



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

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## INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

## CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>13</sup> *Ibid.*, 318–329.

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

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

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

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

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

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

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

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

Beijing's entry into the keystone international economic organizations (KIEOs) was first described by Harold Jacobson and Michel Oksenberg in 1990.<sup>20</sup> Their account, based on personal experience and now somewhat dated, provided many inside details of the process, though unfortunately much of their information could not be verified through independent sources. Even though they were enlightening as to China's diplomatic aspirations and domestic goals, their study focused largely on China in general, as opposed to Deng in particular.

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

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

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

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

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



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

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

## DENG'S POSITIVE ECONOMIC STATECRAFT

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

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

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

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

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

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

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

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

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

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

<sup>25</sup> Baum, *Burying Mao*, 52–55.

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

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

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

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

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

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

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

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

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

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

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

<sup>32</sup> Pantsov with Levine, *Deng Xiaoping: A Revolutionary Life*, 7.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>37</sup> Vogel, *Deng Xiaoping and the Transformation of China*.



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

Reaching these economic goals would require foreign capital and investment. In 1978, Deng appointed Rong Yiren, a well-known former industrialist, as an adviser on China's economic opening, granting Rong the authority to set up the China International Trust and Investment Corp (CITIC), which was responsible for negotiating much of the initial Western investment in China. This marked the beginning of Deng's policy of allowing former capitalists to take the lead in economic interactions with the outside world. A few months later, in January 1979, Deng explained his plans to various former Chinese industrialists: "We can utilize foreign funds and technology, and overseas Chinese and foreign citizens of Chinese origin should be allowed to establish factories in China... Comrade Rong Yiren, I hope that you will concentrate on economic work and on opening to the outside world in any way that you see fit. When signing contracts, you should judge from commercial perspectives, signing only those contracts which will bring about profit and foreign exchange."<sup>39</sup>

Later that year, in October 1979, Deng met local officials and party leaders and issued further instructions to them on how to manage foreign investment: "No matter what category foreign capital belongs to, we should utilize it, because the chance to do so does not arise often and

<sup>38</sup> Deng Xiaoping, "China's Goal Is to Achieve Comparative Prosperity by the End of the Century," Conversation with Masayoshi Ohira, Prime Minister of Japan, 6 December 1979.

<sup>39</sup> Deng Xiaoping, "We Should Make Use of Foreign Funds and Let Former Capitalist Industrialists and Businessmen Play Their Role in Developing the Economy," Talk with Hu Juewen, Hu Zi'ang, Rong Yiren and other leaders of industrial and commercial circles, 17 January 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/we-should-make-use-of-foreign-funds-and-let-for-mer-capitalist-industrialists-and-businessmen-play-their-role-in-developing-the-economy/>, accessed 12 November 2019.

it is a great pity if we do not make sure of this opportunity. The cardinal issues are how to make efficient use of foreign capital, how to make every project bring about economic returns as quickly as possible, and how to solve the problem of repayment.” Well aware of China’s institutional weaknesses in terms of handling the potential influx of foreign capital, Deng told these officials to loosen controls and regulations in order to encourage foreign investment and foreign trade. He further instructed the Financial and Economic Commission in Beijing to assist local governments in devising workable solutions to a range of problems related to foreign investment.<sup>40</sup>

Despite its eagerness to attract outside investment and expand external trade, Beijing was nonetheless determined to resist domination by or undesirable influences from other, economically stronger, powers. One of Deng’s greatest concerns remained the United States, then the world’s economic superpower. Even following the normalization of relations between Beijing and Washington, the state of affairs between the two countries remained uncertain. Meeting North American intellectuals, Deng explained to them that foreign investment would not greatly affect socialism within China, because the country enjoyed four favorable preconditions for attaining the goal of modernization: (1) abundant resources, (2) sound material foundations, (3) high-quality human resources, and (4) astute foreign policy tactics. He was confident that “as long as learning from capitalism is regarded as no more than a means to an end, it will not change the structure of socialism or bring China back to capitalism.”<sup>41</sup> Yet although Deng seemed optimistic, the more he tried to justify this plan, the more this might be viewed as a potential weakness.

<sup>40</sup> Deng Xiaoping, “Some Comments on Economic Work,” Talk at a forum of the first secretaries of the provincial, municipal and autonomous regional committees of the Communist Party of China, 4 October 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/some-comments-on-economic-work/>, accessed 12 November 2019.

<sup>41</sup> Deng Xiaoping, “We Can Develop a Market Economy Under Socialism,” Talk with Frank B. Gibney, Vice-Chairman of the Compilation Committee of Encyclopedia Britannica, Inc. of the United States, Paul T. K. Lin, Director of the East Asia Institute at McGill University of Canada, and others, 26 November 1979, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/we-can-develop-a-market-economy-under-socialism/>, accessed 12 November 2019.

While Deng expressed superficial confidence that China could maintain its socialist system and had nothing to fear from outside economic influences, in reality, the prospective impact of hegemonic American capitalism alarmed Beijing.

In January 1981, with the new administration of President Ronald Reagan about to enter the White House, Deng met several leading Republican politicians, telling them that China would adhere to the principle of self-reliance in its drive for modernization and could certainly survive without any foreign assistance. No matter what the United States proposed, Beijing would not renounce its claim on Taiwan and its determination to regain the island.<sup>42</sup> Deng's talk was intended to remind these influential Americans of China's "vast territory and large population" (a potentially big market) and to counter any foreseeable future pressure the new administration might seek to exert on Beijing. Rather than yielding to outside coercion, Deng assured his foreign visitors, China would always maintain its independence and non-aligned status. Throughout the early stages of the Reform and Opening Up period, Deng therefore very consciously guarded China's independence and was determined to maintain full control over internal developments within China. Target states would not be allowed to intervene in China's affairs. Beijing insisted that foreign powers must respect the principles of Chinese sovereignty and non-interference in China's domestic concerns. Ultimately, Deng's tactics were broadly successful. The West contributed significantly to China's economic rise through trade, investment, and technology transfers, while Beijing could obtain what China wanted yet still set the ground rules of these exchanges.<sup>43</sup>

<sup>42</sup> Deng Xiaoping, "Our Principled Position on the Development of Sino-U.S. Relations," Talk with Theodore Fulton Stevens, Republican Deputy Majority Leader of the U.S. Senate, and Anna Chennault, Vice-Chairman of the Presidential Export Committee, 4 January 1981, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1975–1982)*, Vol. 2, 2nd ed. (Beijing: Foreign Languages Press, 1995), <https://dengxiaopingworks.wordpress.com/2013/02/25/our-principled-position-on-the-development-of-sino-u-s-relations/>, accessed 12 November 2019.

<sup>43</sup> Martin Albers and Zhong Zhong Chen, "Socialism, Capitalism and Sino-European Relations in the Deng Xiaoping Era, 1978–1992," *Cold War History* 17: 2 (May 2017): 118.

## SEEKING MEMBERSHIP IN THE BRETTON WOODS INSTITUTIONS

Given the ever present danger of succumbing to the lures of these economically powerful states, even as Deng was establishing bilateral partnerships with them, he sought to counter their influence and safeguard Beijing's economic independence by finding alternative sources of assistance. Major international financial organizations (IFOs), in particular the WB and IMF, suited Deng's purposes. Even so, before Beijing could obtain full membership in these organizations, Deng first had to resolve past conflicts and overcome many obstacles blocking the pathway to admission. Ever since the PRC was founded, Beijing had traditionally regarded the Bretton Woods institutions with suspicion. During their formative years, the *Zhongnanhai* resisted participation because it had no faith in the guiding principles of any international organizations (IOs). Mao and Zhou believed that the superpowers controlled most international organizations, with Third World countries enjoying decidedly minimal leverage within them. The only IOs with which China was connected were either bodies restricted to the socialist sphere or those organized by developing country blocs, such as the Group of 77 and the Non-aligned Movement. From 1971 onward, China's admission to the UN offered an easy ticket to participation in various IFOs, but the *Zhongnanhai* still resisted joining, in large part due to Mao's distrust of outsiders and the powerful influence of radicals within the CCP. Even within the UN family, China only joined assorted non-political multilateral organizations; beyond the UN, Beijing wanted to establish connections exclusively with social and cultural bodies, such as the International Olympic Committee and International Standards Organization.<sup>44</sup>

The real change came when Deng took power. Beijing gradually came to realize that IOs might meet the needs of the Reform and Opening Up policy. By obtaining full membership in major IFOs, China could obtain assistance, concessional loans, technical expertise, information, and more, while it would also boost its international status, exercise greater influence on global issues, and win stronger political leverage against Taiwan. Beijing's partnerships with the World Bank (WB) and later with

<sup>44</sup> Zhihai Xie, "The Rise of China and Its Growing Role in International Organizations," *ICCS Journal of Modern Chinese Studies* 4: 1 (2011): 86.

the Asian Development Bank (ADB) demonstrated how Deng developed his new economic statecraft by collaborating with IOs, a strategy that his twenty-first-century successors would likewise utilize and enlarge.

For Deng, the biggest question was how to win admission. The course of Beijing's entry into the IMF and the World Bank was slow but meaningful, the product of developments both within and outside China. Closer examination reveals more about the incentives impelling Deng to join the major IFOs. Initially, the only information Beijing could glean on IFOs came from several overseas Chinese-Americans and assorted IO officials of Chinese extraction. In 1950s Beijing, a group of financial specialists led by Premier Zhou Enlai kept the government abreast of how IFOs were developing and awaited an eventual opportunity to win membership. By 1970, however, due to their "contaminated" backgrounds (i.e., their foreign connections), most of these financial experts were no longer serving as advisers in the *Zhongnanhai*, but had been exiled to work in the countryside. Even when Beijing finally succeeded in replacing the Republic of China (ROC) in the UN, the Chinese Ministry of Foreign Affairs (MOFA) was so shattered that it could barely muster sufficient qualified diplomats to fill the vacant slots on its UN team, let alone provide additional expert personnel to represent the country in IFOs.<sup>45</sup>

Although the PRC initially felt little imperative to apply to join, throughout the 1970s, the doors of the IFOs remained open to China. Beijing first expressed interest in the IMF and WB in September 1973, when it sent a telegram to both institutions, stating that, since Taiwan had illegally occupied the Chinese seats in these organizations, it should be expelled immediately. Beijing's demand seemed redundant because, after Taiwan lost its UN membership, its representation on the boards of both institutions had ceased. Robert McNamara, the WB's President, nonetheless showed special interest in Beijing's protest and replied by encouraging Beijing to apply for full WB membership. McNamara, whose interest in China was common knowledge among the Bank's staff, believed that Beijing's membership would enhance the Bank's legitimacy, while poverty-stricken China needed its assistance.<sup>46</sup>

<sup>45</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 60–61.

<sup>46</sup> *Ibid.*, 64.

In discussions within China's *Zhongnanhai* during Mao's final years, the possibility of China joining IFOs was closely examined. At the time, both the Ministry of Finance (MOF) and MOFA were opposed, citing three major reasons. First, joining would be pointless, given that China would possess only a small quota in the IMF and limited shares in the WB, meaning that Beijing would be unable to use its membership to pursue its broader foreign policy objectives. Second, since the IMF constitution was antagonistic to socialist monetary systems, it would be dangerous to join; opponents suggested that China's freedom to determine its own foreign exchange rate and control its foreign exchange reserves would be restricted. Third, joining would be financially burdensome, since it was Beijing's policy to resist external borrowing but as a member China would still be required to pay its IMF quota. So long as Mao remained in power, even though Premier Zhou Enlai and his supporters wished to boost China's economic links with the outside world, ideological incompatibility and deep distrust of these Western institutions therefore precluded Beijing from joining any IFOs.<sup>47</sup> A more congenial internal political environment would be a prerequisite to any drastic changes in this position.

Bearing in mind the urgency of achieving the Four Modernizations and wishing to ensure the quick success of his Reform and Opening Up policy, Deng badly needed external help, both to supply China with long-term low-interest funds for internal development and also to furnish expert economic advice. According to official MOF files, Li Miao, a Chinese official who helped to negotiate Beijing's entry into the major IFOs, confirmed that Beijing began seeking full memberships as early as 1978.<sup>48</sup> At that time, the MOF, MOFA, and Bank of China (BOC) issued a report openly advocating Beijing's entry into the Bretton Woods institutions. They argued that the United States no long constituted an obstacle and that most Third World countries backed China's membership. The State Council not only accepted this report but promptly dispatched a seven-member inquiry team to spend May and June in Romania and Yugoslavia, the only two IMF members with non-market economies. Deng's visit to the United States, described in greater detail by Lu Sun earlier in this volume (Chapter 3), also boosted Beijing's self-confidence in dealing with

<sup>47</sup> Ibid., 52.

<sup>48</sup> Li Miao, "Comments by Li Miao," in *China in the Era of Deng Xiaoping: A Decade of Reform*, eds. Michael Ying-mao Kau and Susan H. Marsh (Armonk, NY: M. E. Sharpe, 1993), 487.

the West. Deng's determination to join the major IFOs was made more explicit on 26 February 1979, when he told the president of Kyodo News Service that "there would be no hitch on China's part in joining the IMF if [the] Taiwan issue is settled."<sup>49</sup>

After the investigative team returned from Eastern Europe, in August 1978 its members submitted a lengthy report, arguing forcefully for Beijing's membership in the major IFOs, and recommending that if possible, China should become more proactive in cultivating informal relationships with IFO officials.<sup>50</sup> An occasion for such contacts arose in February 1979, when a group of WB officials, plus their families and friends, headed by Edward V. K. Jaycox, Program Director of the Bank's Water and Urban Development Department, visited Beijing privately. As soon as they arrived, the Beijing government seized the opportunity to build relationships, treating them as official visitors, taking them to communes, factories, and brigades, setting up meetings with high-level and local officials, including the Vice Premier and the Mayor of Shanghai, and showing them around the BOC. The timing of Jaycox's visit coincided, however, with China's brief military intervention in Vietnam during February and March 1979, a source of tensions between the United States and China that placed significant stress upon the newly established but still fragile relationship between the two countries, and at least temporarily made China's prospects of joining the Bank more precarious. Even so, when Jaycox soon afterward became Program Director of the WB's East Asia and Pacific Country Programs Department, Beijing misinterpreted his visit as a positive and welcoming signal from the organization.<sup>51</sup>

Meanwhile, Beijing gained further insights and understanding when Edwin R. Lim, a Chinese Filipino then serving as a WB Senior Economist for the East Asia and Pacific Region, made a brief stopover in Beijing. Chinese officials quizzed him in detail as to the differences between the

<sup>49</sup> Quoted in Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 70.

<sup>50</sup> *Ibid.*, 71–72.

<sup>51</sup> Edward V. K. Jaycox, transcript, oral history interview, 23 February, 9 March, 27 April, 24 May 1995, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/450711468141887331/Transcript-of-oral-history-interview-with-Edward-V-K-Jaycox-held-on-February-23-March-9-April-27-and-May-24-1995>, accessed 15 October 2020.

Bank and the Fund, the Bank's policies, and the different institutions within the WB. They were also eager to know whether China would be eligible for loans from the International Development Association (IDA), which the WB managed, and to understand the purposes of WB economic studies.<sup>52</sup> Overall, the Chinese discovered that if China's Gross National Product (GNP) was sufficiently low, it would be entitled to concessional loans offered by the IDA, that carried a very low interest rate and also enjoyed a very long repayment period of 30 to 38 years, with a five- to ten-year grace period. China also would be eligible to receive outright grants for programs that might boost economic growth, reduce inequalities, and improve people's living conditions. Beijing found the possibility of gaining access to these concessional loans and grants extremely appealing. Listening to Lim's explanations, Beijing's leaders were growing in confidence, but they wished to gather yet more information. When Zhao Mingde, a Chinese diplomat, represented his boss Bi Jilong, the UN under-secretary-general, at the annual joint meeting of the UN and IMF boards of governors, he met privately with a WB vice president. As Beijing's interest in the Bank intensified, on several occasions further high-level contacts followed, with supplementary information on the Bank's activities being forwarded to Beijing.<sup>53</sup> Later, BOC officials even met Moeen Qureshi, WB Vice President for Finance, on a junk in Hong Kong.<sup>54</sup>

After waiting for the appropriate moment, Beijing finally made its move in February 1980, shortly after the U.S. Senate ratified a trade agreement with China and granted China Most-Favored-Nation status. Chinese Ambassador Chai Zemin then contacted the World Bank and asked to meet with President Robert McNamara. Demonstrating Beijing's eagerness to join the Bank, Ambassador Chai told McNamara: "Look, Mr. McNamara, I've come with a message from the leadership that we would like you to visit China within the next three weeks, two or three weeks, immediately, to discuss membership. And we want to be members

<sup>52</sup> Lim, "Learning and Working with the Giants," 101.

<sup>53</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 72.

<sup>54</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, p. 2, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/636751468195592019/Transcript-of-oral-history-interview-with-Caio-Koch-Weser-held-on-December-21-1992>, accessed 15 October 2020.



almost immediately, within the next few months. And the Chinese leadership would like to discuss this and other matters of international concern and membership with you.” The Ambassador also added: “We want to become full members; we want to learn from you; we want to have all the benefit of your technical advice. Yes, we understand there are also some concessional funds called IDA, which we should as a very poor country be eligible for.” McNamara’s assistant, Caio Koch-Weser, who later became Division Chief of the China Mission, had the impression, later proved correct, that the Chinese “were really after the Bank, not so much the IMF.” As he anticipated, Beijing would make a very determined play for the maximum share of IDA loans once it became a full member of the WB. When McNamara explained that China should first obtain IMF membership, Bank staff recalled that Ambassador Chai’s reaction seemed to them clueless: “IMF? What’s that? Is that this institution in New York, UN, or something?” On McNamara’s advice, the Ambassador visited the IMF the next day and made a similar request for membership.<sup>55</sup>

Since Ambassador Chai had requested that McNamara should visit China within a few weeks, the WB president made immediate arrangements to do so, though due to his busy schedule and also in order to be better prepared, he postponed his trip to April 1980. Meanwhile, both the U.S. government and the China Lobby, spearheaded by Congressman Walter Judd, sought to block China from joining the Bank, arguing that China’s entry into the WB would jeopardize the chances of congressional passage of the impending IDA bill, which was about to authorize new U.S. funding to replenish the IDA’s coffers.<sup>56</sup> Given the more conservative U.S. political environment of the 1980s during Ronald Reagan’s presidency, had McNamara yielded to China Lobby pressure and further delayed his April 1980 trip, Beijing almost certainly would not have been permitted to join the Bank. In that case, the prospects for China’s economic development and the nature of its relationship with the Bank would probably have been very different.

<sup>55</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, p. 4.

<sup>56</sup> Robert S. McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/981971468149966185/Transcript-of-oral-history-interview-with-Robert-S-McNamara-held-on-April-1-May-10-and-October-3-1991>, accessed 15 October 2020.

Defying strong opposition from both Congress and the U.S. Secretary of the Treasury, McNamara prepared assiduously. First, he met with several famous China scholars, including Michel Oksenberg, who all reassured him that the Bank could definitely assist very productively with China's reforms.<sup>57</sup> Second, McNamara instructed Heribert Golsong, the WB lawyer, to draft the documents for China's membership application. Third, together with Golsong, McNamara negotiated with Taiwan to settle loan payments of around three hundred million dollars. Fourth, he instructed Edwin R. Lim to draw up materials for him to use in China during meetings and negotiations. These included a brief on China's economy, covering its situation and key sectors; a country assistance strategy paper, stating how the WB would approach China and what the sectoral priorities would be; and a notional IDA lending program, evaluating eligibility and creditworthiness.<sup>58</sup>

While McNamara was occupied with planning, the IMF sent Tun Thin, who headed its Asia Department, to negotiate with Beijing. Despite hostile intervention from the U.S. embassy in Beijing, which the U.S. Secretary of the Treasury had ordered to try to delay negotiations, thanks to support from the head of the IMF, plus Beijing's own eagerness to conclude a deal, Tun Thin quickly succeeded in reaching agreement on issues related to membership, quotas, and surveillance.<sup>59</sup> By April, after receiving feedback from Tun Thin, McNamara was ready to go himself. The night before his departure, U.S. Treasury officials made one final effort to persuade him to delay his journey.<sup>60</sup> According to Ezra F. Vogel, McNamara's stubborn resistance to U.S. pressure gave the Beijing leadership much-needed confidence that the World Bank and the IMF were truly independent institutions, not puppets beholden to their American founder.<sup>61</sup>

<sup>57</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, p. 5.

<sup>58</sup> Lim, transcript, oral history interview, 11 January 1993, pp. 2–5, Oral History Program, World Bank Group Archives, <http://documents.worldbank.org/curated/en/151021504859239236/Transcript-of-oral-history-interview-with-Edwin-R-Lim-held-on-January-11-1993>, accessed 15 October 2020.

<sup>59</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 74.

<sup>60</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, p. 6.

<sup>61</sup> Vogel, *Deng Xiaoping and the Transformation of China*, 390.

A small team of WB experts—Shahid Syed Husain (Vice President, East Asia, and Pacific Region), Heribert Golsong (Vice President and General Counsel), and Caio Koch-Weser (McNamara's assistant)—accompanied McNamara to Beijing in April 1980. Bank of China representatives rather than central government officials welcomed them, but the team nonetheless had some meetings with top leaders. Their encounter with Deng was particularly meaningful and revealing. According to Koch-Weser's recollections, Deng displayed a unique combination of modesty and self-assurance. In terms of modesty, Deng acknowledged China's poverty and backwardness. He even admitted the mistakes the Communist Party had made during the Cultural Revolution. In terms of self-assurance, Deng stated: "We need your help to grow faster, but we will also make it without you.... China will grow and we'll catch up.... We'll make further mistakes, and if you help us, we'll make less mistakes, but no question we will catch up."<sup>62</sup> McNamara, deeply impressed by Deng's honesty and determination, promised Deng that the Bank would definitely increase its lending to Beijing, to facilitate China's economic growth.<sup>63</sup> Looking back many years later, Koch-Weser was amazed by the accuracy of Deng's vision: "We will quadruple our income by the year 2000."<sup>64</sup>

The main purpose of McNamara's visit was to nail down Beijing's prospective Bank membership. Meeting with Chinese officials, McNamara and Golsong successfully provided all the necessary documents and explanations. According to Koch-Weser, McNamara's thorough preparation sent a clear message to the Chinese: "We are ready... to make its [China's] membership in a very short period of time." As soon as the team returned to Washington, processing of China's membership application began. McNamara discovered that the U.S. government had also changed its attitude; the Bank's Board of Directors quickly approved the request and passed a supplementary budget to manage

<sup>62</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, p. 9.

<sup>63</sup> McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, pp. 28–29.

<sup>64</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 9–10. Of the four WB officials who went to China, only McNamara and Koch-Weser gave detailed accounts of their meetings with Deng, with Koch-Weser's recollections particularly accurate and richly detailed. McNamara, by contrast, made some errors in his reminiscences, displaying marked confusion over Edwin Lim's background and certain details of the first visit to Beijing.

China's entry.<sup>65</sup> Within just one month, on 15 May 1980, Beijing replaced Taiwan as China's representative in the World Bank, marking the opening of an increasingly close partnership between the organization and Beijing.

### THE RESULTS OF DENG'S POSITIVE ECONOMIC STATECRAFT

The initial stage of Deng's attempt to secure membership in the Bretton Woods institutions was essential to China's Reform and Opening Up. In the short term, it provided a diplomatic victory against Taiwan, a communications lifeline to break diplomatic isolation, and professional economic advice on development strategy. In the long term, it laid the foundations for Beijing to expand its role and influence, enhance its international status, and secure the maximum amount of soft-loans on concessional terms to finance China's reform programs.

#### *Securing a Key Position in the Bretton Woods System*

Joining the Bretton Woods institutions was a key step in Beijing's strategy to win the most prominent position in Asia and among developing countries. Within the IMF, China ranked ninth in voting power in 1988, and within the IBRD (International Bank of Reconstruction and Development, part of the WB Group), China came eighth (see Table 6.1). In both institutions China was the third largest shareholder—after Japan and Saudi Arabia—among all Asian countries. Being a key member of the Bretton Woods institutions would later help China to exert greater influence within the region. Chinese officials in these institutions were also entitled to join study missions sent to other countries. Chinese companies were likewise allowed to compete for contracts for Bank projects both inside and beyond China.

According to a leading Beijing official who was closely involved in joining the major IFOs, "in the near future, China will not seek to become the champion of developing countries. The focal point of its energies is upon improving its domestic performance, and through this,

<sup>65</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 6–8.

**Table 6.1** China's relative voting power in 1988 in IMF, IBRD, IDA, IFC, and ADB

Country	Rank in IMF	Percentage of total				
		IMF (%)	IBRD (%)	IFC (%)	IDA (%)	ADB (%)
USA	1	19.14	19.62	22.89	18.11	12.41
UK	2	6.63	5.14	6.36	16.14	2.22
W. Germany	3	5.78	5.36	6.48	7.10	4.23
France	4	4.81	5.14	5.77	3.90	2.47
Japan	5	4.53	6.94	4.99	9.21	12.41
Saudi Arabia	6	3.44	3.32	1.66	2.66	–
Canada	7	3.16	3.32	4.11	3.31	5.23
Italy	8	3.13	2.62	3.73	2.40	2.02
China	9	2.58	3.19	0.84	2.01	6.10
Netherlands	10	2.44	2.29	2.84	2.09	1.33
India	11	2.38	3.14	3.87	3.26	6.00
Belgium	12	2.25	2.08	2.51	1.11	0.73
Australia	13	1.75	1.73	2.40	1.45	5.52
Brazil	14	1.59	1.56	2.00	1.58	–
Venezuela	15	1.49	1.47	0.83	–	–
Spain	16	1.40	1.33	1.19	1.16	0.73
Mexico	17	1.27	1.23	1.19	0.58	–
Argentina	18	1.21	1.24	1.94	1.39	–
Sweden	19	1.16	1.11	1.37	2.21	0.55
Indonesia	20	1.10	1.10	1.26	1.07	5.22

Sources: *International Monetary Fund: Annual Report, 1988* (Washington, DC: IMF, 1988), 156–159; *The World Bank Annual Report, 1988* (Washington, DC: The World Bank, 1988), 168–170, 187–189; *International Finance Corporation: Annual Report 1988* (Washington, DC: The World Bank, 1988), 53; and *Asian Development Bank: Annual Report 1988* (Manila, Philippines: Asian Development Bank, 1988), 118

to acquire greater credibility among developing countries. But after China achieves success, it will seek a greater voice and more power.”<sup>66</sup> Looking back today, these words offer insightful revelations. Beijing, under Deng's leadership, had a clear strategy of what it would obtain through membership in these IFOs: achieving a successful economic transformation through the assistance of these IFOs came first; gaining goodwill and respect across the Third World would be next; and seeking additional power and influence in the IFOs was the ultimate goal.

<sup>66</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 138–139.

*Achieving Deng's Political Goals*

Once China joined the World Bank, Beijing took full advantage of its membership status to advance its domestic and foreign policy agenda. Initially, Deng was far from sure just what China might eventually receive from the Bank. At least two goals were immediate concerns for Beijing. The first objective was to ensure that Taiwan would be completely excluded from both the Bank and the Fund. From the early stages of negotiations to subsequent preparation of all the Bank's reports and documents, Taiwan would only be termed Taiwan, a province of China. On maps, Taiwan must be colored the same shade as other parts of China. From then onward, Taiwan gradually disappeared from World Development Reports (WDRs) and World Development Indicators (WDIs). Taiwan would thereby lose not simply access to certain development funds but also international clout. Beijing's ultimate purpose was to ensure that every international body would either remove Taiwan or list Taiwan as a part of China, while treating the PRC as the sole legitimate government of China.

The second goal was to obtain concessional loans from the International Development Association (IDA). Once it became a full WB member, Beijing pushed with great determination to receive the maximum share of IDA loans. According to Shahid Javed Burki, at that time senior economic and policy adviser to the vice president, Beijing was extremely reluctant to borrow, preferring instead IDA soft-loans (on concessional terms) from the Bank. Chinese officials wished China's Gross National Product (GNP) to be evaluated as low as possible because they desired funding parity with India. Before China joined the Bank, India alone had already obtained US\$8,285.2 million of IDA money, around 40% of the total amount of IDA loans between 1960 and 1980.<sup>67</sup> From China's viewpoint, the WB was too generous to India. Beijing likewise sought the lion's share of IDA loans, but the problem was that the IDA received a fixed amount of funding, which required regular replenishment from the developed countries. China's entry into the WB therefore had an immediate dislocative effect on those countries that depended on IDA loans. In terms of loan share, India in particular suffered the greatest loss.

<sup>67</sup> Ibid., 136.

**Table 6.2** IBRD and IDA lending to India (1981–1988)

<i>Year</i>	<i>IBRD US\$ million</i>	<i>Percentage Share of Total IBRD Lending (%)</i>	<i>IDA US\$ million</i>	<i>Percentage Share of Total IDA Lending (%)</i>	<i>Proportion IBRD/IDA</i>
1981	430.00	4.88	1281.00	36.79	25/75
1982	1264.80	12.24	900.00	33.50	58/42
1983	1087.90	9.77	1063.00	31.82	51/49
1984	1721.40	14.41	1001.00	28.00	63/37
1985	1674.00	14.74	672.90	22.22	71/29
1986	1743.20	13.23	625.10	19.91	74/26
1987	2128.00	15.00	677.60	19.44	76/24
1988	2255.00	15.28	717.20	16.09	76/24

Source: *The World Bank Annual Report, 1981–1988* (Washington, DC: The World Bank, 1981–1988)

Understanding the limitations of the IDA funds and the dislocative impacts triggered by China's needs, the Bank adopted a fair but realistic approach, reducing the amount India received in IDA loans while simultaneously gradually increasing the level of China's IDA loans. In 1981, India was able to obtain US\$1,281 million (36.79% of total IDA lending), while China received its first IDA loan of US\$100 million (2.87% of total IDA lending) (see Table 6.2). By 1988, India received a mere US\$717.2 million (16.09%), while China obtained US\$639.9 million (14.35%). The Bank also insisted that both Beijing and India must accept a fairly hard blend (ratio) with a 40/60 formula, which meant that while Beijing could receive 40% of its WB funding from the IDA, the remaining 60% must come from the IBRD (International Bank for Reconstruction and Development). By 1988, China's IBRD/IDA proportion stood at 62/38 while India's was 76/24, forcing India to take more hard-loans rather than soft-loans as its share of the IDA pie continued to shrink.<sup>68</sup> According to Shahid Javed Burki, who became WB Country Director (China), this disagreement became the main bone of contention between Beijing and the WB. Yet no matter how hard China pushed, the demand for parity with India was never fully met, though China's share of IDA

<sup>68</sup> Ibid., 136.

loans did gradually rise.<sup>69</sup> Like India, following China's entry, other low-income countries, such as Brazil and Indonesia, also received fewer IDA loans. Fortunately, the efforts of WB staff to respond to Chinese needs while winning China's understanding of the position made it possible to maintain a cooperative spirit.<sup>70</sup>

Beijing's position was understandable, given that the Communist government had for long sought to avoid massive borrowing. Even though the Communists were now willing to open up and needed foreign capital for construction and investment, they were still fearful of falling into a foreign debt trap. Moreover, because they had succeeded in receiving cheap low interest loans from the Overseas Economic Cooperation Fund (OECF) and Japan's Export-Import Bank (Ex-Im), China expected similar treatment from the WB.<sup>71</sup> Only later in the 1990s, after the Chinese economy had grown dramatically, did Beijing display less concern over its ability to repay loans. While wanting the number of WB-funded programs to increase more rapidly, the Chinese still preferred IDA loans to IBRD loans and therefore constantly fought for a softer blend.<sup>72</sup> Since Beijing had no wish to alienate other developing countries, however, most of their battles over soft-loan-blend requests were waged behind the scenes.<sup>73</sup> Throughout the 1980s, no matter how stubbornly China tried to extract more from the IDA, with just a few exceptions, the ratio was held to around 40/60 (see Table 6.3).

### *Obtaining Professional Economic Advice from the World Bank*

In addition to the IDA loan blend problem, Beijing's insistence on following its own course had long been a major obstacle to cooperation. The strong economic opinions of the Communists in Beijing clashed with

<sup>69</sup> Shahid Javed Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 10, Oral History Program, World Bank Group Archives, <https://oralhistory.worldbank.org/transcripts/transcript-oral-history-interview-shahid-javed-burki-held-january-16-1992-and-february>, accessed 15 October 2020.

<sup>70</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 137–138.

<sup>71</sup> Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 10.

<sup>72</sup> Ibid., 15–16.

<sup>73</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 133.



**Table 6.3** World Bank-supported projects for China (1981–1990)

<i>Year</i>	<i>Project number</i>	<i>IBRD US\$ million</i>	<i>Percentage Share of Total IBRD Lending (%)</i>	<i>IDA US\$ million</i>	<i>Percentage Share of Total IDA Lending (%)</i>	<i>Total US\$ million</i>	<i>Proportion IBRD/IDA</i>
1981	1	100.00	1.14	100.00	2.87	200.00	50/50
1982	1	–	–	60.00	2.23	60.00	0/100
1983	6	463.10	4.16	150.40	4.50	613.50	75/25
1984	10	616.00	5.16	423.50	11.85	1039.50	59/41
1985	12	659.60	5.81	442.30	14.61	1101.90	60/40
1986	11	687.00	5.21	450.00	14.33	1137.00	60/40
1987	11	867.40	6.11	556.20	15.96	1423.60	61/39
1988	14	1053.70	7.14	639.90	14.35	1693.60	62/38
1989	12	833.40	5.65	515.00	11.55	1348.40	62/38
1990	5	–	–	590.00	10.68	590.00	0/100
	83	5280.20	57.35	3927.30	42.65	9207.50	

Source: *The World Bank Group in China: Facts and Figures* (Beijing: The World Bank Office, July 2018), 2–3; *The World Bank Annual Report, 1981–1990* (Washington, DC: The World Bank, 1981–1990)

the way that major IFOs did business. In order to continue their presence and maximize their gains in these IFOs, Beijing needed to adjust and demonstrate a genuine willingness to open up. Since China had been isolated for decades, both the WB and IMF needed to undertake thorough investigations of China's economic situation before they could approve any projects or loans. Deng understood this practical issue. Early in 1979, during a Communist Party forum, he had already spoken on the need for economic work, stating: "Economic work is a political task of prime importance and the economic question is an overriding political question.... Political work should be carried out through economic work and a political problem should be settled from an economic angle. Economic work should be done in accordance with economic law. We must follow scientific methods without practicing fraud or chanting empty slogans."<sup>74</sup>

<sup>74</sup> Deng Xiaoping, "Some Comments on Economic Work," Talk at a forum of the first secretaries of the provincial, municipal, and autonomous regional committees of the Communist Party of China, 4 October 1979.

The Bank's request accorded with China's own needs at that time. Beijing quickly granted permission for the Bank to conduct its own economic study of China. In October 1980, a total of 32 Bank specialists led by Shahid Burki arrived in Beijing. Chinese officials were initially apprehensive. To ease their fears, Edwin R. Lim invited the Chinese to appoint their own counterpart teams to participate in the process. Soon this became standard operating procedure in all the Bank's economic undertakings in China. This method helped not just to end suspicions but also to build ties between Chinese officials and WB staff. One of the Chinese counterpart team leaders was Zhu Rongji, who would become Premier in 1998.<sup>75</sup> When completed, the report offered the most comprehensive overview of the Chinese economy available at that time. It explained the roots of China's current economic problems and backwardness and warned of the potential danger of excess planning. It further outlined the directions to search for solutions but cautioned against overly hasty reform, pointing out the fundamental weaknesses of the Chinese system. The report also made the alarming prediction that unless China improved its energy efficiency by investing in better extraction technologies, its oil supplies would run out within a few years.<sup>76</sup>

Zhao Ziyang, whom Deng had appointed in 1980 as the new Premier of the State Council, with the responsibility to expand rural reforms across the nation, gave the first World Bank China report a warm reception, commanding every minister to study closely its first volume. In addition, all eight volumes became required reading in economics courses. From then onward, Zhao's team of reformers worked closely with the Bank's economists.<sup>77</sup> This report ultimately had a profound impact, because it served to tell "the Chinese how to read their own economic history" while simultaneously making the Bank's experts "involved in the sectors in which the Chinese thought [the Bank] should be involved." Chinese officials began to place greater value on the Bank's expertise. The government became more willing to borrow from the Bank in order to obtain the economic advice they sought.<sup>78</sup>

<sup>75</sup> Lim, transcript, oral history interview, 11 January 1993, p. 7.

<sup>76</sup> Bottelier, "China and the World Bank: How a Partnership Was Built," 244–245.

<sup>77</sup> McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, p. 29.

<sup>78</sup> Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 7.

As soon as the report appeared, the first WB project, devised by Bank officials and endorsed by Beijing, was approved: a US\$250 million loan to upgrade the facilities of 20 universities. Initially, the Ministry of Education (MOE) planned to use all the money to purchase new equipment, but the Bank insisted on setting aside 20% for manpower training. Ultimately, some ransacked libraries were rebuilt. The loans provided funding to replace all the equipment destroyed during the Cultural Revolution and to secure modern computers and laboratory equipment. The project also provided scholarships for Chinese students to study abroad for one to two years. In addition, numerous consultants and teachers would come to China to assist its educators. This was a crucial effort to replenish the loss of knowledge and expertise caused by the Cultural Revolution. As the teaching environment began to show marked improvements, Chinese economists who had gone overseas were also beginning to return.<sup>79</sup>

In collaboration with the Economic Development Institute (EDI) in Beijing and Shanghai, the Bank also organized another program, to address the needs of those officials who had not yet gone overseas but were still dependent upon China's educational system, and to teach them how to evaluate Bank projects. The EDI focused upon designing and implementing policy seminars and training courses where local officials and Bank staff could discuss development policies and learn from each other. This was later developed into a wider training program for Chinese officials, that enrolled around 1500 trainees over the next decade. The WB depended on this program's graduates to work as WB counterparts in the various ministries, undertaking project preparation and implementation. Through the EDI, the WB's influence infiltrated into various governmental sectors throughout China.<sup>80</sup> In return, Chinese officials not only familiarized themselves with the Bank's practices but also gained insight from these EDI courses into the experiences of other rapidly growing East Asian countries. Given the uniqueness of China's situation and a scarcity of Chinese officials with direct exposure to the outside world, it was difficult for them to apply and adapt these foreign experiences to policy making within China. The EDI case studies on China's experiences nonetheless later became important sources, read carefully in

<sup>79</sup> Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, 112.

<sup>80</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 11–12.

other developing countries and in North American business schools.<sup>81</sup> The research on China produced by the WB became another major and accessible information source for the outside world, offering in-depth analytical understanding of China's reforms and development.

Beijing's collaboration with the Bank also gradually altered Deng's view of foreigners. Speaking to leading members of the CCP Central Committee, Deng instructed the party leadership to make good use of foreign intellectuals by "inviting foreigners to participate in key development projects and other construction projects in various fields." Surveying current global economic conditions, Deng discerned a golden opportunity to accelerate China's growth by attracting Westerners (individuals and companies alike) to China: "We should open our country wider to the outside world. Now that the West European countries are beset with economic difficulties, we should lose no time in seeking their cooperation, so as to speed up our technological transformation.... China provides a huge market, so many countries wish to develop cooperation or do business with us. We should seize this opportunity. It is a matter of strategic importance."<sup>82</sup>

When Alden W. Clausen, president of the World Bank from 1981 to 1986, visited China in May 1983, Deng put these precepts into practice, taking the initiative and asking for support. When he met Clausen, Deng told him that "by the end of this century, China with one-fourth of the world's population, will enjoy a comfortable society, free from poverty and backwardness."<sup>83</sup> Deng wanted the WB to conduct a further investigation into what China would look like in 2000 if Reform and Opening Up continued. Deng desired to know if the Bank had any policy suggestions to achieve his goals. Clausen immediately put his WB staff to work on a report, which cost nearly two million dollars and took almost eighteen months to complete. This report, which was translated into Chinese

<sup>81</sup> Timothy King and Jiping Zhang, eds., "Introduction," *Case Studies of Chinese Economic Reform* (Washington, DC: World Bank, 1992), 2.

<sup>82</sup> Deng Xiaoping, "Use the Intellectual Resources of Other Countries and Open Wider to the Outside World," Talk with leading members of the Central Committee of the Communist Party of China, 8 July 1983, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/08/use-the-intellectual-resources-of-other-countries-and-open-wider-to-the-outside-world/>, accessed 12 November 2019.

<sup>83</sup> "Meets Deng Xiaoping," Beijing *Xinhua* (English), 26 May 1983.

and sold widely in China, became what Koch-Weser termed a “Bible” for the Beijing reformers, constantly cited by Premier Zhao during internal State Council meetings. While using the second WB report on China to confirm the feasibility of his plans, Deng tapped into the Bank’s expertise to analyze the potential issues and options that China would face, offering the Chinese far-reaching advice, sector by sector, on systemic reform over the next few decades.<sup>84</sup>

The Bank thus served as Beijing’s top adviser and even became something of a silent promoter of China’s economic policies. As Deng told McNamara in 1981, “with the Bank’s help, China might make fewer mistakes.” The process of the research work was also meaningful in itself, further solidifying relationships between Chinese officials and the Bank’s staff. Edwin R. Lim, the lead economist in charge of organizing both reports on China, who spoke fluent Chinese, was well acquainted not just with central officials but also with the regional heads. McNamara valued his wide-ranging contacts with the Beijing government, promoting him to become Chief of the Bank’s Mission in Beijing.<sup>85</sup> Boasting a team that specialized in studying China’s economy, possessing useful information and connections throughout Beijing, the WB Mission became an important access point not just for the Bank but also for many developed nations.

### *Consolidating a Long-Term Partnership with the World Bank (WB)*

The consolidation of the partnership between the Bank and Beijing continued. By 1983, the Bank had approved a total of eight projects (including the aforementioned first one), covering education, agriculture, ports, petroleum, farming, and industry. The total amount of loans was US\$873.5 million (of which IDA loans represented 24.52%). From then onward, Bank programs in China expanded rapidly. In 1984 alone, the Bank approved a total of US\$1,039.5 million in loans. For 1985, the amount was US\$1,101.9 million. In 1988, loans reached their first peak, at US\$1,693.6 million (see Table 6.3). Unlike WB projects in other countries that experienced a high level of failures, WB projects in China had

<sup>84</sup> Koch-Weser, transcript, oral history interview, 21 December 1992, pp. 17–18.

<sup>85</sup> McNamara, transcript, oral history interview, 1 April, 10 May, 3 October 1991, p. 29.

an extremely high success rate. Most Bank staff were very impressed by China's progress and the quality of each project, and some even praised China's portfolio as the Bank's best.<sup>86</sup>

According to both Shahid Javed Burki and Edwin R. Lim, the Chinese took their WB projects seriously. In practice, Deng understood the value of these foreign loans and encouraged Chinese officials to use them wisely and effectively. In December 1986, he expounded his ideas to Party officials:

As for foreign loans, we should make a concrete analysis of the question. Some countries have borrowed large amounts of foreign funds. This cannot be regarded solely as a loss; they have gained from it too, rapidly growing from economically backward countries into moderately developed ones. There are two things we can learn from them. First, we should not be afraid of borrowing money abroad; and second, we should not borrow too much. It is not so terrible to borrow foreign funds. The most important thing is to use them to develop production; it would be wrong to use them to reduce the deficit.<sup>87</sup>

Under Deng's leadership, Beijing would not fear taking loans but must use these funds wisely. In accepting the Bank's loans, the Chinese therefore not only decided on the lending programs, which became part of their own overall investment plan, but also valued the Bank as China's partner and made a strong commitment to each project.

### *Winning a New Partnership with the Asian Development Bank (ADB)*

As China gained traction within the Bank, its international status was also enhanced. This gave Deng confidence to endorse participation by Beijing in additional assorted IOs. In 1980, China therefore joined a UN affiliate, the International Fund for Agricultural Development (IFAD), which in

<sup>86</sup> Shahid Javed Burki, "World Bank Operations: Some Implications and Lessons," in *At the Frontlines of Development: Reflections from the World Bank*, eds. Indermit S. Gill and Todd Pugatch (Washington, DC: World Bank, 2005), 132.

<sup>87</sup> Deng Xiaoping, "On the Reform of Enterprises and of the Banking System," Talk to leading comrades of the CPC Central Committee, 19 December 1986, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/18/on-the-reform-of-enterprises-and-of-the-banking-system/>, accessed 12 November 2019.

1981 actually became the first international donor to finance operations in China, pre-empting even the WB. Most IFAD projects focused exclusively on reducing poverty in China by increasing food security.<sup>88</sup>

Conscious of the desirability of tapping additional aid sources in 1983 Beijing even approached the Asian Development Bank (ADB), in which Taiwan was an active member and Japan the dominant force. One year later, when Nakasone Yasuhiro, Japan's prime minister, visited China in March 1984 and met Deng, Beijing once again took the opportunity to suggest China should join the ADB. Instead of demanding the expulsion of Taiwan, the PRC proposed that Taiwan should remain a member under the name "China-Taiwan," provided that the ADB would recognize the "Government of the People's Republic of China as the representative of China and include Taiwan as an associate member state."<sup>89</sup> When Beijing's request was discussed during the Seventeenth Annual Meeting of the ADB, held in Amsterdam in April 1984, most representatives favored China's entry as a full member, but the meeting reached no decision.<sup>90</sup> A formal negotiation was required in order to resolve the Taiwan issue. Since Beijing was willing to soften its position by allowing Taiwan to remain a full member under the name "Taipei, China," the Japanese and Americans both agreed to such an arrangement. The PRC formally joined the ADB in March 1986, with 6.15% of the bank's voting rights and a representative on the Board of Directors.<sup>91</sup>

The first funding the ADB offered Beijing was a Technical Assistance (TA) grant to strengthen the capabilities of the People's Bank of China

<sup>88</sup> International Fund for Agricultural Development, "The China-IFAD Partnership," [https://www.ifad.org/documents/38714170/39439973/China\\_web.pdf/20480f67-9ff3-4fce-803c-0cc4cdd7fc43](https://www.ifad.org/documents/38714170/39439973/China_web.pdf/20480f67-9ff3-4fce-803c-0cc4cdd7fc43), accessed 20 October 2020.

<sup>89</sup> "Cable from Ambassador Katori to the Foreign Minister, 'Prime Minister Visit to China (Foreign Ministers' Discussion—Regarding the Participation of China in the ADB)'," 25 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWIHP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/119554>, accessed 20 October 2020.

<sup>90</sup> U.S. State Department Telegram, Seventeenth Annual Meeting of the Asian Development Bank, April 25–27, 15 May 1984, <https://www.cia.gov/readingroom/document/cia-rdp90b01370r000801050098-1>, accessed 20 October 2020.

<sup>91</sup> Robert Wihol, *A Partnership Transformed: Three Decades of Cooperation Between the Asian Development Bank and the People's Republic of China in Support of Reform and Opening Up* (Manila, Philippines: Asian Development Bank, 2018), 12.

(PBOC), providing badly needed training in international financial and technical cooperation. One year later, in 1987, the ADB granted the China Investment Bank (CIB) a US\$100 million credit line, which was used to finance foreign exchange requirements to enable state-owned and other collective enterprises to upgrade their equipment and facilities. Attached to this loan was a TA grant to enhance the CIB's institutional capabilities. The ADB likewise extended loans and TA grants to additional Chinese state banks. These loans to strengthen the Chinese banking system came at an opportune moment, boosting Deng's Reform programs as runaway inflation and a serious deficit in China's balance of payments unsettled the nation. From 4 to 6 May 1989, the Twenty-Second Annual Meeting of the ADB was held at the Great Wall Sheraton Hotel in Beijing, one of the first such major international gatherings that city hosted during the 1980s.<sup>92</sup>

Meanwhile, as Wendy Leutert describes elsewhere in this volume (Chapter 7), China's bilateral relations with Japan flourished throughout the 1980s. During Nakasone's 1984 visit, he promised to extend some 470 billion yen in credits (for seven projects over seven years), a sum greater than that (300 billion yen) pledged in the 1979–1980 Sino-Japanese agreement. These loans could be used to finance key infrastructure projects. Japan also promised to send retired Japanese engineers to visit China to boost technological cooperation. In addition, recognizing the need to enhance China's level of technology, while meeting with the Japanese, Zhao Ziyang also proposed to continue long-term cooperative energy development with Japan and invited Japanese entrepreneurs to participate in energy and resources joint ventures in the southwestern and northwestern regions, mining non-ferrous and rare metals. Seeking to address the concerns of Japanese investors, Zhao promised to improve joint venture and patent laws.<sup>93</sup> By establishing closer bilateral governmental relations, both Deng and Nakasone hoped to expand Japanese

<sup>92</sup> Ibid., 11–16.

<sup>93</sup> “Loan package,” *Globe and Mail*, 24 March 1984; also “Cable from Ambassador Katori to the Foreign Minister, ‘Prime Minister Visit to China (Summit Meeting—Economic Cooperation, Economic Exchange),’” 24 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWIHP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/119548>, accessed 25 October 2020.



private investment in China.<sup>94</sup> Nakasone further promised Deng that China would be one of Japan's vital foreign partners.<sup>95</sup> With Japanese help, China was able to secure not just funds but also the technical expertise that was crucial to raising Chinese enterprises' productivity.

### *Overcoming Diplomatic Isolation Through Relations with IFOs*

After long years of cultivation, Beijing's partnerships with the WB, the ADB, and the West were put to the test in 1989. Following the Tiananmen Incident, the Group of 7 (G7) imposed sanctions on China and put pressure on the WB and ADB to disengage from China. This was a critical moment for Beijing. Should the Bank choose to disengage completely, the result would be disastrous. Edwin R. Lim, away on vacation in Hong Kong, returned immediately to Beijing to keep the WB office functioning, seeking to ensure the Bank's projects remained operational while maintaining the connection between Beijing and Washington.<sup>96</sup>

Addressing top Chinese military men on 9 June 1989, shortly after the Tiananmen Incident, Deng sought to overcome challenges from hardliners who advocated an immediate closed door and reaffirmed the direction of Reform and Opening Up:

The important thing is that we must never turn China back into a country that keeps its door closed. A closed-door policy would be greatly to our disadvantage; we would not even have quick access to information.... Borrowing money abroad for this purpose is also part of reform and opening. The question before us now is not whether the policies of reform

<sup>94</sup> "Cable from Ambassador Katori to the Foreign Minister, 'Prime Minister Visit to China (Conversation with Chairman Deng Xiaoping)'," 25 March 1984. Also available at the Diplomatic Archives of the Ministry of Foreign Affairs of Japan. Obtained for CWHIP by Yutaka Kanda and translated by Ryo C. Kato, <http://digitalarchive.wilsoncenter.org/document/118849>, accessed 25 October 2020.

<sup>95</sup> "Highlights of Japanese Prime Minister's Speech at Beijing University," *Xinhua General News Service*, 24 March 1984, in Charles Kraus, Sergey Radchenko, and Yutaka Kanda, "More Friends than Foes: Sino-Japanese Relations in 1984," Cold War International History Project E-Dossier 48 (27 March 2014), <https://www.wilsoncenter.org/publication/more-friends-foes-sino-japanese-relations-1984>, accessed 20 October 2020.

<sup>96</sup> Lim, "Learning and Working with the Giants," 127–128.

and opening are right or whether they should be implemented but how to carry them out, what to open and what to close.<sup>97</sup>

In Washington, meanwhile, on 16 June 1989 WB President Barber B. Conable sent Shahid Javed Burki, the Country Director (China), to Beijing, entrusted by the White House with a secret mission to keep lines of communications open. Top officials in Beijing received him warmly, offering assurances that Reform and Opening Up would continue. While promising that the Bank would await the right moment to steer these through the Board, for his part Burki managed to convince Beijing to put all new Chinese projects on hold until political conditions in Washington improved. During this critical one-week trip, Burki visited various parts of the country and discussed the Chinese situation with foreign consultants and contractors, noting that the events of June Fourth had not seriously affected most of his interlocutors. Reporting back to Conable, Burki emphasized that China remained creditworthy, pursued Bank approval policies, and continued to implement Bank-financed projects effectively. Conable ordered him to brief personally each of 22 executive directors on the Bank's Board. When Beijing officials realized how Conable and Burki had acted, they were greatly encouraged. Recognizing that differences existed between the Bank's management and its Executive Board, Beijing began to appreciate that the Bank's management might be a trustworthy non-political independent actor. IFO staff therefore became important guarantors of assurances of maintaining an open door during the turbulent months of contention.

As military control was imposed on Beijing and order slowly restored, Washington began to resume informal dialogues with Beijing. Meeting in October 1989 with former President Richard Nixon, who arrived in the capacity of a special representative of the President of the United States, in an effort to resuscitate the shattered relationship between Beijing and Washington, Deng once again highlighted the promise of the China market:

<sup>97</sup> Deng Xiaoping, "Address to Officers at the Rank of General and Above in Command of the Troops Enforcing Martial Law in Beijing," 9 June 1989, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaopingworks.wordpress.com/2013/03/18/address-to-officers-at-the-rank-of-general-and-above-in-command-of-the-troops-enforcing-martial-law-in-beijing/>, accessed 12 November 2019.

Sino-U.S. relations have a good foundation; the two countries can help each other develop their economies and defend their economic interests. The Chinese market is by no means fully developed yet, and the United States can take advantage of it in many ways. We shall be happy to have American merchants continue doing business with China. That could be an important way of putting the past behind us.<sup>98</sup>

An opportunity to do so finally arose in 1990, when a massive earthquake devastated much of Shanxi province. Citing humanitarian reasons, Burki immediately submitted an emergency WB lending program for China, and the Board quickly approved an earthquake relief project. Following this success, the Bank's management was able to put forward a further four programs to meet China's basic needs. Ultimately, the IDA designated a total of five IDA loans worth \$560 million for China. Meanwhile, the G7 alignment also began to crack when Japan decided to resume lending to China.<sup>99</sup> The ADB likewise quickly followed suit and approved financing for the Nanpu Bridge, intended to link Pudong New Zone (established in 1990 as a new financial center) with western sections of Shanghai.<sup>100</sup> Within the WB, once Japan refused to continue its support for the G7 resolution on China, European countries likewise decided to abandon the consensus, leaving the United States standing alone. In 1991, all lending to China resumed while the United States cast votes of abstention (rather than opposition) on any project unrelated to China's basic needs.<sup>101</sup> Ironically, even as Beijing successfully broke loose from the chains of sanctions, stronger WB-Beijing and ADB-Beijing connections were forged in the process of overcoming pressures for disengagement.

<sup>98</sup> Deng Xiaoping, "The United States Should Take the Initiative in Putting an End to the Strains in Sino-American Relations," Talk with former President Richard Nixon of the United States, 31 October 1989, in Deng Xiaoping, *Selected Works of Deng Xiaoping (1982–1992)*, Vol. 3 (Beijing: Foreign Languages Press, 1994), <https://dengxiaoping-works.wordpress.com/2013/03/18/the-united-states-should-take-the-initiative-in-putting-an-end-to-the-strains-in-sino-american-relations>, accessed 12 November 2019.

<sup>99</sup> Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 13.

<sup>100</sup> Wihol, *A Partnership Transformed*, 16.

<sup>101</sup> Burki, transcript, oral history interview, 16 January 1992, 2 February 1993, p. 13.

## CONCLUSION

Deng's positive economic statecraft, which focused on building relationships with the outside world and assuming full membership in the Bretton Woods institutions, not only withstood pressure from hardliners to close the door in the moment of crisis, but also left a long legacy behind. Through major international financial organizations (IFOs) and bilateral agreements, foreign loans and investments continued to flow into China. By securing membership in the International Monetary Fund and World Bank, Beijing opened more doors of opportunity, enabling China to obtain additional essential loans for agricultural development, banking operations, and infrastructure construction. While providing Beijing officials with invaluable advice, the two World Bank reports also encouraged additional foreign investors to focus upon China. By consolidating its partnerships with both the WB and ADB, Beijing won sympathetic friends and support within these IFOs, which served as an important channel of communication between Beijing and the Western world during the difficult months in 1989 when hardliners challenged Deng's reforms.

Staying or leaving would make a huge difference to China's development and its relationships with the outside world. As long as Beijing followed Deng's positive economic statecraft and remained creditworthy, China's access to funds, loans, technology, knowledge, and skills would continue. Once Beijing chose to remain as an active member, China's influence in the Bretton Woods institutions, as well as other international organizations, could be expanded even further. Overall, unification with Taiwan excepted, Deng's positive economic statecraft achieved most of his policy objectives: the Soviet threat was minimized; China was on track to regain its prominent position in East Asia; and the dictatorship of the CCP was preserved.

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