the Great Leap Forward as a logical “upsurge” of grassroots enthusiasm for workers' participation in “daily management” that went too far due to “insufficient respect for objective laws” and the abandonment of “the scientific management systems and methods established during the first Five-Year Plan.”⁴¹ The authors could also then present the reforms of Deng Xiaoping and Liu Shaoqi during the early 1960s as “re-entering the track of scientific management,” before the Cultural Revolution (blamed on Lin Biao and the “Gang of Four”) again caused “all the scientific management systems and methods that were effective in the past to be destroyed.”⁴² Throughout, Mao was carefully exculpated.

The inevitable conclusion of this constructed narrative was not just that “scientific management” and Chinese socialism were compatible, but rather that they were an essential pairing to achieve the Four Modernizations. This history lesson concluded by underlining once again “the most important and fundamental lesson,” namely, the harm of ultra-leftist thinking and the need for modern management: “Enterprise management is an objective requirement for modernizing large-scale production...

40 “这些基本上符合客观规律要求的管理制度和方法” and “使我国企业管理开始走上科学管理的轨道。” Ibid., 25.

41 “全国掀起了群众运动的新高潮,” “对客观规律尊重不够,” and “第一个五年计划期间建立起来的科学管理制度和办法。” CAIEME, 工业企业管理, 26.

42 “重新走上科学管理的轨道” and “以致过去行之有效的科学管理制度和办法全部破坏了。” Ibid., 27.

Negating enterprise management means negating modern production itself, which will damage socialist production relations and hinder the development of socialist productive forces.”⁴³ Put directly and succinctly: “The Four Modernizations require the scientification and the modernization of enterprise management.”⁴⁴ Through *Industrial Enterprise Management*, we can therefore observe a careful, precise, and state-approved intellectual formulation at the outset of the Reform Era to square socialist systems with certain capitalist practices. Even more specifically, it articulated “scientific management” as a politically approved framing through which further such hybrids and experiments could be justified.

TRANSPACIFIC CIRCULATIONS AND MBA RE-EDUCATION, 1984–1996

By the mid-1980s, numerous government- and foreign-sponsored management education programs had taken root across China, primarily to retrain party cadres and SOE managers. In another example, in 1983 CEMA started its own program in cooperation with the European Economic Commission to develop a two-year MBA program aimed at future economic cadres. Like SIME’s program, it relied on foreign professors coming to China and lecturing in English on subjects such as managerial economics, production management, marketing, accounting, decision-making, and computer science, while Chinese scholars lectured on socialist management.⁴⁵ All these programs seem to have stimulated substantial popular interest. By January 1985, *Ta Kung Pao* reported that studying scientific management had become the “hottest trend” among Shanghai’s young people. Framed as a response to the start of urban reforms, this trend had swollen the circulation of corporate management books from Shanghai’s libraries by 400%. Bookstores were also purportedly having trouble keeping management books on the shelves, including both *Industrial Enterprise Management* and American books,

⁴³ “企业管理是现代化大生产的客观要求” and “否定企业管理，就是否定现代化大生产本身，就会损害社会主义生产关系，阻碍社会生产力的发展。” *Ibid.*, 28.

⁴⁴ “四个现代化要求企业管理的科学化和现代化。” *Ibid.*, 28.

⁴⁵ Warner, “The ‘Long March’ of Chinese Management Education,” 329–330.

while even the Shanghai Communist Youth League had started business management seminars.⁴⁶

One such government-sponsored management program soon became the mainland's first formal MBA program. With an agreement signed during U.S. President Ronald Reagan's April 1984 state visit, Dalian University of Technology (大连理工大学) and SUNY agreed to redevelop an existing nine-month program into a three-year MBA program for SOE managers. This program would not survive long and merits much greater research, but its approval at the highest levels of both governments signaled the perceived significance of management education to both PRC economic reforms and Sino-U.S. relations.⁴⁷ During his visit, Reagan would even declare in the Great Hall of the People that management was "the knowledge that is America's key technology."⁴⁸

Indeed, both the Dalian program and public interest in American management signaled the onset from at least 1984 of another intellectual thread that would gradually redirect the revival of Chinese management. With the launch of urban reforms, increasing integration into the world market, and the approval of schemes like Dalian's, new momentum built within senior Chinese academia to expand international partnerships, particularly with American MBA programs. At the center of these shifts stood the scholar-official Zhu Rongji. Since joining the IIE, Zhu had been an active proponent of initiatives to expand management education. He is widely credited with spearheading the establishment of Tsinghua's School of Economics and Management (SEM) in 1984, where he served as founding dean and supervised a number of graduate students, such as future Tsinghua SEM professors David Pan (潘庆中) and David Li (李稻葵), as well as future chairman of the China Securities Regulatory Commission Liu Shiyu (刘士余).⁴⁹ Simultaneously, after becoming deputy party secretary in Shanghai in 1987, Zhu continued to speak out

⁴⁶ "滬青年求知動向科學管理最熱門" ["Hu qingnian qiuzhi dongxiang kexue guanli zui remen"] ["Among Shanghai Youths Seeking Knowledge, the Scientific Management Trend Is the Hottest"], *Ta Kung Pao* (TKP, 大公報) (7 January 1985): 3.

⁴⁷ Steven R. Weisman, "Pacts with China Signed as Reagan Ends Peking Visit," *New York Times* (30 April 1984): 1.

⁴⁸ "President Reagan's Remarks to Chinese Community Leaders in Beijing, China, 1984," 27 April 1984, *Public Papers of the Presidents of the United States: Ronald Reagan, 1984*, Book 1 (Washington, DC: U.S. Government Printing Office, 1986), 584.

⁴⁹ Author's interview with David Pan, 6 March 2019.

regularly on the urgent need to improve China's management standards. On 25 April 1988, for example, addressing the First Plenary Session of the Ninth Shanghai People's Congress—where he was elected mayor of Shanghai—Zhu described in detail his vision for the city's development as an international trade and manufacturing hub. Addressing the role of education in this plan, Zhu related foreign visitors' poor impressions of China's industrial managers. In blunt comments that attracted criticism, Zhu agreed: "It's true that our factory directors and managers need good training. Many factory directors in Shanghai aren't even up to the level of a shop foreman in other countries." In particular, Zhu criticized factory directors who never took the initiative and relied on state supervision and subsidies: "This sort of factory director and manager is basically unqualified, and we must educate them in modern management." Yet in Zhu's opinion, the proliferation of "so many management schools in Shanghai" meant that the nation could now "systematically send our factory directors and managers here, particularly those engaged in large-scale importing and exporting."⁵⁰ Management *re*-education thus occupied a fundamental place in Zhu's vision of China's path toward increasingly market- and export-driven development. One week later, Zhu elaborated on this key role for management re-education: "If you're not managing raw materials, if you're not managing production, supply, and marketing, what kind of factory director are you? What kind of entrepreneur are you? What kind of operational management is this? Factory directors need training, and so do shop foremen."⁵¹ In short, if China were to expand its industrially-based international trade, Zhu emphasized that a key condition was creating a new and more entrepreneurial breed of managers. In turn, Zhu stressed that cadres must also learn to delegate, which he termed as studying "macro-management" (宏观管理).⁵²

Zhu may have been speaking from personal experience. At Tsinghua, his vision for management re-education had to be delegated. As Zhu's

⁵⁰ Zhu Rongji, "Speech at the First Plenary Session of the Ninth Shanghai People's Congress," 25 April 1988, in *Zhu Rongji on the Record*, 144–145.

⁵¹ Zhu Rongji, "Foreign Trade: The Vanguard for Shanghai's Development of an Externally Oriented Economy," 4 May 1988, in *Zhu Rongji on the Record*, 171.

⁵² See, for example, Zhu Rongji, "The Shanghai Municipal Government Must Be Prepared to Fight Hard for Revitalization," 10 May 1988, and "A Few Comments on the Devolution of Powers," 3 June 1988, both in *Zhu Rongji on the Record*, 173–180, 203–208.

political career accelerated, in 1986 Tsinghua appointed the engineering professor Zhao Chunjun (赵纯均) as deputy dean to run SEM. Like Zhu, Zhao was an electrical engineer by training, graduating from Tsinghua in 1965. After the Cultural Revolution, he returned to Tsinghua and pivoted toward systems engineering. In this pivot, his most serious academic work was conducted in the mid-1980s at the International Institute for Applied Systems Analysis (IIASA), a non-governmental academic organization outside Vienna. With financial support from the Chinese Academy of Sciences, he spent two years collaborating on two major research papers: “Advanced Decision-Oriented Software for the Management of Hazardous Substances” (December 1985); and “Expert Systems for Integrated Development: A Case Study of Shanxi Province, The People’s Republic of China” (September 1987).⁵³ In both cases, Zhao’s team focused on the expanding application of computers to operations research through the integration of huge amounts of data into simulations that could provide managers with decision-support tools. In a fascinating harbinger, their papers emphasized the long-term implications for developing artificial intelligence. Upon returning to Tsinghua, Zhao also joined with Yang Xin (杨忻) and Wang Yongxian (王永县) in editing the book *Optimization and Decision-making* (优化与决策), published in 1988, a volume intended to introduce these new technologies to ordinary professional engineers as part of their continuing education.⁵⁴ Zhao’s transfer to SEM in 1986 represented a substantial career shift, but his background in computers and systems engineering reflected the quantitative and “scientific” aspirations that had driven the revival of Chinese management education.

The reality, however, was that management education at major PRC universities remained small, under-resourced, and intellectually constrained by impulses toward the exclusively quantitative. By 1986,

⁵³ Ch. Zhao, L. Winkelbauer, and K. Fedra, “Advanced Decision-Oriented Software for the Management of Hazardous Substances” (Laxenburg, Austria: International Institute for Applied Systems Analysis, CP-85-50, December 1985); and Kurt Fedra, Zhenxi Li, Zhongtuo Wang, and Chunjun Zhao, “Expert Systems for Integrated Development: A Case Study of Shanxi Province, The People’s Republic of China” (Laxenburg, Austria: International Institute for Applied Systems Analysis, SR-87-1, September 1987).

⁵⁴ Zhao Chunjun, Yang Xin, and Wang Yongxian, eds., *Optimization and Decision-making* (优化与决策) [Youhua yu juece] (Beijing: Zhongguo Kexue Jishu Chubanshe, 1988). Yifu Hall, Main Library, Tsinghua University.

Tsinghua SEM had no dedicated space and admitted only 30 undergraduates annually. When postgraduate students were included, altogether it had 200 students. Few of the faculty were scholars of management or even economics. Rather, like Zhao, they were primarily engineers and mathematicians.⁵⁵ By 1984, People's University's Department of Industrial Management had 80 faculty and 400 students, predominantly undergraduates, but most of its faculty did not have a doctorate.⁵⁶ Like Tsinghua, Fudan had also rushed to establish a Department of Management Science in 1979 and a School of Management (SOM) in 1985 under founding dean Zheng Shaolian. Zheng was another mathematician who had spent his career at Fudan, publishing eight books on probability theory before 1966. After 1977, he too pivoted abruptly toward "management science," applying his quantitative expertise to the study of topics such as productivity. Yet across these programs, the primary teaching method remained hours-long lectures in which "no one asked questions or offered opinions."⁵⁷ The result was that by the late 1980s, leaders such as Zhu Rongji and Zheng Shaolian were becoming convinced that an international partnership was necessary to improve their programs, particularly as state ambitions moved toward a "socialist market economy" and market-driven enterprises. Speaking from firsthand observation, after touring several U.S. and Canadian business schools in the late 1980s, Zhu Rongji "reached the conclusion that a partnership with a top-tier U.S. business school was essential."⁵⁸

At least one U.S. institution was already deeply engaged in the region and itself searching for opportunities in mainland China. Battat's program at SIME had incepted an early interest at MIT Sloan in promoting management education in mainland China. While there had been no formal relationship between MIT and SIME, throughout the early 1980s Battat had relied on MIT-centered networks to organize exchanges between them. The economist Lester Thurow participated in these exchanges and, after his appointment in 1987 as dean of MIT Sloan, his interest in Asia's economic growth pushed him to explore further

⁵⁵ "Zhao Chunjun: A Visionary Educator Turning Seeds into Forests," Fudan University Lifetime Achievement Award, December 2019, <https://www.fudan.edu.cn/en/2019/1102/c1092a102667/page.htm>, accessed 3 March 2021.

⁵⁶ Warner, "The 'Long March' of Chinese Management Education," 335–336.

⁵⁷ Thurston-Lighty, *The Stars Aligned*, 61.

⁵⁸ *Ibid.*, 31.

partnerships. Thurow led the school to launch a series of collaborative programs with Nanyang Technological Institute in Singapore, the Epoch Foundation in Taiwan, and the Indian Institute of Advanced Management in Calcutta, and to formalize ties with SIME. These collaborations involved missteps and painful lessons that would help to frame MIT's later endeavors, most especially the realization that logistically, Sloan faculty could not staff all these programs. Instead, its faculty began to experiment with regularized exchanges and fellowships to bring foreign scholars to MIT.⁵⁹ In turn, in partnership with prominent alumni in Hong Kong such as Victor Fung (馮國經) of Li & Fung and Philip Kwok (郭志權) of Wing On, in the late 1980s MIT also began sponsoring executive education programs and conferences in Hong Kong.⁶⁰

The Tiananmen Square Massacre of June 1989 compelled a substantial disruption in both sides' plans, yet management education actually proved a key conduit of dialogue and engagement. Even in late July 1989, Jiang Zemin met with the U.S.-China Peoples Friendship Association's chairman Frank Pestana at Zhongnanhai to discuss economic cooperation and the desire to learn foreign "scientific management."⁶¹ Thereafter, the Ministry of Education's approval of nine provisional MBA programs in 1991 served as its own statement on restarting reforms, one that actually anticipated Deng's famous "Southern Tour" of early 1992. Yet launching a quality MBA program was easier said than done. Tsinghua and Fudan alike lacked real expertise. As Zheng Shaolian stated plainly: "We got the MBA from the U.S.A. We didn't have any experience." Like Zhu Rongji, he too resumed searching for U.S. partners throughout the early 1990s, but the quest proved fruitless. As Zhao Chunjun related, even Tsinghua's own first MBA students were dissatisfied with the program: "We already had an MBA program when we started the IMBA program,

⁵⁹ Cronin, "Making a Difference," 54–55.

⁶⁰ Thurston-Lighty, *The Stars Aligned*, 23.

⁶¹ 江澤民會見美國客人，重申堅持改革開放，學習外國科學管理，陳香梅應邀短期內訪問北京，["Jiang Zemin huijian Meiguo keren, chongshen jianchi gaige kaifang, xuexi waiguo kexue guanli, Chen Xiangmei yingyao duanqi nei fangwen Beijing"] ["Jiang Zemin Met with American Guests and Reiterated His Adherence to Reform and Opening Up and Learning Foreign Scientific Management. Chen Xiangmei [Anna Chennault] Was Invited to Visit Beijing Soon"], *Wah Kiu Yat Po* (華僑日報), 28 July 1989, 2.

but the students were complaining about the teaching quality and the contents.”⁶²

After exploring options, by 1994 MIT Sloan’s senior leaders had decided that Tsinghua and Fudan were the two most compatible and promising institutions in China for a potential partnership. In an effort to choose between them, Associate Dean Alan White and Professor Michael Cusumano therefore decided to visit. Beginning at Tsinghua and proceeding to Fudan, they spoke with dozens of faculty members. At Tsinghua, Zhao Chunjun responded skeptically, stating: “‘The West and China were different,’ Dean Zhao recalls. ‘We had different markets. An IMBA program would have been hard for Chinese MBA education.’”⁶³ Cusumano too noted their different intellectual approaches to management: “I remember being struck that almost no one had relevant backgrounds, but instead had studied mathematics, Marxian economics, and so on. These were studies that were related to management—or administration, rather—but not to markets or entrepreneurship.”⁶⁴ Yet there were enthusiasts. At Fudan, White and Cusumano also met with Xie Xide (谢希德), a giant in Chinese physics who had received her own PhD from MIT in 1951 before returning to teach at Fudan. As president of the university from 1983 to 1989, she not only became the first woman to head a major Chinese university, but also spearheaded the establishment of its Center for American Studies. The enthusiasm Xie and other senior scholars showed for this initiative ultimately convinced White and Cusumano to recommend that Sloan not choose, but instead partner with both institutions. As White stated: “We went to China looking for a partner who would be a colleague. And we made it clear from the outset that we believed that our Chinese counterparts had much to offer us.”⁶⁵

By June 1995, the deans of Tsinghua SEM, Fudan SOM, and MIT Sloan were ready to sign a MOU for the “MIT-China Management Education Project” to support new IMBA programs at Fudan and Tsinghua. The MOU laid out each institution’s objectives for this collaboration, which illuminates how all three bypassed their substantial intellectual and ideological differences. In MIT Sloan’s summary

⁶² Cronin, “Making a Difference,” 42.

⁶³ Cronin, “Making a Difference,” 12.

⁶⁴ Author’s interview with Michael Cusumano, 10 June 2019.

⁶⁵ Thurston-Lighty, *The Stars Aligned*, 37.

memorandum of this MOU, dated 1 June 1996, the common thread on all sides was a joint reading of China's future. Fudan and Tsinghua emphasized that their "primary objectives are faculty development and the development of cutting-edge curricula for MBA students who will operate internationally." Such "cutting edge" curricula represented a key transition from the overly quantitative and "scientific" approach, positioning these programs to offer previously unthinkable courses in finance, marketing, entrepreneurship, and even an online "global classroom." For MIT, the goals centered on corporate branding, alumni outreach, and future donations and anticipated opportunities for its faculty to conduct research and its students to work in China.⁶⁶ Thus, each party saw clear institutional benefits if they worked together at this key moment in China's accelerating export-driven development. Political differences were largely ignored, and only a few areas, such as industrial relations, were made explicitly off limits.⁶⁷

A key supporting role behind this partnership was played by the same MIT alumni in Hong Kong, particularly through funding. Early on, Chinese-American executive Shirley Young had warned Alan White against accepting any funds from the Chinese government, to avoid the ensuing strings. Instead, "Young convinced us that if we secured funding from private sources, we would be free to work however we wished."⁶⁸ White pivoted to the Hong Kong alumni with whom MIT had worked for years: "I presented the concept to Philip [Kwok]... and explained that we needed to raise the resources to make it happen. He was on board immediately and said, 'Let me introduce you to Marjorie Yang.'" Upon meeting Marjorie Yang (楊敏德) of the Esquel Group, White stressed that they wanted only "large contributions" from sponsors who could then join an advisory board.⁶⁹ This advisory board was duly set up in Hong Kong and again included Yang, Kwok, Victor Fung, Jack C. Tang (唐驥千) of South Sea Textiles, and others. Fung, himself a former Harvard Business School faculty member, endorsed the decision to

⁶⁶ MIT Sloan School of Management, Summary Memorandum, "The China Management Education Project," 1 June 1996, 1.

⁶⁷ Author's interview with Alan White, 19 November 2020.

⁶⁸ Thurston-Lighty, *The Stars Aligned*, 55.

⁶⁹ *Ibid.*, 41.

abandon, in White's words, "the missionary model of knowledge transfer."⁷⁰ Instead, the core of the MIT-China MEP would focus on providing expert counsel and sponsoring transpacific circulations. In turn, as I have argued previously, these Hong Kong elites were not just cementing reputation or manifesting a sentimental attachment to MIT by sponsoring such educational programs. They were also using educational change to integrate mainland Chinese industry and labor-power into global capitalist trade networks in which Hong Kong was the financial and services hub.⁷¹

The MIT-China MEP opened a fascinating knowledge transfer through transpacific circulations of students and faculty. In some sense, it began with Zhao Chunjun himself. Echoing parallel U.S. educational outreach efforts in Cold War Hong Kong and Taiwan, Zhao spent the fall 1995 semester at MIT as a Fulbright Scholar. This experience was transformative. Alongside conducting research on system dynamics with the founder of the subject, Jay Forrester, Zhao "took advantage of the time and opportunity to speak with MIT Sloan faculty 'about the scope of the project and how to implement it'," consulting both White and Thurow.⁷² Others then followed in Zhao's footsteps. Beginning with four assistant professors in fall 1996, Fudan and Tsinghua's deans selected promising young scholars and dispatched them to Massachusetts for a semester or year as "International Faculty Fellows" (IFFs). These sponsored exchanges allowed Chinese professors to improve their English, study MBA methodologies, and adapt teaching materials for their own classrooms. These teaching methods often involved substantial culture shock for the IFFs, both during their studies and when they subsequently implemented discussion-based methodologies in their teaching. In turn, however, IFFs brought Chinese expertise and perspectives into Sloan's classrooms, broadening its students' perspectives at a critical moment in China's development.

It should be stressed, however, that this opportunity was essentially mandatory for Chinese faculty and often included wholesale career

⁷⁰ Ibid., 53.

⁷¹ Peter E. Hamilton, *Made in Hong Kong: Transpacific Networks and a New History of Globalization* (New York: Columbia University Press, Studies of the Weatherhead East Asian Institute, 2021).

⁷² Cronin, "Making a Difference," 13.

change. June Qian Xiaojun (钱小军), for example, made a huge disciplinary shift from applied mathematics to managerial communications. After receiving her undergraduate degree in applied mathematics from Tsinghua in 1982, Qian had earned her Master's and doctorate in mathematics from Purdue in 1988 and 1992, respectively. She commented:

I was in my second year of teaching statistics when Dean Zhao Chunjun asked me to learn to teach managerial communications...I wondered about taking on a subject so far from my original field. He said that no one at Tsinghua knew what a course in communications should be, but that MIT Sloan placed great importance on it. The course needed to be taught in English, and he thought I could do this if I observed how it was taught at MIT Sloan.⁷³

In essence, Qian's fluent English determined Zhao's decision to reroute her career. After her time at MIT in fall 1997, Qian not only returned to teach managerial communications, but even taught from the very same textbook, Mary Munter's *Guide to Managerial Communication*. She and Fudan IFF colleague Zhang Jie eventually translated this text into Chinese, which is now the standard textbook, and Qian became a national leader in developing this field in China.

Indeed, the MIT-China MEP's circuits of translation and knowledge transfer rapidly expanded throughout all Chinese MBA programs. In October 1994, the State Council and the Ministry of Education approved the formation of the National MBA Education Supervisory Committee (全国工商管理硕士教育指导委员会) with Zhao Chunjun as its first chair, earning him the nickname of "the 'Dean' of all the deans of business schools in China."⁷⁴ Yet, as more universities launched their own MBAs in the late 1990s and early 2000s, leaders such as Zhao and Zheng Shaolian feared that their inconsistent content and quality would "undermine the rising reputation of Chinese business schools." From the initial MOU of the MIT-China MEP, all three institutions therefore conceived of their IMBA programs as "a model" and

⁷³ Thurston-Lighty, *The Stars Aligned*, 86.

⁷⁴ "Zhao Chunjun: A Visionary Educator Turning Seeds into Forests," Fudan University Lifetime Achievement Award, December 2019.

planned to share their materials with other Chinese institutions.⁷⁵ By the early 2000s, however, the National Supervisory Committee took this idea one step further by setting mandatory guidelines and establishing a national MBA core curriculum. In this national curriculum, “roughly half the nationally mandated or recommended core courses align[ed] closely with or are virtually identical to the MIT Sloan courses” that Tsinghua and Fudan had adopted.⁷⁶ In 2005, for example, the National Supervisory Committee began to require all MBA programs to teach managerial communications. Qian Xiaojun then compiled the recommended course outline book and to this day teaches an annual seminar to train other universities’ scholars in the relevant case studies.⁷⁷

Managerial communications was just one example of many MIT courses that “migrated” through Tsinghua and Fudan into the entire Chinese MBA curriculum under the guidance of the National Supervisory Committee. Another example is “Data, Models, and Decisions” (DMD), originally taught at MIT by Professors Robert Freund and Dimitris Bertsimas with a co-authored textbook of the same name. The course focuses on computer spreadsheet exercises to aid in decision-making across a number of business scenarios. Tsinghua SEM professor and current executive associate dean Chen Guoqing (陈国青) first took this course as an IFF in 1996 and then returned in 2001 to plan its migration: “At the time I came to MIT Sloan, we were very mathematical in China. We knew how to work with statistics and operations research. At MIT Sloan, I worked with [Professors] Freund and Bertsimas. We developed the syllabus to be taught here. Over time, we changed some things because DMD is very applied, so there are lots of interesting cases and examples.” Not only does DMD remain a required IMBA component at both Tsinghua and Fudan, but the course and textbook are also recommended by the National Supervisory Committee. Today multiple Chinese translations of *Data, Models, and Decisions* exist, but Chen still teaches from the English original.⁷⁸

⁷⁵ MIT Sloan School of Management, “The China Management Education Project,” 1 June 1996, 1, 5.

⁷⁶ Thurston-Lighty, *The Stars Aligned*, 99.

⁷⁷ *Ibid.*, 86. See also Cronin, “Making a Difference,” 41.

⁷⁸ Cronin, “Making a Difference,” 41–42.

Finally, the MIT-China MEP not only led to curricular and pedagogical shifts, but also began to scaffold students into professional trajectories with multinational corporations. Both programs enrolled their first cohorts of 39 IMBA students in the fall of 1997. During their first summer breaks, Marjorie Yang arranged for nearly all these students to have summer internships in Hong Kong, an experience which itself later influenced the National Supervisory Committee to recommend summer internships.⁷⁹ With MIT's assistance, both Fudan and Tsinghua also gradually developed student career services, including an orientation week and a Career Development Center (CDC). As Zheng Shaolian stated: 'Before, we didn't pay attention to what students do after graduation. Now, a CDC office is important in all national universities.'⁸⁰ After her IFF fellowship in fall 1999, Fudan professor Sun Yimin (孙一民) in particular became a leader in both the field of marketing and in establishing Fudan's CDC.⁸¹ Such offices also allow both institutions to track their graduates' careers. By 2004, 50–60% of both universities' IMBA graduating classes were joining Fortune 500 multinationals or joint ventures with foreign firms in China, with salaries on average 86% higher than they had earned before.⁸² Both programs also rapidly became more international, with 10% of students hailing from abroad by 2005 and a host of new international partnerships in the works.⁸³

The rapid corporatization and internationalization of China's first MBA programs can be interpreted as simply reflecting China's accelerating integration with global supply chains after its 2001 entry into the WTO. Yet we can also observe how these programs were themselves accelerating the development of an elite stratum of human and social capital concentrated in China's coastal cities that were able to find disproportionate financial advantage in this rapid commercial integration after 2001. In this way, while China's first ventures to revitalize management had focused on restoring facts, "science," and reason to socialist production, China's leading universities increasingly pivoted toward American-style management education to accelerate the nation's

⁷⁹ Ibid., 42–43.

⁸⁰ Ibid., 39.

⁸¹ Thurston-Lighty, *The Stars Aligned*, 96.

⁸² Cronin, "Making a Difference," 36.

⁸³ Ibid., 44.

upmarket transition toward technology, finance, and services. This educational transition enabled a crucial economic transition, but also served to accelerate yawning domestic inequality by positioning a small elite of Chinese and foreign students at the forefront of China's global emergence. As in many other countries, the prestige surrounding these MBA programs incentivized a tidal wave of universities to follow. While the National Supervisory Committee set standards and helped regulate the ensuing "Big Bang" in Chinese management education, MIT Sloan remained directly involved by adding both Lingnan University in Guangzhou and Yunnan University in Kunming to the MIT-China MEP in 1999 and 2002, respectively.⁸⁴ As Tsinghua and Fudan increasingly needed less assistance, by 2016 their two IMBA programs alone had graduated more than 5,100 students.⁸⁵

CONCLUSION

This chapter has laid out an initial analysis of the revival of management education as an instrumental aspect of China's Reform Era. Across the reformist spectrum, from 1978 senior Chinese officials and economists recognized a pressing need to shift Chinese management ideologies and practices away from Cultural Revolution rhetoric toward the supposedly "scientific" ideals that had first inspired Mu Xiangyue and Yang Xingfo in the 1910s and then guided both Nationalist and early PRC state planning. From the Yijibu and CEMA to the CASS, numerous government bodies and agencies began to research "management science" in the early 1980s and invest resources into retraining tens of thousands of CCP and SOE managers across the country. As the 1981 textbook *Industrial Enterprise Management* testified, these efforts were perceived as buttressing a host of entwined economic and political goals: increasing the efficiency of PRC industry, advancing socialist modernization, strengthening state planning, and ultimately providing an intellectual bulwark against any resurgence of Mao-era ideological excesses. Indeed, these 1980s ideals of reviving management as a "science" ultimately illuminate a key intellectual conundrum that has plagued misperceptions of the Reform Era: the supposedly contradictory fusion between socialism and capitalism.

⁸⁴ Thurston-Lighty, *The Stars Aligned*, 99; and Cronin, "Making a Difference," 57.

⁸⁵ Thurston-Lighty, *The Stars Aligned*, 10.

The shift toward American-style MBA education over the late 1980s and 1990s not only maps onto China's evolution toward a "socialist market economy," but also highlights the significant influence of transpacific networks and actors in shaping China's export-driven development. Leaders such as Zhu Rongji and Zheng Shaolian did not simply look to foreign models for inspiration, but ceded real and substantial influence to foreign experts and overseas Chinese capitalists to redefine the meaning of modern Chinese management education. Put simply, very few other areas of higher education in the PRC have adopted U.S. textbooks and syllabi wholesale. Both MIT Sloan and its elite Hong Kong alumni attempted to use these educational initiatives to steer future mainland executives toward integration with the existing international business cultures and corporate systems. In this vein, management education became less about socialist modernization and far more about the expansion of a global class of upwardly mobile executives. From another perspective, it should be noted that MIT Sloan freely transferred enormously valuable technical expertise to a future American competitor on the vague hope of future research and professional collaborations for its own staff and students. In conjunction with the coordination provided by the National Supervisory Committee, the end result was an explosive transformation in the scale and quality of Chinese MBA programs.

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Deng Xiaoping's Use of Positive Economic Statecraft: The Importance of Securing Long-Term Partnerships with Major International Financial Organizations (IFOs)

Kai Yin Allison Haga

INTRODUCTION

When the People's Republic of China (PRC) was established in October 1949, the Communist leadership in Beijing had already set themselves the goals of reviving China's greatness and reclaiming its prominent position in East Asia, as they planned to overturn the previous century of perceived humiliation caused by Western encroachment and Japanese aggression. The Chinese Communist Party (CCP) proved adept at self-preservation, whether handling internal opposition or resisting external pressures.

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Though economically weak, Communist China would proceed to demonstrate its power and resilience, fighting the Korean War (1950–1953) to a draw, enduring two decades of containment and isolation without succumbing to bankruptcy, and emerging undefeated after breaking with the Soviet Union. The CCP maintained its hold on power, surviving serious domestic turmoil prompted by its own policy errors. But even as Beijing's status as the legitimate government of China was winning global acceptance, hidden local problems were mounting. Whoever succeeded CCP Chairman Mao Zedong would face unprecedented internal and external challenges.

Despite the domestic chaos caused by the Cultural Revolution, by the early 1970s the Chinese Communists were gaining the diplomatic upper hand over Taipei. Between 1970 and 1972, with numbers accelerating following Beijing's 1971 admission into the United Nations (UN), a total of 43 nations established diplomatic relations with the PRC. The process of Sino-U.S. rapprochement likewise demonstrated that it was not Washington alone but also its allies, especially Japan, who wished to improve relations. Many outside observers thought it merely a matter of time before Beijing would emerge to a prominent position in the international arena. In this context, the stage was set for Deng Xiaoping's rise, paving the way for his inception of a new kind of statesmanship. Even though China's survival as an independent nation was far more secure than in the past, to achieve the goals set by his predecessors, Deng had to address complicated domestic and international conditions that demanded a new approach. As soon as he took charge of the *Zhongnanhai*, the central headquarters of the CCP, and the State Council (Central government) of China, Deng decided on Reform and Opening Up China to the world, a new strategy originally formulated during Chinese Premier Zhou Enlai's final years.¹

During the Deng years, the distinction between domestic and foreign policies became blurred. In 1990, former Chinese Foreign Minister Qian Qichen stated, "foreign policy is the extension of China's domestic politics."² Under the cover of Reform and Opening Up, the true objective of foreign policy was to achieve national development. This chapter employs

¹ Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor, MI: University of Michigan Press, 1990), 50.

² "Qian Qichen on the world situation," *Beijing Review* 33: 3 (1990): 16–18.

the conceptual framework of economic statecraft to analyze how Deng's foreign policy strategy succeeded in securing support for his reform efforts by improving relations with Japan, normalizing relations with the United States, and securing membership in the International Monetary Fund (IMF), the World Bank (WB), and later the Asian Development Bank (ADB). Insofar as all nations pursue their own interests through international bodies, then each nation must apply some form of statecraft when interacting with powerful nations and major international organizations (IOs). Thanks to unique aspects of China's situation, the statecraft Deng Xiaoping employed was nonetheless also unique. In Deng's view, advancing simultaneously on all three fronts (Japan, the West, and the major IOs) could serve three objectives: strengthening the domestic standing of reformers by securing external economic support for the Four Modernizations; containing the strategic threat Soviet antagonism and "hegemonism" presented; and reunion with Taiwan and other lost territories. Deng believed that, should China become more developed and prosperous, it would be able to play a more significant role in international affairs. To do so, Beijing needed to use political, economic, and diplomatic means to cultivate a peaceful domestic and international environment conducive to achieving the Four Modernizations.³

This chapter's historical synthesis focuses on Deng's version of a diplomatic "great leap outward,"⁴ analyzing Beijing's strategic transformation and its early opening up tactics. Covering Deng's rise and his deployment of economic statecraft, it discusses Beijing's dealings with the multilateral international banks, showing how Beijing used the loans, resources, and advice provided by various major international financial organizations (IFOs) to bolster its reform efforts, and how partnerships with these IFOs helped further Deng's domestic and international agendas. Instead of waiting for invitations from economically powerful states and multilateral institutions, Deng preemptively sought to approach them first, in

³ Deng Xiaoping, "The Present Situation and the Task Before Us," Speech at a meeting of cadres called by the Central Committee of the Communist Party of China, 16 January 1980, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/the-present-situation-and-the-tasks-before-us/>, accessed 12 November 2019.

⁴ See David Bachman, "Differing Visions of China's Post-Mao Economy: The Ideas of Chen Yun, Deng Xiaoping, and Zhao Ziyang," *Asian Survey* 26: 3 (March 1986): 303.

a manner that would safeguard China's initiative and independent position while accomplishing its political and economic goals. Deng's positive economic statecraft established a solid foundation that enabled China to forge ahead with its "great leap outward" in the twenty-first century.⁵

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

The simple dictionary definition of "statecraft" is the skillful management of state affairs in the selection of appropriate means in obtaining the state's goals. It shares a similar meaning to statesmanship. In the field of international relations, statecraft can be defined as "the use of instruments at the disposal of a central government or authority to serve its foreign policy purposes." Economic statecraft can include the use of economic means to achieve foreign policy objectives. This can be done by establishing economic relationships to influence the behavior of target states. The use of economic statecraft can be positive (e.g., using economic relationships as incentives or rewards) or negative (e.g., employing threats, sanctions, or coercion).⁶

Political scientists are generally interested in analyzing how economically powerful states, like the United States and the Soviet Union, have employed economic statecraft to impose their wills on weaker states.⁷ Scholars also seek to evaluate "when" and "under what conditions" economic statecraft can achieve these goals.⁸ In addition to analyzing target states' regime types, some also recognize the importance of the

⁵ See Andrew Scobell and Marylena Mantas, eds., *China's Great Leap Outward* (New York: Academy of Political Science, 2014).

⁶ Michael Mastanduno, "Economic Statecraft," in *Foreign Policy: Theories, Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Timothy Dunne, 3rd ed. (Oxford: Oxford University Press, 2016), 222.

⁷ Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley, CA: University of California Press, 1980); and David A. Baldwin, *Economic Statecraft*, new ed. (Princeton, NJ: Princeton University Press, 2020).

⁸ Robin Renwick, *Economic Sanctions* (Cambridge, MA: Center for International Affairs, Harvard University, 1981); Sidney Weintraub, *Economic Coercion and U.S. Foreign Policy: Implications of Case Studies From the Johnson Administration* (Boulder, CO: Westview, 1982); George E. Shambaugh IV, "Dominance, Dependence, and Political Power: Tethering Technology in the 1980s and Today," *International Studies Quarterly* 40: 4 (December 1996): 559–588; and Richard N. Haass, "Sanctioning Madness," *Foreign Affairs* 76: 6 (November/December 1997): 74–85.

domestic political environment.⁹ As China began its economic rise in the twenty-first century, researchers began to focus more specifically on China's economic statecraft, examining China's strategy through various case studies.¹⁰ Scholars debate whether or not China has used economic statecraft effectively. In 2016, William J. Norris's comprehensive study of China introduced an innovative theory that specifies how China employed economic measures to pursue its strategic and foreign policy objectives through commercial actors, a grand strategy, and state control.¹¹

Most of these works analyze the recent rich and powerful China, but what of the weak and poor China that came before? How did China use economic statecraft during the eras of Mao and Deng? Shu Guang Zhang's massive historical study of Beijing's Cold War economic statecraft, covering the years 1949 to 1991, describes how, despite its isolation and poverty, from the 1950s onward, Beijing consistently employed positive economic statecraft tools to expand China's international reach and break through Western-imposed ostracism and sanctions. During these years, the Chinese government became experienced in using economic assets and connections to pursue its foreign policy objectives. Though its leaders were communists, Zhang pointed out, they never ceased to be Chinese, and they grasped the political implications of economic power in international affairs. Resisting foreign economic encroachment while restoring China's global great-power status had therefore always been the goals of the Beijing government. For Chinese Communist leaders, the real lesson of the years of American containment and isolation was that Beijing should not yield easily to foreign pressure. Instead, China's leaders should

⁹ Risa Brooks, "Sanctions and Regime Type: What Works, and When," *Security Studies* 11: 4 (Summer 2002): 1–50; and Jean-Marc F. Blanchard and Norrin M. Ripsman, "A Political Theory of Economic Statecraft," *Foreign Policy Analysis* 4: 4 (2008): 371–398.

¹⁰ Deborah Bräutigam and Xiaoyang Tang, "Economic Statecraft in China's New Overseas Special Economic Zones: Soft Power, Business or Resource Security," *International Affairs* 88: 4 (July 2012): 799–816; Ana Cristina Alves, "Chinese Economic Statecraft: A Comparative Study of China's Oil-backed Loans in Angola and Brazil," *Journal of Current Chinese Affairs* 42: 1 (March 2013): 99–130; Kevin P. Gallagher, "China's Economic Statecraft in Latin America: Evidence from China's Policy Banks," *Pacific Affairs* 88: 1 (March 2015): 99–121; and Mingjiang Li and Natalie Yan Hong, eds., *China's Economic Statecraft: Co-optation, Cooperation and Coercion* (Singapore: World Scientific Publishing, 2017).

¹¹ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016).

employ diplomatic tactics to drive wedges between their opponents or should entice them with the commercial opportunities that trade with the China market offered. In dealing with outsiders, Beijing was careful to maintain a “balance between maximizing economic benefits from and minimizing political influence by the sender.”¹²

Ever since the formation of the PRC, Zhang pointed out, Mao Zedong and Zhou Enlai had used economic inducements to win friends among non-Communist countries in Asia and Africa so as to enhance the Communist regime’s international political standing. When incentives failed, the Communist leadership did not stand idly by; on some occasions, Beijing resorted to negative economic measures to pressure target states by terminating aid and withdrawing advisers and technicians. Zhang’s research recognized that Beijing’s long-term goal was to modernize and transform China into a great and powerful state. The *Zhongnanhai* had internalized the desire to regain prestige and to construct a new China as the core values of Beijing’s economic statecraft, objectives the leadership would seek opportunities to advance, while execrating those who challenged these aims. Yet opposition to these goals could be found everywhere, even domestically. Just because China was a totalitarian state did not mean no internal resistance or discontent existed. Domestic political dynamics and the leadership styles of different leaders at different times, Zhang believed, shaped the direction and operation of Beijing’s economic statecraft. Throughout the Cold War, Beijing employed various means (mostly positive) to enhance its national security and ensure national survival by promoting a pro-China outlook within target states.¹³

Zhang’s historical analysis offers a useful framework from which to begin analyzing Deng’s developing economic statecraft. Even so, it only covers some aspects of this story. More specifically, one piece of the puzzle is missing: Zhang does not discuss how the transformation from being an economically weak state to operating as an economically powerful one affected Beijing’s economic statecraft. This swift and bold metamorphosis warrants further in-depth study of the Deng era, its launching pad and

¹² Shu Guang Zhang, *Beijing’s Economic Statecraft During the Cold War 1949–1991* (Baltimore, MD, and Washington, DC: Johns Hopkins University Press and Woodrow Wilson Center Press, 2014), 313–318, quotation from 317.

¹³ *Ibid.*, 318–329.

springboard. When the responsibility of governing China fell on Deng's shoulders, he inherited not just the goals and tactics of Mao Zedong and Zhou Enlai but also the problems they left behind, forcing him to find a new approach to tackle both domestic chaos and foreign challenges. Deng's own thoughts, personality, and leadership style would shape the intrinsic nature of the economic statecraft that he would develop and in turn pass on to his successors.

While numerous historical analyses of Deng Xiaoping exist, most focus on his reform and economic policies,¹⁴ his political rise,¹⁵ his life,¹⁶ or his leadership style.¹⁷ Not one book focuses exclusively on Deng's foreign policy, even though he was hailed as "the architect of China's foreign policy."¹⁸ This lacuna is puzzling, given that all would agree that the successful implementation of China's Reform and Opening Up policies was largely due to Deng's handling of foreign affairs, especially his efforts to improve relations with both the United States and Japan and to join major international financial organizations (IFOs). These moves signified Deng's willingness to integrate China into the U.S.-designed global

¹⁴ Orville Schell, *To Get Rich is Glorious: China in the Eighties* (New York: Pantheon Books, 1984); Michael Ying-Mao Kau and Susan H. Marsh, eds., *China in the Era of Deng Xiaoping: A Decade of Reform* (Armonk, NY: M. E. Sharpe, 1993); Robert F. Ash and Y. Y. Kueh, eds., *The Chinese Economy Under Deng Xiaoping* (Oxford: Oxford University Press, 1996); Michael E. Marti, *China and the Legacy of Deng Xiaoping: From Communist Revolution to Capitalist Evolution* (Washington, DC: Potomac Books, 2001); and Terry Cannon and Alan Jenkin, eds., *The Geography of Contemporary China: The Impact of Deng Xiaoping's Decade* (New York: Routledge, 2002).

¹⁵ Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton, NJ: Princeton University Press, 1994); and Ruan Ming, *Deng Xiaoping: Chronicle of An Empire*, trans. and eds. Nancy Liu, Peter Rand, and Lawrence R. Sullivan (Boulder, CO: Westview Press, 1994).

¹⁶ Richard Evans, *Deng Xiaoping and the Making of Modern China* (London: Penguin Books, 1993); David S. G. Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography* (London and New York: Routledge, 1994); Whitney Stewart, *Deng Xiaoping: Leader in a Changing China* (Minneapolis, MN: Lerner Publications, 2001); Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Belknap Press of Harvard University, 2013); and Alexander V. Pantsov with Steven I. Levine, *Deng Xiaoping: A Revolutionary Life* (Oxford: Oxford University Press, 2015).

¹⁷ David Shambaugh, ed., *Deng Xiaoping: Portrait of a Chinese Statesman* (Oxford: Oxford University Press, 1995).

¹⁸ Michael Yahuda, "Deng Xiaoping: The Statesman," *The China Quarterly* 135 (September 1993): 552.

economic and financial orders. Ezra F. Vogel's biography of Deng is the study that describes most comprehensively both Deng's foreign policy and his role in building a China-World Bank partnership, devoting one chapter to describing China's opening to Japan and another to its rapprochement with the United States, together with several pages on how China joined the World Bank. Vogel credited the assistance Beijing received from the World Bank as being central to China's successful economic transformation.¹⁹

Beijing's entry into the keystone international economic organizations (KIEOs) was first described by Harold Jacobson and Michel Oksenberg in 1990.²⁰ Their account, based on personal experience and now somewhat dated, provided many inside details of the process, though unfortunately much of their information could not be verified through independent sources. Even though they were enlightening as to China's diplomatic aspirations and domestic goals, their study focused largely on China in general, as opposed to Deng in particular.

In 2007 Pieter Bottelier, who was the World Bank's chief economist on China and an adviser to the Vice President for East Asia until he retired in 1998, published a detailed account of the Bank's partnership with China, outlining all the positive work the Bank undertook on China's behalf during the Deng years. His account is very useful in terms of understanding the relationship from the Bank's viewpoint, but gives little insight into Deng's own perspective.²¹ Why was the Bank so successful in China, as opposed to elsewhere? The answer might depend not on the Bank, but on the leadership qualities and strategies at the receiving end. The role of Deng, China's leader, was crucial to the underlying story behind this success.

According to Edwin R. Lim, who served the WB in Nigeria, China, and India, the success or failure of bank projects in a specific country was to some degree related to "forces within the country itself"—including

¹⁹ Vogel, *Deng Xiaoping and the Transformation of China*, chs. 10, 11, and pp. 456–461, 696–697.

²⁰ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*.

²¹ Pieter Bottelier, "China and the World Bank: How a Partnership Was Built," *Journal of Contemporary China* 16: 51 (April 2007): 239–258.

perhaps leadership qualities and domestic conditions.²² Deng left day-to-day economic policy planning to his supporters, Chen Yun and Zhao Ziyang, but he remained responsible for setting the direction of reform, maintaining a stable political environment, and creating a favorable diplomatic atmosphere that would strengthen reform efforts. It is important to know how Deng viewed the capitalist world and various IFOs, and what use he and his lieutenants made of the financial resources (loans) and services (advice) these IFOs provided. In these areas, the quality of Deng's statesmanship and strategic thinking was decisive.

Joining the IMF and the WB heralded China's entry into other international organizations, as well as China's maturation into a constructive member of the international community. Deng's foreign policy strategy unleashed a new era in China's relations with the rest of the world. This chapter adopts the conceptual framework of economic statecraft to examine and evaluate Deng's foreign policy tactics in securing partnerships with the major IFOs. Although the materials on which it is based feature in other publications, this chapter adopts a different analytical approach when retelling the story of the formation of these long-term partnerships.

DENG'S POSITIVE ECONOMIC STATECRAFT

When President Richard Nixon visited China in 1972, the country was backward and its people poor. The Cultural Revolution had devastated both the CCP and the entire nation. During the early process of U.S.-China rapprochement, when Mao Zedong was still in charge, Beijing focused primarily on political and strategic issues, showing little interest in any offers from Washington of advantageous economic incentives or technological exchanges.²³ Even after Beijing had secured the diplomatic victory of winning UN representation in 1971, the idea of self-reliance still dominated Communist thinking. Following Mao's orders, Chinese negotiators made lukewarm responses toward any economic proposals from the United States. Instead, Mao insisted on discussing

²² Edwin Lim, "Learning and Working with the Giants," in *At the Frontlines of Development: Reflections from the World Bank*, eds. Indermit S. Gill and Todd Pughatch (Washington, DC: World Bank, 2005), 92.

²³ Zhang, *Beijing's Economic Statecraft During the Cold War 1949–1991*, 249.

issues pertaining to the ending of American relations with Taiwan. Moreover, ignoring China's serious food shortages, Mao still continued to provide foreign aid to various African nations, to signify Beijing's claim to be the leader of the Third World.

Once Deng Xiaoping took power, he recognized Mao's errors and assumed the responsibility of rescuing the party and rebuilding the nation. This involved reversing some of Mao's policies. While he inherited Mao and Zhou's insistence that the Taiwan issue must be addressed during normalization negotiations with the United States, he acknowledged China's economic backwardness and showed great interest in establishing economic connections with the world beyond its borders. Deng declared that, although China would still stand by Third World member states and do what it could for them, it was too poor to be the leader of the Third World. Deng then reduced aid to some African countries and shifted the emphasis of assistance to better integration of aid and trade. The tone of aid offers also became less ideological and more practical and cost-effective, emphasizing "[e]quality and mutual advantage," plus "[e]fficiency: the cooperation projects that are accepted must require a small investment, quick results, and better economic profitability."²⁴ Deng was pursuing a new kind of economic statecraft that would enhance political ties by establishing mutually beneficial economic arrangements.

By comparison with Mao and Zhou, Deng was extremely practical and realistic in handling both domestic and foreign affairs. After the fall of the Gang of Four in 1977, Beijing was forced to undertake a major reorientation and reexamination of its domestic and foreign policies. As the Soviet threat became Beijing's primary concern, opening up to the outside world was deemed essential. At that time, China's top political leader was still Mao's successor, Hua Guofeng. Although Deng considered Hua merely a transitional figure, the latter's brief ascendancy in the *Zhongnanhai* even paved the way for Deng's reform efforts. The ten-year "flying leap" plan that Hua proposed in 1978 to realize Zhou Enlai's "Four Modernizations" (the economy, agriculture, science, and defense) was in reality a revival of an initiative Deng had tried to launch in 1975. Within a year,

²⁴ Caroline Puel Monange, Hélène Deval, and Bénédicte Châtel, "Review of 35 Years of Relations," *Marchés Tropicaux et Méditerranéens*, 31 March 1989, translated in Foreign Broadcast Information Service, Daily Report Sub-Saharan Africa: Supplement Africa-China: Review of 35 Years of Relations, FBIS-AFR-89-115S (6 June 1989): 1–23, quotation from 3.

Hua's resuscitated Ten-Year Plan ran into serious economic problems, a failure that served as a sharp warning to Deng of the potentially disastrous consequences of mishandling economic affairs.²⁵

Managing the economy well required more than the people's will or CCP slogans. Leading a new national and party coalition, Deng shouldered the responsibility of preserving the Communist regime while concurrently seeking ways to lift the majority of the Chinese population out of poverty. To succeed, Deng needed to identify appropriate policy options for China. None of his Chinese comrades, however, possessed any great expertise on how to manage an economy or promote stable growth. In his quest for good, practical advice or functional models of success, Deng was forced to look beyond China's borders. In 1978 and 1979, he therefore dispatched many top officials on inspection tours to scrutinize the outside world, while receiving foreign leaders almost every month. Several international trips that he himself undertook at this juncture influenced his thinking. Shu Guang Zhang and Hua Zheng (Chapter 4) and Wendy Leutert (Chapter 7) recount how Deng visited Japan in October 1978. After seeing how much Japan had accomplished in the previous thirty years, he recognized that Japan would be a major source of inspiration and help. One month later, he toured Southeast Asia, meeting with leaders in Thailand, Malaysia, and Singapore. On this occasion, as K. S. Nathan observes (Chapter 8), Singapore's progress especially impressed Deng, who realized that China had indeed lost much time and fallen far behind the Four Little Dragons, as well as other smaller Asian countries. At that time, even the small island of Taiwan surpassed China in terms of both Gross National Product and total volume of foreign trade; should this situation persist, it would undoubtedly prove a major barrier to unification between the two in the foreseeable future.²⁶

Regardless of how progressive Deng's subsequent policies might appear, Deng never ceased to be a committed Communist and defender

²⁵ Baum, *Burying Mao*, 52–55.

²⁶ Deng Xiaoping, "China's Goal Is to Achieve Comparative Prosperity by the End of the Century," Conversation with Masayoshi Ohira, Prime Minister of Japan, 6 December 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/chinas-goal-is-to-achieve-comparative-prosperity-by-the-end-of-the-century/>, accessed 12 November 2019.

of the CCP's interests.²⁷ "Failure to achieve decisive successes in our four modernizations during the 1980s," Deng pointed out, "would be tantamount to a setback." Deep inside, Deng perhaps understood that for him, the CCP, and Beijing's government, time was running out. The ravages the Cultural Revolution had inflicted required immediate repair; the country's relatively low agricultural productivity had to be raised significantly; within the CCP itself, satisfactory order must be reestablished; and the speedy revival of the anemic economy was essential. Otherwise, the legitimacy of the CCP would be further weakened and popular support for it would fade. Moreover, prospects for cross-strait unification would be heavily related to how well Beijing managed China's economy. "We are superior to Taiwan politically and in terms of economic system," Deng explained, "but we must surpass Taiwan, at least to a certain extent, in economic development as well."²⁸ Since the past policies of leaning to one's side and leaning to oneself had both failed, perhaps a new leaning to the outside might succeed. Within the CCP, seeking a solution by turning outward began to gain wider support, until finally, in 1978, the Third Plenum of the Eleventh Congress of the Party's Central Committee adopted Deng's Reform and Opening Up policy.

Even so, within China anti-foreignism and distrust of the intentions of external forces remained vigorous. One major obstacle was the prevailing attitude of the leadership toward foreign loans. Since normalizing relations in 1972, Japan had several times offered China loans or financial assistance, overtures that Beijing declined. A 1977 editorial in the *People's Daily* even stressed that China would not accept loans from any country. Only in 1979, following Deng's visit to Japan and the decision to reform and open up, did Beijing agree to receive Japanese Official Development Assistance (ODA).²⁹ In an October 1979 speech to CCP provincial leaders, Deng explained his views on taking foreign loans, arguing that

²⁷ Sergey Radchenko, "Commentary by Sergey Radchenko," in "Forum: Deng Xiaoping, China, and the World," *Journal of Cold War Studies* 19: 4 (Fall 2017): 218.

²⁸ Deng Xiaoping, "China's Goal Is to Achieve Comparative Prosperity by the End of the Century," Conversation with Masayoshi Ohira, Prime Minister of Japan, 6 December 1979.

²⁹ Xianfen Xu, "Japan's Official Development Assistance (ODA) Policy Towards China: The Role of Emotional Factors," *Journal of Contemporary East Asia Studies* 2: 1 (March 2013): 78.

China's government should make effective use of all the external credit available to it.³⁰

While mobilizing his comrades to support his Reform and Opening Up policy was a major challenge, convincing the outside world of the sincerity of China's reform effort was even more difficult. The United States and Japan, with whom Beijing hoped to collaborate, each had strong anti-Communist constituencies. Economic ties between Japan and Taipei, for instance, remained strong even after the end of official relations; the China Lobby was still powerful in Washington; and the China Bloc in the U.S. Congress could block any pro-Beijing legislation that might weaken the position of Taiwan. These forces would resist Beijing's efforts to secure foreign funds and expand its international participation. Unless Deng could pacify his internal and external opponents, the prospects for Reform and Opening Up were gloomy.

Deng's famed dictum for his comrades and successors was "hide your ambitions and disguise your claws" (*tao guang yang hui*), which summarized the essence of his foreign policy outlook. This dictum, propounded when he was directing how China should act internationally after the Tiananmen Incident (1989), also revealed Deng's long-term outlook on his country and its foreign policy strategy.³¹ Deng's dictum can be compared to U.S. President Theodore Roosevelt's famous motto, "Speak softly and carry a big stick." While Roosevelt's words conveyed the ambitions of the United States in the early twentieth century, Deng's injunction represented Beijing's aspirations to greatness in the twenty-first century. According to Deng's biographers Alexander V. Pantsov and Steven I. Levine, "Deng was tough, purposeful, ambitious, and cruel. But he was also cautious and patient." In this context, "Hide your ambitions and disguise your claws" demonstrated his caution and patience when conducting foreign policy, as well as his ability "in manipulating people, engaging in intrigues, and luring people with beautiful slogans."³² By 1978, Deng might well have secured his power within China, but beyond

³⁰ Deng Xiaoping, "Some Comments on Economic Work," Talk at a forum of the first secretaries of the provincial, municipal and autonomous regional committees of the Communist Party of China, 4 October 1979.

³¹ Dingding Chen and Jianwei Wang, "Lying Low No More? China's New Thinking on the Tao Guang Yang Hui Strategy," *China: An International Journal* 9: 2 (2011): 195–216.

³² Pantsov with Levine, *Deng Xiaoping: A Revolutionary Life*, 7.

its borders, he needed to persuade the developed world to believe in the sincerity of his Reform and Opening Up initiatives, as well as the promise of a rising and lucrative China market for the West. This decree represented Deng's statecraft, seeking to advance Beijing's domestic and foreign policy agenda by focusing primarily on economic issues so as to minimize hostility from others.

Beijing, of course, possessed both ambitions and claws. Ever since the Communist government came to power in China, Mao had plainly and publicly voiced his ambitions. Although Mao's methods had failed, his ambitions lived on: China must be restored to greatness and regain its commanding position in Asia. During Mao's rule, China's claws were frequently displayed and never hidden: on show in the Battle of Chamdo (1950), the Korean War, the two Taiwan Strait crises (1954–1955, 1958), the China-Burma border campaign (1960–1961), the Sino-Indian War (1962), the Nathu La and Cho La clashes (1967), the Sino-Soviet border conflict (1969), and the Battle of the Paracel Islands (1974).

Once Deng came to power, however, he scaled back military operations. As Kerry Brown observes (Chapter 14), except for his brief war against Vietnam, Deng kept China's claws sheathed. Despite his less aggressive posture, Deng remained committed to increasing China's power. Beneath the surface of peace and cooperation with the West, foreign help was needed to develop China's economic capabilities and military strength. Recovering the lost territories (Hong Kong, Macau, and Taiwan) was also important. This too would call for skilled diplomacy, rather than military means. Good outcomes would, in turn, consolidate the Party's control within the nation and restore China's dominant position throughout Asia. Deng's vision of China's future undoubtedly anticipated the continuation of Communist dictatorship, but he hoped to achieve this goal by establishing economic partnerships with the developed world.

Deng's positive economic statecraft in the 1980s therefore differed from current usage of that term in the twenty-first century. Economic statecraft usually refers to the use of economic means by a strong state to coerce a weaker state or party to comply with its demands. Both economically and militarily, China was rather weak in the 1980s. Yet Deng inherited his predecessors' confidence in the potential economic attractions of a more open China market and deployed his Reform and Opening Up policy as a selling point to induce Western countries to invest in China. Instead of using the lure of tangible economic strength or the

pressure of genuine economic threats, Deng could inveigle rich and technologically advanced countries (his target states at that time) with the potential bait of economic benefits to come from opening the China market.

Since European states were generally friendlier toward China than was the United States, as Laurens Hemminga demonstrates (Chapter 9), Deng made the European Community (EC) his initial target. Moreover, at this juncture Europe was experiencing structural challenges, with the economic influence of Western Europe in decline. Britain, for example, facing serious economic problems, was seeking potential new markets for its products. As early as 1973, Beijing—hoping desperately to upgrade its military hardware to resist the Soviet threat—had already approached London over the possibility of exporting Rolls-Royce Spey engines for military aircraft to China. Even though the sale alarmed the U.S. military establishment, the deal that London and Beijing eventually concluded in 1975 encountered no major objections from the U.S. State Department. Following directions from Secretary of State Henry Kissinger, Washington likewise wished to offer Beijing some technological support in order to strengthen its defenses against the Russians.³³

By 1978, Beijing and London could therefore move on to discussing further potential defense sales. British officials knew, for example, that the Chinese might not possess sufficient foreign reserves to pay cash for all they wanted, and were therefore seeking free technology from all available sources.³⁴ While recognizing that restrictions on trade with Communist China imposed by the COCOM (Coordination Committee for Multilateral Export Controls) also set bounds to technology transfer, London still sought a continued dialogue with Beijing, hoping to maintain access to the China market while avoiding losing Chinese orders to other European competitors.³⁵ Most European nations shared Britain's concerns.

³³ Robert S. Ross, *Negotiating Cooperation: The United States and China, 1969–1989* (Stanford, CA: Stanford University Press, 1995), 89.

³⁴ China Working Group, “Notes of a Meeting Held in Room 180 1 Victoria Street, 18 April 1980: Reports of Recent Ministerial Visits and SBAC Exhibition,” 25 April 1980, File FCO21/1803/65, Relations Between China and the UK 1980, Foreign Office Files for China, 1919–1980, The National Archives, United Kingdom [hereafter TNA].

³⁵ Official Letter from Catherine Bell, Department of Industry, to R. M. J. Lyne, 20 June 1980, FCO21/1818/26 UK Defence Sales to China: Policy 1980, Foreign Office Files for China, 1919–1980, TNA.

Even though, as Hemminga demonstrates (Chapter 9), the China market was initially less lucrative than the Europeans had hoped, they nonetheless valued its future potential. As they too tried to make the most of these new business opportunities, Europeans were realistic about Chinese demands and tactics.

China's opening up to the outside world was a gradual process. Overall, both official and non-official visits and exchanges with Europe expanded immediately when Deng came to power. Unlike defense sales, which could easily backfire upon the West, educational exchanges were less controversial. In addition to restoring order to China's domestic education system, Deng also tried to persuade Japan and rich countries in the West to contribute their money, technology, and expertise to educate China's youth. Meeting with German representatives, Deng explained China's eagerness to learn from the West: "To achieve the four modernizations, we must be adept at learning from other countries and we must obtain a great deal of foreign assistance." Deng was willing to dispatch numerous Chinese intellectuals and students to study in advanced countries. Even if some should not return, he was confident that ultimately they would serve Beijing's purposes while living overseas.³⁶ Most target states responded positively, establishing programs to help selected Chinese scholars and students travel to their countries for education. The British Council, to give just one example, provided financial and logistical assistance for Chinese students and scholars to study in the UK.

Even while Beijing pursued U.S. and European science and technology, it sought out from Japan the best machinery and technical expertise on how to raise productivity. Deng was particularly interested in the Japanese model of development, most notably Prime Minister Hayato Ikeda's 1960s income-doubling plan, which inspired Deng to set the objective of quadrupling the gross value of China's industrial and agricultural output over the next decade.³⁷ Meeting Japan's Prime

³⁶ Deng Xiaoping "Carry out the Policy of Opening to the Outside World and Learn Advanced Science and Technology from Other Countries," Excerpt from a talk with a press delegation from the Federal Republic of Germany, 10 October 1978, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/carry-out-the-policy-of-opening-to-the-outside-world-and-learn-advanced-science-and-technology-from-other-countries/>, accessed 12 November 2019.

³⁷ Vogel, *Deng Xiaoping and the Transformation of China*.

Minister Masayoshi Ōhira in December 1979, Deng shared with him China's goal of achieving comparative prosperity by 2000. Circumspectly, Deng assured the Japanese premier that even if China reached this target, it would represent no danger to the world, as it would merely have regained its former position in international affairs. Once again, he promoted the attractions of the China market, declaring that his country's economic progress would expand domestic consumption, further boosting opportunities for trade and economic exchanges.³⁸

Reaching these economic goals would require foreign capital and investment. In 1978, Deng appointed Rong Yiren, a well-known former industrialist, as an adviser on China's economic opening, granting Rong the authority to set up the China International Trust and Investment Corp (CITIC), which was responsible for negotiating much of the initial Western investment in China. This marked the beginning of Deng's policy of allowing former capitalists to take the lead in economic interactions with the outside world. A few months later, in January 1979, Deng explained his plans to various former Chinese industrialists: "We can utilize foreign funds and technology, and overseas Chinese and foreign citizens of Chinese origin should be allowed to establish factories in China... Comrade Rong Yiren, I hope that you will concentrate on economic work and on opening to the outside world in any way that you see fit. When signing contracts, you should judge from commercial perspectives, signing only those contracts which will bring about profit and foreign exchange."³⁹

Later that year, in October 1979, Deng met local officials and party leaders and issued further instructions to them on how to manage foreign investment: "No matter what category foreign capital belongs to, we should utilize it, because the chance to do so does not arise often and

³⁸ Deng Xiaoping, "China's Goal Is to Achieve Comparative Prosperity by the End of the Century," Conversation with Masayoshi Ohira, Prime Minister of Japan, 6 December 1979.

³⁹ Deng Xiaoping, "We Should Make Use of Foreign Funds and Let Former Capitalist Industrialists and Businessmen Play Their Role in Developing the Economy," Talk with Hu Juewen, Hu Zi'ang, Rong Yiren and other leaders of industrial and commercial circles, 17 January 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/we-should-make-use-of-foreign-funds-and-let-for-mer-capitalist-industrialists-and-businessmen-play-their-role-in-developing-the-economy/>, accessed 12 November 2019.

it is a great pity if we do not make sure of this opportunity. The cardinal issues are how to make efficient use of foreign capital, how to make every project bring about economic returns as quickly as possible, and how to solve the problem of repayment.” Well aware of China’s institutional weaknesses in terms of handling the potential influx of foreign capital, Deng told these officials to loosen controls and regulations in order to encourage foreign investment and foreign trade. He further instructed the Financial and Economic Commission in Beijing to assist local governments in devising workable solutions to a range of problems related to foreign investment.⁴⁰

Despite its eagerness to attract outside investment and expand external trade, Beijing was nonetheless determined to resist domination by or undesirable influences from other, economically stronger, powers. One of Deng’s greatest concerns remained the United States, then the world’s economic superpower. Even following the normalization of relations between Beijing and Washington, the state of affairs between the two countries remained uncertain. Meeting North American intellectuals, Deng explained to them that foreign investment would not greatly affect socialism within China, because the country enjoyed four favorable preconditions for attaining the goal of modernization: (1) abundant resources, (2) sound material foundations, (3) high-quality human resources, and (4) astute foreign policy tactics. He was confident that “as long as learning from capitalism is regarded as no more than a means to an end, it will not change the structure of socialism or bring China back to capitalism.”⁴¹ Yet although Deng seemed optimistic, the more he tried to justify this plan, the more this might be viewed as a potential weakness.

⁴⁰ Deng Xiaoping, “Some Comments on Economic Work,” Talk at a forum of the first secretaries of the provincial, municipal and autonomous regional committees of the Communist Party of China, 4 October 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/some-comments-on-economic-work/>, accessed 12 November 2019.

⁴¹ Deng Xiaoping, “We Can Develop a Market Economy Under Socialism,” Talk with Frank B. Gibney, Vice-Chairman of the Compilation Committee of Encyclopedia Britannica, Inc. of the United States, Paul T. K. Lin, Director of the East Asia Institute at McGill University of Canada, and others, 26 November 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/we-can-develop-a-market-economy-under-socialism/>, accessed 12 November 2019.

While Deng expressed superficial confidence that China could maintain its socialist system and had nothing to fear from outside economic influences, in reality, the prospective impact of hegemonic American capitalism alarmed Beijing.

In January 1981, with the new administration of President Ronald Reagan about to enter the White House, Deng met several leading Republican politicians, telling them that China would adhere to the principle of self-reliance in its drive for modernization and could certainly survive without any foreign assistance. No matter what the United States proposed, Beijing would not renounce its claim on Taiwan and its determination to regain the island.⁴² Deng's talk was intended to remind these influential Americans of China's "vast territory and large population" (a potentially big market) and to counter any foreseeable future pressure the new administration might seek to exert on Beijing. Rather than yielding to outside coercion, Deng assured his foreign visitors, China would always maintain its independence and non-aligned status. Throughout the early stages of the Reform and Opening Up period, Deng therefore very consciously guarded China's independence and was determined to maintain full control over internal developments within China. Target states would not be allowed to intervene in China's affairs. Beijing insisted that foreign powers must respect the principles of Chinese sovereignty and non-interference in China's domestic concerns. Ultimately, Deng's tactics were broadly successful. The West contributed significantly to China's economic rise through trade, investment, and technology transfers, while Beijing could obtain what China wanted yet still set the ground rules of these exchanges.⁴³

⁴² Deng Xiaoping, "Our Principled Position on the Development of Sino-U.S. Relations," Talk with Theodore Fulton Stevens, Republican Deputy Majority Leader of the U.S. Senate, and Anna Chennault, Vice-Chairman of the Presidential Export Committee, 4 January 1981, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/our-principled-position-on-the-development-of-sino-u-s-relations/>, accessed 12 November 2019.

⁴³ Martin Albers and Zhong Zhong Chen, "Socialism, Capitalism and Sino-European Relations in the Deng Xiaoping Era, 1978–1992," *Cold War History* 17: 2 (May 2017): 118.

SEEKING MEMBERSHIP IN THE BRETTON WOODS INSTITUTIONS

Given the ever present danger of succumbing to the lures of these economically powerful states, even as Deng was establishing bilateral partnerships with them, he sought to counter their influence and safeguard Beijing's economic independence by finding alternative sources of assistance. Major international financial organizations (IFOs), in particular the WB and IMF, suited Deng's purposes. Even so, before Beijing could obtain full membership in these organizations, Deng first had to resolve past conflicts and overcome many obstacles blocking the pathway to admission. Ever since the PRC was founded, Beijing had traditionally regarded the Bretton Woods institutions with suspicion. During their formative years, the *Zhongnanhai* resisted participation because it had no faith in the guiding principles of any international organizations (IOs). Mao and Zhou believed that the superpowers controlled most international organizations, with Third World countries enjoying decidedly minimal leverage within them. The only IOs with which China was connected were either bodies restricted to the socialist sphere or those organized by developing country blocs, such as the Group of 77 and the Non-aligned Movement. From 1971 onward, China's admission to the UN offered an easy ticket to participation in various IFOs, but the *Zhongnanhai* still resisted joining, in large part due to Mao's distrust of outsiders and the powerful influence of radicals within the CCP. Even within the UN family, China only joined assorted non-political multilateral organizations; beyond the UN, Beijing wanted to establish connections exclusively with social and cultural bodies, such as the International Olympic Committee and International Standards Organization.⁴⁴

The real change came when Deng took power. Beijing gradually came to realize that IOs might meet the needs of the Reform and Opening Up policy. By obtaining full membership in major IFOs, China could obtain assistance, concessional loans, technical expertise, information, and more, while it would also boost its international status, exercise greater influence on global issues, and win stronger political leverage against Taiwan. Beijing's partnerships with the World Bank (WB) and later with

⁴⁴ Zhihai Xie, "The Rise of China and Its Growing Role in International Organizations," *ICCS Journal of Modern Chinese Studies* 4: 1 (2011): 86.

the Asian Development Bank (ADB) demonstrated how Deng developed his new economic statecraft by collaborating with IOs, a strategy that his twenty-first-century successors would likewise utilize and enlarge.

For Deng, the biggest question was how to win admission. The course of Beijing's entry into the IMF and the World Bank was slow but meaningful, the product of developments both within and outside China. Closer examination reveals more about the incentives impelling Deng to join the major IFOs. Initially, the only information Beijing could glean on IFOs came from several overseas Chinese-Americans and assorted IO officials of Chinese extraction. In 1950s Beijing, a group of financial specialists led by Premier Zhou Enlai kept the government abreast of how IFOs were developing and awaited an eventual opportunity to win membership. By 1970, however, due to their "contaminated" backgrounds (i.e., their foreign connections), most of these financial experts were no longer serving as advisers in the *Zhongnanhai*, but had been exiled to work in the countryside. Even when Beijing finally succeeded in replacing the Republic of China (ROC) in the UN, the Chinese Ministry of Foreign Affairs (MOFA) was so shattered that it could barely muster sufficient qualified diplomats to fill the vacant slots on its UN team, let alone provide additional expert personnel to represent the country in IFOs.⁴⁵

Although the PRC initially felt little imperative to apply to join, throughout the 1970s, the doors of the IFOs remained open to China. Beijing first expressed interest in the IMF and WB in September 1973, when it sent a telegram to both institutions, stating that, since Taiwan had illegally occupied the Chinese seats in these organizations, it should be expelled immediately. Beijing's demand seemed redundant because, after Taiwan lost its UN membership, its representation on the boards of both institutions had ceased. Robert McNamara, the WB's President, nonetheless showed special interest in Beijing's protest and replied by encouraging Beijing to apply for full WB membership. McNamara, whose interest in China was common knowledge among the Bank's staff, believed that Beijing's membership would enhance the Bank's legitimacy, while poverty-stricken China needed its assistance.⁴⁶

⁴⁵ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 60–61.

⁴⁶ *Ibid.*, 64.

In discussions within China's *Zhongnanhai* during Mao's final years, the possibility of China joining IFOs was closely examined. At the time, both the Ministry of Finance (MOF) and MOFA were opposed, citing three major reasons. First, joining would be pointless, given that China would possess only a small quota in the IMF and limited shares in the WB, meaning that Beijing would be unable to use its membership to pursue its broader foreign policy objectives. Second, since the IMF constitution was antagonistic to socialist monetary systems, it would be dangerous to join; opponents suggested that China's freedom to determine its own foreign exchange rate and control its foreign exchange reserves would be restricted. Third, joining would be financially burdensome, since it was Beijing's policy to resist external borrowing but as a member China would still be required to pay its IMF quota. So long as Mao remained in power, even though Premier Zhou Enlai and his supporters wished to boost China's economic links with the outside world, ideological incompatibility and deep distrust of these Western institutions therefore precluded Beijing from joining any IFOs.⁴⁷ A more congenial internal political environment would be a prerequisite to any drastic changes in this position.

Bearing in mind the urgency of achieving the Four Modernizations and wishing to ensure the quick success of his Reform and Opening Up policy, Deng badly needed external help, both to supply China with long-term low-interest funds for internal development and also to furnish expert economic advice. According to official MOF files, Li Miao, a Chinese official who helped to negotiate Beijing's entry into the major IFOs, confirmed that Beijing began seeking full memberships as early as 1978.⁴⁸ At that time, the MOF, MOFA, and Bank of China (BOC) issued a report openly advocating Beijing's entry into the Bretton Woods institutions. They argued that the United States no longer constituted an obstacle and that most Third World countries backed China's membership. The State Council not only accepted this report but promptly dispatched a seven-member inquiry team to spend May and June in Romania and Yugoslavia, the only two IMF members with non-market economies. Deng's visit to the United States, described in greater detail by Lu Sun earlier in this volume (Chapter 3), also boosted Beijing's self-confidence in dealing with

⁴⁷ Ibid., 52.

⁴⁸ Li Miao, "Comments by Li Miao," in *China in the Era of Deng Xiaoping: A Decade of Reform*, eds. Michael Ying-mao Kau and Susan H. Marsh (Armonk, NY: M. E. Sharpe, 1993), 487.

the West. Deng's determination to join the major IFOs was made more explicit on 26 February 1979, when he told the president of Kyodo News Service that "there would be no hitch on China's part in joining the IMF if [the] Taiwan issue is settled."⁴⁹

After the investigative team returned from Eastern Europe, in August 1978 its members submitted a lengthy report, arguing forcefully for Beijing's membership in the major IFOs, and recommending that if possible, China should become more proactive in cultivating informal relationships with IFO officials.⁵⁰ An occasion for such contacts arose in February 1979, when a group of WB officials, plus their families and friends, headed by Edward V. K. Jaycox, Program Director of the Bank's Water and Urban Development Department, visited Beijing privately. As soon as they arrived, the Beijing government seized the opportunity to build relationships, treating them as official visitors, taking them to communes, factories, and brigades, setting up meetings with high-level and local officials, including the Vice Premier and the Mayor of Shanghai, and showing them around the BOC. The timing of Jaycox's visit coincided, however, with China's brief military intervention in Vietnam during February and March 1979, a source of tensions between the United States and China that placed significant stress upon the newly established but still fragile relationship between the two countries, and at least temporarily made China's prospects of joining the Bank more precarious. Even so, when Jaycox soon afterward became Program Director of the WB's East Asia and Pacific Country Programs Department, Beijing misinterpreted his visit as a positive and welcoming signal from the organization.⁵¹

Meanwhile, Beijing gained further insights and understanding when Edwin R. Lim, a Chinese Filipino then serving as a WB Senior Economist for the East Asia and Pacific Region, made a brief stopover in Beijing. Chinese officials quizzed him in detail as to the differences between the

⁴⁹ Quoted in Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 70.

⁵⁰ *Ibid.*, 71–72.

⁵¹ Edward V. K. Jaycox, transcript, oral history interview, 23 February, 9 March, 27 April, 24 May 1995, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/450711468141887331/Transcript-of-oral-history-interview-with-Edward-V-K-Jaycox-held-on-February-23-March-9-April-27-and-May-24-1995>, accessed 15 October 2020.

Bank and the Fund, the Bank's policies, and the different institutions within the WB. They were also eager to know whether China would be eligible for loans from the International Development Association (IDA), which the WB managed, and to understand the purposes of WB economic studies.⁵² Overall, the Chinese discovered that if China's Gross National Product (GNP) was sufficiently low, it would be entitled to concessional loans offered by the IDA, that carried a very low interest rate and also enjoyed a very long repayment period of 30 to 38 years, with a five- to ten-year grace period. China also would be eligible to receive outright grants for programs that might boost economic growth, reduce inequalities, and improve people's living conditions. Beijing found the possibility of gaining access to these concessional loans and grants extremely appealing. Listening to Lim's explanations, Beijing's leaders were growing in confidence, but they wished to gather yet more information. When Zhao Mingde, a Chinese diplomat, represented his boss Bi Jilong, the UN under-secretary-general, at the annual joint meeting of the UN and IMF boards of governors, he met privately with a WB vice president. As Beijing's interest in the Bank intensified, on several occasions further high-level contacts followed, with supplementary information on the Bank's activities being forwarded to Beijing.⁵³ Later, BOC officials even met Moeen Qureshi, WB Vice President for Finance, on a junk in Hong Kong.⁵⁴

After waiting for the appropriate moment, Beijing finally made its move in February 1980, shortly after the U.S. Senate ratified a trade agreement with China and granted China Most-Favored-Nation status. Chinese Ambassador Chai Zemin then contacted the World Bank and asked to meet with President Robert McNamara. Demonstrating Beijing's eagerness to join the Bank, Ambassador Chai told McNamara: "Look, Mr. McNamara, I've come with a message from the leadership that we would like you to visit China within the next three weeks, two or three weeks, immediately, to discuss membership. And we want to be members

⁵² Lim, "Learning and Working with the Giants," 101.

⁵³ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 72.

⁵⁴ Koch-Weser, transcript, oral history interview, 21 December 1992, p. 2, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/636751468195592019/Transcript-of-oral-history-interview-with-Caio-Koch-Weser-held-on-December-21-1992>, accessed 15 October 2020.

almost immediately, within the next few months. And the Chinese leadership would like to discuss this and other matters of international concern and membership with you.” The Ambassador also added: “We want to become full members; we want to learn from you; we want to have all the benefit of your technical advice. Yes, we understand there are also some concessional funds called IDA, which we should as a very poor country be eligible for.” McNamara’s assistant, Caio Koch-Weser, who later became Division Chief of the China Mission, had the impression, later proved correct, that the Chinese “were really after the Bank, not so much the IMF.” As he anticipated, Beijing would make a very determined play for the maximum share of IDA loans once it became a full member of the WB. When McNamara explained that China should first obtain IMF membership, Bank staff recalled that Ambassador Chai’s reaction seemed to them clueless: “IMF? What’s that? Is that this institution in New York, UN, or something?” On McNamara’s advice, the Ambassador visited the IMF the next day and made a similar request for membership.⁵⁵

Since Ambassador Chai had requested that McNamara should visit China within a few weeks, the WB president made immediate arrangements to do so, though due to his busy schedule and also in order to be better prepared, he postponed his trip to April 1980. Meanwhile, both the U.S. government and the China Lobby, spearheaded by Congressman Walter Judd, sought to block China from joining the Bank, arguing that China’s entry into the WB would jeopardize the chances of congressional passage of the impending IDA bill, which was about to authorize new U.S. funding to replenish the IDA’s coffers.⁵⁶ Given the more conservative U.S. political environment of the 1980s during Ronald Reagan’s presidency, had McNamara yielded to China Lobby pressure and further delayed his April 1980 trip, Beijing almost certainly would not have been permitted to join the Bank. In that case, the prospects for China’s economic development and the nature of its relationship with the Bank would probably have been very different.

⁵⁵ Koch-Weser, transcript, oral history interview, 21 December 1992, p. 4.

⁵⁶ Robert S. McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/981971468149966185/Transcript-of-oral-history-interview-with-Robert-S-McNamara-held-on-April-1-May-10-and-October-3-1991>, accessed 15 October 2020.

Defying strong opposition from both Congress and the U.S. Secretary of the Treasury, McNamara prepared assiduously. First, he met with several famous China scholars, including Michel Oksenberg, who all reassured him that the Bank could definitely assist very productively with China's reforms.⁵⁷ Second, McNamara instructed Heribert Golsong, the WB lawyer, to draft the documents for China's membership application. Third, together with Golsong, McNamara negotiated with Taiwan to settle loan payments of around three hundred million dollars. Fourth, he instructed Edwin R. Lim to draw up materials for him to use in China during meetings and negotiations. These included a brief on China's economy, covering its situation and key sectors; a country assistance strategy paper, stating how the WB would approach China and what the sectoral priorities would be; and a notional IDA lending program, evaluating eligibility and creditworthiness.⁵⁸

While McNamara was occupied with planning, the IMF sent Tun Thin, who headed its Asia Department, to negotiate with Beijing. Despite hostile intervention from the U.S. embassy in Beijing, which the U.S. Secretary of the Treasury had ordered to try to delay negotiations, thanks to support from the head of the IMF, plus Beijing's own eagerness to conclude a deal, Tun Thin quickly succeeded in reaching agreement on issues related to membership, quotas, and surveillance.⁵⁹ By April, after receiving feedback from Tun Thin, McNamara was ready to go himself. The night before his departure, U.S. Treasury officials made one final effort to persuade him to delay his journey.⁶⁰ According to Ezra F. Vogel, McNamara's stubborn resistance to U.S. pressure gave the Beijing leadership much-needed confidence that the World Bank and the IMF were truly independent institutions, not puppets beholden to their American founder.⁶¹

⁵⁷ Koch-Weser, transcript, oral history interview, 21 December 1992, p. 5.

⁵⁸ Lim, transcript, oral history interview, 11 January 1993, pp. 2–5, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/151021504859239236/Transcript-of-oral-history-interview-with-Edwin-R-Lim-held-on-January-11-1993>, accessed 15 October 2020.

⁵⁹ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 74.

⁶⁰ Koch-Weser, transcript, oral history interview, 21 December 1992, p. 6.

⁶¹ Vogel, *Deng Xiaoping and the Transformation of China*, 390.

A small team of WB experts—Shahid Syed Husain (Vice President, East Asia, and Pacific Region), Heribert Golsong (Vice President and General Counsel), and Caio Koch-Weser (McNamara's assistant)—accompanied McNamara to Beijing in April 1980. Bank of China representatives rather than central government officials welcomed them, but the team nonetheless had some meetings with top leaders. Their encounter with Deng was particularly meaningful and revealing. According to Koch-Weser's recollections, Deng displayed a unique combination of modesty and self-assurance. In terms of modesty, Deng acknowledged China's poverty and backwardness. He even admitted the mistakes the Communist Party had made during the Cultural Revolution. In terms of self-assurance, Deng stated: "We need your help to grow faster, but we will also make it without you.... China will grow and we'll catch up.... We'll make further mistakes, and if you help us, we'll make less mistakes, but no question we will catch up."⁶² McNamara, deeply impressed by Deng's honesty and determination, promised Deng that the Bank would definitely increase its lending to Beijing, to facilitate China's economic growth.⁶³ Looking back many years later, Koch-Weser was amazed by the accuracy of Deng's vision: "We will quadruple our income by the year 2000."⁶⁴

The main purpose of McNamara's visit was to nail down Beijing's prospective Bank membership. Meeting with Chinese officials, McNamara and Golsong successfully provided all the necessary documents and explanations. According to Koch-Weser, McNamara's thorough preparation sent a clear message to the Chinese: "We are ready... to make its [China's] membership in a very short period of time." As soon as the team returned to Washington, processing of China's membership application began. McNamara discovered that the U.S. government had also changed its attitude; the Bank's Board of Directors quickly approved the request and passed a supplementary budget to manage

⁶² Koch-Weser, transcript, oral history interview, 21 December 1992, p. 9.

⁶³ McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, pp. 28–29.

⁶⁴ Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 9–10. Of the four WB officials who went to China, only McNamara and Koch-Weser gave detailed accounts of their meetings with Deng, with Koch-Weser's recollections particularly accurate and richly detailed. McNamara, by contrast, made some errors in his reminiscences, displaying marked confusion over Edwin Lim's background and certain details of the first visit to Beijing.

China's entry.⁶⁵ Within just one month, on 15 May 1980, Beijing replaced Taiwan as China's representative in the World Bank, marking the opening of an increasingly close partnership between the organization and Beijing.

THE RESULTS OF DENG'S POSITIVE ECONOMIC STATECRAFT

The initial stage of Deng's attempt to secure membership in the Bretton Woods institutions was essential to China's Reform and Opening Up. In the short term, it provided a diplomatic victory against Taiwan, a communications lifeline to break diplomatic isolation, and professional economic advice on development strategy. In the long term, it laid the foundations for Beijing to expand its role and influence, enhance its international status, and secure the maximum amount of soft-loans on concessional terms to finance China's reform programs.

Securing a Key Position in the Bretton Woods System

Joining the Bretton Woods institutions was a key step in Beijing's strategy to win the most prominent position in Asia and among developing countries. Within the IMF, China ranked ninth in voting power in 1988, and within the IBRD (International Bank of Reconstruction and Development, part of the WB Group), China came eighth (see Table 6.1). In both institutions China was the third largest shareholder—after Japan and Saudi Arabia—among all Asian countries. Being a key member of the Bretton Woods institutions would later help China to exert greater influence within the region. Chinese officials in these institutions were also entitled to join study missions sent to other countries. Chinese companies were likewise allowed to compete for contracts for Bank projects both inside and beyond China.

According to a leading Beijing official who was closely involved in joining the major IFOs, "in the near future, China will not seek to become the champion of developing countries. The focal point of its energies is upon improving its domestic performance, and through this,

⁶⁵ Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 6–8.

Table 6.1 China's relative voting power in 1988 in IMF, IBRD, IDA, IFC, and ADB

Country	Rank in IMF	Percentage of total				
		IMF (%)	IBRD (%)	IFC (%)	IDA (%)	ADB (%)
USA	1	19.14	19.62	22.89	18.11	12.41
UK	2	6.63	5.14	6.36	16.14	2.22
W. Germany	3	5.78	5.36	6.48	7.10	4.23
France	4	4.81	5.14	5.77	3.90	2.47
Japan	5	4.53	6.94	4.99	9.21	12.41
Saudi Arabia	6	3.44	3.32	1.66	2.66	–
Canada	7	3.16	3.32	4.11	3.31	5.23
Italy	8	3.13	2.62	3.73	2.40	2.02
China	9	2.58	3.19	0.84	2.01	6.10
Netherlands	10	2.44	2.29	2.84	2.09	1.33
India	11	2.38	3.14	3.87	3.26	6.00
Belgium	12	2.25	2.08	2.51	1.11	0.73
Australia	13	1.75	1.73	2.40	1.45	5.52
Brazil	14	1.59	1.56	2.00	1.58	–
Venezuela	15	1.49	1.47	0.83	–	–
Spain	16	1.40	1.33	1.19	1.16	0.73
Mexico	17	1.27	1.23	1.19	0.58	–
Argentina	18	1.21	1.24	1.94	1.39	–
Sweden	19	1.16	1.11	1.37	2.21	0.55
Indonesia	20	1.10	1.10	1.26	1.07	5.22

Sources: *International Monetary Fund: Annual Report, 1988* (Washington, DC: IMF, 1988), 156–159; *The World Bank Annual Report, 1988* (Washington, DC: The World Bank, 1988), 168–170, 187–189; *International Finance Corporation: Annual Report 1988* (Washington, DC: The World Bank, 1988), 53; and *Asian Development Bank: Annual Report 1988* (Manila, Philippines: Asian Development Bank, 1988), 118

to acquire greater credibility among developing countries. But after China achieves success, it will seek a greater voice and more power.”⁶⁶ Looking back today, these words offer insightful revelations. Beijing, under Deng's leadership, had a clear strategy of what it would obtain through membership in these IFOs: achieving a successful economic transformation through the assistance of these IFOs came first; gaining goodwill and respect across the Third World would be next; and seeking additional power and influence in the IFOs was the ultimate goal.

⁶⁶ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 138–139.

Achieving Deng's Political Goals

Once China joined the World Bank, Beijing took full advantage of its membership status to advance its domestic and foreign policy agenda. Initially, Deng was far from sure just what China might eventually receive from the Bank. At least two goals were immediate concerns for Beijing. The first objective was to ensure that Taiwan would be completely excluded from both the Bank and the Fund. From the early stages of negotiations to subsequent preparation of all the Bank's reports and documents, Taiwan would only be termed Taiwan, a province of China. On maps, Taiwan must be colored the same shade as other parts of China. From then onward, Taiwan gradually disappeared from World Development Reports (WDRs) and World Development Indicators (WDIs). Taiwan would thereby lose not simply access to certain development funds but also international clout. Beijing's ultimate purpose was to ensure that every international body would either remove Taiwan or list Taiwan as a part of China, while treating the PRC as the sole legitimate government of China.

The second goal was to obtain concessional loans from the International Development Association (IDA). Once it became a full WB member, Beijing pushed with great determination to receive the maximum share of IDA loans. According to Shahid Javed Burki, at that time senior economic and policy adviser to the vice president, Beijing was extremely reluctant to borrow, preferring instead IDA soft-loans (on concessional terms) from the Bank. Chinese officials wished China's Gross National Product (GNP) to be evaluated as low as possible because they desired funding parity with India. Before China joined the Bank, India alone had already obtained US\$8,285.2 million of IDA money, around 40% of the total amount of IDA loans between 1960 and 1980.⁶⁷ From China's viewpoint, the WB was too generous to India. Beijing likewise sought the lion's share of IDA loans, but the problem was that the IDA received a fixed amount of funding, which required regular replenishment from the developed countries. China's entry into the WB therefore had an immediate dislocative effect on those countries that depended on IDA loans. In terms of loan share, India in particular suffered the greatest loss.

⁶⁷ *Ibid.*, 136.

Table 6.2 IBRD and IDA lending to India (1981–1988)

<i>Year</i>	<i>IBRD US\$ million</i>	<i>Percentage Share of Total IBRD Lending (%)</i>	<i>IDA US\$ million</i>	<i>Percentage Share of Total IDA Lending (%)</i>	<i>Proportion IBRD/IDA</i>
1981	430.00	4.88	1281.00	36.79	25/75
1982	1264.80	12.24	900.00	33.50	58/42
1983	1087.90	9.77	1063.00	31.82	51/49
1984	1721.40	14.41	1001.00	28.00	63/37
1985	1674.00	14.74	672.90	22.22	71/29
1986	1743.20	13.23	625.10	19.91	74/26
1987	2128.00	15.00	677.60	19.44	76/24
1988	2255.00	15.28	717.20	16.09	76/24

Source: *The World Bank Annual Report, 1981–1988* (Washington, DC: The World Bank, 1981–1988)

Understanding the limitations of the IDA funds and the dislocative impacts triggered by China's needs, the Bank adopted a fair but realistic approach, reducing the amount India received in IDA loans while simultaneously gradually increasing the level of China's IDA loans. In 1981, India was able to obtain US\$1,281 million (36.79% of total IDA lending), while China received its first IDA loan of US\$100 million (2.87% of total IDA lending) (see Table 6.2). By 1988, India received a mere US\$717.2 million (16.09%), while China obtained US\$639.9 million (14.35%). The Bank also insisted that both Beijing and India must accept a fairly hard blend (ratio) with a 40/60 formula, which meant that while Beijing could receive 40% of its WB funding from the IDA, the remaining 60% must come from the IBRD (International Bank for Reconstruction and Development). By 1988, China's IBRD/IDA proportion stood at 62/38 while India's was 76/24, forcing India to take more hard-loans rather than soft-loans as its share of the IDA pie continued to shrink.⁶⁸ According to Shahid Javed Burki, who became WB Country Director (China), this disagreement became the main bone of contention between Beijing and the WB. Yet no matter how hard China pushed, the demand for parity with India was never fully met, though China's share of IDA

⁶⁸ *Ibid.*, 136.

loans did gradually rise.⁶⁹ Like India, following China's entry, other low-income countries, such as Brazil and Indonesia, also received fewer IDA loans. Fortunately, the efforts of WB staff to respond to Chinese needs while winning China's understanding of the position made it possible to maintain a cooperative spirit.⁷⁰

Beijing's position was understandable, given that the Communist government had for long sought to avoid massive borrowing. Even though the Communists were now willing to open up and needed foreign capital for construction and investment, they were still fearful of falling into a foreign debt trap. Moreover, because they had succeeded in receiving cheap low interest loans from the Overseas Economic Cooperation Fund (OECF) and Japan's Export-Import Bank (Ex-Im), China expected similar treatment from the WB.⁷¹ Only later in the 1990s, after the Chinese economy had grown dramatically, did Beijing display less concern over its ability to repay loans. While wanting the number of WB-funded programs to increase more rapidly, the Chinese still preferred IDA loans to IBRD loans and therefore constantly fought for a softer blend.⁷² Since Beijing had no wish to alienate other developing countries, however, most of their battles over soft-loan-blend requests were waged behind the scenes.⁷³ Throughout the 1980s, no matter how stubbornly China tried to extract more from the IDA, with just a few exceptions, the ratio was held to around 40/60 (see Table 6.3).

Obtaining Professional Economic Advice from the World Bank

In addition to the IDA loan blend problem, Beijing's insistence on following its own course had long been a major obstacle to cooperation. The strong economic opinions of the Communists in Beijing clashed with

⁶⁹ Shahid Javed Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 10, Oral History Program, World Bank Group Archives, <https://oralhistory.worldbank.org/transcripts/transcript-oral-history-interview-shahid-javed-burki-held-january-16-1992-and-february>, accessed 15 October 2020.

⁷⁰ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 137–138.

⁷¹ Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 10.

⁷² *Ibid.*, 15–16.

⁷³ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 133.

Table 6.3 World Bank-supported projects for China (1981–1990)

<i>Year</i>	<i>Project number</i>	<i>IBRD US\$ million</i>	<i>Percentage Share of Total IBRD Lending (%)</i>	<i>IDA US\$ million</i>	<i>Percentage Share of Total IDA Lending (%)</i>	<i>Total US\$ million</i>	<i>Proportion IBRD/IDA</i>
1981	1	100.00	1.14	100.00	2.87	200.00	50/50
1982	1	–	–	60.00	2.23	60.00	0/100
1983	6	463.10	4.16	150.40	4.50	613.50	75/25
1984	10	616.00	5.16	423.50	11.85	1039.50	59/41
1985	12	659.60	5.81	442.30	14.61	1101.90	60/40
1986	11	687.00	5.21	450.00	14.33	1137.00	60/40
1987	11	867.40	6.11	556.20	15.96	1423.60	61/39
1988	14	1053.70	7.14	639.90	14.35	1693.60	62/38
1989	12	833.40	5.65	515.00	11.55	1348.40	62/38
1990	5	–	–	590.00	10.68	590.00	0/100
	83	5280.20	57.35	3927.30	42.65	9207.50	

Source: *The World Bank Group in China: Facts and Figures* (Beijing: The World Bank Office, July 2018), 2–3; *The World Bank Annual Report, 1981–1990* (Washington, DC: The World Bank, 1981–1990)

the way that major IFOs did business. In order to continue their presence and maximize their gains in these IFOs, Beijing needed to adjust and demonstrate a genuine willingness to open up. Since China had been isolated for decades, both the WB and IMF needed to undertake thorough investigations of China's economic situation before they could approve any projects or loans. Deng understood this practical issue. Early in 1979, during a Communist Party forum, he had already spoken on the need for economic work, stating: "Economic work is a political task of prime importance and the economic question is an overriding political question.... Political work should be carried out through economic work and a political problem should be settled from an economic angle. Economic work should be done in accordance with economic law. We must follow scientific methods without practicing fraud or chanting empty slogans."⁷⁴

⁷⁴ Deng Xiaoping, "Some Comments on Economic Work," Talk at a forum of the first secretaries of the provincial, municipal, and autonomous regional committees of the Communist Party of China, 4 October 1979.

The Bank's request accorded with China's own needs at that time. Beijing quickly granted permission for the Bank to conduct its own economic study of China. In October 1980, a total of 32 Bank specialists led by Shahid Burki arrived in Beijing. Chinese officials were initially apprehensive. To ease their fears, Edwin R. Lim invited the Chinese to appoint their own counterpart teams to participate in the process. Soon this became standard operating procedure in all the Bank's economic undertakings in China. This method helped not just to end suspicions but also to build ties between Chinese officials and WB staff. One of the Chinese counterpart team leaders was Zhu Rongji, who would become Premier in 1998.⁷⁵ When completed, the report offered the most comprehensive overview of the Chinese economy available at that time. It explained the roots of China's current economic problems and backwardness and warned of the potential danger of excess planning. It further outlined the directions to search for solutions but cautioned against overly hasty reform, pointing out the fundamental weaknesses of the Chinese system. The report also made the alarming prediction that unless China improved its energy efficiency by investing in better extraction technologies, its oil supplies would run out within a few years.⁷⁶

Zhao Ziyang, whom Deng had appointed in 1980 as the new Premier of the State Council, with the responsibility to expand rural reforms across the nation, gave the first World Bank China report a warm reception, commanding every minister to study closely its first volume. In addition, all eight volumes became required reading in economics courses. From then onward, Zhao's team of reformers worked closely with the Bank's economists.⁷⁷ This report ultimately had a profound impact, because it served to tell "the Chinese how to read their own economic history" while simultaneously making the Bank's experts "involved in the sectors in which the Chinese thought [the Bank] should be involved." Chinese officials began to place greater value on the Bank's expertise. The government became more willing to borrow from the Bank in order to obtain the economic advice they sought.⁷⁸

⁷⁵ Lim, transcript, oral history interview, 11 January 1993, p. 7.

⁷⁶ Bottelier, "China and the World Bank: How a Partnership Was Built," 244–245.

⁷⁷ McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, p. 29.

⁷⁸ Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 7.

As soon as the report appeared, the first WB project, devised by Bank officials and endorsed by Beijing, was approved: a US\$250 million loan to upgrade the facilities of 20 universities. Initially, the Ministry of Education (MOE) planned to use all the money to purchase new equipment, but the Bank insisted on setting aside 20% for manpower training. Ultimately, some ransacked libraries were rebuilt. The loans provided funding to replace all the equipment destroyed during the Cultural Revolution and to secure modern computers and laboratory equipment. The project also provided scholarships for Chinese students to study abroad for one to two years. In addition, numerous consultants and teachers would come to China to assist its educators. This was a crucial effort to replenish the loss of knowledge and expertise caused by the Cultural Revolution. As the teaching environment began to show marked improvements, Chinese economists who had gone overseas were also beginning to return.⁷⁹

In collaboration with the Economic Development Institute (EDI) in Beijing and Shanghai, the Bank also organized another program, to address the needs of those officials who had not yet gone overseas but were still dependent upon China's educational system, and to teach them how to evaluate Bank projects. The EDI focused upon designing and implementing policy seminars and training courses where local officials and Bank staff could discuss development policies and learn from each other. This was later developed into a wider training program for Chinese officials, that enrolled around 1500 trainees over the next decade. The WB depended on this program's graduates to work as WB counterparts in the various ministries, undertaking project preparation and implementation. Through the EDI, the WB's influence infiltrated into various governmental sectors throughout China.⁸⁰ In return, Chinese officials not only familiarized themselves with the Bank's practices but also gained insight from these EDI courses into the experiences of other rapidly growing East Asian countries. Given the uniqueness of China's situation and a scarcity of Chinese officials with direct exposure to the outside world, it was difficult for them to apply and adapt these foreign experiences to policy making within China. The EDI case studies on China's experiences nonetheless later became important sources, read carefully in

⁷⁹ Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 112.

⁸⁰ Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 11–12.

other developing countries and in North American business schools.⁸¹ The research on China produced by the WB became another major and accessible information source for the outside world, offering in-depth analytical understanding of China's reforms and development.

Beijing's collaboration with the Bank also gradually altered Deng's view of foreigners. Speaking to leading members of the CCP Central Committee, Deng instructed the party leadership to make good use of foreign intellectuals by "inviting foreigners to participate in key development projects and other construction projects in various fields." Surveying current global economic conditions, Deng discerned a golden opportunity to accelerate China's growth by attracting Westerners (individuals and companies alike) to China: "We should open our country wider to the outside world. Now that the West European countries are beset with economic difficulties, we should lose no time in seeking their cooperation, so as to speed up our technological transformation.... China provides a huge market, so many countries wish to develop cooperation or do business with us. We should seize this opportunity. It is a matter of strategic importance."⁸²

When Alden W. Clausen, president of the World Bank from 1981 to 1986, visited China in May 1983, Deng put these precepts into practice, taking the initiative and asking for support. When he met Clausen, Deng told him that "by the end of this century, China with one-fourth of the world's population, will enjoy a comfortable society, free from poverty and backwardness."⁸³ Deng wanted the WB to conduct a further investigation into what China would look like in 2000 if Reform and Opening Up continued. Deng desired to know if the Bank had any policy suggestions to achieve his goals. Clausen immediately put his WB staff to work on a report, which cost nearly two million dollars and took almost eighteen months to complete. This report, which was translated into Chinese

⁸¹ Timothy King and Jiping Zhang, eds., "Introduction," *Case Studies of Chinese Economic Reform* (Washington, DC: World Bank, 1992), 2.

⁸² Deng Xiaoping, "Use the Intellectual Resources of Other Countries and Open Wider to the Outside World," Talk with leading members of the Central Committee of the Communist Party of China, 8 July 1983, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/08/use-the-intellectual-resources-of-other-countries-and-open-wider-to-the-outside-world/>, accessed 12 November 2019.

⁸³ "Meets Deng Xiaoping," Beijing *Xinhua* (English), 26 May 1983.

and sold widely in China, became what Koch-Weser termed a “Bible” for the Beijing reformers, constantly cited by Premier Zhao during internal State Council meetings. While using the second WB report on China to confirm the feasibility of his plans, Deng tapped into the Bank’s expertise to analyze the potential issues and options that China would face, offering the Chinese far-reaching advice, sector by sector, on systemic reform over the next few decades.⁸⁴

The Bank thus served as Beijing’s top adviser and even became something of a silent promoter of China’s economic policies. As Deng told McNamara in 1981, “with the Bank’s help, China might make fewer mistakes.” The process of the research work was also meaningful in itself, further solidifying relationships between Chinese officials and the Bank’s staff. Edwin R. Lim, the lead economist in charge of organizing both reports on China, who spoke fluent Chinese, was well acquainted not just with central officials but also with the regional heads. McNamara valued his wide-ranging contacts with the Beijing government, promoting him to become Chief of the Bank’s Mission in Beijing.⁸⁵ Boasting a team that specialized in studying China’s economy, possessing useful information and connections throughout Beijing, the WB Mission became an important access point not just for the Bank but also for many developed nations.

Consolidating a Long-Term Partnership with the World Bank (WB)

The consolidation of the partnership between the Bank and Beijing continued. By 1983, the Bank had approved a total of eight projects (including the aforementioned first one), covering education, agriculture, ports, petroleum, farming, and industry. The total amount of loans was US\$873.5 million (of which IDA loans represented 24.52%). From then onward, Bank programs in China expanded rapidly. In 1984 alone, the Bank approved a total of US\$1,039.5 million in loans. For 1985, the amount was US\$1,101.9 million. In 1988, loans reached their first peak, at US\$1,693.6 million (see Table 6.3). Unlike WB projects in other countries that experienced a high level of failures, WB projects in China had

⁸⁴ Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 17–18.

⁸⁵ McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, p. 29.

an extremely high success rate. Most Bank staff were very impressed by China's progress and the quality of each project, and some even praised China's portfolio as the Bank's best.⁸⁶

According to both Shahid Javed Burki and Edwin R. Lim, the Chinese took their WB projects seriously. In practice, Deng understood the value of these foreign loans and encouraged Chinese officials to use them wisely and effectively. In December 1986, he expounded his ideas to Party officials:

As for foreign loans, we should make a concrete analysis of the question. Some countries have borrowed large amounts of foreign funds. This cannot be regarded solely as a loss; they have gained from it too, rapidly growing from economically backward countries into moderately developed ones. There are two things we can learn from them. First, we should not be afraid of borrowing money abroad; and second, we should not borrow too much. It is not so terrible to borrow foreign funds. The most important thing is to use them to develop production; it would be wrong to use them to reduce the deficit.⁸⁷

Under Deng's leadership, Beijing would not fear taking loans but must use these funds wisely. In accepting the Bank's loans, the Chinese therefore not only decided on the lending programs, which became part of their own overall investment plan, but also valued the Bank as China's partner and made a strong commitment to each project.

Winning a New Partnership with the Asian Development Bank (ADB)

As China gained traction within the Bank, its international status was also enhanced. This gave Deng confidence to endorse participation by Beijing in additional assorted IOs. In 1980, China therefore joined a UN affiliate, the International Fund for Agricultural Development (IFAD), which in

⁸⁶ Shahid Javed Burki, "World Bank Operations: Some Implications and Lessons," in *At the Frontlines of Development: Reflections from the World Bank*, eds. Indermit S. Gill and Todd Pugatch (Washington, DC: World Bank, 2005), 132.

⁸⁷ Deng Xiaoping, "On the Reform of Enterprises and of the Banking System," Talk to leading comrades of the CPC Central Committee, 19 December 1986, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/18/on-the-reform-of-enterprises-and-of-the-banking-system/>, accessed 12 November 2019.

1981 actually became the first international donor to finance operations in China, pre-empting even the WB. Most IFAD projects focused exclusively on reducing poverty in China by increasing food security.⁸⁸

Conscious of the desirability of tapping additional aid sources in 1983 Beijing even approached the Asian Development Bank (ADB), in which Taiwan was an active member and Japan the dominant force. One year later, when Nakasone Yasuhiro, Japan's prime minister, visited China in March 1984 and met Deng, Beijing once again took the opportunity to suggest China should join the ADB. Instead of demanding the expulsion of Taiwan, the PRC proposed that Taiwan should remain a member under the name "China-Taiwan," provided that the ADB would recognize the "Government of the People's Republic of China as the representative of China and include Taiwan as an associate member state."⁸⁹ When Beijing's request was discussed during the Seventeenth Annual Meeting of the ADB, held in Amsterdam in April 1984, most representatives favored China's entry as a full member, but the meeting reached no decision.⁹⁰ A formal negotiation was required in order to resolve the Taiwan issue. Since Beijing was willing to soften its position by allowing Taiwan to remain a full member under the name "Taipei, China," the Japanese and Americans both agreed to such an arrangement. The PRC formally joined the ADB in March 1986, with 6.15% of the bank's voting rights and a representative on the Board of Directors.⁹¹

The first funding the ADB offered Beijing was a Technical Assistance (TA) grant to strengthen the capabilities of the People's Bank of China

⁸⁸ International Fund for Agricultural Development, "The China-IFAD Partnership," https://www.ifad.org/documents/38714170/39439973/China_web.pdf/20480f67-9ff3-4fce-803c-0cc4cdd7fc43, accessed 20 October 2020.

⁸⁹ "Cable from Ambassador Katori to the Foreign Minister, 'Prime Minister Visit to China (Foreign Ministers' Discussion—Regarding the Participation of China in the ADB)," 25 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWIHP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/119554>, accessed 20 October 2020.

⁹⁰ U.S. State Department Telegram, Seventeenth Annual Meeting of the Asian Development Bank, April 25–27, 15 May 1984, <https://www.cia.gov/readingroom/document/cia-rdp90b01370r000801050098-1>, accessed 20 October 2020.

⁹¹ Robert Wihol, *A Partnership Transformed: Three Decades of Cooperation Between the Asian Development Bank and the People's Republic of China in Support of Reform and Opening Up* (Manila, Philippines: Asian Development Bank, 2018), 12.

(PBOC), providing badly needed training in international financial and technical cooperation. One year later, in 1987, the ADB granted the China Investment Bank (CIB) a US\$100 million credit line, which was used to finance foreign exchange requirements to enable state-owned and other collective enterprises to upgrade their equipment and facilities. Attached to this loan was a TA grant to enhance the CIB's institutional capabilities. The ADB likewise extended loans and TA grants to additional Chinese state banks. These loans to strengthen the Chinese banking system came at an opportune moment, boosting Deng's Reform programs as runaway inflation and a serious deficit in China's balance of payments unsettled the nation. From 4 to 6 May 1989, the Twenty-Second Annual Meeting of the ADB was held at the Great Wall Sheraton Hotel in Beijing, one of the first such major international gatherings that city hosted during the 1980s.⁹²

Meanwhile, as Wendy Leutert describes elsewhere in this volume (Chapter 7), China's bilateral relations with Japan flourished throughout the 1980s. During Nakasone's 1984 visit, he promised to extend some 470 billion yen in credits (for seven projects over seven years), a sum greater than that (300 billion yen) pledged in the 1979–1980 Sino-Japanese agreement. These loans could be used to finance key infrastructure projects. Japan also promised to send retired Japanese engineers to visit China to boost technological cooperation. In addition, recognizing the need to enhance China's level of technology, while meeting with the Japanese, Zhao Ziyang also proposed to continue long-term cooperative energy development with Japan and invited Japanese entrepreneurs to participate in energy and resources joint ventures in the southwestern and northwestern regions, mining non-ferrous and rare metals. Seeking to address the concerns of Japanese investors, Zhao promised to improve joint venture and patent laws.⁹³ By establishing closer bilateral governmental relations, both Deng and Nakasone hoped to expand Japanese

⁹² Ibid., 11–16.

⁹³ “Loan package,” *Globe and Mail*, 24 March 1984; also “Cable from Ambassador Katori to the Foreign Minister, ‘Prime Minister Visit to China (Summit Meeting—Economic Cooperation, Economic Exchange),’” 24 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWIHP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/119548>, accessed 25 October 2020.

private investment in China.⁹⁴ Nakasone further promised Deng that China would be one of Japan's vital foreign partners.⁹⁵ With Japanese help, China was able to secure not just funds but also the technical expertise that was crucial to raising Chinese enterprises' productivity.

Overcoming Diplomatic Isolation Through Relations with IFOs

After long years of cultivation, Beijing's partnerships with the WB, the ADB, and the West were put to the test in 1989. Following the Tiananmen Incident, the Group of 7 (G7) imposed sanctions on China and put pressure on the WB and ADB to disengage from China. This was a critical moment for Beijing. Should the Bank choose to disengage completely, the result would be disastrous. Edwin R. Lim, away on vacation in Hong Kong, returned immediately to Beijing to keep the WB office functioning, seeking to ensure the Bank's projects remained operational while maintaining the connection between Beijing and Washington.⁹⁶

Addressing top Chinese military men on 9 June 1989, shortly after the Tiananmen Incident, Deng sought to overcome challenges from hardliners who advocated an immediate closed door and reaffirmed the direction of Reform and Opening Up:

The important thing is that we must never turn China back into a country that keeps its door closed. A closed-door policy would be greatly to our disadvantage; we would not even have quick access to information.... Borrowing money abroad for this purpose is also part of reform and opening. The question before us now is not whether the policies of reform

⁹⁴ "Cable from Ambassador Katori to the Foreign Minister, 'Prime Minister Visit to China (Conversation with Chairman Deng Xiaoping)," 25 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWIHP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/118849>, accessed 25 October 2020.

⁹⁵ "Highlights of Japanese Prime Minister's Speech at Beijing University," *Xinhua General News Service*, 24 March 1984, in Charles Kraus, Sergey Radchenko, and Yutaka Kanda, "More Friends than Foes: Sino-Japanese Relations in 1984," Cold War International History Project E-Dossier 48 (27 March 2014), <https://www.wilsoncenter.org/publication/more-friends-foes-sino-japanese-relations-1984>, accessed 20 October 2020.

⁹⁶ Lim, "Learning and Working with the Giants," 127–128.

and opening are right or whether they should be implemented but how to carry them out, what to open and what to close.⁹⁷

In Washington, meanwhile, on 16 June 1989 WB President Barber B. Conable sent Shahid Javed Burki, the Country Director (China), to Beijing, entrusted by the White House with a secret mission to keep lines of communications open. Top officials in Beijing received him warmly, offering assurances that Reform and Opening Up would continue. While promising that the Bank would await the right moment to steer these through the Board, for his part Burki managed to convince Beijing to put all new Chinese projects on hold until political conditions in Washington improved. During this critical one-week trip, Burki visited various parts of the country and discussed the Chinese situation with foreign consultants and contractors, noting that the events of June Fourth had not seriously affected most of his interlocutors. Reporting back to Conable, Burki emphasized that China remained creditworthy, pursued Bank approval policies, and continued to implement Bank-financed projects effectively. Conable ordered him to brief personally each of 22 executive directors on the Bank's Board. When Beijing officials realized how Conable and Burki had acted, they were greatly encouraged. Recognizing that differences existed between the Bank's management and its Executive Board, Beijing began to appreciate that the Bank's management might be a trustworthy non-political independent actor. IFO staff therefore became important guarantors of assurances of maintaining an open door during the turbulent months of contention.

As military control was imposed on Beijing and order slowly restored, Washington began to resume informal dialogues with Beijing. Meeting in October 1989 with former President Richard Nixon, who arrived in the capacity of a special representative of the President of the United States, in an effort to resuscitate the shattered relationship between Beijing and Washington, Deng once again highlighted the promise of the China market:

⁹⁷ Deng Xiaoping, "Address to Officers at the Rank of General and Above in Command of the Troops Enforcing Martial Law in Beijing," 9 June 1989, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/18/address-to-officers-at-the-rank-of-general-and-above-in-command-of-the-troops-enforcing-martial-law-in-beijing/>, accessed 12 November 2019.

Sino-U.S. relations have a good foundation; the two countries can help each other develop their economies and defend their economic interests. The Chinese market is by no means fully developed yet, and the United States can take advantage of it in many ways. We shall be happy to have American merchants continue doing business with China. That could be an important way of putting the past behind us.⁹⁸

An opportunity to do so finally arose in 1990, when a massive earthquake devastated much of Shanxi province. Citing humanitarian reasons, Burki immediately submitted an emergency WB lending program for China, and the Board quickly approved an earthquake relief project. Following this success, the Bank's management was able to put forward a further four programs to meet China's basic needs. Ultimately, the IDA designated a total of five IDA loans worth \$560 million for China. Meanwhile, the G7 alignment also began to crack when Japan decided to resume lending to China.⁹⁹ The ADB likewise quickly followed suit and approved financing for the Nanpu Bridge, intended to link Pudong New Zone (established in 1990 as a new financial center) with western sections of Shanghai.¹⁰⁰ Within the WB, once Japan refused to continue its support for the G7 resolution on China, European countries likewise decided to abandon the consensus, leaving the United States standing alone. In 1991, all lending to China resumed while the United States cast votes of abstention (rather than opposition) on any project unrelated to China's basic needs.¹⁰¹ Ironically, even as Beijing successfully broke loose from the chains of sanctions, stronger WB-Beijing and ADB-Beijing connections were forged in the process of overcoming pressures for disengagement.

⁹⁸ Deng Xiaoping, "The United States Should Take the Initiative in Putting an End to the Strains in Sino-American Relations," Talk with former President Richard Nixon of the United States, 31 October 1989, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982-1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/18/the-united-states-should-take-the-initiative-in-putting-an-end-to-the-strains-in-sino-american-relations>, accessed 12 November 2019.

⁹⁹ Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 13.

¹⁰⁰ Wihol, *A Partnership Transformed*, 16.

¹⁰¹ Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 13.

CONCLUSION

Deng's positive economic statecraft, which focused on building relationships with the outside world and assuming full membership in the Bretton Woods institutions, not only withstood pressure from hardliners to close the door in the moment of crisis, but also left a long legacy behind. Through major international financial organizations (IFOs) and bilateral agreements, foreign loans and investments continued to flow into China. By securing membership in the International Monetary Fund and World Bank, Beijing opened more doors of opportunity, enabling China to obtain additional essential loans for agricultural development, banking operations, and infrastructure construction. While providing Beijing officials with invaluable advice, the two World Bank reports also encouraged additional foreign investors to focus upon China. By consolidating its partnerships with both the WB and ADB, Beijing won sympathetic friends and support within these IFOs, which served as an important channel of communication between Beijing and the Western world during the difficult months in 1989 when hardliners challenged Deng's reforms.

Staying or leaving would make a huge difference to China's development and its relationships with the outside world. As long as Beijing followed Deng's positive economic statecraft and remained creditworthy, China's access to funds, loans, technology, knowledge, and skills would continue. Once Beijing chose to remain as an active member, China's influence in the Bretton Woods institutions, as well as other international organizations, could be expanded even further. Overall, unification with Taiwan excepted, Deng's positive economic statecraft achieved most of his policy objectives: the Soviet threat was minimized; China was on track to regain its prominent position in East Asia; and the dictatorship of the CCP was preserved.

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Reimagining the Chinese Economy Through Sino-Japanese Engagement in the 1980s

Wendy Leutert

INTRODUCTION

On 27 January 1979, a group of high-level Chinese officials gathered at Diaoyutai State Guesthouse in Beijing to attend presentations by two Japanese economists. Ōkita Saburō, Chairman of the Japan Economic Research Center, and Sakisaka Masao, President of the National Center for Research Advancement, gave the first in a series of lectures on topics such as “Japan’s Post-War Economic Development and China’s Development.” Over the next several days, Ōkita and Sakisaka also delivered a separate report responding to specific questions by Chinese Vice-Premier Gu Mu, addressed department-level economic officials at the Friendship Hotel, and gave a talk at the Chinese Academy of Social Sciences

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attended by approximately 500 officials and scholars.¹ As Ōkita recalled: “During our stay in Beijing, we met with economists who are involved in China’s economic planning.... We had the opportunity to discuss various issues such as Japan’s development of its own economic planning, changes in the industrial structure and issues over energy.”² Just a few years earlier, inviting foreigners from an advanced capitalist economy to lecture and meet with Chinese officials and scholars in Beijing would have been unthinkable. How did cross-border movements of people and ideas between China and Japan occur during the 1980s, and what were their effects on China’s early economic policies under Deng Xiaoping?

This chapter examines three mechanisms of Sino-Japanese engagement—advisers, exchanges, and examples—and assesses their impact on China’s economic policy-making. Ōkita and Sakisaka served as the first economic advisers to China’s State Council during the Reform period. Japanese economists continued to provide ideas and suggestions to Chinese policymakers throughout the 1980s, albeit on a more informal basis. Study tours from China to Japan and organizations for bilateral exchange, such as the Sino-Japanese Knowledge Exchange and the Japan-China Economic Association, also facilitated deeper bilateral engagement. In addition, Chinese officials and scholars closely scrutinized Japan’s economy and enterprises in written studies, including both original research and translations of Japanese works. While other authors in this volume highlight the importance during the early Reform period of interactions between China and the United States (Chapters 3, 4, 5), West European countries (Chapter 9), and international organizations (Chapter 6), Japan was arguably the top focus for Chinese policymakers tasked with reimagining China’s economy.³

¹ 张云方 [Zhang Yunfang], 《从改革开放伊始说起》[“Cong gaige kaifang yishi shuo qi”] [“Speaking of the Beginning of Reform and Opening”], *People’s China*, 24 September 2019.

² 大来佐武郎 [Ōkita Saburō], 中国への出張記録 1979年1月18日–1979年10月23日 [Business Trip Record to China: January 18, 1979–October 23, 1979], Ōkita Notebooks 11–062, Personal Papers of Ōkita Saburō, archival collections of the National Graduate Institute for Policy Studies (GRIPS).

³ During the early Reform period, Japan featured more often than any other country in articles in the widely circulated *Jingji Yanjiu Cankao Ziliao* [Economic Research Reference Materials]. 萧冬连 [Xiao Donglian], 《中国改革初期对国外经验的系统考察和借鉴》[“Zhongguo gaige chuqi dui guowai jingyan de xitong kaocha he jiejian”] [“Systematic Investigation and Referencing of Foreign Experiences in the Early Stage of China’s

These movements of people and ideas between China and Japan affected Chinese policy-making through multiple channels. The most immediate pathway was direct experience: when Chinese officials or scholars went to Japan or interacted with Japanese actors either there or in China. Information and ideas from Japan were disseminated within the Chinese bureaucracy and incorporated into the policy process through formal oral and written reporting as well as private, informal communications. Other avenues included training programs for local officials and presentations at closed-door meetings convened by the Chinese government and attended by larger groups of officials and enterprise representatives. Information and ideas from Japan also circulated within and beyond the Chinese bureaucracy through internal government journals, external talks, and in some cases even the publication of books and articles for a mass audience.

Although Japan's material assistance to China during the 1980s is widely recognized, the effects of Sino-Japanese engagement on Chinese policy-making remain underappreciated. Loans, aid, and technology assistance from Tokyo provided vital support to China's economy, facilitating the success of the Reform and Opening Up movement under Deng.⁴ Scholarship on how Japanese advisers, bilateral exchanges, and study of Japan's economy and enterprises also affected Chinese domestic policy-making is growing but remains limited. Sebastian Heilmann and Lea Shih, for example, argue that Sino-Japanese exchanges during the early Reform Era powerfully affected the evolution of advocacy coalitions within the Chinese government and ultimately yielded a proliferation of national industrial policy programs after 2004.⁵ Sarah Eaton also cites Japan as one important source of ideas behind the "advance of the state": the resurgence of centrally controlled large enterprise groups in China despite market reforms.⁶ This study extends these works by focusing on the

Reform"], 《中共党史研究》 [*Zhonggong Dang Shi Yanjiu*] [CCP History Research] 4 (2006): 25.

⁴ Tsukasa Takamine, *Japan's Development Aid to China* (London: Routledge, 2006).

⁵ Sebastian Heilmann and Lea Shih, "The Rise of Industrial Policy in China, 1978–2012," *Harvard-Yenching Institute Working Paper Series* 17: 7 (2013): 1–24.

⁶ Sarah Eaton, "The Gradual Encroachment of an Idea: Large Enterprise Groups in China," *Copenhagen Journal of Asian Studies* 31: 2 (June 2013): 5–22; and Sarah Eaton, *The Advance of the State in China: The Power of Ideas* (Cambridge: Cambridge University Press, 2015).

mechanisms of Sino-Japanese engagement and its effects on economic policy-making during the 1980s.

Sino-Japanese engagement shaped China's early Reform trajectory in multiple areas. First, Chinese policymakers felt that Japan offered a successful example of how to combine economic planning with market-oriented reforms. Japan's experience showed it was possible to use industrial policy to promote basic and export industries while also using indirect forms of guidance and state-enterprise coordination to steer but not control economic activity. In addition, Japan provided both a justification and a source for the import of foreign technology crucial to modernizing Chinese industry and accelerating domestic economic development. And if foreign technology was the hardware, then Chinese policymakers viewed Japanese management practices as the requisite software to achieve its full productivity potential. Even if Chinese policymakers had divergent views on which aspects of Japan's experiences to prioritize and apply, a strong consensus existed that Sino-Japanese engagement was valuable and immediately useful for China.

This chapter proceeds as follows. First, it briefly reviews the broader international and domestic context of deepening bilateral engagement between China and Japan under Deng. Next, it briefly discusses three key mechanisms of bilateral engagement—international advisers, exchanges, and examples—and provides examples of each. The following section discusses key themes in Sino-Japanese engagement and their effects on Chinese policy-making in terms of combining economic planning with market-oriented reform, importing foreign technology, and improving management. The conclusion discusses broader implications and questions for future research.

CHINA AND JAPAN: FROM ESTRANGEMENT TO ENGAGEMENT

China's international relations transformed fundamentally in the 1970s. Visits to Beijing by Henry Kissinger and Richard Nixon set U.S.-China relations on the course toward establishment of diplomatic relations in 1979. Rapprochement with the United States catalyzed breakthroughs in China's diplomatic relationships with Japan, European countries, and other states worldwide. The number of countries with which China had diplomatic relations increased from 50 prior to the Cultural Revolution to nearly 100 by the end of 1974; 18 countries, including Japan, established

diplomatic relations with China in 1972 alone.⁷ Lower-level exchanges of research and technical experts quietly began to flourish, addressing topics ranging from railway technology to pest control.⁸ At the initiative of Hua Guofeng and then Deng Xiaoping, high-ranking Chinese officials led delegations around the globe, from Japan to Hong Kong to the United Kingdom and beyond. In 1978 alone, 21 Chinese delegations led by 13 vice-premiers and National People's Congress vice-chairmen visited 51 countries.⁹ These diplomatic efforts were an important part of Deng Xiaoping's economic statecraft: they aimed to obtain information, capital, technology, and international support for China's domestic economic reforms.

Deng and Chinese policymakers were particularly interested in emulating the post-war economic success of neighboring Japan. At the dawn of the 1980s, Japan appeared poised to become the world's largest economy, with annual GDP growth rates frequently exceeding 10% for nearly two decades.¹⁰ As of 1976, Japan accounted for about 10% of global economic activity, even though it had only 3% of the world's population and 0.3% of its surface area.¹¹ Companies like Toyota and Sony had become household names worldwide and global industry leaders in automobiles, electronics, and household appliances. Although Deng also prioritized engagement with other advanced capitalist economies like the United States, as Lu Sun (Chapter 3) and Shu Guang Zhang (Chapter 4) demonstrate in this volume, Chinese policymakers were especially interested in Japan's specific example of how to "catch up" rapidly after a period of domestic destruction and turmoil.

⁷ Chi-Kwan Mark, *China and the World Since 1945: An International History* (New York: Routledge, 2012), 84.

⁸ 《出国参观考察报告：日本铁路列车编组自动化技术》[*Chuguo canguan kaocha baogao: Rieben tielu lieche bianzu zidonghua jishu*] [Overseas Study Tour Report: Japanese Railway Train Grouping Automation Technology], no. 13 (Beijing: Kexue Jishu Wenxian Chubanshe, 1977). Reports on file with the author.

⁹ Frederick C. Teiwes and Warren Sun, "China's New Economic Policy under Hua Guofeng: Party Consensus and Party Myths," *China Journal* 66 (July 2011): 14.

¹⁰ Shinji Yoshioka and Hirofumi Kawasaki, *Japan's High-Growth Postwar Period: The Role of Economic Plans* (Tokyo: Economic and Social Research Institute Cabinet Office, 2016), 1.

¹¹ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy: 1925–1975* (Palo Alto, CA: Stanford University Press, 1982), 6.

Deng's state visit to Japan in October 1978 officially shifted the bilateral relationship from estrangement to engagement. During this visit, which both sides recognized as a great diplomatic success, Deng signed the 1978 Sino-Japanese Treaty of Peace and Friendship and met with Emperor Hirohito as well as top Japanese officials including Prime Minister Fukuda Takeo. He emphasized that despite past animosities and atrocities, China and Japan were neighboring countries with deep intellectual and cultural ties. Deng also met with Japanese business leaders and visited multiple companies including New Japan Steel, Nissan, and Toyota Motor Corporation. Speaking with confidence and candor at a press conference on 25 October 1978, Deng said frankly: "We must admit our deficiencies. We are a backward country and we need to learn from Japan."¹² At the same time, however, he was keenly aware that China's natural resources and its large market were powerful bargaining chips. Like Chinese leaders before him, Deng deliberately used these economic inducements when engaging Japan.¹³

Multiple factors motivated Japan's leaders and business community to pursue deeper ties with China. Many Japanese officials and businesspeople viewed China as ripe for trade and investment and a highly desirable source of such raw materials as oil, coal, and iron. Closer economic relations, advocates argued, could aid short-term adjustments in Japan's industrial structure as well as long-term growth.¹⁴ Japanese trade tensions with the United States also increased support for diversifying international trade.¹⁵ In this context, some saw trade with China as a way to resist imperialist U.S. "control" over Japan's foreign trade.¹⁶ From

¹² Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2011), 304.

¹³ Shu Guang Zhang, *Beijing's Economic Statecraft during the Cold War, 1949–1991* (Washington, DC: Woodrow Wilson Center Press, and Baltimore, MD: Johns Hopkins University Press, 2014).

¹⁴ 邱麗珍 [Chiu Lichen], 「日中国交正常化後の日本の対中経済外交(一): 日中長期貿易決めと稲山嘉寛」 [“Japan's Economic Diplomacy Toward China after the Normalization of Sino-Japanese Relations: Sino-Japanese Long-Term Trade Agreement and Inayama Yoshihiro (1)"], 北大法学論集 [*Hokudai Hongaku Ronjyu*] [Hokkaido Law Review] 59: 6 (March 2009): 1–58.

¹⁵ Ryosei Kokubun, Yoshihide Soeya, Akio Takahara, and Shin Kawashima, *Japan-China Relations in the Modern Era* (Abingdon, UK: Routledge, 2017).

¹⁶ Amy King, *China-Japan Relations after World War Two: Empire, Industry and War, 1949–1971* (Cambridge: Cambridge University Press, 2016), 12.

a security perspective, some Japanese leaders contended that supporting Chinese development would decrease the threat of economic collapse or turmoil—thereby promoting a peaceful and prosperous East Asia from which Japan would benefit. In December 1979, Prime Minister Ōhira Masayoshi stated that “it is in Japan’s national interest to assist China’s stable development for the long-term and this will contribute to the peace and stability of the region.”¹⁷ “War guilt” was another important motivation; some in Japan described providing assistance and advice to China as a way to address the past suffering caused by Japanese aggression.¹⁸

MECHANISMS OF ENGAGEMENT

Advisers

International advisers were an important yet under-examined channel through which China engaged with other countries during the early Reform Era. Deng reportedly endorsed this initiative in a conversation with Vice-Premier Gu Mu in 1978, stating: “We don’t have enough experience, so we can draw on the wisdom of others!”¹⁹ These foreign experts traveled to China to share their countries’ development experiences and provided information and analysis on topics of particular interest to Chinese policymakers. Some individuals served formally as economic advisers (*jingji guwen*) to China’s State Council (see Table 7.1). Others, such as economists from the World Bank, the United States, Hungary, and other countries, acted in a more informal advisory

¹⁷ 松本盛雄 [Matsumoto Morio], 「外交官からみた日中経済交流—一日中の経済外交を回顧して」 [“Sino-Japanese Economic Exchange from a Diplomat’s Point of View—Reviewing Sino-Japanese Economic Diplomacy”], in 服部健治 [Kenji Hattori] and 丸川知雄 [Marukawa Tomoo], eds., 「日中関係史 1972–2012 II 経済」 [The History of Japan–China Relations 1972–2012, Economy], vol. 2 (Tokyo: 東京大学出版会, 2012), 34–35.

¹⁸ Yoshihide Soeya, *Japan’s Economic Diplomacy with China, 1945–1978* (Oxford: Clarendon Press, 1998); and Ezra F. Vogel, *China and Japan: Facing History* (Cambridge, MA: Harvard University Press, 2019).

¹⁹ 魏众 [Wei Zhong], 《改革开放初期的洋顾问》 [Gaijie kaifang chuqi de yang guwen] [Foreign Consultants in the Early Stage of Reform and Opening] (Beijing: Sun Yefang Economic Science Foundation, 10 November 2020).

Table 7.1 Foreign economic advisers to the state council during the early reform era

<i>Year of appointment</i>	<i>Name</i>	<i>Country of origin</i>
1978	Ōkita Saburō	Japan
1978	Sakisaka Masao	Japan
1978	Armin Gutowski	(West) Germany
1985	Goh Keng Swee	Singapore
1985	Lee Kuan Yew	Singapore

capacity.²⁰ These advisers provided first-hand accounts of other countries' approaches to development, their successes as well as their mis-steps, tendering information that might not otherwise be publicly available.

Japanese economic advisers to the State Council were important sources of ideas during this period. Ōkita, at that time Chairman of the Japan Economic Research Center, and Sakisaka, then President of the National Institute for Research Advancement, became the very first economic advisers to the State Council during the Reform Era. Inayama Yoshihiro, the head of Japan Steel, reportedly invited Ōkita to participate at the request of Chinese Vice-Premier Gu Mu.²¹ Kobayashi Minoru, then Deputy General Manager of the Research Department of the Industrial Bank of Japan, who accompanied them to China on their visits beginning in January 1979, also became a respected informal adviser to Chinese policy elites. From 26 January to 2 February 1979, Ōkita and Sakisaka delivered lectures at the Diaoyutai State Guesthouse and met with senior Chinese officials in Beijing. Ōkita and Sakisaka, again accompanied by Kobayashi, returned to China once again in October 1979 for two weeks to tour automotive and equipment manufacturing enterprises in Beijing and Shanghai and visit Hangzhou. On 23 October 1979, the three Japanese economists addressed approximately 400 attendees at an academic conference in Beijing on economic development and international relations (Ōkita), the role of the machine industry in economic development (Sakisaka), and China's economic construction and the effective use of capital (Kobayashi). At the close of their visit,

²⁰ Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Cambridge, MA: Harvard University Press, 2017).

²¹ Ōkita Saburō, *Japan's Challenging Years: Reflections on My Lifetime* (Sydney: George Allen and Unwin, 1985), 162.

they also delivered reports to senior officials, including Vice-Premier Gu Mu.²²

In the 1980s, these highly structured and formal visits by Japanese economic advisers to the State Council gave way to other exchange mechanisms and more informal advisory relationships. The period when prominent Japanese individuals were economic advisers to the State Council was ultimately short-lived: Ōkita ended his service after less than a year when he became Japan's Foreign Minister in November 1979. In his autobiography, Ōkita recalled a joking remark that Deng Xiaoping made during Prime Minister Ōhira Masayoshi's official visit to China in December 1979: "I have asked Dr. Ōkita to be an adviser to China on economic problems but since you appointed him Foreign Minister I wonder if he could continue working at both these positions?" Ōhira smiled and said 'Sure, why not!' but everyone realized that it was impossible [sic]."²³ Sakisaka did visit China again for 20 days from late May to early June 1979, but this time came as the deputy head of a 14-member delegation organized by the Japan-China Economic Association.²⁴ Kobayashi continued to stay in close but more informal communication with Chinese officials, later collaborating on research with Chinese economists and publishing joint work.²⁵

Exchanges

Exchanges were another means whereby movements of people and ideas between China and Japan occurred. They encompassed in-person meetings as well as other forms of communication between individuals across national borders, such as written correspondence. These exchanges varied

²² 大来佐武郎 [Ōkita Saburō], 中国への出張記録 1979年1月18日-1979年10月23日 [Business Trip Record to China: January 18, 1979–October 23, 1979], Ōkita Notebooks 11–062.

²³ Ōkita, *Japan's Challenging Years*, 100.

²⁴ Ryo Seiko recalls that Ōkita asked China to pay a consulting fee to the Japanese delegation on this second visit. 凌星光 [Ryo Seiko], 「公開講演記録 日中経済知識交流会の発足と初期に果たした役割」 [Record of a Public Talk: The Establishment of the Japan–China Economic Knowledge Exchange Association and Its Initial Role], 「善隣」 [Zenrin] 2016: 10–17.

²⁵ 吴敬琏 [Wu Jinglian] and 小林实 [Kobayashi Minoru], 《中国: 向高度经济成长的挑战》 [*Zhongguo: Xiang gaodu jingji chengzhang de tiaozhan*] [China: Challenges to High Economic Growth] (Tokyo: Riben Jingji Xinwenshe, 1993).

in nature from formal through semi-formal to informal.²⁶ Formal overseas study tours, involving small numbers of officials and academic participants traveling from one country to another for non-commercial exchange purposes, extended a long-standing Chinese official practice of inspection (*kaocha*).²⁷ Semi-formal exchanges between individuals took place in such settings as government-facilitated academic conferences or on the sidelines of official meetings, whereas unstructured informal exchanges between individuals occurred both in-person and remotely through mediums like letters or telephone calls. All these types of exchanges had the important advantage of enabling first-hand access to information; they were, however, typically limited in scope and duration.

Study tours initially constituted the main form of Sino-Japanese exchanges during the Reform Era. These study tours enjoyed political support at the highest levels of government. Before Deng even departed Japan after his October 1978 official visit, a high-level delegation of Chinese economic policymakers led by Yuan Baohua, Vice-Director of the State Economic Planning Commission, and advised by Deng Liqun, Vice-Director of the Chinese Academy of Social Sciences (CASS), arrived in Tokyo to begin a month-long study tour. Study tour delegations typically spent several weeks in Japan visiting government offices, universities, and enterprises to meet with Japanese officials and businesspeople.²⁸ Participants hailed primarily from state and state-affiliated organizations, including the State Economic Commission, the State Economic System Reform Commission, and CASS. Chinese analysts described study tours as a “relay race” in which successive delegations gathered information to address emergent economic challenges.²⁹ In their view, this practice

²⁶ I exclude international exchanges focused narrowly on the negotiation of specific treaties, loan or investment agreements, or commercial projects between private sector actors.

²⁷ Such inspection typically involves officials reviewing developments at lower levels of government administration or in different localities at the same level. Domestic and international inspection share the common aim of information collection; however, domestic inspection also has a supervisory function absent in international inspection.

²⁸ For an overview of study tour types and operations, from pre-departure preparations to post-trip reporting, see 李贤沛 [Li Xianpei], 《日本的企业管埋——访日考察报告》 [“Japanese Enterprise Management Visit to Japan Inspection Report”], 《中南财经政法大学学报》 [Journal of Zhongnan University of Economics and Law] 2 (1981): 71–77.

²⁹ 冯昭奎 [Feng Zhaokui], 《绪论》 [“Preface”], in 中国社会科学院日本研究所 [CASS Japan Research Institute], 《日本的经济与中国的改革》 [Riben de jingji yu Zhongguo de

emulated what Japan itself had done when dispatching study delegations to the United States after the Second World War.

A wave of study tours from China to Japan gradually evolved into more institutionalized channels for official and civilian exchange.³⁰ The Japan-China Economic Association, established by Japan's Ministry of International Trade and Industry (MITI) in November 1972 with CASS as its nominal partner, was a key organization facilitating cross-border movements of people and ideas. The Association actively promoted bilateral exchange by organizing delegations and meetings of economic policymakers from both countries.³¹ Every year the Association sent delegations to China to convey policy messages from Japanese enterprises and then brief them upon return. The Association produced written delegation reports as well as analyses of key topics in the Chinese economy. In 1983, for example, the Association published a detailed analysis of Chinese enterprise reforms and potential challenges.³²

The Sino-Japanese Economic Knowledge Exchange was another key forum for bilateral exchange. With the support of Chinese Premier Zhao Ziyang, Gu and Ōkita established it in 1980, with Sakisaka and CASS Deputy President and Institute of Industrial Economics Director Ma Hong as founding Chief Representatives. Gu envisioned the Exchange as a "Track 2" forum with participants including researchers and officials, both current and retired, meeting regularly in both countries.³³ As Gu

gaige] [Japan's Economy and China's Reform] (Beijing: Jingji Kexue Chubanshe, 1993), 7.

³⁰ Author's estimate, based on records of economic exchanges between 1978 and 1990s, in 田桓 [Tian Wei], 纪朝钦 [Ji Chaoqin], and 蒋立峰 [Jiang Lifeng], 《战后中日关系史年表: 1945—1993》[Chronology of the History of Sino-Japanese Post-war Relations: 1945—1993] (Beijing: Zhongguo shehui kexue chubanshe, 1994).

³¹ 邱 麗珍 [Chiu Lichen], 「日中国交正常化後の日本の対中経済外交(一): 日中長期貿易 決めと稲山嘉寛」 [“Japan's Economic Diplomacy Toward China after the Normalization of Sino-Japanese Relations: Sino-Japanese Long-Term Trade Agreement and Inayama Yoshihiro (2)”, 北大法学論集 [*Hokudai Hougaku Ronjyu*] [Hokkaido Law Review] 61: 1 (January 2010): 53–107.

³² 日中経済協会 [Japan-China Economic Association], 「日中経済交流シンポジウム, 講演会報告書: 日中国交正常化10周年・日中経済協会創立10周年記念」 [Report on Sino-Japanese Economic Exchange Symposium: The 10th Anniversary of the Normalization of Diplomatic Ties between Japan and China and the Establishment of the Japan-China Economic Association], December 1982.

³³ 政策研究大学院大学 [National Graduate Institute for Policy Studies], 「宮崎勇 オーラルヒストリー」 [Miyazaki Isamu: Oral History], 「C.O.E オーラル・政策研究プ

recounted in a 1998 letter to Premier Zhu Rongji: “My purpose that year in establishing the Sino-Japanese Economic Knowledge Exchange was to borrow from advanced foreign experiences to serve China’s Reform and Opening and economic development. This was also the intention of Deng Xiaoping.”³⁴ Ōkita later reflected on the bilateral exchange: “The Chinese side has immensely absorbed ideas that are useful for the implementation of economic policy through the discussions and regards this as one of the most important conferences in external relations. Also for the Japanese side, it was an extremely useful conference to understand China’s economic planning and the background of its policies.”³⁵

Exchanges, however, did not always equate to mutual understanding. Chinese and Japanese interlocutors at times struggled to understand one another’s meaning. During the 1981 meeting of the Sino-Japanese Knowledge Exchange, both sides therefore agreed to collaborate on a joint encyclopedia to address the issue.³⁶ In the foreword to this work, published simultaneously in both countries in 1982, the combined editorial team—on the Chinese side, Xue Muqiao, Ma Hong, and Fang Weizhong, and on the Japanese side, Ōkita Saburō, Sakisaka Masao, and Shimokōbe Atsushi—wrote:

Since 1981, some economists from the two countries have organized economic knowledge exchange meetings and met regularly to exchange opinions freely. During the process of exchange, both sides perceived a major difficulty. Because of the differences in the two countries’ economic institutions and systems of economic theory and economic theoretical systems, it was very difficult to accurately understand one another’s economic concepts and economic terms. If this difficulty is not resolved, it will be difficult to correctly understand the other’s economic situation. In recent years, when economic workers and economic theory workers of the two countries visited each other, it was often necessary to repeatedly

プロジェクト] [C.O.E. Oral-Policy Research Project] (政策研究大学院大学, 15 March 2002), 313.

³⁴ 王梦奎 [Wang Mengkui], 《中日经济知识交流会 30 年回顾》[“Zhong ri jingji zhishi jiaoliu hui 30 nian huigu”] [“Reflections on 30 Years of the Sino-Japanese Economic Knowledge Exchange”], 《中国发展观察》[*Zhongguo Fazhan Guancha*] [China Development Observation] (June 2011): 11.

³⁵ 小野善邦 [Ono Yoshikuni], 我が志は千里に在り: 評伝大来佐武郎 [My Will Is in a Thousand Miles: A Biography of Ōkita Saburō] (Tokyo: 日本経済新聞社, 2004), 391.

³⁶ *Ibid.*, 388.

introduce the most basic concepts and the most basic circumstances. This generated the motivation to compile this *Modern Sino-Japanese Economic Encyclopedia*.

Differences in language, culture, and economic and political systems together presented significant obstacles to such working exchanges between China and Japan.

Examples

The study of international examples was another key mechanism of Sino-Japanese engagement. Such international examples ranged from analyses of the structure and development of Japan's economy at the macro-level to studies of Japanese companies at the micro-level. The most common format in which international examples appeared was case studies using secondary source materials and/or primary data collected through in-person visits or exchanges with Japanese actors. In theory, the study of international examples could enable Chinese policymakers to incorporate larger amounts of data, draw upon diverse sources, and employ a broader chronological and comparative lens. In practice, however, issues of information access limited the number and scope of international examples actually examined.

Many works by Japanese authors were also translated into Chinese and widely read and discussed in China. In 1987, senior adviser on economic policy and former National Bureau of Statistics Director Xue Muqiao penned a foreword to a Chinese translation of a compendium of Kobayashi's essays on the Chinese economy, stating: "Over the past 6 years, he [Kobayashi] has visited China approximately 10 times and written many academic essays very worthy of reference on China's economic development strategy, especially on reforming the management of the financial system."³⁷ Translations of works by Ōkita and Sakisaka also appeared.³⁸ Scholarship by other Japanese academics and

³⁷ 小林实 [Kobayashi Minoru], 《论中国经济发展之关键》[*Lun Zhongguo jingji fazhan zhi guanjian*] [On the Key to China's Economic Reform], translated by 李建国 [Li Jianguo] and 张尽平 [Zhang Jinping] (Beijing: Zhongguo Duiwai Jingji Maoyi Chubanshe, 1987).

³⁸ 大来佐武郎 [Ōkita Saburō], 《发展中经济类型的国家与日本》[*Fazhan zhong jingji leixing de guojia yu Riben*] [Countries with Developing Economies and Japan], translated by China Translation and Publishing Corporation (Beijing: Zhongguo Duiwai Fanyi

officials was likewise published, republished, and widely read in China. For instance, Japanese economist Ryutaro Komiya's analyses of the Chinese economy and his assertion that "China does not have enterprises"—Chinese companies were more akin to production units, Komiya concluded, because they lacked the "head office functions" of their Japanese counterparts: research and development, marketing, investment planning, and personnel management³⁹—provoked widespread debate and reflection.⁴⁰

On their side, Chinese analysts authored numerous studies of Japan's economic and technological achievements. Japan's rapid post-war economic growth was one of the most popular topics, inspiring such books as *Reasons for Japan's Rapid Post-war Economic Development*.⁴¹ Other Chinese authors wrote in-depth studies of Japanese management and companies, including *Introduction to Japanese Business Management* (1984) and *Japan's Toyota Motor Enterprise Group and Its Management* (1981).⁴² They also published volumes summarizing observations from Chinese study tours to Japan, notably *Reflections Upon Returning from Japan* (1979) and *Visiting Japan* (1982), blending accounts of official activities with their impressions of Japanese society.⁴³ Figure 7.1

Chubanshe, 1981); and 张云方 [Zhang Yunfang], ed., 《向坂正文文集》 [Selected Works of Sakisaka Masao], translated by the Sino-Japanese Economic Knowledge Exchange (Beijing: Zhongguo Qingnian Chubanshe, 1992).

³⁹ Ryutaro Komiya, "Japanese Firms, Chinese Firms: Problems for Economic Reform in China Part I," *Journal of the Japanese and International Economies* 1: 1 (March 1987): 31–61.

⁴⁰ Interview with State Council official, Beijing, January 2019. Harvard University Institutional Review Board protocol: IRB19-0511.

⁴¹ 张贤淳 [Zhang Xianchun], ed., 《战后日本经济高速发展的原因》 [*Zhan hou Riben jingji gaosu fazhan de yuanyin*] [Reasons for Japan's Rapid Post-war Economic Development] (Changchun: Jilin Daxue Chubanshe, 1986).

⁴² 任文侠 [Ren Wenxia], 《日本企业管理概论》 [*Riben qiye guanli gailun*] [Introduction to Japanese Business Management] (Beijing: Renmin Chubanshe, 1984); and 简柏邨 [Jian Bocun], 《日本丰田汽车企业集团及其经营管理》 [*Riben fengtian qiye qiye jituan ji qi jingying guanli*] [Japan's Toyota Motor Enterprise Group and Its Management] (Nanchang: Jiangsu Renmin Chubanshe, 1981).

⁴³ 邓力群 [Deng Liqun], 马洪 [Ma Hong], 孙尚清 [Sun Shangqing], and 吴家骏 [Wu Jiajun], 访日归来的思索 《经济管理》 [*Fang Ri guilai de sisuo; jingji guanli*] [Reflections Upon Returning from Japan] (Beijing: Zhongguo Shehui Kexue Chubanshe, 1979); and 沈衷 [Shen Zhong], 《访日见闻》 [*Fang Ri jianwen*] [Visiting Japan] (Nanjing: Jiangxi Renmin Chubanshe, 1982).

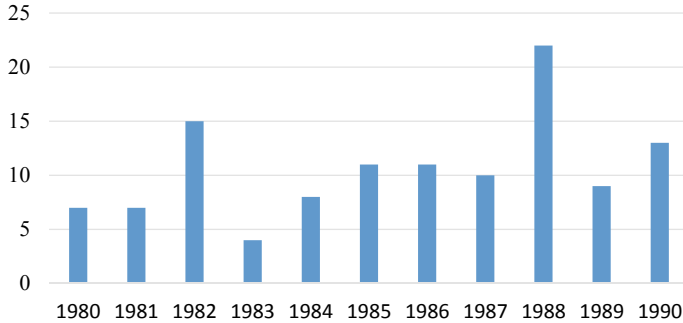


Fig. 7.1 Number of major works about the Japanese economy and technology published in China, 1980–1990 (Source CASS Japan Research Institute, *Japan’s Economy and China’s Reform* [Beijing: Jingji Kexue Chubanshe, 1993], 308–329)

summarizes the major works on the Japanese economy and technology published in China between 1980 and 1990.

SINO-JAPANESE ENGAGEMENT: KEY THEMES AND POLICY EFFECTS

Throughout the 1980s, how best to combine economic planning with market-oriented reform was a key theme in Sino-Japanese engagement. Ōkita and Sakisaka, beginning with their first visit to China in 1979 as economic advisers to the State Council, advocated for industrial policies to upgrade basic industry and for an export-oriented development strategy. Ma Hong introduced the Japanese terms for “industrial policy” and “industrial structure” into Chinese policy debates, where they quickly became core concepts.⁴⁴ These ideas resonated with earlier economic governance proposals in China. Xue Muqiao, who together with Ma served as Chief Representative to the Sino-Japanese Economic Knowledge Exchange during the early 1980s, had also advocated “indirect planning” in the 1950s as a way of indirectly shaping economic activity.⁴⁵

⁴⁴ The Chinese terms for “industrial policy” and “industrial structure” are 产业政策 and 产业结构, respectively. In Japanese, they are 産業政策 and 産業構造.

⁴⁵ 范世涛 [Fan Shitao] and 薛小和 [Xue Xiaohe], 《薛暮桥年谱》 [*Xue Muqiao nianpu*] [*Xue Muqiao Chronicle*], forthcoming.

Now, Japan's experience informed Chinese leaders' replacement of direct administrative commands with indirect guidance using macro-economic instruments and the development of large, state-controlled enterprise groups.⁴⁶ Yet different Chinese government bodies promoted divergent aspects of Japan's approach to combining plan and market. The State Planning Commission advocated for multi-year sector planning and support for "pillar" and "strategic" industries; the State Economic Commission prioritized establishing enterprise groups and business associations; and the State Economic System Reform Commission stressed indirect administrative guidance and the separation of government and enterprises and the concomitant establishment of "deliberation councils" linking the state and business.⁴⁷

The indispensable need to import foreign technology was another top theme in Sino-Japanese engagement. Chinese policymakers viewed Japan as both a source and a justification for increasing imports of foreign technology in order to "catch up" as a late developer. As adviser to the State Planning Commission Duan Yun stated in 1981: "We [China] and any developing country must vigorously develop foreign trade and introduce advanced technologies in order to speed up modernization and enter the ranks of the world's advanced economies as soon as possible. Japan's successful modernization in recent decades is a good example."⁴⁸ At a Sino-Japanese symposium on the economy organized by the Japan-China Economic Association in 1982, Japanese academic Nakaoka Testuro stressed the importance of importing advanced technology to boost productivity and economic development, citing Japan's own experience of "transplanting technology" from the West.⁴⁹ Importing foreign technology was not of course merely an academic issue: China urgently

⁴⁶ Wendy Leutert, "Sino-Japanese Engagement in the Making of China's National Champions," *New Political Economy* (2021): 1–15.

⁴⁷ Heilmann and Shih, "The Rise of Industrial Policy in China, 1978–2012," 7.

⁴⁸ 段云 [Duan Yun], 《调整期间中国经济的发展前景和加强中日两国贸易往来》 [Tiaozheng qijian Zhongguo jingji de fa zhan qianjing he jiaqiang Zhong Ri liang guo maoyi wanglai] [China's Economic Development Prospects During the Adjustment Period and the Strengthening of Trade Exchanges between China and Japan], speech to the Japan Council for the Promotion of International Trade on 18 December 1981, in 段云 [Duan Yun], 《段云选集》 [*Duan Yun xuanji*] [Collected Works of Duan Yun] (Taiyuan: Shanxi Renmin Chubanshe, 1987), 346.

⁴⁹ Japan–China Economic Association, Report on Sino-Japanese Economic Exchange Symposium: The 10th Anniversary of the Normalization of Diplomatic Ties between Japan

needed advanced technology to develop, and despite persistent contract delays and cancelations, in the 1980s, Japanese companies were eager to enter the Chinese market.⁵⁰

Both sides also agreed that improved business management was essential if foreign technology was to be effective. Indeed, Chinese leaders saw their neighbor as a model to emulate, observing that Japan too had once faced and overcome similar challenges through engagement with the United States. As Deng Liqun wrote:

At the beginning, they [Japan] also paid attention to the introduction of advanced foreign technology, and paid little attention to the introduction of advanced management methods. This was the case in the early 1950s. ... Later, they accepted this lesson and paid attention to this problem. They translated other books, invited other experts, and sent factory managers and experts to research and study abroad.⁵¹

Chinese companies faced a dual challenge in the early Reform period: (1) calibrating production based on input costs and market demand rather than administrative targets; (2) minimizing production costs and pricing outputs appropriately to generate profits. Reconceptualizing “reform as management” was pivotal because it foregrounded intra-enterprise management as the solution to these problems, moving forward from earlier unsuccessful attempts to redefine the incentive frameworks shaping enterprise-government relations. Previous studies of management in China, a delegation to Japan from the State Economic Commission wrote, had conceptualized it too narrowly as being only about the relations of production.⁵² Modernizing management in Chinese firms also faced cultural challenges. The organizational culture in state firms reflected socialist and traditional values: authority and benefits were

and China and the Establishment of the Japan–China Economic Association, December 1982.

⁵⁰ Shigeru Ishikawa, “Sino-Japanese Economic Co-operation,” *China Quarterly* 109 (March 1987): 1–21.

⁵¹ Deng Liqun et al., *Reflections Upon Returning from Japan*, 26.

⁵² 国家经济委员会 [State Economic Commission], 《日本工业企业管理考察》 [*Riben gongye qiye guanli kaocha*] [Japanese Industrial Management Inspection] (Beijing: State Economic Commission, 1979), 18–19.

disproportionately allocated to older, longer-serving male workers, political factors shaped career progression, and it was extremely difficult to lay off workers.⁵³

Japan was the top focus in Chinese policymakers' efforts to improve business management. Specifically, they were interested in Japanese managers' strict and comprehensive approach to management, one that imposed clear metrics for accountability and integrated oversight at every stage of the production process. After returning from the 1978 study tour to Japan, Deng Liqun proposed to the State Council that China should organize an Enterprise Management Association, modeled on the Japan Productivity Center in Tokyo.⁵⁴ The Enterprise Management Association's first activity was to organize a seminar to introduce Japan's experience to 110 participants from provincial and municipal governments.⁵⁵ A small number of Chinese factories in Beijing, Shanghai, and Tianjin were also selected to pilot a program matching each with a Japanese factory to exchange regular visits and share information on management techniques. Yuan Baohua, who had led the first major 1978 study tour to Japan after Deng Xiaoping's visit, served as senior adviser to the Tsinghua School of Public Policy and Management (SPPM), a key academic institution of management in China. In the 1980s, Zhu Rongji, who was founding dean of SPPM and later became Premier, also participated in the Sino-Japanese Economic Knowledge Exchange.

Chinese policymakers also noted aspects of Japan's economy and enterprises that they had no wish to emulate. CASS researcher Wu Jiajun, who participated in the 1978 study tour to Japan that was led by Yuan Baohua and advised by Deng Liqun, expressed concerns about perceived "problems of Japan," including bankruptcy and unemployment.⁵⁶ The large-scale layoffs and shuttering of state firms that Jiang Zemin permitted

⁵³ Wendy Leutert, "Challenges Ahead in China's Reform of State-Owned Enterprises," *Asia Policy* 21 (January 2016): 83–100.

⁵⁴ Vogel, *Deng Xiaoping and the Transformation of China*, 309.

⁵⁵ 柳红 [Liu Hong], 《访日归来》 [*Fang Ri jianwen*] [Visiting Japan], [中国改革信息库] China Reform Information Database, 1 October 2010.

⁵⁶ 吴家俊 [Wu Jiajun], 《关于日本工业管理和企业管理的几个问题》 ["Guanyu Riben gongye guanli he qiye guanli de ji ge wenti"] ["Several Issues on Japanese Industrial Management and Enterprise Management"], in 邓力群 [Deng Liqun], 马洪 [Ma Hong], 孙尚清 [Sun Shangqing], and 吴家俊 [Wu Jiajun], 《访日归来的思索》《经济管理》 [*Fang Ri guilai de sisuo; jingji guanli*] [Reflections Upon Returning from Japan] (Beijing: Zhongguo Shehui Kexue Chubanshe, 1979), 94.

to occur in the late 1990s were a political impossibility during the early Reform period under Deng. Most fundamentally, Chinese policymakers were never interested in emulating private ownership, even though they recognized—and were interested in studying—the Japanese state’s tools of control over private enterprise, including government-directed mergers and “cooperative discussion groups” to organize investment.⁵⁷

The influence of Sino-Japanese engagement was greatest in the area of industrial policy. In 1986, the Development Research Center of the State Council circulated to China’s senior leadership a report entitled “Preliminary Research on China’s Industrial Policy.” In 1987, Premier Zhao Ziyang formally endorsed the report, writing:

At China’s current stage, only relying on the role of the market, only relying on free competition of enterprises, localities and departments is impossible. [We] must rely on industrial policies made clear by state institutions and on policies about enterprise organizational structure to carry out intervention [in the economy].

Zhao ordered the report to be sent to the State Economic System Reform Commission, the State Planning Commission, and the drafters of the 13th Party Congress Report.⁵⁸ One principal drafter of the report, Liu He, had participated in Sino-Japanese exchanges when working at the Development Research Center of the State Council; he later emerged as a key player in the policy coalition behind the industrial policy agenda of the 2000s under Hu Jintao and Wen Jiabao.⁵⁹ Yet while Japanese industrial policy was an important influence on Chinese practice in the early Reform Era, Chinese policymakers did not copy it wholesale. Instead, they applied industrial policy selectively across sectors. Most fundamentally, market competition remained the guiding principle of Chinese economic policies

⁵⁷ Johnson, *MITI and the Japanese Miracle*.

⁵⁸ Tian Jiyun, ed., *Advancing Amid the Wind and Waves: Chronicle of China’s Development and Reform (1977–1989)*, book 10, vol. 1987: 92, manuscript, available at the Fairbank Center Collection, Fung Library, Harvard University.

⁵⁹ Heilmann and Shih, “The Rise of Industrial Policy in China, 1978–2012,” 15. For a discussion of key individuals in this policy coalition and their career trajectories and relationships with one another, see *ibid.*, 16.

during this period, with industrial policy playing a critical yet ultimately supplementary role.⁶⁰

In other domains, Sino-Japanese engagement and its policy effects were more limited. Despite Chinese policymakers' strong interest in Japanese business management practices and efforts to promote these during the 1980s, implementation ran aground on economic realities and institutional obstacles. In China's planned economy and into the Reform Era, aggregate demand outstripped supply across multiple domains of the economy. These conditions, together with enduring emphasis on production during the planned economy period, meant that for many Chinese enterprises, quantity was simply more important than quality. Nor were institutional incentives aligned for Chinese enterprises to prioritize quality. The "dual track" Reform approach, in which production in excess of planning targets could be sold on private markets, further encouraged prioritizing quantity increases over quality improvements. Finally, the central role of the state also constrained Sino-Japanese engagement. During the 1980s, the Chinese government invited economic advisers and organized many bilateral exchanges of officials, scholars, and enterprise representatives. Furthermore, numerous participants on both sides were themselves officials or linked to the state. This narrowed the voices and approaches that actors on both sides encountered and their ability to use non-state-centric perspectives to assess them.

CONCLUSION

As Ezra F. Vogel concluded in his biography of Deng Xiaoping: "During Deng's years at the helm, no country played a greater role in assisting China build its industry and infrastructure than Japan."⁶¹ This chapter illuminates how cross-border movements of people and ideas, not just material assistance, contributed to this outcome. Advisers, exchanges, and examples linking China and Japan during the 1980s shaped China's early reform trajectory in several key areas. Japan offered one successful

⁶⁰ 吴敬琏 [Wu Jinglian], 《吴敬琏改革文选》 [*Wu Jinglian gaige wenxuan*] [Wu Jinglian Selected Works on Reform] (Shanghai: Shanghai Sanlian Shudian, 2021).

⁶¹ Vogel, *Deng Xiaoping and the Transformation of China*, 310.

example of how to combine economic planning with market-oriented reforms through industrial policy, administrative guidance, and state-enterprise coordination. Japan likewise provided a justification and a source for importing the foreign technology that China urgently needed to modernize industry and develop the economy. Japanese management practices also affected how Chinese policymakers approached industrial upgrading and enterprise reform.

More broadly, this account of Sino-Japanese engagement highlights how Deng's economic statecraft relied on the initiative and ingenuity of bureaucrats in both countries. Unquestionably, the success of economic statecraft during the Deng Era depended to a significant degree on the decisions and attributes of the statesman himself. Below the national level, however, a diverse cast of officials, scholars, and enterprise representatives undertook the difficult and often mundane daily work of bilateral engagement. In doing so, these individuals also exerted significant influence over the form, function, and ultimate policy consequences of Sino-Japanese engagement. Even in such highly centralized political systems as China, bureaucrats are consequential actors in economic statecraft, rather than mere agents of political parties or the state.

Future research could usefully place Sino-Japanese engagement during the 1980s in comparative context. Sino-Japanese exchanges were important but by no means the sole element in Chinese policymakers' thinking on economic Reform policies during this period. As a 1979 Japan-China Economic Association study tour report noted: "It was particularly impressive how they [Chinese policymakers] articulated that since there is no given model as they search for a new way, they needed to develop a reform plan by assessing the situation of their own country and studying the experiences of other countries."⁶² Existing scholarship specifically addressing the 1980s has focused on China's engagement with particular countries, regions, or international organizations, such as Japan, Eastern Europe, and the World Bank.⁶³ Future studies might therefore build on

⁶² 日中経済協会 [Japan-China Economic Association] 「中国の経済調整と近代化の展望:日中経済協会調査委員会訪中代表団報告」 [China's Economic Adjustment and Future Prospects for Modernization: Japan-China Economic Association, Investigation Committee's Report on the Visit to China] (November 1979): 46.

⁶³ See Heilmann and Shih, "The Rise of Industrial Policy in China, 1978–2012"; Fan Shitao, "Beyond the Soviet Model: Eastern Europe as Chinese Reformers' Mirror," Paper presented at the Association for Asian Studies Annual Meeting, Denver, CO, March 2019;

the example set by the present anthology and seek to synthesize scholarship on China's international engagement during the 1980s and its policy effects.

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China's Reform Era Under Deng Xiaoping, 1978–1989: Impacts on China-ASEAN Relations

K. S. Nathan

INTRODUCTION: LAYING THE FOUNDATION FOR THE FOUR MODERNIZATIONS

Deng Xiaoping's multiple experience in the Chinese party, bureaucracy, and army dating back long before Mao Zedong's death on 9 September 1976 enabled him to chart the trajectory of China's ideological, political, economic, and social development internally, and its conduct of foreign relations externally. He had to reorganize the central levers of power to ensure that the Party and Government worked in tandem to undertake and move forward with the Four Modernizations. Before addressing the external framework of China's political economy, he had to prepare an adequate domestic framework, removing ideologues and party functionaries closely aligned with Mao, and replacing them with leaders and technocrats who supported Deng's post-revolutionary approach to radical

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economic and social transformation. For Deng, the four cardinal principles, which involved upholding (1) the socialist path, (2) democratic dictatorship, (3) leadership of the Chinese Communist Party (CCP), and (4) Mao Zedong Thought and Marxism–Leninism, were indeed critical in building the correct ideological, political, and economic foundation to take China forward for the next two to three decades. In the view of one analyst, “the four cardinal principles is a strategy, politically and ideologically, to assure and unite the nation and meet an immediate need at the current stage of development.”¹

Retrospectively, one must remember that Premier Zhou Enlai had introduced the “Four Modernizations” concept as early as 1964. Even under Mao, China’s leadership already realized that the country’s economy must be structurally transformed to facilitate modernization of the key sectors: agriculture, industry, defense, and science and technology. Following Mao’s death on 9 September 1976, the way was open for a fresh, radical approach to move the country away from the ‘command economy’ and toward a ‘market economy.’ Deng, with his de-ideologized and pragmatic approach, proved to be the right man at the right time to undertake this task and open China to the outside world. He was particularly sensitive to the impressive performance of more open economies surrounding China: Japan, and the newly industrialised economies (NIEs) of South Korea, Taiwan, Hong Kong, and Singapore, which had all experienced major economic transformations. Deng found it even more striking that, in three of the four rising economies—Taiwan, Hong Kong, and Singapore—the population was largely Chinese.²

As he moved to push major economic reforms, Deng wished to ensure that this prompted no major ideological conflict with the basic tenets of Marxism. He therefore invented the concept of “Socialism with Chinese Characteristics” to provide the necessary ideological and practical flexibility to move away from Mao’s orthodox, centrally planned economy and toward a market economy. This doctrine can in retrospect be compared to Soviet Leader Josef Stalin’s effort to harmonize classic Marxism with the requirements of Soviet communism, an undertaking the Soviet leader labeled “Socialism in One Country,” that clearly represented

¹ David Wen-Wei Chang, *China Under Deng Xiaoping: Political and Economic Reform* (London: Macmillan, 1988), 49.

² Zhao Quansheng, *Chinese Foreign Policy: The Micro–Macro Linkage Approach* (Hong Kong: Oxford University Press, 1996), 53.

an attempt to formulate a new theory of national communism to suit Russia's changing political and economic conditions in the post-Leninist era. In China, the concept of "Socialism with Chinese Characteristics" symbolized the adaptation of Marxism-Leninism under Deng, who indicated unmistakably how he interpreted this term. Addressing the Japanese delegation to the second session of the Council of Sino-Japanese Non-Governmental Representatives, Deng clarified: "By Marxism we mean Marxism that is integrated with, and by socialism we mean socialism that is tailored to Chinese conditions and has Chinese characteristics."³

For Deng, this represented a realistic rather than idealistic approach to China's past, namely, one based on learning from earlier mistakes, its current stage of development, and its future progress. Speaking on 17 November 2012, in his Report to the Eighteenth National Congress, Xi Jinping, Secretary-General of the Chinese Communist Party of China (CCP), restated the essence of this doctrine, first announced in the public realm in the early 1980s. Xi stressed that socialism comprised a path, theory, and system, adding that the path of Socialism with Chinese Characteristics offered a way to reach the goal, the theory offered a guide to action, and the system provided a fundamental guarantee, with all three elements constituting basic and integrative pillars toward building Chinese socialism.⁴ Deng insisted that China was still following the socialist path of development, but that the changing national, regional, and global environments impelled certain modifications to communist orthodoxy. Effectively, he was admitting that China's Maoist-era closed-door policy was a failure, as it could not unleash the productive forces of Socialism. Departing from unsuccessful approaches and practices therefore required courage, political will, and innovative thinking about politics, economics, and international relations. Deng Xiaoping was learning from communist failures resulting from centralized control of the economy. As the Australian economist Ross Garnaut, a former ambassador to China, aptly observed in 1992: "The Stalinist systems of central planning, built around unwieldy state enterprises, did not deliver sustained growth in total factor productivity anywhere in the communist world. From the 1960s the communist states came to recognize the inadequacy

³ Deng Xiaoping, *Fundamental Issues in Present-Day China* (Beijing: Foreign Languages Press, 1987), 54.

⁴ Xi Jinping, *The Governance of China* (Beijing: Foreign Languages Press, 2014), 9.

of the system. These days the reasons for failure are less important than the universal empirical reality of failure.”⁵

In the wake of the disastrous consequences of the Cultural Revolution (1966–1976), followed by the demise of revolutionary leader Mao Zedong in 1976, China was ready to embrace a new leadership style that promised delivery of goods and services. For Deng, the Marxist dialectic, like the Communist Utopia that will remain a distant and unrealizable goal, made little sense in post-Mao China. During the Maoist era (1949–1976), Deng observed that the centralized economy could not adjust to changing national demands and international economic conditions. As several scholars from the Chinese Academy of Social Sciences admitted at a 1987 conference, the command economy revealed serious flaws in terms of excessive concentration of economic decision-making power, over-emphasis on mandatory planning, failure to develop the commodity economy and the regulatory role of the market, lack of enterprise vitality, and low economic returns. A drastic overhaul of the domestic economic structure was needed to drive the Open Door policy. Economic modernization also meant closer alignment between the rural economy and the demands of the urban economy. Deng’s economic strategy therefore called for (1) invigorating enterprises into efficient economic entities enjoying relative managerial independence, (2) further expanding socialist commodity markets while gradually improving the marketing network, and (3) establishing a new socialist management system with a gradual shift away from direct toward indirect state macro-control. All these measures would facilitate harmonization of interests of the state, the collective, and the individual, thereby transforming the entire national economy.⁶

Deng’s concept of Socialism with Chinese Characteristics incorporated an essential role for the Party at every level and scale of economic development, from small to massive enterprises, and across agriculture and industry. In the early 1980s, the Party gave the green light to the

⁵ Ross Garnaut, “China’s Reforms in International Context,” in *Economic Reform and Internationalisation: China and the Pacific Region*, eds. Ross Garnaut and Lin Guoguang (The Australian National University, New South Wales: Allen & Unwin, 1992), 18.

⁶ Yang Deming, Yu Yunding, and Shen Huasong, “Economic Reforms in China and Their Impact on China-ASEAN Economic Relations,” in *ASEAN-China Economic Relations: Developments in ASEAN and China*, eds. Chia Siow Yue and Cheng Bifan (Singapore: Institute of Southeast Asian Studies, 1989), 5.

market economy in the countryside, which in turn witnessed a boom in the number of farming households transformed into mini-businesses by dumping the old commune system and selling their products in the open market. The upside was that this agricultural revolution of the 1980s both enriched and empowered farmers, as well as the mushrooming private companies that facilitated agricultural trade. Undoubtedly, this form of capitalism initially had the blessing of the Party and the State. The downside, however, was that this 1980s model was short-lived as “the potent combination of political and economic liberalism of this period ended in bloodshed in Beijing in June 1989.”⁷

Deng was fully cognizant of the role of foreign investment in national economic development. Under socialism, a market economy can also exist. China lacked both management techniques and foreign technology. Yet, under Deng’s socialist economy, the Party must be supreme in all major investment decisions, while Party functionaries were also installed in every large industrial enterprise, including foreign-owned jointly managed business corporations. This strategy would ensure that the Party retained its role as the leading force in socialist economic development. Indeed, pursuing classic Marxism in the vastly changed era of international political economy would have the ultimate effect of degrading the noble principles of Marxism and Socialism. This ideological reorientation, which originated in the 1970s, was an integral part of Deng’s strategy of salvaging Marxism in China through the implementation of national communism, but without necessarily following the dictates of the Stalinist model of “Socialism in One Country.” Instructively, the Sino-Soviet ideological rift that began in the 1960s was also triggered by differing national approaches to domestic and international communism.

CHINA’S INTERNATIONAL STRATEGY IN TRIANGULAR RELATIONS

Deng was fully aware that an international environment characterized by tension and suspicion among the major powers—the United States, the Soviet Union, and China—was counter-productive to peace, development, and stability, particularly in the context of modernizing China.

⁷ Richard McGregor, *The Party: The Secret World of China’s Communist Rulers* (New York: Harper-Collins Publishers, 2010), 200.

But strained relations with the Soviet Union required repair following the open ideological rift between the two communist nations that began in the early 1960s. Although it did not officially expire until 16 February 1979, the Treaty of Friendship, Alliance, and Mutual Assistance signed by China and the Soviet Union on 14 February 1950 had already become a dead letter. For Sino-Soviet normalization to occur, Deng insisted on Moscow meeting three conditions: (1) Soviet withdrawal from Afghanistan, which Moscow invaded in 1979, (2) removal of Soviet troops from Mongolia and along the Sino-Soviet border, and (3) termination of Soviet support for Vietnam's invasion and occupation of Cambodia. Instructively, non-renewal of the 1950 Treaty permitted China to attack Vietnam, a Soviet ally which invaded Cambodia in late 1978. Thus while both communist powers, China and the Soviet Union, were reform-oriented in the 1980s, Deng's economic statecraft decidedly avoided the pitfalls inherent in Soviet General Secretary Mikhail Gorbachev's policies of economic *perestroika* (restructuring) combined with political *glasnost* (openness). Deng opted for the former but not the latter of the Soviet leader's twin reform strategies. Political democratization in an economically backward China could spell doom for the entire country, while undermining the CCP's leadership role, whereas Deng wished the CCP to be the engine and leading force of economic reform and modernization.

In pursuit of Deng's Reform agenda, China had incentives to strengthen political and economic cooperation with the Soviet Union while setting aside ideological differences. Just as in 1956 Soviet leader Nikita Khrushchev began the de-Stalinization of the Soviet Union, two decades later, in 1978, Deng began the de-Maoization of China. Both leaders were decapitating communist orthodoxy, but for different reasons. Khrushchev sought peaceful coexistence between the two major nuclear powers, the United States and the Soviet Union, the respective leaders of the capitalist and communist camps. Deng, however, began dismantling Maoist ideology largely for economic reasons: China badly needed a major economic breakthrough that would allow it to cast aside the socialist straitjacket from the past that still shackled its economy and embark on modernization with significant inputs of Western capital and technology.

Deng's economic statecraft clearly pivoted on altering the triangular relations between China and the Soviet Union on the one hand, and China and the United States on the other. Where the Soviet Union was

concerned, Deng was more interested in ameliorating political and security relations, whereas with the United States, his focus was clearly more economic and less security-oriented, as Deng concentrated on normalization to advance his Four Modernizations. When mending relations with the United States, as opposed to the Soviet Union, Deng was prepared to go much further to achieve his economic reform agenda. Fully cognizant of the strengths inherent in Western science, capital, and technology, he was keen to coopt these resources for China's long-term development. While visiting Washington in January 1979, Deng reportedly said to his associates: "As we look back, we find that all of those countries that were with the United States have been rich, whereas all of those against the United States have remained poor. We shall be with the United States."⁸

His 1979 Washington visit resulted in a series of bilateral agreements pertaining to science, technology, trade, and cultural exchange. Since early 1979, the United States and the People's Republic of China (PRC) have initiated hundreds of joint research projects and cooperative programs under the Agreement on Cooperation in Science and Technology, the largest bilateral program. When reorienting political and economic relations with the United States, Deng was equally aware that the CCP's role as the leading force of socialism must be preserved, without undermining its own credibility. The party's dominant role in the economy, which Deng realized was counter-productive to economic Reform in the post-Mao era, should be gradually phased out to make way for market-oriented economic management. Both political and economic transitions must occur rather seamlessly, to ensure the least possible disruption in China's transformation. He needed to coopt the intelligentsia into the Reform agenda without necessarily overtly sidelining those political forces linked to the 1949 Maoist revolution. In effecting this transformation, Deng's economic statecraft attempted insofar as possible to seek the middle ground. As one analyst noted: "Deng's bold reversals and reforms were carried out with a large measure of conservatism, too. Under his

⁸ This information was apparently provided to Chen Jian in an interview with a leading historian of the CCP. See Chen Jian, *From Mao to Deng: Changing Relations with the United States*, Cold War International History Project, Working Paper No. 92 (Washington, DC: Woodrow Wilson International Center for Scholars, November 2019), 2.

watch, changes in the economy were monitored closely by the Party and intellectuals drafted to support the reform.”⁹

Externally, the Sino-American rapprochement had to complement the internal Reform agenda of Deng’s Four Modernizations. Successful management of the Triangular Relationship among China, the United States, and the Soviet Union would yield spinoff dividends in such regional environments as Southeast Asia, where China as a regional power possessed direct political, economic, and security interests. Deng’s economic strategy was undoubtedly well grounded in the principles of political realism. His philosophy of “peace and development” encapsulated three ingredients directly linked to China’s political survival and economic advancement under his modernization program: (a) a deliberate and calculated effort to maintain cordial relations with the major external powers and an accommodative stance with those regional neighbors in Southeast Asia with whom Beijing had territorial disputes, especially in the South China Sea; (b) purposeful restraint in the use of force vis-à-vis external powers while China built up its military strength to protect its strategic interests; and (c) “an intentional implementation of a non-ideological foreign policy to secure resources and support for facilitating China’s economic transformation in the 1980s and beyond.”¹⁰

To succeed, this strategy required improved relations with one major Asian neighbor, Japan, and taking concrete steps toward normalizing relations with the United States. In both these efforts, Deng demonstrated his capabilities as an architect of China’s foreign policy. With respect to Japan, he made the key decisions on the Chinese side when negotiating the August 1978 Peace and Friendship Treaty, and with the United States, Deng played a critical role in negotiating the U.S.-PRC recognition agreement of December 1978.¹¹ It is therefore relevant to examine how Deng’s foreign policy and economic statecraft impacted on

⁹ Ted C. Fishman, *China, Inc.: How the Rise of the Next Superpower Challenges America and the World* (New York: Scribner, 2005), 66.

¹⁰ Ashley J. Tellis, “China’s Grand Strategy: The Quest for Comprehensive National Power and Its Consequences,” in *The Rise of China: Essays on the Future Competition*, ed. Gary J. Schmitt (New York: Encounter Books, 2009), 30.

¹¹ Daniel Tretiak, “Chou EnLai and Deng Xiaoping: Comparisons in Style and Substance as Foreign Policy Architects and Decision-Makers,” in *China in Readjustment*, eds. Chi-Keung Leung and Steve S. K. Chin (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1983), 369.

China's relations with the member states of the Association of Southeast Asian Nations (ASEAN) states, an institutionalized power configuration in Southeast Asia since 1967.

THE REGIONAL POLITICAL STRATEGY UNDERLYING DENG'S ECONOMIC STATECRAFT

In the context of implementing his Four Modernizations domestically, Deng's foreign policy toward Southeast Asia required the creation of a regional environment conducive to his reformist agenda. At least four key considerations governed his approach to the regional organization in the late 1970s: (1) To ensure a peaceful regional environment that would facilitate China's economic modernization, an interest previously neglected thanks to the focus on ideological priorities at the height of the Cold War; (2) To strengthen China's political and international legitimacy by improving relations with a regional entity that enjoyed rising international recognition and influence; (3) To emulate certain aspects of ASEAN's export-oriented and import-substitution model that served to boost foreign investment in Southeast Asia; and (4) To attract direct investment from the ASEAN countries to support the Four Modernizations, while also enlisting their cooperation to promote the flow of Western technology to China.¹²

In terms of China's political strategy vis-à-vis ASEAN, Deng's approach encompassed several principles to support his new economic strategy.

First, alleviation of ASEAN's concerns over the threat posed by Soviet and Vietnamese expansionism in Southeast Asia, especially after Hanoi invaded and occupied Cambodia. From Beijing's perspective, Vietnam's December 1978 invasion of Cambodia and the Soviet invasion of Afghanistan one year later were two events that raised the specter of a Soviet threat in China's backyard. In response, Beijing's global anti-Soviet strategy incorporated strengthening China's relations with Japan and ASEAN.¹³ Thereafter, China increasingly began to view ASEAN as

¹² Chen Jie, "China's ASEAN Policy in Deng Xiaoping's Era: Major Political and Security Issues and General Trends" (PhD thesis, The Australian National University, Canberra, June 1994), i-ii.

¹³ Kwan Ha Yim, *China Under Deng* (New York: Facts On File, 1991), 52.

a regional counterweight to Soviet-Vietnamese expansionism in Southeast Asia. This shift in position contrasted sharply with Beijing's view of ASEAN in the 1960s and early 1970s, as a tool of Western imperialism in Southeast Asia.

In terms of Vietnam's invasion and occupation of Cambodia, the strategic interests of China and ASEAN therefore converged. Beijing found this demonstration of Vietnamese military power unacceptable, given the long tradition of hostility and mutual suspicion between these two nations that shared a common land border. The Cambodian issue may well have spurred the pace of China-U.S. normalization, thereby underscoring the nexus between triangular relations among China, the Soviet Union, and the United States, and China-ASEAN regional relations. Since in the wake of the Cambodian invasion, Beijing felt threatened by the Moscow-Hanoi axis, this also strengthened Deng Xiaoping's domestic predominance. As Robert S. Ross observed, the political ascendancy of Deng and his personal conception of Chinese interests in the context of Soviet foreign policy, especially expanding Soviet-Vietnamese cooperation over Cambodia, coincided with U.S.-China normalization.¹⁴

From an ASEAN perspective, Hanoi's conduct clearly violated a cardinal principle of the regional entity's charter, the Treaty of Amity and Cooperation (TAC) signed in Bali, Indonesia on 24 February 1976, at the First ASEAN Summit. For its signatories, the ASEAN Charter was a vital document in building and strengthening regional stability, security, and development. The reformist Deng scrutinized closely ASEAN's founding principles under the 1967 Bangkok Declaration and the Bali Treaty establishing the ASEAN Charter. Essentially, this indigenously designed framework of regional cooperation advocates respect for sovereignty and independence, non-interference in internal affairs, avoidance of confrontational diplomacy, and conflict management through dialogue. Although Communist Vietnam did not join ASEAN until 1995, its invasion of Cambodia sent danger signals to anti-Communist Southeast Asia in terms of violating basic TAC principles, providing an opportunity for China to improve political and economic relations with ASEAN states. On this issue, a visible degree of strategic convergence between China and ASEAN existed, with ASEAN therefore prepared to collaborate with China by internationalizing the issue, with the aim of reversing Hanoi's

¹⁴ Robert S. Ross, *Chinese Security Policy: Structure, Power and Politics* (London and New York: Routledge, 2009), 227.

occupation.¹⁵ For ASEAN, the military exit of the United States from Southeast Asia clearly increased the regional entity's leverage in forging more independent and equidistant relationships with the major external powers.

Second, support for peaceful, nuclear-free zones in the Asia-Pacific region, and more specifically, re-endorsement of ASEAN's 1971 Zone of Peace, Freedom and Neutrality (ZOPFAN) Declaration. China would undoubtedly support any scheme that reduced external great power involvement in its Southeast Asian backyard. Even before the Dengist reforms began, Beijing therefore welcomed ASEAN's concept of ZOPFAN, announced in 1971 in Kuala Lumpur. In the 1980s, Deng's Southeast Asian foreign policy confirmed China's positive view of ZOPFAN as a regional security framework that would ensure a peaceful external environment facilitating China's internal Reform agenda: the Four Modernizations. Deng's political strategy to ensure the success of his economic statecraft was based on achieving congruence in China's internal and external environments.

Third, advocacy of peaceful settlement of internal and external disputes, including negotiations with Britain over the return of Hong Kong to Chinese sovereignty in 1997, and talks with Portugal for Macau's return in 1999. In dealing with both these territorial issues involving threats to Chinese sovereignty, the result of earlier phases of Western imperialism and colonialism during the mid-nineteenth and early twentieth centuries, Deng adopted an approach based on prudence, patience, and pragmatism. His world view, unlike that of Mao, was guided by the need to work with possibilities as short-term goals, while bearing in mind the desirabilities, namely, the long-term removal of all traces in China of every form of Western colonialism, due in large part to China's past inward-looking posture and weakness vis-à-vis the West. On Taiwan, however, the issue of reintegration with the mainland would prove far more complex than Deng would have wished.

Fourth, advocacy of South-South cooperation to expand trade relations among the Developing Countries and thereby promote empowerment of the South. In 1978, when he launched the Four Modernizations, Deng clearly viewed China as a Developing Country comparable to other

¹⁵ Brantly Womack, "China and Southeast Asia: Asymmetry, Leadership and Normalcy," *Pacific Affairs* 76: 4 (Winter 2003–2004): 529.

Third World states, sharing many similar characteristics of underdevelopment. He appreciated the emerging economic potential of ASEAN as a Third World region that could contribute significantly to his Open Door Policy. When Prime Minister Li Peng visited Thailand in November 1988, he announced four principles to govern the future development of China's relations with ASEAN: (1) Adherence to the Five Principles of Peaceful Coexistence, namely, mutual respect for territorial integrity and sovereignty, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence; (2) Opposition to hegemony in international relations, a reflection of Deng's consciousness of how, due to his country's internal weakness, Western imperialism had exploited nineteenth- and early twentieth-century China; (3) Support for equality and mutual benefit in the common development of the South; and (4) Enhanced cooperation with Southern countries to strengthen their independence and leverage in international economic relations.¹⁶

The fifth principle of foreign policy in Deng's Reform Agenda was support for North-South cooperation to facilitate greater trade, investment, and technology transfer, with a view to reducing the huge socio-economic gap between the advanced countries of the North and developing countries of the South. Here, Deng was contemplating the emergence of a New International Economic Order that could empower the South and stabilize international economic relations.¹⁷ For Deng, such restructuring of international economic relations through reform of the international political economy was a sine qua non for China's emergence to major power status and world leadership. In the past, internal malaise due to communist orthodoxy and external conditions imposed by the Eurocentric paradigm of international relations had blocked the realization of China's full potential.

Sixth, disavowal of support for communist/revolutionary movements in the ASEAN countries, especially in Malaysia (Communist Party of Malaya, CPM) and the Philippines (Party Kommunistang Philippines,

¹⁶ Sun Yongfu and Wan Fei, eds., *China's Development Strategy of South-South Cooperation* (Beijing: China Foreign Economy Press, March 2002), 11.

¹⁷ Ji Guoxing, "China's Role in Asian-Pacific Security: A Chinese Perspective," in *The Emerging Relations Between China and Southeast Asia: Limitations and Opportunities*, ed. Frances F. W. Lai (Hong Kong: Center for Asian Pacific Studies, Lingnan College, 1988), 87-90.

PKP), since these insurgent movements no longer reflected the will of the ASEAN peoples, while representing a national security threat to these Southeast Asian states. Seeking to maintain apparent ideological unity, Deng, while no longer providing direct material support to such insurgent movements, was not prepared to deny them moral support, which he did not perceive as interfering with normal state-to-state relations between China and ASEAN.¹⁸ In at least one ASEAN capital, Kuala Lumpur, this hesitancy on Beijing's part continued to weigh heavily on the minds of policymakers. Despite establishing diplomatic relations with China in 1974, the Malaysian government was disenchanted with Beijing's policy on two issues: Party-to-Party ties, namely, continuing links between the CCP and Malaysia's CPM, and China's attitude toward the overseas Chinese, given that in Malaysia ethnic Chinese constituted 35% of the total population. While the Malaysian government pursued economic pragmatism during the 1980s, accelerating trade and economic ties with Beijing, it therefore remained politically vigilant toward closer relations with the PRC.¹⁹

DENG'S ECONOMIC STATECRAFT IN THE CONTEXT OF CHINA-ASEAN RELATIONS

Until Deng took the political helm, from the 1950s to the 1970s in particular, China-ASEAN relations were marked on both sides by misgivings and misperceptions stemming primarily from ideological differences, as China espoused communism and world revolution, while ASEAN represented a group of anti-communist countries broadly pursuing capitalist development internally and pro-Western foreign policies externally. The 1969 Nixon Doctrine, which presaged American military retrenchment from Southeast Asia, prompted a breakthrough in ASEAN countries' attitude toward China. The United States had already begun the process of military withdrawal and ending its involvement in the Vietnam War, sending a clear message to its regional friends and allies. America's 'Vietnamization' of the war also provided signals for the 'Aseanization' of

¹⁸ *Ibid.*, 93.

¹⁹ Stephen Leong, "Malaysia and the People's Republic of China in the 1980s: Political Vigilance and Economic Pragmatism," *Asian Survey* 27: 10 (October 1987): 1109–1126.

regional security and stability. In essence, the United States was transforming its role from primary security provider into “burden sharing and partnership” with regional ASEAN member states.²⁰ For Deng, this development in U.S. policy toward Southeast Asia provided a unique opportunity to profit from the clearly emerging power vacuum of the 1970s and 1980s: a void that China could fill, employing primarily economic and diplomatic rather than military means.

In December 1978, Deng Xiaoping began the transformation of China’s economy when he announced the Open Door policy, signaling China’s willingness to welcome Western technology and investment. This paved the way for foreign businesses to set up operations in China, beginning with the establishment of Special Economic Zones offering attractive tax incentives. This aspect of Deng’s Four Modernizations also attracted interest from the ASEAN states, which had previously been ambivalent over Beijing’s intentions in Southeast Asia. After gaining independence in the late 1940s and 1950s, anti-Communist ASEAN nations had acquired all too much experience of fighting leftist movements inspired by Beijing, seeking to overthrow what China labeled bourgeois and neocolonialist proxy regimes. But following the 1972 Sino-American rapprochement, and subtle indications from Washington that it would not frown upon normalization of China-ASEAN ties, the way was open for each ASEAN country to establish political and economic contacts with Beijing. In 1974, Malaysia became the first ASEAN country to take up the cue, when Abdul Razak Hussein, Malaysia’s second premier, established diplomatic relations with Communist China. By 1990, the four remaining original ASEAN member states had all followed suit: Thailand and the Philippines in 1975; post-Sukarno Indonesia, which resumed diplomatic relations with China on 3 July 1990; and finally Singapore, on 3 October 1990.

To further the economic diplomacy of his Four Modernizations Project, between 5 and 14 November 1978, Deng Xiaoping toured three ASEAN countries, Thailand, Malaysia, and Singapore. In the context of Sino-Soviet rivalry and growing strains in China’s relations with Vietnam, a close Soviet ally in Southeast Asia, his visit also had an important strategic motivation. According to Lee Lai To of the National University

²⁰ For details, see K. S. Nathan, “The Nixon Doctrine and ASEAN,” *Jurnal Prapat* (Journal of the Southeast Asian Studies Association, University of Malaya) 2 (1984/85): 41–52.

of Singapore, “China probably thought of using ASEAN as a counterweight to a Vietnam-dominated Indochina.”²¹ As a realist and keen observer of the international situation in Southeast Asia, during his visit, Deng was prompt to express support for ASEAN’s concept of freedom and neutrality, a gesture that clearly helped to allay the potential fears of regional states over Chinese imperialistic or expansionist designs in Southeast Asia. Among these three ASEAN states, Deng’s visit to Thailand was most successful, given an apparent convergence of Chinese and Thai economic and security objectives, especially over growing Soviet-Vietnamese influence in neighboring Cambodia. Deng’s visit to Bangkok produced agreements to boost trade and scientific and technical cooperation between the PRC and Thailand. By comparison, Deng’s stays in Malaysia and Singapore could be considered only reasonably successful. Beijing objected to what it viewed as Malaysia’s unfair treatment of ethnic Chinese, through the government’s pro-Malay policies. Nor was China, on its part, prepared to break completely its ties with local communist insurgents. In the case of Singapore, the sensitivity of the Chinese-majority city-state to being perceived by its neighbors as unduly friendly to Beijing also imposed some constraints as to how far it could go in strengthening relations with China without arousing regional suspicion, especially from Malaysia and Indonesia.

Arguably, while Deng was a pragmatist in terms of advancing China’s national interests, he was also a Communist on matters affecting the ideological struggle, legitimacy, and survival of the CCP. The inherent dualism in his foreign policy of building good state-to-state relations with ASEAN while providing moral though not material support to pro-Beijing revolutionaries in Southeast Asia inevitably prompted some tensions in bilateral relations. These two Southeast Asian vestiges of Western colonial-era relations—PRC-supported internal communist insurgencies and the apprehensions of ASEAN states over emotional loyalties binding their ‘overseas Chinese’ citizens to China—were bilateral issues that the future evolution of China-ASEAN relations would need to address.²²

²¹ Lee Lai To, “Deng Xiaoping’s ASEAN Tour: A Perspective on Sino-Southeast Asian Relations,” *Contemporary Southeast Asia* 3: 1 (June 1981): 60.

²² *Ibid.*, 74.

Beijing's quest for modernization was undoubtedly the single-most important factor driving China's overtures to ASEAN in the early 1980s. According to Zhao Quansheng:

This transformation marks the macrostructural shift from an ideologically rigid, isolationist policy under Mao to the less doctrinaire, more pragmatic, and cooperative approach favored by Deng. Indeed, whereas for Mao isolationism was desirable, for Deng the very threat of international isolation was sufficient to inspire a rapid improvement in China's relations with Southeast Asia.²³

By the early 1980s, Deng found decidedly impressive the trends of national economic development and regional consolidation in ASEAN states, as China's reformist paramount leader noted their economic modernization, industrialization, and the role of the overseas Chinese in attracting foreign capital and technology. Part of Deng's personal input into China's Sixth Five-Year Plan (1980–1985) was the endorsement of a major research project entitled: "Research on Development Strategies of Southeast Asian Economies."²⁴ Instructively, the Five-Year Plan outlined objectives that focused on expanding market-oriented reforms to accommodate foreign talents and inputs, especially from neighboring ASEAN. The key objectives included: (1) To assemble the country's scientific and technological base for scientific and technological research and to promote the application of new technologies, and to strenuously develop education, science, and culture to accelerate the construction of an ideological and material civilization; and (2) To strenuously develop trade, make effective use of foreign capital, and actively introduce advanced technology to meet domestic needs.²⁵

Between 1978 and 1989, Deng's economic strategy vis-à-vis ASEAN was already producing mutually beneficial results. The volume of two-way trade rose from over US\$3 billion in 1984 to more than US\$7 billion in 1991. From 1984 to 1991, China-ASEAN trade increased by 120

²³ Zhao, *Chinese Foreign Policy*, 210–211.

²⁴ Chen Jie, "China's ASEAN Policy in Deng Xiaoping's Era," 266.

²⁵ China Daily, "The 6th Five-Year Plan (1981–1985)," 23 February 2011, http://www.chinadaily.com.cn/china/2012npc/2011-02/23/content_14689649.htm, accessed 1 December 2019.

percent, while China's total foreign trade increased 273%.²⁶ ASEAN's annual investment in China also grew tenfold, from US\$ 8.51 million in 1984 to US\$87.93 million in 1991. Whereas Chinese investment in ASEAN during the early 1990s was negligible, the total investment volume had reached US\$150 million by 1992. Additionally, as China was increasingly co-opted into the international economic system, ASEAN entered into trade protection agreements with the rising Asian power. China signed investment guarantee agreements with Thailand in 1985, Singapore the following year, and Malaysia in 1988.²⁷

This encouraging trend in bilateral economic relations, initiated by the Dengist Reform agenda of the 1980s, was reflected in China's political recognition of ASEAN as a credible regional institution. In 1991, Foreign Minister Qian Qichen became the first Chinese diplomat to participate in an ASEAN event, when he attended the 24th ASEAN Ministerial Meeting in Kuala Lumpur. His presence laid the groundwork for future economic and trade cooperation agreements between China and ASEAN.²⁸ It is also noteworthy that during the Dengist era, China chose Singapore for the initial stages of its efforts to expand economic relations with ASEAN. As an economic pragmatist, Deng was well aware that the city-state was a regional commercial hub with strong linkages to Western capital and technology. He could also relate more comfortably to Singapore, where over

²⁶ Cited in Chen Jie, "China's ASEAN Policy in Deng Xiaoping's Era," 270. See also Editorial Board of the Yearbook of China's Foreign Relations and Trade, *Zhongguo dui wai jing ji mao yi nian jian bian ji wei yuan hui 1985* [Yearbook of China's Foreign Economic Relations and Trade, 1985] (Beijing: China's Foreign Economic Relations and Trade Press, 1986), 793; and also Editorial Board of the Yearbook of China's Foreign Relations and Trade, *Zhongguo dui wai jing ji mao yi nian jian bian ji wei yuan hui 1992-1993* [Yearbook of China's Foreign Economic Relations and Trade, 1992-1993] (Beijing: China's Foreign Economic Relations and Trade Press, 1993), 391. A subsequent study by the Asian Development Bank, based on Chinese figures, gives somewhat different totals of US\$2.883 billion for China-ASEAN trade in 1984, rising to US\$8.156 billion in 1991. The broad overall trend, however, is clear. Yu Sheng, Hsiao Chink Tang, and Xinpeng Xu, "The Impact of ACFTA on People's Republic of China-ASEAN Trade: Estimates Based on an Extended Gravity Model for Component Trade," ADB Working Papers Series on Regional Economic Integration No. 99 (Asian Development Bank, July 2012), 17, <https://www.adb.org/sites/default/files/publication/29908/wp99-imp-act-acfta-prc-asean-trade.pdf>, accessed 27 September 2021.

²⁷ Chen Jie, "China's ASEAN Policy in Deng Xiaoping's Era," 269.

²⁸ Xinhua, "Full Text: China-ASEAN Cooperation: 1991-2001," 16 November 2011, http://www.asian-china-center.org/english/2011-11/16/c_131249656_2.htm, accessed 5 December 2019.

75% of the population were ethnic Chinese, sharing a culture and traditions akin to those of mainland China. The trade statistics for 1983–1990 illustrated just how central Singapore was in China’s thinking regarding the economic potential ASEAN offered to a rising China, since Singapore alone was responsible for over 73% of ASEAN’s investment in China during those years.²⁹

Deng nevertheless realized that to build a strong China-ASEAN relationship and encourage ASEAN’s independence and neutrality, Beijing must discard additional ideological content from its bilateral relations with member states. The abandonment of ideology in favor of economic pragmatism in China’s new approach to the regional entity was particularly evident in relation to Malaysia. Deng eventually persuaded Chin Peng, the CPM’s leader, to renounce armed struggle and pursue revolutionary objectives using other, non-violent means. Acting, apparently, on Deng’s advice, fifteen years after Malaysia had established diplomatic relations with China in 1974, the CPM accordingly abandoned its guerrilla warfare against the Malaysian government. On 2 December 1989, Chin Peng signed an agreement with Malaysia and Thailand in the Thai border town of Haadyai, formally ending the 41-year armed struggle.³⁰ In effect, the CCP jettisoned the CPM to pursue China’s national interests, which now focused on economic modernization. Maintaining previous levels of suspicion and antagonism toward the ASEAN states would clearly prove counter-productive to Deng’s Reform agenda. Deng preferred, moreover, to break with the Maoist past, since it represented a hindrance to newer, less ideological foreign policy approaches. Under Deng’s leadership, the post-Mao dispensation therefore “shifted the thrust from cultural revolution and ideological assertion to economic reforms and modernization.”³¹

²⁹ Chen Jie, “China’s ASEAN Policy in Deng Xiaoping’s Era,” 272.

³⁰ K. S. Nathan, “Communists End Armed Struggle,” *Asian Survey* 30: 2 (February 1990): 210–220.

³¹ S. D. Muni, *China’s Strategic Engagement with the New ASEAN*, IDSS Monograph No. 2 (Singapore: Institute of Defence and Strategic Studies (IDSS), 2002), 8.

CONCLUSION

The period from 1978 to 1989 was a remarkable phase in modern Chinese history. The post-Mao leadership was obliged to demonstrate tremendous courage and determination to free China from the ideological straitjacket and stalemated Maoist dogma that climaxed in the Cultural Revolution. Deng Xiaoping, the Reformer, knew that he must reinvent the domestic scenario by sidelining ideologues and replacing them with pragmatists who shared his vision of a reformed and modernized China. Deng's economic statecraft therefore focused on the key areas of China's underdeveloped economy: agriculture, industry, defense, and science and technology.

Major innovations in economic statecraft required jettisoning old paradigms to create a new framework of enterprise and production that would enable China to 'catch up' with the world's top performing states while building the economic, political, and strategic foundations for China's emergence as a great power. Deng's post-1978 economic statecraft was designed to ensure that the global and regional balances of power were in harmony with China's domestic and foreign policy objectives. While gradually ensuring normal relations with the communist Soviet Union, he sought to accelerate economic partnerships with the capitalist United States, a nation that could contribute to China's modernization far more substantially and effectively than could the Soviet Union. In Deng's view, internal reform required a supportive external environment, namely, cordial and stable relations with the major powers, especially the United States and the Soviet Union. Additionally, the reform process also required a new diplomacy that depicted China positively in the Developing World through the platform of South-South cooperation. Essentially, this represented Deng's strategy for winning friends and influencing people in the developing countries that shared China's feeling that they had been victimized during the era of Western imperialism and colonialism.

In Southeast Asia, the ASEAN countries generally perceived Deng's Four Modernizations as a positive development in the rising Asian power's internal and external policies. Undoubtedly, economic reform in China opened up opportunities for mutual investment, expanded trade, and other assorted economic opportunities, including increased travel and tourism. The years 1978–1989 set the stage for significantly reformulating China's economic relations with ASEAN over the following

decades. The anticipated transformations in the China-ASEAN economic relationship were at least fourfold. First, changes would inevitably occur in the two-way flow of trade and investment, as well as the structure and composition of trade, gradually moving away from agricultural-based products and raw materials to goods and services requiring higher inputs of capital and technology. Second, this first phase of the Reform Era under Deng was also designed to restructure the Chinese economy to deal more efficiently with the challenges of globalization and integration with the world economy. Third, the Reform Era was undoubtedly a prerequisite for growing economic interdependence between China and ASEAN, as both parties moved toward liberalizing their trade regimes and exploring their full market potential. Fourth, as both China and ASEAN states liberalized their economies, all would nevertheless become major destinations for foreign direct investment rather than significant investors in each other's economies, while the developed countries continued to be the major markets for their exports.³² As China's economic restructuring gained momentum, moreover, the laws of supply and demand might well operate to favor a rising China with lower wage and production costs compared to the more developed ASEAN countries. The economic opening of China via the Dengist reforms therefore also brought challenges and concerns for ASEAN vis-à-vis China as a rival and competitor for capital, investment, and technology from the developed countries.

Politically, the Dengist reform agenda gradually removed the so-called China threat to Southeast Asia and incentivized ASEAN to adopt an ever more independent course when dealing with external powers. In reformulating China's foreign policy toward Southeast Asia, Deng was conscious of ordering his priorities to achieve his targets. If the economic aspirations of his 'New China' were to be achieved, his country's immediate periphery must be secure and friendly. His focus on the anti-Communist ASEAN nations was decidedly instructive. Even prior to ASEAN's formation in 1967, they had rejected Communist ideology. In practice, in the decades before the Cold War collapsed, anti-Communism and neutralism served as the sine qua non of ASEAN's survival and progress, while

³² ASEAN-China Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century: A Report Submitted by the ASEAN-China Expert Group on Economic Cooperation* (October 2001), 12, https://www.asean.org/wp-content/uploads/images/archive/newdata/asean_chi.pdf, accessed 17 October 2020.

ASEAN's preferential trading arrangements (PTAs) and dialogue relations with external powers accelerated the pace of economic development.

The success of Deng's reforms depended on deploying China's soft rather than hard power. During the 1980s, Deng Xiaoping's support for ZOPFAN therefore sent ASEAN capitals the right message: that China respected the sovereignty and independence of its neighbors, opening a new era of mutual cooperation and partnership in the PRC's dealings with the regional association. By the end of the 1980s, the PRC's burgeoning regional and multilateral approach was demonstrated in Beijing's relations with ASEAN, with the relationship so greatly stabilized that even the 1989 Tiananmen Incident had very little negative impact. When responding publicly to the tragedy of 4 June 1989, which reportedly claimed the lives of several hundred civilians and military personnel, ASEAN countries preferred to prioritize principles of peaceful coexistence and non-interference in internal affairs. In 1990, just one year later, two further ASEAN states, Indonesia and Singapore, established diplomatic relations with China, with Brunei following in 1991.³³ When ASEAN dealt politically with China, reciprocity and mutual economic benefit now apparently ranked first.

In the economic field, the origins of this regional multilateralism can be traced back to the mid-1980s. Deng Xiaoping skilfully aligned the spirit of Chinese nationalism with the requirements of regional multilateralism by joining the Asian Development Bank (ADB) in 1986, and becoming a founding member of the Asia-Pacific Economic Cooperation (APEC) forum in 1989. This new era in China-ASEAN relations underscored how, thanks to Deng's astute adaptation of Marxism, namely, Socialism with Chinese Characteristics, Chinese nationalism now superseded Chinese ideology. Such a formulation of economic statecraft and regional diplomacy accorded equally well with ASEAN's strategic and developmental aspirations to achieve a *modus vivendi* with its regional neighbor and rising major Asian power, a development whose origins lie in the Reform Era of Deng Xiaoping.

³³ For additional details, see Claudia Astarita, "China's Role in the Evolution of South-east Asian Regional Organizations," *China Perspectives* 2008: 3 (July 2008): 80, <https://journals.openedition.org/chinaperspectives/4103>, accessed 30 September 2020.

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Sino-European Relations in the 1980s: Increasing Engagement in the Shadow of the United States

Laurens Hemminga

INTRODUCTION

In 1945, Europe found itself devastated by the Second World War and divided geographically between a U.S.-dominated Western zone and a Soviet-dominated Eastern zone. These divisions constrained the ability of the states in Western Europe (hereafter Europe) to develop relations with countries outside the Western alliance. Despite this geopolitical reality, both the European states and China shared a mutual history bound by colonial and, later, post-colonial legacies. While some countries (such as the United Kingdom or France) were relatively quick to initiate ties with the People's Republic of China (hereafter PRC or China), most others

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delayed formalizing their modern ties until the 1970s. While the establishment of diplomatic relations with China was a significant step toward a modern reset, not until the 1980s would the potential for this reset begin to be recognized. Although such recognition was uneven at first, the potential of the Chinese market for European goods made diplomatic relations attractive across the region. Geopolitical separation coupled with an (initially) overwhelmingly commercial focus to relations meant, however, that engagement was undertaken without full understanding on either side of the governing dynamics. Hence, even as European countries opened up to China throughout the 1980s, they did so without fully appreciating the political differences between the two sides. Developments in Europe-China relations in this period, including the anchoring role of economic ties, the emergence in 1989 of human rights as a divisive issue, and the influence on both sides of relations with the United States, foreshadowed dynamics which have remained important to the relationship up to the present.

Complicating any rapprochement between Europe and China in the early Cold War was the fact that European states remained dependent on the United States as both an economic and a security guarantor. European economies, even those of countries which had escaped German occupation, had been severely damaged. The American economy, by contrast, was dynamic, modern, and larger than all European economies combined. Washington introduced the Marshall Plan to facilitate economic reconstruction in Europe, spending \$14 billion in sixteen countries between 1948 and 1952.¹ In addition, the United States played an important role in stimulating regional integration and trade liberalization by encouraging the formation in 1958 of the European Economic Community (EEC).² In all six EEC countries, West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg, the 1950s and 1960s saw strong economic growth and modernization, enabling European economies to develop their internal capacities even as the United States remained their key market. Yet, even as their economies revived, Western Europe remained in

¹ Mary Nolan, *The Transatlantic Century: Europe and America, 1890–2010* (Cambridge: Cambridge University Press, 2012), 195.

² *Ibid.*, 204.

the geopolitical orbit of the United States, critically dependent on American military protection against the Soviet Union for the duration of the Cold War.

China was facing its own challenges, with the proclamation of the PRC in 1949 and the retreat to Taiwan of the Kuomintang ushering in a period of isolation from Western countries. During the Chinese Civil War, the Soviet Union had backed the Chinese Communist Party (CCP), and at the outset China's new leaders were determined to prioritize relations with the Soviet Union and its communist allies over those with the United States.³ The break between China and the United States, as well as its European allies, was compounded when Chinese troops fought American and European troops⁴ during the Korean War. In retaliation, the United States intensified the embargo it had already imposed on trade with China. Washington subsequently pressed its allies into accepting its trade restrictions against China, which went further than equivalent restrictions on trading with the Soviet Union.⁵ Isolated from the American-led West and ideologically committed to communism, Beijing aligned itself with the Soviet Union, signing the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance in 1950 and receiving Soviet and East European technological assistance throughout the 1950s.⁶ The alliance with the Soviet Union, however, proved disappointing to Beijing. Even during the Korean War, once Chinese intervention was underway, Soviet leader Josef Stalin showed himself less willing to provide tangible assistance than Beijing had been led to expect beforehand.⁷ When Stalin's successor, Nikita Khrushchev, publicly criticized his predecessor in February 1956, an ideological fissure opened between Moscow and Beijing, with an

³ Jian Chen, *Mao's China and the Cold War* (Chapel Hill: University of North Carolina Press, 2001), 48.

⁴ The United Kingdom, France, the Netherlands, Belgium, and Luxembourg contributed combat troops to the American-led United Nations effort. Italy, Denmark, Sweden, and Norway sent medical support teams.

⁵ Shu Guang Zhang, *Beijing's Economic Statecraft During the Cold War, 1949–1991* (Baltimore, MD, and Washington, DC: Johns Hopkins University Press and Wilson Center Press, 2014), 29.

⁶ *Ibid.*, 60.

⁷ Chen, *Mao's China and the Cold War*, 59.

ensuing contestation of leadership within the communist world.⁸ Eventually, by 1964, these disagreements culminated in a complete breakdown of relations.⁹ By the mid-1960s the PRC found itself isolated from capitalist and communist worlds alike. In response to its dire international position, in 1969 the PRC leadership made the momentous decision to reach out to the United States,¹⁰ which soon cleared the way for closer relations with its European allies.

This chapter discusses the development of Europe's relationship with China from 1978 to 1990. It begins by surveying relations prior to this period, highlighting both the restrictive presence of the United States as well as the economic potential that existed on both sides. It proceeds to review the development of a series of bilateral relationships between European countries—West Germany, France, and the Netherlands¹¹—and China, and discusses the role played by the European Economic Community (EEC), the predecessor of the European Union (EU), in supporting these ties. The anticipated developmental pathway of these relations was truncated by the crackdown in Tiananmen Square. The penultimate section of this chapter discusses how the EEC states reacted to this event, drawing conclusions on the state of the relationship circa 1990. Throughout this chapter, it will be apparent that, France's early opening notwithstanding, during the entire period from 1949 to 1990, the United States acted as a restraining factor setting the bounds to how far European states could go when dealing with China. In the 1980s, however, economic ties started to form between Western Europe and China that would soon introduce a dynamic independent of the United States into the relationship. The effect of these ties was visible in late 1989 and early 1990, when some EEC members tussled with the diplomatic and partial economic freeze that they themselves had imposed on China following 4 June 1989.

⁸ *Ibid.*, 68.

⁹ *Ibid.*, 84.

¹⁰ *Ibid.*, 249.

¹¹ Any text quoted in this chapter that was originally in French, German, or Dutch has been translated by the author.

BACKGROUND: EUROPE AND CHINA, 1949–1978

Europe and China began limited diplomatic relations in 1950, when the United Kingdom, Denmark, Sweden, Finland, Norway, and the Netherlands recognized the PRC as the sole legitimate government of China.¹² Though Beijing prioritized relations with the communist world, it also saw a need to develop relations with non-communist states to break through the trade embargo imposed on it by the United States and (largely) followed by its allies. The Chinese leadership inferred that European states (among others) were reluctantly applying a near-total commercial embargo and from 1950 onward sought to induce them to increase trade and sell China sanctioned strategic goods.¹³ In 1954, Beijing set up trade offices in Finland, Norway, Sweden, Denmark, Switzerland, and Britain and negotiated with Rome and Bonn to establish similar offices in West Germany and Italy, though under pressure from Washington these latter governments ultimately backtracked.¹⁴

Chinese leaders were correct in believing that interest in trade with China existed in Europe. In 1952 and 1953, business groups in West Germany, France, and the United Kingdom successively concluded their own unofficial trade agreements with the Chinese government, promising to sell industrial goods and chemicals, each being anxious to avoid ceding the mythical Chinese markets to competitors.¹⁵ These agreements involved embargoed goods and were therefore not implemented, but between 1954 and 1958, trade between China and the three largest West European states nonetheless almost tripled.¹⁶ Beijing's diplomacy appeared to have some effect, as the United Kingdom, France, and West Germany opted in 1957 to break with Washington's rigid interpretation

¹² Harish Kapur, *Distant Neighbours: China and Europe* (London: Pinter Publishers, 1990), 8. For the Netherlands see Duco Hellema, *Nederland in de Wereld: Buitenlandse Politiek van Nederland* [The Netherlands in the World: Foreign Policy of the Netherlands] (Amsterdam: Het Spectrum, 2010), 157–158.

¹³ Zhang, *Beijing's Economic Statecraft*, 46–47.

¹⁴ *Ibid.*, 52.

¹⁵ Kapur, *Distant Neighbours*, 19.

¹⁶ Author's calculations based on data quoted in Kapur, *Distant Neighbours*, 20–21; see also Zhang, *Beijing's Economic Statecraft*, 53.

of trade restrictions and instead lowered their controls to the level applied to the Soviet Union.¹⁷

The Chinese leadership hoped that trade relations with Europe would serve as the precursor to diplomatic relations,¹⁸ but apart from France, with which China established diplomatic relations at ambassadorial level on January 27, 1964, their expectations proved unavailing.¹⁹ On the French side, one trigger for recognition was the signing of the Limited Test Ban Treaty by the United States, the Soviet Union, and the United Kingdom in August 1963. Though the agreement did not affect France, which was developing its own nuclear arsenal at that time, French President Charles de Gaulle perceived the agreement as yet another attempt to cement Anglo-American dominance within the Western world, thereby reducing France to a second-rate player.²⁰ The PRC, which tested its first nuclear device in October 1964, viewed the treaty in a similar light and believed the superpowers wished to use it to restrict China's nuclear arsenal.²¹ France and China resembled each other in ranking as secondary powers in the Cold War system, with each seeking to escape superpower domination. Moreover, France's direct involvement in Indochina had ended. In the early 1950s, China had supported and advised Viet Minh forces fighting the French army in Vietnam.²² By 1963, however, France had withdrawn from Vietnam, and both Paris and Beijing believed that the United States should likewise disengage from the country.²³

One vexed issue in the establishment of relations was how the two sides would deal with the question of the Republic of China (hereafter Taiwan), with which France had diplomatic relations as the government of China.

¹⁷ *Ibid.*, 56.

¹⁸ *Ibid.*, 52.

¹⁹ As noted above, several European countries had recognized the PRC in the 1950s, but in most cases this did not lead to the exchange of diplomatic representatives. The United Kingdom assigned a chargé d'affaires to Beijing following recognition in 1950.

²⁰ Lorenz M. Lüthi, "Rearranging International Relations? How Mao's China and De Gaulle's France Recognized Each Other," *Journal of Cold War Studies* 16: 1 (Winter 2014): 115–116.

²¹ *Ibid.*, 121.

²² Chen, *Mao's China and the Cold War*, 123.

²³ Lüthi, "Rearranging International Relations?," 117.

Beijing insisted that France should end relations with Taiwan and recognize the PRC as the sole representative of all China.²⁴ Paris, however, made clear it would refuse to break off relations with Taiwan, though it was willing to support the PRC's entry into the United Nations (UN) Security Council as China's representative.²⁵ France's apparent wish to maintain relations with "two Chinas" might have become a major sticking point, but Taipei itself resolved the situation, as the French government hoped, by adhering to its own "one China" policy and breaking relations with France shortly after the establishment of French-PRC relations.²⁶ As pledged, the French government subsequently supported the PRC's admission to the UN and the UN Security Council, but the replacement of Taiwan by the PRC was ultimately deferred until October 1971, after the United States had dropped its opposition to the PRC's entry.

In other European countries, the initiation by France of diplomatic relations with China generated political pressure from some business groups to follow suit, in order to prevent French business from gaining an undue advantage in China. Yet the governments involved found American opposition to such a move too intense to defy.²⁷ Meanwhile, in China the opening in 1966 of the Cultural Revolution halted further moves to establish relations with European states. Instead, the next few years were marked by assorted ideologically fueled but generally petty disputes with France, Denmark, Italy, Sweden,²⁸ the Netherlands,²⁹ and above all the United Kingdom, which saw its diplomatic mission in Beijing burned by angry demonstrators.³⁰

²⁴ Ibid., 129.

²⁵ Ibid., 127.

²⁶ Ibid., 139.

²⁷ Kapur, *Distant Neighbours*, 69–70; on Italy, see Valter Coralluzzo, "Italy's Foreign Policy Toward China: Missed Opportunities and New Chances," *Journal of Modern Italian Studies* 13: 1 (2008): 7.

²⁸ Kapur, *Distant Neighbours*, 92–93.

²⁹ Yvonne Van der Heijden, *De Dans van de Leeuw en de Draak: Verleden, Heden en Toekomst van de Nederlands-Chinese Handelsbetrekkingen* [Dance of the Lion and the Dragon: Past, Present, and Future of Dutch-Chinese Trade Relations] (Amsterdam: Uitgeverij Business Contact, 2008), 29.

³⁰ Kapur, *Distant Neighbours*, 69.

A critical event for Chinese-European relations was the beginning of normalization of U.S.–China relations. The two trips by National Security Adviser Henry Kissinger in July and October 1971, followed by the historic visit to Beijing and Shanghai by U.S. President Richard Nixon and Kissinger in February 1972, signaled to the world that the United States and China were committed to fundamental changes in their relationship. In the wake of this normalization, most European allies of the United States moved quickly to establish full diplomatic relations themselves with China: Belgium in October 1971, the Netherlands in May 1972,³¹ West Germany in October 1972, Luxembourg in November 1972, and Spain in March 1973.³² Italy did so even earlier, establishing relations in November 1970.³³ In most cases, a solution to the existing relationship between these countries and Taiwan had to be reached. The exception was West Germany. The Federal Republic of Germany, itself founded in 1949 with Western backing, had never established diplomatic relations with Taiwan.³⁴ Where the others were concerned, Beijing insisted that they make a clear statement that they acknowledged the PRC's position that Taiwan was a province of the People's Republic of China and that they recognized the PRC as the sole legitimate government of China.³⁵ The joint communiqué whereby the Netherlands and China established relations read³⁶:

The Chinese government reaffirms that Taiwan is a province of the People's Republic of China. The government of the Kingdom of the Netherlands respects this position of the Chinese government and reaffirms that she recognizes the government of the People's Republic of China as the only legitimate government of China.

³¹ Van der Heijden, *De Dans van de Leeuw en de Draak*, 38.

³² Kapur, *Distant Neighbours*, 120.

³³ Coralluzzo, "Italy's Foreign Policy Toward China," 8.

³⁴ Kay Möller, "Germany and China: A Continental Temptation," *China Quarterly* 147 (September 2014): 707.

³⁵ Kapur, *Distant Neighbours*, 120.

³⁶ The communiqué was released in Dutch and in Chinese. The Dutch version, translated here by myself, is quoted in Van der Heijden, *De Dans van de Leeuw en de Draak*, 38.

Such a declaration would naturally be followed by the breaking of official relations with Taiwan and the closure or downgrading to unofficial status of any existing diplomatic missions.

The end of the Cultural Revolution and the passing of paramount leader Mao Zedong in 1976 opened the way for new thinking on foreign policy in Beijing. The post-Mao leadership believed that confrontation between the ideological camps was receding and that in years to come, “peace” and “development” would define the international environment. They saw an opportunity to pursue the economic development of their country by obtaining technology from the developed world through an “independent” foreign policy unconstrained by the bipolar logic of the international system.³⁷ Sinologist Ezra F. Vogel noted the impact on the Chinese leadership of a study tour in June 1978, led by Vice-Premier Gu Mu, that encompassed France, Switzerland, West Germany, Denmark, and Belgium, focusing on modern production and transport facilities. The delegation left overwhelmed by the continent’s modernity, and also surprised by how willing Europeans were to offer China loans and aid in technological development. Once the delegation returned, its report made a powerful impression on the Politburo, which decided to move quickly to expand ties with capitalist countries.³⁸ At the time, China viewed Europe as an attractive potential partner, as it could assist China’s modernization by providing technology and investments, while serving as a market for Chinese products.³⁹ In addition, at the start of the reform period, Beijing saw in Europe a useful partner in confronting the Soviet Union, from which it was still estranged.⁴⁰

The above account clearly demonstrates that the United States played a decisive role in first impeding and then allowing European countries to build relations with China. The effective American veto over extensive dealings between the two sides rather obscured the degree to

³⁷ Zhang, *Beijing’s Economic Statecraft*, 262–263.

³⁸ Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2011), 221–224.

³⁹ Odd Arne Westad, “China and the End of the Cold War in Europe,” *Cold War History* 17: 2 (May 2017): 111; and Martin Albers, *Britain, France, West Germany and the People’s Republic of China, 1969–1982: The European Dimension of China’s Great Transition* (London: Palgrave Macmillan, 2016), 173.

⁴⁰ Martin Albers and Zhong Zhong Chen, “Socialism, Capitalism and Sino-European Relations in the Deng Xiaoping Era,” *Cold War History* 17: 2 (May 2017): 117.

which, in certain portions of the private sector, there existed in Europe a real—if still embryonic—interest in trading with China. The United Kingdom boasted a British-China Friendship Association, whose secretary argued in a 1952 article that trade with China’s “ever-expanding market” was the solution to overcoming Britain’s unemployment problem.⁴¹ In Belgium in 1954, the Fédération des Industries Belges (Federation of Belgian Industries) invited a Chinese delegation to tour factories and meet industrial leaders. In the early 1960s the Association Belgique-Chine (Belgium-China Association), founded in 1957, launched several initiatives aimed at marketing Belgian industrial products to China.⁴² According to Harish Kapur, in Germany a “network of pressure groups which favored trade with China” existed and enjoyed significant influence, so that prominent politicians such as Chancellor Konrad Adenauer’s Minister for Transport and the President of the Senate of Bremen openly supported expanding commercial ties.⁴³ In 1957, the government of Denmark signed a Trade and Payment Agreement with China, whereupon bilateral trade increased from 8.2 million Kroner in 1957 to 140.5 million Kroner in 1959.⁴⁴ The PRC leadership recognized European commercial interest and took advantage of it to induce the Europeans to moderate the American-initiated embargo against China. Once full diplomatic contacts between the two sides had been initiated in the 1970s, the beginning of Reform in China in 1978 enabled European economic interests to develop a growing stake in this relationship during the 1980s.

In short, Sino-European relations in the period from 1949 to 1978 were stifled as both sides initially found themselves on opposing sides of the bipolar international system. Once China’s geopolitical alignment had shifted, on the European side commercial interest was often instrumental in driving European governments to follow an energetic engagement policy. Yet building relations with China after a protracted

⁴¹ Kapur, *Distant Neighbours*, 23.

⁴² Maurice Piraux, “Relations entre la Belgique et la République Populaire de la Chine” [Relations between Belgium and the People’s Republic of China, 1949–1979], *Courrier Hebdomadaire du CRISP* 13: 338–339 (1979), <https://www.cairn.info/revue-courrier-hebdomadaire-du-crisp-1979-13-page-1.htm>, accessed 1 August 2021.

⁴³ Quoted in Kapur, *Distant Neighbours*, 20.

⁴⁴ Kjeld Erik Brødsgaard, “Trade and Economic Relations Between Denmark and China,” in *China and Denmark: Relations Since 1674*, eds. Kjeld Erik Brødsgaard and Mads Kirkebaek (Copenhagen: Nordic Institute of Asian Studies, 2001), 246.

period without substantial contacts proved challenging for European governments; consequently, as the following section demonstrates, their efforts were not always successful.

THREE BILATERAL RELATIONSHIPS

West Germany

The decade after 1978 witnessed the relatively problem-free development of a substantial economic and technological relationship between China and West Germany. The only political obstacle to developing relations with China for the social-liberal government of Chancellor Helmut Schmidt (1976–1982) was the importance it attached to maintaining workable relations with the Soviet Union. Until Beijing began to tone down its anti-Soviet rhetoric following the Twelfth Party Congress of 1982,⁴⁵ West Germany exercised caution when engaging with China, so as to avoid any impression of working with China against Moscow. Yet Bonn undoubtedly wished to expand relations with China, a country that Schmidt himself considered an important rising power.⁴⁶ China attracted the attention of Germany's industrial export sector in 1978 with a short-lived industrial expansion program consisting of 120 major projects.⁴⁷ While the program ended abruptly in early 1979, due to a foreign exchange shortage in China,⁴⁸ the Chinese government had sought to buy billions of Deutschmarks worth of industrial equipment from West Germany, prompting "euphoria"⁴⁹ among German industrialists over the seemingly limitless opportunities promised by China's industrial modernization.

Corporate interest placed additional pressure on Bonn to devise means of expanding China ties despite the potential sensitivities of Moscow. In response, Schmidt's government focused in its remaining years on

⁴⁵ Tim Trampedach, *Bonn und Peking: Die Wechselseitige Einbindung in Aussenpolitische Strategien 1949–1990* [Bonn and Peking: Mutual Ties in Foreign Policy Strategies, 1949–1990] (Hamburg: Institut für Asienkunde, 1997), 181.

⁴⁶ Martin Albers, "Business with Beijing, Détente with Moscow: West Germany's China Policy in a Global Context, 1969–1982," *Cold War History* 14: 2 (April 2014): 244.

⁴⁷ Albers, *Britain, France, West Germany and the People's Republic of China*, 191; Markus Taube, "Economic Relations Between the PRC and the States of Europe," *China Quarterly* 169 (March 2002): 83.

⁴⁸ Taube, "Economic Relations," 83.

⁴⁹ Albers, "Business with Beijing, Détente with Moscow," 247.

building pragmatic, depoliticized ties with China consisting of industrial and economic cooperation, technology transfers, and incipient people-to-people contacts, as well as cooperation between subnational regions.⁵⁰ West Germany and China signed several agreements around the turn of the decade that would frame expanding and sustained cooperation between companies and other societal actors on each side. These included an agreement for scientific and technological cooperation in October 1978⁵¹ and a broad economic cooperation agreement in October 1979.⁵² These arrangements were intended to structure further development of the bilateral relationship and extend cooperation into new fields. In the interest of protecting its relationship with Moscow, Bonn nonetheless declined to entertain some Chinese requests: despite Chinese prodding, West Germany categorically refused either to sell armaments or to offer subsidized loans to China.⁵³

Following the 1982 federal elections, the Christian-Democrat-led government of Chancellor Helmut Kohl replaced Schmidt's social-liberal administration. Within Kohl's CDU-CSU party, relations with China were increasingly viewed as primarily an economic opportunity rather than an issue of Cold War politics.⁵⁴ In terms of focusing on expanding trade and investment ties with China, Kohl outdid his predecessor.⁵⁵ Addressing the Bundestag shortly after he visited China in October 1984, Kohl declared that "there are no pressing problems that separate our two countries" and that "the modernization will open an enormous market and offer a wide range [of possibilities for] cooperation between companies of the Federal Republic of Germany and China." Reflecting on his trip, the Chancellor described how he and Chinese Prime Minister Zhao

⁵⁰ Ibid., 252; Albers, *Britain, France, West Germany and the People's Republic of China*, 193.

⁵¹ Mechthild Leutner and Tim Trampedach, *Bundesrepublik Deutschland und China 1949 bis 1995: Politik—Wirtschaft—Wissenschaft—Kultur: Eine Quellensammlung* [The German Federal Republic and China from 1949 to 1995: Politics—Economics—Science—Culture: A Collection of Sources] (Berlin: Akademie Verlag, 1995), 212.

⁵² Ibid., 225.

⁵³ Albers, *Britain, France, West Germany and the People's Republic of China*, 163, 165, 192.

⁵⁴ Trampedach, *Bonn und Peking*, 184.

⁵⁵ Möller, "Germany and China," 710.

Ziyang had agreed on the need to form a “stable, long-term partnership” of political, economic, scientific, and cultural cooperation.⁵⁶

Thanks to these political commitments, economic ties between the two states expanded significantly, especially in the second half of the 1980s. For many other European states, exports to China stagnated toward the end of the decade while imports increased,⁵⁷ but right up to 1988, West Germany registered an export surplus with China.⁵⁸ In 1988, its exports to China stood at 2,371 million ECU,⁵⁹ more than twice the figure for Italy, the next most successful EEC exporter, and almost three times France’s exports.⁶⁰ Some of Germany’s large industrial companies established a presence in China through investments and joint ventures. The automobile company Volkswagen signed a joint venture agreement in 1984 and invested \$160 million in a plant in Shanghai to produce the Volkswagen Santana. The (now defunct) aerospace company Messerschmitt-Bolkow-Blon agreed to a joint venture in 1987 to design a new plane for regional flights, anticipating strong demand in the 1990s. Other major German projects from 1984 onward included a steel mill, an aircraft maintenance center, a nuclear reactor, and a steel pipe plant. Due to these and many other deals, West Germany became one of China’s leading suppliers of technology, with over 200 technology-centered contracts signed by German entities by mid-1987.⁶¹ The German side also sought to expand scientific and cultural exchanges, in part because this was seen as one more means to build a relationship with China without offending the Soviet Union.⁶² In this area, Germans often found Beijing less willing to engage, owing to the reality of CCP

⁵⁶ Chancellor Kohl, speech in the Bundestag, 19 October 1984, printed in Leutner and Trampedach, *Bundesrepublik Deutschland und China 1949 bis 1995*, 238.

⁵⁷ Taube, “Economic Relations,” 97.

⁵⁸ Leutner and Trampedach, *Bundesrepublik Deutschland und China 1949 bis 1995*, 259.

⁵⁹ The European Currency Unit (ECU) was a unit of account based on a basket of European currencies. Its value was equivalent to today’s Euro, which replaced it.

⁶⁰ Eurostat, *External and Intra-European Union Trade: Statistical Yearbook 1958–1996* (Luxembourg: Office for Official Publications of the European Communities, 1997), 129, 141, 149.

⁶¹ Kapur, *Distant Neighbours*, 182–184.

⁶² Albers, *Britain, France, West Germany and the People’s Republic of China*, 197.

control over the arts and academia.⁶³ One notable achievement, however, was the establishment in 1988 in Beijing of a Goethe Institute for German language education.⁶⁴

In short, one can conclude that West Germany—which had taken the lead as Europe’s biggest exporter to China back in the 1950s⁶⁵—cemented that advantage in the 1980s, with its sales to China surpassing by several orders of magnitude those of its closest European competitors. With China seeking to modernize its economy, the advanced industrial technologies the Federal Republic offered were in high demand. The pragmatic, business-oriented approach that Bonn applied to the relationship proved well suited to dealings with Beijing, which was itself steering its foreign policy in a less ideological direction.

France

As described earlier, France established diplomatic relations and exchanged ambassadors with China in 1964, well before other West European states. Until China entered the Reform period, these bilateral ties led to little substantive engagement beyond a political dialogue, but were nevertheless valued on both sides as a mechanism for making greater impact in an international system dominated by two superpowers. The start of the Reform period in China opened the possibility of deepening the relationship through economic and other activities. In 1975, France had briefly been one of China’s most important trading partners, thanks to contracts signed during a 1973 visit to China by French President Georges Pompidou.⁶⁶ When Beijing announced the beginning of reforms in 1978, the French hoped to build on their diplomatic head start to launch new cooperative initiatives in trade and culture.⁶⁷ France and China signed two accords in 1978: an agreement on cultural and scientific cooperation in January, and one on economic cooperation in

⁶³ Leutner and Trampedach, *Bundesrepublik Deutschland und China 1949 bis 1995*, 275.

⁶⁴ *Ibid.*, 279.

⁶⁵ Kapur, *Distant Neighbours*, 19.

⁶⁶ Kaixuan Liu, “Les Relations Politiques Franco-chinoises de 1949 à 1983: Entre Mythe et Réalité” [Sino-French political relations from 1949 to 1983: Between Myth and Reality], *Monde Chinois Nouvelle Asie* 59: 3 (September 2019): 20.

⁶⁷ Albers, *Britain, France, West Germany and the People’s Republic of China*, 175.

December.⁶⁸ The French government intended these arrangements to extend and deepen cooperation and to pave the way to increase exports.⁶⁹

In the late 1970s and early 1980s, certain frictions nonetheless characterized the political relationship between the two sides. Like the West Germans, the French sought to avoid undermining their links with the Soviet Union, leaving them somewhat inhibited in developing their relationship with Beijing. Initially, they seemed less cautious in this area than the Germans, and in 1978 contemplated selling anti-tank and anti-aircraft missiles to China. Following a personal appeal from Soviet leader Leonid Brezhnev, however, this project was shelved and Paris decided for the moment to prioritize relations with Moscow.⁷⁰ Furthermore, France and China also clashed over Southeast Asia, when France strongly criticized China's 1979 invasion of Vietnam.⁷¹ Two years later, in 1981, France further irritated Beijing by extending a loan of 2 billion Francs to Hanoi.⁷²

Relations between the two countries improved after President François Mitterrand visited Beijing in 1983.⁷³ This set the pattern for the political relationship in the following years, characterized by regular high-level visits and a similar view of the international order. France and China alike desired to conduct an independent foreign policy that escaped the dictates of bipolar politics.⁷⁴ Both countries were nuclear powers with comparatively small arsenals, in agreement that nuclear disarmament should be encouraged but that the two superpowers should take the lead in this

⁶⁸ Centre des Archives Diplomatiques de Nantes [Center for Diplomatic Archives in Nantes], France (hereafter CADN), "Chronologie des relations franco-chinoises" [Chronology of French-Chinese relations], undated document, 513PO 2004 038, box 13, FR II.1.

⁶⁹ Albers, *Britain, France, West Germany and the People's Republic of China*, 193.

⁷⁰ *Ibid.*, 149–150.

⁷¹ Bhagwan Sahai Bunkar, "Sino-French Diplomatic Relations, 1964–81," *China Report* 20: 1 (February 1984): 48.

⁷² Qibin Hou, "Quarante Ans de Dialogue: Evolution des Relations Politico-Diplomatiques Entre la France et la Chine, 1964–2007" [Forty Years of Dialogue: Evolution of Political-Diplomatic Relations Between France and China, 1964–2007] (Unpublished PhD thesis, Montpellier: Université Paul Valéry-Montpellier III, 2014), 214, <https://tel.archives-ouvertes.fr/tel-01077902>, accessed 19 October 2020.

⁷³ *Ibid.*, 218.

⁷⁴ CADN, Note 1788 on French-Chinese relations by Ministry of Foreign Affairs, Directory of Asia and Oceania, 29 December 1988, 513PO 2004 038, box 20, FR II.6.

by substantially cutting their own stockpiles.⁷⁵ After disagreeing over China's attack on Vietnam, both France and China envisioned a solution to the long-running Vietnamese occupation of Cambodia involving a Vietnamese withdrawal and the subsequent return of Prince Sihanouk to lead a transitional government in Cambodia.⁷⁶ Furthermore, both countries strongly opposed the 1979 Soviet invasion of Afghanistan.⁷⁷

The French government also invested in promoting cultural ties between the two countries. One major project in this field was a French-financed university in Wuhan, a project that won the backing of top French leaders, with Paris hopeful that French would serve as the language of instruction in a university training China's future elites.⁷⁸ The Chinese government, however, was unfavorably disposed toward French-language instruction and decided that the university would instead use English-language instruction. Despite this setback, significant cultural exchanges between the two countries took place throughout the 1980s, mainly involving performances in China by French artists. Singers such as Jean Michel Jarré and Mireille Mathieu made concert tours; French operas including *Don Quichotte* and *The Three Musketeers* were performed in Shanghai and Beijing; French painters held expositions; and in 1984, the prestigious Centre Pompidou in Paris hosted a major event on Chinese television.⁷⁹

Economic ties, by contrast, failed to meet French expectations. Throughout the second half of the 1980s, France consistently ran trade deficits with China.⁸⁰ While French imports from China increased, exports were generally lackluster and subject to fluctuations because much of the total consisted of *grands contrats*, single large deals agreed between

⁷⁵ CADN, Diplomatic telegram Diplomatie 18,175, 9 April 1984; CADN, Diplomatic telegram New York 1419, 24 September 1984; and CADN, Diplomatic telegram DFRA New York 994, 2 June 1988, all in 513PO 2000 042, box 31.

⁷⁶ CADN, Diplomatic telegram Diplomatie 18,737, 22 September 1988; and CADN, Diplomatic telegram DFRA New York 994, 2 June 1988, both in 513PO 2000 042, box 31.

⁷⁷ Bunkar, "Sino-French Diplomatic Relations," 48; and CADN, Diplomatic telegram DFRA New York 1514, 24 September 1987, 513PO 2000 042, box 31.

⁷⁸ Albers, *Britain, France, West Germany and the People's Republic of China*, 181.

⁷⁹ CADN, "Chronologie des relations franco-chinoises," undated document, 513PO 2004 038, box 13, FR II.1.

⁸⁰ Hou, "Quarante Ans de Dialogue," 222.

the two governments, often aided on the French side by export credits.⁸¹ One notable example was the construction of a nuclear power plant at Daya Bay in Guangzhou by the French state-owned company Franatom, agreed between the two countries in 1986.⁸² Besides nuclear energy, Paris pursued major deals with Beijing in telecommunications, transportation, and basic food products including sugar and cereals, with the last category dominating French exports in the first half of the 1980s.⁸³ The French private sector demonstrated relatively weak interest in trade with China. Simultaneously, as early as 1979, when it fought hard at the behest of its vulnerable textile sector to keep the EEC's import quota for Chinese textiles low, France perceived dangers from China's export competitiveness.⁸⁴

By the mid-1980s, a pattern had become established in France-China relations, whereby the two countries tended to share a worldview predisposing them to perceive major international political issues in the same light.⁸⁵ Meanwhile, their economic dealings remained by comparison disappointing, especially from the French perspective, with the Chinese apparently less troubled by the discrepancy; indeed, on two occasions they simply reminded the French that all developed countries now sought to expand economic ties with China, admonishing them to make more

⁸¹ CADN, Unnamed note on economic and trade relations between France and China by Ministry of the Economy, Finance and Budget, Directory of External Economic Relations, 2 January 1989, 513PO 2004 038, box 20, FR II.6.

⁸² CADN, Diplomatic telegram Peking 3565, 7 November 1986, 513PO 2000 042, box 32.

⁸³ CADN, Unnamed Note, 2 January 1989, 4.

⁸⁴ Albers, *Britain, France, West Germany and the People's Republic of China*, 179.

⁸⁵ French diplomatic sources from the period 1984 to 1989 regularly noted just how similar French and Chinese analyses of international issues were, suggesting that this reflected a close political relationship. See, for instance, CADN, Diplomatic telegram Diplomatique 18,175, 9 April 1984; CADN, Diplomatic telegram New York 1419, 24 September 1984; CADN, Note 999 briefing for French Ambassador's meeting with Chinese Foreign Minister, 17 December 1986; CADN, "Compte Rendu d'Entretien 7803" [Report of an Interview Between the Prime Minister of China and the President of France], 18 November 1987; CADN, Diplomatic telegram DFRA New York 994, 2 June 1988, all in 513PO 2000 042, box 31; and CADN, Diplomatic telegram Peking 093, 11 January 1988, 513PO 2000 042, box 32.

competitive offers.⁸⁶ One key goal for France in the bilateral relationship during this period—that of deepening economic and commercial ties—therefore remained largely unrealized, with French companies failing to establish a position in China independent of French government support. Concurrently, France remained highly protective of its local industries against any perceived threat from more cheaply produced Chinese goods. In this respect, despite France’s earlier establishment of diplomatic ties, in the 1980s its relationship with China was less solid than that of West Germany.

Netherlands

The relationship between the Netherlands and China in this period is notable because the Netherlands was the only West European country to run afoul of Beijing over Taiwan. The first official visit between China and the Netherlands took place in 1978, when Chinese Foreign Minister Huang Hua was received in The Hague by his Dutch counterpart Chris van der Klaauw. The atmosphere was cordial. Huang praised the Netherlands for contributing to the unity and common defense of Europe. Van der Klaauw reciprocated by stating that a stable and prosperous China encouraged peace and prosperity in Asia and the world.⁸⁷ In October 1980, Van der Klaauw accompanied the Dutch Prime Minister, Dries van Agt, on a return visit to China.⁸⁸ During this trip they signed two agreements, one covering cultural exchanges, the other economic and technological collaboration.⁸⁹ Like similar accords China reached with France and West Germany, these arrangements were intended to deepen and extend bilateral cooperation.

Within months, in early 1981, these initial high points swiftly gave way to a drastic downturn in bilateral relations, when the Dutch government decided to grant an export license for the sale to Taiwan of two

⁸⁶ See CADN, “Compte Rendu D’entretien 7803,” 18 November 1987, 513PO 2000 042, box 31; and CADN, Diplomatic telegram Pekin 093, 11 January 1988, 513PO 2000 042, box 32.

⁸⁷ “Huang Hua prijst ons land” [Huang Hua praises our Country], *Reformatorisch Dagblad*, 9 June 1978.

⁸⁸ Van der Heijden, *De Dans van de Leeuw en de Draak*, 38.

⁸⁹ “Kroon op contacten Nederland-China” [Crowning of Netherlands-China Contacts], *Reformatorisch Dagblad*, 22 October 1980.

diesel-electric submarines.⁹⁰ In 1980, Taiwan was anxious to buy six non-nuclear attack submarines from the Dutch shipbuilding company RSV, a purchase that required an export license from the government. Previously, The Hague had blocked an attempt by Taiwan's government to obtain German jet fighters through a Dutch intermediary, refusing to extend an export license on the grounds that Taiwan was not a state recognized by the Netherlands. The prospects that it would authorize a starting order of two submarines nonetheless seemed more encouraging. RSV's naval shipyard near Rotterdam, Wilton Fijenoord, was threatened with bankruptcy, from which the submarine order promised to rescue it.⁹¹ The proposed order therefore won the backing of the Ministry of Economic Affairs, which sought to preserve the increasingly troubled Dutch shipbuilding industry. Economic Affairs Minister Gijs van Aardenne dismissed the obvious political implications of such a deal, stating "Taiwan is not a country, but it is a customer."⁹² Despite this verbal nicety, the Foreign Ministry, led by Van der Klaauw, recognized the implications for relations with the PRC and opposed the deal. On 28 November, after a vigorous debate within the cabinet, The Hague decided to grant an export license for two submarines.⁹³

Beijing responded angrily to what it termed an "act undermining our friendly Sino-Dutch relations." In February 1981, the Chinese government announced the withdrawal of its ambassador to The Hague, downgrading relations with the Dutch to the level of *chargé d'affaires*. It also canceled the implementation of a bilateral air transport agreement signed in 1979 and froze orders from Dutch electronics company Philips.⁹⁴ Following the Chinese announcement, the Dutch Prime Minister and Foreign Minister commented that the downgrading of bilateral relations was fully expected.⁹⁵ The Vice-Minister for Economic Affairs stated that a "decisive factor" in the cabinet's decision had been that short-term export

⁹⁰ Van der Heijden, *De Dans van de Leeuw en de Draak*, 39.

⁹¹ Philip Everts, *Controversies at Home: Domestic Factors in the Foreign Policy of the Netherlands* (Dordrecht: Martinus Nijhoff, 1985), 270.

⁹² Quoted in Dierikx and Petit, "Het Dossier 'Urk'," 180. Translation by author.

⁹³ Everts, *Controversies at Home*, 273.

⁹⁴ Dierikx and Petit, "Het Dossier 'Urk,'" 180–181, quotation from 180.

⁹⁵ "V.D. Klaauw niet verrast door besluit Chinezen" [V.D. Klaauw Not Surprised by Decision of Chinese], *Reformatorisch Dagblad*, 28 February 1981.

prospects to Taiwan were far better than those to China.⁹⁶ After a period of optimism in 1978–1979, the Foreign Minister had revised downward his expectations for trade with China. Beijing was facing an acute shortage of funds after disappointing results from oil explorations in China. By 1980, the Foreign Ministry had become pessimistic over the prospects for Dutch exports to China unless The Hague was willing to grant generous export credits, which it was not.⁹⁷

The issue of further submarine sales emerged in 1983, when Wilton Fijenoord requested an export license for two more submarines to be built for Taiwan, by which time the Dutch authorities had resolved that the previous license was a one-time arrangement.⁹⁸ In an effort to persuade the government to broaden their defense relationship, Taiwan offered substantial economic inducements: The Taiwanese navy had signed a letter of intent with another Dutch shipyard for the construction of four minesweepers and expressed interest in acquiring military radar equipment from yet another Dutch company.⁹⁹ According to a contemporary newspaper report, Taiwan was also interested in purchasing “four container ships, dredging ships, cranes, agricultural equipment, and industrial kettles” from the Netherlands.¹⁰⁰

Even so, no export license was given, a decision that Philip Everts concludes was due to “international political considerations,” dominated by the fact that the Netherlands did not recognize Taiwan, while considering China a major power.¹⁰¹ Expectations of future economic ties with the PRC also seem to have played a role. Despite their diplomatic conflict, Dutch trade with China had grown between 1981 and 1983, strengthening the hand of those who argued against further submarine sales.¹⁰² Sino-Dutch diplomatic relations were restored to ambassadorial level on 1 February 1984, following The Hague’s denial of a second export

⁹⁶ “Taiwan-besluit mag niet worden herzien” [Taiwan-Decision Must Not be Rescinded], *Reformatorisch Dagblad*, 7 February 1981.

⁹⁷ “Geen droefenis over breuk met Peking” [No Sadness Over Break with Peking], *Reformatorisch Dagblad*, 28 February 1981.

⁹⁸ Everts, *Controversies at Home*, 276.

⁹⁹ *Ibid.*, 282.

¹⁰⁰ “Bonden breken lans voor duikboot-order” [Unions Are Fighting for Submarine Order], *Reformatorisch Dagblad*, 29 October 1983.

¹⁰¹ Everts, *Controversies at Home*, 286.

¹⁰² *Ibid.*, 283.

license.¹⁰³ On the same day, the Dutch Foreign Ministry announced it was preparing for several visits to China, with two trade delegations slated to depart in March, and a visit by the Minister for Foreign Trade scheduled later that year.¹⁰⁴ The Dutch government believed China's rapid growth offered major opportunities for Dutch industrial and agricultural exports and felt it must make up for previous lost time.¹⁰⁵

After The Hague's turnaround, economic and political interactions between China and the Netherlands expanded. Chinese Prime Minister Zhao Ziyang came to the Netherlands in 1985, confirming the revival of the relationship.¹⁰⁶ In 1987, the Dutch Prime Minister and Foreign Minister made a return visit to China.¹⁰⁷ Bilateral trade in goods grew from 691 million Guilders in 1982 (the lowest figure in the decade) to 1,451 million Guilders in 1988.¹⁰⁸ This increase was mostly due to rising Chinese exports, as Dutch exports to China declined to 528 million Guilders in 1988, after peaking at 811 million Guilders in 1985. In the second half of the decade, several major Dutch companies showed interest in China. Philips began a joint venture in 1985 to produce video and audio equipment. Other investors in these years included Akzo and DSM (both in chemicals), IHC Merwede (dredging), and Heineken (brewing).¹⁰⁹ In late March 1989, a report from the Dutch Embassy in Beijing described bilateral ties as "developing steadily in a positive direction," crediting this development to successful reciprocal visits and a clear disavowal by the Dutch government (restated in 1988) of further arms sales to Taiwan.¹¹⁰

¹⁰³ Ingrid D'Hooghe, "The 1991/1992 Dutch Debate on the Sale of Submarines to Taiwan," *China Information* 6: 4 (Spring 1992): 42.

¹⁰⁴ "Relatie Nederland-China weer goed" [Netherlands-China Relations Good Again], *Reformatorsch Dagblad*, 2 February 1984.

¹⁰⁵ "Bolkestein bezoekt binnenkort China" [Bolkestein Will Visit China Soon], *Reformatorsch Dagblad*, 2 August 1984.

¹⁰⁶ Van der Heijden, *De Dans van de Leeuw en de Draak*, 41.

¹⁰⁷ *Ibid.*, 44.

¹⁰⁸ Data quoted from D'Hooghe, "The 1991/1992 Dutch debate," 47. One Guilder was worth about 0.55 US Dollars.

¹⁰⁹ Van der Heijden, *De Dans van de Leeuw en de Draak*, 42–43.

¹¹⁰ Archive of the Ministry of Foreign Affairs of the Netherlands (hereafter AMFANL), Annual report Netherlands Embassy in Beijing for 1988, 21 March 1989, p. 11, Inventory number 00055, China PZ, algemeen [general files], Year 1989–1996.

On the Chinese side, the 1980 submarine sale left a legacy of significant distrust over the Dutch attitude toward Taiwan, which would cloud diplomatic relations throughout the 1980s. The most visible consequence was a continuing refusal by Beijing to honor the 1979 air transport agreement, because the Dutch national airline KLM had started operating a route to Taipei in 1983.¹¹¹ Not until 1996 was an agreement implemented allowing Dutch airlines to establish routes to the PRC.¹¹² China's gradual opening nonetheless intrigued the Dutch government and private sector just as much as was the case elsewhere in Europe, laying the groundwork for steadily growing ties in the second half of the 1980s.

THE EUROPEAN ECONOMIC COMMUNITY (EEC)

In addition to the individual European states, China also built a relationship with the Brussels-based EEC institutions. The foreign affairs role of the EEC was limited, but its executive agency, the European Commission, had one important responsibility: It was charged with implementing the collective trade policy of the member states, including negotiating trade agreements with external parties. It did (and does) not do so autonomously but was delegated by the heads of state and government of the member states meeting in the European Council. The European Council was responsible for the political decision to enter into negotiations with an external party. It also formulated the mandate within which the Commission was permitted to negotiate with an external party. Foreign policy programs under the Commissioner for External Relations were likewise undertaken at the behest of the Council. The EEC's external trade policy and foreign policy initiatives in this period can therefore be considered an expression of the collective will of the EEC member states. The European Parliament, whose members were from 1979 onward directly elected by voters in the member states, was autonomous in the sense that it was not directed by the member states, but at the time it had no formal authority in foreign affairs.

The start of EEC-China ties can be dated to a visit in May 1975 by Christopher Soames, the Vice-President of the European Commission, a trip that established diplomatic relations between the EEC and

¹¹¹ Dierikx and Petit, "Het Dossier 'Urk'," 186.

¹¹² *Ibid.*, 191.

China.¹¹³ In September 1977, the two sides began negotiations on a trade agreement.¹¹⁴ The China-EEC Trade Agreement, signed in 1978, would establish the ground rules for trade ties between the two in years to come.¹¹⁵ The agreement, while relatively limited and rather vague in its formulation,¹¹⁶ was nonetheless important because it signaled a commitment on both sides to increase bilateral trade and was therefore an indirect political statement of intent on forging a closer relationship.¹¹⁷ It paved the way, moreover, for measures on the European side that encouraged a rapid (if lopsided) expansion of trade over the following years. In 1979, the Commission signed an agreement on textile imports with China that—despite, as mentioned above, generating some controversy within Europe—doubled the quota for textile exports, then one of China’s most competitive industrial sectors.¹¹⁸ By the start of the 1980s, China was included in the EEC’s Generalized System of Preferences (GSP), granting certain industrial goods from China tariff-free access equivalent to that accorded non-Communist developing countries.¹¹⁹ The terms of the 1978 agreement were implemented dependent on the satisfaction of both sides. The increasing volume and complexity of bilateral trade soon required the updating of this treaty.¹²⁰ This revision came with the signing of the 1985 Sino-European Community Trade and Cooperation Agreement, which included trade provisions “virtually identical” to those of its 1978 predecessor.¹²¹ The new version also added a commitment to expand economic and technological cooperation to almost every sector of the economy.¹²²

¹¹³ Harish Kapur, *China and the EEC: The New Connection* (Dordrecht: Kluwer Academic Publishers, 1986), 34–35.

¹¹⁴ *Ibid.*, 42.

¹¹⁵ Zhi Yue Xiao, “EEC-China: Ten Years After the First Trade Agreement,” *Journal of World Trade* 22: 2 (April 1988): 6.

¹¹⁶ Jon Redmond and Zou Lan, “The European Community and China: New Horizons,” *Journal of Common Market Studies* 25: 2 (December 1986): 140.

¹¹⁷ Kapur, *China and the EEC*, 51.

¹¹⁸ *Ibid.*, 61.

¹¹⁹ Redmond and Lan, “The European Community and China,” 140.

¹²⁰ Xiao, “EEC-China,” 13; and Redmond and Lan, “The European Community and China,” 141.

¹²¹ Redmond and Lan, “The European Community and China,” 152.

¹²² Xiao, “EEC-China,” 14.

Besides providing the basic framework for trade relations, the EC also had an auxiliary role in developing the sinews of a cooperative relationship between the EEC countries and China. As early as 1978, European Commissioner for External Relations Wilhelm Haferkamp led a delegation of business leaders, including the CEO of Royal Dutch Shell and the Chairman of the London Chamber of Commerce, on a trip to China.¹²³ In 1981, 1985, and 1988, the Commission organized three Sino-EC business weeks in Brussels to stimulate networking between business-people from both sides. It also implemented education programs in China, including an MBA program for Chinese economic cadres launched in 1985.¹²⁴ Other Commission initiatives included technological cooperation programs in agriculture, energy, and medicine. In October 1988, the Commission opened a representative office in Beijing.¹²⁵ Meanwhile, the European Parliament—despite having no formal role in foreign affairs—consistently encouraged the Commission and EEC member states to expand links with China. Throughout the 1980s, it passed assorted resolutions urging the EEC, among other things, to promote China’s accession to the GATT; establish working groups to enable European SMEs to associate with Chinese enterprises; and establish a representative office in Beijing.¹²⁶

With the EEC and its component institutions developing meta-forms of engagement between the two sides, an enabling environment was created that spurred national and subnational connections between China and European states. Toward the end of the decade, a narrative had been established that supported broader engagement with China for the economic benefit of both sides. Deepening U.S.–China relations and a perception that Europe would miss out on opportunities if it did not expand bilateral ties stimulated this engagement. Then came the Tiananmen crackdown of 4 June 1989.

¹²³ Kapur, *China and the EEC*, 54.

¹²⁴ Kapur, *Distant Neighbours*, 173.

¹²⁵ EEC/China Joint Committee, Memo 89/31, European Commission, 2 June 1989, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_89_31, accessed 10 March 2021.

¹²⁶ Kapur, *Distant Neighbours*, 173–174.

TIANANMEN AND ITS AFTERMATH

When the People's Liberation Army (PLA) violently dispersed protestors in Beijing's Tiananmen Square, reactions from European countries and the EEC were swift and unanimous in condemnation. In a press release, the German government stated that it "condemns the serious violations of human rights" perpetrated by the army, while Chancellor Helmut Kohl deplored the "barbaric use of brute force" and appealed to the Chinese government to return to the road of opening and democratization.¹²⁷ In France, Foreign Minister Roland Dumas said he was "dismayed by the bloody repression" of "an unarmed crowd of protestors."¹²⁸ In The Hague, the Dutch Ministry of Foreign Affairs informed the Chinese chargé d'affaires of its government's "shock, sadness and revulsion" and of its cancellation of a planned visit by the chairman of the Chinese People's Political Consultative Conference.¹²⁹ The European Commission issued a statement "deplor[ing] the brutal repression of the people of Beijing." The Commission President, Jacques Delors, also canceled a meeting with Chinese Foreign Economic Relations and Trade Minister Zheng Tuobin scheduled for 5 June.¹³⁰ Within twenty-four hours, the governments of the United Kingdom, Sweden, Portugal, Spain, Italy, and Luxembourg all issued statements denouncing the crackdown.¹³¹

The next question the Europeans faced was whether and to what extent to follow up with concrete action. Condemnation of the bloodshed and the subsequent purges and arrests in China came from around

¹²⁷ CADN, Diplomatic telegram Bonn 1245, 7 June 1989, 513PO 2004 038, box 6, RPC VII 3.

¹²⁸ Quoted in Robert D. McFadden, "The West Condemns the Crackdown," *New York Times*, 5 June 1989.

¹²⁹ AMFANL, Diplomatic telegram Van den Broek 129, 5 June 1989, Inventory number 00085, China PZ, binnenlandse aangelegenheden [internal affairs], Year 1989–1989, part 2.

¹³⁰ John Palmer, "End Killings or Trade May Suffer, Europe Warns," *Guardian*, 6 June 1989.

¹³¹ CADN, Diplomatic telegram Stockholm 280, 5 June 1989; CADN, Diplomatic telegram Lisbonne 372, 6 June 1989; CADN, Diplomatic telegram Luxembourg 162, 6 June 1989; and CADN, Diplomatic telegram Rome 670, 5 June 1989, all in 513PO 2004 038, box 6, RPC VII 3.

the world.¹³² In Europe, protests occurred at Chinese embassies and other locations in the United Kingdom,¹³³ Norway,¹³⁴ Sweden, Switzerland,¹³⁵ Portugal,¹³⁶ the Netherlands,¹³⁷ France,¹³⁸ and Germany.¹³⁹ In this atmosphere, EEC governments set about composing a definitive response to the crisis within the framework of European Political Cooperation.¹⁴⁰ Outrage over the crackdown was real, but would not in isolation determine European governments' reactions. In the United States, despite facing similar outrage in the American press and Congress, President George H. W. Bush attempted most of all to take a measured stance. U.S. Secretary of State James A. Baker III later wrote: "In considering our response to the massacre, there was simply no dispute that we had to strike a delicate balance between the need for decisive steps and the need to safeguard the underlying strategic relationship to the extent possible."¹⁴¹

In Germany, Horst Teltschik, the foreign affairs adviser to Chancellor Kohl, expressed skepticism over taking a confrontational approach on the

¹³² "Réactions à travers le monde... Washington baisse pavillon" [Reactions Around the World... Washington Strikes the Colors], *Le Monde*, 23 June 1989; "Les États-Unis et le Japon annoncent de nouvelles sanctions contre Pékin" [United States and Japan Announce New Sanctions Against Peking], *Le Monde*, 22 June 1989; and "Les réactions à travers le monde" [Reactions Around the World], *Le Monde*, 7 June 1989.

¹³³ Stephen Cook, "Outrage Builds a Shrine at the Chinese Embassy," *Guardian*, 6 June 1989.

¹³⁴ "Demonstrationen auf der ganzen Welt" [Demonstrations All Over the World], *Frankfurter Allgemeine Zeitung*, 5 June 1989.

¹³⁵ "Dans les autres capitales" [In the Other Capitals], *Le Monde*, 6 June 1989.

¹³⁶ CADN, Diplomatic telegram Lisbonne 372, 6 June 1989, 513PO 2004 038, box 6, RPC VII 3.

¹³⁷ "'Leger-optreden is barbaars'" ['The Army's Actions Are Barbaric'], *De Volkskrant*, 6 June 1989.

¹³⁸ "L'angoisse et la haine" [The Anguish and the Hate], *Le Monde*, 6 June 1989.

¹³⁹ "Demonstrationen auf der ganzen Welt," [Demonstrations All Over the World], *Frankfurter Allgemeine Zeitung*, 5 June 1989.

¹⁴⁰ European Political Cooperation was a loose framework of cooperation in foreign affairs among EEC member states. It was associated with the EEC but deliberately made a separate institution from the EEC. It was the predecessor to the present-day foreign policy framework of the EU, the Common Foreign and Security Policy.

¹⁴¹ James A. Baker III, *The Politics of Diplomacy: Revolution, War and Peace, 1989–1992* (New York: G.P. Putnam's Sons, 1995), 104.

crackdown with the Chinese government. The newspaper *Frankfurter Allgemeine* paraphrased him as recommending that “world public opinion” should be mobilized to make it clear to the leadership of China that it could not revoke human rights. He added that experience showed that economic sanctions did not prompt political change.¹⁴² The German Minister for Foreign Affairs, Hans-Dietrich Genscher, quickly excluded the possibility of economic sanctions, calling them “at best ineffective, at worst counterproductive.”¹⁴³ The Netherlands Ambassador to China, writing to the Minister for Foreign Affairs on 6 June, also counseled moderation:

I assume that, given the shocking manner in which military violence was used against peaceful protestors and the elaborate media coverage of this, there is a strong public and political pressure to not only issue a strong condemnation but to also announce ‘measures’ [quotation marks in original]. Though many Chinese supporters of reform, more democracy and liberalization wish to be supported by foreign countries, every immoderate attempt from abroad to influence matters here will be automatically rejected. Furthermore, the situation here has not yet fully settled. [We should therefore] take into account the factor of time, meaning we had better think of cancelling, freezing, and postponing rather than make decisions which will preclude cooperation in the longer term.¹⁴⁴

EEC ministers for foreign affairs met on 12 June to discuss a joint response to the crackdown. The ministers decided to freeze high-level bilateral contacts and to ban arms sales to China, measures the United States had also taken.¹⁴⁵ Any further measures would be announced

¹⁴² “Kohl: barbarischer Einsatz brutaler Gewalt” [Kohl: Barbaric Use of Brute Violence], *Frankfurter Allgemeine Zeitung*, 6 June 1989.

¹⁴³ CADN, Diplomatic telegram Bonn 1245, 7 June 1989, 513PO 2004 038, box 6, RPC VII 3.

¹⁴⁴ AMFANL, Diplomatic telegram Van den Berg 179, 6 June 1989, Inventory number 00085, China PZ, binnenlandse aangelegenheden [internal affairs], Year 1989–1989, part 2. Translation by the author.

¹⁴⁵ “EG ziet af van sancties tegen bewind in Beijing” [EC Refrains from Sanctions Against Regime in Beijing], *De Volkskrant*, 13 June 1989; and “EG will vorerst keine normalen Beziehungen zu Peking unterhalten” [EC Does Not Want to Maintain Normal Relations with Peking for the Time Being], *Frankfurter Allgemeine Zeitung*, 13 June 1989.

at a scheduled meeting in Madrid of the organization's highest political body, the European Council, the combined heads of government or heads of state of the EEC (later EU) countries, who were responsible for deciding on its overall collective political priorities. Already on 12 June, economic sanctions and further diplomatic moves such as recalling ambassadors or breaking diplomatic relations were ruled out, with none of the foreign ministers pressing for further measures. They were, reported Dutch newspaper *De Volkskrant*, adopting a "wait-and-see attitude [...], looking closely at decisions taken in Washington and seeming to hope for a quick leadership change in China."¹⁴⁶

As anticipated, the EEC's response was finalized at the European Council meeting of 26–27 June. On the urging of Germany and Spain, two more economic sanctions were added.¹⁴⁷ Firstly, the EEC countries would not extend export credits to their companies to finance trade with China. Secondly, like the United States, the EEC countries would ask the World Bank not to extend new loans to China. Other measures on which top EEC leaders agreed included the "suspension of bilateral ministerial and high-level contacts"; "interruption [...] of military cooperation and an embargo on trade in arms"; "the raising of the issue of human rights in China in the appropriate international fora"; and "prolongation by member states of visas to the Chinese students who wish it."¹⁴⁸ One or more member states had already taken or at least contemplated each of these measures, and none was out of step with policies adopted by non-EEC countries, most importantly the United States.¹⁴⁹ What the Madrid summit added was a stated commitment at the highest political level that all EEC countries would adopt a uniform attitude toward China.

As time passed following the Madrid summit, it soon became clear that the political situation in China was stabilizing and that the Chinese government was too big a stakeholder in the international system to be left isolated for long, meaning that the measures imposed after 4 June were gradually rescinded. In December 1989, the twelve EEC countries

¹⁴⁶ "EG ziet af van sancties tegen bewind in Beijing," 13 June 1989.

¹⁴⁷ "EG schort kredieten voor export naar China op" [EC Suspends Export Credits to China], *De Volkskrant*, 27 June 1989.

¹⁴⁸ Quoted from Presidency Conclusions of the European Council of June 26–27, available at https://www.consilium.europa.eu/media/20589/1989_june_-_madrid_eng_.pdf, accessed 7 March 2021.

¹⁴⁹ Baker, *Politics of Diplomacy*, 105, 107.

agreed to end the ban on export credits, introduced due to the economic uncertainties following the crackdown.¹⁵⁰ In January 1990, the Chinese government announced the lifting of martial law. In response, the Political Committee¹⁵¹ decided in January to relax the “freeze” of relations with China and allow visits by high-level civil servants, while leaving in place the ban on ministerial-level visits.¹⁵² By late March, all member states—with the exception of Germany, where this change of course required a parliamentary vote—were again preparing export credits and other forms of financial cooperation.¹⁵³

In addition, it appears that by next summer the remaining ban on ministerial-level visits was no longer faithfully observed. On 12 July 1990, the French ambassador sent a telegram complaining that, “under one pretext or the other,” such visits between the PRC and EEC states were in fact taking place. On an ostensibly private and non-official trip to Italy, the Chinese Minister for Defense had nevertheless been received by the secretary-general of the Italian Ministry of Defense. On 2 July, the German Minister for Development Cooperation had arrived in Beijing on a six-day visit, where he held talks with his counterpart, Minister of Foreign Economic Relations and Trade Zheng Tuobin, Premier Li Peng, and others. In early July, the Chinese Vice-Minister for Chemical Industry likewise visited the Netherlands, where he met the Dutch Vice-Minister of Economic Affairs.¹⁵⁴

While some European governments were apparently stretching the rules of the diplomatic embargo to maintain contacts with China, Sino-French relations were only just emerging from an even deeper freeze. On 14 July 1989, the French government caused major offense to Beijing when it decided to invite Chinese dissidents to join the annual Bastille

¹⁵⁰ “Sancties tegen China steeds verder uitgehold” [Sanctions Against China Increasingly Hollowed Out], *Trouw*, 22 February 1990.

¹⁵¹ The Political Committee brings together the Political Directors of each member state’s foreign ministry and represents the level immediately below the foreign ministers. It undertakes much of the preparatory work for ministerial discussions and decisions.

¹⁵² CADN, Diplomatic telegram *Diplomatie* 177, 21 January 1990, 513PO 2004 038, box 31, EU III 3.

¹⁵³ CADN, Diplomatic telegram *Bruxelles* 414, 27 March 1990, 513PO 2004 038, box 31, EU III 2.2.

¹⁵⁴ CADN, Diplomatic telegram *Pekin* 2071, 12 July 1990, 513PO 2004 038, box 31, EU III 2.1.

Day parade in Paris on France's national holiday, an event attended by political leaders from France and abroad and broadcast on national television. In a protest to the French government, China described this as "an open attack" and "gross interference."¹⁵⁵ The PRC government further objected to "persistent rumors" that France was planning to sell arms to Taiwan and deplored the presence at the same parade of the island's Minister for Foreign Affairs.¹⁵⁶ For the rest of 1989 and well into 1990, the activities of Chinese dissidents in France provoked successive truculent protests from the Chinese Embassy to the Quai d'Orsay.¹⁵⁷ Relations recovered somewhat after March 1990, when France lifted its block on export credits, leading the Chinese government to express its appreciation.¹⁵⁸ Later, however, in 1992, the arms sales to Taiwan of which the Chinese had heard rumors back in 1989 materialized, prompting another crisis in Sino-French relations.¹⁵⁹

The eventual lifting of the ban on ministerial visits came after President Saddam Hussein of Iraq launched an invasion of Kuwait on 2 August 1990. The UN Security Council adopted a series of resolutions condemning the invasion, which Iraq ignored, resulting in the tabling on 29 November of SC Resolution 678, empowering other UN members to use "all necessary means" to ensure the removal of Iraqi forces from Kuwait.¹⁶⁰ The United States and its allies sought the passage of this resolution to authorize military action against Iraqi forces. As a veto-wielding Security Council member, China had to be persuaded to refrain from blocking passage of the resolution. The United States promised

¹⁵⁵ CADN, Diplomatic telegram Pekin 3082, 17 July 1989, 513PO 2004 038, box 13, FR II 2.

¹⁵⁶ CADN, Diplomatic telegram Diplomatie 14,877, 20 July 1989, 513PO 2004 038, box 13, FR II 2.

¹⁵⁷ See CADN, Diplomatic telegram Diplomatie 18,223, 8 September 1989; CADN, Diplomatic telegram Diplomatie 22,148, 25 October 1989; CADN, Diplomatic telegram Pekin 4880, 7 December 1989, all in 513PO 2004 038, box 13, FR II 2; and CADN, Diplomatic telegram Pekin 4049, 27 February 1990, 513PO 2004 038, box 13, FR II 4.

¹⁵⁸ CADN, Diplomatic telegram Pekin 778, 20 March 1990, 513PO 2004 038, box 13, FR II 4.

¹⁵⁹ Hou, "Quarante Ans de Dialogue," 230.

¹⁶⁰ UN Security Council Resolution 678 of 29 November 1990, available at [https://undocs.org/S/RES/678\(1990\)](https://undocs.org/S/RES/678(1990)), accessed 8 March 2021.

the Chinese government to ease sanctions and invite the Chinese foreign ministers to visit the White House.¹⁶¹

The EEC states, too, incentivized China to cooperate on the resolution by offering a resumption of relations. Italy played a key role in the European decision to normalize relations. The Italians had steadily built up ties with China in the second half of the 1980s, signing a consular agreement and a defense agreement with Beijing and becoming China's second-largest trading partner in Europe, after West Germany. Rome assumed the rotating Presidency of the EEC on 1 July 1990, thereby holding an important agenda-setting role in the second half of 1990. With encouragement from Washington, the Italians pushed for the re-establishment of dialogue with China in the EEC.¹⁶² On 28 September, the foreign ministers of the Troika¹⁶³ (Ireland, Italy, and Luxembourg) met with Chinese foreign minister Qian Qichen at the UN in New York, an encounter during which the three "expressed appreciation for the constructive role so far played by China [in regard to the Gulf crisis]." The President-in-exercise (Italy) "noted that the Presidency would soon discuss with the partners how to strengthen political dialogue and improve relations with China."¹⁶⁴ On 22 October, the foreign ministers of the twelve EEC states decided to lift the ban on ministerial- and high-level visits.¹⁶⁵ Secondary sanctions, including the bans on cultural, scientific, and technological exchanges, were also removed. Only the arms embargo and a policy of raising human rights issues in multilateral fora remained in place.¹⁶⁶

In conclusion, the response by EEC states to the Tiananmen crackdown dovetailed with that of the United States, with EEC sanctions

¹⁶¹ Baker, *Politics of Diplomacy*, 324.

¹⁶² Coralluzzo, "Italy's Foreign Policy Toward China," 9–10.

¹⁶³ The Troika was the unified representation to third parties of the twelve EEC-members. The three foreign ministers represented the member states holding the previous, present, and next-in-line future EEC presidency.

¹⁶⁴ CADN, COREU telegram TA Local 2276, 2 October 1990, 513PO 2004 038, box 31, EU III 2.1.

¹⁶⁵ CADN, Diplomatic telegram Diplomatic 21,955, 24 October 1990, 513PO 2004 038, box 31, EU III 3.2.

¹⁶⁶ The policy of criticizing China in multilateral fora, meaning in practice the UN Commission on Human Rights, was abandoned in 1998. For further discussion of this issue, see Philip Baker, "Human Rights, Europe and the People's Republic of China," *China Quarterly* 169 (March 2002): 45–63.

mirroring those of the United States. The most important measure, the freeze on high-level diplomatic contacts, was dropped to win Chinese support for the essentially American Gulf War endeavor of military action against Saddam Hussein's regime. Though Europe was developing its own foreign policy agenda with respect to China, it still did so under a broader U.S. aegis that restricted the scope of independent European action, even as it provided for renewed ties in the aftermath of Tiananmen.

CONCLUSION

Martin Albers and Zhong Zhong Chen note how dealings between China and Europe in the 1980s were shaped by the bipolar framework of the Cold War, as "relations with the Cold War hegemony in Moscow and Washington, rather than connections with each other, were paramount."¹⁶⁷ In the late 1970s, China's antagonism toward the Soviet Union and its resulting isolation within the communist sphere was a key reason for reaching out to Europe. Concurrently, this hostility motivated France and especially West Germany to be cautious in developing ties with China until Beijing moderated its stance toward Moscow. More than the Soviet Union, however, the United States played a truly decisive role in setting the overarching terms of Europe's relationship with China.

Within the American-dictated boundaries of the relationship, the two sides were nonetheless constructing economic links which by 1989 were a contributory cause of the failure of sanctions. The direct trigger for the end of the diplomatic freeze was the Gulf crisis, but it is clear that by the mid-1990s the willingness to execute these restrictions faithfully was starting to fracture. The reason for this is clear: the Communist Party had weathered the storm and was stabilizing its grip on power. European governments realized that the CCP was set to govern China for the foreseeable future, and the economic allurements of China were too great for some of the twelve EEC countries to resist indefinitely engagement with the Chinese government. Once the unified approach to China began to break down, the remaining states were under pressure to follow suit, so as not to find themselves at a comparative economic disadvantage.

¹⁶⁷ Albers and Chen, "Socialism, Capitalism and Sino-European Relations in the Deng Xiaoping Era," 116.

All three countries discussed here wished to expand their trade and investment ties with China. West Germany was most successful in doing so, particularly in terms of exports, that developed vigorously under the umbrella of a pragmatic political relationship between Bonn and Beijing. The Netherlands was likewise eager to develop economic ties, but found itself at a temporary disadvantage of its own making through selling submarines to Taiwan. The Dutch Foreign Ministry understood the risk and opposed the sale, but lost out in 1981 to the Economics Ministry. Taiwan's signaling that additional large-scale orders would follow the submarine purchase suggests it employed a deliberate strategy to incentivize the Dutch government to grant further export licenses. Lastly, throughout the decade, Paris found France's exports to China disappointing. Overreliance on *grands contrats* meant that French exports were too often an extension of political deals rather than offers that the Chinese found genuinely competitive.

It is interesting to note that the French government was less restrained than its European peers when responding to the Tiananmen crackdown and its aftermath, which probably contributed to its approval of a major arms deal with Taiwan in 1992. The Dutch experience of the early 1980s must have made Paris aware that a strong negative response from Beijing would undoubtedly follow any such sales, even if France, a larger power, probably considered itself less vulnerable than the Netherlands to Chinese retaliation. France's relatively underdeveloped economic relationship with China could be one reason why the French government was willing to tolerate a deeper crisis in its dealings with Beijing. Ultimately, the main pillar of its relationship with Beijing in the 1980s had been a shared political alignment on major world events. This rapport between the two governments was thoroughly shaken by the events of June 1989.

The crisis in the relationship due to the Tiananmen crackdown would, it transpired, be merely a temporary interruption in the progressive development of ties between China and EEC countries. Indeed, trade and investment between the two sides were not simply maintained, but skyrocketed once it became clear in 1992 that economic reforms were set to continue in China. The events of June 1989 did nonetheless have two lasting consequences for Sino-European relations. Firstly and most importantly, from then onward, in some form or other, the issue of human rights in China would remain part of the relationship. While European foreign ministries were at times reluctant to approach the subject, and even though the Chinese government rejected the issue almost entirely,

in most European countries pressure from NGOs and parliamentarians meant that it could not be banished from the agenda. Secondly, one post-Tiananmen sanction was never rescinded and in fact survives until today: the embargo on arms sales to China. Whereas in the 1980s some European governments did agree to (relatively limited) arms sales, in the 1990s such transactions became unthinkable, even though relations had been normalized.

The 1980s were the decade that opened Europe up to China. It was a decade of naïve promise where neither side properly understood the other but, in the interests of furthering their own agendas, each wished to engage. For Europe, China represented mostly an economic opportunity. Many corporate leaders had an inflated sense of the opportunities awaiting them in the mythical Chinese market, meaning that the private sectors in many European countries were clamoring to do business with China. For France, the relationship with China was an opportunity to assert its independence from the bipolar international system. For China, Europe was a natural trading partner—one less ideologically challenging than the United States—as well as a source of technical and human capacities that could support its modernization program. The policy and normative challenges created by the engagement of and efforts to reconcile two very different social and political systems were less fully appreciated, however. The aftermath of Tiananmen demonstrated the still unresolved challenge Europe faced, of balancing its norms and policy objectives with its economic and commercial ambitions in China, a dilemma that even today remains a rich source of political quandaries and conundrums.

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The Bottleneck of Reform: China's Oil Policy in the 1980s

Kazushi Minami

INTRODUCTION

China reinvented itself in the 1980s. It registered average GDP growth of six percent per year, almost doubling the economy from \$1.9 billion to \$3.6 billion. This growth seemed modest compared to the takeoff in the early twenty-first century, but China had come a long way. Although the Chinese economy grew steadily in the 1970s, it lagged far behind capitalist countries due to the determination of Chairman of the Chinese Communist Party (CCP) Mao Zedong to promote “continuous revolution” at the expense of economic development. Pursuing the “Four Modernizations” in agriculture, industry, national defense, and science and technology, the post-Mao leadership under Deng Xiaoping implemented far-reaching reforms in the 1980s, known by the incantation “Reform and Opening Up,” which gradually transformed the socialist

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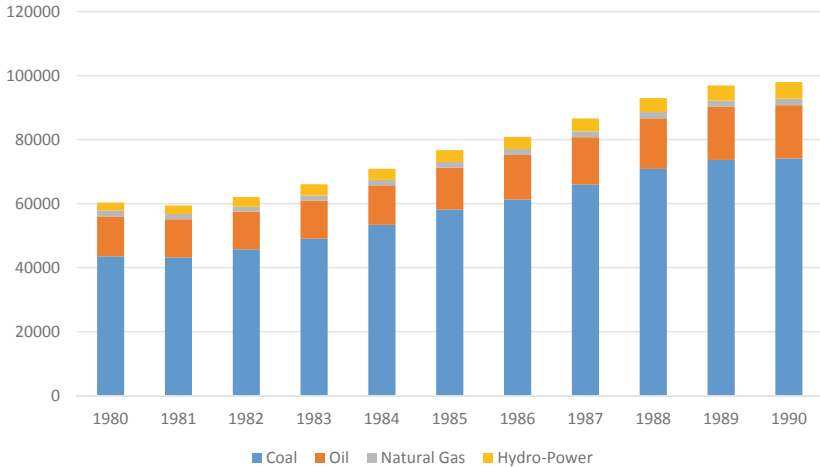


Fig. 10.1 China's energy consumption, 1980–1990 (10,000-ton standard coal equivalent) (Source National Bureau of Statistics, *Zhongguo tongji nianjian 1990* [Statistical Yearbook of China, 1990] [Beijing: Zhongguo Tongji Chubanshe, 1991], 453)

economy into a market economy with “Chinese characteristics.”¹ China achieved stable growth and structural changes without sacrificing one for the other, something that most former socialist countries, including the Soviet Union, failed to accomplish.

Oil posed a fundamental challenge to Reform and Opening Up. First, although China relied on coal for 72–76% of its total energy consumption (see Fig. 10.1), Beijing viewed oil as a key natural resource for domestic energy needs. In the 1980s, China's industrial output more than tripled; the population mushroomed from 980 million to over 1.1 billion; and energy consumption increased over 60%.² In conjunction with low domestic prices for oil and widespread inefficiency in oil

¹ For economic reforms in the 1980s, see Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge University Press, 2008).

² Thomas G. Rawski, *An Overview of Chinese Industry in the 1980s* (Washington, DC: World Bank Policy Research Department, February 1993), 37, <http://documents.worldbank.org/curated/en/482401468914767526/pdf/multi-page.pdf>, accessed 15 October 2020.

consumption, the rising industrial and household demand for oil put enormous pressure on China's energy balance. Second, Beijing earned foreign currency by exporting oil. Oil exports comprised approximately one-fifth of total export earnings in the early 1980s, when the Second Oil Shock of 1979 more than doubled world oil prices. Beijing, however, faced an acute shortage of foreign currency as it accumulated massive trade deficits, which reached \$15 billion in 1985, due to hasty plant and equipment purchases. Technology imports, a crucial element for Chinese modernization, required continuous oil exports amid rising demand at home.

Yet China's oil was becoming less accessible. After decades of exploitation using water pressure, oil production at China's major onshore oilfields, including Daqing in Heilongjiang Province, plateaued in the early 1980s, producing just over 2 million barrels per day, or 100 million tons per year (see Table 10.1). This stagnation in oil production affected Beijing's plans for oil exports (see Table 10.2). China failed, for example, to honor an agreement with Japan to sell 32.5 million tons of oil between 1980 and 1982. Beijing even feared that China would have to import oil in the near future to meet its energy demand, a scenario that would exacerbate the lack of foreign currency. Kang Shi'en, China's energy tsar, who led Beijing's oil policy in the 1980s, reported at a May 1981 meeting on geological surveys in East China that energy officials and oil

Table 10.1 China's oil production and consumption, 1980–1990 (million tons)

<i>Year</i>	<i>Production</i>	<i>Consumption</i>
1980	106.0	86.7
1981	101.2	82.2
1982	102.1	81.3
1983	106.1	83.0
1984	114.6	86.0
1985	129.4	89.7
1986	130.7	95.4
1987	134.1	101.3
1988	137.1	108.8
1989	137.6	113.9
1990	138.3	112.9

Source BP Statistical Review of World Energy 2016—Data Workbook, <http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>, accessed 15 October 2020

Table 10.2 China's oil trade, 1980–1990 (10,000 tons)

	<i>Exports</i>	<i>Imports</i>
1980	17.5	0.8
1981	18.4	N/A
1982	20.5	N/A
1983	20.3	N/A
1984	28.1	N/A
1985	36.3	0.9
1986	34.6	3.5
1987	32.9	3.2
1988	31.4	5.1
1989	31.1	10.7
1990	31.1	7.6

Source National Bureau of Statistics of China, *Zhongguo tongji nianjian* [Statistical Yearbook of China], 1985, 515; 1990, 456; and 1995, 202. These figures include both crude and processed oil

workers were debating whether they could maintain the current production level—100 million tons per year—in future. “If [China] becomes an oil importer,” cautioned Kang, “it would be a problem.”³ Foreign observers noted the ticking time bomb. “Chinese petroleum production dreams were dashed,” China analyst Christopher Clarke wrote. “The country now faces an energy crisis as severe as the West’s, and perhaps even more difficult to solve.”⁴

Oil posed a political problem too. Chinese leaders made numerous statements throughout the 1980s that they unanimously supported Reform and Opening Up, and another Cultural Revolution would never materialize. Oil shortages, however, could derail Chinese Reform by slowing industrial development and curtailing technology imports. Should China become an oil importer, moreover, this would shatter the principle of self-reliance, which had fueled Chinese nationalism since the withdrawal of Soviet technicians from China in July 1960. The economic and political consequences of oil shortages might precipitate another power struggle, jeopardizing Reform and Opening Up. As the *People’s*

³ Kang Shi’en, *Kang Shi’en lun Zhongguo shiyou gongye* [Kang Shi’en of the Chinese Oil Industry] (Beijing: Shiyou Gongye Chubanshe, 1995), 365–366.

⁴ Christopher M. Clarke, “China’s Energy Plan for the 80s,” *China Business Review* 8: 3 (May–June 1981): 48–51.

Daily proclaimed in late 1979, oil was “an important strategic resource,” the bottleneck of Chinese reform.⁵

Beijing had three options to deal with the crisis. First, it could reduce domestic consumption of oil. To this end, Beijing launched a nationwide oil conservation campaign in 1979. “Where conditions permit,” Kang Shi’en insisted, “all oil-burning boilers should be converted to coal-burning units this year.”⁶ Second, Beijing could slow down the pace of industrial development. To the disappointment of foreign investors, Chinese leaders curtailed technology imports in the early 1980s, when they reined in the rash expansion in plant and equipment purchases. These two measures reduced China’s oil consumption in the early 1980s, but did little to resolve fundamental discrepancies between oil supply and demand.

The third—and ideal—solution for the energy problem was to find new sources of oil, particularly offshore. Since 1968, when the UN Economic Commission for Asia and the Far East predicted massive offshore oil and gas reservoirs in the East China Sea, Chinese leaders had been discussing how to explore and develop these resources. Offshore oil required modern technology far more sophisticated than the outdated Soviet equipment Chinese engineers were using to extract onshore oil in Northeast China. Moreover, the complex process for offshore oil production—from seismic survey to wildcat drilling, well construction to service provision, transportation to worker training—cost billions of U.S. dollars. Possessing neither equipment nor capital nor knowhow, Beijing had little choice but to cooperate with what energy expert Vaclav Smil called “yesterday’s paragons of capitalist evil,” namely foreign oil companies.⁷ Offshore oil might underwrite Reform and Opening Up, but the price tag, both political and economic, seemed high.

Foreign oilmen had coveted offshore resources in the East and South China Seas for years. The Oil Shock of 1973 prompted oil companies in the United States, Western Europe, and Japan to view China as a potential alternative to Middle Eastern oil. This myth had all but dissipated

⁵ “Jianjue yasuo shaoyou jieyue yongyou” [Resolutely Reduce Oil Burning and Save Oil Usage], *People’s Daily* (12 September 1979): 1.

⁶ Kevin Fountain, “The Development of China’s Offshore Oil in the Next Decade,” *China Business Review* 7: 1 (January–February 1980): 23–36.

⁷ Vaclav Smil, *Energy in China’s Modernization: Advances and Limitations* (Armonk, NY: M. E. Sharpe, 1988), 98.

by the late 1970s, when foreign companies realized that no matter how much offshore oil China produced and how soon, its booming consumption would preclude the sizable oil exports that they had once fantasized. Foreign oilmen never lost interest in offshore oil near China, though. The 1979 Iranian Revolution and the Soviet invasion of Afghanistan forced them to continue their search for new sources of oil, while a worldwide recession in the oil industry in the early 1980s created urgent needs for new business opportunities. China's 2,800-mile coastline, largely untapped, seemed to offer a solution. Although assessments of China's offshore oil reserves varied from the U.S. estimate of around 39 billion barrels, the same amount as China's proven onshore reserves, to Beijing's unsubstantiated claim of 100 billion barrels, oil companies were willing to invest in the region so long as it offered reasonable prospects of success. "This is the longest virgin coastline in the world, and we think it holds tremendous potential," Arco President Paul Ravesies enthused.⁸

This chapter analyzes China's oil policy in the 1980s, focusing on offshore cooperation with foreign companies. It argues that Beijing's decisions, largely ad hoc yet characterized by strategic thinking, brought remarkable success. The first and second sections examine Beijing's policy for international bidding on offshore oilfields. The production-sharing framework—in which foreign companies bore the expenses of exploration and development, while the oil-possessing country obtained up to 51% of produced oil—allowed Beijing to eschew financial risk and maintain territorial sovereignty. Disappointing results in the initial years of offshore cooperation, combined with tough contract terms and bureaucratic red tape, quickly beclouded foreign oilmen's enthusiasm. As discussed in the third section, Beijing began to cultivate alternatives to offshore oilfields, including onshore oilfields in Northeast China, now rejuvenated with Western technology. Recognizing the long-term importance of offshore oil, Beijing nonetheless never even considered giving up on offshore development. The fourth section shows how in the mid-1980s Beijing began to place dual emphasis on promoting offshore cooperation on the one hand and developing its own offshore capabilities on the other, under the slogan "walking on two legs." This chapter concludes that Beijing's oil policy in the 1980s not only averted a major economic slowdown, but also laid a conceptual foundation for China's "peaceful rise"

⁸ Thomas J. Lueck, "Plumbing China Oil Reserve," *New York Times* (18 August 1983): D1, 2.

in the twenty-first century by enshrining both foreign cooperation and self-reliance in its energy strategy.

THE PATH TO OFFSHORE COOPERATION

1978 marked a watershed in the history of China's oil industry. In January, a group led by Vice Minister of Petroleum Industry Sun Jingwen and Vice Director of the State Planning Commission Li Renjun toured Japan and the United States, studying modern oil technology. Kang Shi'en, director of the State Economic Commission, understood the importance of this delegation. When its trip report reached him, Kang organized a study group consisting of leading energy officials, which revised the report before submitting it to the CCP leadership. The final report proposed the production-sharing scheme as the only way for Beijing to accelerate offshore exploration and development, while asserting that foreign companies should buy Chinese equipment and employ Chinese engineers whenever possible. These innovative suggestions thrilled Chinese leaders. On 26 March, Chairman Hua Guofeng chaired a high-profile meeting to discuss the report, in which he espoused offshore cooperation to achieve his ambitious plan to increase China's annual oil production to 200 million tons by 1985. "This issue does not affect sovereignty," said Hua. "On principle... we can make a firm decision to do it." Ye Jianyin, Li Xiannian, and other senior officials seconded Hua's view.⁹ The 26 March meeting set foreign cooperation as the kingpin of Beijing's offshore strategy.

Beijing moved swiftly. Within a few months, the Ministry of Petroleum contacted American, Japanese, and French firms, inviting them to Beijing to discuss offshore cooperation. The political ascent in late 1978 of Deng Xiaoping, an avid supporter of joint offshore ventures, added further momentum. The Ministry of Petroleum launched negotiations with additional companies, while dispatching delegations to the United States, Britain, France, Norway, Japan, and Brazil to study their offshore technology. Between 1979 and 1980, Beijing reached offshore exploration agreements with 33 firms from 17 countries. They would spend \$200 million in total conducting seismic surveys on the continental shelf near China, and the Chinese would pay virtually nothing to obtain the results.

⁹ Qin Wencai, *Shiyou shiren: zai haiyang shiyou zhanxian jishi* [Oil Brigade: The Record of the Battle for Offshore Oil] (Beijing: Shiyou Gongye Chubanshe, 1997), 37–38.

If the data indicated subterranean structures that might contain oil, the companies would have preferential rights for development. This framework, disproportionately advantageous to Beijing, reflected the strong interest of foreign companies in China's offshore resources.

Beijing further intrigued foreign oilmen by awarding its first offshore development contracts to Japanese and French firms in December 1979. The Japan National Oil Corporation (JNOC) and the Société Nationale Elf Aquitaine each obtained an area in Bohai Bay, while Compagnie Française des Pétroles (Total) acquired an area in the northeastern part of the Gulf of Tonkin. The Chinese had already drilled and developed these oilfields, and the contracts with the Japanese and the French stipulated that they would share the cost of production. These deals dazzled and puzzled the Americans. One oilman noted the absence of provisions for "profit oil" in the French deal—oil left after the "cost oil" has paid off the production cost. "It doesn't all tie together," he commented. "We're not going to sign anything like that, but there may be some advantage to the French politically." Another businessman commented that if a company could get as much as 49% of profit oil, it "might have some appeal" to countries lacking in oil resources, such as Japan and France.¹⁰ The Japanese and French deals, pioneering as they were, seemed exceptional. First, these proven oilfields were much shallower, and therefore easier to develop, than unexplored areas such as the South China Sea. Second, these companies were completely or partially state-owned and could bear higher risks than U.S. competitors. The JNOC, for example, desperate to diversify its oil suppliers, agreed to give Beijing 57.5% of profit oil, a much higher level than usual.

Beijing's oil policy—and foreign economic cooperation in general—met no serious resistance within the CCP, but some officials repeatedly expressed concerns over offshore cooperation. In February 1978, Vice Premier Li Xiannian wrote to the members of the "energy clique," including Kang Shi'en, and Vice-Premiers Gu Mu and Yu Quili, lamenting that the Chinese had "insufficient international knowledge"—"not a little insufficient but very insufficient." Calling foreign oilmen "capitalists" and "imperialists," Li wrote: "[T]o negotiate with wolves, you should learn to howl like a wolf... We do need to learn to howl." He particularly feared that offshore cooperation might engender dependence

¹⁰ Dori Jones, "China's Offshore Oil Development," *China Business Review* 7: 4 (July–August 1980): 55.

on foreign companies. Li criticized “a small tendency” among Chinese officials and engineers “to consider everything about foreigners good.” “If we have this tendency, it is very bad,” he warned. “We should import the world’s modern technology based on the premise of self-reliance.”¹¹ In another letter to Gu Mu, Li wrote that Chinese engineers should “bolster confidence” in Sinicizing imported technology. “I still insist on my long-held belief that we cannot buy the four modernizations; we can only build the four modernizations.”¹²

Two incidents—one in late 1979 and the other in early 1980—further complicated China’s search for offshore cooperation. On 25 November 1979, a heavy storm, combined with misguided responses to it, destroyed Bohai II, a jack-up rig in Bohai Bay, killing 72 out of 74 workers on board. The tragedy had political ramifications. Minister of Petroleum Song Zhenming published a self-criticism in the *People’s Daily*, imputing blame for the incident to the ministry. Song admitted that he and other officials exhibited “severe arrogance,” “disrespect for science,” and “blind recklessness” in the Bohai II project.¹³ In August and September 1980, Song was dismissed and four other officials imprisoned. Furthermore, Yu Qiuli was transferred from the State Planning Commission to the newly created State Energy Commission, and Kang Shi’en resigned as director of the State Economic Commission and succeeded Song as the new Minister of Petroleum, moves widely considered demotions. The Bohai II accident made Chinese officials more cautious toward offshore ventures, reportedly delaying foreign cooperation.¹⁴

On 25 January 1980—less than two months after the sinking of Bohai II—*China Daily News*, a Chinese American newspaper based in New York, published an article by a Chinese American denouncing the Sino-Japanese contract in Bohai Bay. It claimed—falsely—that the terms allowed Japan to recoup the cost of investment within a few months and maintain a supply of free oil until 2000, worth hundreds of billions of U.S. dollars. “[T]he nation’s interest may easily be ruined,” the writer

¹¹ *Jianguo yilai Li Xiannian wengao* [Li Xiannian Manuscripts Since 1949], vol. 4 (Beijing: Zhongyang Wenxian Chubanshe, 2011), 84.

¹² *Jianguo yilai Li Xiannian wengao*, 4: 224.

¹³ “Jiu Bohai er hao zuanjingchuan fanchen shigu Song Zhenming zuo jiantao” [Song Zhenming’s Self-Criticism Concerning the Bohai No. 2 Platform], *People’s Daily*, 26 August 1980, p. 1.

¹⁴ Qin, *Shiyou shiren*, 206.

fumed. The article found some sympathetic readers in China. At one energy research institute, for instance, researchers censured the Sino-Japanese deal as “selling off resources” and “damaging the national interest.” Disturbed by this trend, Deng Xiaoping instructed the State Energy Commission and the State Import and Export Administration Commission to hold a meeting in the spring of 1981, reaffirming the economic merits of the JNOC agreement.¹⁵ Although offshore cooperation remained a consensus in the CCP, the *China Daily News* incident reminded Chinese leaders of the sensitive nature of their endeavor.

Beijing made cautious headway on offshore cooperation in the early 1980s. In July 1980, foreign companies completed all the geological surveys agreed upon since 1979, exploring 430 thousand square meters in total in the Pearl River Estuary and Yinggehai Basin, located respectively in the northeastern and northwestern parts of the South China Sea, and the southern part of the Yellow Sea. The massive data collected by these firms enabled Beijing to evaluate the oil potential of these areas. In January 1981, Chinese energy officials held a series of meetings on offshore cooperation, which lasted for 17 days. They concluded that Beijing should begin preparations for international bidding on offshore acreage, possibly scheduled as early as the coming summer. Although the financial, legal, and technical complexities of offshore ventures postponed the bidding for months, Chinese officials displayed cautious optimism. In July 1981, Kang Shi'en anticipated that after 1985, China would shift its main sources of oil from onshore to offshore. He assumed that following further exploration and development, some oilfields in Bohai Bay and the Gulf of Tonkin would begin production in 1986, reaching their full potential in the next couple of years, while oilfields located in the areas in the South China Sea subject to bidding would require several more years.¹⁶ At the national oil conference in February 1982, however, Kang stated that Beijing's plan to maintain annual oil production of 100 million tons did not include offshore oil—an indication that he considered offshore ventures a risky, long-term undertaking.¹⁷

Beijing's lingering distrust of foreign capitalists seemed to have contributed to the delay in offshore bidding. While making ideological

¹⁵ Ibid., 206.

¹⁶ Kang, *Kang Shi'en*, 373–375.

¹⁷ Kang, *Kang Shi'en*, 383.

adjustments to legitimize cooperation with foreign oilmen, Chinese officials tried to minimize their influence on Chinese workers. Vice Minister of Petroleum Qin Wencai argued that Chinese workers should not consider all foreign engineers “proxies of capitalists” and foreign cooperation “capitulation.” He warned, however, that the Chinese should “be on guard against the influence and corrosion of capitalist thoughts.”¹⁸ This line of thinking may have derived from vocal criticisms of Deng Xiaoping’s economic Reforms by conservatives like Chen Yun, who proclaimed in 1980 that China should establish not only “a material civilization” based on modernization, but also “a spiritual civilization” based on socialism. Chinese officials, moreover, feared economic predation by foreign capitalists, who had superior knowledge of joint ventures. After the January 1981 meetings on offshore oil, Li Xiannian wrote to Yu Qiuli that the “importance and complexity” of offshore cooperation “far surpasses” that of Baoshan Iron and Steel Corporation, a company established in 1977 with the assistance of Nippon Steel of Japan. Li warned that unless they realized that “foreign capitalists are also capitalists,” the Chinese “might get the short end of the stick on [the issues of] sovereignty, resources, and economics.”¹⁹ Beijing therefore exercised the utmost caution in preparing for offshore bidding.

FROM OPTIMISM TO DISAPPOINTMENT

The tardy pace of China’s offshore opening tantalized foreign oilmen. When Stephanie Green of *The China Business Review* asked about future oil production, You Dehua, deputy managing director of the China National Oil and Gas Exploration and Development Corporation, stated: “This is a very, very complicated question. Too much is unpredictable, especially in offshore development. But anyway, we have good prospects in petroleum resources.”²⁰ As the Chinese analyzed seismic data, discussed bidding conditions, and drafted relevant legislation, foreign businesspeople continued to speculate on China’s offshore promise. One report in 1980 estimated China’s offshore reservoirs at four

¹⁸ Qin, *Shiyou shiren*, 12–13.

¹⁹ *Jianguo yilai Li Xiannian wengao*, vol. 4, 225.

²⁰ Stephanie R. Green, “Interviews,” *China Business Review* 8: 6 (November–December 1981): 25.

to seven billion tons, or 35 to 59 billion barrels, far less than China's self-claimed 100 billion barrels. This seconded the consensus among U.S. geologists that the East and South China Seas would be rather less profitable than the North Sea. The report emphasized the importance of offshore oil to the Chinese economy, however. With Western technology, expertise, and capital, it suggested, offshore wells in Bohai Bay might begin production by early 1984, followed a couple of years later by those in the southern Yellow Sea and the South China Sea. Should China produce 50 million tons of offshore oil by 1990—"a conservative estimate"—oil exports could add "a substantial, and probably critical, contribution to China's modernization program," paying for nearly one-quarter of its projected imports.²¹ China's offshore enterprise might not be a bonanza, but the substantial amount of oil reserves, as well as Beijing's determination to pursue them, offered an attractive business opportunity for foreign companies.

U.S. oilmen were losing patience. At the annual meeting of the National Council for US-China Trade in June 1981, Caltex Chairman James Voss groaned: "The regrettable thing is that because of the slow-moving [Chinese] bureaucracy, we simply can't get to the bargaining table."²² U.S. companies became even more restless later that month, when Arco and its partner Santa Fe International obtained the first offshore contracts in the Yinggehai Basin. With personal leadership from Chairman William Anderson, Arco had been negotiating offshore cooperation with Beijing, becoming the first company in 1979 to conduct a seismic survey in the area southwest of Hainan Island. Arco was "furious" when the Chinese used their data to drill several successful wildcat wells of their own and then raised their price for developing this area.²³ The company nonetheless could not resist the lure of China's offshore oil. Despite the Arco and Santa Fe deals, most U.S. companies kept gauging the profitability of China's offshore endeavor. They probably understood that U.S. banks would be unwilling to invest in unproven oilfields like those near China, and they would have to use their assets as collateral to obtain credit. One company official commented in the summer of

²¹ Fountain, "Development of China's Offshore Oil."

²² Stephanie R. Green, "The Offshore-Oil Race," *China Business Review* 8: 4 (July–August 1981): 57.

²³ Fox Butterfield, "Xinjiang's Foreign Roustabouts," *New York Times* (5 November 1980): D5.

1981: “We wouldn’t be playing the game unless we thought there was something to play with.”²⁴

A breakthrough came in early 1982. In January, Beijing enacted the “Regulations of the People’s Republic of China on Sino-Foreign Cooperation in the Exploration of Offshore Petroleum Resources” and rolled out the “model contract,” clarifying the legal and contractual frameworks of offshore cooperation. The next month, Beijing established the China National Offshore Oil Corporation (CNOOC), a legal entity responsible for offshore ventures, with Qin Wencai as president. In the same month, Beijing also issued tax laws and customs regulations, dissipating some misgivings among foreign oilmen, including over dual taxation. Although these measures left many questions unanswered, foreign companies realized that Beijing was now ready to open up China’s continental shelf.

One day after establishing the CNOOC, Beijing announced the first round of bidding for acreage in the northern part of the southern Yellow Sea and part of the Pearl River Estuary. The next month, it opened more areas for bidding, including the southern part of the southern Yellow Sea, the southern part of the Gulf of Tonkin, and the western part of the Yinggehai Basin. Beijing left the entire East China Sea for exploration by the Ministry of Geology and Mineral Resources and the Ministry of Petroleum Industry, but the areas in the southern Yellow Sea and the South China Sea covered 58 thousand square miles along China’s extensive coastline. Beijing invited bidding from 46 companies from a dozen countries that had participated in the 1979–1980 surveys. With cautious excitement, most of these companies sent representatives to Beijing in May 1982 to pick up the bidding package.

Foreign oilmen gasped at the rigorous contract terms sought by the Chinese. They were a *mélange* of the Indonesian, Norwegian, British, and Brazilian models, with elements of joint venture, production sharing, and servicing contract. “It’s like nothing I’ve ever seen,” said one executive. Foreign firms had to conduct offshore exploration within five to seven years, bearing all the expenses, from seismic surveys to wildcat drilling. If they found oil, they would negotiate production sharing with the CNOOC. Foreign companies and the CNOOC would use 50% of produced oil as cost oil to recover the cost of exploration, development,

²⁴ Green, “Offshore-Oil Race.”

and operation. When all costs were recovered, they would split profit oil, with the CNOOC taking 51% and the foreign counterpart 49%. With the 12.5% royalty tax and the 5% sales tax, China's offshore oil seemed to be a risky business without guaranteed profit. Beijing, moreover, demanded the transfer of all technologies, from design to software to data, to the Chinese side after the termination of the contract. Foreign companies also had to use Chinese equipment and personnel whenever possible, from exploration to development to operations, an arrangement that allowed Chinese engineers to learn managerial and technical skills.²⁵ These conditions reflected Beijing's desire to hedge against the financial risk in offshore ventures and nurture its own offshore capabilities as rapidly as possible.

Foreign oilmen weighed the contract terms carefully. On the one hand, they faced overwhelming risks. Offshore ventures required a long-term commitment, making foreign companies vulnerable to domestic upheavals in China. "It's not like drilling in the Gulf of Mexico," one U.S. oilman quipped, chary of a political shift against foreign cooperation in China.²⁶ The tough contract terms, together with the decline in world crude prices and the uncertainties in China's offshore reserves, also unnerved foreign oilmen. On the other hand, they had a chance to cultivate almost untapped oilfields of great potential. The most conservative estimate of China's offshore oil reserves was 30 billion barrels, exceeding the proven reserves of the North Sea (10 to 30 billion barrels) and the United States (29.8 billion barrels). Its rising domestic demand prevented China from becoming another North Sea, but the revenues from oil sales still seemed lucrative. Foreign companies could make a group bid to share the financial risk, while American firms preferred an individual bid. "If the potential economic terms are good enough, we would rather go it alone," gushed one oilman.²⁷ In August 1982, dozens of companies, including fifteen from the United States, applied for the bidding.

Beijing allowed itself ample time to scrutinize the bids. After months of consideration, it awarded the first offshore contract in May 1983—an area in the Pearl River Estuary—to an international group of oil companies

²⁵ Stephanie R. Green, "Offshore Business," *China Business Review* 9: 3 (May–June 1982): 17–19.

²⁶ Christopher S. Wren, "China Opens Oil Search Offshore to Foreigners," *New York Times* (17 February 1982): D1, 13.

²⁷ Green, "Offshore Business," 18.

led by British Petroleum (BP). Although BP estimated that large-scale production in this area would—if even possible—require at least a decade, the deal fascinated the oilmen. Wilbert H. Hopper, chairman of Petro-Canada, a member of the BP group, called the venture “very profitable.”²⁸ “Our thinking is that offshore Chinese reserves represent at least another North Sea, and perhaps more,” claimed BP spokesperson Russ Hill. “What we’re looking at in China has very, very attractive potential.”²⁹ BP’s agreement was soon followed by several others involving U.S., Japanese, and French companies.

The business atmosphere remained far from euphoric, though. Many companies openly complained about Beijing’s excessive demands, including low profit margins for foreign partners and inflated wages for Chinese workers.³⁰ They also recalibrated China’s offshore potential based on new seismic data and analysis, which refuted Beijing’s claim of 100 billion barrels. Few oilmen now anticipated oil exports from China. “Even if their reserves are as big as the optimists suggest, China won’t be another Saudi Arabia,” explained Selig Harrison, a senior associate with the Carnegie Endowment for Peace. “Because of their enormous population, their energy needs are going to cover most of the production.”³¹ The continuous decline in oil prices added to the frustrations of foreign companies. “The key point is to find oil,” one U.S. executive argued when negotiating with the Chinese. “Both sides want to discover oil as quickly as possible.”³²

Beijing strove to keep foreign companies riveted to the offshore industry. It exempted foreign engineers, for example, from lengthy lectures about Chinese sovereignty over Taiwan, an issue that complicated Sino-American relations in the early 1980s. Beijing’s retaliation against U.S. import quotas on Chinese textiles also excluded the petroleum sector.³³ Furthermore, Chinese officials repeatedly reassured foreign

²⁸ Christopher S. Wren, “China Sets Offshore Oil Accord,” *New York Times* (11 May 1983): D1, 6.

²⁹ Lueck, “Plumbing China Oil Reserve.”

³⁰ Wren, “China Sets Offshore Oil Accord.”

³¹ Lueck, “Plumbing China Oil Reserve.”

³² Kim Woodard, “The Drilling Begins,” *China Business Review* 10: 3 (May–June 1983): 25.

³³ *Ibid.*, 18.

oilmen, who were upset by updated legislation for offshore ventures, that the contracts ratified by the Chinese government had legal preference over any new law, and Beijing would resolve any disputes following international customs and the principle of mutual benefit. The Chinese also tried to placate foreign engineers, increasingly irritated by inefficiencies in co-working with Chinese colleagues, who lacked experience. When touring offshore facilities in the South China Sea in early 1983, Kang Shi'en urged Chinese workers to improve service for foreigners to expedite exploration and development in the Gulf of Tonkin. Meanwhile, Kang also insisted on upholding "an accurate attitude" toward bourgeois influence. "For example," he warned, "we should not let our workers see the messy things that foreigners bring in, thereby maintaining our moral code and principles."³⁴ Beijing was performing a careful balancing act between enticing foreign oilmen and curtailing their influence.

China's offshore opening in early 1982 aroused much excitement among foreign firms, enthusiasm that withered rapidly as the realities of offshore ventures verified most of their misgivings. In the first half of the 1980s, foreign companies spent over \$1.7 billion in offshore exploration. They drilled 150 wildcat wells, with about one-third of these producing oil or gas. Most of these successful fields, however, proved commercially infeasible due to the meager amounts of production. No giant field with over one billion barrels of oil reserves was discovered, and only three oilfields were profitable enough to develop: Total's Weizhou 10-3 in the Gulf of Tonkin and the Japan-China Oil Development Corporation's Chengbei oilfield and BZ28-1 in Bohai Bay. Predictably, Beijing's announcement of the second round of bidding in November 1984 attracted significantly less attention from foreign oilmen than had the first one. They now knew for certain that China's continental shelf was far from another North Sea, let alone Saudi Arabia.

BEIJING TURNS TO THE ALTERNATIVES

The first years of offshore cooperation disappointed Beijing just as much as foreign companies. Although the Chinese never completely abandoned their hopes of massive offshore production, China's proven oil reserves plateaued between 1985 and 1988, hovering at just over 17 billion barrels

³⁴ Kang, *Kang Shi'en*, 402.

before declining in 1989. Worse, world crude prices fell precipitously from \$27.6 per barrel in 1985 to \$14.4 per barrel in 1986, rendering offshore ventures close to unprofitable. Chinese leaders now had to reconsider their original plan to begin producing a sizable amount of offshore oil in the late 1980s to ease China's energy balance. They consequently decided to redouble their efforts to cultivate diverse energy sources.

Beijing turned to what had motivated offshore ventures in the first place—the existing onshore oilfields, particularly those in Northeast China, such as Daqing. Due to severe shortfalls in investment, at the beginning of the 1980s, the Chinese could not detect or extract oil at greater depths and in more complex and remote structures in these fields. As one U.S. observer explained, in a desperate search for new oil, Chinese engineers were using inferior seismic equipment as if “shooting in the dark.” To reinvigorate onshore oil production, CCP General Secretary Hu Yaobang and other high-ranking officials called for major updates in these oilfields through technology purchases.³⁵ Between 1981 and 1984, Beijing spent more than \$26 million, partially using loans from the World Bank, to buy more than 400 submersible water pumps from the United States, which enabled it to boost Daqing's production and dig new wells in the area.³⁶ Moreover, Minister of Petroleum Tang Ke and Daqing President Li Yugang toured the United States in 1984 to study onshore technology. Upon their return, Beijing dramatically increased equipment and service purchases from the United States, which peaked at \$372.6 million in 1985. These sales were a boon for the struggling U.S. oil industry. “[T]hey're just buying like they are going nuts,” one elated company executive said.³⁷ Although these sales temporarily dropped to \$71.9 million in 1987 due to the shortage of foreign currency, Chinese energy officials continued to prefer U.S. technology. With these new investments in onshore oilfields, the Chinese managed to increase oil production through the late 1980s.

Beijing also aimed to develop new onshore oilfields with foreign partners. In late 1985, China invited foreign firms to bid on exploration and development of oilfields in eleven provinces south of the Yangtze River.

³⁵ David Denny, “China's Oil Industry Charts a New Course,” *China Business Review* 12: 1 (January–February 1985): 14–18.

³⁶ Christopher S. Wren, “China's Race to Keep Pumping Oil,” *New York Times* (22 April 1984): F9.

³⁷ Denny, “China's Oil Industry.”

This signified Beijing's new level of tolerance for sovereignty concerns. Having long rejected foreign cooperation in onshore oil, the Chinese now seemed willing to compromise territorial purity to bolster oil production. Itching to find another Daqing, 23 companies purchased seismic data in the region. Eventually, however, due to the projected unprofitability of these hilly fields, which one oilman termed "a hostile area," only one Australian group led by CSR Orient signed a contract.³⁸ When it found few commercially feasible oilfields after initial drillings, CSR too soon terminated the contract. Onshore ventures in South China foundered before taking off.

Beijing pinned hopes on another area—the Tarim and Junggar Basins in Xinjiang Province in Northwest China. Foreign companies conducted seismic surveys in this region, which detected large oil and gas reservoirs. Yet the region's geography posed serious challenges. Located in a remote province with deserts and mountains, these oilfields proved difficult to explore and develop even with modern technology. In addition, the cost of the pipeline needed to transport oil thousands of miles to the littoral cities made these oilfields barely profitable. Furthermore, the proximity to the Soviet Union and the Inner Asian states, as well as the significant Uyghur population, made Xinjiang a sensitive area for foreign cooperation. Even after the opening of southern provinces, Beijing thus continued to keep the Tarim and Junggar Basins off limits to foreigners, spurning proposals by Exxon, Mobil, and the BP consortia for exploration and development.

The gradual increase in onshore oil production in the northeast could not fully cover China's rising energy demand, and Beijing sought alternatives to oil, including natural gas. Using technology imports, Beijing was tapping natural gas reservoirs in the west, particularly Sichuan Province, which held an estimated 33 trillion cubic meters of natural gas. Beijing hoped to develop offshore gas fields as well. In January 1983, Arco found natural gas in its allotted zone in Yinggehai, Yacheng-13-1, with an estimated reserve of 100 billion cubic meters. Lacking expertise, however, throughout the 1980s the Chinese could do little to cultivate underwater natural gas fields. Only in the early 1990s did Beijing, frustrated with the delay in offshore oil development, begin to pay serious attention to offshore gas. "We should treat natural gas as a treasure, placing it in the

³⁸ Edward A. Gargan, "China Looks for Help to Keep Its Oil Flowing," *New York Times* (16 May 1988): D12.

right position as the main [source of energy],” Kang Shi’en argued in 1992. “If we get the guiding ideas right, we have a great possibility of success.”³⁹

Coal—which comprised over 70% of China’s energy consumption—offered far greater potential than natural gas. Chinese leaders reasoned that coal could not only preserve oil for export, but also serve as an export commodity itself. Despite Beijing’s plan to increase annual coal production to 1.2 billion tons by the end of the twentieth century, in the early 1980s, the Chinese were nonetheless struggling to maintain output at 700 million tons, digging small, inefficient mines in rural areas. Worse, according to the State Economic Commission’s estimate, about 20% of factory machinery nationwide, mostly reliant on coal, lay idle due to lack of power. Predictably, Beijing deemed it urgent to develop larger coal mines through foreign cooperation.

Deng Xiaoping found an ideal ally in Armand Hammer, an American energy tycoon and the chairman of Occidental Oil, who had developed many coalmines and oilfields in the Soviet Union. During his tour of the United States in early 1979, Deng met Hammer at a banquet in Dallas. “We know you as the American who helped Lenin,” he said. “Why don’t you come to China and help us as well?” The aging Hammer found Deng’s request irresistible. Although Occidental invested about \$100 million in offshore oilfields near China, it focused more attention on coalmine development. In 1980, Beijing entered into negotiations with Occidental for a joint venture in Pingshuo coalmine in Antaibao, Shanxi Province, projected to cost hundreds of millions of U.S. dollars. “My motivation for entering into agreements with the Chinese is to avail myself of the business opportunities presented by Deng Xiaoping’s current open policy which welcomes foreign investments,” Hammer later recollected. “I feel now about China as I felt when I went to Russia in the time of Lenin: China presents a great business opportunity for my shareholders.”⁴⁰

Pingshuo’s high price tag, combined with the bureaucratic difficulties arising from Beijing’s inexperience in joint ventures, prolonged the negotiations. Hammer was irritated, for example, with the wage system,

³⁹ China Oil News, ed., *Huiyi Kang Shi'en* [Remembering Kang Shi'en] (Beijing: Zhongguo Gongye Chubanshe, 1995), 105.

⁴⁰ Armand Hammer, “On a Vast China Market,” *Journal of International Affairs* 39: 2 (Winter 1986): 19–25.

under which the Chinese government retained most of the salaries paid to Chinese miners. The decline in coal prices from \$52 per ton in 1982 to under \$40 per ton in 1984 also rendered Pingshuo less attractive. Gong Kunsheng, deputy manager of the China Pingshuo Surface Coal Company, Occidental's partner, faltered: "We have no way to make money, we have no way to recover the cost." Beijing seriously feared that Occidental might withdraw from Pingshuo. Gong averred that the Chinese had "confidence" in their ability to develop the coalmine by themselves, but his remark underplayed the potential ramifications of Pingshuo's failure. Other U.S. firms, including Fluor and Bechtel, were conducting their own studies on coal mining ventures in Inner Mongolia. An exit by Hammer, well known for gambles on socialist energy enterprises, might cause these companies to balk.⁴¹

The personal relationship between Deng and Hammer kept Pingshuo alive. In 1982, when the Occidental deal was rumored to be collapsing, Hammer published an open letter to Deng in the *China Daily* newspaper, denying that he was quitting. Hammer raised candid requests, though, particularly for a more comprehensive set of laws and regulations on administrative management. Hammer traveled to Beijing and met Deng in March 1983. He successfully won Deng over on almost all issues related to Pingshuo—most notably, he obtained assurances that the Bank of China would bear half the costs of the venture.⁴² Deng readily accepted Hammer's requests, perhaps because of his concern over the stalemate in Sino-American relations caused by U.S. arms sales to Taiwan. Facing subtle threats from the Reagan administration to curtail economic ties, Deng expressed the hope to Hammer that "this kind of cooperation would not be influenced by the U.S. government's pestering on the Taiwan issue." "As far as we are concerned," he added, "cooperation in the economic sphere cannot be influenced because of this."⁴³ Deng reiterated this view to a Fluor delegation in the spring of 1983. "We strive to prevent this (political problem) from affecting the economic

⁴¹ Christopher S. Wren, "Occidental's Shaky China Deal," *New York Times* (14 October 1984): A8.

⁴² *Ibid.*

⁴³ Chinese Communist Party Central Archives and Manuscript Division, ed., *Deng Xiaoping sixiang nianbian* [Chronicle of Deng Xiaoping Thought] (Beijing: Zhongyang wenxian chubanshe, 2011), 407.

exchanges between the two countries,” he stated. “Perhaps, the development of the bilateral economic relationship may improve the bilateral political relationship.”⁴⁴

In June 1985, after five years of strenuous negotiation, Occidental and the Pingshuo Company reached a final deal. The thirty-year contract amounted to \$650 million, with Occidental paying \$200 million and the Chinese \$450 million. Pingshuo’s annual production was projected to be over 15 million tons. To support workers and their families at Pingshuo, totaling 17 thousand, Occidental and the Pingshuo Company even built basic infrastructure, including schools, houses, and railroads. Hammer commented elatedly in a 1987 interview with the *People’s Daily*: “Our company has invested in over 50 countries in the world, and China is one of the places with the best investment environment. One important reason for this is that China has a stable policy. I think that our cooperation [has] a steadfast basis and [offers] broad prospects.”⁴⁵

After Hammer’s death in 1990, however, Occidental reconsidered, finding Pingshuo a liability. As coal prices continued to drop, Hammer’s successor Ray Irani lacked the commitment to the gigantic enterprise in China, still embroiled in technical and bureaucratic hardships. In July 1991, Occidental terminated the contract, and Pingshuo came into the exclusive ownership of the Pingshuo Company. From its conception, Pingshuo was founded on the shaky ground of the personal relationship between Hammer and Deng. Hammer’s death and Deng’s retirement naturally ended Pingshuo as a joint venture. Energy consultant Martin Weil aptly wrote: “Political patronage created Antaibao—but not only was it unable to ensure the ultimate success of the project, it appears to have contributed significantly to its failure.”⁴⁶

Overall, however, Beijing successfully walked the energy tightrope in the late 1980s. New oilfields and coalmines, as well as technological updates of existing ones, steadily bolstered China’s energy production. Between 1980 and 1990, oil production increased from 2 million bpd to 2.8 million bpd, and coal production from 700 million tons to 1.2

⁴⁴ Deng Xiaoping *sixiang nianbian*, 459. Parenthesis in original.

⁴⁵ Zhang Weitian and Wang Qin, “Wo jianxin Zhongguo de shiye bi jiang cheng-gong” [Firm Belief That Chinese Oil Business Will Inevitably Succeed], *People’s Daily* (23 October 1987): 6.

⁴⁶ Martin Weil, “The Rise—And Fall—Of Antaibao,” *China Business Review* 18: 2 (March–April 1991): 39.

billion tons. This rapid expansion fell short of reversing the deterioration of China's energy balance, let alone of producing a large amount of foreign currency through exports. It did, however, more than offset the poor performance of the offshore sector.

“WALKING ON TWO LEGS”

The contour of China's future energy balance emerged in the mid-1980s. While coal would remain China's most important source of energy, during the 1990s the use of oil in industry and households would increase. Beijing would continue to rely on onshore oilfields in the Northeast, now experiencing a new boom due to technology imports. Despite the difficulties in exploration and development, it viewed oilfields in the West as another major source of oil for the 1990s. The Chinese still hoped to lure foreign companies into onshore oilfields in the South, but to little avail. Offshore oil, once hailed at home and abroad in the 1980s as a panacea for China's energy problems, would not comprise a large portion of China's energy portfolio in the next decade.

Offshore cooperation did make some headway in the late 1980s. In 1987, China's offshore oil production reached 142 thousand bpd, approximately 5% of its total oil production. The Japan–China Oil Development Corporation's Chengbei oilfield in Bohai Bay produced 72 thousand bpd, and Total's Weizhou 10-3 in the Pearl River Basin 7 thousand bpd. That same year, a consortium of Agip (Italy), Chevron, and Texaco obtained a contract to develop Huizhou 21-1 in the Pearl River Basin, which would produce 20 thousand bpd in the early 1990s. In 1988, the Japan–China Oil Development Corporation's BZ28-1 in Bohai Bay came into operation, with a production capacity of 22 thousand bpd. These new oilfields kept Beijing committed to offshore ventures.

Foreign oilmen, however, gradually lost enthusiasm. Feriedun Fesharaki, head of the energy program at the East–West Center in Honolulu, explained that between 1982 and 1988, foreign firms invested \$2.5 billion in offshore exploration—with “virtually no return” because of the meager size of the discovered fields. Sy Yuan, manager of Chevron's Beijing office, satirized Huizhou 21-1 as “a dinky little field.” “American oil companies didn't do so well in China,” he said, “because we weren't so lucky in looking for oil.” Foreign oilmen had little reason to remain optimistic. China's proven oil reserves declined from 17.4 billion barrels in 1987 to 15.2 billion barrels in 1992. Oil prices, too, never recovered to

the 1985 standard—until 2000. Even more troubling was China's unbri-dled energy demand. To maintain the pace of economic growth, Beijing decided in the late 1980s to increase its goals for oil and natural gas production by the end of the twentieth century, from 200 million tons to 250 million tons and from 50 billion cubic meters to 100 billion cubic meters respectively. The Chinese economy, in Fesharaki's words, was "out of control." "It is highly unlikely that China can remain a net exporter of oil by the mid-1990s," he commented, presciently.⁴⁷ Only a few companies participated in the third offshore bidding in early 1989, despite the modified contract terms, and Total withdrew from Weizhou 10-3 that March due to its unprofitability. China's offshore business seemed even more futile than before.

Foreign companies never completely forsook China's oil, though. Harry Taylor, Mobil's chief Beijing representative, expected oil prices to bounce back in the next decade, attracting more investments, particularly in the Tarim Basin if Beijing permitted foreign ventures there. "We see in the 1990s a real growth in the price of oil," he envisioned. "China has great potential for oil." Foreign oilmen recalled their vivid memories of the North Sea, where they found rich fields after drilling numerous dry wells. "It's a risk business," said one European oil executive. "We're disappointed at having lost a lot of money. But we might be able to recoup some of the damage, maybe all. You discount the past and just look forward."⁴⁸ Exhausted and pessimistic, some companies exited China's offshore business. Many others, however, showed dogged determination to stay, no matter how modest current production was. "We are not discouraged," Armand Hammer asserted in 1987. "We still are interested in this area, because the goal of our business is to explore based on the latest technology."⁴⁹

Beijing dangled a new carrot for foreign companies—the East China Sea. As Chinese leaders decided in the late 1980s to prioritize economic development in the coastal regions, the aging Kang Shi'en stressed the importance for Shanghai's growth of offshore resources in the East China Sea. In letters to the CCP leadership and the State Council, Kang described the East China Sea—with 250 thousand square kilometers that

⁴⁷ Gargan, "China Looks for Help."

⁴⁸ Ibid.

⁴⁹ Hammer, "On a Vast China Market," 21.

might produce an amount of oil and gas equivalent to those in the Pearl River Basin, the Gulf of Tonkin, Yinggehai, and the southern Yellow Sea combined—as “the [only] virgin sea in the world now where there is a hope of discovering huge oil and gas fields, yet [oil companies] have not [conducted] large-scale explorations.” Kang maintained that while negotiating joint ventures with Tokyo and drilling wells itself, Beijing should “open up” the East China Sea, beginning with an international bidding for the acreage near the coast to avoid provoking Tokyo, which had been protesting Beijing’s offshore exploration in disputed areas.⁵⁰ Kang’s proposal apparently gained support among Chinese leaders. In April 1989, Beijing declared parts of the East China Sea under China’s undisputed sovereignty open to preliminary survey, and Exxon, BP, and Phillips quickly expressed interest.

Beijing had a broader game plan, though. While striving to maintain foreign offshore cooperation, China ramped up efforts to internalize offshore technology and drill its own wells. This approach marked no departure from the previous policy, since it echoed the arguments made repeatedly since the late 1970s by Li Xiannian and other key officials—that China should avoid dependence on foreign oil companies. Robert Lockhart of Hughes Tool Company, one of the largest oil equipment suppliers in the United States, explained that Beijing’s “main interest” in offshore cooperation lay “in the technology.” “They want to do it themselves.”⁵¹ This ambition crystallized in the principle of “walk on two legs (*liang tiao tui zou lu*).” First formally articulated in 1984, this concept suggested that in the short run China would develop its offshore resources with foreign oil companies, while absorbing modern technology to replace them in the long run. Kang Shi’en was one of the most eloquent advocates of this strategy. At the Ministry of Petroleum Industry’s conference on oil exploration in December 1987, Kang outlined a quixotic vision of China’s future energy balance. According to his estimate, Suizhong 36-1, a field recently discovered by the CNOOC in the northern Bohai Gulf, and Arco’s Yacheng-13-1 in Yinggehai, would obviate the need for further investment in offshore ventures. The CNOOC’s enterprise would, he surmised, “snowball by itself,” allowing the company to reinvest the profit from Suizhong 36-1 in offshore

⁵⁰ Kang, *Kang Shi’en*, 517–518.

⁵¹ Lueck, “Plumbing China Oil Reserve.”

oilfields in other areas. This scheme would save Beijing extra capital for onshore oilfields in the Northeast, where the Chinese could use existing technology to dig wells with guaranteed production. Beijing, Kang asserted, should open up the Tarim Basin and redirect foreign investment from the continental shelf, because the Chinese could not develop oilfields there by themselves.⁵²

Kang's strategy—and the principle of “walk on two legs”—incarnated the Chinese saying “make the foreign serve China (*yang wei Zhong yong*).” It was intended not only to reinforce foreign cooperation in China's oil industry, but also to guide the location and nature of foreign investment based on China's changing energy landscape and technological sophistication. The goal of this strategy was to promote foreign cooperation for onshore and offshore oil in ways that would enable Beijing simultaneously to increase oil production and eschew foreign dependence. Throughout the 1980s, China succeeded in walking on two legs. In addition to Suizhong 36-1, between 1980 and 1990 the Ministry of Geology drilled sixteen wells of its own in the East China Sea, of which thirteen hit oil or gas. The offshore business, once an overawing behemoth, no longer intimidated the Chinese.

In the 1980s, foreign companies invested \$2.7 billion in China's offshore industry (\$2.25 billion for exploration and \$450 million for development), surveying 400 km of seismic lines and drilling 220 wells. They found 850 million tons of oil and 120 billion cubic meters of gas. Kang Shi'en speculated that by 1995 China would annually produce five million tons of offshore oil and 500 million cubic meters of gas.⁵³ As the 1980s ended, however, only three wells were producing oil; two wells were under construction; and six gas wells were under development. Yet the CNOOC earned \$1.8 billion from oil sales and service contracts, accumulating capital and technology to expand its own offshore operation.⁵⁴ CNOOC President Qin Wencai proclaimed in June 1989: “Our offshore petroleum resources are rich, and the prospect for the offshore oil industry is bright.”⁵⁵

⁵² Kang, *Kang Shi'en*, 502–503.

⁵³ *Ibid.*, 543.

⁵⁴ Qin, *Shiyou shiren*, 27.

⁵⁵ *Ibid.*, 20–21.

AFTER TIANANMEN

The Tiananmen Massacre on 3–4 June 1989 heightened the political importance of oil. Beijing viewed oil, a symbol of self-reliance, as a tool to recoup the damage to the CCP's legitimacy and reestablish the Party's reputation as a vanguard of China's economic development. Kang Shi'en wrote in the *Qiusbi* journal that "interference" during the Cultural Revolution and the recent "assault of bourgeois liberalization" had "disturbed" the ideological belief of some workers, "weakened" the Party's leadership, and "ruined" some venerable traditions in the oil industry. "This," he averred, "is one of the causes of the slowdown in the growth of oil production in recent years."⁵⁶ Reinforcing the CCP's leadership, therefore, was key for the oil industry and the continuation of Reform. Kang reiterated this idea in September 1989, on the thirtieth anniversary of the discovery of Daqing: "Whether during the interference of the Cultural Revolution or the assault of bourgeois liberalization in recent years, the [Party] leadership remained strong and powerful, and their work on ideology and politics never slackened."⁵⁷ Kang promised that with the CCP at the helm, China's oil industry would continue to grow, and further economic growth would follow. He vocally denied "peak oil" had already been reached in China. "With an enormous amount of hard and fastidious work," Kang avowed, "the development of China's oil industry has great hopes and prospects."⁵⁸

Chinese leaders were resolved to maintain economic growth at all costs. In a meeting with Jiang Zemin, Yang Shangkun, and Li Peng in March 1990, Deng Xiaoping warned of the damaging impact of any potential slowdown in economic development. "I am worried about a slowdown," he mused. "Some countries in the world are having problems primarily because they all failed to improve the economy." Deng was acutely aware that the CCP's rule hinged on the standard of living in China. "Why do the [Chinese] people support us now?" asked Deng. "This is because we have sustained very clear development in the past ten years. Should we not develop or develop at a slow pace for five

⁵⁶ Kang, *Kang Shi'en*, 532.

⁵⁷ *Ibid.*, 535.

⁵⁸ *Ibid.*, 552.

years, this would be not only an economic problem, but also a political problem.”⁵⁹ Beijing should therefore seek stability abroad, especially given the uncertainties in the emerging post-Cold War world, and foster an environment conducive to economic development. That December, Deng stated: “There are so many unpredictable factors in international affairs now, and contradictions are getting increasingly serious. While two superpowers struggled for the world [dominance] in the past, [the situation] is much more complex and chaotic now than it was then. I think that [we] should actively promote establishment of a new international political economic order.” To do so, Deng proposed to put aside territorial disputes in the South and East China Seas and promote joint development of offshore resources.⁶⁰ This seemed like a prototype of China’s “peaceful rise” (*heping jueqi*) in the 2000s, the idea that China should join the existing international system, instead of challenging it, to reap the ensuing economic benefits.

Foreign oilmen hardly reeled from Tiananmen. Loath to lose out to their West European and Japanese competitors, American firms called for an early end to economic sanctions. Oil companies in Oklahoma, a sister state of Gansu Province since 1985, for instance, lobbied Bill Maus, director of the international division of the Oklahoma Department of Commerce, expressing “a great deal of optimism” over prospects for continued exports of oil and gas equipment, totaling more than \$100 million per year before 1989. “The [state] government is encouraging the continuation of as normal relations [with China] as possible,” Governor Henry Bellmon stated, “and I would hate to see us give up the progress we’ve made there by closing the [trade] office [in Shanghai].”⁶¹ Under mounting criticism for having withdrawn loans to China, in February 1990 the U.S. Export–Import Bank decided to lend \$9.75 million to the CNOOC, the first loan made by any Western lending agency since the 4 June bloodshed. Wary of backlash, the Bush administration did not publicly announce this move. The loan facilitated engineering services for a gas processing plant near the Bohai Gulf that the CNOOC was buying from McDermott International, a Houston-based energy firm. Mitsui, a

⁵⁹ *Deng Xiaoping sixiang nianbian*, 689.

⁶⁰ *Ibid.*, 696.

⁶¹ Johanna Knapschafer, “Area Business Ties Resume with China,” *The Journal Record* (1 July 1989).

Japanese conglomerate that had a close commercial relationship with the CNOOC and McDermott, guaranteed the loan.⁶² The complex structure of the Ex-Im Bank loan showcased the strength of U.S. and Japanese desires to keep China's energy business running.

The U.S. and Chinese governments both wished to restore economic ties, particularly in the oil sector. Although the processes of their internal and external negotiations remain unclear, policymakers in Washington and Beijing repeatedly expressed their hopes for resuming business contacts, long before U.S. sanctions eased or ended in 1990 and 1991. In his secret mission to Beijing in early July 1989, National Security Adviser Brent Scowcroft emphasized to Deng Xiaoping the paramount importance of economic interests in bilateral relations: "The public perceptions of the strength and durability of our relationship have given economic interests the world over not just in the United States confidence to invest in [China], thereby contributing greatly to the economic development goals of the Chinese government."⁶³ While demanding that sanctions be lifted, Deng also signaled his willingness to mend business contacts. In March 1990, for instance, he met Armand Hammer in Beijing, one of the few Americans he saw after Tiananmen, praising his old friend's continuous commitment to Pingshuo. "There are many people in the world who, like you, have a foresight," Deng said.⁶⁴

By the fall of 1990, U.S. energy companies had made a full comeback to China. They had signed 33 contracts in oil and gas business, worth \$1.09 billion, about one-quarter of all U.S. contractual investments in China. Foreign oilmen's persistent interest in China's offshore industry seemed to defy logic. World crude prices remained low, while China's oil exports declined steadily as consumption increased. "Foreign euphoria for China's offshore potential has evaporated somewhat," one Western executive observed. "China is not in the same league as Saudi Arabia, Iraq, or Iran." Yet the prospects of China's oil and gas still held foreign oilmen

⁶² Clyde H. Farnsworth, "Ex-Im Bank Resumes Aid to China," *New York Times* (6 February 1990): D1, 8.

⁶³ Memorandum of Conversation, 2 July 1989, Chinafile, George H. W. Bush Presidential Library, <https://www.chinafile.com/library/reports/us-china-diplomacy-after-tiananmen-documents-george-hw-bush-presidential-library>, accessed 15 October 2020.

⁶⁴ Chinese Communist Party Central Archives and Manuscript Division, ed., *Deng Xiaoping nianpu* [Chronicle of Deng Xiaoping] (Beijing: Zhongyang wenxian chubanshe, 2004), 1311.

in thrall. When Huizhou 21-1 came into operation in 1990, Edward Chow, manager of Chevron's Beijing office, commented: "For us, it's not significant, but for the Chinese it is... That's the game we play."⁶⁵ In January 1991, Amoco's subsidiary Amoco Orient Petroleum Corporation signed what was then the largest offshore contract with Beijing, totaling \$500 million, to develop with the CNOOC the Liuhua 11-1 oilfield in the Pearl River Basin, which held an estimated production capacity of over 60 thousand bpd. Daniel Reardon of the *China Business Review* described the deal as "perhaps the largest foreign investment contract since Tiananmen."⁶⁶ U.S. oil companies spearheaded corporate efforts to restore business as usual with China.

Beijing further dazzled foreign oilmen by allocating portions of the East China Sea and the Tarim Basin for joint ventures. In June 1992 the State Council decided, as Kang had several times recommended, to designate the areas off the coast of Shanghai for foreign cooperation, and the CNOOC launched the fourth offshore bidding in December 1993, for which fifteen firms from seven countries applied. By then, Beijing had opened up all the sea basins in the Bohai Gulf, the southern Yellow Sea, and the East and South China Seas, except the disputed areas. Even more titillating for foreign companies was Beijing's decision to invite them for onshore bidding in the Tarim Basin. Foreign firms, including U.S. and Japanese businesses, conducted explorations in both regions over the next few years. No one found oil, but the new round of biddings, onshore and offshore, sufficed to keep foreign oilmen investing in China's oil industry.

CONCLUSION

China never even came close to becoming another Saudi Arabia or Alaska in the 1980s. Instead, as widely predicted for over a decade, in 1993 it began to import more oil than it exported. Largely owing to the rejuvenation of onshore oilfields in the Northeast, Beijing fended off a major oil shortage or economic slowdown in the 1980s, notwithstanding the deteriorating energy balance. Although the Chinese produced only modest amounts of offshore oil, they did so without compromising territorial

⁶⁵ Sheryl WuDunn, "Hopes Fade as Oil Output in China Lags," *New York Times* (3 September 1990): 32.

⁶⁶ Daniel P. Reardon, "The Lure of Oil," *China Business Review* 18: 2 (March–April 1991): 7.

sovereignty, at least in their perception. Chinese leaders, whether Deng Xiaoping or Kang Shi'en, had no grand oil strategy at the beginning of the decade; rather, they made ad hoc decisions as they navigated the deteriorating energy climate, decisions that came to form a strategy in the late 1980s—"walking on two legs." By gradually opening up oilfields for joint ventures, Beijing shrewdly shepherded foreign investment, simultaneously achieving a steady increase in oil production and improvements in its own offshore capabilities. By 1995, China's own rigs were producing one-third of China's offshore oil.⁶⁷ Beijing's oil policy in the 1980s was a less spectacular success than once expected, but it assisted China's steady rise to become an economic powerhouse in the twenty-first century.

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⁶⁷ China Oil News, ed., *Huiyi Kang Shi'en*, 105.

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Maoist Soldiers as the Infrastructure of Reform: The People's Liberation Army Engineering Corps in Shenzhen

Taomo Zhou

INTRODUCTION

In four decades, Shenzhen, located in South China immediately north of Hong Kong, transformed from a small town of peasants, peddlers, fishermen, and oyster farmers to the forefront of China's adaptation to market principles and opening up to the world. In state narratives, Shenzhen's "rag to riches" story epitomizes the dramatic change in Chinese society from Mao Zedong to Deng Xiaoping. Interestingly, the infrastructure of China's first and most successful Special Economic Zone (SEZ) was constructed by soldiers from the People's Liberation Army (PLA), who personified the Mao-era ethos of selfless pursuit of collective good. Established in 1966, the PLA Engineering Corps (*jiben jianshe gongcheng bing*) played a key role in Mao's Third Front campaign, an

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economic strategy launched in the mid-1960s to strengthen China's national defenses against perceived threats from the Soviet Union and the United States.¹ Between 1979 and 1982, 20,000 troops from the Engineering Corps were transferred from secret or semi-secret heavy industry sites in the interior to Shenzhen, to build roads, water and electricity supply systems, and public and commercial buildings. Most famously, they constructed the 160-meter International Trade Center—the tallest building in China at the time and the landmark where Deng affirmed the success of the SEZs during his 1992 Southern Tour—at the rate of “one floor every three days,” making “Shenzhen Speed” an everyday expression for efficiency among the general population awakening from the Cultural Revolution.² In 1983, in accordance with Deng's decision to downsize the PLA, the Engineering Corps members were discharged from active duty and transitioned into civilian posts in either the Shenzhen Municipal Government or State-Owned Enterprises (SOEs). They were offered Shenzhen urban household registration (*hukou*) and became the first and largest batch of state-sponsored migrants in this emerging metropolis.

This chapter tells the story of how Mao's soldiers forged the infrastructure of reform in the Shenzhen SEZ—the very hallmark of Deng's economic statecraft. Borrowing from recent scholarship in geography and sociology, infrastructure is defined in both material and normative terms, including highways, pipes, cables, and wires as well as work ethics, managerial styles, and social networks. The PLA Engineering Corps not only built the physical infrastructure that facilitated economic exchanges during China's marketization; they also served personally as the *human infrastructure* that mediated relations between China and the global capitalist economy.³ During the Mao era, the Engineering Corps had been known for their endurance under harsh working environments. Deng

¹ Covell F. Meyskens, *Mao's Third Front: The Militarization of Cold War China* (Cambridge University Press, 2020).

² Juan Du, *The Shenzhen Experiment: The Story of China's Instant City* (Cambridge, MA: Harvard University Press, 2020), 170.

³ AbdouMaliq Simone, “People as Infrastructure: Intersecting Fragments in Johannesburg,” *Public Culture* 16: 3 (Fall 2004): 407–429; Brian Larkin, “The Politics and Poetics of Infrastructure,” *Annual Review of Anthropology* 42: 2 (October 2013): 327–343; and Laleh Khalili, “The Infrastructural Power of the Military: The Geoeconomic Role of the US Army Corps of Engineers in the Arabian Peninsula,” *European Journal of International Relations* 24: 4 (December 2018): 911–933.

strategically mobilized this highly disciplined labor force of Mao's relatively closed command economy to construct the transportation and telecommunication networks that facilitated the circulation of commodities and capital between China and the world. Although Deng resolved to end the excessive ideological campaigns of Mao's time, he was determined to prevent political relaxation from leading the country to "bourgeois liberalization."⁴ As the embodiment of Maoist norms of "hard working and frugal living (*jianku pusu*)," the Engineering Corps were goodwill ambassadors for Deng's "socialist spiritual civilization." Their settlement in Shenzhen at the birth of the SEZ helped the city "maintain China's communist heritage" while undergoing economic liberalization.⁵

This chapter extends, moreover, beyond the 1980s, to trace the trajectories of upward and downward social mobility construction soldiers experienced after their demobilization. After forty years of settlement in Shenzhen, the various ex-servicemen have developed uneven relationships with Shenzhen's metropolitan development and attained drastically different levels of material well-being. Among them rose Ren Zhengfei, the CEO of Huawei, the world's largest telecommunications equipment manufacturer. In November 2005, more than 3,000 demobilized Engineering Corps members, angry with the ungenerous compensation schemes offered by privatizing SOEs in exchange for the termination of relations with their staff (*maiduan*), organized a sit-in before the Shenzhen Municipal Government headquarters and were ultimately dispersed by riot police.⁶ The construction soldiers' individual biographies are intertwined with China's marketization under the influence of rising neoliberalism worldwide. While those in relatively privileged positions today call themselves "a troop that disappeared in the city" to describe how the former Engineering Corps members have been fully absorbed into Shenzhen's social fabric, those harboring grievances do not share the same sense of belonging. Ironically, the infrastructure they built produced an economic mechanism that led to their exclusion from the opportunities and developments of Reform.

⁴ Xiaoming Zhang, *Deng Xiaoping's Long War: The Military Conflict Between China and Vietnam, 1979–1991* (Chapel Hill: University of North Carolina Press, 2015), 169.

⁵ Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Harvard University Press, 2013), 51; and Zhang, *Deng Xiaoping's Long War*, 169.

⁶ "Riot Police Move in to Free Mayor; Ex-PLA Men Protest in Shenzhen for Better Compensation," *South China Morning Post*, 8 November 2005.

A RIFLE IN ONE HAND AND A HOE
IN THE OTHER: THE EARLY HISTORY
OF THE PLA ENGINEERING CORPS, 1966–1979

The creation, transformation, and ultimate dissolution of the PLA Engineering Corps were shaped by changes in China's geopolitical outlook and economic statecraft from Mao to Deng. In the early 1960s, increasing American military involvement in Indochina, the deepening of the Sino-Soviet schism, and the escalation of border conflicts between China and India gave rise to a sense of insecurity among the PRC's leaders. Mao Zedong found particularly alarming the worst-case scenario in which China would be surrounded by hostile forces from all directions: The Soviets from the North, the Americans from the South, the Indians from the West, and the Chinese Nationalists based in Taiwan from the East. Fearing military conflicts with China's Cold War rivals, Mao proposed to relocate China's key industrial bases to the safer interior so as to reduce China's vulnerability to foreign attack. Moreover, industrializing landlocked provinces such as Guizhou, Gansu, Ningxia, and Qinghai would address the regional disparity between the Pacific-facing coast and the economically stagnant inland.⁷ With support from Mao, Gu Mu, the director of the State Construction and Planning Commission (*guojia jianshe weiyuanhui*), institutionalized the Engineering Corps as a militarized labor force. Between 1966 and 1978, various regiments of the Engineering Corps carried out projects such as constructing the China-Pakistan Friendship Highway, exploring and extracting uranium and gold in Xinjiang, and building oil and gas industries in the Northeast and hydropower plants in the Southwest.⁸

Deng's ascendance to power brought another restructuring of the Chinese national economy and a reorientation of the country's regional development strategies. As the central government's economic goals shifted from maximizing heavy industrial output to improving the living

⁷ Meyskens, *Mao's Third Front*.

⁸ History and Encyclopedia Research Group, the Academy of Military Science of the Chinese People's Liberation Army [hereafter AMCPLA], *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi* [A History of the People's Liberation Army (PLA) Engineering Corps] (Beijing: Junshi Kexue Chubanshe, 2015), 28.

standards of the general population, the Engineering Corps were operating below full capacity due to a contraction of infrastructural investment in the late 1970s. Although the westward industrial expansion during the Third Front campaign helped bridge the gap between inland and coastal regions, the capital-intensive industrial complex exacerbated overall consumer austerity.⁹ The Deng administration ceased channeling funds to industrial projects in the interior, which imposed heavy financial drains on the government budget but generated little profit. In 1979, 70,000 out of 3.5 million PLA Engineering Corps were “forced into idleness (*wogong*).”¹⁰ In the aviation industry, for example, many projects commissioned to the Engineering Corps were suspended.¹¹

Both the initial recruitment and ultimate demobilization of the Engineering Corps reflected the fluidity of the military-civilian divide during China’s “long 1970s” and the changing role of the PLA in the country’s modernization.¹² The fusion of civilian and military functions had been one of the Engineering Corps’ main characteristics at its birth, captured in Zhou Enlai’s pithy description of the construction soldiers as holding “a rifle in one hand and a hoe in the other (*yishou na qiang, yishou na gao*).”¹³ More than 20,000 members of the Engineering Corps who had been civilian technical staff on Third Front projects were later incorporated into the PLA. In Deng’s view, however, the expansion of the PLA during Mao’s final years had brought corruption, low efficiency, and poor morale, “bloating” he was determined to eradicate. In March 1983, Deng announced the decision to reduce military personnel. To minimize the PLA’s involvement in non-defense affairs, the Engineering Corps became the first division to be demobilized.¹⁴ Deng also believed

⁹ Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007), 55; and Meyskens, *Mao’s Third Front*, 2–3.

¹⁰ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 120.

¹¹ Liu Gengshen, “Duanzan de lishi, shenke de jiyi—yi di sanshiyi zhidui de lishi guiji” [Short History, Deep Memories—Remembering the Historical Trajectory of the No. 31 Regiment], in *Zhuanzhan nanbei, zhagen Shenzhen—jiben jianshe gongchengbing huiyishiliao Shenzhen bianjizhu* [Memories of the People’s Liberation Army Engineering Corps in Shenzhen], ed. Duan Yabing (Haikou: Hainan Chubanshe, 2013), 11.

¹² Priscilla Roberts and Odd Arne Westad, eds., *China, Hong Kong, and the Long 1970s: Global Perspectives* (London: Palgrave Macmillan, 2017).

¹³ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 8.

¹⁴ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 584.

the Soviet model of strict separation of military and civilian production to be unprofitable and showed great interest in Japan's experience of converting military industries to civilian use. He supported the migration of more advanced military technology to the civilian realm and urged the discharged troops to use their resources and experiences to meet rising consumer demand in the marketplace.¹⁵ Following Deng's directives, from the early 1980s, leaders of the Engineering Corps no longer passively awaited assignments from the Central Government but proactively marketed themselves and sought commercial projects through their own personal networks, or in their own words, began to "look for the rice to cook in the pot (*zhaomi xiaguo*)."¹⁶ Thus began their transformation from Mao's soldiers to stakeholders in Deng's Reforms.

SEASONED SOLDIERS DEFENDING THE FRONTIER OF REFORM: THE PLA ENGINEERING CORPS ARRIVES IN SHENZHEN, 1979–1983

In 1979, Gu Mu, the political commissar of the PLA Engineering Corps and director of the State Council's newly established SEZ Office (*guowuyuan tequ bangongshi*), ordered the transfer of troops to Shenzhen to "kill two birds with one stone"—to channel the construction soldiers out of active military duty and to build infrastructure quickly and economically in Shenzhen. Whereas Third Front construction was stalled, building infrastructure had become an urgent priority in Shenzhen.¹⁷ The city's geographical precursor, Bao'an County, had been an impoverished border town known as the gateway for illegal migration to Hong Kong. In 1980, the PRC State Council designated a territory of 327.5 square kilometers to the north of Hong Kong as the "Shenzhen SEZ," encouraging foreign investors to establish enterprises. As Lawrence C. Reardon notes (Chapter 2), despite the allure of this new policy and the city's advantageous geographic location, Shenzhen had neither the physical infrastructure to support economic production nor the manpower to build it. In March 1979, Major General Chang Shengrong, secretary

¹⁵ Vogel, *Deng Xiaoping and the Transformation of China*, 548, 550.

¹⁶ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 121–123.

¹⁷ Duan Yabing, *Shenzhen tuobuang jishi* [A Record of Pathbreaking in Shenzhen] (Beijing: Renmin Chubanshe, 2018), 2.

of the Party Committee of the PLA Engineering Corps Headquarters in Beijing, arrived to inspect and survey Shenzhen. It took him six to eight hours to travel to Shenzhen by automobile from Guangzhou (Canton), the capital of Guangdong Province, a bumpy road trip further delayed by two connecting ferry rides.¹⁸ Ma Chengli, the deputy chief of staff of a pioneer division (*xianqian dui*) of the Engineering Corps, remembered seeing barely any asphalt road in Shenzhen during his first visit in summer 1979. Donkeys were the most commonly used means of transporting goods. Since Shenzhen was surrounded by hills, it was also technically difficult to build flat and smooth roads to improve the city's regional connectivity.¹⁹ Moreover, the Bao'an County Construction Planning and Deployment Office (*Bao'an xian jianzhu tiaopei suo*), a collective enterprise established in 1957 and the sole professional construction team in the city by 1979, had lost most of its staff members due to the incessant flight to Hong Kong of young, able-bodied males.²⁰ After their arrival in Shenzhen, the construction soldiers jokily code-named the residents left—most of them women, children, and the elderly—as “Division 38–61–99” because in the Chinese calendar, Women's Day is celebrated on March 8, Children's Day on June 1, and the Chongyang Festival, which honors the elderly, on September 9.²¹

Soldiers arriving at different times and from varying social and educational backgrounds had disparate experiences of being mobilized to construct Shenzhen. Between October and December 1979, the first batch of the Engineering Corps was deployed to Shenzhen in a hurried and abrupt move shrouded in secrecy, resembling the labor mobilization and transfer methods used during the Third Front campaign.²² Li Guodong, a battalion commander of the No.1 Pioneer Division, recalled receiving a late-night telephone call in December 1979 from his superior, when stationed at the Dongjiang Hydro-power Plant in Hunan. An urgent order required him to transfer his subordinates to Shenzhen in less than 48 hours with no information as to the reason, leading Li to suspect

¹⁸ Ibid., 2.

¹⁹ Ma Chengli, interview, 20 December 2019.

²⁰ Liao Chenglin, ed., *Liangwanren de 20 nian* [20 Years of 20,000 People] (Shenzhen: Xinshiji Chubanshe, 2003), vol. 1: 105.

²¹ Liu, “Duanzan de lishi,” 20.

²² Meyskens, *Mao's Third Front*, 118.

that an international conflict had broken out in Hong Kong. It turned out that the “battle” waiting for Li and his troops in Shenzhen was truly international in nature: they were directed to construct factory buildings for the Japanese company Sanyo, one of the most important initial investors in Shenzhen.²³ The Pioneer Division erected the Shenzhen government offices and the city’s first high-rise—the 20-story Shenzhen Electronics Building—and renovated the Lo Wu railway station, the first stop for foreign visitors to China and a crucial outpost for promoting the country’s global image. Impressed by their performance, Shenzhen mayor Liang Xiang negotiated with the Engineering Corps headquarters for a further transfer of soldiers. In 1982, the PLA central committee agreed to assign to Shenzhen 20,000 soldiers together with equipment worth more than 51 million yuan.²⁴ In return, the Shenzhen Government promised the PLA it would assist these soldiers in their transition to civilian life by providing them with urban household registration (*hukou*), jobs in state sectors, and subsidized welfare housing.²⁵ Between November 1982 and June 1983, more than 18,000 additional soldiers from Hubei, Shanxi, and Liaoning arrived in Shenzhen.

In the 1970s, the PLA was an important mechanism of upward mobility for young men, especially those from the countryside. Besides the economic benefits of military welfare, many recruits associated their PLA membership with honor and prestige for themselves and their families. Consequently, many construction soldiers regarded their dismissal from the PLA as downgrading them within the social hierarchy. Although Deng had since the late 1970s been planning a major downsizing of PLA service personnel, ordinary soldiers were not officially informed of this decision. Since around 1981, however, news had circulated informally that the Engineering Corps was to be disbanded. While the 2,000 soldiers in the pioneer division had no choice but to follow strict orders from above, the later batches had advance knowledge of their upcoming discharge from the military and varying degrees of agency regarding where they wished to start their lives anew as civilians. Officers had the choice of transitioning to civilian life either in Shenzhen, or at the sites where they were stationed prior to Shenzhen, or of returning to their places of origin

²³ Duan, ed., *Zhuanzhan nanbei, zhagen Shenzhen*, 18–19.

²⁴ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 605.

²⁵ Duan, *Shenzhen tuohuang*, 42–45.

(*yuangji*), that is, the location of their pre-enlistment household registration. Young soldiers—many of whom disliked the prospect of living in the little-known border town of Shenzhen—formally received little choice. Some with political connections managed to have themselves transferred out of the assignment to Shenzhen; others had no alternative but to obey the state’s direction. Tian Shujun, then a 24-year-old soldier stationed at an oil refinery in Jinzhou, Liaoning Province, recalled his sense of confusion and disappointment upon receiving his transfer order in 1982. He did not know how to pronounce “Zhen” (圳), the second character in the name of Shenzhen, and had to look it up in a dictionary. He tried to locate the city on a map but failed. Yet, being indoctrinated that “a soldier is like a block of brick, it should be moved to wherever it is needed” (*dangbing jiushi yikuai zhuan, nali xuyao nali ban*), Tian traveled for seven days in a tanker car (*menguang che*), to be welcomed upon his arrival on the dark and rainy night of 18 December 1982 by Teresa Teng’s “soft and decadent” (*mimi zhiyin*) love songs.²⁶

In general, Engineering Corps members with superior academic credentials tended to view their relocation to Shenzhen more optimistically. Ma Chengli, a graduate of Qingdao Architecture Engineering College (*Qingdao jianzhu gongcheng xueyuan*), discerned abundant new opportunities in Shenzhen. Ma reasoned that the city’s urgent need for professionals in the construction industry meant faster promotion for technocrats like himself, whose landlord family origin had proved a great disadvantage to his career through the early and mid-1970s at the Great Wall Steel Factory (codename 302) in Jiangyou, Sichuan Province, which produced special alloy steel for military use.²⁷ Duan Yabing, a propaganda cadre working at the Ma’anshan Steel Factory in Zhejiang Province, was dispatched to Shenzhen in 1982 in a pilot investigation team to gather information on the city. At that time, Ma’anshan was an established industrial hub and the steel factory, managed by the well-funded metallurgical and geology bureau, that provided privileged SOE welfare for its discharged soldiers. Duan nevertheless succeeded in persuading many of his colleagues to give up the stability and comfort of Ma’anshan for Shenzhen. He was impressed by the dynamic cross-border circulation of popular culture and consumer goods, ranging from Hong Kong radio

²⁶ Tian Shujun, interviews with author, 2 December 2017, and 7 July 2019, Shenzhen.

²⁷ Ma Chengli, interview with author, 20 December 2019, Shenzhen.

and television shows that could be easily picked up by fish-bone-shaped antennae to a colorful variety of food, drink, light industrial products, and electronics, including Doll-brand instant noodles, San Miguel beer, Lux soap, and Sanyo radios. In a brochure he wrote and distributed among the Engineering Corps in Ma'anshan, Duan predicted that by the year 2000, Shenzhen would become a city of 800,000 residents. Privately, he reasoned that in a worst-case scenario, with Mao-era political campaigns resurgent and the advocates of reform coming under attack, Shenzhen would maintain an acceptable standard of living, given its strategic location. Outdone by reality, Duan's prediction was proven wrong: by 2000, Shenzhen's population had grown to more than 4 million.²⁸

Despite the shift from the Mao-era's focus on class labels to the Deng era's emphasis on educational attainment, Deng used the ideological endowment of the centralizing Maoist state to jump-start reform. In Shenzhen, the Engineering Corps continued to use militarized language to describe building civilian infrastructure, comparing construction sites to battlefields and equipment to weapons, and referring to themselves as "old soldiers fighting on the frontier of Reform and Opening Up (*zhandou zai gaige kaifang qianyan de laobing*)."²⁹ The Maoist norms of asceticism and putting work before personal comfort prepared the construction soldiers for their primitive living conditions in Shenzhen. The Engineering Corps slept in temporary bamboo huts set up at the construction sites, which barely protected them from subtropical downpours and heat and were frequently invaded by armies of rats, snakes, lizards, and mosquitoes.³⁰ Back in the hinterlands, the soldiers procured their own food and water by making use of local resources. The same principles of self-reliance and self-sufficiency guided the Engineering Corps in Shenzhen, who recycled water from kitchens to outhouses and ate captured wildlife such as snakes.³¹ The "lucky" few occasionally feasted on beef and lamb stews, which they learned later were sourced from dead, sick, or injured animals transported from the interior to Hong Kong that

²⁸ Duan Yabing, "Xuanze Shenzhen—Duan Yabing huiyilu," in Duan, *Shenzhen tuohuang*, 153–178; and Duan Yabing, interview with author, 11 July 2017, Shenzhen.

²⁹ Meyskens, *Mao's Third Front*, 172; and Liao, *Liangwanren de 20 nian*, vol. 1: 90.

³⁰ Du, *The Shenzhen Experiment*, 30; and Ma Chengli, interview with author, 20 December 2019, Shenzhen.

³¹ Meyskens, *Mao's Third Front*, 131; and Liao, *Liangwanren de 20 nian*, vol. 1: 48, 55.

had failed to meet the food safety standards for export.³² At the Third Front as well as in Shenzhen, intensive manual labor compensated for the absence of modern machinery. When unclogging a tunnel in Shenzhen city center blocked with feces, the soldiers relied on basic tools such as shovels and pickaxes, but mostly, their bare hands.³³ When a strong typhoon wiped out the barracks of the construction soldiers in September 1983, to boost morale they sang words from *The Internationale*, “No savior from on high delivers, let us save ourselves.”³⁴

“AGONY AND DIGNITY OF THE 20,000”: DEMOBILIZATION AND DEPRESSION, 1983–1986

Less than a week after this cyclone hit Shenzhen, during a bittersweet ceremony held at the Shenzhen Theater, Mayor Liang Xiang announced the official demobilization and resettlement of the Engineering Corps. Of the 20,000 soldiers who doffed the PLA uniform that had been a Mao-era symbol of respectable social status and economic security, between 5,000 and 8,000 Communist Party Cadres took up civil service positions in the Shenzhen Municipal Government. The remainder joined a new SOE—the Special Economic Zone Construction Company (*tequ jianshe gongsi*), renamed the Shenzhen Construction Group (*Shenzhen jianshe jituan*) following SOE restructuring. The organizational structure of the Engineering Corps survived in the new cooperative framework: different regiments were transformed wholesale into subsidiary companies under the Shenzhen Construction Group. Regiment No. 1 became the Shenzhen No.1 Construction Company, for instance, Regiment No. 16 the Shenzhen No. 2 Construction Company, and the political commissars or regimental commanders were retitled as general managers.³⁵ Despite their stability of personnel, these repackaged entities received significantly reduced state financial support.³⁶ Moreover, whereas between 1979 and

³² Duan, “Xuanze Shenzhen,” 158–159.

³³ Meyskens, *Mao's Third Front*, 131–133; and Shenzhen Museum, *Shenzhen tequ shi* [A History of Shenzhen Special Economic Zone], rev. ed. (Beijing: Renmin Chubanshe, 1999), 77.

³⁴ Liao, ed., *Liangwanren de 20 nian*, vol. 1:61–63; and Du, *The Shenzhen Experiment*, 165.

³⁵ AMCPLA, *Zhongguo renmin jiefangjun jiben jianshe gongchengbing shi*, 605.

³⁶ Liao, ed., *Liangwanren de 20 nian*, vol. 1: 72–73.

1983, the Engineering Corps had no rivals on the Shenzhen construction scene, because most private construction teams were unsure about the future of SEZ and reluctant to enter the Shenzhen market, by the time the Corps was dismissed, operators from all over China were rushing into Shenzhen as they sensed the promising prospects its development offered.

Facing fierce competition, the demobilized Engineering Corps renewed their Maoist ethics and “guerilla-style” management.³⁷ A commander-turned-CEO concluded that the demobilized Engineering Corps’ greatest advantage was that they “are soldiers and remain soldiers even after taking off military uniform [that is, after being formally dismissed]. The troops remain well coordinated, highly disciplined, tightly managed.”³⁸ In the past, spurred by looming potential military conflict between China and its Cold War rivals, the construction soldiers had developed a combat style of round-the-clock operations. As civilian employees, they continued to push themselves to extremes to meet the demanding deadlines common during Shenzhen’s infrastructure boom of the early 1980s—sleeping and working on the construction site during “wars of annihilation”—while applying the “huge-crowd Strategy (*renbai zhanshu*)” to overcome technical deficiencies with large labor brigades working like “ants gnawing on a bone (*mayi ken gutou*).”³⁹ Wang Jiayu, a former PLA Engineering Corps thought and politics officer, “recycled” some revolutionary propaganda methods for marketization when he became CEO of the Shenzhen Construction and Interior Design Group Limited (*Shenzhen shi jianzhu zhuangshi jituan youxian gongsi*). When bidding for a tender, Wang successfully won over the potential client by vowing to “make the red flag fly high on the top of the hill (*ba hongqi chadao shanding*).”⁴⁰

In this new environment Deng had created, the “good tradition of the PLA”—the public image of military men as altruistic, honest, righteous, and concerned with long-term public goods rather than short-term

³⁷ Elizabeth Perry and Sebastian Heilmann, “Embracing Uncertainty: Guerrilla Policy Style and Adaptive Governance in China,” in *Mao’s Invisible Hand: The Political Foundations of Adaptive Governance in China*, eds. Elizabeth Perry and Sebastian Heilmann (Cambridge, MA: Harvard University East Asian Center, 2011), 7.

³⁸ Liao, ed., *Liangwanren de 20 nian*, vol. 1: 98.

³⁹ Liao, ed., *Liangwanren de 20 nian*, vol. 1: 171.

⁴⁰ Wang Jiayu, “Cong junying zouchu de zhuangshi jinlv,” in Duan, ed., *Zhuangzhan nanbei*, 64–65.

personal monetary interests—was converted into marketable brand identities by some of the SOEs dominated by demobilized Engineering Corps. Yet the Mao-era moral requirements for soldiers to be indifferent to mercenary calculations and the pursuit of personal material well-being also hindered their adaptation to the market economy. As early as 1981, Ma Chengli introduced financial incentives to the PLA. During the building of a carpark at the Man Kam To checkpoint between Shenzhen and Hong Kong, Ma offered to pay a bonus to construction soldiers who exceeded the assigned workload, greatly accelerating progress on the project. Those who outperformed each received a bonus of over 10 RMB, equivalent at that time to one month's wages. When this unusual practice spread to the PLA Engineering Corps headquarters, the leaders expressed concern over the negative impacts of such monetary stimulants. Yet Ma was adamant that exceptions should be made in the SEZ.⁴¹ When Shenzhen experimented with a tender bidding system in the mid-1980s, the financial structure of the SOEs as well as the veterans' mentality prevented them from offering bribes or entertainment to those making bids or the brokers acting as middlemen, leaving them at a disadvantage by comparison with more flexible private enterprises. A regiment-commander-turned-general-manager once asked a broker if he would issue a receipt when the latter requested a 3 percent kickback on a 150 million RMB project. Baffled by this naïve request, the contractor left, taking his business with him.⁴²

In 1986, a recession hit the construction sector in Shenzhen hard, causing economic difficulties among the former soldiers.⁴³ In order to “cool down” the overheated national economy, in December 1985, Gu Mu called a “Special Economic Zone working meeting” in Shenzhen, where he expressed concern over the “overly expanded” infrastructure in Shenzhen and suggested a 40% reduction. Li Hao, who took office in 1985, recalled that his first mission as the new mayor of Shenzhen was to lay off 100,000 construction laborers and suspend work on more than 60 high-rise blocks.⁴⁴ The retrenchment compelled some former Engineering Corps members, usually those who managed to find employment opportunities back in their home cities, to leave Shenzhen. Among those

⁴¹ Duan, *Shenzhen tuobuang*, 27–28.

⁴² Duan, *Shenzhen tuobuang*, 215.

⁴³ Du, *The Shenzhen Experiment*, 180.

⁴⁴ Duan, *Shenzhen tuobuang*, 125.

who stayed, many felt betrayed because the Shenzhen Government had failed to honor its promise to grant their SOEs favorable consideration when assigning government-directed construction projects. In “Agony and Dignity of the 20,000,” an investigative report published in 1986, Duan Yabing, the propaganda officer from Ma’anshan, and novelist Wu Qitai depicted the struggles of former Engineering Corps personnel to survive financially: the single young males starting “riots” by hurling empty wash basins and beer bottles out of their dormitory windows; those with no income spending all day in bed so as to reduce their calorie intake to the minimum; and the wives of the now unemployed veterans scavenging for leftover vegetables in local markets.⁴⁵ Duan commented:

Shenzhen adopted this troop [the PLA Engineering Corps] as her own child, only to dump this boy into the sea and ask him to swim by himself in the sea of the market economy. Born under the socialist command economy and the highly regimented structure of the PLA, this child had no idea what a market economy was and how to swim in its turbulences by himself. No wonder he was choked by water!⁴⁶

To alleviate their grievances, the government altered its previous policy of open tender-bidding for all its projects and reserved some special quotas for the veterans.

FROM SOLDIERS TO SHAREHOLDERS: THE SOE REFORMS, 1986–2020

Sociologist Ching Kwan Lee has compared and contrasted two kinds of labor unrest in China: the “protest of desperation” by laid-off and retired workers in the Northeastern industrial heartland versus the “protest against discrimination” by young rural migrant workers in the coastal South—the powerhouse of export-driven economic growth. The protests of the former Engineering Corps in 1986 and 2005 present an interesting

⁴⁵ Wu Qitai and Duan Yabing, “Liangwan ren de tongku yu zunyan,” *Tequ wenxue*, 1986, reprinted in Duan Yabing, *Shenzhen tuohuangren—jijian gongchengbing chuanguye jishi* [Groundbreakers of Shenzhen: A Record of the People’s Liberation Army Engineering Corps] (Beijing: Renmin Chubanshe, 2014), 179–228.

⁴⁶ Duan, *Shenzhen tuohuang*, 133.

case of “rustbelt”-style unrest occurring at the heart of the “sun belt.”⁴⁷ Interestingly, in terms of the causes and nature of their grievances, the former construction soldiers of Shenzhen had far more in common with the “blue collar victims” of reform in the faraway Northeast than the migrant workers who dwelt in the same city with them. From the time of Deng’s Southern Tour of 1992, reconstituted businesses from the Engineering Corps were forced to accept tough budgetary constraints and pressured to develop into self-financing, profit-maximizing enterprises.⁴⁸ By 2005, all the SOEs restructured from the Engineering Corps had been corporatized. One real estate company (Jian’an Group), considered to be of particular strategic value, remained under Central Government control. The remaining companies were either sold to their leaders in the management buyout process or became hybrid firms with varying degrees of private ownership. To cut costs, many now privatized companies severed formal labor relations with the relatively low-educated, low-skilled former construction soldiers with lump-sum payments that monetized their past services (*maiduan*). By doing so, these enterprises freed themselves from providing future social protection—such as medical care and pensions—to the bought-out workers.⁴⁹ Sideline operations that used to provide collective welfare but were no longer profitable, such as small factories built for the Corps’ family members (*jiashu chang*), were also shut down.⁵⁰

In most cases, former construction soldiers who experienced downward mobility had been new PLA recruits from the countryside (aged between 18 and 20) when they arrived in Shenzhen. By the time of the SOE reforms, they had reached middle age and were unable to adapt to the new demands of the Shenzhen labor market. Like the Northeastern industrial workers “disenfranchised” by the collapse of the socialist work unit, they were nostalgic for the “moral economy” of the Mao era, during

⁴⁷ Ching Kwan Lee, *Against the Law: Labor Protests in China’s Rustbelt and Sunbelt* (Berkeley: University of California Press, 2007).

⁴⁸ William Hurst, *The Chinese Worker After Socialism* (Cambridge: Cambridge University Press, 2009), 37.

⁴⁹ Hurst, *The Chinese Worker After Socialism*, 79.

⁵⁰ PLA Engineering Corps Memory and History Materials Compilation Group, ed., *Zhongguo renmin jiefangjun jichu jianshe gongchengbing jiti zhuanke Shenzhen zhanyou minglu* [Name Lists of Demobilized PLA Engineering Corps in Shenzhen] (Shenzhen, 2015).

which they enjoyed state guarantees of economic security and social prestige.⁵¹ In Shenzhen, the PLA Engineering Corps proudly distinguished themselves from the self-sponsored, economically motivated migrants. Having arrived at a time when the city's future was still uncertain and its status very low in the spatial hierarchy of China, the construction soldiers believed that as firstcomers, they were entitled to preferential treatment from the state. The laid-off veterans felt left out from China's economic liberalization even though they had built Shenzhen—a city emblematic of the success of Reform—from scratch. Many viewed the changes in reward mechanisms from the 1970s to the present as unfair to themselves. When their productivity was at its peak, their incomes did not follow market mechanisms but were determined by state distribution; when their competitiveness on the labor market declined due to their age and low educational level, they were expelled from the protective shell of the socialist system.

Mirroring the situation in the Northeast and other inland regions, marketization in Shenzhen reinforced some pre-Reform hierarchies within the Engineering Corps.⁵² The majority of those with higher military rankings before the dissolution of the Engineering Corps transitioned into managerial positions in the Corps-dominated SOEs. Most of these “winners” of reform already had a head start during the socialist era, and they transformed their pre-Reform political credentials into financial stability and respectable social status in the new market environment. “Old revolutionary” Zong Dechun, for instance, joined the PLA in 1959 at the age of eighteen. Between 1968 and 1970, at the height of the Sino-Soviet split, he dug tunnels on the China-Mongolia border, and later built a missile base in Qinghai and airfields in Guizhou. By the time he arrived in Shenzhen in 1983, he had already risen to the level of regimental director of political affairs. Reform for Zong was a parallel transfer: he was first assigned as the deputy party secretary of the Shenzhen No. 5 Construction Company and later became the HR director of the Shenzhen Construction Group.⁵³ The SEZ also proved to be a place conducive to the rapid rise of “red engineers”—people who received

⁵¹ Lee, *Against the Law*, 12; and Joel Andreas, *Disenfranchised: The Rise and Fall of Industrial Citizenship in China* (Oxford: Oxford University Press, 2019).

⁵² Hurst, *The Chinese Worker After Socialism*, 103.

⁵³ Zong Dechun, interview with author, 9 July 2019, Shenzhen.

training at technical universities in the 1960s and 1970s—in light of the celebration of science and knowledge under Deng described elsewhere in this volume by Shu Guang Zhang and Hua Zheng (Chapter 4).⁵⁴ Technocrat Ma Chengli arrived in Shenzhen in 1979 as the deputy chief of staff of the Pioneer Division. After the Engineering Corps entered the civilian economy, in 1983, Ma took the position of General Manager of the Shenzhen Properties Company (*Shenzhen wuye gongsi*). Following the SOE restructuring, he became the Chairman and General Manager of the Shum Yip Holdings Company Limited in Hong Kong (*Xianggang shenye jituan*).⁵⁵

For the Engineering Corps members, Reform transformed the military hierarchy of the Mao era into an economic and social divide. Once outside the confined PLA environment, the widening gap between the elites and the underprivileged became painfully visible and no longer easily justifiable. The persistence of planning-era power structure is common in many reforming SOEs all across China.⁵⁶ What made Shenzhen unique was that the concentration of old elites from the Corps in real estate development exacerbated this process of stratification. By the late 1970s, thanks to the geographical marginality of Bao'an County and its chronic problem of population outflow to Hong Kong, the Chinese Communist Party (CCP) had weak representation in Bao'an and a great demand for reliable and competent cadres. In 1983, more than one-third of demobilized officers were Party members, constituting one-fifth of the total number of CCP members in the SEZ.⁵⁷ Between 5,000 and 8,000 ex-servicemen filled the administrative ranks of the city government, especially offices related to urban construction, such as the Planning and Land Resources Bureau (*guotu guihua ju*).⁵⁸

While their old “comrades-in-arms” took over decision-making positions in the city government, the managers of Corps-dominated SOEs gained new economic capital—land. In December 1987, the Shenzhen People's Congress approved the Shenzhen Special Economic Zone Land

⁵⁴ Joel Andreas, *Rise of the Red Engineers: The Cultural Revolution and the Origins of China's New Class* (Stanford: Stanford University Press, 2009).

⁵⁵ Ma Chengli, interview with author, 20 December 2019, Shenzhen.

⁵⁶ Hurst, *The Chinese Worker After Socialism*, 101–106.

⁵⁷ Duan, *Shenzhen tuobuang jishi*, 354.

⁵⁸ Liao, ed., *Liangwanren de 20 nian*, vol. 1: 147.

Management Decree (*Shenzhen jingji tequ tudi guanli tiaoli*). This legislation signified a fundamental change: the right to use land could now be transferred or mortgaged for compensation. For the Corps-run companies, most of which were in the construction sector, land thus became the biggest source of capital, or the hen that bears golden eggs.⁵⁹ These companies soon devised a new “snowball” strategy, in which they used their land as mortgage collateral to borrow money from the banks; used these loans to construct commercial buildings; and used the money earned from sales to build more properties.⁶⁰ Zhang Bao, the general manager of the Shenzhen Construction Group, campaigned hard to persuade the Shenzhen government to grant the land-use right. According to Zhang, the greatest inequality in the Chinese economy was the inequality among different sectors. In the construction sector, the profit rate approved by the state was 2.5%, much lower than the average of 16% across the board. By selling land-use rights, the Corps-run companies could raise the funds needed for capital-intensive construction projects. In 1989, for instance, the Zhenye company carried out the renovation of the Shun Chum River. Instead of financial investment from the Shenzhen Government, Zhenye requested and won the right to develop properties in the surrounding areas. Zhenye completed the project and became an important property developer in Shenzhen.

The new legislation allowed many Corps-run SOEs to profit from Shenzhen’s burgeoning real estate market, while benefiting many former construction soldiers in terms of either monetary compensation or subsidized housing. The majority of the discharged former soldiers who joined the Shenzhen Construction Group were able to purchase subsidized housing from their respective companies; the 8,000 civil servants were entitled to welfare housing (*fuli fang*) from the Shenzhen Municipal Government. Most of the land allocated to the Engineering Corps, such as the Bamboo Forest (Zhuzilin) basecamp where the troops first settled, now forms part of the expensive CBD areas of Shenzhen. This is why some would argue that the former soldiers, even those unhappy with their economic circumstances, belong to the “middle class” in Shenzhen if their properties were monetized. For those former soldiers who are now private property owners, their housing provided them with a social

⁵⁹ Duan, *Shenzhen tuobuang jishi*, 366–367.

⁶⁰ Duan, *Shenzhen tuobuang jishi*, 167–170.

safety net in the event of unemployment. Yet there still exist between one and two thousand among them who are not homeowners, due to the poor economic performance of their companies, enterprise bankruptcy, or personal misfortunes such as chronic illness, accident, injury, or divorce.⁶¹

As political scientist Laleh Khalili's study of the infrastructural power of the U.S. Army Corps of Engineers reveals, the operation of construction involves both the transfer of tangible technology and also the building of intangible new institutional scaffoldings and social networks.⁶² The discharged PLA Engineering Corps—transformed into entrepreneurs and government officials—constituted a wide social network that offered ample opportunities in the highly lucrative construction sector for collaboration, patron-client relations, and corruption. Jiang Zunyu, a Corps member who became a Shenzhen government official but fell from grace, represents a high-profile and sensational case of corruption. Jiang's personal CV before his downfall testified to how the Engineering Corps became a channel for upward mobility for young males. Born in 1957 in Jiangsu, Jiang joined the PLA in 1976 as a driver soldier, furthered his education in the military system, and graduated in 1979 from the Xi'an Political Institute of the PLA. After dismissal from the Engineering Corps, Jiang entered the Shenzhen city government and in 1996 became a director overseeing market operations in the Shenzhen municipal land management bureau. In 2001, he rose to the position of deputy party secretary of the Shenzhen Municipal Government, and in 2009, he became the party secretary of Longgang district.⁶³

In a biographical essay on Jiang published before his corruption case was exposed, he claimed that his military experience taught him never to be slow and sloppy, in Chinese, to “trail mud and water behind (*tuonidaishui*).”⁶⁴ Yet Jiang's approach to work, allegedly forged under the PLA, could be enterprising and efficient as well as authoritarian and

⁶¹ Duan, *Shenzhen tuohuang jishi*, 206.

⁶² Khalili, “The Infrastructural Power of the Military.”

⁶³ “Jiang Zunyu: buchuan junzhuang rengshi zhanshi,” Liao, ed., *Liangwanren de 20 nian*, vol. 2: 443–454.

⁶⁴ “Jiang Zunyu: buchuan junzhuang rengshi zhanshi,” Liao, ed., *Liangwanren de 20 nian*, 2: 443.

arbitrary.⁶⁵ Located in northeastern Shenzhen City, Longgang is the largest district by area (43% of the entire territory of Shenzhen City) but had been demarcated as outside the SEZ.⁶⁶ The landscape remained largely rural until Longgang was incorporated into the SEZ in 2010. This administrative change, triggered by Shenzhen's successful bidding for the 2011 Summer Universiade and the resulting need for new sports venues, spurred many lucrative new projects in this once sleepy township. The property ownership structure in Longgang is complicated and historically connected to the local Hakka clans. Jiang, a non-Hakka outsider and ex-PLA officer, allegedly applied "military methods" to urbanization projects in Longgang by aggressively bulldozing old properties.⁶⁷ The pressure to complete sports venue construction before the opening of the Universiade also created ample opportunities for Jiang to obtain what political scientist Yuen Yuen Ang terms "access money"—bribes and kickbacks in exchange for access to exclusive valuable privileges, special deals, and lucrative rights.⁶⁸ Between 1996 and 2014, Jiang and his family reportedly received cash and gifts worth some 32 million yuan and 46 million Hong Kong dollars from cronies who enriched themselves from the construction and renovation projects. He was sentenced to life imprisonment.⁶⁹

In 2010, shortly after he took office in Longgang, the very first official inspection Jiang Zunyu conducted was one of the corporate compound owned by another former construction soldier, Ren Zhengfei's Huawei, which chose the relatively remote Longgang as its headquarters in 1998, when the Longgang district government was eager to use Huawei to

⁶⁵ "Shenzhen shi zhengfawei shuji Jiang Zunyu luoma beihou," *Zhongguo jingji zhouban*, 2 December 2014, <https://china.huanqiu.com/article/9CaKrnJFUOo>, accessed 7 December 2020.

⁶⁶ Liu Zhuxi, "Shenzhen luoma changwei Jiang Zunyu jiushi: zhutui Longgang daza-ocheng, gongkai paichi xiao kaifashang," *The Paper*, 21 November 2014, https://m.the-paper.cn/newsDetail_forward_1279794, accessed 7 December 2020.

⁶⁷ "Shenzhen shi zhengfawei shuji Jiang Zunyu luoma beihou," *Zhongguo jingji zhouban*, 2 December 2014, <https://china.huanqiu.com/article/9CaKrnJFUOo>, accessed 7 December 2020.

⁶⁸ Yuen Yuen Ang, *China's Gilded Age: Paradox of Economic Boom and Vast Corruption* (Cambridge: Cambridge University Press, 2020), 10.

⁶⁹ "Shenzhen shi zhengfa wei yuan shuji Jiang Zunyu shouhui an ershen weichi yuanpan," *Nanfang wang*, 21 June 2019, http://www.sznews.com/news/content/2019-06/21/content_22197446.htm, accessed 7 December 2020.

attract commercial real estate developers. Jiang claimed to be an old friend of Huawei. Ren's response was lukewarm, and he objected to the Longgang district government's proposal to build a new "technology city" bearing Huawei's name.⁷⁰ In this awkward encounter, the different life trajectories of two former comrades-in-arms collided in a rapidly developing Shenzhen suburb.

By contrast with Jiang and his fellow civil servants as well as SOE managers and employees who preferred stability "within the system" (*tizhi nei*), Ren and a group of business-minded former construction soldiers made different personal choices. Born in 1944 to an impoverished teacher's family in mountainous Southwest China, Ren made his first great leap in social position by entering the Chongqing Institute of Civil Engineering and Architecture (*Chongqing gongcheng xueyuan*) in 1963 and joining the PLA as a technician in 1974. During his early years in the PLA, he worked at the Liaoyang Chemical Fiber Factory in Northeast China (*Liaoyang Huaxian jidi*) and was credited with two technological inventions. When he arrived in Shenzhen in 1983 as part of the Engineering Corps, Ren was already a cadre at the level of deputy regiment commander (*fu tuanzhi ganbu*). After the dissolution of the Engineering Corps, Ren was offered a civilian position in the South China Sea Petroleum Company logistical service base (*Nanhai shiyou houqin fuwu jidi*), now a subsidiary of the China National Offshore Oil Corporation. In 1987, when the Shenzhen Municipal Government promised tax concessions and favorable policies to encourage private investments in technological innovation (*guanyu guli keji renyuan xingban minjian keji qiye de zanxing guiding*), Ren left the SOE and built Huawei.⁷¹ Although the extent of contemporary collaboration between Huawei and the PLA remains a hotly contested topic, Ren's managerial style clearly showed the imprint of his PLA experience and his familiarity with Mao Zedong thought. The Huawei Basic Law (*Huawei jibenfa*), the document that stipulates its corporate culture, was shaped by Mao's theoretical essay "On

⁷⁰ "Lianmeng de boyi: Huawei 'beizaocheng,'" *Nanfang zhoumo*, 19 August 2010, <http://tech.sina.com.cn/t/2010-08-19/13584564316.shtml>, accessed 7 December 2020.

⁷¹ Duan Yabing, *Shenzhen tuohuangren—jijian gongchengbing chuangye jishi* [Ground-breakers of Shenzhen: A Record of the People's Liberation Army Engineering Corps] (Beijing: Renmin Chubanshe, 2014), 3–7.

Practice”; Huawei’s strategy for expanding overseas markets was influenced by the Maoist military principle of the countryside encircling the city.⁷²

Like Ren, Liang Guangwei and Gao Hongxing are two more iconic soldiers-turned-entrepreneurs belonging to a cohort of construction troops who arrived in Shenzhen at a relatively youthful age and benefited from opportunities to study in the newly established Shenzhen University. Both Liang and Gao were born in 1963 and were “baby new soldiers” (*xinbing wazi*) in 1983, when they were downsized from the PLA in Shenzhen. Twenty-year-old Liang Guangwei cried out loud on his battalion’s basketball court when putting aside his PLA uniform. Yet under Reform, educational attainment in novel fields of study at a rising young university enabled him to accumulate new social capital and ultimately leave the structured path laid out by the state. Both Liang and Gao matriculated from Shenzhen University in 1984: Liang majored in computer science and Gao in finance. Upon graduation, Liang was assigned to lead Huaqiang Electronics, a conglomerate of three military mechanical factories—Hongquan (Red Power), Dongfanghong (the East is Red), and Xianfeng (Pioneer)—relocated to Shenzhen from the mountainous regions of Northern Guangdong. He successfully transformed it into a technology and culture company—Huaqiang Industry Co. Ltd., which was listed on the Shenzhen Stock Exchange in 1997. Gao, on the other hand, rose to the position of deputy manager of the South China branch of the Guotai Junan Securities Co. Ltd., one of the largest investment banks in China, before leaving to start his own company—Hong Kong Satellite Television, a media network that was registered in Hong Kong but produced most of its programs in Shenzhen.⁷³

In 1983, more than 99% of the 20,000 soldiers transferred to Shenzhen were male, most of them young and single. By the mid-1980s, their prospects on the Shenzhen marriage market were dim. During the Mao era, PLA soldiers were much-coveted marriage partners. After their discharge in Shenzhen, these young men struggled to differentiate themselves from another group of single males who occupied the lowest echelon of the city’s social hierarchy—rural migrant workers. For many

⁷² Ibid; Ren Zhengfei, “Yao cong biran wangguo, zouxiang ziyou wangguo,” 4 May 2017, <http://www.cghuawei.com/archives/12390>, accessed 8 December 2020.

⁷³ Duan, *Shenzhen tuohuangren*, 27–63.

of them, Shenzhen was a “desert of male desire.”⁷⁴ Married construction soldiers faced an equally if not more challenging situation of family separation. Many construction soldiers had spouses with rural household registration. Although the Shenzhen Municipal Government offered them urban household registration, processing the paperwork could be a long and grueling procedure, taking up to five years when transfers from faraway regions such as the Northwest were involved.⁷⁵ In some cases, long-distance living arrangements during the early years of market transition caused family dissolution.

In the early 1980s, the tiny percentage of women in the Engineering Corps dominated the “battlefield hospitals,” providing medical care to the construction soldiers. They bore witness to the human cost of the supersonic speed of urbanization in Shenzhen: the lack of proper protection at construction sites caused many injuries and even deaths; the absence of safe drinking water, sanitation, and hygiene in the Corps’ temporary residences led to rampant gastrointestinal illnesses and skin infections.⁷⁶ Mostly married to husbands who also served in the Engineering Corps, these women struggled to balance family and work. Although technically enjoying equal status with their husbands, women tended to be the primary caregivers to young children. Luo Chaoli, who chose Shenzhen over the opportunity to work in a military police (*wujing*) hospital in her hometown of Chongqing, had to bring her three-year-old to the rudimentary operating theaters on the construction sites before finally securing childcare through repeated petitions to the Shenzhen Women’s Federation.⁷⁷ Shenzhen’s proximity to Hong Kong sparked rumors among the soldier mothers that spies from Hong Kong would kidnap children from Shenzhen and implant listening-in devices in their stomachs. Yue Yanmei recalled that fear led some mothers to lock up their children at home when they went to work.⁷⁸

During the SOE reforms, fewer women—whether as health care providers in their own right or as accompanying spouses—experienced

⁷⁴ Wu and Duan, “Liangwan ren de tongku yu zunyan,” 213.

⁷⁵ Liao, ed., *Liangwanren de 20 nian*, vol. 3: 982.

⁷⁶ Luo Chaoli, Yue Yanmei, interview by author, 20 December 2019, Shenzhen.

⁷⁷ Luo Chaoli, “Wuwanyuan shi wo cengdui Shenzhen fazhan de zuida xiangxiang,” *Tuohuangniu* 1 (May 2019): 31.

⁷⁸ Yue Yanmei, interview by author, 20 December 2019, Shenzhen.

upward social mobility than did men. After the dissolution of the Engineering Corps in 1983, women doctors and nurses employed in the military medical units were transferred to Shenzhen Red Cross Hospital (*Shenzhen honghui yiyuan*). Luo, thanks to her medical training and license, enjoyed a stable career in the Hospital until she retired; Yue, who lacked professional certificates, failed to keep her hospital job and ultimately switched to an administrative position in a Corps-run company.⁷⁹ As political scientist William Hurst observes, among laid-off workers all across China, “entrepreneurial opportunities often seemed more readily available to men than to women.”⁸⁰ Gender inequality was even more pronounced in the Engineering Corps because the social networks within this community—which generate business opportunities and start-up capital—were and still are male-dominated. The women who migrated with their husbands to Shenzhen did enjoy better public health and educational provisions for their children in the city, but as individuals, most of them—coming from rural areas, with few educational qualifications, and having reached middle age by the time they relocated—could only find low-paying, precarious positions, such as cleaners or maids.⁸¹

In the commemorative writings produced by the Engineering Corps themselves, women are often sidelined and stereotyped as persevering wives who endured without complaint the long absences of their workaholic husbands.⁸² Many former soldiers described themselves as conscientious workers but “disqualified husbands and fathers.”⁸³ Those declarations were often made with greater pride than guilt, reaffirming their commitment to the nation’s development over their own family lives. In 1986, Li Fengqi, deputy manager of the Shenzhen No. 2 Construction Company, lost his son due to an accident. Three days after the boy’s death, ignoring forceful urging from his colleagues to stay at home and comfort his grief-stricken wife, he returned to the construction site, saying: “It is our small family’s misfortune that my son died; but if the construction slows down, it would be a misfortune for our entire company. No. 2 Construction Company is at a critical stage, we cannot

⁷⁹ Luo Chaoli, Yue Yanmei, interview by author, 20 December 2019, Shenzhen.

⁸⁰ Hurst, *The Chinese Worker After Socialism*, 99–100.

⁸¹ Liao, ed., *Liangwanren de 20 nian*, vol. 3: 982.

⁸² Liao, ed., *Liangwanren de 20 nian*, vol. 2: 577.

⁸³ Liao, ed., *Liangwanren de 20 nian*, vol. 3: 867.

afford to delay for one minute.”⁸⁴ Wang Jiayu, the soldier-turned-CEO of the Shenzhen Construction and Interior Design Group Limited, characterizes his family as “the base camp” of his work, which he equates to “the revolution.” Most wives drag their husbands behind, Wang writes. Women, he implies, have more materialistic desires and less unselfish devotion to the collective good. But his own wife is an exception, always impelling him to further progress.⁸⁵

CONCLUSION

Upon first arriving in Shenzhen between 1979 and 1982, the construction soldiers received strict orders to remove their military uniforms, to avoid triggering fear and suspicion among the nearby British. At night, as the soldiers discovered the “magical” and “dreamlike” skyline of Hong Kong, many became too excited to sleep, forgetting their travel fatigue.⁸⁶ In contrast to the active in-service soldiers defending state borders via hard, military means, the Engineering Corps served as the soft, human infrastructure of Shenzhen’s border with Hong Kong, whose investment, technology, and managerial knowledge were indispensable if Reform were to take off. In terms of urban development, they laid the foundation for Shenzhen’s rise as a city of skyscrapers resembling Hong Kong. In terms of demographics, their relocation doubled the population living within the SEZ.⁸⁷ As this militarized labor transplanted the same engineering techniques and work style from the Third Front to the SEZ, “Mao’s invisible hand” extended its reach to the forefront of China’s market reform.⁸⁸ Like the communist cadres from the Southbound Work Team who arrived in Guangdong from north China in the 1950s, the Engineering Corps were reliable and trusted agents to consolidate the CCP’s authority at a remote outpost populated by “worldly” Cantonese connected to Hong Kong through longstanding cultural, commercial,

⁸⁴ Duan, *Shenzhen tuohuang*, 239.

⁸⁵ Liao, ed., *Liangwanren de 20 nian*, vol. 2: 579.

⁸⁶ Liao, ed., *Liangwanren de 20 nian*, vol. 1: 47.

⁸⁷ Du, *The Shenzhen Experiment*, 163.

⁸⁸ Perry and Heilmann, “Embracing Uncertainty.”

and family ties.⁸⁹ As Mary Ann O'Donnell points out, the political discourses of these soldier as “path-breakers” who “cut open a road of blood” played just as important a role as their labor in setting the horizon for Shenzhen’s development.⁹⁰

On 22 December 2019, the former PLA Engineering Corps held a celebration of the 126th anniversary of the birth of Mao Zedong, to which Wu Guixian, the female textile worker who was promoted to the position of Vice-Premier during the Cultural Revolution, was invited as the guest of honor. If the veterans shared nostalgia for the Mao era and the glory they enjoyed as PLA members, since then their experiences during reform had differed. All demobilized Corps members who stayed in Shenzhen were offered urban household registration and assigned jobs in governmental agencies and SOEs; the majority had access to heavily subsidized housing. Compared with later cohorts of rural migrants, they were more privileged due to urban residency and private property ownership. But their greater age made them less competitive in the labor market than the rural migrants. They also had to pay much higher costs for social reproduction in the city, whereas rural migrants could return to their villages and rely on the land and social relations there.⁹¹

Within the Engineering Corps, the SOE reforms translated the military hierarchy of the Mao years into economic inequality under Deng, leading to unsettled disputes and discontents that still continue today. Social mobility among Engineering Corps members has been shaped by the interplay of the broader economic structure, the performance of their SOEs, and their individual agencies and chances. Resembling the marketization process of the Xinjiang Production Corps (*Xinjiang shengchan jianshe bingtuan*), an SOE with similar historic connections to the PLA, “fateful but not fate-determining, mutual bonds” have existed between the discharged soldiers and the Corps-dominated SOEs to which they belonged.⁹² Generally speaking, during marketization those who enjoyed considerable influence in the command economy were able to transmute

⁸⁹ Ezra F. Vogel, *Canton Under Communism: Programs and Politics in A Provincial Capital, 1949–1968* (Oxford: Oxford University Press, 1969), 21.

⁹⁰ Mary Ann O'Donnell, “Path Breaking: Constructing Gendered Nationalism in the Shenzhen Special Economic Zone,” *Positions* 7: 2 (Fall 1999): 343–375.

⁹¹ Lee, *Against the Law*, 205; and Hurst, *The Chinese Workers after Socialism*, 91–92.

⁹² Thomas Cliff, *Oil and Water: Being Han in Xinjiang* (Chicago: University of Chicago Press, 2016), 4.

their pre-Reform political power into economic power. Some young males “disadvantaged” under Mao—lacking ties to power holders or privileged family backgrounds—seized new opportunities to attain higher education and establish private businesses in the SEZ. Yet during both the socialist and post-socialist eras, the distribution of resources favored men over women, those of urban, intellectual family origins over persons from rural, agricultural backgrounds, and individuals who possessed social capital in terms of professional credentials and patron-client networks over those without. In 2005, construction soldiers who felt unfairly treated and inadequately compensated by the state staged public protests, in which they targeted the Shenzhen Municipal Government. Yet their collective action, rather than transforming them into an interest group that the city government had to take into account, made them into a “problematic population” to be regulated for the sake of social stability.

Today, the former construction soldiers are a heterogeneous group, a community who share a common past but have fractured interests and different values and mentalities. Some of those who have retired comfortably believe that their disgruntled former comrades-in-arms are only experiencing “mild” economic difficulties and they have “brought misfortune on themselves” due to health problems or family issues. By denying structural reasons for the grievances of their one-time associates, these elites replicate a narrative of market triumphalism. Their nostalgia toward the Mao era was a cultural manifestation rather than an expression of preference for an alternative socio-economic system.⁹³ Meanwhile, activists empathetic to the disadvantaged soldiers have initiated redistribution programs, channeling more than 10 million RMB in donations from successful enterprises and entrepreneurs with links to the Engineering Corps to retired or unemployed former soldiers living below or marginally above the official poverty line.⁹⁴ The diverse views of discharged members of the Engineering Corps on the issue of social justice under Deng reflect the complex relationships between the socialist economy under Mao and market reform under Deng. As the core labor force of the Maoist militarized economy and the pioneer “pathbreakers” of Reform, this unique group of people witnessed firsthand both the death of socialism and the

⁹³ Lee, *Against the Law*, xii.

⁹⁴ Luo Yajun, interview by author via WeChat, 23 December 2020.

birth of capitalism; their experiences demonstrate that these two processes were inseparable and mutually constitutive.

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Whose *Perestroika*? Czechoslovak Communists, Deng Xiaoping's Economic Reforms, and Late 1980s Sino-Czechoslovak Relations

Jan Adamec

INTRODUCTION

Sino-Czechoslovak relations experienced something of a roller-coaster ride between 1949 and 1989. Intensive trade and economic cooperation cemented the initial political alliance and ideological harmony of the years 1949 to 1959, a decade when Czechoslovakia framed the People's Republic of China (PRC) as one of the world's biggest and most populous countries to undergo a successful communist revolution. According to this view, the PRC had embarked on an enormous transformation, from feudal backwardness to socialist modernity. Relations between Czechoslovakia and the PRC in the 1950s were multifaceted, extending through

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cultural diplomacy, scientific exchanges, trade, and political consultations to military assistance.¹

There were important motivations for Czechoslovak leaders to seek closer ties with China. When one examines the country's situation against

¹ Czech and Slovak scholars have published several important works that shed light on this period. Hana Suchá and Lenka Dřimalová have written on Sino-Czechoslovak cultural exchanges and cultural diplomacy, while Martin Slobodník and Viera Lelkesová have analyzed travel accounts of the PRC produced by Czech and Slovak writers and journalists. See, for example, Hana Suchá, "Armádní umělecký soubor Víta Nejedlého v Čínské lidové republice v roce 1952" [The Vít Nejedlý's Artistic Company of the Czechoslovak Army in the People's Republic of China in 1952], *Dálný východ* [Far East] 3: 1–2 (2013): 94–116; and Martin Slobodník, and Viera Lelkesová, "Ako rybky v akváriu"—nepublikovaný strojepis Milana Ferka o ceste do Číny v decembri 1964" ['Like a Fish in a Fishbowl']—unpublished article by Milan Ferko on his journey to China in December 1964], *Studia Orientalia Slovaca* 13: 2 (2014): 209–272. See also Martin Slobodník, "Socialist Anti-Orientalism: Perceptions of China in Czechoslovak Travelogues from the 1950s," in *Postcolonial Europe? Essays on Post-Communist Literatures and Cultures*, eds. Dobrota Pucherová and Róbert Gáfrík (Leiden: Brill, 2015), 299–314; Lenka Dřimalová, *Česko-čínské vztahy po roce 1945 v oblasti kultury* [Czech-Chinese Cultural Relations after 1945] (Olomouc: Department of Asian Studies, Palacký University, 2009); and Lumír Jiřil, Luboš Bělka, and Pavel Šindelář, eds., *Čínský deník* [The China Diary] (Brno: Masarykova univerzita, 2016). Daniela Kolenovská and Michal Reiman have studied the ideological and political implications of the Sino-Soviet dispute for the Czechoslovak Communist Party and the impact on cooperation within the agricultural sector. See Daniela Kolenovská, "Mezi dvěma slunci: Československo ve střetu Moskvy a Pekingu o mezinárodní komunistické hnutí (1953–1962)" [Between Two Suns: Czechoslovakia in between Moscow and Beijing's Quest for Dominance in the International Communist Movement (1953–1962)], *Soudobé dějiny* [Contemporary History] 4 (2014): 531–558; Daniela Kolenovská, "Sino-Czechoslovak Cooperation on Agricultural Cooperatives: The Twinning Project," *Cold War History* 18: 3 (November 2017): 291–306; and Michal Reiman and Daniela Kolenovská, eds., *Čínský deník a skupina Listy, jaro 1981* [A Diary from China and the Listy Group, spring 1981] (Praha: Ústav pro soudobé dějiny AV ČR, 2019). Two scholars have written extensively on Sino-Czechoslovakian trade relations. A substantial portion of Lenka Krátká's study of the history of the Czechoslovak Maritime Shipping Company during the Cold War deals with Sino-Czechoslovak cooperation in shipping. See Lenka Krátká, *Domovský přístav Praha: Československá námořní plavba v letech 1948 až 1989* (Praha: Univerzita Karlova, Karolinum, 2016). This was published in English as Lenka Krátká, *A History of the Czechoslovak Ocean Shipping Company, 1948–1989: How a Small, Landlocked Country Ran Maritime Business during the Cold War* (Stuttgart: Ibidem Verlag, 2015). The Cold War years are also covered in the wide-ranging study of trade relations between China and Czechoslovakia from 1918 onwards by Aleš Skřivan, *Československý vývoz do Číny 1918–1992* [Czechoslovak exports to China 1918–1992] (Prague: Scriptorium, 2009), s. 169–277. This was published in English as Aleš Skřivan, *From the Heart of Europe to the Middle Kingdom: Three Historical Eras in the "Chinese trade" of Czech and Czechoslovak Companies* (Hamburg: Dobu Verlag, 2016), 201–360.

the backdrop of the ideological and geopolitical limitations of the Cold War, one of the main challenges its political authorities faced after 1948 was the difficulty of limiting exposure to the West. From their perspective, reorienting the economy toward the East could therefore prove a winning strategy. In this respect, establishing close trade relations with the PRC seemed to offer a unique opportunity. Their mutual relations were, however, derivative in nature, invariably determined during the late 1950s and early 1960s by the turbulent relationship between Beijing and Moscow and Sino-Soviet spats and conflicts.²

Czechoslovakia was obliged to follow the changing trajectory of Soviet-Chinese relations, which began to deteriorate in the late 1950s and during the Sino-Soviet split saw open rupture and hostilities from 1960 to 1964, with Sino-Czechoslovak relations following suit. Moscow questioned Beijing's path of accelerated industrialization and modernization, particularly the so-called Great Leap Forward of 1958 to 1962, a gigantic social and economic experiment that ended in famine, with millions dead. The Soviets also refused to provide Beijing with the technology needed to produce a nuclear bomb. China, in retaliation, resisted joint defense projects and rejected its assigned role of a "younger brother." The historian Shu Guang Zhang highlights personal differences between Soviet General Secretary Nikita Khrushchev and China's Chairman Mao Zedong, as well as culturally conditioned behavioral patterns, influenced by values, beliefs and, above all, mutual history. The Chinese Communists did not trust the Soviets, and Mao perceived Russian chauvinism and expansionism behind every Soviet initiative.³ Their rivalry within the socialist movement also played a role, as Moscow and Beijing competed over which of their two competing socialist models Third World countries should emulate and apply. The original ideological dispute burgeoned into an armed conflict that in 1969 briefly escalated into war on China's border with the Soviet Union.

² On the foreign relations of the People's Republic of China (PRC) during this period, see especially Jian Chen, *Mao's China and the Cold War* (Chapel Hill: University of North Carolina Press, 2001); Lorenz M. Lüthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2008); and Vladislav Zubok and Constantine Pleshakov, *Inside the Kremlin's Cold War: From Stalin to Khrushchev* (Cambridge, MA: Harvard University Press, 1997).

³ Shu Guang Zhang, *Beijing's Economic Statecraft during the Cold War 1949–1991* (Washington, DC, and Baltimore, MD: Wilson Center Press and Johns Hopkins University Press, 2014), 59–95.

In the second half of the 1960s, moreover, internal developments in both countries still further complicated mutual relations. The Cultural Revolution of 1966 to 1976 prompted a decade of “controlled chaos” in China; meanwhile, Czechoslovakia’s promising Prague Spring was choked by Soviet intervention and the subsequent Moscow-enforced internal normalization of 1968 to 1971. Due to the August 1968 invasion, the Czechoslovak-Soviet-Chinese triangle became somewhat intertwined. Beijing sharply criticized the invasion, and Chinese propaganda presented Czechoslovak normalization as a struggle of the Czechoslovak people against Soviet imperialism and revisionism. In the late 1960s and early 1970s relations between China and Czechoslovakia declined, due to open PRC criticism of the Warsaw Pact intervention in Czechoslovakia and Chinese media attacks against Gustáv Husák, the new General Secretary of the Central Committee of the Czechoslovak Communist Party (CPC), which characterized the newly installed party leadership in Prague as Soviet General Secretary Leonid Brezhnev’s “puppet regime.” In late January 1970, for example, *Renmin Ribao*, the official Chinese party newspaper, published an article, “The Czechoslovak People Continue to Fight the Colonial Domination of Soviet Revisionists,” that termed Husák a “revisionist soldier,” while reporting that the Czechs and Slovaks recognized that “Brezhnev’s association was of the same nature as American imperialism” and protested against their unwelcome overlords “by street demonstrations, leaflet distribution, sabotage, absenteeism.” As the Czechoslovak Embassy in Beijing reported to its rather irritated superiors at home, according to the Chinese press in January 1970, “recently thousands of Prague residents and students, overcome with deep hatred of Soviet revisionists—new tsars, took actions in memory of the first anniversary of the death of a young student, Jan Palach, who burnt himself to protest against the invasion of Soviet revisionists in Czechoslovakia.” These attacks became so intense that in February 1970, the Czechoslovak government made an official protest against alleged Chinese interference in the internal affairs of Czechoslovakia.⁴

⁴ In February 1970, the Czechoslovak Ministry of Foreign Affairs and the Department of International Relations of the CPC Central Committee sent CPC Secretary General Gustáv Husák two articles published in the *People’s Daily* [Renmin Ribao], the official CCP Central Committee newspaper, entitled “The people of Czechoslovakia continue in their struggle against the colonial rule of the Soviet revisionists” (31 January 1970) and “The situation of the Czechoslovak revisionist puppets, ruled by the Soviet revisionists, is getting worse” (22 February 1970). Czechoslovak party officials condemned both articles

BACK TO BUSINESS AS USUAL

Not until the late 1970s were relations between China and Czechoslovakia gradually normalized, based primarily on trade cooperation, a trend that continued throughout the 1980s. Whereas during the 1960s, Czechoslovakia had to follow Moscow on China policy, during the 1980s, Prague gained much greater latitude to maneuver. In an interesting paradox, while all the Czechoslovak Communist leaders, including the prime minister, general secretary, and president, were allowed to visit the PRC and develop mutual ties with Beijing, their formal “boss” within the Soviet bloc was not welcome. At that time China was engaged in assorted foreign policy disputes with Moscow, and it conditioned the full normalization of Sino-Soviet relations upon the prior resolution of these issues. As the historian Chen Jian describes, the major “boulders” blocking the route were the December 1979 Soviet invasion of Afghanistan, as well as Moscow’s support from 1978 to 1989 for Vietnam’s invasion and occupation of Cambodia, which China regarded as falling within its own sphere of influence. Not until the Soviets had made key geopolitical concessions, in terms of pressuring Vietnam to withdraw troops from Cambodia, would Soviet General Secretary Mikhail Gorbachev be invited to China, thirty years after the last such visit by his predecessor Nikita Khrushchev. Nor did Beijing’s relatively intimate contacts with Washington, after the breakthrough of U.S. President Richard Nixon’s 1972 visit to China, do anything to improve relations with Moscow.

Of the two, Prague rather than Beijing was the more eager to restart and develop mutual relations. One may agree with Margaret K. Gnoinska’s broad conclusion that the Soviet bloc was “increasingly irrelevant to

as a “shameless attack” on the Communist Parties of both Czechoslovakia and the Soviet Union. The Czechoslovak government issued an official note of protest condemning the January article. The CPC also responded with an article published in its official party daily newspaper, *Rudé právo* (Red Justice). See J. Tománek, “Komu to slouží? Pomluvy vztahům mezi ČLR a ČSSR neprospějí” [Who Is Going to Benefit from this? Slanders Are of No Benefit to Mutual Sino-Czechoslovak Relations], *Rudé právo* [Red Justice], 11 February 1970, p. 7. For the party documents, see Národní archiv/National Archive, NA/, fond /file/ A ÚV KSČ Gustáv Husák /Archive of the Central Committee of the Czechoslovak Communist Party /ACCCCPGH/, inv.č. /inventory number, i.n./ 9782: Vztahy ČSSR–ČLR / Relations between Czechoslovakia and the People’s Republic of China/, k. /box/ 966. See also NA, f. ACCCCPGH, b. 966, i.n. 9783.

China's economic modernization plans championed by Deng Xiaoping."⁵ Yet even among the eastern Soviet bloc countries, whether from a political, ideological, or economic perspective, Czechoslovakia sparked no particular interest in Beijing.⁶ As seen from China, Czechoslovakia did not appear to be a regime in crisis, one that might call for politically or ideologically motivated assistance or "special relations."⁷ Nor did Czechoslovakia offer China the opportunity to pursue a proactive and independent foreign policy that might boost its own standing in the global arena. Moreover, unlike the East German Democratic Republic and Hungary, Czechoslovakia did not champion any unusual or innovative economic reform model of its own that might appeal to China's desire to "learn from abroad."⁸

And vice versa. Unlike Poland in the 1980s, the communist régime in Czechoslovakia was both politically and economically stable, facing neither an imminent threat from a collapsing economy, nor massive internal opposition. No urgent or compelling reason drove the Czechoslovak regime to move outside its long-term comfort zone of closely aligning its policies to those of the Soviet Union. Czechoslovakia was not in the position of its fellow Soviet satellite Poland, impelled by domestic difficulties to look beyond the Eastern bloc and seek additional material and ideological support from Beijing, another communist state. As Gnoinska has pointed out, it is difficult to exaggerate "the importance of China's moral support and economic assistance to Poland in the midst of the crisis and beyond, which constituted a lifeline for Poland's teetering

⁵ Margaret K. Gnoinska, "Socialist Friends Should Help Each Other in Crises': Sino-Polish Relations within the Cold War Dynamics, 1980–1987," *Cold War History* 17: 2 (May 2017): 158.

⁶ Martin Albers and Zhong Zhong Chen, "Socialism, Capitalism and Sino-European Relations in the Deng Xiaoping Era, 1978–1992," *Cold War History* 17: 2 (May 2017): 115–119; Odd Arne Westad, "China and the End of the Cold War in Europe," *Cold War History* 17: 2 (May 2017): 111–113; and Vladislav Zubok, "The Soviet Union and China in the 1980s: Reconciliation and Divorce," *Cold War History* 17: 2 (May 2017): 121–141.

⁷ Gnoinska, "Socialist Friends Should Help Each Other in Crises'," 158.

⁸ Chen Zhong Zhong, "Defying Moscow: East German-Chinese Relations During the Andropov-Chernenko Interregnum, 1982–1985," *Cold War History* 14: 2 (June 2014): 259–280; Péter Vámos, "A Hungarian Model for China? Sino-Hungarian Relations in the Era of Economic Reforms, 1979–89," *Cold War History* 18: 3 (November 2018): 361–378; and also Gnoinska, "Socialist Friends Should Help Each Other in Crises'," 158.

economy and desperate government faced with erratic Soviet deliveries and US sanctions.”⁹

This chapter discusses the context of bilateral relations between Czechoslovakia and the People’s Republic of China, focusing primarily on several Sino-Czechoslovak encounters in the later 1980s. During 1986 and 1987, the first objective of the Czechoslovak leadership was to restore full diplomatic and political relations with the PRC. This new diplomatic offensive took concrete shape in dozens of official visits at the highest state and party levels. Interestingly enough, these visits were even more frequent than during the 1950s when, in full accord with Soviet foreign policy, mutual relations were quite intimate. They signaled that the Czechoslovak party-state leadership fully recognized the newly available opportunity to access the Chinese market and re-establish connections lost due to the Sino-Soviet split.

The aim of this chapter is to “reconstruct” how the Czechoslovak leadership perceived Chinese reforms and the PRC’s economic performance in the late 1980s. What did the Czechoslovak leaders think of the reforms? Were they inspired by them, or even determined to implement similar measures at least partially in their own country? Or did they consider what they learned during their novel encounters with Deng’s regime as inappropriate for Czechoslovakia? Did any competition exist between the Soviet and Chinese versions of *perestroika* in the minds and plans of the Czechoslovak communists? Or did the conservative Czechoslovak leadership perceive both *perestroikas* as unsuitable for and potentially even harmful to the Czechoslovak system? It was decidedly telling that in all the conversations between Czechoslovak and Chinese leaders, the reforms launched in the Soviet Union were rarely mentioned. Chinese politicians were only willing to comment on Soviet *perestroika* in the most general terms, stressing primarily that all the countries under discussion, Czechoslovakia, the PRC, and the USSR alike, were in the process of reforming themselves and that those reforms must follow socialist principles, be rooted in Marxism-Leninism, and adhere to the leading role of the party. Nor did their Czechoslovak interlocutors broach the topic of Soviet *perestroika*.

From 1987 to 1989, several high-ranking Czechoslovak officials visited China. In April 1987, Czechoslovak Prime Minister and Politburo Central

⁹ Gnoinska, “Socialist Friends Should Help Each Other in Crises,” 158.

Committee member Lubomír Štrougal became the first to do so. Almost one year later, in March 1988, the influential Party Secretary and Politburo member Vasil Bílak followed suit, as did Miloš Jakeš, general secretary of the Czechoslovak Communist Party. Later that year, in September 1988, President Gustáv Husák of Czechoslovakia likewise went to China. In late October and early November 1989, Foreign Minister Jaromír Johanes visited Beijing, the final Sino-Czechoslovak encounter before the Velvet Revolution that began on 17 November 1989 triggered the collapse of the Czechoslovak communist regime. Based on documents from these visits, especially those of Štrougal and Bílak,¹⁰ I argue that two different approaches to “learning from Beijing” apparently emerged, as each man drew different conclusions from his tours of Special Economic Zones (SEZs). While the technocrat Štrougal seemed more open to entertaining the possibility that some features of these enclaves might be transferable to Czechoslovakia, the ideologue Bílak apparently viewed the establishment within the socialist system of these capitalist “zones” as a dangerous breach of its ideological and political framework, and therefore rejected them.

Czechoslovakia attempted to revive the model of trade relations based on the blueprint from the pre-Sino-Soviet split era, by exporting a varied range of goods produced by Czechoslovak light and heavy industry, while focusing on the expansion and completion of complex industrial units, especially in the energy, heat, and mining sectors. “The times they were a changing,” however, meaning that Czechoslovakia soon discovered that it had lost the exclusive and competition-free position it had enjoyed in the 1950s thanks to the political and ideological shelter the Sino-Soviet alliance had provided. In the late 1980s, Czechoslovakia and other Eastern European countries had to face tough business and technological

¹⁰ See Archiv Ministerstva zahraničních věcí České republiky (AMZVČR)/Archive of Ministry of Foreign Affairs of the Czech Republic (AMFACR), Teritoriální odbor–Tajné (TO-T) 1980–1989/Territorial Department–Secret (TD-S) 1980–1989/, sv. 9/i. 9, 151/112, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People’s Republic of China from 24 to 29 April 1987 (18 May 1987); and Appendix 7: Record of the meeting of the member of the Political Bureau CC CPC and Prime Minister of the Czechoslovak Socialist Republic with Prime Minister of the PRC Li Xiannian, 25 April 1987, p. 2.

competition from firms from Japan, the United States, and West European countries that were now allowed to operate in Deng Xiaoping's China. Czechoslovak politicians were uncomfortably aware that most of the products Czechoslovakia produced and attempted to sell abroad could not compete in either quality or price with Western products. After paying dozens of visits in 1987 and 1988 to the Special Economic Zones, where hundreds of joint ventures and Western co-owned factories were already producing goods the Czechoslovaks had contemplated offering to Beijing, Czechoslovak politicians realized they were "latecomers." In the 1950s, China had viewed Czechoslovakia as a developed industrial country, an exporter not merely of material goods but also of expertise and patents. Now in the 1980s, the relationship between teacher and pupil was apparently reversed. It was far from coincidental that the frequent visits of Czechoslovak politicians to the PRC were also designed to allow them to "see and experience" the effects of the reforms the PRC government had implemented since the late 1970s.¹¹

The Czechoslovak Communist leadership was itself engrossed in discussions over economic reforms of its own, intended to improve the ailing socialist economy and modify the official party line in accordance

¹¹ See A.V. Pantsov and Steven I. Levine, *Deng Xiaoping: A Revolutionary Life* (Oxford: Oxford University Press, 2015); John W. Garver, *China's Quest: The History of the Foreign Relations of the People's Republic of China* (Oxford: Oxford University Press, 2016); David S. Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography* (London and New York: Routledge, 1994), Chapter 7, "The Foundations of Reform, 1979–1984," 90–101, and Chapter 8, "Reaction, Readjustment and Retirement, 1985 and After," 102–114; Richard Baum, "The Road to Tiananmen: Chinese Politics in the 1980s," in *The Politics of China, 1949–1989*, ed. Roderick MacFarquhar (Cambridge: Cambridge University Press 1998), 340–371; Merle Goldman, and Roderick MacFarquhar, "Dynamic Economy, Declining Party-State," in *The Paradox of China's Post-Mao Reforms*, eds. Merle Goldman and Roderick MacFarquhar (Cambridge, MA: Harvard University Press, 1999), 3–29; Nicholas R. Lardy, *Foreign Trade and Economic Reform in China, 1978–1990* (Cambridge: Cambridge University Press, 1992), 2–16; Michael Dillon, *Deng Xiaoping: The Man Who Made Modern China* (London: I.B. Tauris, 2015), 326–356; David M. Lampton, *Following the Leader: Ruling China, from Deng Xiaoping to Xi Jinping* (Berkeley: University of California Press, 2014), 47–77; Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: The Belknap Press of Harvard University Press, 2011), 525–552; Gilbert Rozman, "China's Concurrent Debate about the Gorbachev Era," in *China learns from the Soviet Union, 1949–Present*, eds. Thomas P. Bernstein and Hua-yu Li (Lanham, MD: Rowman and Littlefield, 2010), 449–476; and Péter Vámos, "'Only a Handshake but no Embrace': Sino-Soviet Normalization in the 1980s," in Bernstein and Li, eds., *China learns from the Soviet Union, 1949–Present*, 79–106.

with Gorbachev's *perestroika*. Yet the problem was the scope, design, and structure of such reforms. Twice, in the late 1950s and again in 1966, Czechoslovak communists had launched economic reform programs, but the crushing in 1968 of the Prague Spring and the subsequent purges and so-called normalization effectively froze all attempts to implement viable and robust economic reforms. Czechoslovak leaders also studied the examples of Hungary, Yugoslavia, and the USSR after Mikhail Gorbachev took power in 1985, yet were still seeking a model they could design and implement that was both economically efficient and ideologically secure.

Since the establishment of the communist regime, there had been a perpetual quest to find a compromise model that would balance efficacy and ideology, social stability and productivity. Yet on every occasion when genuine economic reforms were studied, drafted, discussed, and about to be implemented, ideological and political considerations prevailed and the party leadership prioritized doctrinal purity. The key question was how to align necessary economic reforms so that they would leave the political structure intact and secure the stability of the Czechoslovak Communist Party's monopoly of power. To put it simply, just how much capitalism was it necessary to inject into the ailing Czechoslovak socialist economy in order to prevent it becoming obsolete and unable to compete in global trade, and how could this be done without eroding the core of the system: the leading role of the party and its key pillars, such as Marxist-Leninist ideology, and control by the regime over all levels of political and social infrastructure. This chapter therefore seeks to reconstruct the key opinions and conclusions on China's economic reforms and their potential applicability to Czechoslovakia that the country's leaders reached following their visits to the PRC from 1987 to 1989.¹²

THE TECHNOCRAT AND THE IDEOLOGUE

Lubomír Štrougal (b. 1924) replaced Prague Spring reformer Oldřich Černík as Prime Minister of Czechoslovakia on 28 January 1970. A member of the Communist Party's Central Committee since 1958, he had

¹² This chapter draws primarily on archival evidence from the Central Committee of the Czechoslovak Communist Party found in the National Archive of the Czech Republic, particularly the agenda of the Politburo of the Central Committee of the Czechoslovak Communist Party, Czechoslovak government files, and the personal archive of the General Secretary of the CPC, Gustáv Husák.

served as Minister of Agriculture (1959–1961) and then as Minister of the Interior (1961–1965), becoming secretary of the Central Committee in 1965 and deputy premier in 1968. Štrougal was considered a technocrat whose primary task was to focus on the economy and trade while preparing some version of reforms that would adapt Czechoslovakia to a new global age governed by “capitalist laws.”¹³ In his own words to Zhao Ziyang: “We used to think that capitalism would disappear tomorrow, and perhaps we were wrong.”¹⁴ In general terms, Štrougal’s visit was intended to raise mutual relations to a “qualitatively higher level”; consolidate and expand mutual knowledge and understanding through personal contacts between the Czechoslovak and Chinese prime ministers; create space for the speedier development of effective, mutually beneficial cooperation in trade and economic relations; and allow the participants to exchange views on current internal political issues, with an emphasis on economic and political reforms, and to discuss the current international political situation.¹⁵

When Štrougal visited Beijing in April 1987, assorted ministers responsible for metallurgy, heavy industry, and electrical engineering accompanied him. His brief was to negotiate with the Chinese side a specific program of scientific and technological cooperation, including the establishment of a permanent Czechoslovak-Chinese working group for engineering. The ministers were empowered to negotiate and conclude agreements on constructing or reconstructing coal, gas, and hydroelectric power plants and thereby ensure that Czechoslovakia would participate in the future development of the PRC’s fuel-energy sector. The ministers were also tasked to study the PRC’s investment plans for the construction

¹³ See Harris M. Lentz, ed., *Heads of States and Governments Since 1945* (London: Routledge, 1996), 217.

¹⁴ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People’s Republic of China from 24 to 29 April 1987 (18 May 1987), Appendix 6: Report on the conversation between Comrades Lubomír Štrougal and Zhao Ziyang, p. 5.

¹⁵ AMFACR, TD-S 1980–1989, i. 9, 151/112, N. 012,200/87–3, Report on the results of the official friendly visit of Prime Minister Lubomír Štrougal to the People’s Republic of China, Appendix I: Draft of resolution of the Czechoslovak Socialist Republic’s Government, p. 2.

and reconstruction of metallurgical plants and then establish a permanent working group on metallurgy. The Minister of Foreign Trade was further instructed to develop ideas for deepening economic relations with the PRC within the framework of the Czechoslovak-Chinese Commission for Economic, Trade, and Scientific and Technological Cooperation. The Minister of Finance was to prepare an intergovernmental agreement on the avoidance of double taxation, to be signed during a forthcoming visit to Czechoslovakia by Chinese Premier Zhao Ziyang scheduled for June 1987.¹⁶

Štrougal's visit was later evaluated as a "significant step forward in mutual relations, in both the political and the economic sphere." Agreements to establish a Sino-Czechoslovak Joint Company for Maritime Transport and to share documentation for the design and production of Tatra 815 trucks, together with the founding chart of the working group for metallurgy, were signed. The final review of the visit, which the Politburo members then discussed and approved, also mentioned that Štrougal's visit to Shanghai and Southern China allowed the Communist leaders "to gain deeper understanding of the ongoing economic reform... and experience various forms of production and economic activity in these areas."¹⁷ Štrougal met not only Zhao Ziyang, acting Chairman of the State Council and Secretary General of the Central Committee of the CCP, but also Deng Xiaoping, chairman of the Central Committee of China's Advisers, whom Czechoslovak documents always and accurately termed "the main player within the political leadership of the country," and Li Xiannian, President of the PRC.¹⁸

The concept of Special Economic Zones aroused particular curiosity and interest among the Czechoslovak leadership.¹⁹ On 28 April 1987, Štrougal therefore visited Shenzhen, where he talked to Li Hao, the

¹⁶ *Ibid.*, pp. 1–2.

¹⁷ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People's Republic of China from 24 to 29 April 1987 (18 May 1987), p. 19.

¹⁸ AMFACR, TD-S 1980–1989, i. 9, 151/112, N. 012,200/87–3, Report on the results of the official friendly visit of Prime Minister Lubomír Štrougal to the People's Republic of China, Appendix II, p. 2.

¹⁹ Chris Miller, *The Struggle to Save the Soviet Economy: Mikhail Gorbachev and the Collapse of the USSR* (Chapel Hill: University of North Carolina Press, 2016), 101.

mayor, asking him several questions related to the dynamics of Shenzhen's future development. He also inquired about the percentage of foreign capital in both trade and industry; the exchange rate; the rules governing overseas capital transfer from Shenzhen's joint ventures; and what regulations were applied to prices and credits.²⁰

Štrougal and Zhao described to each other their countries' respective current economic and political situations. In this context, they devoted particular attention to economic reforms, sharing their experiences and their visions of the future. According to Zhao, China's reforms were intended to create a "planned commodity economy," based on state ownership, supplemented by other forms of ownership such as collective, private, and joint ownership with a foreign owner. Key aims of the Chinese reforms were to strengthen the capacity of state-owned enterprises and expand their powers, foster the role of the market while reducing the function of planning, and to reform prices and the financial banking system. As Zhao told Štrougal, "our line is to build socialism in China with specific features," founded on the "people's democratic dictatorship, the leadership of the Communist Party, the socialist path of development, Marxist-Leninism and Mao Zedong's teachings, and the open door and reform policy."²¹

Zhao stressed that the rural reforms begun eight years earlier and based on the family contracts system had to date been highly successful, boosting agricultural production and industrial output and accelerating trade. Zhao argued that these reforms stimulated horizontal mobility, with more than 60 million people moving from the countryside to urban areas, while the standard of living in the villages had risen substantially. Zhao concluded that they were now about to proceed to a stage of urban reform based on varying forms of ownership, with the socialist

²⁰ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People's Republic of China from 24 to 29 April 1987 (18 May 1987), Appendix 3b: Meeting of Comrade Štrougal in Shenzhen with the Vice-Chairman of the People's government of Guangdong province and the Mayor of Shenzhen, Li Hao, 28 April 1987, p. 3.

²¹ *Ibid.*, p. 3.

one dominating, followed by other forms of ownership such as collective, individual, private, and foreign.²²

Zhao focused too on some problems in the current development of the Chinese economy. He highlighted the state budget deficit, due to excessive expenditure and reduced contributions from corporate profits, and the foreign trade deficit.²³ He further clarified how China had reformed the management of state-owned enterprises by extending their powers and raising the proportion of profits they were allowed to retain. According to Zhao, China sought to advance reform by separating businesses from state ownership, in order to boost their authority, responsibility, and profitability. China intended to implement two mechanisms: to rent out small state-owned enterprises; and to introduce a system of contractual liability based on a contract with the state in the case of medium-sized enterprises. Within two years, they aimed to extend these procedures and mechanisms across the entire country. Summing up, Zhao concluded that the Chinese leadership wanted to strengthen the role of the market and reduce the role of the plan in order to shrink the administrative management of businesses and rely more on market regulation.²⁴

Zhao proceeded to discuss price reforms. Initially, the Chinese leadership believed that price adjustments were essential for the market, so they had intended to make substantial price adjustments in the current year, but had then decided to proceed cautiously. Zhao admitted that fixing prices would be a slow process, whereas financial reform by contrast could be implemented faster, by cutting the scope of direct state subsidies and loans. Zhao reported that horizontal relationships between businesses were developing faster than expected, with joint ventures being formed, mutual cross-investments in some important sectors, and

²² AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People's Republic of China from 24 to 29 April 1987 (18 May 1987), Appendix 6: Report on the conversation between Comrades Lubomír Štrougal and Zhao Ziyang, p. 9.

²³ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People's Republic of China from 24 to 29 April 1987 (18 May 1987), p. 5.

²⁴ *Ibid.*, p. 6.

businesses bringing together different industries also emerging. Finally summing up, he emphasized that the implementation of Reform in the PRC was a complex and arduous task, so a transitional period was needed to ensure that the old and new elements of the system did not clash with each other.²⁵

Zhao also outlined the next steps in reform, namely, to strengthen the independent capacities of state-owned enterprises, extend their powers, and increase the share of profits they would be allowed to keep. Zhao and Štrougal agreed that the problem of regulating prices and wages seemed to be both the most complicated and most socially sensitive issue, and that from the perspective of the Czechoslovak Communist leaders, this was definitely the case. Zhao concluded that reducing state credits, cutting state subsidies, and reforming the financial system would be accomplished sooner and more easily than expected, but fixing and adjusting prices seemed to be a long-term and gradual process, to be undertaken one small step at a time. Zhao also stated that relations among businesses were, by contrast, developing faster than expected, with different enterprises bundling their forces, investing in each other, sharing production, and creating joint ventures.²⁶

Zhao stressed that the economic situation in the PRC was excellent: in 1986, the gross output of industry and agriculture had grown in value by 9.1 percent, and the national income had experienced a 7.5 percent increase. Even in the political arena, the situation was now “stabilized,” undisturbed by either the student unrest of late 1986 or the January 1987 personnel changes within the CCP leadership.²⁷ While cautioning Štrougal over the danger that “bourgeois liberalism” might result from accepting Western views rejecting the leading role of the party and socialism in general, Zhao stated that the Chinese party leadership would not fight liberalism by launching a nationwide campaign: instead,

²⁵ *Ibid.*, p. 6.

²⁶ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People’s Republic of China from 24 to 29 April 1987 (18 May 1987), Appendix 6: Report on the conversation between Comrades Lubomír Štrougal and Zhao Ziyang, p. 10.

²⁷ AMFACR, TD-S 1980–1989, i. 9, 151/112, N. 012,200/87–3, Report on the results of the official friendly visit of Prime Minister Lubomír Štrougal to the People’s Republic of China, Appendix II, p. 3.

it sought to educate and reeducate people over the longer term. Branding the effort to mount a campaign to fight liberalism as “leftist,” he then stated: “Of course, we do not want another Cultural Revolution.”²⁸

Štrougal emphasized that Czechoslovakia was interested in sharing with the PRC knowledge and experiences on how to pursue reform, highlighting how following the 17th Congress of the Czechoslovak Communist Party in 1986, the Czechoslovak leadership had concluded that their country needed a profound reform or transformation—effectively a translation of the Russian term “*perestroika*”—of its economic system, one that would be accompanied by “certain changes within the political system while preserving the leading role of the party.” One major task was to transfer the power to make decisions from central planning offices to enterprises, companies, or businesses.²⁹

Talking to Zhao, Štrougal was rather frank when recapitulating the history of Czechoslovak economic reforms since the 1950s, a time when the Czechoslovak economy had, he admitted, been among the most advanced and modern, until as the decade ended it was decided to implement certain reforms in central planning and directive management. These innovations, intended to weaken administrative centralism and strengthen economic performance, failed because they were “isolated from political reform.” The root of the problem lay in the unrealistic figures used in the badly designed third Five-Year Plan. Both the reforms and the Five-Year Plan were then canceled, leading to ensuing “chaos in the economy.”³⁰

In 1966, a second economic reform program had been approved and launched, but according to Štrougal, this was not interlinked with properly “managed” political reform. On the contrary, political developments slipped out of the party’s control, as a new party secretary was elected, “revisionist forces” took over the party’s leadership, and the party failed to manage the process.³¹ This political “turmoil” caused economic chaos, as

²⁸ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People’s Republic of China from 24 to 29 April 1987 (18 May 1987), Appendix 6: Report on the conversation between Comrades Lubomír Štrougal and Zhao Ziyang, p. 8.

²⁹ *Ibid.*, p. 4.

³⁰ *Ibid.*, p. 2.

³¹ *Ibid.*, p. 2.

price and credit controls were removed, huge economic imbalances began to appear, and institutions began showing disrespect for central planning bodies. The system came close to destruction in 1968, concluded Štrougal, forcing the new Communist leadership to call off the reforms in 1969 and return to strict central planning. Štrougal added that, although the new post-1968 leaders remained convinced of the need for economic reforms to introduce essential structural changes and adapt to the so-called scientific-technical revolution, the political logic of consolidating the party and its control over the governmental system had nonetheless triumphed over the imperative for profound economic reform.³²

Štrougal evaluated the 1970s critically, as a lost decade when the party leadership gradually tried to make incremental changes in state management, without bringing any visible improvement. By the mid-1980s, Czechoslovak communists had concluded—interestingly, Štrougal stressed the formulation “based on our own experience,” deliberately seeking to avoid giving the impression that they did so following orders from Moscow—that it was vital that they carry out an essential transformation of the economy. The centralized system whereby enterprises received direct orders telling them what they should produce and how had become non-rational, particularly given existing pricing, financial, and exchange rate policies. The party must, Štrougal argued, react pragmatically and flexibly, with one central body making key macroeconomic decisions, but enterprises empowered to make independent decisions on all issues that should be tackled at their own level. Štrougal did not, however, seem very confident that the leadership knew exactly what to do or how to set about it. He admitted that the process of transformation (*perestroika*) was very complicated, and though the Communist leadership seemed to be united, the rest of society was not fully prepared for this, adhering, according to Štrougal, to certain conservative and passive patterns of behavior and thinking, and therefore resisting at the micro-level the introduction of reforms.³³

Štrougal stressed that structurally, given his country’s lack of natural resources and consequent need to import oil, gas, non-ferrous metals, cotton, wool, and leather, almost all industries within the Czechoslovak economy were sensitive to reforms. Almost 5 percent of national income

³² Ibid., p. 3.

³³ Ibid., p. 3.

was dependent on foreign trade, leaving Czechoslovakia overly sensitive to international turmoil and abrupt internal changes. Štrougal emphasized that in the 1970s, Czechoslovakia had refrained from accepting credits and had maintained a favorable international balance of payments, as opposed to taking on excessive debts that it would be unable to repay. The anticipated reforms would restructure and modernize Czechoslovakia's industrial capacities, rationalize and narrow its existing broad range of operations, and develop new modern industrial sectors based on revolutionary scientific-technical innovations. In this context, the PRC was perceived as a potential partner for joint ventures and for outsourcing specific industrial enterprises where operating mass production facilities would be more profitable.³⁴

Štrougal's explanation of how economic reform would be linked to political reform was nonetheless rather vague, wrapped in routine clichéd communist jargon on strengthening alleged democratic traditions and developing people's democracy. The real problem causing great apprehension within the party was how to abandon uniform wage levels, something officials knew they must push if they sought genuine economic transformation. Štrougal put it simply: those who were willing to take greater responsibility would be rewarded and might receive higher remuneration.³⁵

Štrougal also focused on standard issues of trade exchange and economic cooperation. With the PRC in the process of "opening to the world," he believed that opportunities existed for something beyond simply normal "trade exchanges," raising the possibilities of close cooperation, specialization, sharing of expertise, and establishing joint ventures as potential avenues of future economic collaboration. Areas on which he placed particular emphasis included heavy machinery, textile production plants, construction machinery, lorries, and Chinese investment purchases of complete factories, including gas, electricity, and chemical plants.³⁶

³⁴ Ibid., p. 4.

³⁵ Ibid., p. 4.

³⁶ AMFACR, TD-S 1980–1989, Reports and news from the Embassy in Beijing, N. 012,388/87, Report on the official friendly visit of the Prime Minister of the Czechoslovak Socialist Republic Comrade Lubomír Štrougal to the People's Republic of China from 24 to 29 April 1987 (18 May 1987), p. 4.

When Štrougal met Deng, the two discussed economic affairs in more general terms. Deng recalled how Czechoslovakia had assisted with the industrialization of the PRC in the 1950s and suggested inviting back a group of Czechoslovaks involved in these enterprises, to see how it had changed over the past thirty years. Deng finished by stating: “The past is over and until reaching communism, there are no limits for the future.”³⁷ Deng noted how Czechoslovakia had outperformed China in terms of scientific and technical progress and industrial development, characterizing the PRC as a backward country, though “not in everything.”³⁸ He concluded that the PRC wished to build socialism with Chinese characteristics and that Czechoslovak socialism must likewise correspond to its own individual characteristics.³⁹ Štrougal replied that the Czechoslovak party leadership was closely following developments in the PRC, which was addressing problems, tasks, and goals resembling those involved in the Czechoslovak reforms, which must, he stressed, be anchored in socialism and respect the communist party’s leading role.⁴⁰

Štrougal bitterly confessed that Czechoslovak workers and technicians were more highly skilled and experienced than their Austrian or West German counterparts, but that per capita GDP in Austria and Germany was nonetheless significantly higher than in Czechoslovakia, a clear indication that his country must alter its management system and implement reforms. Czechoslovak leaders had, he admitted, underestimated the law of value, the role of monetary relations, and the impact of limiting people’s initiative. He stressed that while macro-structural changes must be planned from the center, technical development and innovation had to take place within an enterprise microstructure. While respecting strategic objectives, businesses must be able to decide what and how much they would produce, how much they paid their employees, and how they allocated resources and introduced new technologies. Štrougal also mentioned that the structure of Czechoslovak industry must be reorganized and simplified, with some production outsourced abroad if need be.⁴¹

³⁷ *Ibid.*, p. 4.

³⁸ *Ibid.*, p. 10.

³⁹ *Ibid.*, p. 11.

⁴⁰ *Ibid.*, p. 12.

⁴¹ *Ibid.*, p. 12.

The Czechoslovak Communist leadership clearly understood that any economic reforms would be closely intertwined with politics and ideology, as had been the case with the reforms of the late 1960s during the Prague Spring. The ruling elite, which came to power after 1968 thanks to Soviet military intervention and political support, was therefore extremely cautious in launching any reforms before closely analyzing the possible political consequences. In this context, it was interesting that Štrougal, unlike Czechoslovak Party Secretary Vasil Biľak (1917–2014), who visited one year later, brought up the failure of the late 1960s Czechoslovak economic reforms, which were halted following the 1968 Soviet invasion.

Biľak, a Slovak Communist politician, was from April 1968 until December 1988 one of the Presidium of the Central Committee of the Communist Party of Czechoslovakia (ÚV KSČ). A member of the Central Committee of the Communist Party of Slovakia (ÚV KSS) from 1955 to 1968 and again from 1969 to 1971, he also served as its secretary from 1962 to 1968, rising to General Secretary for eight months, from January to August 1968. Biľak was one of five hard-line Czechoslovak politicians who wrote a letter in August 1968 to Soviet leader Leonid Brezhnev, requesting outside military intervention to suppress rising dissent in Czechoslovakia. From November 1968 until December 1988, he again held the position of ÚV KSČ secretary, exercising significant influence on foreign policy and party ideology, and functioning as the most conservative “guardian” of Czechoslovak ideological purity.

Biľak’s visit to the PRC must therefore be analyzed in this context. Whereas Štrougal focused on the economy, Biľak was more concerned with the potential ideological and political consequences of these reforms, a position he made explicit in several statements when visiting Shenzhen in March 1988.⁴² While admitting that the development of the Shenzhen SEZ was advantageous for the PRC, he nonetheless thought it would be useful to learn about the comparable figures from other SEZs, to discover whether they had performed better or worse than Shenzhen. Biľak then concluded that “every good also brings evil.” So far, positive features seemed to have prevailed, with inflows of foreign investment, higher popular living standards, and better neighborhood facilities. “But

⁴² AMFACR, TD-S 1980–1989, i. 10, 151/112, Information on the friendly working visit of Politburo member and CC of the Czechoslovak Communist Party Secretary Vasil Biľak to the PRC, 22–26 March 1988 (11 April 1988), pp. 5–6.

what about the influence on the younger generation? The party must be prepared to face the negative consequences of this development. Good luck to the PRC. The PRC is a big country and it can afford experiments. In Czechoslovakia, we cannot afford such experiments. But it is worth examining these questions deeper and more thoroughly.”⁴³

Bílák conceded that price revisions were needed, given that the prices set for many items could not be justified economically, and Czechoslovakia was therefore set to launch a major overhaul of prices over the next three years. He also admitted that Czechoslovakia had too small a workforce, with 10 percent of factory machines not operating due to the shortage of workers, which precluded further extensive development. Bílák confessed that how best to address theoretical and practical questions of the open-market economy worried the Czechoslovak party leadership. He argued that while large economies, such as those of the Soviet Union or China, were free to experiment and could handle any negative local consequences of these experiments, a small country such as Czechoslovakia enjoyed less leeway and must avoid committing costly mistakes, meaning that it must be more cautious in “experimenting” with an open economy, for fear that disastrous consequences might otherwise ensue. Bílák highlighted the case of Yugoslavia and its high alleged indebtedness, unemployment, and inflation. He also stressed that Hungary, as a semi-open economy, likewise had to cope with social tensions. While conceding that communist Czechoslovakia currently lacked any scientifically and theoretically based solution, he concluded that his country did not view the market economy as a viable model for itself.⁴⁴

When President Gustáv Husák, who had served as CC CPC General Secretary from 1969 to 1987, visited Beijing in September 1988, meeting Premier Li Peng and briefing him on the progress of Czechoslovak economic reforms, he too highlighted the tricky question of wages and prices, openly admitting that at this juncture his country’s communist leadership was unwilling to adjust these for fear that such steps might

⁴³ AMFACR, TD-S 1980–1989, i. 10, 151/112, Information on the friendly working visit of Politburo member and CC of the Czechoslovak Communist Party Secretary Vasil Bílák to the PRC, 22–26 March 1988 (11 April 1988), p. 11.

⁴⁴ *Ibid.*

provoke social unrest and worker dissatisfaction.⁴⁵ Communist planners would have had to open such sensitive issues as substantial raises in the wages of skilled and trained professionals (and commensurate reductions in the pay of unskilled workers), retail price increases, and cutting state subsidies on food and other everyday consumer goods. Husák characterized price reform as a very serious issue, still in the preparatory stage, for which the Czechoslovak leadership wanted to gather and scrutinize as many blueprints and examples as possible, including that of China. According to Husák, price reform would first be introduced at the wholesale level, followed thereafter by retail prices, yet must be executed “very carefully” in order to escape negative political and social consequences. Husák admitted that the retail price structure constituted part of Czechoslovakia’s social welfare program, as people took for granted state subsidies of the prices of bread, meat, and staple foodstuffs. But with increases in wages now planned, these subsidies were no longer feasible, he added. Husák concluded that Czechoslovakia must proceed carefully and prudently in order to avoid the inflation and other negative consequences that Hungary or Yugoslavia had suffered when introducing price reforms, which had allegedly led to huge political and social problems.⁴⁶ Husák admitted that the leadership had not yet discovered any viable solution to the price dilemma, framing this as primarily a political rather than an economic problem.⁴⁷

By contrast with Zhao Ziyang, who eighteen months earlier had assured Štrougal of his near-boundless faith in China’s expanding output and domestic growth, in his exchanges with Husák Li Peng conceded

⁴⁵ AMFACR, TD-S 1980–1989, China, i. 10, 151/112, 013.632/88–2, Report on the results of the official friendly visit of Politburo CC CPC member and President of the Czechoslovak Socialist Republic Comrade Gustáv Husák to the People’s Republic of China, Appendix II: Report on the conversation of the President of the Czechoslovak Socialist Republic with the Chairman of the State Council of the PRC Li Peng, 4 September 1988, p. 8.

⁴⁶ AMFACR, TD-S 1980–1989, China, i. 10, 151/112, 013.632/88–2, Report on the results of the official friendly visit of the member of the Politburo CC Czechoslovak Communist Party and President of the Czechoslovak Socialist Republic Comrade Gustáv Husák in the People’s Republic of China, Appendix II: Report on the conversation of the President of the Czechoslovak Socialist Republic Comrade Gustáv Husák with the General Secretary of the CC CP of China Zhao Ziyang, 4 September 1988, p. 19.

⁴⁷ *Ibid.*, p. 20.

that China was struggling with an overheating economy, due to an excessively rapid pace of development, which had prompted higher demand for investment capital and rising inflation. China had therefore developed a five-year roadmap, in which price reform would not be a priority during 1989.⁴⁸

FALLOUT FROM TIANANMEN

While Czechoslovak Communist leaders were slowly deliberating the pros and cons of the Chinese and Soviet versions of *perestroika*, preparing to launch their own Czechoslovak version in 1990, the disruptive and tumultuous year of 1989 began suddenly and stormily. The sweeping pace of events in Poland, Hungary, and the PRC alike quickly impelled Czechoslovak leaders to switch their focus from simply reforming the economy to saving their regime from total collapse. In January 1989, they managed brutally to suppress a wave of demonstrations in Prague commemorating the twentieth anniversary of the immolation of the young student Jan Palach, while jailing one key representative of dissent, Václav Havel.

The Czechoslovak regime followed closely the anticipated normalization of Sino-Soviet relations and the consequent visit by Mikhail Gorbachev to Beijing in May 1989, which they perceived as a crucial breakthrough in Soviet bloc relations with the PRC. Simultaneously, however, the Chinese student revolt and rising tensions in the PRC alarmed Czech leaders.⁴⁹ As historian Mark Kramer has previously argued, the way the Chinese Communist leadership “defended socialism” through a bloody crackdown on the demonstrators provided an appealing

⁴⁸ AMFACR, TD-S 1980–1989, China, i. 10, 151/112, 013.632/88–2, Report on the results of the official friendly visit of Politburo CC CPC member and President of the Czechoslovak Socialist Republic Comrade Gustáv Husák to the People’s Republic of China, Appendix II: Report on the conversation of the President of the Czechoslovak Socialist Republic with the Chairman of the State Council of the PRC Li Peng, 4 September 1988, p. 9.

⁴⁹ Jan Adamec, Telegrams from Beijing: Czechoslovak Diplomats on the 1989 Tiananmen Square Protests, 2 June 2020, Wilson Center: Sources and Methods, <https://www.wilsoncenter.org/blog-post/telegrams-beijing-czechoslovak-diplomats-1989-tiananmen-square-protests>, accessed 1 August 2021.

template for the neoconservatives within the Czechoslovak Communist leadership.⁵⁰

The Czechoslovak regime, already under pressure from internal political opposition and the examples of the crumbling regimes in Poland and Hungary and feeling “abandoned” by Soviet President Mikhail Gorbachev’s “Sinatra doctrine,” whereby Soviet Eastern-bloc satellites were allowed to set their own separate courses, appeared to be desperately seeking political allies. With only the GDR and Bulgaria (which were facing identical regime challenges) left, the PRC leadership, which—unlike Gorbachev’s regime—was determined to use force to end turmoil and save its political system, seemed a perfect match. As Chinese leaders noted with approval, the Czechoslovak leadership not only supported the suppression of the students, but also offered vocal external support for China and the Chinese Communist Party. The intensity of mutual relations remained unchanged after June 1989; paradoxically, China’s crackdown on its student protests helped to cement mutual relations.

In addition, the Czechoslovak regime continued to restore direct military contacts between the Czechoslovak People’s Army and the Chinese People’s Liberation Army, proposing cooperation in the areas of combat training, military education, and exchanges of military specialists. In July 1989, Prague announced that it would send Milán Václavík, the Czechoslovak Minister of National Defense, to Beijing the following autumn to meet with his Chinese counterpart, Defense Minister Qin Jiwei.⁵¹ On 28 October 1989, Xu Xin, PLA Deputy Chief of Staff, made a reciprocal visit to Prague, where he met with Czechoslovakia’s president, the minister of defense, and the chief of the General Staff.⁵²

It was against this background that Jaromír Johanes, Czechoslovakia’s Minister of Foreign Affairs, visited Beijing in late October 1989, where he held meetings first with Chinese Foreign Minister Qian Qichen, his

⁵⁰ Mark Kramer, “Gorbachev and the Demise of East European Communism,” in *Reinterpreting the End of the Cold War: Issues, Interpretations, Periodizations*, eds. Silvio Pons and Federico Romero (London: Frank Cass, 2005), 185.

⁵¹ Národní archiv (NA) / National Archive (NA), f. KSČ-Ústřední výbor 1945–1989, Praha-sekretariát 1986–1989 (KSČ-ÚV-02/4) /file Czechoslovak Communist Party–Central Committee 1945–1989, Prague–Secretariat 1986–1989/, sv./issue 68 B, a.j./archival unit 106/b. 3, p. 2.

⁵² Garver, *China’s Quest*, 509. See also Zhang Liang, *The Tiananmen Papers*, eds. Andrew J. Nathan and Perry Link (New York: PublicAffairs, 2002), 420–421.

counterpart, and then with General Secretary Jiang Zemin and Li Peng, Chairman of the PRC State Council.⁵³ His final report focused once again on the Special Economic Zones, where he discerned “a considerable economic potential for the PRC.” He personally visited Shenzhen in Guangdong province, reporting home that 8,300 mixed corporations were operating there, with foreign direct investment totaling US\$4.2 billion. Johanes advised Prague that Czechoslovakia should be prepared to participate in the tenders Shenzhen’s local government was announcing for bidding, particularly in the fields of energy production and building power plants.⁵⁴ When talking to Chinese officials, Johanes stressed that Czechoslovakia was greatly interested in how the PRC had succeeded in attracting and exploiting foreign capital to develop its economy and industry. He also reported back that Chinese politicians had assured him that so far, the inflow and participation of foreign investment had not weakened the socialist principles underlying the Chinese economy, because these joint ventures were not run solely by foreign managers but also by representatives from the party and labor organizations.⁵⁵

When reporting on his conversation with Jiang Zemin, Johanes noted that Jiang had warned him that the West wished socialist countries to pursue reforms modeled on those of Poland or Hungary, meaning they would renounce socialism as their basic economic and political system. Jiang told him that the PRC was following closely developments in these states, but had no intention of interfering in their internal affairs. He also added that Chinese leaders were unclear how reforms in the USSR were currently developing.⁵⁶ According to Jiang, following June 1989, the West had campaigned unsuccessfully to isolate China, but Western politicians and businessmen had continued active communications with Beijing, although they had refrained from doing so overtly or publicizing these contacts.⁵⁷ Chapters elsewhere in this volume by Kai Yin Allison

⁵³ NA, f. Czechoslovak Communist Party–Central Committee 1945–1989, Prague–Politburo 1986–1989, i. 132, p. P138/89/k inf. 4, Information on the official visit of the Minister of Foreign Affairs of the Czechoslovak Socialist Republic Jaromír Johanes to the PRC, 31 October–5 November 1989 (8 November 1989), p. 1.

⁵⁴ *Ibid.*, p. 6.

⁵⁵ *Ibid.*, p. 4.

⁵⁶ *Ibid.*, p. 6.

⁵⁷ *Ibid.*, p. 7.

Haga (Chapter 6), Laurens Hemminga (Chapter 9), and Kazushi Minami (Chapter 10) suggest that Jiang's statement was accurate.

Johanes announced that in January 1990, Czechoslovakia would launch a new economic reform, known as the new economic mechanism, which would introduce market principles, decentralization, and greater freedom for businesses, while eliminating bureaucratic methods of management. These economic reforms would be coupled with broad democratization and the adoption of a new constitution, intended to foster socialism and renew the Leninist spirit. Johanes explicitly denied that these changes would mean the restoration of capitalism.⁵⁸

On 8 November 1989, Johanes signed his final report on this visit and sent it to the Politburo. Nine days later, the Czechoslovak special police forces brutally suppressed a peaceful demonstration in Prague, prompting a reaction from the enraged Czechoslovak public that swelled into the Velvet Revolution, sweeping away the communist regime in just a few weeks. On 29 December 1989, the playwright and former dissident Václav Havel was elected President. The much anticipated new economic reforms that had been so long in preparation were finally introduced, but in a completely different context, as capitalism and liberal democracy were swiftly restored, while both the communist regime and the leading role of the Communist Party collapsed within a few months. Relations between non-communist Czechoslovakia—later separated into the Czech Republic and the Slovak Republic—and the PRC embarked upon a completely new phase.

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⁵⁸ NA, f. Czechoslovak Communist Party–Central Committee 1945–1989, Prague–Politburo 1986–1989, i. 132, p. P138/89/k inf. 4, Information on the official visit of the Minister of Foreign Affairs of the Czechoslovak Socialist Republic Jaromír Johanes to the PRC, 31 October–5 November 1989: Record of conversation between Jaromír Johanes and Chairman of the PRC State Council Li Peng (8 November 1989), p. 2.

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Orchestrating and Mediating New China's International Reintegration: The U.S. Think Tank China Cluster in the 1980s

Priscilla Roberts

INTRODUCTION

Immediately after the establishment of full diplomatic relations between the United States and China on 1 January 1979, Harry Harding, a rising young star in political science at Stanford University, predicted:

Sino-American relations will not simply be a matter for the State Department or the White House to manage. In pluralistic America, large numbers of individuals and institutions will have their own dealings with China, outside the control of the American government. The moods and attitudes reflected in these private relationships may, in the long run, be as important for U.S.-China relations as the positions taken by the U.S. government on major policy issues. They will help form the perceptions that Chinese have

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of the United States and its people. And, through our democratic institutions, these moods and attitudes will also help shape future American policy toward China.¹

To a degree perhaps unparalleled in any other bilateral relationship between the United States and another power, that with China involved—at least on the U.S. side—a suite of overlapping non-governmental organizations (NGOs) staffed by individuals who believed that they personally or institutions with which they were associated possessed some kind of stake in steering policymaking so as to develop Sino-American understanding and exchanges and keep the relationship on an even keel. Their numbers were not large. As late as the early 1990s, the group of those—both within and outside government—based in the U.S. capital of Washington and its suburbs who could be considered China experts were small enough that approximately once a month, they could gather in each other's living rooms to discuss the current state of play on China. Most circulated through the interlocking worlds of government service, academia, the major think tanks and policy institutes, and several large philanthropic foundations that not only funded initiatives and studies but in many cases proposed and participated in these ventures.

The official policymaking bureaucracy on China was in practice supplemented by a set of formally non-governmental organizations that helped to conceptualize, manage, and publicize the burgeoning links between China and the United States. The most prestigious was undoubtedly the Council on Foreign Relations (CFR), a New York-based foreign policy think tank founded in 1920, in the aftermath of the Paris Peace Conference that followed World War I. The Council's exclusive and well-connected membership was dominated by prominent elite figures from the interconnected arenas of policymaking, corporate business, academe, and the media. It hosted lectures, seminars, and conferences whose proceedings were usually kept confidential, though the resulting publications were often influential in terms of policy outcomes and setting the prevailing intellectual climate. The Council's priorities embraced the entire range of U.S. foreign policy, albeit with what was still in the 1980s a decidedly Eurocentric focus. In the late 1950s and 1960s, the CFR brought out first one and then an entire series of books by leading China

¹ Harry Harding, Jr., *China and the U.S.: Normalization and Beyond* (New York: China Council of the Asia Society and Foreign Policy Association, 1979), 32.

experts that effectively suggested resuming relations with mainland China was desirable, even inevitable.

The National Committee on U.S.-China Relations (NCUSCR) was, by contrast, far more specialized, focusing almost exclusively on the developing U.S. relationship with China. Founded in 1966, in its first fifteen years, it was largely run by academics, with China experts such as John King Fairbank of Harvard and A. Doak Barnett of the Brookings Institution dominating its board of directors. Over time, business elements would become more prominent in its affairs. Though ostensibly neutral on the issue of U.S. recognition of China, in reality, the NCUSCR had a marked leaning in favor of reopening relations.² To a lesser degree, the same was true of the China Council of the elite Asia Society. When first founded in the late 1950s, the parent body had declined even to concern itself with the politically sensitive and hence dangerous subject of China, considering this too hazardous. As China became ever more salient during the 1960s, the Asia Society decided to set up its own China Council, its membership drawn largely from China experts already active in the CFR and NCUSCR. In 1974, soon after China and the United States established liaison offices—half-way houses to full diplomatic relations—in each other's capitals, the NCUSCR decided to devote itself to handling the growing number of short-term exchanges between the United States and China, while handing over responsibility for its related research, publications, and educational programs to the Asia Society's China Council.

Much of the funding for the activities of both organizations, as well as many CFR programs, came from the major philanthropic foundations, especially the Ford Foundation, the Rockefeller Foundation and the associated Rockefeller Brothers Fund, and the Carnegie Corporation. Joseph E. Slater, the Ford Foundation's executive director, helped to instigate and gave significant financial support to the CFR's 1960s set of China studies volumes. During the 1950s and 1960s, the Ford Foundation was largely responsible for encouraging the development of academic centers of China and Asia across the United States, institutions that nurtured a new generation of scholars, many of whom spent stints of varying length

² Norton K. Wheeler, *The Role of American NGOs in China's Modernization: Invited Influence* (New York: Routledge, 2013), Ch. 2.

within the official policy bureaucracy.³ The CFR was also a frequent recipient of Rockefeller funding, not least because David Rockefeller of the Chase Manhattan Bank was chairman of its board of directors from 1970 to 1985. In 1973, Rockefeller was also the driving force behind the foundation of the new Trilateral Commission (TC), an elite organization with a membership extending across Western Europe, North America, and Japan, that sought to discuss and coordinate high-level policies on global issues. David's elder brother John D. Rockefeller III, the founder of the Asia Society, which was heavily dependent upon personal donations from him as well as Rockefeller Brothers Fund money, was also the most important early source of funds for the NCUSCR.

Other non-governmental organizations—the venerable Brookings Institution, the Foreign Policy Association, the more recent Colorado-based Aspen Institute and the Center for Strategic and International Studies in Washington, the Committee for Scholarly Communication with the People's Republic of China, the Kettering Foundation, the Luce Foundation, and the Lingnan Foundation, among others—also played their part in developing and managing Sino-American relations. So too at the level of economic relations did the National Council for U.S.-China Trade (later the U.S.-China Business Council), established in 1973 with strong encouragement from the U.S. government.⁴ Yet the circle of China experts remained quite restricted and in some ways markedly homogeneous, as its personnel circulated from bases in academe, through spells in government, to fellowships, sabbaticals, or special positions in think tanks, where retired diplomats often embarked upon second careers and government officials who had lost office also frequently took congenial refuge.

³ For details, see John M. H. Lindbeck, *Understanding China: An Assessment of American Scholarly Resources* (New York: Praeger, 1971), esp. 39–85; also Warren I. Cohen, “While China Faced East: Chinese-American Cultural Relations, 1949–71,” in *Educational Exchanges: Essays on the Sino-American Experience*, eds. Joyce K. Kallgren and Denis Fred Simon (Berkeley, CA: Institute of East Asian Studies, University of California, 1987), 48–50; and Francis X. Sutton, “American Philanthropy in Educational and Cultural Exchange with the People's Republic of China,” in *Educational Exchanges: Essays on the Sino-American Experience*, eds. Joyce K. Kallgren and Denis Fred Simon (Berkeley, CA: Institute of East Asian Studies, University of California, 1987), 100–103.

⁴ Christian Talley, *Forgotten Vanguard: Informal Diplomacy and the Rise of United States-China Trade, 1972–1980* (Notre Dame, IN: University of Notre Dame Press, 2018).

After the limited opening of Sino-U.S. relations following the 1972 visit of President Richard Nixon to China and the signing of the Shanghai Communiqué, American China-watchers and the organizations in which they clustered had been preparing the ground and pushing for full normalization. By 1974, the new relationship was largely stagnating, with the United States unwilling to abandon Taiwan completely, as Chinese officials demanded, while policymakers in Beijing were not prepared to risk any dramatic policy initiatives, as they readied themselves to maneuver in the bitter succession struggle widely and correctly expected to follow the demise of the ailing Chairman Mao Zedong, the founding and pre-eminent leader of the PRC.

Following Mao's death in August 1976, prominent CFR figures and other China experts began actively lobbying the new administration of President Jimmy Carter, which took office in January 1977, for full normalization of relations. Carter's Secretary of State, Cyrus R. Vance, and Zbigniew Brzezinski, his national security adviser, were both long-time CFR members with an interest in China. The China expert Michel Oksenberg of Michigan University also joined Brzezinski's staff at the National Security Council. Richard Holbrooke, another CFR member, became Deputy Assistant Secretary of State for East Asian Affairs. Immediately their appointments were announced, all received letters from the prominent China specialist A. Doak Barnett, who had produced several CFR studies on China and advised on policy during Carter's campaign, urging that the new administration move to normalize relations with China as soon as possible, ideally by reaching some kind of accommodation on policy toward Taiwan that would allow the island to continue to run its own affairs indefinitely. Barnett was also an adviser to Democratic Senator Edward Kennedy of Massachusetts, a leading advocate of normalization.⁵ Like Barnett, the legal scholar Jerome A. Cohen, another close Kennedy adviser, who accompanied the senator to China, used the pages of the CFR's influential journal, *Foreign Affairs*, to suggest potential strategies for finessing Taiwan's status.⁶

⁵ See numerous files in Boxes 109 and 110, A. Doak Barnett Papers, Columbia University Library, New York, NY.

⁶ Jerome Alan Cohen, "A China Policy for the Next Administration," *Foreign Affairs* 55: 1 (October 1976): 20-37; also Materials on Meeting, Jerome A. Cohen, "A New China Policy for the Next Administration," 14 September 1976, Folder 2, Box 484, Council on Foreign Relations Papers, Mudd Manuscripts Library, Princeton University,

With many in Congress unwilling to abandon Taiwan completely, much depended upon whether Deng Xiaoping would be willing to prioritize access to U.S. capital, markets, and economic expertise and an effective alignment against the extension of Soviet power into Vietnam and Southeast Asia, over the symbolically important but perhaps less immediately urgent issue of Taiwan. Ultimately, geopolitical, strategic, and economic considerations prevailed. How much this decision owed to U.S. informal persuasion through unofficial channels must remain unclear. What is known is that for many years, Chinese leaders had been reading *Foreign Affairs* and they appreciated its role as a sounding board for the U.S. foreign policy elite.⁷ Shared apprehensions over perceived growing Soviet assertiveness around the world, especially in Africa and Southeast Asia following North Vietnam's conquest of the South in 1975, were a major factor driving the decision by both U.S. and PRC officials to move to full normalization in December 1978. As Shu Guang Zhang and Hua Zheng describe (Chapter 4), to strengthen China's economy sufficiently to enable it to resist Soviet pressure, China needed access to U.S. technological expertise, which in turn required relaxation of many official U.S. restrictions on what American firms could export to China.

With normalization accomplished, America's China experts switched gears, moving from efforts to encourage progress toward normalization while educating Americans about China, to measures intended to help Chinese elites—students, educators, officials, and businessmen—familiarize themselves with and become integrated into the institutional infrastructure of the predominantly non-communist international system. Neither Americans nor Chinese possessed deep understanding of the organization and operations of the other country's political, economic,

Princeton, NJ [hereafter CFR Papers]; and Jerome A. Cohen, "Ted Kennedy's Role in Restoring Diplomatic Relations with China," *NYU Journal of Legislation and Public Policy* 14: 2 (May 2011): 347–355.

⁷ The earliest mainland Chinese reference to *Foreign Affairs* I have unearthed to date was in 1954, when the New China News Agency reported that Walter H. Mallory, the CFR's executive director, had concluded in an article that "Americans [we]re unpopular in Asia," where Southeast Asian peoples regarded the United States as "the leading imperialist power" and "Uncle Sam [a]s a selfish, overbearing, malevolent figure whose altruism is but a cloak for sinister designs." New China News Agency broadcast, 18 January 1954, in *Foreign Broadcast Information Service Daily Report: Foreign Radio Broadcasts* 12 (19 January 1954): AAA17.

and social system and structure. Enlightening Chinese leaders, administrators, technocrats, and intellectuals on how the United States functioned internally and internationally became as great a preoccupation as providing Americans with information on China. As they focused increasingly on Reform, modernization, and innovation, Chinese bureaucrats, professionals, scholars, and students were equally keen to access U.S. technology, skills, expertise, and networks. The development of personal and institutional links and exchanges between top- and medium-level elites in the United States and China, following almost thirty years of virtual non-communication between the two countries, was a second high priority in the relationship.

The practical cooperation among the various China-related U.S. organizations was apparent when, as Lu Sun describes (Chapter 3), less than a month after normalization, Chinese Vice-Premier Deng Xiaoping arrived in Washington on a visit intended to seal the relationship. The Asia Society's China Council provided a press information package summarizing his political career and outlook and gave a special briefing for journalists prior to his arrival. In Washington, the Asia Society joined with the Foreign Policy Association, the NCUSCR, and the Committee on Scholarly Communication with the PRC in sponsoring a reception for Deng at the National Gallery of Art. Regional China Councils in Texas and Washington state were particularly active in providing background material on his visit, as he toured Atlanta, Houston, and Seattle.⁸ Winston Lord, the CFR's president, had worked under Henry Kissinger from 1969 to 1977 at the National Security Council and as director of the U.S. State Department's Policy Planning Staff. During Deng's visit, Lord and Kissinger breakfasted with him and the new Chinese ambassador, Chai Zemin. The two Americans "could see then that Deng Xiaoping was growing in self confidence," an impression reinforced during lengthy conversations with Deng when the two of them visited China in spring later that year, touring Beijing, Xi'an, and Xinjiang. Lord recalled that much in these "talks centered on his plans for China's economy, as well as Soviet relations and the usual international topics." When they first met

⁸ Richard C. Bush, "Teng Hsiao-P'ing Comes to Washington: The Man and His Mission," January 1979, File 814 Asia Society 1978-1979, Box 121, Series Grants, Rockefeller Brothers Fund Papers, Rockefeller Archives Center, Tarrytown, NY [hereafter RBF Papers, RAC]; and *Asia Society: Annual Report 1978-1979*, File 822 Asia Society 1991, Box 123, Series Grants, RBF Papers, RAC.

him between 1974 and 1976, Kissinger and Lord had not thought particularly highly of Deng, but by early 1979 they had decided “he clearly was an impressive human being.”⁹ With normalization accomplished, the CFR finally heard from its first mainland speakers: Zhang Jingfu, the Chinese Minister of Finance, describing “China’s Economic Situation,” on 12 July 1979; and Zhang Wenjin, the Vice Foreign Minister, addressing “Sino-American Relations under the Present International Situation,” on 21 March 1980.¹⁰

KEEPING EXPECTATIONS MODEST

Among U.S. China experts, however, optimism was in short supply. Indeed, one initial preoccupation was to moderate American expectations of how the new relationship would develop and what it might accomplish. In a late 1978 overview of China’s foreign affairs, Harding argued that the major thrust of Chinese foreign policy was to counter what Chinese leaders perceived as the Soviet threat facing them. Economically, China was now aggressively pursuing modernization, so was prepared to accept direct foreign investments and foreign loans, to engage in joint ventures, and to benefit from foreign advice and expertise. A variety of U.S. economic and technological concessions had apparently persuaded the Chinese government to become more flexible on Taiwan. Chinese leaders were also traveling far more extensively than in the past and employing more friendly rhetoric toward Japan, Western Europe, and the United States. Yet Harding believed that significant opposition to China’s new foreign policies still existed within the Chinese political elite. “It would be imprudent, therefore, to assume that China’s active, global, and flexible foreign policy is irreversible.”¹¹ The likely outcome of Deng Xiaoping’s modernization policies was likewise perceived as problematic. Kenneth Lieberthal of Swarthmore College, surveying the Chinese political scene, noted moves toward greater openness in China, but warned

⁹ Winston Lord, oral history, 28 April 1998, 380, 387–388, 414, Association for Diplomatic Studies and Training Foreign Affairs Oral History Project, <https://www.adst.org/OH%20TOCs/Lord,%20Winston.pdf>, accessed 28 August 2021.

¹⁰ See Folder 2 Records of Meetings 1979–1980 Volcker-Zhang, Box 489, CFR Papers.

¹¹ Harry Harding, “Chinese Foreign Policy in the Post-Mao Era,” December 1978, File 815 Asia Society 1978–1979, Box 121, Series Grants, RBF Papers, RAC.

that the novel changes were still controversial, and hard-line supporters of Mao might well try to reverse them.¹²

Soon afterward, the Asia Society China Council and the Foreign Policy Association co-published an essay by Harding on the prospects for future Sino-U.S. relations, which would, he advised, require deliberate and constant attention from American policymakers, since “there is scarcely an issue in Asia of concern to [the United States]—from Japan’s export policy to the continuing turbulence in Indochina—in which China is not a significant factor. Systematic and concentrated attention to China’s role in all such issues will be increasingly important for Washington.” Warning Americans to “avoid unrealistic or sentimental expectations about Sino-American relations,” Harding urged them to “develop a broader, deeper, and more balanced understanding of China.” Seeking to discourage overly optimistic illusions about the future of the relationship, given that the Chinese political situation was still fluid and might well shift, he concluded on a cautionary note:

We need to realize the degree to which extensive relations with the West remain a sensitive issue in China. We must appreciate that Chinese attitudes toward modernization are complex and ambivalent, and that the disruptive consequences of modernization may once again become an emotional political issue in China. We need to avoid relations with the Chinese that are patronizing or demeaning, let alone exploitative. We must recognize that China and the United States will continue to have divergent views on important international issues. And, above all, we need to understand that the Chinese must make their own choices about their country’s future—that it is unlikely that a modernized China will end up looking “just like us.”¹³

Nine months after normalization, the Asia Society China Council entrusted a team of six well-known American scholars led by Harding, now at the Brookings Institution, to produce a volume of “essays for an informed lay audience” on China’s broad international role and policies. Propelled by a Rockefeller Foundation grant, in August 1981, the group sedulously explored not just American and Chinese perspectives

¹² Kenneth Lieberthal, “Chinese Politics in 1978: Modernization and the Ghost of Mao,” November 1978, File 815 Asia Society 1978–1979, Box 121, Series Grants, RBF Papers, RAC.

¹³ Harding, *China and the U.S.*, quotations from 32.

but also those of other countries, attending successive meetings in Tokyo, Singapore, New Delhi, and the Bellagio Center in Italy. They discovered that their foreign counterparts “often regard[ed] China with less fascination and optimism than do Americans.”¹⁴ Harding later recounted how, while U.S. allies (Taiwan excepted) “universally” supported the warming in Sino-American relations since the late 1960s, they also tended to find American views of China overly “emotional, idealized, and optimistic.” European and Asian critics, while welcoming better Sino-American relations as enhancing international stability, often felt that the United States had tilted too far toward China, particularly in terms of substantial arms sales to Beijing. Europeans in particular feared that building up the Chinese military might jeopardize détente with the Soviet Union, while Asian nations were often apprehensive that China might subject them to “military and diplomatic coercion.” U.S. allies also believed that, in their “euphoria” over the “new relationship with China,” the United States had “overstated our common interests with China and disregarded the remaining differences in foreign policy objectives and sociopolitical structure.” They felt Americans would be wise to view China “as an ally, but not yet a friend.” Outsiders believed that Americans over-emphasized China’s claims to “exceptionalism,” while “vastly exaggerat[ing] China’s military and economic significance, not only now, but for the foreseeable future.” In addition, Asian states felt that “Washington [paid] too little heed to China’s long-term ambitions in the region.” Lastly, many American allies deeply resented the fact that the United States rarely consulted them in advance over its policies toward China and Asia.¹⁵

The volume Harding eventually produced took a carefully nuanced view of China’s existing and future commitments. Michael Hunt of the University of North Carolina and Lieberthal both pointed out that China’s commitment to economic modernization was not necessarily decisive, and some at least of these policies might well be reversed. They also highlighted the existence within China of both internal opposition

¹⁴ “Evaluation of the China Council of the Asia Society submitted to the National Endowment for the Humanities,” November 1982, File 827 Asia Society 1983, Box 123, Series Grants, RBF Papers, RAC.

¹⁵ Harry Harding, “Viewpoints of America’s Friends and Allies,” in *China Policy for the Next Decade: Report of the Atlantic Council’s Committee on China Policy*, eds. U. Alexis Johnson, George R. Packard, and Alfred D. Wilhelm, Jr. (Boston, MA: Oelgeschlager, Gunn and Hain, 1984), 85–110, quotations from 87, 93, 105, 106.

and structural obstacles to the reform effort. Hunt and Steven I. Levine of American University in Washington, DC, both thought it quite likely that, as modernization boosted its military as well as economic stature, China would become more assertive in Asia and beyond, and might also become “a tough economic competitor” to some of its neighbors. Levine and Harding both expected that China would “pursue its own independent way in foreign policy,” avoiding alliances or even close alignments with other powers, and fundamentally seeking to avoid “becom[ing] too dependent on any foreign protector or benefactor. Instead, China will try to preserve its international independence and initiative to the greatest degree possible.” Harding concluded:

Americans must therefore accept a complex relationship with China that contains elements of both tension and cooperation. We must learn how to live with a large measure of ambiguity in the relationship, manage the differences between the two countries, and build constructively on the similarities. Such a relationship will require a more sophisticated diplomatic strategy, and a more adequate public understanding of China, than we have enjoyed in the past.¹⁶

From the early 1980s onward, facilitating these objectives by enhancing elite and public understanding of China while integrating that country into the international system, became major objectives for much of the American China-watching community.

DEVELOPING EXCHANGES AND NETWORKING

Before normalization, networking, exchanges, and opportunities for mainland Chinese even to meet American counterparts had been decidedly restricted. After the death of Mao Zedong, the arrest of the Gang of Four, and the gradual return to power of Deng Xiaoping, a definite thaw began in China’s relations with the outside world. By 1980, the momentum of exchange programs was increasing steadily. In December 1980, six NCUSCR directors toured China, spending a week visiting institutions in Beijing and meeting officials from the Ministries of Education, Culture, and Foreign Affairs. They returned struck by the “warmth

¹⁶ Harry Harding, ed., *China’s Foreign Relations in the 1980s* (New Haven, CT: Yale University Press, 1984), quotations from ix–x, xii–xiv.

of our reception” and Chinese eagerness to expand exchanges.¹⁷ In 1980, the Committee established a Scholar Orientation Program, financed by the Rockefeller Brothers Fund, which not only assisted Chinese scholars seeking to enter degree programs or negotiate visiting affiliations with U.S. universities or academic institutions, but also helped them adjust to American life once they arrived.¹⁸ In June 1987, for instance, the National Committee took thirteen young Chinese academics and students who had just come to the United States on a four-week orientation tour of the country, that included a visit to the CFR to attend a seminar on “U.S.-Soviet, Sino-Soviet, and U.S.-China Relations.”¹⁹

From the late 1970s throughout the 1980s, the National Committee continued to arrange short-term visits by Chinese and Americans, in groups and individually, to each other’s countries. Some were private, self-funded visits by assorted Americans, others government-sponsored tours under the auspices of the educational and cultural exchange agreements negotiated by the Chinese and American governments. Chinese visitors often spoke at NCUSCR-sponsored events, and also attended conferences and seminars co-hosted by organizations including the Asia Society, universities, and assorted civic groups. Throughout the 1980s, such exchanges increased, in some cases resulting in strong ties between Americans and their Chinese counterparts at both the individual and institutional level.²⁰ These links in turn soon proved vital in mediating

¹⁷ Rosen to Board of Directors, National Committee on U.S.-China Relations, 29 January 1981, Itinerary, and Gordon Bennett to Rosen, 4 January 1981, File 3779 National Committee on U.S.-China Relations 1978–1981, Box 632, Series Grants, RBF Papers, RAC.

¹⁸ “Scholar Orientation Program, “7–6 September 1980, and “A Report on the Scholar Orientation Program,” January 1981, File 3779 National Committee on U.S.-China Relations 1978–1981, Box 632, Series Grants, RBF Papers, RAC; see also the issues for the late 1970s and 1980s of *U.S. China Relations: Notes from the National Committee*; for a retrospective, see “Scholar Program Reunion a Big Hit in Beijing,” *U.S. China Relations: Notes from the National Committee* 22:2 (Summer 1993): 8; and also Wheeler, *The Role of American NGOs in China’s Modernization*, 34.

¹⁹ Materials on Studies Program Seminar, 12 June 1987, Folder 1 Seminars 1986–1988, Box 261, CFR Papers.

²⁰ See, e.g., Arthur H. Rosen to Russell A. Phillips, Jr., 9 March 1979, 23 May 1980, 18 February 1981, and the Annual Reports of the National Committee on U.S.-China Relations for 1977–1978, 1979, File 3779 National Committee on U.S.-China Relations 1978–1981, Box 632, Series Grants, RBF Papers, RAC. For an overview of National

the often difficult relationship between the two countries and helping to interpret each side to the other.

As Chinese students and scholars began to appear in appreciable numbers at U.S. universities, some for relatively short visits, others to enter degree programs, intellectuals and scholars from Chinese policy institutes tentatively began making genuine contact with their Western opposite numbers. At the Davos European Management Forum in early February 1979, Andrew Shonfield, former director of studies at Chatham House, and William Diebold of the CFR met with Qian Junrui, Director of the Institute of World Economics in Beijing, and Luo Yuanzheng, the Deputy Director. Since neither man knew anything about this Institute—nor, he later confessed, did Lord—they discussed it for around an hour, learning that the Institute, part of the Chinese Academy of Social Sciences (CASS) in Beijing, had a staff of 400, around half of them economists, who studied the economies of countries outside China, with three divisions, one focusing on the capitalist world, a second on the Soviet bloc, and the last on the Third World. During the Cultural Revolution, the Institute had endured severe persecution, with most of its personnel consigned to agricultural labor and some killed or jailed. Since “the gang of four had considered it almost treasonous to think that one could learn from the rest of the world,... no serious research had been done in the Institute during that time.” The Institute was not just an academic organization, but also advised sections of the government. Diebold and Shonfield tried but failed to discover whether it also provided—or at least intended to furnish—statistics for such international organizations as the United Nations, World Bank, International Monetary Fund, General Agreement on Trade and Tariffs, and the like.

The two Western scholars also sought to discern the extent of Chinese government control over the Institute’s output. “Shonfield put a very neatly phrased question about the importance of a sense of independence on the part of people who are expected to do good research,” and Qian’s answers gave “the impression that he quite understood the seriousness of Shonfield’s point.” According to Diebold, Qian several times “stressed the importance for the Chinese of ‘learning’ from the rest of the world, which had had a much more varied and far fuller experience than China had had.” Diebold interpreted this as “a way of saying that he knew that

he needed to have people who did not wear ideological blinders but he never got too close to that tender core.” Diebold and Shonfield suspected this was Qian and Luo’s first trip outside China. When told the pair hoped to visit the United States later that year, Diebold promptly suggested that they must visit the Council on Foreign Relations, “because... we would have a great deal to talk about.” When the Chinese further suggested an exchange of personnel, Diebold cautiously “answered... in general terms, saying we would always be glad to see people from their Institute but leaving vague anything more ambitious.” He also sent them a Council report and agreed to provide them with a list of institutes they might consider visiting in the United States. Lord later commented: “We would want to see them on any tour they made here but not be the principal host, I would think.”²¹

On similar lines, in May 1979, Robert Legvold, a CFR research fellow and director of its Soviet Project, responded to a request from the Chinese Mission to the United Nations, on behalf of two members of the Beijing Institute of International Studies, Xue Mou-xong and Wang Ceng-zhuang, who were traveling in the United States “to familiarize themselves with universities and research organizations working on international affairs” and sought to learn more about the CFR. Legvold added them to the mailing list of publications from two major CFR projects. In an hour-long conversation with Legvold, the two men claimed that their institute was “a non-governmental organization,” but in “the next breath, they made it plain that the Institute exists largely for the Ministry of Foreign Affairs.” Rather than writing for publication, they undertook research for the ministry and possibly other government and party organizations. The Institute, which focused particularly on the worldwide implications of Soviet policies, had seven geographical and functional departments, employing around 100 personnel. Xue and Wang stressed how severely the Cultural Revolution had disrupted their work, leaving the Institute closed from 1969 to 1973, and their eagerness to “learn from the West.” Lord was away when this meeting took place, but followed up on his return, expressing the CFR’s pleasure in opening

²¹ William Diebold, Memorandum to File, 8 February 1979, Folder 8 China 1975–1979, Box 50, CFR Papers; another copy in Folder 13 China, Box 305, CFR Papers; and also notes by Diebold, “Beijing File,” n.d., Folder 7, Box 51, CFR Papers.

communications with the Institute and sending each man copies of recent Council publications.²²

Further connections followed. In 1983, Zi Zhongyun, one of the Institute's senior researchers, who became one of China's most highly regarded historians, spent several months at Princeton University, working on Sino-American relations during the Truman and Eisenhower administrations. Robert J. Myers of the New York-based Council on Religion and International Affairs, which organized a joint conference with the Institute in June 1983, asked Lord to meet with her, which he duly did.²³ Initially, the CFR was nonetheless somewhat wary of offering mainland visitors any formal attachment. In 1980, it received a request for a visiting affiliation from Jiang Enzhu, a Chinese diplomat and scholar in his early forties who had been awarded a Rockefeller Foundation International Affairs Fellowship. Jiang, a European specialist who became China's ambassador to Britain in the late 1990s and subsequently headed the Chinese Liaison Office in Hong Kong, eventually spent two years based at the Brookings Institution and Harvard University. CFR officials were somewhat concerned that his full-time presence at the Council might inhibit discussion at meetings, but favored inviting him to at least some events.²⁴ Such fears were eventually dispelled. Two years later, CFR director of studies Paul Kreisberg noted that in summer 1983, the CFR would be providing office space on an unofficial basis for Lin Zhimin, a visiting Chinese Fulbright scholar attached to the Wilson Center in Washington, DC, who would be pursuing research and writing during the "languid summer" months, when interested CFR Studies Committee members might wish to approach him.²⁵

²² Robert Legvold, "Memorandum to File," 1 May 1979, and Patricia Gesell to Xue Mou-xiong, Wang Ceng-zhuang, 24 May 1979, Folder 7, Box 51, CFR Papers; duplicates of this correspondence are in Folder 13, Box 305, CFR Papers.

²³ Robert J. Myers to Lord, 12 January 1983, and Lord to Myers, 1 February 1982, Folder 3, Box 52, CFR Papers.

²⁴ Andrew Pierre to Winston Lord, 15 April 1981, and other materials on Jiang Enzhu, Folder Fellowship Program 1976–1986, Box 943, CFR Papers.

²⁵ Paul Kreisberg, circular letter, 17 May 1983, Committee on Studies Files, Folder 5, Box 9, CFR Papers.

THE CHINA COUNCIL OF THE ASIA SOCIETY: THE EARLY 1980S

For the CFR, China and even Asia overall constituted just one among several global priorities. China was, by contrast, the fundamental *raison d'être* of the Asia Society's China Council. Following Deng's visit, China became a high-profile topic. During 1978 and 1979, the Asia Society sponsored a total of 28 China-related events, including five conferences and two conference panels, lectures, briefings, films, and cultural events, as well as a dinner for Leonard S. Woodcock, the first U.S. ambassador to the People's Republic.²⁶ An evaluation of the Asia Society China Council's programs, prepared for the National Endowment for the Humanities to support a grant proposal that year, described its range of activities, highlighting how the national and regional China Councils functioned as "a network designed to transmit new ideas and current information—while keeping bureaucracy to a minimum." While its thematic projects on "Sino-American Relations in Historical Perspective," "Chinese and Americans: Mutual Perceptions," "Values and the Chinese Revolution," and "The Chinese Developmental Experience and its Global Implications" were continuing, China Council efforts to provide expertise and briefing materials for both print and broadcast media were viewed as equally significant. So too were the activities of the nine "semi-autonomous regional councils," each of which received \$5,000 annually from the Asia Society's National China Council while developing its own programs. The China Council cooperated with a numerous national and regional educational and international affairs organizations, often co-sponsoring events with these. It organized a series of lectures, conferences, seminars, symposia, and films. It also employed two research fellows, who worked on assorted Council projects while producing studies of their own. The grant proposal was successful; the Luce Foundation, Rockefeller Foundation, and Rockefeller Brothers Fund likewise continued their financial backing for the China Council.²⁷

²⁶ *Asia Society: Annual Report 1978–1979*, File 822 Asia Society 1981, Box 123, Series Grants, RBF Papers, RAC.

²⁷ Oxnam, "Evaluation of the China Council of the Asia Society," September 1979, File 816 Asia Society 1979, Box 121, Series Grants, RBF Papers, RAC; and *Asia Society: Annual Report 1978–1979*, File 822 Asia Society 1981, Box 123, Series Grants, RBF Papers, RAC.

Reviewing its programs over the three years from spring 1979 to spring 1982, the China Council described how normalization affected its operations, declaring:

This radical transformation has reinforced and broadened the need for informative and balanced public education on China. As more Americans see China for themselves, the demand for information about how the country works grows. As more American institutions establish continuing relationships with Chinese counterparts, differences in psychology and communication become more obvious. As our ties with China proliferate, the necessity of defining America's fundamental interests vis-à-vis the PRC and Taiwan increases. As China's foreign relations become more complex, the more difficult it is to appreciate the implications for US-China relations.

The China Council did not necessarily anticipate smooth sailing in Sino-U.S. relations, warning that, “[w]ithout enhanced public understanding, the early 1980s could result in another episode where disappointment and frustration replace optimism and promising expectations.” Council leaders also felt a thematic refocusing was required, since thanks to normalization, “Americans faced a new set of China policy issues, different from those on which the Council had tried to stimulate an informed public debate.” Their new agenda was intended to “enhance a humanistic understanding of China on the part of American audiences” through activities embracing themes related to the rapid evolution of China, focusing upon changes and developments both domestically and in terms of China's international role.²⁸

With normalization a *fait accompli*, and increasing numbers of Americans wishing to learn about China, whether as businessmen, tourists, or as students or teachers, the China Council expanded its publications program, seeking to interpret China to Americans. In 1979, the Asia Society China Council staff produced the first of what became several editions of *The People's Republic of China: A Basic Handbook*, designed to equip those visiting or teaching with fundamental introductory knowledge of the country, while directing them to further, more specialized

²⁸ “Evaluation of the China Council of the Asia Society submitted to the National Endowment for the Humanities,” November 1982, File 827 Asia Society 1983, Box 123, Series Grants, RBF Papers, RAC.

readings.²⁹ The Council also hosted numerous events—43 in all—with a strong China emphasis, including lectures, films, and exhibitions. The regional China Councils, numbering 12 by mid-1980, with new councils established in Southern New England and Georgia, organized many additional events.³⁰

Meanwhile, the China Council's regular press briefing papers continued, many produced by well qualified younger scholars and China specialists, including Nicholas R. Lardy, an economist from Yale University; David M. Lampton of Ohio State University; and Robert A. Scalapino of the University of California at Berkeley. The China Council even prided itself that from the mid-1970s onward, it had become "a broker between scholars and journalists," one that "disseminate[d] the insights of specialists to media professionals who have the means to re-disseminate that information to millions of Americans," thereby "enrich[ing] coverage of China and broaden[ing] the definition of what is newsworthy."³¹ These materials were likewise made available to members of the Asia Society's newly established Business Council and corporate members.³² The China Council itself began publishing an annual collection of these briefings, a series continued for twenty years, with the final volume appearing in 2000.³³

²⁹ James R. Townsend and Richard C. Bush, *The People's Republic of China: A Basic Handbook* (New York: Council on International and Public Affairs and China Council of the Asia Society, 1979); James R. Townsend and Richard C. Bush, *The People's Republic of China: A Basic Handbook*, 2nd ed. (New York: Council on International and Public Affairs and China Council of the Asia Society, 1981); Richard C. Bush and James R. Townsend, *The People's Republic of China: A Basic Handbook*, 3rd ed. (New York: Council on International and Public Affairs and China Council of the Asia Society, 1982); and Steven M. Goldstein, Kathrin Sears, and Richard C. Bush, *The People's Republic of China: A Basic Handbook*, 4th ed. (New York: Council on International and Public Affairs and China Council of the Asia Society, 1984).

³⁰ *Asia Society: Annual Report 1979–1980*, File 822 Asia Society 1981, Box 123, Series Grants, RBF Papers, RAC.

³¹ "Evaluation of the China Council of the Asia Society submitted to the National Endowment for the Humanities," November 1982, File 827 Asia Society 1983, Box 123, Series Grants, RBF Papers, RAC.

³² *Asia Society: Annual Report 1979–1980*, File 822 Asia Society 1981, Box 123, Series Grants, RBF Papers, RAC.

³³ Robert B. Oxnam and Richard C. Bush, eds., *China Briefing, 1980* (Boulder, CO: Westview, 1981), and *China Briefing, 1981* (Boulder, CO: Westview, 1982); and Richard C. Bush, ed., *China Briefing, 1982* (Boulder, CO: Westview, 1983).

The scale of these activities intensified following the China Council's move to Washington in summer 1979, where it was closer to policy-makers. In October 1980, the Council hosted its first seminar by a Chinese scholar, when Professor Qian Junrui, Director of the Institute on World Economics at CASS, who had now made his way to the United States, spoke on "China's Current Economic Readjustment." Nor were the China Council's enterprises restricted to Washington. The first public program held in the Asia Society's elegant new Manhattan headquarters on Park Avenue was a two-day symposium in May 1981 on "U.S.-China Relations: An Agenda for the 1980s," an event co-sponsored by the CFR and the American Assembly. The China Council and the New York-based WNET television network collaborated on a seven-part series on China's traditional civilization and its relationship to contemporary China; the Council also assisted in planning a 26-part radio series. Meanwhile, the regional China councils likewise sponsored a wide variety of programs, including several conferences, resource guides, and oral history projects. The Asia Society's Business Council hosted a talk by Roger Sullivan, vice president of the National Council for U.S.-China Trade, on recent economic developments in China and how these would affect future Sino-American commercial relations.³⁴

Noting that increasing direct contacts between Americans and Chinese had "created a demand for information on the obstacles of communicating with Chinese" and how to minimize these, in autumn 1980, the China Council began work on a publication that would "examine the Chinese language, interpersonal relations, communicating through interpreters, and the process of negotiation." The intention was to "expose readers to some basic humanistic dimensions of Chinese civilization" while "serv[ing] a practical purpose." This guide appeared three years later and included several perceptive essays by Americans with relatively lengthy experience of dealing with China, including two NCUSCR staff

³⁴ *Asia Society: Annual Report 1980-1981*, File 824 Asia Society 1982, Box 123, Series Grants, RBF Papers, RAC; also "Regional China Council Annual Program Reports April 1980-March 1981," File 821 Asia Society 1981, Box 122, Series Grants, RBF Papers, RAC; and "Evaluation of the China Council of the Asia Society submitted to the National Endowment for the Humanities," November 1982, File 827 Asia Society 1983, Box 123, Series Grants, RBF Papers, RAC; on collaboration with the CFR and American Assembly, see China Council Staff, memorandum, 28 January 1981, Oxnam to Sullivan, 2 February 1981, Oxnam to Lord, 17 February 1981, and Oxnam to China Council Members and Associates, 17 April 1981, Folder 1, Box 570, CFR Papers.

members, a lawyer, and two academics, as well as a Chinese Ministry of Foreign Affairs official who had escorted many visiting Americans.³⁵

CHINESE OFFICIALS AT WILLIAMSBURG, 1980

Top mainland Chinese representatives also began attending exclusive meetings of the international great and good. In 1971, Robert W. Barnett, head of the Asia Society's Washington Center (and Doak Barnett's elder brother), established an annual three-day meeting of influential elite figures from North America, Europe, and non-communist Asia. Organizational responsibility was divided between Barnett, Saburō Ōkita of the Japan Economic Research Center, and the Indonesian intellectual Soedjatmoko, then his country's ambassador to the United Nations. Meeting on a same-time-next year basis, and discouraged from accepting outside social engagements, between 40 and 60 individuals spanning the economic, political, and intellectual worlds came together to discuss the current state of Asia and the world. The Williamsburg Conference meetings were unusual for the time, in that they gave Asians ample opportunity to express their views on an equal footing with their Western equivalents. Since the mid-1970s, the organizers had made overtures to the Chinese, suggesting that they might wish to send one or more representatives. Although these offers had always been politely declined, they noted that in 1979, "the Chinese letters of regret seemed to be particularly appreciative for having been invited." The conveners therefore decided to renew the invitation, while also making efforts to include representatives of Vietnam in the near future.³⁶ In 1980, for the first time, three Chinese representatives attended Williamsburg X, held in Williamsburg, Virginia, its original location: Han Xu, Director General of the Chinese Foreign Ministry's Department for Western Hemisphere and

³⁵ "Evaluation of the China Council of the Asia Society submitted to the National Endowment for the Humanities," November 1982, File 827 Asia Society 1983, Box 123, Series Grants, RBF Papers, RAC; and Robert A. Kapp, *Communicating with China* (Chicago: Intercultural Press, 1983).

³⁶ Barnett, "Jottings: Williamsburg IX: The Cost and Function of Military Establishments and Their Impact on the Welfare and Security of the Pacific Region, Baguio, The Philippines, October 25–28, 1979," File 8 Asia Society Williamsburg IX 1979, Box 13, George W. Ball Papers, Mudd Manuscripts Library, Princeton University, Princeton, NJ.

Oceanic Affairs; Hu Zhengqing of the Beijing-based Institute of International Studies; and Cao Guisheng, Political Counselor at the Chinese Embassy in Washington from 1975 to 1981.³⁷

Among over two dozen position papers prepared for this conference was one by Han Xu on "Peaceful Coexistence in the Asia Pacific Region." Predictably, this encapsulated the official Chinese government position on international affairs, that China was committed to the "Five Principles of Peaceful Coexistence" first enunciated at the April 1955 Bandung Conference of Non-Aligned Nations, and that Soviet "hegemonism" and Vietnamese aggression against both Cambodia and Thailand represented major threats to world peace.³⁸ Han left other participants unconvinced. Paul C. Warnke, a leading negotiator of the second Soviet-American Strategic Arms Limitation Treaty (SALT II), effectively rejected Han's suggestion of a united front, stating that "it would be most unwise for the United States to accept any invitation to put together a global alliance to confront the Soviet Union." He believed any U.S. effort "to build up Chinese military strength for that purpose" would in practice be counter-productive, as it would "precipitate a desperate Soviet attempt to expand its influence in Asia by threatened or actual use of its military power."³⁹ Several other speakers, including the journalist Derek Davies, editor of the *Far Eastern Economic Review*, Ghazali Shafie, Malaysia's Minister of Home Affairs, and Guy J. Pauker of the RAND Corporation, warned that China's own involvement in Vietnam and Kampuchea, especially its continuing support for the brutal Khmer Rouge, disturbed them.⁴⁰

In the first ever such exposition at Williamsburg by a mainland Chinese delegate, Han Xu described his country's situation. He outlined China's commitment to both economic and political reform, to make China "step by step" into "a modernized democratic socialist state." This would require "a prolonged period of international peace during which the

³⁷ See complete list of "Williamsburg Participants/Observers 1971-1981," File 824 Asia Society 1982, Box 123, Series V3 Grants, RBF Papers, RAC; another copy may be found in File 9 Asia Society-Williamsburg Meeting XI, 1982, Box 13, Ball Papers.

³⁸ Han Xu, "Peaceful Coexistence in the Asia Pacific Region," *Day After Tomorrow in the Pacific Region, 1981* (Washington, DC: Asia Society and Worldview, 1981), 26-28.

³⁹ Paul C. Warnke, "Security in East Asia: Militarization or Normalization?," *Day After Tomorrow in the Pacific Region, 1981*, 28-29.

⁴⁰ Derek Davies, "The Crisis of Kampuchea," Ghazali Shafie, "Problems in Southeast Asia: Hopes and Fears," and Guy J. Pauker, "China and Southeast Asia," Box 95, Mark Gayn Papers, University of Toronto Library.

modernization program would be carried out.” As expected of any official Chinese representative, he condemned Soviet policies in Afghanistan and Soviet support for Vietnam’s invasion of Kampuchea as examples of “hegemonistic expansion.” Kiichi Saeki, president of Japan’s Nomura Research Institute, who had recently visited China, suggested that China’s massive population and extensive territory could be either “political assets or economic liabilities.” To make them the former, China would have to upgrade both its “management system and its infrastructure,” expensive and time-consuming processes. Economic development could only be implemented gradually. Saeki likewise expected Sino-Japanese relations to “improve steadily, but not very quickly.” In response, Han Xu admitted that China had made mistakes over the past thirty years, but stated that “readjustments” were now in train, with the objective of sustaining a 6 to 7% growth rate that would raise per capita GNP from around 250 dollars to 1,000 dollars by 2000. China would welcome foreign investment, but would be cautious in utilizing outside credits and loans, keeping these within the limits of its capacity to repay them.⁴¹

Heated discussions with few holds barred ensued, as Malaysian, Indonesian, and Japanese participants expressed extremely frank apprehensions that China’s growing power and influence in Asia was as much to be feared as Soviet expansionism, while emphasizing their resentment of continuing Chinese support for subversive movements in their own countries. In rebuttal, Cao Guisheng rather defensively stated that China’s relations with Asian communist parties were “a legacy of history” that was not “incompatible” with “friendly relations” with governments in the region. He then doggedly affirmed that the “behavior of Vietnam and the hegemonistic intentions of the Soviet Union” represented real threats to Southeast Asia, menaces that should be resisted, and sought to defend China’s policies in Kampuchea, demanding the withdrawal of Vietnam’s troops there and claiming that Vietnam and the Soviet Union had “fabricated rumors” of Khmer Rouge atrocities to justify their own intervention.⁴²

⁴¹ Barnett, “Jottings: Williamsburg X: Coexistence of Differing Systems in the Pacific Region: Styles and Mechanisms for Crisis Management,” 24 December 1980, Box 95, Gayn Papers.

⁴² Barnett, “Jottings: Williamsburg X: Coexistence of Differing Systems in the Pacific Region: Styles and Mechanisms for Crisis Management,” 24 December 1980, Box 95, Gayn Papers.

Developing sustainable relationships was an incremental process. Discussing a forthcoming top-level Trilateral Commission Sino-Western joint meeting, in 1980, Russell Phillips of the Rockefeller Brothers Fund was uncertain just how “free-flowing” the discussions would be. He urged the inclusion in both the Western and Chinese groups of individuals who were already quite familiar with some from the other side, remarking: “Only over time are the Chinese loosening up somewhat in such discussions, a process also helped if they have prior good acquaintance with those with whom they are speaking.”⁴³ The exposure of Chinese officials to outspoken comments and criticism offered by leading figures in a strictly private setting undoubtedly marked a step in this direction. Even though Han, Cao, and Hu had largely regurgitated the official Chinese government line, all participants, it seemed, considered the long-desired attendance of mainland representatives at a Williamsburg meeting an encouraging development.⁴⁴

THE COUNCIL ON FOREIGN RELATIONS: THE CHINA FACTOR, 1980–1981

To mark the first decade since the resumption of Sino-American relations, in 1980, the CFR established a group, in collaboration with the New York-based American Assembly, to produce a volume of essays covering China’s relations with the rest of the world, that would also form the centerpiece of a major conference, intended to “examine the consequences for the United States on other aspects of our foreign policy which will flow from the pursuit of our bilateral relations with the Peoples’ [sic] Republic of China.” The organizers sought “to weigh the trade-offs which are involved in order to determine what, if any, limits may have to be introduced into the development of those bilateral Chinese-American undertakings.” This would involve comprehensive consideration of the

⁴³ Charles B. Heck to George Franklin and François Sauzey, 25 August 1980, Folder 779 Peking Delegation Questionnaires Etc., Box 69, Trilateral Commission Papers, RAC [hereafter TC Papers, RAC].

⁴⁴ Barnett, “Jottings: Williamsburg X: Coexistence of Differing Systems in the Pacific Region: Styles and Mechanisms for Crisis Management,” 24 December 1980, Box 95, Gayn Papers. For additional background on Wanandi, co-founder of Indonesia’s Centre for Strategic and International Studies, see Jusuf Wanandi, *Shades of Grey: A Political Memoir of Modern Indonesia 1965–1998* (Singapore: Equinox, 2012).

strategic, economic, and military implications of U.S. relations with China for its broader policies. With a presidential election looming in November 1980, this enterprise would also contribute to a general reassessment of U.S. foreign policy, in light of recent events in Iran, Afghanistan, and elsewhere, undertaken in part with the idea that it might interest members of the incoming presidential administration.⁴⁵ The Rockefeller Foundation contributed \$35,000 to this conference, the Luce Foundation \$50,000, and the Ford Foundation \$25,000.⁴⁶

By the time the meeting was held, a conservative Republican administration headed by President Ronald Reagan had taken power in Washington, meaning that what had been something of a consensus on U.S. policy to China now faced significant questioning. Winston Lord, who thought the change “healthy in the long run,” described “the mood on China” at this gathering as “one of lowered expectations compared to the euphoria of just two years ago.” Among the speakers were the Chinese ambassador, fresh from an interview with Reagan; Singapore’s ambassador to the United States, who described how the ASEAN states viewed both China and Vietnam, then still at loggerheads over Cambodia and Soviet ties with Vietnam; and Senator John Glenn of Ohio, who “came out in favor of limited defensive arms sales to China.” Soon afterward, a short report summarizing this conference was widely distributed to “key people around the country” and some beyond the United States, around 100,000 recipients in all, most of them influential opinion-makers at the national or regional level.⁴⁷ Lord described it as “essentially a ‘mood piece,’ reflecting what he believed to be a healthy sense of not expecting too much from the relationship with China.”⁴⁸ Slightly more than two years after full normalization, Lucian Pye of MIT likewise believed that “China policy is still very much at the level of mood and tone” rather than concrete specifics.⁴⁹

⁴⁵ William H. Sullivan to Martha R. Wallace, 6 May 1980, Folder 1, Box 570, CFR Papers.

⁴⁶ Sullivan to David Bell, 22 May 1980, Laurence D. Stifel to Sullivan, 7 July 1980, Henry Luce III to Sullivan, 14 July 1980, and Sullivan to Henry Luce III, 23 July 1980, Folder 1, Box 570, CFR Papers.

⁴⁷ Lord, draft form letter, 24 March 1981, Folder 1, Box 570, CFR Papers.

⁴⁸ Notes of Studies Group Meeting, 30 April 1981, Folder 3, Box 120, CFR Papers.

⁴⁹ Lucian W. Pye to Lord, 5 June 1981, Folder 2, Box 234, CFR Papers.

Later that year the full papers were published, in a volume edited by the RAND staffer Richard H. Solomon, who had served under Kissinger on the Policy Planning Staff. Authors included a range of well-known China specialists, including Oksenberg, William E. Griffith, Scalapino, Harding, and Pye, as well as the journalist and Soviet specialist Strobe Talbott, the Harvard economist Dwight H. Perkins, and William H. Hyland, a former Central Intelligence Agency (CIA) official and National Security Council staffer. Published not long after Reagan took office, when it was becoming clear that his administration would probably be less unfriendly to China than initially supposed, the anthology—described by Lord as “the best policy-oriented book on China in recent years”—sought to assess the impact of the new American relationship with China upon the global scene and provide the basis for a “considered rather than a reactive approach” to the development of U.S.-China relations. Overall, the authors wished “to replace our fantasies about this remote and fascinating country with a realistic appraisal of what China and the new Sino-American relationship mean for the U.S. and the world.”⁵⁰

Summarizing their findings, Solomon remarked on how, seen at close range, China “now seems far more limited in its international outreach than in decades past when we knew it through the distant chanting of strident revolutionary slogans,” with an impact “more modest than we might have imagined in past days of confrontation.” The Sino-American relationship was “still fragile,” with factional political infighting continuing in China, raising the possibility that China might at some point repudiate its tilt toward the Western world. On the American side, there were dangers that policy might drift, or that American businessmen would find commercial dealings with China too difficult and frustrating to deserve the effort. The status of Taiwan remained “a potentially explosive issue for both China and the United States.” In the United States, no clear idea existed of just what role the “China factor” should play in American foreign policy. Most contributors argued “that while a cooperative U.S.-PRC relationship is an important supplement to a more flexible American foreign policy, we cannot abrogate to the Chinese responsibility for the pursuit of U.S. interests in Asia or elsewhere. China is still a regional power of modest influence; and our allies look to the United States to

⁵⁰ Richard H. Solomon, ed., *The China Factor: Sino-American Relations & the Global Scene* (New York: Prentice Hall, 1981), 9; and Lord to Robert Kapp, 1 June 1981, Folder 1, Box 570, CFR Papers.

play the primary role in maintaining a strategic balance against the Soviet Union and in minimizing the impact of the Sino-Soviet rivalry on Asia and other regions.”⁵¹

The volume highlighted how American attitudes toward China had mellowed during the 1970s, but also warned that public opinion on China was volatile, easily influenced by the most recent turn of events, and marked by a high level of ignorance. Solomon feared, indeed, “that the enthusiasm of the American public for contact with China will lead to unrealistic expectations and possible disappointments.”⁵² Overall, the authors recommended a modest level of Sino-U.S. cooperation on defense and foreign policy issues, but suggested that facilitating China’s economic development and encouraging educational and cultural exchanges represented the most promising avenues for promoting closer Sino-U.S. relations. Optimistically, they concluded that, if the United States demonstrated “foresight and judgment,... the further development of America’s dealings with the People’s Republic of China can be a long-term investment in a relationship that will contribute to a stabilizing balance in Asia and in global affairs.”⁵³

TRILATERAL MEETING IN BEIJING, MAY 1981

Significantly, the American Assembly report was included in the briefing materials for a May 1981 meeting in Beijing of the Trilateral Commission, established by David Rockefeller in 1973 to bring together Japanese, West European, and North American elites on the model of his brother’s Williamsburg conferences. One purpose of this new body was to integrate Japanese elites into the largely Western-dominated international power structure. The economist and future Japanese foreign minister Saburō Ōkita, one of Williamsburg’s three co-conveners and, as Wendy Leutert highlights, a close adviser to leaders in Beijing (Chapter 7), was among the small group of European, Japanese, and American representatives who gathered in summer 1972 at Rockefeller’s home, to set up this organization. A tripartite institution, with headquarters in Paris, New York, and Tokyo, it enrolled a wide swathe of members of the

⁵¹ Solomon, ed., *The China Factor*, 6–9.

⁵² *Ibid.*, 13–14, quotation from 14.

⁵³ *Ibid.*, 17–47, quotations from 46, 47.

great and good of North America, Europe, and Japan, including politicians, businessmen, labor leaders, academics, and NGO representatives. Brzezinski of Columbia University became the Commission's founding North American director, and Rockefeller's college room-mate George Franklin, CFR executive director from 1953 to 1971, its North American secretary. In Rockefeller's words, the organization offered elites from the world's three major non-communist economic powerhouses opportunities to meet together and examine "such vital fields as international trade and investment; environmental problems, control of crime and drugs; population control; and assistance to developing nations."⁵⁴

In 1977, with China's leadership situation still decidedly in flux, the TC explored the possibility that Western countries might cooperate with communist states on issues of global scope, viewing China as one potential partner in such areas as earthquake prediction and oil exploration, development, and production, and eventually trade. The Commission believed that the ascendancy to power in China since Mao's death of a group of relatively "pragmatic" leaders and bureaucrats who placed economic progress, modernization, and industrialization above ideology would tend to facilitate such collaboration, so long as this seemed in China's interests.⁵⁵

After normalization, with the PRC apparently set decisively on the track of economic modernization, Chinese developments ranked higher on the Commission's agenda. By summer 1979, Japanese Trilateralists had begun sounding out Chinese officials on holding a possible Trilateral meeting in Beijing, an event Georges Berthoin, head of the European Trilateral Commission, was particularly eager to arrange.⁵⁶ By this time, Franklin was considering setting up a Trilateral task force focused on "China and the Trilateral Countries," that would scrutinize the "strengths and weaknesses of trilateral policies" toward China, and

⁵⁴ David Rockefeller, *Memoirs* (New York: Random House, 2002), 416–418, quotation from 416; and Dino Knudsen, *The Trilateral Commission and Global Governance: Informal Elite Diplomacy, 1972–82* (London: Routledge, 2016), Ch. 1. For a selection of highly critical conspiratorial views of this organization, see Holly Sklar, ed., *Trilateralism: The Trilateral Commission and Elite Planning for World Management* (Boston: South End Press, 1980).

⁵⁵ Trilateral Commission, *Task Force Reports: 9–14* (New York: New York University Press, 1978), 145–179.

⁵⁶ Franklin to All and Sundry, 12 June 1979 (2 memoranda), 29 November 1979, Folder 774 Post-Meeting China File, Box 68, TC Papers, RAC.

whether the assorted Trilateral states adequately coordinated their separate dealings with China. “Do they sometimes work at cross-purposes? What improvements are needed?”⁵⁷

In May 1980, a Japanese Trilateral delegation visited Beijing, where an “enthusiastic” Deng Xiaoping granted them a two-hour interview. The Chinese People’s Institute of Foreign Affairs (CPIFA), which handled most such encounters of top-level policymakers, extended an invitation to the Trilateral Commission to meet in Beijing in May 1981, for “an informal exchange of views” on both “domestic and international questions” with several top Chinese officials.⁵⁸ The Chinese suggested that a number of officials from their own government should join some of the meetings. Tadashi Yamamoto, Secretary of the Japanese Trilateral Commission and Director of the Japan Center for International Exchange, who spearheaded the negotiations, recommended that at least initially this encounter should be treated as “an ad-hoc meeting” that did not necessarily denote a “beginning of regular meetings.” It could nonetheless serve as “a new opening for continuous contact with the Chinese friends including possibilities of task force consultations.”⁵⁹

Seeking to broaden what they feared might be an exclusive Chinese focus upon relations with the Soviet Union, Yamamoto and his colleagues suggested that the approaching Trilateral session should also feature “the relationship with ASEAN, future of a Pacific Basin Community, an overall North–South issue, relationship with non-allied states[,] OPEC and the Middle East.”⁶⁰ The Chinese agreed it was desirable to discuss “a broad range of issues,” since this would enable each group to gain a better understanding of the other’s position. The Trilateral group explained that their delegation was unlikely to present a united front on all issues, to which the Chinese replied this might likewise hold true for their

⁵⁷ Franklin, “China and the Trilateral Countries,” 17 December 1979, Folder 774 Post-Meeting China File, Box 68, TC Papers, RAC.

⁵⁸ Tadashi Yamamoto, Memorandum for the Chairmen’s Meeting, 14 September 1980, Folder 816 Tokyo Chairmen’s Meeting 1980 Discussions on China, Box 71, TC Papers, RAC. For further background, see also Charles B. Heck to Yamamoto, 27 June 1980, Folder 779 Peking Delegation Questionnaires Etc., Box 69, TC Papers, RAC.

⁵⁹ Yamamoto, Memorandum for the Chairmen’s Meeting, 13 September 1980, Folder 816 Tokyo Chairmen’s Meeting 1980 Discussions on China, Box 71, TC Papers, RAC.

⁶⁰ Yamamoto to Wang Chuliang, 16 September 1980, Folder 775 China 1981, Box 68, TC Papers, RAC.

own representatives, especially since they would be drawn from diverse sectors.⁶¹ Trilateral representatives “made it very clear [to the Chinese] that holding this conference is not to be regarded as anti-Soviet.” In February 1981, Franklin even told Peter Ruof of the Ford Foundation: “The meeting seems to fit very well into current Chinese thinking—not only in terms of reaching out to the Trilateral regions, but also in terms of loosening up debate in China to some extent through such ‘informal’ exchanges including mixed Chinese groups from several different departments and institutions.”⁶²

The U.S. delegation included David Rockefeller; Franklin and Charles Heck of the Trilateral Commission; Gerald Curtis, head of Columbia University’s Weatherhead East Asia Institute; Gerard Smith, a former head of the U.S. Arms Control and Disarmament Agency; Oksenberg, a past National Security Council aide; Robert Ingersoll, former assistant secretary of state for East Asian and Pacific Affairs; the trade union leader Glenn E. Watts, a vice president of the AFL-CIO; T. A. Wilson, chairman of Boeing Aircraft Company; and Bruce McLaury of the Brookings Institution. Before leaving for China, several—Rockefeller among them—received special briefings from James Lilley of the National Security Council, a future ambassador to China and former CIA representative in Beijing; John H. Holdridge, assistant secretary of state designate for East Asian and Pacific Affairs; Michael Armacost, Holdridge’s deputy; Charles W. Freeman, Jr., director of the State Department’s China Desk; and Charles Neuhauser, a CIA specialist on East Asia. Lilley briefly evaluated each of the leading Chinese participants in this meeting, describing them as “on the whole, a very good group.” He informed the U.S. delegation of recent White House meetings between Vice-President George Bush, President Ronald Reagan, and Ji Chaozhu, a Chinese diplomat and close adviser to Deng Xiaoping. The Americans had “tried to get across the fact that we understood China’s problems and that we did want an important long term relationship, including a security relationship.” Taiwan excepted, the Chinese generally appreciated Reagan’s hard-line foreign policy, especially its anti-Soviet emphasis. Facing strong Chinese

⁶¹ Yamamoto to Chairmen and Deputy Chairmen, 29 September 1980, Folder 775 China 1981, Box 68, TC Papers, RAC; and also Heck to David Rockefeller, 3 October 1980, Folder 779 Peking Delegation Questionnaires Etc., Box 69, TC Papers, RAC.

⁶² Franklin to Peter Ruof, 10 February 1981, Folder 774 Post-Meeting China File, Box 68, TC Papers, RAC.

opposition to continuing U.S. arms sales to Taiwan, the Americans had told Ji that these transactions were mandated under the Taiwan Relations Act, but that they were willing to handle them “discreetly.”⁶³

Neuhauser of the CIA summarized “the situation in China as moderately favorable, but argue[d] strongly that [the United States] not take China for granted.” He focused upon the recent economic slowdown in China, highlighting the “chaotic” lack of coordination in the Chinese economic reform program. He did, however, believe “that even if the program is not working in the short-term, it is very much for the longer-term health of the Chinese economy.” Probably, however, it would “take ten years or more to really get the reform and modernization program on track.” Deng Xiaoping had shown great skill in remaining close to several political groups advocating different economic strategies: the “heavy industry advocates” associated with the petroleum industry; the reformers led by Zhao Ziyang; and a third group who supported only very gradual progress. There was, however, no “significant group arguing for a return to the practices of the Cultural Revolution.” Fear of the Soviet Union was the dominant principle of Chinese foreign policy. In terms of the West: “The Chinese see the Trilateral regions together as a group—a very important group.” They were offering “tacit support” to American foreign policies “in various parts of the world, even including Southeast Asia.”⁶⁴

Trilateral delegates prepared in depth beforehand, compiling a lengthy list of extremely detailed and wideranging questions on every aspect of China’s modernization. Implicit in this agenda was the belief that China’s turn to Reform and Modernization was a development of great long-term global significance, one no other power could afford to ignore.⁶⁵ The three-day session took place in the Great Hall of the People in Tiananmen Square. Extensive favorable Chinese press coverage mentioned its cordial

⁶³ “Briefings on China for David Rockefeller, Gerald Curtis, Gerard Smith, George Frank, Charles Heck,” Washington, DC, 11 May 1981, Folder 775 China 1981, Box 68, TC Papers, RAC; see also materials in Folder 772a China 1981, Box 68, TC Papers, RAC.

⁶⁴ “Briefings on China for David Rockefeller, Gerald Curtis, Gerard Smith, George Frank, Charles Heck, Washington, DC,” 11 May 1981, Folder 775 China 1981, Box 68, TC Papers, RAC.

⁶⁵ “Possible Questions Relating to Agenda Items,” n.d., Folder 779 Peking Delegation Questionnaires Etc., Box 69, TC Papers, RAC.

atmosphere, wide-ranging and frank discussions, participants' meetings with Deng Xiaoping and Vice-Premier Ji Pengfei, and the need to maintain policies of economic development, cooperation with foreign countries, and opening to the outside world.⁶⁶ Chinese speakers generally stressed their country's long-term commitment to economic reform, despite the need for adjustments and retrenchment owing to the too enthusiastic early embrace of "over-ambitious" policies. When questioned by their Trilateral visitors, they discussed in considerable detail past and present economic policies and mistakes and their current objectives and strategies. The latest measures included cuts in defense spending, which emphasized better training and equipment while reducing sheer manpower. China was also enhancing its educational system and encouraging study abroad. The Trilateral group described internal developments in their own countries.

The Soviet threat featured significantly in a session on the "Global Political Environment," with Chinese speakers highlighting Soviet "hegemonism" and aggression, and urging "united opposition" to this from both China and the Trilateral countries, while expressing concern that Reagan's cutbacks in U.S. foreign aid programs might provide openings for the Soviet Union in Third World countries. One Chinese speaker pointed out that China tied down one-quarter of all Soviet forces, and to facilitate this mission would be willing to "accept some friendly military technical and equipment assistance" from other countries. Another critiqued as "misleading" Trilateral conceptualizations of the world into North-South and East-West, pointing out that "China is in the North though a developing country, and is neither to be classified with the Soviet Union as 'East' in opposition to 'West'." A third stated that, while not advocating a "military alliance" against the Soviet Union, China believed that the Trilateral nations and the Third World "should have a clear perception of Soviet aims and work as equal partners."⁶⁷

Speaking in the final session, David Rockefeller commented on the "dramatic increase in China's role in the world economy" since his first visit to China in 1973, something he found particularly encouraging,

⁶⁶ See Xinhua Reports, 23, 24 May 1981, Folder 770 Meeting, China, May 2-23, 1981, Box 67, TC Papers, RAC.

⁶⁷ Trilateral Commission, Japan, Summary of Discussion, "Beijing Meeting," May 20-23, 1981, 24 July 1971, Folder 770 Meeting, China, May 20-23, 1981, Box 67, TC Papers, RAC.

given the increasing international economic difficulties of the 1970s, which had “raised the ever looming specter of growing nationalism and protectionism. With so many nations tending to pull back from their international role,... the return to the world scene of a nation as important as China was received with great satisfaction.” While admitting that some early expectations might have been over-optimistic, Rockefeller hoped the meeting would enable top Chinese and Trilateral representatives to discuss how best to maintain and build on the economic progress and growing ties with China that had developed since 1976. He anticipated further Western credits to China; more exchanges; and reforms to China’s legal code and institutions. Rockefeller also warned that recent Chinese cancelations of contracts had shaken foreign business confidence in China. He stressed the importance of reaffirming the objectives China had laid out in 1978 and 1979, if it wished to regain the trust of outside business partners.⁶⁸ Remarkably frankly, Ji Changwei, Commissioner of the Chinese Import and Export Bank, responded that “problems with the administration of foreign economic relations were China’s fault, a result of their inexperience with these matters after 20 years of isolation.” They also planned to reform the Chinese legal system and economic institutions. Predictably, Trilateral representatives welcomed all these developments.⁶⁹

The trip’s highlight was a meeting of one hour and forty minutes with Deng Xiaoping, a record of which Franklin later forwarded to Holdridge, Lilley, and Neuhauser.⁷⁰ Earlier reports to the State Department on this meeting from the staff of the U.S. embassy in Beijing also proved useful in preparations for a trip Secretary of State Alexander Haig made to China shortly afterward.⁷¹ While modestly claiming to hold little individual authority, since in the past “too much power was concentrated in one person,” Deng nonetheless answered a range of questions. He urged

⁶⁸ David Rockefeller, remarks, 21 May 1981, Folder 769 McLaury and Rockefeller Speeches, Box 67, TC Papers, RAC.

⁶⁹ Trilateral Commission, Japan, Summary of Discussion, “Beijing Meeting,” May 20–23, 1981, 24 July 1971, Folder 770 Meeting, China, May 20–23, 1981, Box 67, TC Papers, RAC.

⁷⁰ Franklin to Holdridge, 19 June 1981, Franklin to Lilley, 19 June 1981, and Franklin to Neuhauser, 19 June 1981, Folder 774 Post-Meeting China File, Box 68, TC Papers, RAC.

⁷¹ Holdridge to Franklin, 13 July 1981, Folder 774 Post-Meeting China File, Box 68, TC Papers, RAC.

young people, rather than simply seeking material satisfaction, to observe “high moral standards” and “embrace lofty ideals, observe disciplines, be eager to study, and observe good manners.” He criticized Soviet “hegemonism” and attempts to “blackmail” and pressure China by deploying one million troops along their joint border. When Rockefeller suggested that foreign firms found unattractive the terms China was offering for developing oil resources and asked whether China might improve on these, Deng temporized. Rockefeller also asked whether China was still interested in developing joint ventures with American corporations, to which Deng responded affirmatively, while admitting there had sometimes been “difficulties in working out concrete arrangements.” Rockefeller urged further efforts to reach acceptable arrangements, especially in the area of oil exploration, where, as Kazushi Minami describes in more detail (Chapter 10), China drove very hard bargains.⁷²

In a lengthy post-meeting report, Gerald Curtis of Columbia University, an expert on Japan rather than China, praised the “outstanding” quality of the Chinese participants in terms of their political and economic expertise and influence. He believed their collected statements probably represented “the most up-to-date and comprehensive public statement available on current Chinese thinking about economic policy and political and security issues.” Curtis found “especially impressive... the devastating Chinese critique of their past economic policy.” Those attending the meeting had condemned not simply the failures of the Cultural Revolution, but those of the entire period from 1957 onward, when the Great Leap Forward began. “What we seemed to be witnessing was part of a campaign by those currently in power to justify and legitimize their current economic policies by demonstrating the failures of the policies of the past and to document in the public record these failures in so thorough a fashion that return to them by a later generation of leaders would be rendered exceedingly difficult.” He was uncertain, however, whether China’s current “pragmatic” leadership was yet clear as to exactly what policies it should best pursue in the future, feeling that his hosts had relied too much on “generalities” rather than advocating concrete measures. Curtis noted the absence of ideological political slogans, observing how Deng Xiaoping, “[w]hen asked about the role of ideology in China

⁷² Yamamoto, “Memorandum” of meeting with Deng Xiaoping, 23 May 1981, Folder 6071 Trilateral Commission 1978–1979, Box 998, Record 3.1 Series Grants, RBF Papers, RAC.

today,” had “responded by talking about the need for the people to have high moral standards, accept discipline, work together, respect the beauty of the land and the like,” prescriptions that had “more in common with traditional Confucian precepts than with communist ideology.”

Curtis concluded by urging Americans to be realistic over the economic opportunities China offered, and also in their expectations of how much leverage they could exert on Chinese policies. While China might in the long term be a major market, other countries in Asia were growing faster economically and possessed “more dynamic” economies with more promising immediate prospects. China should not, as some enthusiastic Americans advocated, become the “central focus” of American policy in Asia. He urged that American thinking on China should become more balanced, characterized by neither “bubbling enthusiasm” nor “intense antagonism.” In his view: “China is a large and poor country determined to develop economically and deeply antagonistic to our major antagonist in the world. While this makes it imperative that we seek close and cooperative relations with it, we should not lose sight of the fact that its modernization process will be slow, nor should we embrace unrealistic notions about the strategic role it can play in parallel with our own.” Ideally, American “psychological normalization” should accompany the recent diplomatic normalization.⁷³

Reflecting on this meeting, Franklin said he and his colleagues were pleasantly surprised just how “frank” their Chinese hosts were regarding “China’s many problems.”⁷⁴ The Beijing gathering also facilitated further exchanges and helped to cement new ties between top Chinese think tank personnel and their non-communist Western counterparts. Georges Berthoin, head of the European Trilateral Commission, suggested to Xie Li, the CPIFA Secretary General, that in the future, the Trilateral Commission should send drafts of its reports to his Institute in China, so that the two sides could compare views on them, an offer Xie happily accepted.⁷⁵ Further contacts continued. In June 1982, Xie Li headed a group of CPIFA and Beijing Institute for International Strategic Studies

⁷³ Gerald L. Curtis, “China Impressions,” June 1981, Folder 772 China 1981, Box 68, TC Papers, RAC.

⁷⁴ Franklin to John Brademas, 9 June 1982, and also Franklin to Brademas, 19 June 1982, Folder 767 Xie Li & Co Come to the Big Apple 1982, Box 67, TC Papers, RAC.

⁷⁵ Xie Li to Georges Berthoin, 15 June 1981, Folder 774 Post-Meeting China File, Box 68, TC, RAC.

personnel who visited the United States under NCUSCR auspices. Rockefeller gave them lunch, and Franklin helped to arrange a dinner for these guests at New York University, an opportunity for them to meet informally with Commission members from the New York region.⁷⁶

REVIVING THE CHINA FACTOR GROUP

China gradually featured more extensively on the CFR agenda. By the time Xie's delegation visited, the Sino-U.S. diplomatic relationship was navigating difficult waters, due in large part to the Reagan administration's insistence—over strong mainland objections—on continuing to provide the Republic of China on Taiwan with substantial quantities of weaponry. In late 1981, the CFR discussion group on China was reconvened, holding three further meetings in 1982.⁷⁷ Rather desultory discussions of the China Factor group continued for several more years, well into 1985, providing a forum where China specialists and others from the academic and policy worlds could debate trends and developments in China's relations with the United States and other countries. During these meetings, China specialists, including Doak Barnett, Lord, Solomon, Oksenberg, Lieberthal, and Holdridge, broadly sought to defend the long-term strategic value of the U.S. relationship with China against its critics, especially more conservative figures associated with the Reagan administration.⁷⁸

The CFR soon became a favored venue where top Chinese officials could present consequential speeches. In October 1982, Huang Hua, China's Foreign Minister, addressed a dinner meeting. Lord characterized the event as “a gloomy evening. How much was him and how much was official policy is not entirely clear.”⁷⁹ Over one hundred people attended, to hear Huang—in New York for sessions of the United Nations—deliver what Lord described as “a significant statement of Chinese policy” on behalf of his government, apparently focusing especially on “problems”

⁷⁶ For details, see Folder 767 Xie Li & Co Come to the Big Apple 1982, Box 67, TC Papers, RAC.

⁷⁷ Kreisberg to Oksenberg, 21 August 1982, and also Kreisberg to Lord, no date, Folder 1, Box 245, CFR Papers.

⁷⁸ Solomon, ed., *The China Factor*; and materials in Folder 1, Box 570, CFR Papers; Folders 1 and 2, Box 245, CFR Papers; and Folder 5, Box 254, CFR Papers.

⁷⁹ Lord to Harry Harding, 13 October 1982, File 1, Box 55, CFR Papers.

in Sino-U.S. relations that were impeding “cooperation on other fronts, both economic and geopolitical.” Writing to thank Huang, Lord told him the CFR “plan[ned] to continue the dialogue on Sino-American relations.”⁸⁰

The following year, in September, during an official visit to the United States, Wu Xueqian, China’s new Foreign Minister, expounded “The Foreign Policy of the People’s Republic of China” to a CFR lunchtime audience of 85. According to Lord, who hoped that Wu’s trip would “mark another step in the improvement of Sino-American relations,” Wu had “very helpful and productive” exchanges with his audience.⁸¹ The minister stressed that China intended to avoid attaching itself to any international bloc of powers, while concentrating on its own economic development and modernization, policies for which an extended period of peace and stability was essential. Wu made the customary Chinese demands that “foreign forces” withdraw from Afghanistan and Cambodia, but stressed that China sought “peaceful coexistence” with all other nations, including the Soviet Union, while urging the United States to pay more attention to the Third World and assist in its development. Wu emphasized that China was committed to “[o]pening to the outside world,” as part of its quest to quadruple its industrial and agricultural production within two decades, and expressed his hopes for expanded economic and technical cooperation between China and the United States.⁸² When Lord visited China a few weeks later as a guest of the Chinese government, he noted that “Sino-American relations had improved considerably in recent months,” a development he ascribed particularly to a trip by Reagan’s Secretary of Commerce, Malcolm Baldrige, during which U.S. controls on technology transfers to China had been substantially relaxed.⁸³

In mid-January 1984, the CFR organized a dinner honoring Chinese Premier Zhao Ziyang, co-hosted by David Rockefeller and Kissinger. A carefully selected blue-ribbon group of businessmen, academics, diplomats, and other guests interested in China apparently heard Zhao discuss

⁸⁰ Lord to Huang, 29 October 1982, File 9 Huang Hua, Box 497, CFR Papers.

⁸¹ Lord to Wu Xueqian, 4 October 1983, File 1 Wu Xueqian, Box 503, CFR Papers.

⁸² Speech by State Councilor and Foreign Minister Wu Xueqian at the Council on Foreign Affairs in New York, 29 September 1983, File 1 Wu Xueqian, Box 503, CFR Papers.

⁸³ Lord to Malcolm Baldrige, 28 November 1983, File 10, Box 499, CFR Papers.

a wide range of issues in a relatively intimate, informal setting. Proposing a toast to his hosts, Zhao warned that, although relations between China and the United States had “developed to an extent hardly foreseeable” ten years earlier, problems still existed, notably the possibility that “a crisis may emerge” over Taiwan, which had been described as “a time bomb in Sino-U.S. relations.” Zhao invited those present to “join us in trying to defuse this bomb” and resolve the Taiwan situation. Characterizing his recent talks with President Reagan and other administration officials as “friendly,” he warned that their two countries should “not allow frictions to occur again and again in our relations, and still less can we afford to allow these relations to slide back.” Greater understanding between China and the United States, “two large countries with totally different social systems, historical backgrounds and cultural traditions,” would, he concluded, “be a blessing to the turbulent and crisis-ridden world of today.”⁸⁴ Thanking Rockefeller afterward, Zhao invited him to visit China again and praised his “enthusiasm for increased understanding and friendship between the Chinese and American peoples, growth of Sino-U.S. economic, trade and technological cooperation and development of Sino-U.S. relations as a whole.”⁸⁵ Lord, who attended several other events during Zhao’s week-long visit, including a White House dinner, a luncheon hosted by Mayor Edward Koch of New York, and a breakfast at Kissinger’s home, later described Zhao’s trip as “favorable and constructive” in impact.⁸⁶

DIALOGUES BEGIN

Council officers also took part in informal exchanges between Chinese scholars and Americans that helped to keep the relationship on track. One major innovation that began in 1984 was a series of binational meetings, the U.S.-China Dialogue, co-hosted by the NCUSCR and the CPIFA. Around 30 to 40 top-level American and Chinese elite leaders would meet for three days in private conferences, giving them the opportunity for confidential discussions of sensitive issues. The expectation was that

⁸⁴ Zhao Ziyang, “Premier’s Toast at Dinner Given Jointly by Mr. Rockefeller and Mr. Kissinger,” 15 January 1984, File 2 Zhao Ziyang, Box 503, CFR Papers.

⁸⁵ Zhao to David Rockefeller, 18 February 1984, File 2 Zhao Ziyang, Box 503, CFR Papers.

⁸⁶ Lord to Zhao, 18 January 1984, File 2 Zhao Ziyang, Box 503, CFR Papers.

these encounters would take place approximately once a year, alternating between the United States and China and often featuring the same participants, plus specialists in particular areas. Some sessions in each meeting would discuss “the global strategic situation, Asian security issues, and the Northeast Asian balance of power,” with the remainder focusing on a particular theme especially salient to Sino-American relations. The objective was “to develop a higher level of mutual understanding in both American and Chinese leaders” that went “beyond the exchange of policy statements.”⁸⁷

The first of these meetings took place at David Rockefeller’s Tarrytown Conference Center in upstate New York, a location deliberately chosen for its seclusion, so that the group could spend all their time together, including meals and recreation. Eleven top Chinese officials, academics, and policy advisers met with twelve Americans, including Lord, former Defense Secretaries Harold Brown and Robert McNamara, President Gerald Ford’s former National Security Adviser, Brent Scowcroft, and other luminaries, as well as five China specialists: Doak Barnett, Pye, Oksenberg, Scalapino, and Solomon. While in the United States, the Chinese participants also visited San Francisco, Los Angeles, New York, and Washington, DC, meeting Vice President Bush, the secretaries of state and defense, the national security adviser, and several prominent senators while in the capital. Unfortunately, at the Defense Department Han Nianlong, the delegation leader, greatly irritated Secretary of Defense Caspar Weinberger by “delivering a half hour monologue” on the subject of Taiwan and then reverting to the issue yet again.⁸⁸

Reporting on the initial dialogue, Oksenberg and Solomon noted that the Americans represented a more diverse range of positions than the Chinese, who rarely strayed far from their government’s official line. Yet divisions did exist among the Chinese “foreign policy and strategy contingent,” with military representatives more concerned with the potential Soviet threat and favoring greater cooperation with the United States,

⁸⁷ “Binational Symposium to Begin This Fall,” *U.S. China Relations: Notes from the National Committee* 14: 2 (Spring–Summer 1984): 4–5.

⁸⁸ “U.S.-China Dialogue,” *U.S. China Relations: Notes from the National Committee* 14: 3 (Fall 1984): 1–2; Rosen to Members of the Advisory Committee, 1 March 1985, Folder National Committee on U.S.-China Relations 1985–1987, Box 132, Barnett Papers; and Wheeler, *The Role of American NGOs in China’s Modernization*, 34–35.

while the foreign ministry cohort tended to emphasize China's independence. Oksenberg and Solomon felt that on most issues, the two sides agreed more than they differed. While pleased by Reagan's stronger U.S. defense posture, for the most part, the Chinese wished to maintain "an independent, non-aligned" position, rather than allying themselves with the United States or even cooperating on defense issues. They also welcomed Soviet-American efforts to negotiate arms control agreements. Chinese participants emphasized that the unresolved situation of Taiwan was the greatest "obstacle" to smooth Sino-American relations, and opposed any encouragement of "self-determination" or "independence" for Taiwan. Although some Chinese speakers "exuded confidence" that widespread American popular sympathy for closer ties with China existed, the Americans warned that in reality, "public support... for strong Sino-American ties was fragile and not rooted in a sound understanding of China. The mutual benefits that accrue to the two societies continually have to be spelled out."⁸⁹

While the American side found the Chinese delegation less than open and somewhat regimented in their contributions, in a subsequent report on this dialogue, the Hong Kong-based Communist newspaper *Wen Wei Po* hailed the event as "a breakthrough in China's diplomatic relations with the United States," expecting it to "exert a positive influence on the deliberations and formation of U.S. foreign policy." It was, the newspaper argued, an "entirely new sort of meeting between the PRC and the United States," neither "a meeting between government officials of the two countries; nor was it purely a contact between two nongovernmental organizations. It was a gathering of former senior government officials of the two countries." The U.S. deputy secretary of state had even "presided over the inaugural ceremony." Noting the high-level positions the American participants had previously filled, the report suggested that they still exercised significant influence on government policy. It proceeded to describe the importance in U.S. policymaking of "[n]ongovernmental academic research institutes called 'think tanks,' such as the Trilateral Commission, the Enterprise Research Institute [probably the American Enterprise Institute], the Brookings Institution, the Georgetown Center

⁸⁹ Michel Oksenberg and Richard Solomon, "Report on the First Sino-American Dialogue," 27 February 1985, Folder 1 National Committee on U.S.-China Relations, Box 67, Series 1, Robert S. McNamara Papers, Manuscripts Division, Library of Congress, Washington, DC.

for Strategic and International Studies, the Rand Corporation, and the Hoover Institution.” Expecting these dialogues to continue, the Chinese newspaper compared them with the “regular consultations on common political, economic, and security issues” of the Trilateral Commission, highlighting what it considered “the great significance of the regular meetings between former senior Chinese and U.S. officials.”⁹⁰

CONCLUSION

Chinese excitement over the new form of dialogues reflected growing confidence among Chinese elites that they were beginning to understand and master the workings of the non-official U.S. cluster of organizations that complemented the official bureaucracy. For most of the 1980s, Sino-U.S. relations continued along much the same track, with exchange visits in both directions, further dialogues, joint conferences and seminars, and ever more contacts. The Chinese were gradually becoming a customary and familiar presence at Williamsburg and Trilateral Commission gatherings. American universities hosted increasing numbers of Chinese students and scholars, and Chinese speakers, no longer invariably official government representatives, were regular guests in such venues as the CFR, Asia Society, and National Committee on U.S.-China Relations. These bodies continued to organize China-related study groups, that resulted in further publications by such China experts as Lardy, Scalapino, Oksenberg, and Harding.

In a 1987 volume, the product of the latest CFR study group, Harding warned that for the indefinite future, significant cultural differences were likely to continue to divide China and the United States: “Despite the fervent hopes of some Americans, and the naïve predictions of others, China is not about to become a capitalist, pluralist or laissez-faire society.” The United States could at best expect “a somewhat ambiguous relationship with an independent but friendly China—a relationship in which China is neither ally nor adversary, and in which there are points of divergence, as well as convergence, in the policies of Peking and Washington.” Harding recommended that both sides engage in “constant dialogue and consultation” to manage both common interests and divisive issues,

⁹⁰ “Han Nianlong Leads Delegation to New York Meeting,” 12 September 1984, *Foreign Broadcast Information Service Daily Report: China* 1: 179, 13 September 1984, W3-4.

including Taiwan. He also anticipated growing cultural and economic ties between the two countries. China's modernization would almost certainly continue, ultimately making it a much stronger force in Asia. "The principal risk is that growing Chinese resources will be harnessed to an assertive nationalism in ways that threaten the security of neighboring countries and the economic stability of the entire region." To avoid this, the United States should seek to maintain a cooperative and stable relationship with China. It should also "remain actively engaged in Asia," encouraging the economic and political development of smaller East and Southeast Asian nations, in order to ensure a strong multipolar Asia-Pacific system that would counter Chinese predominance. In words highlighting the salience of such organizations as the CFR to this process, Harding proclaimed:

Ameliorating the tensions that will inevitably accompany China's emergence as an important force in world affairs will require constant dialogue and coordination between China and the United States, the United States and the rest of Asia, and China and its Asian neighbors. The United States, with its open society and wealth of foreign affairs institutions, is ideally qualified to sponsor much of this dialogue.⁹¹

By the mid- to late 1980s, Chinese officials and even private individuals were becoming increasingly important voices within this dialogue, to the point where an observer might well have concluded that the mission of Chinese acculturation was largely accomplished. In considerable part, this was due to the initiatives of assorted high-level NGOs within the United States, as they sought to integrate Chinese elites into the dominant international institutions and discourse.

In a further study for the Asia Society, published one year later, Harding once more discussed China's relations with the United States. He believed that, as Beijing's economic, military, and political strength and influence increased, Chinese leaders would use their country's "growing power to ensure its participation in the solution of regional issues and to gain access to the foreign markets, capital, and technology it needs for development." For the indefinite future, China and the United States would maintain a pattern of relations in which they "share[d] common interests on some subjects but h[e]ld divergent perspectives

⁹¹ Harding, *China's Second Revolution: Reform after Mao* (Washington, DC: Brookings Institution, 1987), 263–270, quotations from 265, 268, 270.

on others.” Overall, Harding anticipated that “the commonalities should continue to outweigh the differences” and “make it increasingly possible for the two countries to act in parallel or collaborative fashion on those issues in which they have similar objectives and to manage their remaining differences in a mature and responsible manner. If this can be done, then Sino-American relations may well enter a new stage, featuring growing trust and cooperation.”⁹²

Harding’s expectations of “growing trust and cooperation” would soon come to seem significantly over-optimistic. In May and June 1989, just over a decade since the full normalization of relations between the United States and the People’s Republic of China, the slowly developing ties between the two countries hit what—at least until 2020—represented their worst patch since the early 1970s. From then on, within the U.S. institutional China cluster, maintaining contacts and communication between the two countries and conducting damage control became the new priorities. In the aftermath of Tiananmen, Sino-U.S. relations experienced repeated crises, the fiercest centering upon Chinese efforts to intimidate Taiwan, the NATO bombing of the Chinese embassy in Belgrade, and an incident in which a collision with a Chinese fighter forced a U.S. surveillance aircraft to land on Hainan Island. Tibet and human rights became permanent running sores in Sino-U.S. relations. The 1990s also saw the emergence and consolidation of a rival group of more conservative, hard-line U.S. China specialists, some with close ties to politically savvy Chinese dissidents and activists, who proved adept in working with both sides of the aisle in the U.S. Congress. China’s allies and defenders found themselves facing an increasingly sophisticated counter-narrative of China as a repressive, illiberal, and authoritarian regime run by an ossified Communist apparatus antipathetic to American values.

However unwelcome, these developments were outcomes well within the range of potential scenarios U.S. China policy experts anticipated during the 1980s. In general, most within this circle were neither over-optimistic nor unrealistic about the situation within China, but warned that significant difficulties might impede the course of reform within the mainland. They likewise believed that the relationship between their countries might well experience serious disruptions, obstacles, and crises.

⁹² Harding, *China and Northeast Asia: The Political Dimension* (Lanham, MD: University Press of America, 1988), quotations from xviii.

Chinese elites undoubtedly demonstrated impressive skill in familiarizing themselves with and navigating the top-level American NGOs which took an interest in China, as these were institutions through which many aspects of the relationship were in practice conducted. Chinese representatives soon became habitués of the top international circles of powers. As one powerful Chinese woman recalled in 2017, the organizers of the Davos World Economic Forum had to learn to avoid holding their gathering over Chinese New Year, a festival they had once not realized existed! Yet increasing acceptance into exclusive U.S. and global circles and institutions and growing contacts with leading corporate businesses in the United States and beyond also had serious limitations. Chinese skill in operating within and even manipulating the rarefied upper echelons where top policymakers congregated was largely absent in other spheres.

In the 1970s and early 1980s, the NCUSCR and the Asia Society's China Council undertook sedulous campaigns to improve the image of China among the general American public. To some extent these efforts succeeded, especially during the 1980s, when many Americans—though not, it seems, U.S. China-watchers—had unduly rosy perceptions of mainland China. Yet, even if Chinese understanding of the other country was often inaccurate, patchy, and biased, most average Americans were far less knowledgeable about China than Chinese were about the United States, an asymmetrical model that has consistently characterized Sino-American relations. These patterns continued and even intensified after June 1989, a blow from which popular views of mainland China failed to recover, even as elite ties were gradually resumed. While hundreds of thousands—ultimately millions—of Chinese students sought overseas degrees from universities in North America and Europe, mere tens of thousands of Western young people embarked on similar studies in China. In the United States, China remained a minority interest.

The historian Kori Schake has described how the twentieth-century international power transition from Great Britain to the United States was mediated by a host of cultural, social, and intellectual ties and exchanges, personal and institutional, including the fact that many in the United States traced their ancestry back to Britain and identified strongly with that country's political traditions and outlook.⁹³ The roots of the Sino-American relationship were far shallower, with little beyond economic

⁹³ Kori Schake, *Safe Passage: The Transition from British to American Hegemony* (Cambridge, MA: Harvard University Press, 2017).

dealings to nourish them. Despite significant Chinese immigration to North America, the substructure was largely lacking. By the twenty-first century, Chinese efforts to remedy these shortcomings through official propaganda and economic pressure were so dated in concept and flawed in operation as to seem not just sinister but almost comically inept.

The Republic of China on Taiwan had since at least the 1940s known the importance of developing good working relationships and partnerships with influential U.S. politicians in Congress and key elements of the media, ties later supplemented from the 1970s onward by increasingly intimate relations with the U.S. China think tank complex. The People's Republic of China was less comprehensive. By choosing during the 1980s and beyond to manage most of their interactions with the U.S. power structure through a small set of interlocking, rather opaque, and specialized institutions possessing close ties to corporate business but little popular leverage, mainland Chinese elites limited their long-term ability to function effectively within the American political system. The consequence was that by 2021, despite entrenched and near toxic political polarization within the United States, a bipartisan consensus had emerged, that China and its policies constituted a major threat to U.S. values and interests.

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The Reform Era Foreign Policy Narrative: 1978 Onward

Kerry Brown

Since the early 1980s, the People's Republic of China (PRC) has been telling itself what is broadly the same story about itself. Over the years, its commitment to this story, which states that it entered upon a new chapter, called Reform and Opening Up (改革开放), has deepened. It is noticeable that Gaige itself has the character for 'change, transformation' (*ge*), something appropriated almost to the point of monopoly in the previous decade of the Cultural Revolution, where it figured in '*geming*': a more revolutionary, dramatic change. The new era change that the use of this term was heralding in was, as quickly became apparent, different, indeed immensely different. This was to be a period of 'good' transformation, setting the Communist Party, after years in error, back on the right track. In the subsequent decades, recollections of the meaning of what happened in 1978 have been observed with increasing reverence and respect. In 2010, to mark the thirtieth anniversary of the

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city becoming one of the first Special Economic Zones (SEZs), China's then top leaders, President Hu Jintao and Premier Wen Jiabao, made their separate progresses to the sacred space of Shenzhen, where Reform became flesh, manifestly transforming both the physical landscape and local people's lives.¹ The story of Shenzhen's development, described by Lawrence C. Reardon (Chapter 2) and Zhou Taomo (Chapter 11) earlier in this volume, features among the key narratives of the entire Reform Era. In 2018, Xi Jinping made a similar pilgrimage, hailing the ways in which the Party's leadership continues under the mantle of Reform and Opening Up.² The ten-year anniversaries of the start of Reform have become major moments of self-congratulation and reappraisal, with Xi visiting the city again at the end of 2020.

It is worth remembering, however, that this story with its theme of dramatic separation between everything that occurred before 1978 and afterward is one that raises plenty of questions. Was the break as deep as the surface of this story, as told within and outside China, makes it appear? The pre-1978 China in existence before the meeting of the Plenum held in December that year at the Jinjiang Hotel in Beijing, the event that supposedly kicked this whole process off, largely envisaged through monochrome images, is portrayed as a place of mass immiseration and servitude to Maoism, as opposed to the scene afterward, colorful, dynamic, where it was acceptable and even glorious, in words attributed to Deng Xiaoping, to get rich quickly. The two might as well be on different planets. Yet such a dramatic gap seems strange. The same Party remained in power before and after 1978, with many leaders who held office before this point still crucial actors afterward, not merely for a few years, but often for a decade or more. The Four Modernizations first appeared in speeches Zhou Enlai gave as Premier as early as 1964, at the Third National People's Congress.³ And Deng Xiaoping, the figure most

¹ "President Hu Calls for Innovation During Shenzhen Tour," *Xinhua*, 7 September 2010, China.org.uk, http://www.china.org.cn/business/2010-09/07/content_20881088.htm, accessed 29 December 2020; and "Premier Wen Inspects Shenzhen in S China," *China Daily*, 21 August 2010, http://www.chinadaily.com.cn/photo/2010-08/21/content_11184977_2.htm, accessed 29 December 2020.

² "Xi Jinping Inspects Shenzhen," *Xinhua*, 25 October 2018, http://www.chinadaily.com.cn/photo/2010-08/21/content_11184977_2.htm, accessed 29 December 2020.

³ See "Modernization Dream to Come True," *People's Daily*, 3 December 2001, <http://www.china.org.cn/english/8921.htm>, accessed 29 December 2020.

closely associated with the key moments of this early period, had been integral to Party rule from the time it came to power, throughout the whole Maoist era, until his sidelining in 1966. Even then, he re-emerged back in the 1970s before Mao's death, when he played a pivotal role. How strange to find two such different stories with so many of the same leading actors. Perhaps they are not quite so different after all.

Scholars such as Yasheng Huang, Barry Naughton, and Ezra F. Vogel have written about the domestic narrative of Reform and how it has been deployed.⁴ In many ways, their works accept, for different reasons and to varying degrees, that the story of significant change that merits the title 'Reform' is one worth adopting; and that being guided by the official internal Chinese narrative of this era is worthwhile. This is quite reasonable. The story people tell themselves, because it is so important for their identity and who they are, needs to be taken seriously. The story they tell about themselves and others, however, also involves externalities, additional actors who, together with their perspectives, need factoring in. This is why, in terms of its international dimensions, the Reform Era becomes a trickier tale to capture.

Firstly, we must accept that although the outside world figured in different ways before and after the death in 1976 of Mao Zedong, distinct lines of continuity existed between the two eras. Undoubtedly, in 1967, China was isolated, at least diplomatically, with only one formal representative abroad: Huang Hua in Egypt. This was the era in which the Foreign Ministry was paralyzed by internal fights, with Foreign Minister Chen Yi targeted as a class enemy.⁵ It would be easy to portray the Cultural Revolution era from 1966 as one of deep isolation. But there exists another narrative, documented by scholars such as Julia Lovell, where in fact never before in modern times had the country been trying more strenuously to export a particular world view: that of Global Maoism.⁶ The efforts that went into this meant that by the early 1970s, about 6% of national

⁴ Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (Cambridge: Cambridge University Press, 2008); Barry Naughton, *The Chinese Economy: Adaptation and Growth*, 2nd ed. (Cambridge, MA: MIT Press, 2018); and Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: Belknap Press of Harvard University Press, 2011).

⁵ For an inside account of this period, see Ma Jisen, *The Cultural Revolution in the Foreign Ministry of China* (New York: Columbia University Press, 2005).

⁶ Julia Lovell, *Maoism: A Global History* (London: Bodley Head, 2019).

GDP was committed to supporting the revolutionary struggle of partners in Africa, Latin America, and elsewhere against Soviet Revisionism, American hegemony, and colonization. Mao was for many in these places a cult figure. This was a counter-narrative understood by at least some key groups in the West, who saw it as disruptive, subversive, and often potent. It was also in this era that rapprochement with the United States meant that from 1969 China set in place track lines that were simply to be deepened, rather than created from scratch, after 1978. These features help to explain why officials such as Xi Jinping, the PRC's current key leader, talk of the Party before and after 1978 as one single entity involved in one process, undergoing learning, adaptation, and transformation, in incremental rather than revolutionary steps.⁷ It was waging the same revolution, but in different ways. Thus the maintenance of 'Ge.' What links the two periods is the mission to transform and change.

These commitments were deepened after 1978, but this strategy was adopted in order to achieve outcomes similar to those sought by China's pre-Reform Era foreign policy. Firstly, the aim was to ensure the creation of a powerful, strong country. No matter what differences separated them in terms of economic policies, both Mao and Deng were nationalists. Secondly, it was to establish relations that clearly worked in China's own carefully defined national interests. Thirdly, it was to ensure that boundaries were drawn which meant that the sort of victimization Chinese leaders felt the country had experienced in its modern history could never recur. This means that while the PRC Reform Era international affairs narrative has a different structure from that which was prosecuted in the period up to 1978 (being far less assertively ideological and aggressive in language and action), it was built on the same foundation: nationalism.

Rather than speaking simply of Reform, we must be attentive to one of the key phrases deployed in the Third Plenum of the Eleventh Party Congress in late 1978: the idea of 'Liberating Thought' (解放思想 or *jiefang sixiang*). This process of mental emancipation cannot be seen as an invitation to some kind of ideological free-for-all. But it did represent a shift away from commitment to ideological strictures that forced adherents to approach and understand reality in a very rigid and limited way. It meant looking at this reality in an adaptive, looser way, more attentive

⁷ Xi's attitude toward the narrative of Communist Party History over the period from 1949 through 1978 to today is discussed in Kerry Brown, *CEO, China: The Rise of Xi Jinping* (London: I.B. Tauris, 2016), 101–102.

to empirical facts, more open to conclusions that were less prescribed and dogmatically asserted, and sometimes could indeed be unexpected and surprising. Phrases such as ‘Seeking Truth from Facts’ (实事求是 or *shishi qiushi*) and ‘Crossing the River by Feeling the Stones’ (摸着石头过河 or *mozhe shitou guohe*) were used to encourage and reinforce this new pragmatic disposition in policy makers and other actors. There was the final grand slogan which, while attributed to Deng Xiaoping as (to use Max Weber’s celebrated phrase about politicians) the magician or warlord in charge of this new way of telling the same story, has never really been confirmed as coming from him: the tale of the cat which whether black or white (or a different set of colors, given multiple versions), can still catch mice.

One of the key structural differences before and after Mao’s death was that all these developments created an attitude of learning. With a high level of certainty, one could state that the Maoist foreign policy was confident through dogmatism: it knew the truth before hitting empirical reality. Wars over Korea in the 1950s, and with India in 1962 and the USSR in 1969, were all products of this more confrontational mindset. The new country was on a mission and willing to hit others if hit, a stance compounded by isolation. The PRC did not take its seat in the United Nations till 1971 (when it finally replaced the Republic of China), and generally had little to do with multilateral organizations. It enjoyed fractious relations with many of its neighbors, particularly with the USSR, a former ally, and with those farther afield. From 1978, however, the attitude changed. This was not purely due to the December 1978 meeting mentioned above, but sprang more from the chaotic intervention in Vietnam the following year, which served to inspire soul-searching in the new Deng leadership. From then until 2021 (beyond a few skirmishes in the South China Sea area in the later 1980s), Vietnam in 1979 marked the last occasion that the PRC has been involved to any major extent with foreign conflict. Understandings of how the Hua Guofeng-Deng Xiaoping leadership interpreted this humiliating debacle differ. Some argue that it served as a convenient mechanism for Deng to make the People’s Liberation Army (PLA) leadership clearly aware of their technical and strategic weaknesses. After a decade of fomenting their own revolution through internal purges and turbulence, they had become divorced from reality. What is clear is that China made a major reassessment. It no longer sponsored overseas revolutionary movements akin to those in the Maoist era, but almost as soon as Mao himself died, lost faith in Global

Maoism. It adopted a more humble tone, seeking—as Kai Yin Allison Haga demonstrates earlier in this volume (Chapter 6)—to join such multilateral organizations as the International Monetary Fund (IMF). It began to take part in the Olympics. Formal diplomatic recognition from the United States in 1979 meant China could and did participate far more extensively in global fora. From the mid-1980s, the PRC embarked on talks with the earlier incarnation of the World Trade Organization (WTO), the General Agreement on Tariffs and Trade (GATT).

We can characterize this era as that of the Great Learning. Li Lanqing, then a rising senior figure, who would end up as a Politburo member two decades later, wrote at length on this: the admission that to build its economic base and raise living standards, China needed to acknowledge its major industrial and technological weaknesses and start to source capital, knowhow, and markets abroad.⁸ These strategies were guided by its own internal needs, but they also recognized that without such external partnerships, China's former stance of 'self-reliance' (自力更生 or *zili-gengsheng*) was an impediment. Foreign capital, anathema before 1978, became acceptable. Multinationals were allowed back into China, mostly through the vehicles of Special Economic Zones such as Shenzhen and joint venture structures. An infrastructure of engagement, predicated on the admission of China's needs, was established. All this was done on the foundation of the attitude that China, and its ruling party, was in the business of learning.

The learning delegations during this era were visible symptoms of such thinking, touring Singapore, Europe, the United States, and elsewhere, often headed by top officials, up to and including Deng and Hua, who during this period, respectively, visited the United States—a tour described by Lu Sun elsewhere in this volume (Chapter 3)—and the United Kingdom. They mostly inspected industrial processes and other governance measures they might be able to adopt. Other such efforts, including China's engagement with Japan and the revival of management education, are the focus of separate chapters in this volume by Wendy Leutert (Chapter 7) and Peter E. Hamilton (Chapter 5). As Lawrence C. Reardon describes in more detail (Chapter 2), this whole exercise was soon cast in a particular way: ensuring that while practical mechanisms could be inspected and imported into China, this required implementing

⁸ Li Lanqing, *Breaking Through: The Birth of China's Opening-Up Policy* (Oxford: Oxford University Press, 2010).

a process of adaptation to ensure that they accorded with national conditions, and that they came in ‘with Chinese characteristics.’ Throughout the 1980s, campaigns were launched to mitigate any ideological contaminations that might accompany the arrival of these new forces. Some of these targeted intellectuals, using methods that were less fierce than those of the Maoist era but belonged to the same tradition. The learning disposition of the Party gave a model for how the rest of society could behave, able to start learning Western languages, and engage with Western ideas, but within a rubric provided and policed by the Party.

The Reform Era in many ways represents not just a set of policy processes and practices, many but not all of them in the economic realm, but also the provision of a new metanarrative. Under this are many sub-narratives. For foreign relations, the most important was devised toward the end of the decade: that of what has come to be called the Dengist 24-character doctrine. Reportedly announced soon after the 1989 Tiananmen Square massacre, this famously urged on the country a governing framework for its global role of almost habitual humbleness and meekness. ‘*Taoguang Yanghui*’ (韬光养晦), as it came to be known, after the first four of a string of 24 characters, expressing this need to ‘keep a low profile,’ suited a China that was in transition, not developed, but developing on its own terms and in its own way. This China was simply in the business of helping itself and others, serving to assist, working in a unique space where it did not seek to contest the hegemony of the United States, nor to become a new target for Cold War fears. Instead, it wished to be viewed as a new kind of power, one honest to its unique cultural and historic traditions, that were, by its own account, neither bellicose and disruptive, nor subservient and servile, but aware of the need to win a rightful, exceptional space.

Several factors drove this emerging international story. One was simply to start accounting for this new role that China was playing, where it wished to figure as a more collegial partner, one possessing a greater sense of responsibility. China’s activism as a member of multilateral bodies represented a key dimension of this quest. The other was to ensure that issues such as the status of Hong Kong and Macau, and then, later, those of the South and East China Sea and of Taiwan, could be addressed rather than left in limbo. This became part of a stronger nationalism re-emerging in China over this period. There was also the need to make advantageous use of the new geopolitical assets that China’s economic success started to bring it. These could have shaped a space for the country which was

more contested and difficult. In this context, the Deng Doctrine at least had a placatory effect, seeming to say that the nation would function as a force for good, not disruption.

It is now clear that the doctrine forged in the 1980s was the forefather of the subsequent stories that have flowed from it. ‘Peaceful Rise’ (和平崛起 or *heping jueqi*) in the 2000s, ‘Harmonious China’ (和谐中国 or *hexie zhongguo*) a little later in the Hu era, and then the ‘China Dream’ (中国梦 or *zhongguomeng*) and the ‘Belt and Road Initiative’ (一带一路 or *yidaiyilu*) under Xi are derived from this idea of a China that does not seek hegemony and is not trying to replace the United States as a global policeperson, but is demanding its rightful place. The difference is the magnitude of China’s economic assets today, and the ways that, when converted into diplomatic or political influence, these figure in making the country appear assertive or problematic.

The narrative that arose from within China in the 1980s, culminating in the Deng Doctrine, did so against a counter-story propounded, in particular, by the United States and Europe, whereby the changes within the country in its economic configuration could be interpreted according to the template of modernization theory. There, adherents to this outlook discerned evidence that once a certain level of development was reached, then political changes toward more liberal, pluralistic systems would begin, a position hugely supported by the remarkable transformations in Eastern Europe, and then Latin America, throughout the late 1980s and into the 1990s, as first Poland and then a raft of countries that had been under the influence of the Soviet Union transited to multi-party systems. This culminated in the collapse of the Soviet Union in 1991, an event that seemed to presage the end of history, with the universal victory of the liberal democratic order. The 1989 upheaval across China promised that this wave of transformative change was coming to the People’s Republic. It was just a matter of time. Throughout the 1990s, during debates over the United States granting China Most Favored Nation trading status, allowing it lower tariffs and access to the American domestic market, many shared the conviction that economic engagement with a system so alien to that of the United States and Europe was justified because eventually it would lead to a good outcome: a China which would, like many other places, end up becoming politically more like the democratic world.

Sound reasons existed for standing by this belief. After all, beyond attempts to isolate China or contain it, few other options were available. Ostracizing one-fifth of humanity was never feasible. And even though in

1989, there had been a brief moment when a unified Western response might have prompted the collapse of the PRC, given all the changes then happening elsewhere, there was clearly little will to discover where this might lead, and no great appetite to address the clean-up. The moment passed quickly. Throughout the rest of the decade and into the twenty-first century, it was simply a case of the U.S.-led world with its set of values holding with ever-diminishing tenacity to the notion that at some point, China would discontinue bucking the trend and fall into line, whereupon the more powerful narrative, of freedom, and individualism, would prevail. Mao had been wrong. It was not the east wind winning over the west wind, but the other way around. At least until now, that has not happened. And with the Donald Trump presidency, and indeed that of Joseph W. Biden, his successor, the counter-narrative of engagement has faded, replaced by an era of more aggressive counter-balancing, pushback, and competition.

The extraordinary feature of the template of foreign relations set in place in the 1980s during the first decade of Reform and Opening Up, however, is just how resilient it has proved and how consistently it has been followed. The China of this earlier period had a number of bridges to rebuild with a world often marked by deep layers of distrust and apprehension, one that was increasingly different from it politically. Despite this, however, the Deng Doctrine has remained largely in place. China has not sought an overtly global leadership position. It has attempted at all costs to maintain its place as a kind of globally responsible partner, always wanting to work in concert with at least some others rather than taking more unilateral positions. The country's key interests remain Taiwan, the regions immediately adjacent, and preserving stability so that it can continue to concentrate on its own domestic issues. Despite all the talk of the Xi era being marked by almost Maoist politics, in fact China remains shaped today by the pragmatic reengineering of Maoism achieved by Deng and the leaders around him from the early 1980s onwards. The impact of the global pandemic from 2020 looks set to create increased divisions between the rest of the world and China, as its economic dominance grows. Yet, if the likeliest outcome in early 2022 is that the Deng narrative is changing, then it is also likely this will be a shift brought on by circumstances, as opposed to a transformation China itself has sought. That too will be proof that the 'seeking truth from facts' spirit prevails, despite all the outward signs of change: and that the global 'facts' around

China have evolved in such a way that the country under Xi has no alternative but likewise to follow them.

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