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The China Quarterly, No. 155 (Sep., 1998), 479-511.

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Learning How to Open the Door: A Reassessment of China's "Opening" Strategy

Lawrence C. Reardon

Social scientists always have been fascinated by cyclic theories, which not only parsimoniously describe and explain the underlying dynamics of world events, but, for the more adventurous, offer the possibility of prediction. This fascination has been especially true in the China field, where Chinese scholars and practitioners have used cyclic theories to explain Chinese politics since the Early Han.¹ Among contemporary Western academics, sociologists have used "compliance" cycles to characterize the relationship between Chinese elites and the peasantry.² Western economists have focused on variations of Chinese business cycles, such as the demand for consumption goods or harvest failures, to analyse China's economic growth.³ Political scientists have looked at the impact of various business, reform and factional cycles on Chinese political development.⁴

Yet despite its enticing explanatory power, some Western scholars have adopted a healthy scepticism towards cyclic theory. In the mid-1970s, Andrew Nathan criticized their derivative nature, which he believed reiterated the Chinese Manichean view of the struggle between capitalism and socialism.⁵ While Winckler did respond ably to Nathan's various criticisms,⁶ cyclic theories must now take advantage of the great variety of available policy documents and four and a half decades of

1. John Meskill (ed.), *The Pattern of Chinese History: Cycles, Development, or Stagnation?* (Boston: D. C. Heath, 1965).

2. G. William Skinner and Edwin A. Winckler, "Compliance succession in rural communist China: a cyclical theory," in Etzioni Amitai (ed.), *A Sociological Reader on Complex Organizations* (New York: Holt, Rinehart and Winston, 1969), pp. 410-438; see also Edwin A. Winckler, "Policy oscillations in the People's Republic of China: a reply," *The China Quarterly*, No. 68 (1976), pp. 734-750.

3. Alexander Eckstein, "Economic fluctuations in communist China's domestic development," in Ping-ti Ho and Tsou Tang (eds.), *China in Crisis: China's Heritage and the Communist Political System* (Chicago: University of Chicago Press, 1968), p. 693; Barry Naughton, "Macroeconomic policy and response in the Chinese economy," *Journal of Comparative Economics*, No. 11 (1987), pp. 334-353; Hiroyuki Imai, "Explaining China's business cycles," *The Developing Economies*, Vol. XXIV, No. 2 (1996), pp. 154-185; see also "China's endogenous investment cycle," *Journal of Comparative Economics*, No. 19 (1994), pp. 188-216.

4. Lowell Dittmer, "Patterns of elite strife and succession in Chinese politics," *The China Quarterly*, No. 123 (1990), pp. 405-430; George T. Crane, *The Political Economy of China's Special Economic Zones* (Armonk, NY: M. E. Sharpe, 1989), p. 146; Richard Baum, "The road to Tiananmen: Chinese politics in the 1980s," in Roderick MacFarquhar (ed.), *The Politics of China, 1949-1989* (New York: Cambridge University Press, 1993), pp. 340-471; Lucian Pye, *The Dynamics of Chinese Politics* (Cambridge, MA: Oelgeschlager, Gunn and Hain, 1981).

5. Andrew Nathan, "Policy oscillations in the People's Republic of China: a critique," *The China Quarterly*, No. 68 (1976), pp. 720-733.

6. Winckler, "Policy oscillations in the People's Republic of China: a reply," pp. 734-750.

Chinese policy change in heeding Nathan's call to analyse the dynamic learning aspects of the Chinese policy process.

This article examines the development of three major foreign economic policy initiatives formulated between 1979 and 1980 – plan-oriented export promotion policies, utilization of foreign finance capital (private and official capital inflows, direct foreign investment) and export processing zones. These pillars of China's initial "Opening Strategy" resulted from two decades of interaction with the global economy. Coalescing around an inwardly-oriented strategy of import substitution, certain Chinese elites learned how to harness the world capitalist marketplace to develop China. After the Third Plenum of 1978, this incremental learning initiated a gradual evolution towards a more outwardly-oriented development regime characteristic of the East Asian development model.

Cyclic Models, Incremental Learning and Opinion Group Approaches

Nathan was most critical of the inflexible nature of the cyclic model. Maoist polemicists often interpreted Chinese politics post-1949 as a zigzag "struggle between the two classes, the two roads and the two lines."⁷ Fearing that Western theories continued to impose this dialectic view of the policy development process, Nathan argued for a learning model in which policy options were "so multiform and complex that the choices are really more than two, and might best be regarded as infinite."⁸ In other words, Chinese elites have the ability to learn from their experiences, and are not caught in an unchanging loop of history.

Yet, there need not be an artificial separation between cyclic and linear views of the Chinese policy process.⁹ The repetition of certain patterns and phases of the policy process does not preclude the evolutionary development of initiatives. While Chinese elites can learn from past successes and failures, their ability to implement progressive change can be interrupted by recurring policy patterns initiated by a change in the ruling elite coalition. Under such conditions, policy learning can occur over time, but at an incremental pace.¹⁰

One way to demonstrate this incremental process is to use the opinion

7. Hung Yu, "History develops in spirals," *Peking Review*, No. 43 (1974), pp. 10–11, as translated from *Hongqi*, No. 10 (1973), cited in Nathan, "Policy oscillations," p. 731.

8. Nathan, *ibid.* p. 728.

9. For a recent discussion of linear and cyclical process models, see Donald J. Puchala, "The history of the future of international relations," *Ethics and International Affairs*, No. 8 (1994), pp. 177–202.

10. In contrast to organizational theorists such as James March, most of the recent foreign policy research on learning has focused on international security issues at the decision-maker level of analysis, starting with Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976), ch. 6. For a comprehensive literature review, see Jack S. Levy, "Learning and foreign policy: sweeping a conceptual minefield," *International Organization*, Vol. 48, No. 2 (1994), pp. 279–312; as applied to the China security field, see Alastair Iain Johnston, "Learning versus adaptation: explaining change in Chinese arms control policy in the 1980s and 1990s," *The China Journal*, No. 35 (1996), pp. 27–61; Hu Weixing, "The medium nuclear powers and nuclear stability," (PhD dissertation, University of Maryland, 1992).

group approach, which focuses on the policy elites' *Weltanschauung*. Richard Lowenthal's seminal work on the "Communist Dilemma" argued that all communist systems are faced with a conflict between the competing goals of modernization and utopianism.¹¹ While adopting a linear argument that modernization advocates would eventually prevail, Lowenthal did not totally exclude the possibility that the antinomy of development goals could produce cyclic changes of policies.¹² Recently, several political scientists have used variations of the opinion group approach to uncover evidence of such cycles during the pre- and post-Third Plenum period.¹³

When applying this incremental learning model to China's pre-1979 development policy, it could be argued that Chinese elites uniformly agreed to pursue an inwardly-oriented development regime. The international market was not considered a partner in development, but a dangerous adversary whose influences on the domestic economy must be controlled and, in certain instances, eliminated. However, Chinese elites disagreed over which path of development would achieve self-reliance. Certain elites, including Zhou Enlai, Deng Xiaoping, Chen Yun, Li Xiannian and Bo Yibo (hereafter referred to as the post-GLF coalition), wanted to continue a "modernizing" strategy of import substitution (IS), whose imports of technology and equipment made an important contribution to China's overall economic development in the 1950s.¹⁴ IS development was a comprehensive strategy of importing foreign technology and knowledge to produce intermediate goods (petrochemicals, steel), producer (machinery) and consumer durables (automobiles, televisions, etc.)

11. Richard Lowenthal, "Development vs. utopia in communist policy," in Chalmers Johnson (ed.), *Change in Communist Systems* (Stanford: Stanford University Press, 1970), p. 54. Also see Alexander Eckstein, *China's Economic Revolution* (New York: Cambridge University Press, 1977), pp. 37-65; Skinner and Winckler, "Compliance succession in rural communist China," p. 412. For an updated version of the opinion group approach, see Emanuel Adler, "The emergence of cooperation: national epistemic communities and the international evolution of the idea of nuclear arms control," *International Organization*, Vol. 46, No. 1 (1992), pp. 101-145. Because of its inclusive nature, this study does not adopt the concept of epistemic communities.

12. According to Lowenthal, "throughout the history of these indigenous Communist regimes a kind of natural alternation has occurred in which periods of revolutionary upheaval are followed by periods of consolidation and economic progress, and these in turn by new revolutionary upheavals, though the alternation does not seem regular enough to be meaningfully described as cyclical." See Lowenthal, "Development vs. utopia," p. 54.

13. Dorothy Solinger, *Chinese Business Under Socialism* (Berkeley: University of California, 1984), p. 298; Harry Harding, *China's Second Revolution* (Washington, DC: Brookings, 1987), pp. 83-84; Eric Harwit, *China's Automobile Industry: Policies, Problems and Prospects* (Armonk, NY: M. E. Sharpe, 1995), pp. 15-42; Jude Howell, *China Opens its Doors* (Boulder, CO: Lynne Rienner, 1993), pp. 32-35; 252-59.

14. Zhang Peiji, "Guanyu woguo duiwai maoyi fazhan zhanlüe de tantao" ("Probing China's foreign trade development strategy"), in Wu Jikun (ed.), *Duiwai maoyi fazhan zhanlüe* (*Foreign Trade Development Strategy*) (Beijing: Zhongguo duiwai jingji maoyi chubanshe, 1984), pp. 26-36; Dwight H. Perkins, "The central features of China's economic development," in Robert F. Dernberger (ed.), *China's Development Experience in Comparative Perspective* (Cambridge, MA: Harvard University Press, 1980), pp. 130-33; Dwight H. Perkins, "Reforming China's economic system," *Journal of Economic Literature*, No. 26 (1988), pp. 627-28; Alexander Eckstein, *Communist China's Economic Growth and Foreign Trade*, (New York: Columbia University Press, 1966), pp. 117-130.

that normally would have been imported.¹⁵ Other elites, including Mao Zedong, Jiang Qing and Lin Biao, promoted a more utopian strategy of semi-autarchy, characterized by the cessation of all foreign trade and investment activities, except for very limited, government-mandated actions.¹⁶ Instead of an over-reliance on technology, bureaucracy and market incentives, these elites embraced more normative measures to mobilize the people's sense of nationalism and communist ideals to achieve self-sufficiency.¹⁷

The resulting dispute between the various opinion groups condemned China to a cycling within the inwardly-oriented development regime for nearly two decades.¹⁸ Yet this did not prevent the Chinese elites who promoted modernization from learning how to deal with the international marketplace. On regaining power after 1971 and again after 1976, they reviewed and reimplemented many of the post-GLF foreign economic policies of the early 1960s.¹⁹ This article concludes that by the Third Plenum many elites supporting the modernization strategy had learned the limitations of an inwardly-oriented development regime; thus they proposed to experiment with several foreign economic policy initiatives indicative of an outwardly-oriented development regime.²⁰

15. Bela Balassa, *The Process of Industrial Development and Alternative Development Strategies*, Essays in International Finance, No. 141 (Princeton: Princeton University Press, 1980), pp. 5–11. For more information on China's IS strategy, see Nicolas Lardy, *Foreign Trade and Economic Reform in China, 1978–1990* (Cambridge: Cambridge University Press, 1992), ch. 2; The World Bank, *China: External Trade and Capital* (Washington, DC: The World Bank, 1988), pp. 95–99; Bruce Reynolds, "China in the international economy," in Harry Harding (ed.), *China's Foreign Relations in the 1980s* (New Haven: Yale University Press, 1984), pp. 83–90.

16. Ho and Huenemann argue that "both the earlier writings of Mao and the later writings of Mao's ultra-Left allies seem to reject a policy of economic isolationism. However, the gap between words and actions can be a wide one." They recognize the "plausibility" that China's foreign economic policy during the Cultural Revolution and the summer of 1976 "was essentially a closed door policy..." See Samuel P. S. Ho and Ralph W. Huenemann, *China's Open Door Policy: The Quest for Foreign Technology and Capital* (Vancouver: University of British Columbia Press, 1984), p. 6.

17. In contrast to the simplistic "Two-line struggle" approach, an opinion group approach can recognize that various coalitions supporting various philosophies, bureaucratic identities, and/or personal allegiances can coalesce around a particular opinion. In his analysis of the post-GLF period, Lieberthal acknowledges that Mao did not "fully share the goals and perspectives" of Jiang Qing, Kang Sheng or Lin Biao. Yet these various ideological and bureaucratic coalitions could group around Mao's "faith in mass mobilization as an instrument of ideological renewal, social change and rectification." See Kenneth Lieberthal, "The Great Leap Forward and the split in the Yenan leadership," in Roderick MacFarquhar and John Fairbank (eds.), *The Cambridge History of China*, Vol. 14 (Cambridge: Cambridge University Press, 1987), pp. 335–356, especially pp. 351–56.

18. For a discussion of the domestic obstacles to learning, see Levy, "Learning and foreign policy," pp. 291, 300–302; for further discussion on the antinomy of Chinese development strategies during the pre-1978 period, see Lawrence C. Reardon, "The rise and decline of China's export processing zones," *Journal of Contemporary China*, Vol. 5, No. 13 (1996), pp. 281–303.

19. "Utopians" also engaged in "incremental learning." See Lieberthal, "The Great Leap Forward," pp. 354–55.

20. Joseph Nye would define the incremental learning of the pre-1978 period as "simple learning," which "uses new information merely to adapt the means, without altering any deeper goals in the ends-mean chain. The actor simply uses a different instrument to attain the same goal." The decision to embark on a more outwardly-oriented strategy would be the

Three Cases of Incremental Learning

1. Plan-Oriented Export Promotion Policies

Despite the international norms promoted by the World Trade Organization, economies ranging from “free traders” such as the United States to more mercantilist states such as France and Japan continue to enact a variety of export promotion measures. China is no exception. Chinese leaders have in the past provided export incentives ranging from administrative orders imposing export priorities to more remunerative approaches such as providing rubber galoshes to farmers producing hogs for export. The Third Plenum’s “opening” strategy was to a large degree a continuation and enhancement of measures first implemented in the 1960s.

Export promotion: pre-Third Plenum origins. Following the economic collapse resulting from the Great Leap Forward, the Chinese leadership urgently needed to finance grain imports to feed China’s starving millions and repay its foreign debts, especially to an increasingly estranged Soviet partner. China could no longer rely on the insulated barter arrangements with the Soviet bloc countries following the Sino-Soviet split, and had to engage the capitalist marketplace. The post-GLF coalition thus experimented with a variety of export promotion measures to overcome export procurement problems and to “develop production of products suited for export to the capitalist markets, further raise product quality and variety to suit the characteristics of the capitalist market.”²¹ By June 1963, the success of these measures and China’s overall economic recovery enabled the Chinese to readopt a small-scale IS programme based on importing technology and turnkey plants from Western capitalist economies.²²

One of the first export promotion initiatives enacted during the post-

footnote continued

result of “complex learning,” which “involves recognition of conflicts among means and goals in causally complicated situations, and leads to new priorities and trade-offs.” See Joseph Nye, “Nuclear learning and U.S.-Soviet security regimes,” *International Organization*, Vol. 41, No. 3 (1987), p. 380; see also Chris Argyris and Donald Schon, *Organizational Learning: A Theory of Action Perspective* (Reading, MA: Addison-Wesley, 1980), pp. 20–26; Levy, “Learning and foreign policy,” pp. 286–87. Peter Hall borrows from Thomas Kuhn the idea of policy paradigms, in which “first and second order changes preserve the broad continuities usually found in patterns of policy; third order change is often a more disjunctive process associated with periodic discontinuities in policy.” See Peter Hall, “Policy paradigms, social learning, and the state,” *Comparative Politics*, No. 25 (1993), p. 279.

21. National Foreign Trade Conference, 5–27 September 1963, in Xu Dashen (ed.), *Gongheguo shiji, di er juan* (*A Chronology of the Republic, Vol. 2*) (Changchun: Jilin renmin chubanshe, 1996), p. 910; Fang Weizhong (ed.), *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), p. 366.

22. Long Chucai (ed.), *Liyong waizi gailun* (*An Introduction to the Use of Foreign Capital*) (Beijing: Zhongguo duiwai jingji maoyi chubanshe, 1985), p. 230; for a listing of turnkey projects and equipment imports, see Robert L. Price, “International trade of communist China, 1950–65,” in U.S. Congress, Joint Economic Committee (ed.), *An Economic Profile of Mainland China*, 90th Congress, 1st Session (Washington, DC: GPO, 1967), p. 603; Hans Heymann, Jr., “Acquisition and diffusion of technology in China,” in U.S. Congress, Joint Economic Committee (ed.), *China: A Reassessment of the Economy*, 94th Congress, 1st Session (Washington, DC: GPO, 1975), pp. 712–721.

GLF period applied administrative means to prioritize export procurement, where quotas were threatened by China's looming economic crisis. Despite the growing threat of massive starvation, the CCP Central Committee and the State Council issued an "Emergency directive" on 26 October 1959 inaugurating the *Yi qi, er xiang, san chao* ("First squeeze, secondly replace, thirdly exceed") policy.²³ The policy "squeezed" from the domestic economy "all commodities which [had] not met the export plan and whose domestic consumption [could] be reduced or eliminated." Secondly, it mandated the "replacement" of any export commodities that could not be procured on the domestic market by other obtainable, exportable goods. Thirdly, the policy insisted that production units "exceed" their planned export quota. The policy also provided "Five priorities" (*Wu youxian*) status to all export products, guaranteeing "priority in production and processing, in access to raw materials and packaging supplies, in procurement and in transportation."²⁴

A second important initiative was the *Yijin yangchu* ("Import production inputs to produce exports") foreign trade programme. Its purpose was to increase foreign exchange by "importing raw materials, equipment and technology from abroad, processing [the material] into a finished product and then exporting it."²⁵ The basic strategy was straightforward: guarantee export procurement and raise the amount of foreign exchange receipts derived from exports. It was achieved in part by launching a nation-wide procurement, export, allocation and transportation campaign (*Shougou, chukou, diaoyun yundong*), raising the value-added content of export commodities and increasing gold production.²⁶ Such administrative measures set the goals and provided the "stick" to meet and exceed production quotas.

By the early 1960s, the post-GLF elite realized they needed to provide certain "carrots" to motivate Chinese farmers and factory managers. Agricultural producers were "bribed" with the increase of state procurement prices and the institution of various bonus schemes. Mirroring initiatives taken on the domestic market,²⁷ the leadership approved

23. Li Xiannian, "Duiwai maoyi gongzuo de jidian yijian" ("Several opinions on foreign trade work"), in Li Xiannian, *Li Xiannian lun caizheng jinrong maoyi, 1950-1991* (*Li Xiannian's Discussions on Finance and Trade, 1950-1991*), Vol. 1 (Beijing: Zhongguo caizheng jingji chubanshe, 1992), p. 344; Dangdai Zhongguo de jingji guanli bianjibu (ed.), *Zhonghua renmin gongheguo jingji guanli dashiji* (*A Chronology of the Major Events in the PRC's Economy and Management*) (Beijing: Zhongguo jingji chubanshe, 1986), p. 131.

24. Li Xiannian, 28 February 1960, National Conference of Financial and Trade Party Secretaries, approved by the CCP Central Committee on 3 March 1960, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 138.

25. 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), p. 43; Zhongguo duiwai maoyi gailun bianxiezu (ed.), *Zhongguo duiwai maoyi gailun* (*An Introduction to China's Foreign Trade*) (Beijing: Duiwai maoyi jiaoyu chubanshe, 1985), p. 143.

26. Professional conference on problems of gold production called by the SEC on 20 June 1961, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 161.

27. For instance, see "Guanyu liangshi jiangli banfa he youliao jiage wenti" ("Methods for the grain bonus methods and problems in the oil crop pricing"), issued by the State Council

increases in export procurement prices in 1961. By 1965, the State Council had approved a separate foreign trade procurement price, which stipulated higher procurement prices for goods whose quality, variety or packaging exceeded that of similar goods intended for the domestic market.²⁸ The leadership again copied initiatives in the domestic sector,²⁹ instituting a bonus scheme to stimulate production of a variety of agricultural sideline products for export.³⁰ Following Li Xiannian's suggestions of March 1961,³¹ the state initially offered grain to producers of six economic crops – tea, silk, peppermint oil, apples, oranges and shelled walnuts. By 1962, foreign trade corporations could offer a variety of bonus items to the producer in exchange for the procurement of 108 export commodities. Speaking to the National Foreign Trade Planning Conference in September 1963, Li Xiannian even suggested mixing administrative and remunerative measures by extending the remunerative “carrot” of foreign goods bonuses to participants of the *Yijin yangchu* programme.³² Thus, despite massive starvation in the Chinese countryside, elites after 1961 succeeded in procuring export commodities from Chinese farmers, who were both commanded by administrative decree and motivated by cartons of cigarettes, bolts of scarce silks and squeaky tennis shoes.³³

Mirroring the remunerative schemes for agricultural export procurement, the state offered export financing through the Ministry of Foreign Trade and the Chinese People's Construction Bank, which in 1964 initiated a 600 million *yuan* loan programme to expand export production of industrial goods (*Chukou gongyepin shengchan zhuanxiang daikuan*).³⁴ The state also allowed localities to retain a portion of their foreign

footnote continued

Office of Finance and Trade and approved/transmitted by the CCP Central Committee on 8 November 1960, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, pp. 148–49.

28. “Guanyu gongying chukou shangpin tongyi zuojia de zanxing guiding” (“Provisional regulations on a unified price fixing for supplied export commodities”), approved by the State Council in November 1965, as cited in Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 52–56.

29. For instance, see “Guanyu shougou zhongyao jingji zuowu shixing liangshi jiangli de zhishi” (“Directive on carrying out the grain bonus in procuring important cash crops”), issued by the CCP Central Committee on 3 April 1961, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 157.

30. For a complete account of the export procurement bonus schedule, see Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 16–43.

31. Li Xiannian, “Kefu dangqian jingji kunnan de ji ge wenti” (“Several problems in overcoming the current economic problems”), 20 March 1961, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 1, pp. 448–450.

32. Li Xiannian, “Yiju xin qingguang zuohao waimao gongzuo” (“Do a good job in foreign trade work according to the new situation”), speech to the National Foreign Trade Planning Conference, delivered on 26 September 1963, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 2, p. 151.

33. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 18–19.

34. Tan Qingfeng *et al.* *ibid.* p. 69. The exact method of loan dispersal was first codified in 1964 and recodified in 1972, 1975 and 1982. See Tan Qingfeng *et al.* *ibid.* p. 70; “Chukou gongyepin shengchan zhuanxiang daikuan banfa” (“Specialized loan procedures for the production of industrial products for export”), Maojizongzi 82.35, issued by the Ministry of Foreign Economics and Trade, the Ministry of Finance and the People's Construction Bank

exchange earnings in order to “bring the initiatives of the localities into full play.” Where foreign exchange revenue was previously sold to the People’s Bank of China, the new retention rights were seen by key economic policy figures as an effective tool to motivate an increase in export production.³⁵

During the Cultural Revolution, Mao Zedong believed that politics was in command, and that “one only [needed] to use spiritual encouragement and not material incentives” to stimulate production.³⁶ The Chinese furthermore could implement a more self-reliant strategy in which China no longer needed to import large turnkey plants from Europe and Japan. As a result, the majority of the 1960s export promotion strategies were eliminated, including the bonus scheme,³⁷ the loan programme expanding industrial production for export,³⁸ the allocation of foreign exchange to localities (*waihui fencheng*)³⁹ and “using imports to develop exports.”⁴⁰

This period of semi-autarchy ended with the death of Mao’s appointed successor, Marshal Lin Biao, in September 1971. Zhou Enlai, with the help of the other post-GLF coalition members, readjusted the country’s development strategy to overcome the after-effects of the Cultural Revolution and to stimulate domestic development. Somewhat freed from Maoist utopian dictates and the economic constraints of the early 1960s, the post-GLF coalition reimplemented a comprehensive, large-scale IS domestic development strategy whose total projected cost in foreign exchange was US\$4.3 billion.⁴¹

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on 13 May 1982, in Zhongguo renmin yinhang jihuasi (ed.), *Lilü wenjian huibian* (*A Collection of Documents on Interest Rates*) (Beijing: Zhongguo jinrong chubanshe, 1986), pp. 803–806.

35. Li Xiannian, “Shangye he waimao ruogan gongzuo wenti” (“Certain problems in commercial and foreign trade work”), delivered at an Office Conference of the State Council Office of Finance and Trade on 25 August 1965, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 2, pp. 254–55.

36. “Guanyu zhengzhi guashuai wenti de yijian” (“Opinion on putting politics in command”), submitted by Wang Renzhong, and approved/transmitted by the CCP Central Committee on 10 April 1966, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC’s Economy and Management*, p. 231.

37. “Guanyu yijuliuba niandu shougou nong-fuchanpin jiangshou biaozhun de tongzhi” (“Circular on 1968 bonus standards in agricultural sideline production procurement”), issued by the State Council on 16 June 1968, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC’s Economy and Management*, p. 248. Also see, the circular issued by the CCP Central Committee, the Central Cultural Revolution Committee, the State Council and the Central Military Commission on “Yijuliujiu nian chengxiang jumin mianhu fenpei wenti” (“Problem of distributing cotton cloth to inhabitants of cities and suburbs in 1969”), issued on 4 March 1969, in Dangdai Zhongguo de jingji guanli bianjibu, *ibid.* p. 252.

38. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 70.

39. “Guanyu quxiaofeimaoyi waihui fencheng hanfa de tongzhi” (“Circular on abolishing the method of apportioning foreign exchange for non-trade channels”), issued by the State Council on 9 May 1967, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC’s Economy and Management*, p. 240.

40. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 49.

41. “Guanyu zengjia shebei jinkou, kuoda jingji jiaoliu de qingshi baogao” (“Report and request for instructions concerning the increase of equipment imports and the expansion of economic exchange”), was submitted to the State Council by the SPC on 2 January 1973 and

To finance the “4–3” development strategy, the post-GLF coalition reviewed the export promotion policies of the early 1960s, many of which were subsequently revived and expanded. To repair the damage to China’s industrial export sector, the State Council approved a Ministry of Foreign Trade plan to revive the Specialized Loan Programme for Industrial Export Production in 1972.⁴² After reviewing the post-GLF loan programme that had been terminated during the Cultural Revolution, the State Council determined that such loans had been very effective in “developing export industrial products, raising quality and variety, and improving packaging.”⁴³ The State Council thus set aside 200 million *yuan* to target foreign trade industries, state-owned industrial or mining concerns and collectives; in reviewing the programme in 1975, the State Council again acknowledged its effectiveness, doubling its commitment to 550 million *yuan*.

The Specialized Loan Programme was denominated in non-convertible *renminbi* – useless for importing the advanced production equipment needed to improve quality and variety and compete on the international market. Thus, the Ministry of Foreign Trade and the People’s Bank authorized a “new kind of work” – the Short-Term Foreign Exchange Loan programme established under the Ministry of Foreign Trade’s Specialized Foreign Trade Corporations.⁴⁴ These Corporations were directed to distribute the loans to production industries that would

import advanced technology, equipment and materials, expand export commodity production capacity, raise product quality, increase variety, improve packaging and design; ... import raw and supplementary materials to be processed and exported; ... develop transportation and tourism industries ...⁴⁵

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approved in principle on 22 March 1973, in *Dangdai Zhongguo De Jingji Guanli Bianjibu, A Chronology of Major Events in the PRC's Economy and Management*, pp. 272, 275; Fang Weizhong, *A Chronology of Major Events, 1949–1980*, pp. 505–506. The “qingshi baogao” formally introduced China’s new domestic development strategy – the “4–3 plan” costing US\$4.3 billion. It originally envisioned the importation of 13 large chemical fertilizer plants, four chemical fibre plants, three petro-chemical plants, an alkylbenzene factory, 43 coal mine facilities, three large electrical generating plants as well as an assortment of turbines and jet engines, including the famous Spey engines from Britain.

42. “Chukou gongyepin shengchan zhuanxiang daikuan de yijian” (“An opinion on the specialized loan programme for industrial export product production”), issued by the Ministry of Foreign Trade and approved by the State Council in 1972, in Tan Qingfeng *et al. The Practice of Supporting Foreign Trade Production*, p. 70.

43. For an analysis of the “Measures” and its post-1972 result, see Tan Qingfeng *et al. ibid.* pp. 70–83; Wu Wutong, *Duiwai maoyi jichu zhishi gailun (Introduction to the Basics of Foreign Trade)* (Beijing: Duiwai maoyi jiaoyu chubanshe, 1986), pp. 30–32.

44. “Guanyu zhuanfa ‘duanqi waihui daikuan shixing banfa’ xi zunzhao zhixing (fu: duanqi waihui daikuan shixing banfa)” (“The letter of instructions concerning the issuance of ‘The provisional measures for short-term foreign exchange loans’ (attached: The provisional measures for short-term foreign exchange loans)”), *Maochudaierzi* 73.99/Yinwaizi 73.135, issued by the MFT and the People’s Bank of China on 16 June 1973, in *Zhongguo renmin yinhang jihuasi, A Collection of Documents on Interest Rates*, pp. 378–79.

45. *Duiwai jingji maoyibu renshi jiaoyuju, chukou huoyuan gailun bianxiezhu* (ed.), *Chukou huoyuan gailun (An Introduction to Export Sourcing)* (Beijing: Zhongguo duiwai jingji maoyi chubanshe, 1986), p. 89.

The state relied on foreign exchange originally deposited in the Bank of China branches and affiliates in Hong Kong and Macau to make over 4,000 loans worth US\$634.82 million between 1973 and 1978.⁴⁶

To strengthen the state's ability to guide foreign trade production, the leadership established an Investment Fund for Export Product Production in 1973. As part of the Ministry of Foreign Trade's long-term investment strategy, funds were invested in industrial, mineral and agricultural sideline production and processing industries. Funds were only given to industries that could guarantee production input requirements (raw material, energy and labour), required little prior investment and produced goods in demand internationally. In 1973, 94.85 million *yuan* (rising to 159.51 million *yuan* in 1975) was invested to finance technological renovations and improve export quality and quantity in promising export industries.⁴⁷

While the leadership implemented policies to improve industrial exports, they also improved agricultural sideline production. On 19 March 1973, the State Council approved the State Planning Commission's reinstatement of the agricultural sideline bonus scheme. The bonus schemes had been vilified as an attempt to restore capitalism during the Cultural Revolution. According to the new plan, producers received bonuses for 61 items in short supply on the domestic market, while the export market bonus scheme covered 29 items. The 1970s scheme was not as comprehensive as the post-GLF bonus scheme, but did unify the bonus award system for both domestic and export market items.⁴⁸

However by the mid-1970s, the "4-3" IS development programme and many of the export promotions schemes were under attack from the "politics in command" coalition, which supported a utopian path to development.⁴⁹ Jiang Qing, Wang Hongwen and others vehemently criticized Zhou Enlai's foreign economic policies during the "anti-Lin anti-Confucius" campaign⁵⁰ and the "repulse the right deviationist wind to

46. Between 1973-1979, 2,010 projects received loans totaling US\$247.37 million. See Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 93-94, 104; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, p. 90; Li Xiaoxian (ed.), *Duiwai maoyi yuanli yu shiwu jiaocheng (Text on the Principles and Practices of Foreign Trade)* (Shanghai: Shanghai renmin chubanshe, 1986), pp. 60-61; Wu Wutong, *Introduction to the Basics of Foreign Trade*, pp. 33-34.

47. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 111-15; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, pp. 91-92; Li Xiaoxian, *Text on the Principles and Practices of Foreign Trade*, p. 61; Wu Wutong, *Introduction to the Basics of Foreign Trade*, pp. 34-35.

48. "Guanyu shixing nong-fuchapin tongyi jiangshou banfa de qingshi baogao" ("Report and request for instructions on implementing a unified bonus scheme on agricultural sideline products"), submitted by the SPC and approved/transmitted by the State Council on 19 March 1973, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 275; Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 21, 38-41.

49. Chen Yun, "Liyong guonei fengfu laodongli shengchan chengpin chukou" ("Use China's abundant labour to produce finished products for export"), in Chen Yun, *Chen Yun wenxuan (Chen Yun's Selected Works)*, Vol. 3 (Beijing: Renmin chubanshe, 1995), p. 224.

50. For instance, a Chinese delegation visiting the Kodak Corporation in 1974 was presented with a glass snail. Jiang Qing strongly criticized the gift and the importation of the colour kinescope production line to the PRC. See Xu Dashen (ed.), *Gongheguo shiji, di*

reverse the verdicts campaign."⁵¹ Despite the successful attacks against key post-GLF coalition members such as Deng Xiaoping and Chen Yun, proponents of the modernization path – including Hua Guofeng – defended the programme, but further export promotion innovations were delayed until the late 1970s.

Export promotion: post-Third Plenum initiatives. The primary document outlining improvements on Plan-oriented export promotion policies following the Third Plenum was approved on 13 August 1979 as State Council document 79.202, entitled “The regulations regarding problems in putting great effort into developing foreign trade and increasing foreign exchange revenue.”⁵² Citing the need to expand foreign exchange revenue to “accelerate socialist modernization construction,” document 79.202 called on “every area and department [to] use all means available to increase export commodity production and energetically organize foreign exchange receipts obtained from non-trade activities ...” It was among the most important documents issued by the leadership in 1979.

Document 79.202 contained 15 regulations. The second of these sought to guarantee export supplies by implementing a contract system between foreign trade units and export production enterprises. It also reaffirmed the “five priority” principle first proposed in October 1959. Forgotten during the Cultural Revolution, the policy sought to guarantee the fulfilment of export contract obligations by assigning top priority to export commodity production, procurement and distribution.

In a similar spirit, the procurement price method for export products was altered by State Council document 79.206 in order to manipulate production costs and encourage exports.⁵³ For commodities produced solely for export,⁵⁴ prices were divorced from the domestic sale price

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sanjuan (A Chronology of the Republic), Vol. 3 (Changchun: Jilin renmin chubanshe, 1996), pp. 899–901.

51. For instance, see the “Politics in command” coalition’s attack on China’s foreign economic policy during the 25 June 1976 Political Bureau meeting: Xu Dashen, *A Chronology of the Republic*, Vol. 3, pp. 1241–42.

52. Lawrence C. Reardon (ed.), “China’s coastal development strategy, 1979–1984 (I)” *Chinese Law and Government*, No. 27 (1994), pp. 9–18.

53. “Guanyu chukou gongyepin gangying zuojia ji ge wenti de qingshi baogao de tongzhi” (“Circular on the report and request for instructions on the pricing of supplies of export industrial products”), State Council document 79.206, submitted by the State Bureau of Material Pricing and approved on 21 August 1979, in Guowuyuan fazhiju (ed.), *Zhonghua renmin gongheguo xianxing fagui huibian, 1945–1985 (caimao juan)* (*Current Laws and Regulations in the People’s Republic of China, 1945–1985, (Finance and Trade)*) (Beijing: Renmin chubanshe, 1987), pp. 704–08.

54. According to “Guanyu shangpin fenji guanli banfa de baogao” (“Report on the managing procedures for commodity classification”) of 12 February 1959, commodities were divided into three different categories: commodities whose export was restricted (e.g. cotton, vegetable oil); limited commodities demanded by both the domestic and export markets (e.g. tea and pork); and all others. On 17 October 1979, the State Council approved the Ministry of Commerce’s “Guanyu dangqian shangye gongzuo jidian yijian de baogao” (“Report on several opinions on current commerce work”) that reaffirmed the 12 February 1959 classification, in *Dangdai Zhongguo de jingji guanli bianqibu, A Chronology of Major Events in the PRC’s Economy and Management*, pp. 122, 364.

and calculated according to "normal" production costs and "reasonable" profit margins. Thus the Wuxi No. 5 Radio Factory reduced the production costs of its transistor radio by 43 per cent to 14.40 *yuan*; the factory sold the radio to the state exporter for 15 *yuan*, earning a profit of 0.60 *yuan* per radio.⁵⁵

The sixth regulation of document 79.202 called for a continuation of policies encouraging export growth, especially for industrial and new product exports. Most of the export promotion measures implemented in the 1960s and 1970s were maintained and revised. These included "Foreign trade circulating funds to promote export commodity production,"⁵⁶ "Investment measures for export commodity production,"⁵⁷ and the "Specialized loans for production of industrial commodities for export."⁵⁸ In the period between 1972 and 1980, these three important export promotion measures utilized 2.5 billion *yuan* of capital, financing over 120,000 pieces of equipment for 7,000 projects and increasing the value of production by 11.6 billion *yuan*.⁵⁹ The Short-Term Foreign Exchange Loan programme, initiated in 1973, was also revised in June 1979 and August 1980 (State Council document 80.222) in order to import technology that would raise the quality of light textile production. China would once again become competitive on the international market ... and even make shirt sleeves that didn't shrink after washing.⁶⁰

In addition, the leadership approved new loan programmes in 1979 and 1980 to encourage the export of local, industrial and new products. In 1979, the new "Administrative measures for trial production of new export commodities" provided supplementary funds to revitalize traditional export commodities. These measures upgraded manufacturing technology, improved product quality, variety and packaging, and financed product research and development.⁶¹ On 11 October 1980, the

55. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 55.

56. "Foreign trade circulating funds to promote export commodity production" was first implemented in 1975. The Ministry of Finance loaned funds to the Ministry of Foreign Trade, which in turn lent the money to provincial or local governments or foreign trade corporations to encourage agricultural sideline and local speciality production for export. See Tan Qingfeng *et al. ibid.* p. 83; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, p. 87.

57. "Investment measures for commodity production" originated in 1973 and distributed close to 800 million *yuan* between 1973 to 1981 for 615 export production projects. See Tan Qingfeng *et al. The Practice of Supporting Foreign Trade Production*, p. 111; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, p. 91.

58. "Specialized loans for the production of commodities for export" were instituted in 1964 to increase industrial export quality and variety and improve packaging. Between 1972 and 1980, the loans financed the acquisition of 110,000 pieces of equipment at a total cost of 1.84 billion *yuan*. See Tan Qingfeng *et al. The Practice of Supporting Foreign Trade Production*, p. 69; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, p. 86.

59. Tan Qingfeng *et al. The Practice of Supporting Foreign Trade Production*, p. 120.

60. Li Xiannian, "Jiejue hao renmin de chuanyi wenti" ("Find a solution to clothing the masses"), speech delivered on 23 May 1978 to the National Conference on the Textile Industry Studying Daqing, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 2, p. 333.

61. The "Administrative measures" were combined in 1981 with the State Science Commission's "Supplementary funds for scientific research used for foreign trade" ("Waimao keyan buzhuifei") to form the MFT's "Trial management procedures for science and technology used for foreign trade" ("Waimao keji guanli shixing banfa"). Between 1979 and

Bank of China issued trial regulations for two new loans: the “Medium- to Short-Term Specialized Loans for Export Commodity Production”⁶² and the “Medium- to Long-term Loans for Machinery and Equipment Exports.”⁶³ The former provided low interest loans to older factories within the Ministry of Foreign Trade system or collectives. Its purpose was to renovate existing plants producing equipment needed for export production. The latter provided sellers’ credit to state industries exporting turnkey plants, equipment or vessels.

The ninth regulation of document 79.202 called for the implementation of a foreign exchange retention scheme, which was based on the *waihui fencheng* scheme adopted in the early 1960s. This economic incentive programme, which had been eliminated in May 1967, was now formally expanded to include detailed supplementary guidelines outlining retention procedures for foreign exchange earned through foreign trade⁶⁴ and non-trade activities.⁶⁵ After more than a decade, enterprises and localities were once again permitted to retain a larger percentage of foreign exchange earnings, which totalled nearly 10 per cent of foreign exchange revenue.⁶⁶

The tenth regulation of document 79.202 authorized preferential tax treatment to increase exports. Domestic taxation was primarily assessed through the Commercial and Industrial Tax (*Gongshangshui*), which was first proposed on 13 September 1958.⁶⁷ The tax on 20 different

footnote continued

1981, the two original funds issued 18.95 million yuan to over 400 successful projects. See Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, p. 93, Wang Shouchun and Li Kanghua, *Zhongguo duiwai jingji maoyi de xin fazhan* (*The New Developments of China's Foreign Economic Trade*) (Beijing: Duiwai maoyi jiaoyu chubanshe, 1986), p. 43; Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 115–18.

62. “Chukou shangpin shengchan zhong-duanqi zhuanxiang daikuan shixing banfa” (“Temporary methods for specialized medium- and short-term loans for export commodity production”), *Zhongxinzi* 80.186, issued by the BOC on 11 October 1980, in *Zhongguo renmin yinhang jihuasi*, *A Collection of Documents on Interest Rates*, pp. 695–96.

63. “Jixie shebei chukou zhong-changqi daikuan shixing banfa” (“Temporary methods for specialized medium- and short-term loans for export commodity production”), *Zhongxinzi* 80.186, issued by the BOC on 11 October 1980, in *Zhongguo renmin yinhang jihuasi*, *A Collection of Documents on Interest Rates*, pp. 700–701.

64. “Guanyu chukou shangpin waihui liucheng shixing banfa” (“Trial procedures of the foreign exchange retention scheme earned from export commodities”), issued on 13 August 1979 by the State Council under “Guanyu dali fazhan duiwai maoyi zengjia waihui shouru ruogan wenti de guiding” (“The regulations regarding problems in putting great effort in developing foreign trade and increasing foreign exchange revenue”), State Council document 79.202, in Reardon, “China’s coastal strategy, 1979–1984 (I),” pp. 9–18.

65. “Guanyu feimaoyi waihui liucheng shixing banfa” (“Trial procedures of the foreign exchange retention scheme earned from non-trade activities”) was also issued under State Council document 79.202, *ibid.*

66. *Zhongguo guoji jinrong xuehui* (ed.), *Waihui tizhi gaige taolun wenji* (*Collected Works on Discussions of Foreign Exchange Structural Reforms*) (Beijing: Zhongguo jinrong chubanshe, 1986), p. 146.

67. “Gongshang tongyishui tiaoli (caoran)” (“The regulations of the unified industrial and commercial tax (draft)”), issued on 13 September 1958 and “Gongshang tongyishui tiaoli shixing xize (caoran)” (“The detailed rules and regulations of the unified industrial and commercial tax (draft)”), *Caishuizi* 58.52, in Guowuyuan tequ bangongshi, bangongting mishuju (ed.), *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*

categories of materials that were reprocessed for export (*yijin yangchu*) including cacao beans and man-made silk, was either reduced or eliminated.⁶⁸ This preferential treatment was expanded by the "Regulations concerning the reduction or elimination of the commercial and industrial tax on imported and exported commodities" of 30 December 1980.⁶⁹

Reflecting a growing appreciation of more outwardly-oriented development, customs duties on both imports and exports were either eliminated or reduced. Since 1951, export taxes had restricted the export of commodities in demand domestically. In 1980, all export taxes were eliminated.⁷⁰ Customs duties on imports were reduced or eliminated for many processing and assembly ventures, compensation trade and other foreign exchange-earning endeavours.⁷¹ Regulation 11 also called for a devaluation of the *renminbi* from the then current rate of 1.58 *yuan* to US\$1 as well as a change in the internal settlement rate.⁷² The State Council thus approved document 80.196 entitled "The trial procedures of the domestic settlement rate for foreign exchange earned from trade." A more favourable internal exchange rate made exporting more profitable for enter-

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Zones) (Beijing: Guowuyuan tequ bangongshi, bangongting mishuju, 1986), pp. 610–18, 619–624. The tax is the primary source of government revenue and is levied on enterprises and individuals involved in industrial or commercial dealings.

68. Wang Shouchun and Li Kanghua, *The New Developments of China's Foreign Economic Trade*, p. 51; Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 49.

69. "Guanyu 'jinchukou shangpin zhengmian gongshang shuishou de guiding' de tongzhi" ("Circular on 'The regulations on reduction or elimination of the industrial and commercial taxes on import and export products'"), submitted by the MOF and approved by the State Council on 30 December 1980 in *Zhonghua renmin gongheguo caizhengbu bangongshi* (ed.), *Caizheng guizhang zhidu xuanbian, 1981* (*A Selection of Financial Rules and Regulations*) (Beijing: Zhongguo caizheng jingji chubanshe), pp. 355–360; Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 58–59.

70. Tan Qingfeng *et al.* *ibid.* p. 60. Export taxes were reimposed on 30 April 1982 with "Guanyu ruogan shangpin zhengshou chukou guanshui de qingshi" ("Request for instructions concerning the imposition of export taxes on certain commodities"), submitted by the MOF *et al.* and approved by the State Council on 30 April 1982, in *Dangdai Zhongguo de jingji guanli bianjibu, A Chronology of Major Events in the PRC's Economy and Management*, p. 470.

71. "Dui jiagong zhuangpei he zhongxiaoxing buchang maoyi jinchukou huowu jianguan he zhengmianshui shishi xize (shixing)" ("The detailed regulations concerning the supervision and control of and the imposition and exemption of taxes on import and export materials for processing and assembly and medium- and small-scale compensation trade (trial regulations)"), issued by the General Customs Administration on 6 February 1980, in *Zhongguo shehui kexueyuan faxue yanjiusuo, Zhonghua renmin gongheguo jingji fagui xuanbian (1979.10–1981.12), xia* (*A Selection of PRC Economic Laws and Regulations, (1979.10–1981.12)*), Vol. 2 (Beijing: Zhongguo caizheng jingji chubanshe, 1983), pp. 300–302.

72. The devaluation finally began in February 1981, when RMB value dropped from 1.5487 *yuan* to 1.6106 *yuan*. Daily settlement rates were only provided after 28 May 1981. See Guojia waihui guanliju (ed.), *Huijia shouce (Handbook of Currency Values)* (Beijing: Zhongguo jinrong chubanshe, 1986), pp. 352–53; "Guanyu dui waimao danwei jiehui yilü gayong dangtian jiage de tongzhi" ("Circular on the change-over to a daily foreign exchange settlement rate for units dealing in foreign trade"), *Zhongzongzhi* 81.623, issued by the BOC on 28 May 1981, in *Zhongguo renmin yinhang bangongshi, Yijubayi nian jinrong guizhang zhidu xuanbian (Selections of the 1981 Financial Rules and Regulations)* (Beijing: Zhongguo jinrong chubanshe, 1983), p. 381.

prises. It also simultaneously protected domestic industry from international market competition.⁷³

Preferential treatment also was accorded to the post-GLF programme of "Importing materials to develop exports;" by 1980, the programme had produced 31.6 per cent of China's total exports and earned US\$5.69 billion in foreign revenue.⁷⁴ The programme, whose scope had been greatly expanded in March 1979,⁷⁵ now allowed participating enterprises to be granted "Five priority" status (79.202, Regulation 2).⁷⁶ For certain exports, enterprises were granted a lower *renminbi* cost for imported materials (State Council document 79.206, Point 5);⁷⁷ and they could retain 15 per cent of their net foreign trade earnings (79.202, Regulation 9). The enterprises also enjoyed a reduction or elimination of the Industrial and Commercial Tax and various import duties (79.202, Regulation 10).

Thus by the early 1980s, the Chinese had accumulated over two decades of experience in protecting Chinese export sectors while developing competitive products for the international market.

2. Foreign Finance Capital (Private and Official Capital Inflows, Direct Foreign Investment)

Fearing a revival of extraterritorial rights and other abuses that characterized the post-Opium War "opening" of China, PRC leaders have always considered the utilization of foreign capital to be a sensitive topic. Although the Chinese participated with the Soviets in joint ventures in

73. "Guanyu maoyi waihui neibu jiesuan jiage shixing banfa" ("The trial procedures for the domestic settlement rate for foreign exchange earned from trade"), State Council document 80.196, cited in "Guanyu yinfa 'guanyu maoyi waihui neibu jiesuan jiage shixing banfa de shishi xize' de tongzhi" ("Circular on the publication of the detailed regulations for the trial procedures of the internal settlement rate for foreign exchange earned from trade"), Jinchukouweizongzi 81.018/Huizongzi 81.226, issued by SCCIEA *et al.* after 27 March 1981, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting (ed.), *Duiwai jingji falü zhengce huibian* (A Selection of Foreign Economic Laws and Policies), Vol. 1 (1985), p. 450.

74. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 50.

75. "Yijin yangchu shixing banfa" ("Trial procedures for the importation of materials to develop exports"), issued on 26 March 1979 by the State Council, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting (ed.), *A Selection of Foreign Economic Laws and Policies*, Vol. 1, pp. 175–78. Processing and assembly activities were greatly expanded, including the importation of major pieces of equipment such as boat motors and instrumentation. The *yijin yangchu* programme was included *within the Plan*, and thus was different from the processing and assembly activities and compensation trade first approved by State Council document 78.139 in July 1978. See Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 4; He Xinhao, "Yijin yangchu shi woguo fazhan duiwai maoyi de yixiang zhanluexing cuoshi" ("Using imports to develop exports is a strategic measure to develop China's foreign trade"), in Wu Jikun (ed.), *Foreign Trade Development Strategy*, pp. 119–126.

76. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 48; ch. 2's discussion of "Five priority" status.

77. "If either the RMB price of imported raw and supplementary materials or the profit/tax rate is too high and causes large export losses, and if there is a foreign market [for the product] and a reasonable rate of return of foreign exchange, then imported materials will be priced according to the actual import cost and a 3 per cent administrative fee." See State Council document 79.206.

shipping and aviation, as well as oil and ore production in Xinjiang during the early 1950s, direct foreign investment became a forbidden topic following the Soviet debt repayment debacle in the 1960s.⁷⁸ Yet Chinese living overseas were not regarded as foreigners; apart from the years of the Cultural Revolution, the Chinese government has always actively courted Overseas Chinese remittances and investment. This experience in dealing with Overseas Chinese capital had taught Chinese elites how to open the door to “genuine” foreign investment by 1978 – before the Third Plenum.

Foreign capital: pre-Third Plenum origins. Since the founding of the PRC, the Chinese have taken advantage of preferential loan arrangements. To finance the large-scale importation of Soviet turnkey projects and equipment, Zhou Enlai signed China’s first preferential loan agreement with the Soviet Union in February 1950 for US\$300 million at a 1 per cent interest rate.⁷⁹ Following the Sino–Soviet schism, the Chinese readily accepted deferred credit offered by Western capital markets. For the most part, they utilized sellers’ credit,⁸⁰ which was ideologically acceptable because it was not considered a form of foreign debt.⁸¹ As a result, the Chinese took up US\$260 million in sellers’ credit from Japan, Britain, West Germany and other Western market countries (of which 70 per cent were extended terms), purchasing 51 complete plant and equip-

78. Wang Shouchun and Li Kanghua, *The New Developments of China’s Economic Trade*, p. 103; *Renmin ribao*, 11 May 1969. For background on past joint ventures with the Soviets, Poles and Czechs, see Liu Xiangdong (ed.), *Liyong waizi zhishi shouce (The Handbook of Investment Knowledge)* (Beijing: Shijie zhishi chubanshe, 1986), pp. 7–8.

79. “Guanyu daikuan gei Zhonghua renmin gongheguo de xieding” (“Agreement on a loan for the People’s Republic of China”), signed by the PRC and the Soviet Union on 24 February 1950, in Zhonggong zhongyang wenxian yanjiushi (ed.), *Jianguo yilai zhongyao wenxian xuanbian, diyi ce (Selected Important Documents Issued Since the Establishment of the PRC)* (Beijing: Zhongyang wenxian chubanshe, 1992), pp. 123–24.

80. Usually foreign countries extended sellers’ credit to finance transactions with China. China would pay 10–15% of the cost in convertible currency and the rest over an extended period. This is not to be confused with buyers’ credit. In the Chinese case, buyers’ credit was only used at the end of 1978 in the form of officially supported credit extended by foreign Export/Import banks. See Liu Xiangdong (ed.), *The Handbook of Investment Knowledge*, p. 125; Wang Shouchun and Li Kanghua, *The New Developments of China’s Economic Trade*, p. 108; The World Bank, *China’s Socialist Economic Development*, Vol. II (Washington, DC: The World Bank, 1983), p. 462. For a cryptic description by Li Xiannian, see “Shichang qingkuang haozhuanhou xuyao jixu jie jue de wenti” (“Problems which must continue to be resolved after the improvement of market conditions”), in Li Xiannian, *Discussions on Finance and Trade*, Vol. 2, p. 171.

81. A. I. Youngson (ed.), *China and Hong Kong: The Economic Nexus* (Hong Kong: Oxford University Press, 1984), p. 26. The leaderships’ definition of foreign debt is revealed in Chen Yun’s 18 September 1979 speech to the Finance and Economics Commission: “Basically speaking, there are only two types of foreign debt: the first type is buyers’ credit ... The second is convertible foreign exchange loans.” See Chen Yun, “Zai caijing weiyuanhui zhaokai de huibao shang de fayan” (“Speech to the report-back meeting of the finance and economic commission”), in Zhonggong zhongyang wenxian yanjiushi (ed.), *Sanzhong quanwei yilai zhongyao wenxian xuanbian (Selected Important Documents Issued Since the Third Plenum)* (Beijing: Renmin chubanshe, 1982), pp. 172–73. He doesn’t consider sellers’ credit to be a form of foreign debt.

ment imports during the 1960s, and paying only US\$13 million in interest.⁸²

Like many developing countries, China was also heavily dependent on foreign remittances as a major source of hard currency. According to the "Report on problems of Overseas Chinese remittances" issued by the Overseas Chinese Affairs Committee and the People's Bank in 1955, Chinese living abroad remitted over US\$600 million between 1950 and 1954, an amount exceeding half of the foreign exchange earned by trade with the West.⁸³ Although the elimination of extraordinary export controls and the increase of European and Japanese trade with China after 1957 relieved its dependence on these remittances,⁸⁴ China continued successfully to manipulate interest rates on Overseas Chinese accounts to increase foreign exchange reserves.⁸⁵ By May 1964, the Small Group on Overseas Chinese Remittances promised the Central Committee and the State Council that China could exceed the planned target of US\$120 million in Overseas Chinese remittances for 1964.⁸⁶ This news no doubt

82. According to the Chinese sources, long-term financing was available, but the majority of terms were five years' long. See Long Chucai (ed.), *Introduction to the Use of Foreign Capital*, p. 230.

83. "Guanyu qiaohui wenti de baogao" ("Report on problems of Overseas Chinese remittances"), issued by the Central Committee on 10 February 1955, in Fang Weizhong, *A Chronology of Major Events, 1949-1980*, p. 138; for more detailed estimates see Lin Jinzhi (ed.), *Huaqiao huaren yu Zhongguo geming he jianshe (Overseas Chinese Involvement in the Revolution and Construction of China)* (Fuzhou: Fujian renmin chubanshe, 1993), pp. 267-273; Wu Chun-Hsi, *Dollars, Dependents and Dogma: Overseas Chinese Remittances to Communist China* (Stanford: Hoover Institution, 1967), p. 142. For a comprehensive discussion of remittances and the role of Overseas Chinese in China's economic development, see Paul J. Bolt, "China's development and the Chinese overseas, 1979-1994: state and diaspora in the contemporary world order," (PhD dissertation, University of Illinois, 1996).

84. After China was branded an aggressor state in the Korean conflict, the UN imposed an embargo on "strategic" exports to China in May 1951. Subsequently, the China Committee (CHINCOM) was established within the Consultative Group Co-ordinating Committee (COCOM) to impose stricter limitations on Western trade with China and North Korea than those imposed on other Soviet bloc countries. For further information on the lessening of CHINCOM restrictions, see Qing Simci, "The Eisenhower administration and changes in Western embargo policy against China, 1954-1958," in Warren I. Cohen and Akira Iriye (eds.), *The Great Powers in East Asia, 1953-1960* (New York: Columbia University Press, 1990), pp. 131-36; T. J. Hughes and D. E. T. Luard, *The Economic Development of Communist China, 1949-1960* (New York: Oxford University Press, 1959), p. 136.

85. For instance, see "Huaqiao dingqi chuxu cunkuan zhangcheng" ("Regulations regarding Overseas Chinese fixed savings deposits"), issued by the People's Bank of China in January 1958 and revised in April 1960 and July 1960, in Zhongguo renmin yinhang jihuasi, *A Collection of Documents on Interest Rates*, pp. 273-74; "Guanyu xiugai huaqiao chuxu cunkuan lili he zengjia cunqi zhonglei de tongzhi" ("Circular on revising the interest and deposit schedules of Overseas Chinese fixed savings deposits"), Yinguoqingcaozhi 60.154, issued by the People's Bank of China on 19 June 1960, in Zhongguo renmin yinhang jihuasi, *ibid.* pp. 277-78; and "Guanyu chuxu ruhe jisuan lixi deng wenti de zonghe jieda" ("A comprehensive response to calculating interest rates on savings and other problems"), Shangchuzi 65.71, issued by the People's Bank of China on 28 July 1965, in Zhongguo renmin yinhang jihuasi, *ibid.* pp. 349-352.

86. "Guanyu lizheng yijuliusi nian chaoe wancheng yiyierqianwan meiyuan qiaohui renwu de qingshi baogao" ("Report and request for instructions on working hard to meet and exceed the Overseas Chinese U.S. dollar remittances for 1964 of US\$120 million"), submitted by the Small Group on Overseas Chinese Remittances and approved by the Central Committee and the State Council on 21 May 1964, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 207.

relieved the anxieties of the post-GLF leadership, who needed to finance the IS development strategy that had been revived the previous year.

Overseas Chinese funds were also essential to run the Overseas Chinese Investment Enterprises (OCIEs), which harnessed the investment capital of Chinese living in South-East Asia to promote domestic economic employment and growth. The success of the first OCIEs established in Fujian (1952) and Guangdong (1955) convinced the leadership to expand the concept nation-wide by 1957.⁸⁷ China considered Chinese living abroad legally to be Chinese citizens, who could be trusted to invest fairly in the domestic economy, and Overseas Chinese investors naturally focused their investment in their *laojia* (ancestral hometowns) in Guangdong, Fujian, Zhejiang and Guangxi, also building schools and other infrastructure projects. Supervised by the Overseas Chinese Investment Company, the OCIEs grew to number 318 private enterprises. Compared with today's foreign-invested enterprises, the OCIEs only played a minor role in transferring management and technological skills,⁸⁸ while their value and output were relatively small – the OCIEs had a market capitalization of around US\$560,000 (66 per cent of which belonged to Overseas Chinese investors) and generated a total of US\$52.81 million in remittances by the late 1960s.⁸⁹ Yet the OCIEs were an important learning tool, which became invaluable after the late 1970s.

The development of China's OCIEs and other initiatives ended with the Cultural Revolution when xenophobia stifled foreign finance capital. The various Overseas Chinese investment programmes inaugurated in the 1950s were suspended. As early as 24 September 1966, a report to the CCP Central Committee suggested that "the preferential interest savings rates on Overseas Chinese remittance accounts should be lowered."⁹⁰ The Overseas Chinese Investment Company was severely criticized for its "capitalist management ideas in attracting Overseas Chinese remittances" and was closed in 1970; the proto-joint ventures undertaken with Overseas Chinese capital were eventually nationalized.⁹¹ The fear of "having

87. "Huaqiao touzi xingban xuexiao banfa" ("Procedures for Overseas Chinese to invest in establishing schools") and "Huaqiao touzi yu guoying huaqiao touzi gongsi de youdai banfa" ("Preferential measures for Overseas Chinese investment in state-owned Overseas Chinese investment enterprises"), submitted by the State Council and approved by the 78th Meeting of the NPC Standing Committee on 1 August 1957, in Fang Weizhong, *A Chronology of Major Events, 1949–1980*, p. 194; Lin Jinzhi, *Overseas Chinese Involvement in the Revolution and Construction of China*, pp. 478–484.

88. Lin Jinzhi, *ibid.* p. 484.

89. Fang Weizhong, *A Chronology of Major Events, 1949–1980*, pp. 463–64, 495.

90. "Guanyu caizheng maoyi he shougongye fangmian ruogan wenti de baogao" ("Report on several policy problems in finance, trade and the handicraft industries"), submitted by the State Council's Office of Finance and Trade and the SPC, and approved by the CCP Central Committee on 24 September 1966, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 236.

91. "Guanyu chexiao huaqiao touzi gongsi de baogao" ("Report on closing the Overseas Chinese Investment Company"), submitted by the Military Representative of the People's Bank of China and approved by the State Council on 12 May 1970, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 258; "Guanyu huaqiao touzi jige wenti de dafu" ("Response to several problems in Overseas Chinese investment"), Yinjunmiyezi 70.154, issued by the People's Bank of China on 29 May 1970, in Zhongguo renmin yinhang jihuasi, *A Collection of Documents on Interest Rates*, pp. 362–63.

any relationship abroad" even extended to abolishing schools established for returning Overseas Chinese, such as Jinan University located outside Guangzhou.

Following the Cultural Revolution, China once again turned to the Western capital markets' offer of US\$1.2 billion in sellers' credit to finance its reinstated large-scale IS programme.⁹² Just as the post-GLF coalition had learned how to promote China's exports in a capitalist marketplace based on the lessons of the early 1960s, Deng Xiaoping proposed more innovative ways of financing foreign technology imports in his August 1975 speech.⁹³ Yet, as described in the previous case study, Deng was unable to overcome the opposition of the "Politics in Command" coalition, which was successful in toppling him in 1976 and overriding his plans to enact a more "active" foreign economic policy.

Interestingly, Hua Guofeng took a major step towards fully utilizing foreign finance capital three years later. Maintaining a more "orthodox" view of the modernization path, Hua relied on two traditional sources to finance his large-scale IS strategy: Overseas Chinese remittances and commercial borrowing. Up-ending the xenophobia of the Cultural Revolution, Hua considered the Overseas Chinese as a major financial source to be exploited.⁹⁴ The leadership thus established or re-established various Party, governmental and non-governmental bodies concerned with Overseas Chinese affairs.⁹⁵ Hua also took advantage of foreign commercial borrowing, which he considered an attractive way of financing his IS development.

While Hua Guofeng did not want to stray too far from policies enacted during Mao's lifetime, he did adopt several innovative foreign economic policies. By the time of the 1978 State Council Ideological Discussion Conference, Hua's Central Committee approved limited use of foreign capital to finance the accelerated completion schedule of large-scale IS

92. Liu Xiangdong (ed.), *The Handbook of Investment Knowledge*, p. 125; Wang Shouchun and Li Kanghua, *New Developments in China's Foreign Economic Trade*, p. 108; The World Bank, *China's Socialist Economic Development*, p. 462.

93. Deng Xiaoping, "Guanyu fazhan gongye de jidian yijian" ("Several suggestions to develop industry"), in Deng Xiaoping, *Deng Xiaoping wenxuan, 1975-1982 (Selected Works of Deng Xiaoping)* (Beijing: Renmin chubanshe, 1983), p. 29.

94. "Guanyu jiji zhengqu qiaohui de yijian" ("Opinion on actively striving for Overseas Chinese remittances"), State Council document 78.29, issued in early 1978, cited in "Guanyu juban waibi dingqi cunkuan de tongzhi" ("Circular on conducting foreign currency time deposits"), Zhongzongzhi 79.2004, issued by the BOC on 31 October 1979, in Zhongguo renmin yinhang jihuasi, *A Collection of Documents on Interest Rates*, p. 674.

95. On 13 August 1978, the Central Committee established a Small Group on Hong Kong and Macau. See Zhonggong zhongyang dangshi yanjiushi, *Zhonggong dangshi dashi nianbiao (A Chronicle of Major Events in Central Party History)* (Beijing: Renmin chubanshe, 1987), p. 418. The State Council also reopened its Office on Overseas Chinese Affairs that had been closed since 1970; Jinan University (Guangzhou) and the Overseas Chinese University (Xiamen) reopened. Meetings of various Overseas Chinese groups were held in December 1978 and new Overseas Chinese Associations were established. See Yuan Lizhou (ed.), *Tongzhan zhishi yu zhengce (Knowledge and Policies of the United Front)* (Harbin: Harbin gongye daxue chubanshe, 1985), pp. 476-77; Li Yongchun, Shi Yuanqin, and Guo Xiuzhi, *Shiyijie sanzong quanhui yilai zhengzhi tizhi gaige dashiji (Chronicle of Political Structural Reforms Since the Eleventh Plenum)* (Beijing: Chunqiu chubanshe, 1987), p. 42; *Renmin ribao*, 21 October 1985.

projects.⁹⁶ Breaking with reform initiatives from the 1960s and 1970s, the leadership officially accepted supported credit (buyers' credit); in August 1978 the Chinese entered negotiations to procure US\$1.2 billion in buyers' credit from the British government's export credit guarantee department.⁹⁷

Most importantly, Hua took the first steps to allow direct foreign investment from non-Overseas Chinese sources. In August 1978, Overseas Chinese *and* foreigners were invited to invest in the construction of luxury hotels for foreign tourists.⁹⁸ In addition, the State Council had issued document 78.139 authorizing processing and assembly activities the month before.⁹⁹ Building on the success of the earlier proto-joint ventures with Overseas Chinese capital – the OCIEs – new ventures authorized by document 78.139 allowed non-Chinese investors to engage in commercial undertakings on the mainland for the first time since the early 1950s.

Yet, diverging opinions within the original modernization opinion group prevented State Council document 78.139 from including formal regulations for compensation trade and there was absolutely no discussion of approving joint ventures with foreign capitalists.¹⁰⁰ One week after the official close of the 1978 State Council Ideological Discussion Conference, Deng Xiaoping complained that orthodox elements within the modernization opinion group – the “Two whatevers”

96. The Central Committee presumably decided to use foreign capital, and this decision was then discussed during the State Council Ideological Discussion Conference. An allusion to the Central Committee decision was made by Chen Yun in his 21 March 1979 speech. See Chen Yun, “Tiaozheng guomin jingji, jianchi an bili fazhan” (“Readjust the national economy, support proportional development”), in Zhonggong zhongyang wenxian yanjiushi (ed.), *Selected Important Documents Issued Since the Third Plenum*, p. 75–76. Both Zou Chuntai and Fang Weizhong (*A Chronology of Major Events, 1949–1980*, pp. 425, 603 respectively) state that the decision to use foreign capital was adopted during the 1978 Ideological Conference. Thus, it is a “chicken and egg” problem.

97. Colina MacDougall, “Policy changes in China's foreign trade since the death of Mao, 1976–1980,” in Jack Gray and Gordon White (eds.), *China's New Development Strategy* (New York: Academic Press, 1982), p. 160; The World Bank, *China's Socialist Economic Development*, p. 462. For the Chinese definition of buyers' credit, see Chen Yun, “Speech to the report-back meeting of the finance and economic commission,” p. 172.

98. “Guanyu xishou huaqiao, waiforen deng zijin xingjian luyou lüguan 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 “Guanyu xishou qiaozhi, waizi jianshe luyou lüguan jinkou wuzi zhengmianshui wenti de qingshi” (“Request for instruction on the problem of reduction or elimination of taxes on imported materials for tourist hotels constructed with capital from Overseas Chinese and foreigners”), Maoguanshuizi 79.498, submitted to the State Council on 30 October 1979 by the MFT, in Zhejiang sheng sifating, Zhejiangsheng duiwai jingji maoyiting, *A Selection of Foreign Economic Laws and Policies*, pp. 787–89.

99. “Kaizhan duiwai jiagong zhuangpei yewu shixing banfa” (“Trial procedures for developing processing and assembly operations for the foreign market”), State Council document 78.139, issued on 15 July 1978, cited in “Yinfa 'duiwai jiagong zhuangpei yewu de waihui jiesuan shixing banfa' de tongzhi” (“Circular on the publication of ‘The trial procedures of foreign exchange settlement for processing and assembly operations for the foreign market’”), Maozonghuizi 78.203/Yinwaizi 78.399, issued by the MFT *et al.* on 28 August 1978, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting, *A Selection of Foreign Economic Laws and Policies*, pp. 475–77.

100. Li Xiannian, “Zai guowuyuan wuxuhui shang de jianghua” (“Speech to the State Council Ideological Conference”) 9 September 1978, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 2, p. 370.

group (comprised of Hua Guofeng, Wang Dongxing, Wu De, and so on) – had prevented a more “active” use of foreign capital.¹⁰¹ By the Third Plenum, the more liberal elements of the modernization group had succeeded in removing this group and approving more “active” measures for foreign capital.

Foreign capital: post-Third Plenum initiatives. After 1978, the new leadership adopted three methods of using foreign capital based on 30 years of dealing with international finance markets and Overseas Chinese investment. According to Hu Yaobang, these methods included:

attracting direct investment, including equity joint ventures, co-operative ventures, joint development, compensation trade, processing and assembly, etc.; the second method [was] to obtain medium- and long-term loans from foreign governments and international financial organizations with low to average interest rates, and funds from the various development funds, relief funds, etc.; the third method [was] the common commercial loan.¹⁰²

In contrast with the strategists of Hua’s Ten-Year Plan, the new leadership considered foreign commercial borrowing as the least desirable method of financing development. The Bank of China had arranged US\$9.8176 billion in commercial loans between March and October 1979.¹⁰³ Yet when the London Interbank Offer Rate (LIBOR) jumped to 17 per cent in August 1979,¹⁰⁴ the new leadership abandoned the commercial capital markets and sought both official and officially-supported credit and aid from international organizations.

The new leadership thus readily accepted the ¥330 billion (US\$1.5 billion) loan issued at a 3 per cent annual interest rate by the Japanese Overseas Economic Co-operation Fund.¹⁰⁵ Over US\$17 billion of officially supported credit (buyers’ credit) was also arranged from

101. State Council document 78.139; MacDougall, “Policy changes in China’s foreign trade,” pp. 160–62.

102. Hu Yaobang, “Guanyu duiwai jingji guanxi wenti” (“The problem of foreign economic relations”), in Zhonggong zhongyang wenxian yanjiusi (ed.), *Sanzhong*, p. 1119.

103. This amount included US\$8.2 billion in Eurodollar credits arranged by 31 Japanese non-governmental banks and 22 companies. For details, see “Guanyu he Riben minjian yinhang qiandeng xindai xieyi de qingkuang ji shiyong gaixiang xindai ying zhuyi youguan shixiang de tongzhi” (“Circular on the conditions under which a credit agreement was signed with the Japanese non-governmental banks and the relevant matters that must be attended to utilize this credit”), Zhongyezi 79.1624, issued by the BOC on 5 September 1979, in Zhongguo renmin yinhang jihuasi, *A Collection of Documents on Interest Rates*, pp. 672–74.

104. LIBOR is the standard by which international banks set foreign commercial loan interest rates. In May 1979, the rate was set a 10.5%, jumping to 17% by August. As for the Japanese non-governmental loans, the interest rate the Chinese would have to pay was set at 0.25–0.5% over the LIBOR rate.

105. On 18 December 1981, the agreement was adjusted to finance commodity purchases for two “New Great Leap Forward” projects, the Daqing Petrochemical Complex and the Baoshan Steel Complex. See Long Chucui (ed.), *Introduction to the Use of Foreign Capital*, pp. 253, 288, 300; Ryosei Kokubun, “The politics of foreign economic policy-making in China: the case of plant cancellations with Japan,” *The China Quarterly*, No. 105 (1986), pp. 19–44; John L. Davie and Dean W. Carver, “China’s international trade and finance,” in U.S. Congress, Joint Economic Committee (ed.), *China Under the Four Modernizations* (Washington, DC: GPO, 1982), p. 27.

China's trading partners.¹⁰⁶ Although considered more economical than commercial loans,¹⁰⁷ most of the buyers' credit remained unused as a result of domestic readjustment. Finally, China sought to recover its seat within the various United Nations financial organizations, including the IMF and the World Bank.¹⁰⁸ Anxious to access low interest loans, the leadership was aware of the loans' limited amounts and their conditions: Chen Yun stated in September 1979 that "utilization of such loans could be to our benefit. Yet there will be conditions for their use and their amount will not be large."¹⁰⁹ The Chinese thus learned to accommodate the demands of the IMF and the World Bank, becoming the largest recipient of World Bank loans by the 1990s.

Based on their experience with Overseas Chinese investment, the OCIEs and the processing and assembling ventures approved by Hua Guofeng, the post-GLF coalition learned they could rely on foreign direct investment as the primary means of foreign capital utilization. By developing processing and assembly agreements, compensation trade, equity joint ventures and other types of co-operative projects, the leadership sought "to seize the opportunity in using foreign capital as quickly as possible to import foreign technology and equipment and master advanced technology and management [techniques] from foreign countries."¹¹⁰ Foreigners provided the development capital, advanced technology and management expertise, which were scarce on the domestic market, while China provided the labour and land, which were previously under-utilized. With such an efficient supply of production inputs, China could compete effectively on the international market, while absorbing the foreign technology necessary to become a major world trading power.

This learning process was most clearly demonstrated by the adoption of the Joint Venture Law in July 1979 and State Council document 79.220 on 3 September 1979. During the April Work Conference of 1979, the State Council reviewed Hua Guofeng's 1978 authorization for foreign businesses to engage in processing and assembling activities in China.

106. Davie and Carver, "China's international trade and finance," p. 28; The World Bank, *China's Socialist Economic Development*, p. 462.

107. "Guanyu shiyong Ying, Fa, Yi yinhang maifang xindai jinkou chengtao shebei youguan wenti de tongzhi" ("Circular concerning the problems of using sellers' credit from English, French and Italian banks to import turnkey factories"), Zhongyezi 79.1417, issued by the BOC on 5 September 1979, in Zhongguo renmin yinhang jihuasi, *A Collection of Documents on Interest Rates* pp. 670-72.

108. In 1980, China recovered its seat in both the World Bank and the IMF. During 1981, the World Bank agreed to lend China US\$800 million; the IMF lent SDR759 million to help cover a foreign exchange deficit; and the International Agricultural Development Fund lent US\$35 million to be paid back over a 50-year period at a 1% interest rate.

109. Chen Yun, "Jingji xingshi yu jingyan jiaoxun" ("The economic situation and the lessons from experience"), in Zhonggong zhongyang wenxian yanjiusi (ed.), *Sanzhong*, pp. 601-02.

110. "Guanyu Zhongwai heying qiye ji ge wenti de qingshi baogao" ("A report and request for instructions concerning several problems involving joint venture problems with foreign countries"), Central Committee document 80.14, submitted by the Foreign Investment Management Commission and approved in principle on 6 February 1980, in Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 377.

The State Planning Commission reported that during the six month period following the promulgation of State Council document 78.139, a total of 661 processing and assembly agreements and 37 compensation agreements were signed; 504 contracts were signed with Hong Kong, 99 with Japan and 95 with the U.S. and Europe. The agreements meant the potential importation of US\$66 million of equipment and a net total gain of US\$123 million in foreign exchange revenue.¹¹¹ The State Council also learned that these compensation agreements had been signed even though document 78.139 had not approved compensation trade.

The success of these basic forms of foreign direct investment proved that foreign capital could be "actively" used without harming China's integrity. Thus on 1 July 1979, the Fifth National Peoples' Congress (NPC) approved the Joint Venture Law, which was essentially a vastly expanded version of the 1957 NPC initiative to establish the OCIEs. Under these regulations, both Overseas Chinese and non-Chinese were allowed to establish joint ventures in China. Priority was given to

projects which need little investment and yield quick returns and in addition are advanced by world standards; enterprises that can increase the competitive capability of exports and products on the international market; projects that will carry out technological renovation and expansion by tapping the potential and renewing existing domestic enterprises; projects that provide undersupplied products, etc.¹¹²

After its promulgation by the NPC, various regulations were issued, including regulations concerning the use of labour¹¹³ and land,¹¹⁴ registration procedures¹¹⁵ and taxation.¹¹⁶

111. See "Guanyu duiwai jigong zhuangpei yewu kaizhan qingkuang de baogao" ("Report on developing processing and assembly operations for the foreign market"), State Council document 79.135, submitted by the SPC on 10 April 1979 and approved on 21 May 1979, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting, *A Selection of Foreign Economic Laws and Policies*, pp. 932-940.

112. Central Committee document 80.14, in Reardon, "China's coastal development strategy, 1979-1984 (I)," pp. 45-58.

113. "Zhongwai hezi jingying qiye laodong guanli guiding" ("Labour management regulations for equity joint ventures between China and foreign businessmen"), State Council document 80.199, issued on 26 July 1980, in Guojia jingwei jishu gaizaoju, guojia jingwei guanli yanjiusuo, guojia jingwei jinchukouju (ed.), *Jishu gaizao jishu yinjin wenjian huibian* (*A Collection of Documents Relating to Technological Transformation and Importation*) (Beijing: Zhongguo jingji chubanshe, 1985), pp. 417-19.

114. "Guanyu zhongwai hezi qiye jianshe yongdi guanli banfa" ("The temporary regulations for the use of land in constructing equity joint ventures between China and foreign businessmen"), State Council document 80.201, issued on 26 July 1980, in Guowuyuan tequ bangongshi, bangongting mishuju, *Documents Relating to the Opening of the Coastal Cities and the Special Economic Zones*, pp. 328-330.

115. "Zhongwai hezi jingying qiye dengji guanli banfa" ("Management procedures for the registration of equity joint ventures between China and foreign businessmen"), State Council document 80.200, issued on 26 July 1980, in Guojia jingwei jishu gaizaoju et al. *Documents Relating to Technological Transformation and Importation*, pp. 420-21.

116. "Zhongwai hezi jingying qiye suodeshui fa" ("The equity joint venture enterprises income tax law") approved and issued by the National Peoples' Congress on 10 September 1980; "Geren suodeshui fa" ("The individual income tax law") approved and issued by the National Peoples' Congress on 10 September 1980. See Guojia jihua weiyuanwei tiaofa bangongshi (ed.), *Zhongyao jingji fagui ziliao xuanbian, 1977-1986* (*A Selection of Important Economic Laws, Regulations and Materials*) (Beijing: Zhongguo tongji chubanshe, 1987), pp. 879-880, 885-87.

Secondly, the State Council provided more detailed regulations for processing and assembly activities. In September 1979, the Chinese elites adopted the much more comprehensive State Council document 79.220,¹¹⁷ approving various export promotion incentives to renovate existing plant facilities, decentralize certain decision-making powers, foster co-operation between domestic production units, arrange access to domestic and foreign exchange funds, and encourage the use of domestic production inputs. Most importantly, document 79.220 included detailed regulations for compensation trade, which Hua Guofeng had opposed and Deng had publicly championed during his visit to the U.S. in January 1979.¹¹⁸

In addition to developing co-operative arrangements with foreign petroleum companies to develop China's offshore petroleum resources,¹¹⁹ the Chinese established the China International Trust and Investment Corporation (CITIC), effectively a successor to the Overseas Chinese Investment Company. In February 1979, Deng Xiaoping and several other top leaders directed Rong Yiren, a prominent Shanghai industrialist before 1949, to put forward a plan that would attract foreign capital. In March 1979, in collaboration with Vice Premier Gu Mu, Rong Yiren suggested:

it appears necessary to establish CITIC in order to attract foreign capital, import advanced technology and serve the Four Modernizations. CITIC would concentrate and uniformly attract foreign capital; in accordance with the State plan and the wishes of the investor, investment would be made in state construction.¹²⁰

Rong's proposal was approved on 25 March 1979 by the Central Committee after the important 21–23 March Political Bureau meeting;

117. "Kaizhan duiwai jiangong zhuangpei he zhongxiaoxing buchang maoyi banfa de tongzhi" ("Circular on procedures for developing processing and assembly operations for the foreign market and medium- to small-scale compensation trade"), State Council document 79.220, issued on 3 September 1979, in Guowuyuan tequ bangongshi, bangongting mishuju, *Documents Relating to the Opening of the Coastal Cities and the Special Economic Zones*, pp. 353–57. This document was preceded by one month by "Guanyu buchong xiuding 'kaizhan jiangong zhuangpei yewu shixing banfa' de qingshi baogao" ("Report and request for instructions on supplementing and revising 'Trial procedures for developing processing and assembly operations for the foreign market'"), submitted to the State Council by the SPC, the SEC, the SCCIEA, and the MFT on 4 August 1979, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting, *A Selection of Foreign Economic Laws and Policies*, pp. 925–29.

118. Renmin ribaoshe gongshangbu (ed.), *Zhongguo duiwai kaifang gongzuo shiwu shouce (Practical Handbook for China's Opening to the Outside)* (Beijing: Gongshang chubanshe, 1987), p. 916.

119. Chen Yun, "Readjust the national economy, support proportional development," p. 79. Discussions for joint offshore exploration had already begun by the summer of 1978, with letters of intent signed in April 1979. For more information, see Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China* (Princeton: Princeton University Press, 1988), pp. 169–268; MacDougall, "Policy changes in China's foreign trade," p. 158; Davie and Carver, "China's international trade and finance," p. 29.

120. "Jianyi sheli guoji touzi xintuo gongsi de yixie chubu yijian" ("A few initial opinions on recommending the establishment of an international trust and investment corporation"), submitted by Rong Yiren to the Central Committee and the State Council in March 1979, cited in Guojia jingji tizhi gaige weiyuanhui (ed.), *Zhongguo jingji tizhi gaige shimian (Ten Years of Economic System Reform in China)* (Beijing: Jingji guanli chubanshe, gaige chubanshe, 1988), p. 751.

on 2 June 1979, the State Council issued a circular approving the establishment of CITIC as a “socialist state enterprise” directly under the auspices of the State Council.¹²¹

If one considers overseas Chinese and Chinese from Hong Kong and Macau to be “foreign,” China had already nearly three decades of experience harnessing “foreign” capital and investment before the Third Plenum.

3. *The Special Economic Zones*

China’s Export Processing Zones (EPZs) – the Special Economic Zones, the Economic and Technical Development Zones, the National Industrial Development Zones for New and Advanced Technology, etc. – are perhaps the most conspicuous of all of the post-Third Plenum foreign economic reforms, while China’s EPZ policy is the clearest example of its incremental learning process. Elites initially approved the establishment of simple export bases isolated from the international marketplace, which then evolved into comprehensive production complexes reliant on foreign technology and capital. Although interrupted by the Cultural Revolution and the utopian revival of the mid-1970s, elites gradually learned how to establish a Chinese version of the EPZ that was grander in concept than that of any other in the global economy.

The SEZs: pre-Third Plenum origins. During the early months of 1960, Premier Zhou Enlai issued a directive stating: “It is very necessary for the Ministry of Foreign Trade to establish Export Commodity Production Bases and to carry out their basic construction.”¹²² Facing the economic shortages of the Great Leap, the leadership’s goal was to centralize the production of the most important export commodities (*Jidihua*). Export production could be guaranteed while export commodity specifications and quality were standardized.

The establishment of the Export Commodity Processing Bases (ECPBs) was the first step in protecting export production from domestic economic disruption. Thus the ECPBs were not part of a coherent strategy to confront the international marketplace, such as the EPZs established in Taiwan or Korea during the late 1950s and early 1960s had been. In fact, the Chinese ECPBs were more akin to their domestic cousins – the urban communes that were established in the late 1950s to guarantee food production for urban areas.¹²³

121. For an excellent analysis of CITIC’s origins, see Guojia jingji tizhi gaige weiyuanhui (ed.), *ibid.* pp. 750–754.

122. Duiwai jingji maoyi renshi, *An Introduction to Export Sourcing*, p. 49; Zhongguo duiwai maoyi gailun bianxiezu, *An Introduction to China’s Foreign Trade*, p. 140; Li Xiaoxian, *Text on the Principles and Practices of Foreign Trade*, p. 53.

123. Li Xiannian, “Jiajin fazhan dazhong chengshi jiaoku de fushipin shengchan” (“Step up the production of agricultural sideline products in the suburban areas of large- and medium-sized cities”), 4 July 1959, in Li Xiannian, *Discussions on Finance and Trade*, Vol. 1, p. 361; “Guanyu chengshi renmin gongshe wenti de pishi” (“A comment on urban peoples’ communes”), issued by the CCP Central Committee on 9 March 1960, in *Dangdai Zhongguo*

Vice-Premier Chen Yun strongly endorsed the ECPB policy in 1961. To be competitive on the international market following the Sino-Soviet schism, Chinese products needed to be reasonably priced, of high quality and with guaranteed supply. Chen Yun proposed that "all export commodities should have production bases. The production of a certain product will be designated for certain counties, while the production of a certain industrial product will be designated for certain factories."¹²⁴ With the recovery of the Chinese economy by 1963, Li Xiannian argued that ECPBs would only be needed for certain products "that [were] difficult to supply for export purposes."¹²⁵ Consequently only a limited number of ECPBs were established between 1960 and 1966.

During the Cultural Revolution, Mao's new development strategy clearly did not favour the ECPB idea. The Ministry of Foreign Trade was criticized for implementing programmes "against the principle of self-sufficiency" and for "setting up independent kingdoms."¹²⁶ On 26 September 1970 the National Foreign Trade Planning Meeting approved the "transfer [of] Ministry of Foreign Trade industries to the localities, [and implementation of] dual leadership with primary management responsibilities given to the localities."¹²⁷ Based on the new development strategy's decentralization policy, it can be assumed that the ECPB programme was cancelled and the few operating bases turned over to local authorities.

Following Premier Zhou's re-implementation of the large-scale IS strategy in the early 1970s, Chinese policy-makers re-established and greatly expanded the role of China's EPZs. Ten days after Deng Xiaoping's resumption of his vice premiership and the day after the reinstatement of the agricultural bonus system, the State Planning Commission approved the "Trial procedures for the establishment of export agricultural and sideline commodity production bases" and the "Trial procedures for the establishment of specialized factories for the production of export industrial commodities" on 20 March 1973.¹²⁸

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de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 138; Fang Weizhong, *A Chronology of Major Events, 1949-1980*, pp. 266-67.

124. Chen Yun, "Carry out well foreign trade work," in Chen Yun, *Chen Yun Tongzhi Wengao Xuanbian (Selections of Comrade Chen Yun's Manuscripts, (1956-1962))* (Beijing: Renmin chubanshe, 1981), pp. 116-19.

125. Li Xiannian, "Do a good job in foreign trade work," p. 151.

126. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 14.

127. Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 261.

128. "Jianli chukou nongfu chanpin shengchan jidi shixing banfa" ("Trial procedures for export commodity production bases for agricultural sideline products"); "Jianli chukou gongye pin shengchan jidi shixing banfa" ("Trial procedures for specialized factories for industrial product exports") approved by the State Council and issued by the SPC. A detailed description of the text is provided in Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 123-27; Fang Weizhong, *A Chronology of Major Events, 1949-1980*, p. 123. The "Trial procedures" were updated in 1979 and issued by the Import/Export Management Committee on 10 August 1980.

The “Export agricultural and sideline commodity production bases” procedures authorized the establishment of two types of bases. The first was the Export Production Base for Individual Agricultural or Sideline Export Commodities (hereafter called the Single-item Export Base). Specializing in the production of a particular agricultural, sideline, local, speciality, animal, freshwater or salt-water product, the Single-item Export Base was probably the only type of ECPB operated on a large-scale during the 1960s.

With the passage of the “Trial procedures,” many prefectures, communes, production brigades and state-run farms established Single-item Export Bases in the 1970s. By 1982, 24 provinces, cities or autonomous regions had constructed export bases for 98 products,¹²⁹ which generated 1.75 billion *yuan* in export goods.¹³⁰ These Single-item Export Bases specialized in the production of local, indigenous products – such as dried hot peppers, for example. Processing and packaging plants associated with the export base prepared the goods for export,¹³¹ sometimes using imported materials and technology to enhance export product quality and quantity.¹³²

The second type of ECPB was the Comprehensive Base for Export Commodity Production which gave

priority to the production of agricultural and sideline products and their processing, to the production of fresh produce and to the supply of the Hong Kong, Macau and Japanese markets.¹³³

Unlike the original 1960 idea, the Comprehensive Bases were engaged in agricultural and sideline commodity production, as well as commodity processing and packaging; they also developed new export commodities including various light industrial export items. The bases thus increased the value-added content of Chinese exports, especially industrial export products. Foreshadowing the Special Economic Zones established six years later in Guangdong and Fujian provinces, these bases engaged in all aspects of agricultural and industrial export production. In 1973, the first experimental Comprehensive Base for Export Commodity Production was established in Foshan prefecture, west of Guangzhou. Based on its success, the leadership approved Comprehensive Bases for Guangdong’s Huiyang prefecture (1975), Zhanjiang prefecture (1976), Hunan province’s Xiangtan prefecture (1976), and Jiangsu province’s Suzhou and Yangzhou prefectures (1976).¹³⁴

129. For a complete list of single item export bases as of 1982, see Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, pp. 69–78.

130. Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 161.

131. Tan Qingfeng *et al.* *ibid.* p. 163.

132. Forty-two single item bases were dedicated to the production of grain, edible oil and food products; 51 produced local products and livestock. See Duiwai Jingji Maoyibu Renshi, *An Introduction to Export Sourcing*, p. 58.

133. Zhongguo duiwai maoyi gailun bianxiezu, *An Introduction to China’s Foreign Trade*, pp. 140–41.

134. Others include Hubei province’s Jingzhou prefecture (1976); Jiangsu province’s Nantong prefecture (1980) and Xuzhou prefecture (1980); Zhejiang province’s Jiaying prefecture (1978) and Taizhou prefecture (1980); Henan province’s Nanyang prefecture

The "Trial procedures for the establishment of specialized factories for the production of export industrial commodities," also approved on 20 March 1973, sanctioned the establishment of specialized factories, workshops and mine operations (hereafter called Specialized Factories) dedicated to export production. Between 1973 and 1980, 94 factories, workshops or mines were designated as "specialized," with the majority (50) located in Shanghai and producing various textile goods for export.¹³⁵ Besides producing profitable textile products,¹³⁶ they manufactured other light and industrial products including hot water thermos flasks, cameras, security locks and mercury.

Thus the Export Commodity Production Base policy – as embodied by the Single-item Export Base, the Comprehensive Base and the Specialized Factory – became a major component of Zhou Enlai's strategy to finance the US\$4.3 billion IS development strategy of the early 1970s. By augmenting existing export production units under the Ministry of Foreign Trade with the various types of ECPBs, the country's export capacity was greatly expanded.¹³⁷

The SEZs: post-Third Plenum initiatives. According to State Council document 79.202, the Chinese would implement two versions of the export base idea: the first was the original ECPB version, which would remain within the state command economy structure (79.202, Regulation 8). In response to the Regulation's call for "well managed" bases and the establishment of "relatively advanced Specialized Factories and Workshops and Production Bases," the State Commission for the Control of Import and Export Affairs (SCCIEA) updated the 20 March 1973 regulations and issued "Trial procedures" for both the ECPBs and the Specialized Factories.¹³⁸ New ECPBs were established in both the coastal areas

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(1978); Shandong province's Yantai prefecture (1976), Weifang prefecture (1976), Linyi prefecture (1978), Heze prefecture (1980), Qingdao City (1979); Hebei province's Zhangjiakou prefecture (1976), Shijiazhuang prefecture (1981); Shanxi province's Yanbei prefecture; Xinjiang province's Tulfan prefecture (1979); Liaoning province's Lüda City (1979) and Yingkou City (1981); and Heilongjiang province's Suibei prefecture (1980). For more detail, see Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, pp. 136–154; Zhongguo duiwai maoyi gailun bianxiezu, *An Introduction to China's Foreign Trade*, pp. 140–41; Duiwai jingji maoyibu renshi, *An Introduction to Export Sourcing*, pp. 55–57, 65–68; Wu Wutong, *Introduction to the Basics of Foreign Trade*, 47–49.

135. The specialized factories were located in Shanghai (50), Jiangsu (25), Beijing (eight), Guangdong and Guizhou (three each), Hunan (two) and Henan, Hubei, and Shanxi (one each). Seventy-seven specialized factories produced textile goods, three produced light industrial goods, three produced handicrafts, two produced local and animal products, five processed metallic ore products, one made pharmaceuticals, and three were packaging plants. See Tan Qingfeng *et al.* *The Practice of Supporting Foreign Trade Production*, p. 164.

136. Forty-eight of the Shanghai Specialized Factories producing textiles earned US\$198 million in 1978, US\$310 million in 1980, US\$334 million in 1982. See *ibid.* p. 165.

137. Wu Wutong, *Introduction to the Basics of Foreign Trade*, p. 54.

138. "Guanyu yinfa 'chukou gongyepin zhuanhang shixing banfa' he 'chukou nongfu chanpin shengchan jidi shixing banfa' de tongzhi" ("Circular concerning the publication of 'The trial procedures for specialized factories for industrial product exports' and 'The trial procedures for export commodity production bases for agricultural sideline products'"),

and the interior,¹³⁹ and both were accorded greater benefits by China's export promotion schemes, including a selective reduction or elimination of import duties for production inputs and ready access to foreign exchange funds.¹⁴⁰

Secondly, the leadership approved the Special Economic Zone idea that would in theory be financed with foreign capital investment and be more responsive to the international market rather than the State Economic Plan (79.202, Regulation 14). The State Council had originally approved Guangdong's "Tentative plans for constructing foreign trade bases and establishing municipal governments in Baoan and Zhuhai Counties" as State Council document 79.38 on 14 February 1979.¹⁴¹ A new Guangdong leadership subsequently endorsed a more ambitious strategy. During a March 1979 meeting of the Central Committee, First Party Secretary Xi Zhongxun and the Second Party Secretary Yang Shangkun of the Guangdong Provincial Party Committee proposed that the central government "positively bring into play the superior conditions of Guangdong province, expand foreign economic trade, reform the economic management structure, and accelerate its economic development."¹⁴²

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Jinchuchuzi 80.041, approved by the State Council and issued by the SCCIEA on 10 August 1980, in Zhejiang sheng sifating, Zhejiang sheng duiwai jingji maoyiting, *A Selection of Foreign Economic Laws and Policies*, pp. 1066-1076.

139. New Comprehensive Bases were established in Heilongjiang province's Suihua prefecture (October 1980); Liaoning's Lüda City (1979) and Yingkou prefecture (March 1981); Xinjiang's Tulufan prefecture (1979); Shandong's Qingdao municipality (October 1979) and Heze prefecture (October 1980); Jiangsu's Xuzhou prefecture (October 1980) and Nantong prefecture (November 1980); Zhejiang's Taizhou prefecture (1980); and Hubei's Shijiazhuang prefecture (August 1981). See Tan Qingfeng et al. *The Practice of Supporting Foreign Trade Production*, p. 140-154.

140. Tan Qingfeng et al. *ibid.* pp. 69, 118.

141. "Guanyu Baoan, Zhuhai liang xian waimao jidi he shizheng jianshe guihua shexian de pifu" ("Tentative plans for constructing foreign trade bases and establishing municipal governments in Baoan and Zhuhai counties"), State Council document 79.38, issued on 14 February 1979. The actual document has yet to be located. For document title reference, see Xianggang Zhongguo jingji tequ nianjian bianjibu, *Zhongguo jingji tequ nianjian, 1983 (The Yearbook of China's Special Economic Zones, 1983)* (Hong Kong: Xianggang "Zhongguo jingji tequ nianjian" chubanshe, 1983), p. 381; for State Council document number reference, see Guangdong sheng jiage xuehui, gangao jingji yanjiusuo, shenzhen shi jingji xuehui, shenzhen shi wujiaju (ed.), *Jingji tequ jiage lilun taolunhui wenxuan (Selected Papers from the Theoretical Conference on SEZ Pricing)* (Guangzhou, 1983), p. 5; also see Shenzhen jingji tequ nianjian bianji weiyuanhui, *Shenzhen jingji tequ nianjian, 1985 (Shenzhen Special Economic Zone Yearbook, 1985)* (Hong Kong: Xianggang Jingji Daobao Chubanshe), p. 52. Several Hong Kong scholars contributing to Jao and Leung have stated that Document 38 was issued in 1978. The 1979 dating is based on the opening speech of Vice-Mayor Zhou Xiwu given in February 1983 at a discussion conference on theories on pricing in the SEZs. See Y. C. Jao and C. K. Leung (eds.), *China's Special Economic Zones* (Hong Kong: Oxford University Press, 1986), pp. 9, 22.

142. Sun Ru (ed.), *Qianjinzhong de Zhongguo jingji tequ (The Chinese SEZs on the Move)* (Beijing: Zhongguo caizheng jingji chubanshe, 1983), pp. 12-13. For more on the March proposal, see Zhongshan daxue jingjixi (ed.), *Jingjixue luncong (A Collection of Views on Economics Studies)* (Guangzhou, 1983), p. 268; Zhao Yuanjie and Chen Zhaobin (eds.), *Zhongguo tequ jingji (The Economy of China's Special Economic Zones)* (Guangzhou: Kexue puji chubanshe Guangzhou fenshe, 1984), p. 56; *Shenzhen tequ bao*, 9 August 1982.

By the 1979 April Work Conference, the decision to approve the Guangdong initiative was announced. After five months of discussions and investigation, the CCP Central Committee and the State Council issued Central Committee document 79.50 on 15 July 1979. The document approved "the two reports of Guangdong and Fujian provincial committees concerning the carrying out of special policies and flexible measures in foreign trade activities."¹⁴³ Document 79.50 authorized the Guangdong and Fujian leaderships to use "special policies and flexible measures" to implement an experimental development strategy. This strategy would promote a greater "opening" to the outside world, a greater relaxation in domestic economic policy and further decentralization of decision-making powers.

One important experimental method for financing development strategy authorized by document 79.50 was the Special Economic Zones policy, which was probably discussed first by the top leadership at the 21–23 March Political Bureau Meeting.¹⁴⁴ Deng Xiaoping reportedly launched the concept with the words: "Then let's have a Special Zone!"¹⁴⁵ As a result, Central Committee document 79.50 formally authorized the construction of the first two SEZs in Shenzhen and Zhuhai on 15 July 1979. Deng Xiaoping assumed direct responsibility for the SEZs, stating in 1984 that "the running of the SEZs was my initiative and the CCP Central Committee approved it ..."¹⁴⁶ In the 1980s, he continued to supervise various stages of SEZ development.

Yet the basic origins of SEZs can be attributed to the decision announced at the April 1979 Work Conference to readjust the national IS development strategy to stress a smaller-scale import programme which emphasized technology transfer. This clarified the Maoist tenet of "primarily relying on self-reliance, while using foreign assistance as a supplement," and implemented a policy of "using foreign things for China's benefit".¹⁴⁷ Thus, Overseas Chinese – especially Hong Kong and Macau businessmen – and foreigners would be allowed to invest directly in the zones by establishing factories or setting up joint ventures. Such ventures would enjoy preferential tax treatment and could repatriate legal profits. In addition, the infrastructure needed for foreign trade develop-

143. Reardon, "China's coastal development strategy, 1979–1984 (I)", pp. 19–44.

144. Zhang Ge, "Guanyu jingji tequ he yanhai chengshi jinyibu kaifang de ruogan qingkuang" ("Certain conditions for the SEZs and the coastal cities to further opening their economies"), in *Zhongguo jingjixue wanti lianhehui jingji kexue peixun zhongxin* (eds.), *Jingji gaige yu duiwai kaifang (shang)* (*Economic Reform and Opening to the Outside World* (1985), p. 254; and Lei Qiang et al. "Shenzhen jingji tequ shangye fazhan tantao" ("A discussion on industrial development within the Shenzhen SEZ"), in *Zhongshan daxue jingjixi* (ed.) *A Collection of Views on Economics Studies*, p. 268.

145. Zhang Ge, "Certain conditions for the SEZs and the coastal cities to further opening their economies"; A. Doak Barnett, *The Making of Foreign Policy in China: Structure and Process* (Boulder, CO: Westview, 1985), pp. 20–25.

146. Zhang Ge, "Certain conditions for the SEZs and the coastal cities to further opening their economies," p. 256.

147. Liang Wensen, *Zhongguo jingji tequ de jin-xi he weilai* (*The Current and Future Prospects of the Chinese SEZ Economies*) (Hong Kong: Xianggang jingji daobaoshe, Shenzhen daxue tequ jingji yanjiusuo, 1988), pp. 4–5.

ment (customs, commodity inspection, quarantine border inspection, banking, post and communication facilities) would be set up in the SEZ. Unlike their interior counterparts, the SEZs would enjoy a more liberalized banking system, simplified procedures for border exit and entry and a higher wage structure. The SEZs would enjoy far greater autonomy than the more traditional ECPB. In certain cases, they enjoyed equal if not greater decision-making powers than the Beijing, Tianjin or Shanghai municipalities.

Chen Yun, who had strongly supported the ECPB idea in May 1961, underscored the importance of the SEZs' role in the development strategy during his 18 September 1979 speech. Yet he was also aware that the development of SEZs into reliable foreign exchange "machines" would take time. He warned that "it will take ten years before the first three of these categories ... can annually render several billions of foreign exchange to the Central Government. This is not something that can be easily accomplished in one or two years."¹⁴⁸

Chen Yun was correct. It was to take at least a decade of hard work and billions of RMB loans to make the SEZs into a Chinese showcase of outwardly-oriented development. Yet, the SEZs also owed part of their success and failure to the experiences of the ECPBs first approved by Zhou Enlai in 1960.

Learning Outwardly-Oriented Development

These three case studies demonstrate that the Chinese elites who grouped around a modernization strategy adopted and improved upon many of the innovative foreign economic policies of the early 1960s, including export promotion, direct foreign investment and export processing zones. These elites did not enjoy continuous control over development policy, which resulted in the cycling between IS and semi-autarchy in the 1960s and 1970s. Yet during these two decades, they learned incrementally how to interact with the international marketplace, which in turn contributed to their rethinking of the overall inwardly-oriented development regime.

While the cycling of IS and semi-autarchy strategies basically ended in 1976, a new debate arose within the modernization opinion group as to whether China should continue the same inwardly-oriented development regime in the late 1970s. Hua Guofeng was content to expand the large-scale IS development strategy – the "Ten-Year Plan."¹⁴⁹ Yet based

148. Chen Yun, "Speech to the report-back meeting of the finance and economic commission," p. 173.

149. On 18–23 February 1978, the Central Committee approved Hua's strategy, which was outlined in the "National ten-year plan for developing the national economy." The "ten-year plan" involved a massive expansion of capital construction that authorized the building of 120 large-scale industrial projects, including ten large iron and steel complexes, ten new oil and gas fields and 30 hydroelectric stations. The ultimate goal of Hua's strategy was to "surpass the British and catch-up to the Americans." See Hua Guofeng, "Report on the work of the government" as reprinted in *Peking Review*, 10 March 1978, pp. 7–41; Chen Yun, "The economic situation and the lessons from experience," p. 606.

on their two-decade experience, the post-GLF coalition had learned the pitfalls of the large-scale IS strategy.¹⁵⁰ After overcoming Hua's opposition, they not only drastically altered the 1979 Plan,¹⁵¹ but the entire "Ten-Year Plan" – including Hua Guofeng's accelerated IS programme. Cancelling and/or renegotiating many of the major turnkey plant projects of 1978 and 1979,¹⁵² the leadership adopted a new IS strategy emphasizing technology and equipment importation.¹⁵³ The Chinese leadership never again adopted a large-scale IS strategy.

Having learned that China could simultaneously limit the harmful effects of the international marketplace while taking advantage of its technology and capital, the post-GLF coalition took initial steps toward adopting an outwardly-oriented development regime, similar to the development path followed by many other East Asian developing economies.¹⁵⁴ With the reduction in import and export restraints beginning in the late 1970s, Chinese production units were encouraged to look to the international marketplace as a possible source of new revenue. To facilitate this transition, the state began the long process of devaluing the RMB, which had been kept unrealistically high during the previous decades to support the IS strategy. New regulations for compensation trade and the approval of joint ventures allowed private international capital from non-Chinese sources to enter the Chinese market once again. Acceptance of buyers' credit and accession to the IMF and the World Bank opened China to a new source of development capital, and also to the scrutiny and intervention of the key international economic organizations. The experimentation with a decentralized market system and foreign investment within the Special Economic Zones approved in the early 1980s would ultimately prove so successful that the leadership would adopt these initiatives nation-wide.

While many Asian economies had decided to experiment with outwardly-oriented development by the late 1950s, it took the Chinese 20 years to resolve their internal debate over the role the international market should play in domestic development. During these decades, other Asian economies such as Taiwan and South Korea accelerated the growth of their domestic economies and the foreign trade sectors, improved economic efficiency and fostered technical transfer.¹⁵⁵ Not until the early to

150. For instance, see Ho and Huenemann, *China's Open Door Policy*, pp. 15–20.

151. Chen Yun, "Readjust the national economy," p. 75; Fang Weizhong, *A Chronology of Major Events in the PRC's Economy (1949–1980)*, p. 624; Dangdai Zhongguo de jingji guanli bianjibu, *A Chronology of Major Events in the PRC's Economy and Management*, p. 340.

152. Davie and Carver, "China's international trade and finance," p. 26–29.

153. Chen Yun, "Readjust the national economy," p. 78.

154. John C. H. Fei, Kazushi Ohkawa and Gustav Ranis, "Economic development in historical perspective: Japan, Korea, and Taiwan," in Kazushi Ohkawa, Gustav Ranis and Larry Meissner (eds.), *Japan and the Developing Countries*, (New York: Basil Blackwell, 1985), pp. 35–64.

155. The World Bank, *World Development Report 1987* (New York: Oxford University Press, 1987), ch. 5; John B. Sheahan, *Alternative International Economic Strategies and Their Relevance for China* (Washington: World Bank Staff Working Papers. No. 759, 1986), pp. 12–26.

mid-1980s did the Chinese leadership begin to mirror these actions by promoting limited integration with the international market along with protection for specific industrial sectors.

Considering the problematic loans made to Chinese state industries and the high vacancy rates in Shanghai's Pudong New Area, it is to be hoped that the Chinese continue to learn from their own experiences as well as from the deficiencies of the Asian development model.