

INSTITUTE OF CURRENT WORLD AFFAIRS

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Hong Kong  
August 14, 1965

ARD-11  
The Needle's Eye

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Dear Mr. Nolte,

Well before the accession to power of the Communists, the bourgeois or capitalist classes in China were divided by Mao Tse-tung into two categories - the bureaucrat-bourgeoisie and the national bourgeoisie. Some hint of the significance of the distinction can be gathered from the following passage in a speech made by Chairman Mao on the 1st July, 1949, and subsequently published under the title, "On the Dictatorship of the People's Democracy":

"Who are the people? In China and in present circumstances, the people are the working class, the peasant class, the small capitalists, and the national capitalists. These classes, under the leadership of the working class and the Communist Party, have united and risen to set up their own state, and chosen their own government which will exercise authority, autocratic authority, even oppression, upon the running dogs of imperialism, the landlord class, the bureaucratic capitalists, and the reactionary party of the Kuomintang which represents these classes. We shall not allow them to speak or act wildly; we shall keep them under strict control."

Elsewhere Mao described bureaucrat capital as "the capital of the big landlords, big bankers and big compradors". Bureaucratic capitalists were seen essentially as those who were powerful enough, through their profitable connexions with the foreign imperialists, to exercise political power in their own interests - the "four great families" of the Kuomintang are often named in this context in Communist literature.

The national capitalists, on the other hand, were seen as having a dual nature. Again in Chairman Mao's words:

"On the one hand, this class is oppressed by imperialism and fettered by feudalism and is consequently in contradiction with both. In this respect it constitutes one of the revolutionary forces. In the history of the Chinese revolution it has shown some enthusiasm for fighting imperialism and the government of bureaucrats and warlords.

But on the other hand, it lacks the courage to oppose imperialism and feudalism thoroughly because it is economically and politically flabby and its economic ties with imperialism and feudalism are not yet completely severed. This is most clearly revealed when the people's revolutionary strength grows.

This dual character of the national bourgeoisie means that at certain periods and to a certain extent this class can take part in the revolution against imperialism and against the government of bureaucrats and warlords and become a revolutionary force. But in other periods there is the danger that it may follow the big comprador bourgeoisie as its accomplice in counter-revolution."

Since 1949, then, the national capitalists and petty capitalists have basked in the fitful sunlight of these definitions, and, where they have cooperated with the Government in converting their businesses into "State-private joint enterprises", have in many cases been compensated with annual payments of fixed interest (5% of the Government valuation of their investment at the time of takeover, or "transformation", as it is called) and have also in many cases been given managerial positions. According to a figure issued some years ago, some 250,000 national capitalists were living wholly or in part on fixed interest payments.

In the large cities which I visited in China, State-private joint enterprises were very much in evidence. The majority of urban shops and department stores have the designation on their signboards, as do many factories, especially the smaller ones. In Hangchow, where I paid a visit to the Tu Chin Shen Silk Knitting Mill, I noticed that it was under State-private joint management.

Mr. Chang, the manager, described the way in which the sixteen former owners now played a part in the running of the enterprise - one as vice-manager, some as heads of sections, some as technicians, others as ordinary workers. He said that the system involved the presence of two economic elements in the structure of the company - private ownership and State ownership.

It was "joint" in the sense that the funds on which the mill was run had originally come from both sources. All the shares in the mill belonged to the State or to the private owners. The State was paying the latter regular interest of 5%, which was the sum fixed by law, in addition to their salaries. In 1965, after this system had been in operation for ten years, it was due for reconsideration, but no one knew what was likely to happen.

The capitalists were in an interim situation. They could not re-invest their money to increase their shareholding, nor could they transfer their shares, except by way of succession to their heirs after death. Their income was fixed without relation to the profit or loss made by the mill, unlike the State Enterprises Tax, which was assessed on the profits, and it was as a result more secure than it had even been before, for which they were grateful to the Government.

Mr. Chang said that the workers regarded the situation as better than private ownership, but worse than State ownership. They would only be fully content when the interim period was over and the transformation into a fully State owned enterprise was completed. Although the interest payments were fixed and did not come out of the profits, there was still an element of exploitation in the State-private joint enterprises, Mr. Chang assured me. I asked him why the people, if they disliked the system, were allowing it to continue so long. He said that because of the dual nature of capitalism in the Chinese revolution, a radical solution such as that used in the U.S.S.R., where all capitalist funds and property were confiscated immediately after the October Revolution, was inappropriate to the Chinese situation. Specific conditions in China were different from those in other countries. Inasmuch as there was a positive side to the role of capitalism in the Chinese revolution, the policy of the Government was to buy the national capitalists out.

I did not find Mr. Chang's explanation altogether satisfactory, familiar though I was with the main details. It was puzzling to discover that the former owners were still regarded as exploiters, for it is difficult to see any vestige of ownership in their present relationship to the company. They had no rights of control over the company, which was managed by the State; their fixed interest did not come out of the company's funds, for it was paid by the State regardless of the company's profit or loss; they could not increase or reduce their investment; and they could not even alienate their right to receive payment. They thus could hardly be exploiters of their ownership of the means of production in the classical Marxist sense.

The next day, on arriving at Shanghai, where State-private firms were to be seen everywhere, I raised the question with my guide, Mr. Yü Shih-teh. It was just the sort of question he wanted, for he immediately offered to arrange an interview with one of the most prominent and wealthy capitalists in the city, who would be delighted to receive me at his house, or if I preferred, at his factory. I must confess that I hesitated before agreeing, for in the heady ethos of new China, projecting as it does even to the visitor such a vivid picture of hard, honest toil and frugal living, to be taken to see a man just because he was a capitalist living in luxury took on something of the atmosphere of a visit to the zoo. Mr. Yü, who had plainly officiated at a number of such visits, was very sure that I would find it interesting, however, and although my question was never answered, he was right. In the event it was less like visiting the zoo than the circus.

The Tsao Hua Wool Manufacturing Company's mill was across the river from the central district of Shanghai. We had to cross by a car ferry, which confirmed me in the belief that Shanghai urgently needs bridges or tunnels, despite the relative lack of motor traffic in this, as all, Chinese cities. There was a long queue (needless to say we drove straight to the front) of large trucks on both sides, waiting for two small ferries, each of which could accommodate about twelve vehicles for a ten-minute crossing. There must have been an average delay of two hours at least. I realized that our host, who, as I later learned, only spent occasional days at the mill, must have found it just as inconvenient to get there as we did, though he also probably had priority over the trucks. The mill itself was housed in a ramshackle collection of buildings such as one might find in an industrial town in the North of England; it was tucked away from the road at the back of a large steel works.

Mr. Liu Nyan-tse, who turned out to be Vice-Manager of the Shanghai Wool and Jute Company, a Member of the Shanghai Municipal People's Congress and a Delegate to the National People's Political Consultative Conference as well as Manager of the Tsao Hua Wool Manufacturing Company, greeted us at the door of the administrative building and took us up to the reception room. There, beneath the usual political portraits, together with some Red Banners for Productivity, we sipped tea. In his fifties, rather heavily built and wearing the woollen tunic and trousers usual among Chinese officials, Mr. Lieu was a man of polished manners and easy conversation. His greeting and short introductory talk were in Chinese. We then changed to English, which, as Mr. Yü had said, he spoke extremely well (indeed I gathered it was one of the chief reasons for Mr. Yü's enjoyment of these visits, though I suspect that he also derived a certain pleasure from discussion of the old bourgeois life; he had wanted me to go to Mr. Lieu's house, perhaps to prove that, however much it might be out of tune with modern China, Chinese plutocrats could live just as well as Western ones).

Mr. Lieu's story, which I reproduce briefly, was told with something of the air of a man who thinks his audience will be hard to convince. My ready acceptance of his account of how he had changed his entire outlook in the past fifteen years seemed to take him almost by surprise, and I was left to guess that some of his visitors must express rude disbelief at his account of how an out and out capitalist can become a supporter of communism. During our conversation it emerged that we had the common bond not only of having been at Cambridge but of both being Trinity men; this seemed to please both of us, for he talked rather more intimately after making the discovery, yet it seemed paradoxically to make it even harder for him to be sure that he was convincing me. Perhaps the gap between the two worlds was too great, and he himself could scarcely believe in his transition between them as he stressed again and again the importance of the change of heart, especially in one's attitude to the workers.

He was one of nine sons, he told me, of "a really big capitalist" - one of the largest industrialists in China, with many varied interests besides the Tsao Hua mill. Eight of the sons had been sent abroad for their education - three to England, three to the United States and two to Japan. Mr. Lieu had served two years of articles to a chartered accountant in London before going up to Cambridge in 1930 to read economics as a pupil of the late Sir Dennis Robertson. He had been much impressed by the lectures of Keynes and Pigou, then in their prime, though he now realized that they had been barking up the wrong tree. Apart from his studies he had played soccer for the College, as well as tennis, and he used to hunt regularly with the Essex Union Foxhounds, though he said with a touch of regret that even with his father's generous allowance he had not been able to keep polo ponies.

On his return to China in 1934 his father had made him majority shareholder and managing director of the Tsao Hua Mill, which had been established in 1929. However, with his knowledge of economics he was more interested in banking and speculation than industry. Conditions were not such as to make the mill a very interesting proposition: "As you know, for a national capitalist to run a factory was very difficult in the past. China was a semi-colonial, semi-feudal country before liberation. The various governments did not support capitalists, but they allowed the imperialists to suck the national life-blood. The woollen textile industry was a very young one compared to cotton, and technical standards were very low. Father once sent two experts to England, to Leeds, but the mill-owners there refused us any technical assistance. All the capitalist countries were the same, and the tariffs and other economic weapons were all in their hands. There was another thing: I must confess that even though I was the biggest shareholder, I much preferred to wear British woollens myself.

They were more fashionable, cheaper and better. That was the trouble, the rich all wanted foreign cloth, the poor couldn't afford to wear woollen cloth at all. Now, of course, wool is getting more popular, it's no longer the luxury of the few."

The long and short of it was that Mr. Lieu had not paid much attention to improving or increasing production in his mill, but had simply taken what profits out of it that he could.

After the war the situation got much worse. The whole Shanghai manufacturing community was hit by the American policy of dumping goods in China. His own family had had to close their own cement works and use it as a store for cement bought from the Americans. The family coal mines could not compete with American coal at \$30.00 a ton. American goods were in all the shops while Chinese factories could find no markets. Everyone was utterly fed-up with the Kuomintang and the Americans - in fact Mr. Lieu said that he still detested the United States.

The Shanghai capitalists were also very much afraid of the advancing Communists, who were rumoured to be taking revenge on capitalists of all sorts. His family sent much of their money abroad, and his own wife and children took refuge in Hong Kong. At this point the Communists directed some special broadcasts at the Shanghai business community - Mr. Lieu's father was even addressed by name in some of them - appealing to them to stay and run their factories and telling them that after Liberation they would be needed as never before. Soon after the Communists entered Shanghai, Chen Yi, (now the Foreign Minister) who became Mayor, called all the industrialists to a conference to get their cooperation in re-establishing production. Most of them remained unconvinced, however, of the Communists' good intentions towards them, and they kept quiet about all their investments abroad. They were in constant fear of the introduction of new regulations about ownership, and many of them were very much afraid of the hatred of their own workers. Mr. Lieu told me that he had more than once used riot police to break up strikes at his mill, and their methods had been none too gentle. Finally, he and his friends were not convinced that the Communists, for all that they were good soldiers and politicians, would make good administrators and economists.

This last doubt was soon dispelled, apparently. "There were appalling financial difficulties, Mr. Dicks; prices were soaring day by day when the Communists took over; yet, somehow, they controlled them. They were very strict with hoarders and speculators. We soon found out that they were very strict all the way along the line, from top to bottom. Oh, we tried to bribe them at first, of course, in the old way, but it was no good.

"I was very moved, too, by the way in which the workers supported me through everything. They voluntarily took salary cuts, and they worked right through the bombing. Later, the American blockade policy made things very difficult for us, for up to that time all our spare parts, even down to nuts and bolts, had to come in from abroad. The boundless enthusiasm of the workers overcame many of the difficulties. Many of our machines were very old, and some were so useless that I had stored them away in a godown. But the workers insisted on taking them out, and bit by bit they made them all serviceable - some of them are still working today." (Mr. Lieu was unimpressed by my suggestion, when we went to look at the machines in question, that some of the credit belonged to the other workers of Keighley, Yorkshire, where the machines were made in the 1890s.)

There were labour problems after Liberation, but the Party came to Mr. Lieu's aid in solving them. The Communists exhorted the capitalists to surmount their difficulties as best they could; Chairman Mao's maxim "There are difficulties, ways to overcome difficulties, and hope" had been a great comfort to all members of the community in those dark days. Nonetheless, Mr. Lieu and his fellow capitalists felt very uncertain and unhappy about the future. Even after the great encouragement of the victory over the Americans in Korea in 1953 - "the United States was compelled to sign the armistice agreement at Panmunjom, you know" - and the improvements in the economy which followed, all private industry was in difficulties.

"The quality of the products of State factories was already much higher. In a State factory, you see, Mr. Dicks, there is no exploitation, and so the enthusiasm of the workers is much higher. We knew that as time went on we would be confronted with higher and higher demands for labour security, to match the improved conditions in the State factories, and that there might be other labour troubles. The State-private firms were already getting better profits than we were, and all the people preferred the State-private system, so that we could see that the natural tendency was in that direction. Most of the private firms in China were transformed into State-private joint enterprises in 1955 and 1956, but a lot of us in Shanghai petitioned the State for transformation as far back as 1954. We could see the way things were inevitably going, you see."

At first, Mr. Lieu told me, he had been anxious about his income, and also about his status in the firm. However, he retained both his managerial position and his managerial salary - ¥525.00 per month, which is a high income in modern China. After retirement he would continue to draw between 60% and 80% of his salary as a pension, the amount depending on his length of service. There had been many changes, of course, and he had not found it easy to adapt himself, but he was given an

assistant, a Party member, who with inexhaustible patience explained the socialist way of running an enterprise and in particular showed him how to develop new and proper relations with the workers.

The effect of the transformation on the morale of the workers was immediate, but it had taken quite a time for Mr. Lieu to adjust himself. He found it difficult to approach them personally. He took a year to learn the actual production system from top to bottom (he did not say whether this involved him in actual work on the machines) - "now I really do know quite a bit about the business." What he found most touching was that the workers now called him "Manager Lieu" instead of "Master Lieu" and, to his great surprise, when he was elected to the post of Vice-Manager of the Shanghai Wool and Jute Company at a big meeting of the textile industry in 1956, many of his workers came forward to congratulate him on his elevation.

The output of Tsao Hua was now much better than ever before. Before Liberation the highest monthly output was about 30,000 metres of cloth, of which some twenty varieties were made. After Liberation but before transformation, it reached a high point of 40,000 metres per month. Now it was 160,000 metres per month, and they 140 different lines, all of much higher quality than ever before. Mr. Lieu said he was proud to say that they were approaching British standards, so that it was no longer necessary to put "Made in England" on the margins - "Made in China" was just as good a guarantee of quality, or would be before long. Mr. Lieu handed me a length of "Cockatoo" Brand gaberdine twill of the kind used in England for covert coats; "make a nice spring coat, wouldn't it?" he said, and I agreed, making a private note that perhaps the English country gentleman was not quite as dead in him as I had thought.

The welfare of the workers was considered as of first importance now - it was not the sort of thing he gave any thought to in the old days. As Chen Yi had said, human life was their most valuable asset. Recently, they had spent ¥100,000.000 at Tsao Hua on air-conditioning - unheard of in old China. The workers now worked three shifts of 7½ hours instead of two shifts of 10 hours.

I asked Mr. Lieu what was entailed by his post with the Shanghai Wool and Jute Company. He said that the Company was the controlling organization for the fifty-odd wool and jute mills of Shanghai. Under the supervision of the Textiles Committee of the Municipal People's Government, the Company was responsible for buying and marketing the products of the mills in accordance with the requirements of the State plan. He personally now had a job which he could never have dreamed of before Liberation, in full charge of the business side of the Company's activities, but of course it was not quite like

business in a capitalist country; there was no competition in the home market, and exports were dealt with by the China Textiles Import and Export Corporation, under the supervision of the Ministry of Foreign Trade in Peking. Mr. Lieu said that as a result of his new commitments he only spent about one day a month at the Tsao Hua mill.

I asked about his present position as a "capitalist". He agreed that he was in no sense at all an owner of the mill now. His "shares" were really in the nature of redemption bonds. From their original investment in this mill, valued at the time of transformation at ¥6,000,000.00, his family were drawing an annual income of ¥300,000.00 per annum. The total family income from fixed interest payments was more than a million yuan a year. (Mr. Lieu, while he mentioned two of his brothers as holding managerial positions in Shanghai, did not tell me how many of them were still in China, nor did he say how the family income was divided.) They were all far more secure, financially, than ever before, he said - to enjoy such an income without great risks and free of tax was quite unthinkable in the old days. "I can't spend all the money, Mr. Dicks. I live very well, I keep up my old house with servants and a car of my own. I still play tennis on my own court, and we have our own swimming pool. I wear my Trinity tie - yes, I wear Western suits sometimes, you know."

He could not re-invest the money - what was there to invest it in? The Government had no need now for investment on such a small scale - State investment these days was on a gigantic scale. I asked why he thought that Overseas Chinese investment was so much encouraged by the Government if this was so, to which he replied firmly that it was a special case. He quickly went back to his own finances - his money earned 6% on deposit in the bank, which was better than getting 5% by re-investment.

Of his children, the eldest daughter was a doctor, his son was a mechanical engineer in Northeastern China, as well as being a leader in the Communist Youth League, his second daughter was a physical culture training instructor, and the youngest daughter was still at high school. Under the new system they were all able to receive the best and widest education obtainable anywhere, and Mr. Lieu did not regret that they had not had the opportunity to study abroad like their father. He did not yet know whether they would inherit his wealth. I suggested that their advanced level of political consciousness might deter them from accepting it, but he pointedly told me that they were still too young to decide.

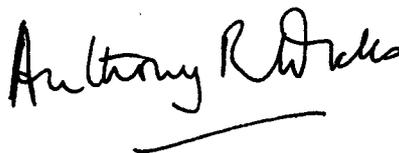
Mr. Lieu was now a Member of the Municipal People's Congress and a Delegate to the National People's Political Consultative Conference in Peking. His wife had been elected a Member of the National People's Congress in her own right on the basis of her political work in Shanghai. They both went

to Peking three or four times a year to discuss the highest affairs of State policy. ~~There~~ was complete freedom of criticism and expression, only hostile and destructive criticism was not tolerated. In any case, such participation in politics at a high level was beyond the dreams of national capitalists in Shanghai in the old days.

Mr. Lieu said that I must visit him again in his home when I was next in Shanghai. He thought I would find it hard to believe what a change had come over China in the past fifteen years, particularly the change of heart. Of course he himself was still learning and reforming himself, but his attitude to life was already quite different from what it had been. He wished me a pleasant journey through China, where I would see everywhere the great strides that had been made since Liberation.

Although he is not the only capitalist in such a position, there are not many like Mr. Lieu in China. His wealth and background set him apart from the great majority of Chinese capitalists, quite apart from anything else, and his story is no paradigm of the history of all the others who are receiving their annual 5%. There is a darker side to the transformation of private enterprise, too, - not all the capitalists were bought out, for not all of them, in Mr. Lieu's words, "saw the way things were inevitably going". Many foreign visitors to China, especially businessmen, visit Mr. Lieu, and the very accessibility of such an important executive, to say nothing of his line of conversation, speaks for itself. Many visitors, no doubt identifying with him, reflect that life is not so bad for the former capitalist in modern China, providing he is a sensible fellow and has a good heart. Others may be less convinced. How far, should one ask, has this eminently smooth, sophisticated man, with his Western education and ways, persuaded himself, or allowed himself to be persuaded? Or is he a man who has really "found himself" in the era of Communism in China? He has certainly found a job, and a good one.

Yours sincerely,

A handwritten signature in cursive script, reading "Anthony R. Daniels". The signature is written in dark ink and is underlined with a single horizontal stroke.

Received in New York August 30, 1965.