A Springboard to Victory:
Shandong Province and Chinese Communist
Military and Financial Strength
1937-1945

by

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ABSTRACT

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During the Sino-Japanese war of 1937 to 1945, the Chinese Communist Party (CCP) in Shandong Province in North China achieved an unnoticed but historically significant success in financial affairs. From that time onward, the CCP in Shandong not only controlled economic affairs within its territory, but also obtained access to territories under enemy occupation through manipulation of currency exchange rates and by controlling the trade in staple grains, cotton, salt and peanut oil. As a result, trade with occupied China and with the Japanese invaders became the principal source of revenue of the CCP in Shandong as early as the second half of 1943. By the time of Japan’s defeat in August 1945, about 80% of the CCP’s revenue in Shandong came from trade beyond the areas under its control. Moreover, the CCP in Shandong deliberately carried out a policy of controlled inflation to increase its financial power. The key to this achievement was the CCP’s success in establishing exclusive zones for its banknotes in August 1943. The exclusive use of CCP currency developed in the course of many years of armed conflict among Japanese, CCP and Nationalist (GMD) forces in the province. The CCP’s
banknotes were backed by Communist military power and military success. From their first days, the banknotes were intertwined with the military power of the CCP in Shandong and the supporting administrative institutions that Party authorities established in the province. The establishment of exclusive currency zones reflected the maturity of the CCP’s party-state. Because external trade was their principal source of revenue, CCP leaders in Shandong lacked the incentive to carry out social reform in Shandong. Moreover, justifications for the CCP’s program of agrarian revolution as carried out elsewhere were not found in Shandong. Rather than seeking social and economic transformation, the CCP built up power with a view to achieving a favourable position vis-à-vis the GMD before the end of the war against Japan.
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CHAPTER ONE

Introduction

One day early in April 1936, a twenty-nine year-old Shanxi native named Li Yu arrived in Shandong on a bicycle. He had come from the neighbouring province of Hebei with a mission to re-establish the Shandong provincial committee of the Chinese Communist Party (CCP) in preparation for defence against the Japanese invasion. When the war of resistance against Japan ended in August 1945, Li Yu and his comrades commanded more than 23,000 regular soldiers and half a million militia men. Within two months of Japan’s defeat, over 70,000 troops advanced rapidly from Shandong into north-eastern China (Manchuria) in a race against the forces of China’s central government led by the Nationalist Party (Guomindang, GMD or KMT). Forming the basis of a larger force, the Shandong troops overwhelmed the GMD armies in campaigns in both north-eastern and northern China. Meanwhile, as CCP units remaining in Shandong joined forces withdrawn from the Yangzi valley, Shandong became another principal battlefield in the CCP-GMD conflict, with a decisive CCP victory near the end of 1948. At the time of the CCP’s national victory in 1949, about 27 percent of the CCP’s soldiers were Shandong natives. Marshal Luo Ronghuan, the CCP commander in Shandong and the Northeast, commented on Shandong’s contribution: "Without the Shandong base area, it would have been impossible to assemble so many troops for the Northeast campaign. Without the Shandong base area, we would not have had a stepping stone to assemble our
troops [in the Yangzi valley] for the northern advance at the beginning of the War of Liberation.”¹

This dissertation explains the CCP’s success in Shandong during the War of Resistance against Japan (1937-1945). It is a continuation of the exploration of the Chinese Communist revolution that began with Edgar Snow’s *Red Star over China* (1938), an account which informed the Western public of the existence and history of the CCP. Since then, English-language historiography on the Chinese communist revolutionary movement has developed through three distinct phases and is entering a fourth phase. The distinctive characteristic of the first stage (1936-1949) was disillusionment with the GMD and idealization of the CCP. The second phase lasted from 1950 to 1961 and was distinguished by Communist conspiracy theories. The third phase (1962-1979) was a period of controversies over nationalism versus Communism.

Early works in English about the CCP-led revolution as well as the CCP’s military struggles against the Japanese invasion and the GMD were by journalists and government analysts who based their accounts on their own experiences and observations of Chinese society, wartime conditions, the CCP and the GMD during the 1930s and 1940s. Edgar Snow attributed the CCP’s power to its program of social redistribution. So did John Service (1944), a US diplomat who claimed that the CCP enjoyed widespread popular support and that fact was “a practical indication that the policies and methods of the

Chinese Communists have a democratic character.”² But the US War Department did not agree with Service’s view. In its report in June 1945, it pointed out that CCP democracy “represents ‘Soviet democracy’ on the pattern of Soviet Union rather than democracy in the Anglo-American sense.”³

The second phase began after the CCP’s national victory in 1949. The CCP victory, the Soviet nuclear explosion, the Korean War and McCarthyism altered the landscape of studies on China’s Communist revolution. According to Mark Selden, the impact of McCarthyism upon academic researches about China was so powerful that “[s]cholarly and political analysis and debate were stunted by an enforced intellectual-political consensus that precluded critical discussion of the issues shaping revolution and imperialism in China and Asia and the exercise of U.S. power in Asia.”⁴ Academic concern with China in the United States shifted from socioeconomic development, party-peasant relations, revolution, imperialism, nationalism and the war against Japan to issues related to the export and expansion of Soviet revolutionary ideology.

The third phase began when scholars began to revise conventional explanations with the publication of Chalmers Johnson’s Peasant Nationalism and Communist Power: The Emergence of Revolutionary China 1937-1945 (1962). Johnson attributed the Chinese Communist victory to the CCP’s detachment from and de-emphasis of

⁴. Ibid, 230.
Communist principles and ideals in local mobilization efforts during the war. He argued that the CCP made nationalistic appeals to peasants whose lives were turned upside down by the Japanese invasion. During a period when the United States was facing civil unrest and a dilemma in Vietnam in addition to when de-colonization, adulation of Mao and China’s Cultural Revolution were peaking, Johnson’s work evoked widespread and lasting debates about nationalism, imperialism, Communism and agrarian reform. His claim was later challenged by historians whose in-depth research on the CCP’s base areas revealed that the party did not give up its revolutionary ideals during the war against Japan, and that its revolutionary appeal was often inseparable from its patriotic appeal.\(^5\)

A micro-regional approach to understanding China’s Communist movement during the war against Japan was then developed by some scholars responding to Johnson’s work into a genre of “base area studies” in scholarship. The most noted early example of this genre is Mark Selden’s study of Shaanxi, *The Yenan Way* (1971). A less sympathetic view of CCP social radicalism as essential to its victory was the view of Tetsuya Kataoka (1974), who attributed the CCP’s victory over the GMD to better organization, more adaptable military forces and Machiavellian manoeuvres.

Scholars in related disciplines such as politics and sociology joined the debate about the causes of the Chinese Communist victory as part of their efforts to identify paradigms of peasant revolutions and how these revolutions were shaped by nationalism, imperialism and capitalism. A list of these scholars includes Barrington Moore (1966),

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Eric Wolf (1968), Jeffery Paige (1971), Joel Migal (1974), James C. Scott (1976), Theda Skocpol (1979) and Samuel Popkin (1979). Suzanne Pepper has described these scholars in fields other than China as “generalists.”6 Their contributions broadened CCP studies with new angles and perspectives in sociology and political science. But as base area studies undermined Johnson’s earlier argument about peasant nationalism, it was difficult for generalists’ arguments and paradigms to withstand the critiques from historians of base area studies. Ralph Thaxton, a China specialist, observed in 1977: “No one general work on the contemporary peasant movement has seriously questioned ‘peasant nationalism’ when making reference to the Chinese revolution.”7 The generalists seemed to be in a dilemma. Peasant revolutions were spreading across the Third World in the context of the Cold War. New and better explanations were seriously needed. But new explanations were not sturdy in the face of critiques from the scholars of CCP base area studies, the area where history’s largest “peasant revolution” had occurred. It seemed that few scholars were willing to risk making fresh generalizations. The era of grand theories seemed to be fading out.

Meanwhile, scholars of base area studies in CCP history also found themselves in a quandary. Like other scholars of revolutionary warfare, they lacked materials on both the winning and losing sides.8 It was unimaginable the CCP leaders would have provided Edgar Snow and his peers of the first generation of analysts access to their confidential

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6. Pepper, 108

7. Ibid.

correspondence. When China fell behind a “bamboo curtain,” the second-generation scholars’ access to information was even more limited than their predecessors’. Thus Chalmers Johnson relied on wartime Japanese intelligence sources to support his theory. Although a few CCP internal documents became accessible in Taiwan when Mark Selden and Tetsuya Kataoka were developing their interpretations, those few captured documents were publications for CCP cadres’ doctrinal education rather than internal correspondence and instructions. The essential materials at last began to be available in the early 1980s as a result of Deng Xiaoping’s effort to purge radical Maoists and reconstruct the CCP regional network. To recount the history of the CCP movement at the regional level was a component of this effort. Accessibility to local CCP materials led to recognition of the CCP’s regional divergences, challenging established general explanations of the CCP’s national victory in 1949.

Base area studies focused on the revolutionary process in particular base areas. This effort produced remarkable works as early as the 1980s, including studies by Elizabeth Perry (1980), Kathleen Hartford (PhD dissertation 1980; publication 1989), David Paulson (1982), Ralph Thaxton (1983), Chen Yung-fa (1986) and Steven I. Levine (1987). In presenting information about the dark aspects of Chinese Communist history including merciless power struggles, assassinations, the persecution of dissidents and other victims, the inhumane treatment of detainees and of returned prisoners of war along with corruption among the CCP elite, this group of historians discovered that the CCP’s rise to power had been based partly on coercion and repression.
The violent crackdown on pro-democracy demonstrations in Tiananmen occurred in 1989 when historians were occupied analyzing with a flood of new materials about the history of the CCP. Not long afterward, the Soviet Union collapsed and historians soon began to gain access to Soviet archives, including those related to CCP history. The Tiananmen incident, the end of the Cold War and accessibility to Soviet archives altered the entire landscape of the study of twentieth-century China. Scholars began to reappraise the CCP and its revolution, and also reassessed the GMD and the Republican period. As mentioned above, the new generation of historians did not seek mono-causal explanations of the victory for the CCP. Rather, they narrowed their efforts to specific issues such as opium revenue, Chinese nation-building efforts and collaborationism. Important achievements in base area studies were the works by Elise Anne DeVido (PhD dissertation, 1995), Feng Chongyi (2000) and David S.G.Goodman (2000).

As in the 1980s, historians studying base areas continued to focus their attention on social, economic and organizational aspects of the CCP revolutionary process in their target areas to illuminate the local foundations of CCP strength. Geographically, their target areas were Central China and North China. Their topics covered social, economic, political, ideological and financial aspects of the wartime CCP, its controlled areas and areas of fluctuating control and the interactions between central and regional CCP

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leaders. Like the earlier scholarship, this post-Cold War scholarship did not deal with military affairs.

The CCP’s base in Shandong has been the subject of dissertations by David Paulson (1982) and Elise Anne DeVido (1995). Paulson’s research was comprehensive. He outlined and identified the major players of the wars in Shandong, their interactions and the major events, including the depreciation of *fabi* and the CCP’s attempts to drive the *fabi* out of circulation. He noticed the divergence of the local CCP army, the Shandong Column which came from uprisings as well as the later arrived regular CCP army, the 115th Division. In addition to revealing the complexity of wars in Shandong, his discoveries also proved Lucien Bianco’s theory about CCP’s peasant mobilization, “peasant spontaneity” and the impact of CCP institutions on the peasants, which resulted in the “guided spontaneity” of the peasantry.  

Paulson also observed the GMD-led anti-Japanese and anti-CCP forces in Shaoguao and the CCP army’s role in Shandong. He attributed the GMD’s failure in Shandong to Chiang Kaishek’s strategy in which the local GMD forces were encouraged to attack the CCP.

DeVido furthered the research made by the previous generation of historians of “basic area studies.” She adopted the state-building approach that Chen Yung-fa had applied during the 1980s and identified the CCP’s revolution as a component of its party-

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state building efforts. She recognized the limits of Chen Yung-fa’s approach of focusing on the sub-county level and sought to “place [her] primary emphasis on Communist statebuilding in Shandong in the context of war”. She resorted to the up-to-date CCP documents published in China, which were not available to David Paulson during his doctoral research, and focused her research at the Shandong provincial level, the Shandong Bureau during the Sino-Japanese War, and the East China Bureau during the CCP-GMD civil war. She discovered that the CCP party-state was built long before October 1, 1949, when the People’s Republic of China was established. By revealing the diversity and competition within the CCP and its army and the internal and external trade of the CCP zones, she tried to revise the previous perception of the CCP base areas that were “idealized” as “autarkic and ‘self-reliant.”

Parallel to the studies on CCP base areas, explorations of rural society and economic conditions in North China led to works by Ramon Myers (1970), Philip Huang (1985), Duara Prasenjit (1988), Kenneth Pomeranz (1993) and Ralph A. Thaxton (2008). These works reveal the lives of common peasants, the complexity of rural society and historical changes initiated in the coastal areas from the 1860s onward. These studies have filled gaps in our knowledge of rural North China and serve as reference works for a review of the available explanations and descriptions of CCP successes in North China.


13. Ibid, 8.

Despite abundant information and persuasive arguments about the CCP’s social and economic policies and organizational evolution, a significant gap continues to exist in the scholarly understanding of the CCP’s military strategies and tactics in base areas and how they affected local society. Discussions and debate about “peasant nationalism” have been inconclusive as a result. Lack of knowledge about the CCP’s military history is now the principal barrier to understanding the Chinese Communist revolution. Reviewing the inconclusive debates, Suzanne Pepper has recently argued that attention to the military dimension of the CCP’s victory has been inadequate, stating that the problem arises from a lack of effort on the military aspects of the Chinese Communist revolution. According to Pepper: “…from the beginning to the end, or from the defeat in Jiangxi to the definitive Huai-Hai campaign of 1948, the most critical condition of CCP victory was military.”15 She concluded that the issue of how the CCP achieved victory could not be resolved unless military historians became involved.16 Pepper’s statement is particularly significant considering that her 1978 book on the civil war, in which the CCP victory was explained as a political one, stood as the definitive work on the subject until it was at last superseded by O.A. Westad’s Decisive Encounters (2003).17 Pepper claims that China historians “have no way of recognizing, for example, the point at which an overall critical mass might have been reached in terms of sources of grain and military power, making irrelevant further questions about variable civilian responses and local outcomes.”18

15. Pepper, op.cit, 121
16. Ibid.
18. Suzanne Pepper, op.cit
Pepper’s claims lead to questions about how and when the CCP built up an infrastructure that successfully supported its army and military operations as well as how that infrastructure operated. It is a fact that during the eight-year war against Japan, the CCP grew from a marginal power in remote northwestern China to a position of power secondary only to the GMD, with an army of over one million regular soldiers dominating rural North China. Recognizing the absence of research on the history of the long period of war and the Japanese occupation, historians have begun to take action. For instance, in January 2004 the Asia Center at Harvard University sponsored a workshop on the military history of the Sino-Japanese War of 1937-1945. The meeting included a session on “Chinese Guerrilla Operations and Japanese Anti-Guerrilla Operations, 1939-1945” during which Yang Kuisong, Baba Takeshi and Masahiro Yamamoto presented papers outlining Chinese and Japanese perspectives on guerrilla warfare. Baba Takeshi’s paper dealt with the Japanese military operations in Shandong. But participants in the workshop mentioned only in passing topics relating to the infrastructure of the CCP’s wartime activities in North China, such as the control of revenue and how this process interacted with military operations.

In contrast to the scholarship in English, the PRC-based historiography on the CCP revolution and the Sino-Japanese War has been more exposed to domestic politics. Academic research in the PRC is not independent, and historical studies are funded and supervised by the Department of Propaganda of the CCP’s Central Committee. Because a mythology about the CCP’s contributions to the struggle against Japan has been essential

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19. I thank Professor Yamamoto for generously answering my questions and providing me with a copy of his conference paper.
to the legitimacy of PRC, academic and publication programs must follow the strict
official guidelines in support of the claim that the CCP was the leader and mainstay of the
Chinese people’s military efforts against the Japanese invasion. Although there is
abundant Chinese-language scholarship about CCP history, both military and civilian,
including numerous works dealing with the CCP in Shandong, these studies tend to be
descriptive rather than analytic. As David Paulson pointed out, they may even be said to
“mystify as much as to enlighten about the party’s success.”20

Despite the obstacles they have faced, China-based scholars in CCP history have
made impressive achievements since 1990. These achievements include the publication of
selected documents pertaining to CCP central and regional authorities, biographies of
CCP leaders along with their writings, chronologies and memoirs as well as scholarship
on a range of issues including strategic decision-making, financial reforms and military
operations. The works of a few scholars such as Li Jingzheng are based upon archival
research, and have unraveled details about the rural economy during the 1930s and
1940s.21 As for studies on Shandong history, during the 1980s the Office of the History
of the CCP in Shandong compiled and published two sets of selected documents on the
wartime Shandong CCP: Shandong geming lishi dang’an ziliao xuanbian (A collection of
selected archival materials on the revolution in Shandong or SDGMLSDAZLXB) and
Shandong geming genjudi caizhengshiliao xuanbian (Selected historical financial

20. David Paulson, “War and Revolution in Northern China: The Shandong Base Area, 1937-1945” (PhD

21. 李金铮 (Li Jinzheng), 借贷关系与乡村变动: 民国时期华北乡村借贷之研究 (Borrowing-lending
relations and rural changes: a study on rural loans in North China during the Republican period) (Hebei
University Press, 2000).
materials on the Shandong revolutionary base area or SDGMGJDCZSLXB). After completing their compilation, the principal participants produced Shandong geming genjudi caizhengshigao (Manuscript on the history of financial and economic affairs in the Shandong revolutionary base area) (1989). Since 2000, a number of official histories of the Shandong CCP have been published, including a series of 101 works covering the period from 1921-1949 (2005). In addition to these publication projects at the provincial level, the offices of history at municipal and county levels also have research and publication programs. As part of these waves of publication, Tang Zhiqing has published significant works on rural Shandong before 1949 which are based upon decades of archival research (1999, 2004). Another serious researcher is Cao Dongya. His works diverge from the mainstream of official history studies, reflecting great insight and integrity in historical exploration.

Unlike their Western colleagues, Chinese scholars have authored and published a significant number of works dealing with military operations during the War of


Resistance against Japan. Nevertheless, their efforts have been confined to case studies, just as their Western colleagues have tended to limit themselves to micro-level studies on particular base areas. Although they present and abundance of detailed information, these works have not provided persuasive explanations for the following questions related to the CCP’s victory in Shandong: 1) Why did Chiang Kaishek, commander-in-chief of China’s national armies, let the CCP control such strategically important regions as Shandong? 2) When and how did Mao Zedong recognize Shandong’s strategic value? 3) What principal battles did the CCP forces fight during the War of Resistance? How did those engagements begin and what were their significant outcomes? 4) How did the CCP leaders recruit, train, equip, clothe and feed their soldiers? 5) What military strategy did the Shandong CCP adopt and why? 6) Why could the Japanese not eliminate the CCP guerrillas? 7) Why could the National Revolutionary Army (NRA) under Chiang’s command not hold on in Shandong?

These questions are relevant beyond the borders of Shandong and the boundaries of regional historical studies as well as beyond China’s national borders. Relating to the studies of politics, economics and sociology, they form a set of challenges regarding the CCP’s victory in Shandong. One such challenge is to understand the framework within which the Chinese, including the GMD, the CCP and other regional strongmen, fought against the Japanese invasion. This challenge relates to the formation of the anti-Japanese coalition, called a “United Front” in CCP jargon, and the coalition’s internal and external relations. The internal relations involved China’s internal politics; the external relations were shaped by China’s relations with Japan, the Soviet Union, Britain and the United
States. Chiang Kaishek’s grand strategy for the war against Japan formed part of this framework, along with how it was implemented and how it influenced the CCP. Because the CCP was a member of the Comintern at the time, the Soviet Union enjoyed influence on the CCP and was even the final decision-maker until the summer of 1938. The external situation involved the Soviet Union’s security interests in East Asia and Europe. Although those issues were remote from the CCP in wartime Shandong, it would be difficult to understand the CCP leaders’ policy change concerning the United Front and their internal contention over military strategy without understanding that framework. With the exception of a few works on bilateral relations between the CCP and the Communist International (Comintern), scholarship to date has not explored how external circumstances contributed to shaping the CCP’s war policies.

A related research challenge is to understand the framework within which CCP national leaders in Yan’an and their regional authorities worked. The national leaders had authority over the regional authorities according to Leninist party discipline, and were dominant in the areas of institution-building, military operations, deployment and socio-economic policies. In practice, however, the CCP regional authorities enjoyed de facto administrative autonomy. Although the CCP central authority controlled the appointment and promotion of regional cadres, it was reluctant to engage in the internal politics of regional authorities. Some Western scholarship on inter-regional divergences and de facto regional autonomy of the CCP such as the anthology by Tony Saich and Hans van de Ven (1995) has been published, but this area of research is only in its early stages.26

26. Tony Saich and Hans van de Ven, eds., op.cit, 75-189.
Added to the challenges of the underdeveloped framework, a more general challenge is that historians lack a general theory to explain military change and military history. Perhaps because it involves issues of “great magnitude and multifaceted character,” military history has not yet matured remaining in what John A. Lynn has described as “a permanent state of adolescence.” 27 Although the involvement of military historians is essential for progress in the decades-long debate over the Chinese revolution, Lynn’s reflections on the study of military history point to the difficulty of explaining the Chinese revolution, in which military operations were a prominent feature, within a conceptual framework.

Fortunately, I have found some light in the tunnel in my search for a conceptual framework for my research. Studies on the rise of the European nation-states and their wars during 1588-1763 and the theory of “fleet-in-being” have been particularly helpful. This scholarship developed theories of “military revolution,” “financial revolution” and interactions between the forces of coercion, capital and the state. 28 The “fleet-in-being” concept was introduced by Julian Corbett in his works on naval forces, maritime power

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and trade.29 In theory of military revolution, the rise of European nation-states is interpreted as the result of the interactions between the technology, military expenditure, supportive bureaucracy and military strategies. In the theory of financial revolutions, the British victories over continental opponents after 1688 are explained with reference to the British public credit system resting on the Bank of England, whose credit was based upon the Royal Navy’s command of the sea. Its financial-naval system enabled the British government to turn official fund-raising programs into an enterprise that brought commercial benefits to the public. The British government thus obtained access to financial resources that greatly exceeded the size of the British population and economy, achieving this without domestic social and political crises such as occurred in France and Spain. This financial revolution provided Britain with a great advantage over its continental opponents. Charles Tilly (1992) linked together coercion, the extent of monetization and forms of taxation in his explanation of the emergence of the European nation-states. He showed that the more a country’s economy was monetized, the less coercive the state’s path of power over its people would be. The methods of taxation developed from the primitive forms of tribute and rent to the gradually more sophisticated forms of flows, stocks and income.30 He used the following terms: “coercion-intensive path,” “capitalized coercion path” and “capital-intensive path” to illustrate the correlations between coercion and capital.31 It is also helpful that Corbett’s theory of “the fleet-in-being” has been further developed by military historians. Clark Reynolds (1994) argued that the existence of opponents’ small but capable fleets could not be ignored by


31. Ibid, 133.
observers. This means that the significance of those fleets lay not in their capacity to resist superior opponents but in their existence. Their existence was strategically significant simply because they could not be ignored.32

Persuasive theories developed in the studies of European history appear to be applicable in studying the CCP’s expansion during the Sino-Japanese War of 1937-1945. Mao Zedong’s attention to strengthening the CCP’s administrative authority matches the development of supportive bureaucracy in Europe; his instructions about material self-sufficiency are similar to certain aspects of the financial revolution; his dictum that “power comes from the barrel of gun” refers to more than coercion alone; and his guerrilla warfare doctrine may be considered as a version of the “fleet-in-being” in land warfare. The major exception to these theories about the rise of European nation-states is that during the war against Japan, Mao did not proclaim his goal of establishing a fully sovereign CCP party-state within the emerging Chinese nation-state. Mao did not use a term corresponding to “party-state” and did not declare the independence of the CCP administrative zones from the Republic of China under Chiang Kaishek’s leadership. Nonetheless, from 1937-1945 he spared no efforts in preparing to replace the Republic of China with his Communist party-state. Mao directed an undeclared war against the Republic of China during and after the war against Japan. That the CCP did not declare war against the Nationalist government as it had done during the Jiangxi Soviet period (1927-1934) reflected the reality that the CCP was a subordinate branch of the Comintern and, until the Comintern was dissolved in 1943, remained dependent upon various forms

of assistance from the Soviet Union. Therefore, the CCP’s policy and war efforts must be explained within the contexts of the Soviet Union’s security interests, already mentioned above as the one of the major challenges in understanding the CCP’s victory in Shandong.

Given the above challenges in explaining the CCP victory and the theories discussed here, the realistic approach that is applied in the history of military intelligence research appears to be appropriate in pursuing regional studies. As noted by J. R. Ferris, the focus of that approach is “on the margins of disciplines.” Military intelligence analysis examines how decision-makers perceive the world, take action and influence one other.33 Applying a similar approach, I have found my analysis of published CCP documents from the central and provincial level, Mao’s wartime correspondence and the memoirs and biographies of other CCP leaders to reveal significant results, as I have examined and placed these various materials side by side like pieces of a vast jigsaw puzzle.

The principal source materials that have I used are annotated CCP wartime documents published during the 1980s and 1990s as well as Mao’s writings on military affairs. Specifically, they were *Selected documents of the Chinese Communist Party Centre* (1990-1992), *Collected writings of Mao Zedong on military affairs* (1993), *Selected Archival Materials on the Revolution in Shandong* (1981-1985) which DeVido had used. Their compiling and publication was intended to initiate programs of CCP study in China. Their coverage of the topic was wide. The texts are reliable. The editors did their best to keep close to the original versions. They marked deleted parts or unclear

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parts, even errors in the original versions. Although these published documents were carefully selected, they were intended for professional researchers and instructors of CCP history study. Because China’s state security system and government transparency is different from the West, exploring published documents involves no risk of unintended law-breaking during research. Therefore, I took those published documents as my principal sources and made reference to other publications as well. The other publications include memoirs, biographies and scholarly works. The prominent challenge in the document reading was to find a document background, to identify the author’s intentions or biases, which were obscured by Marxist jargon and broken sentences, and establish its linkages with other documents so as to assemble a big picture.

My research is an area that predecessors in “base area studies” have not explored. Although “base area studies” reveal the complexity and the diversity of rural China and CCP revolution, they have done little to interpret the CCP’s national victory. Perhaps it is time to move on further: either to link “base area studies” to the decision-making in Yan’an or explore how the CCP institutions worked and how its members behaved. I hope that my dissertation will be helpful in understanding the CCP system in regard to what various CCP jargon terms implied, what CCP leaders were concerned about, how the leaders worked together, how they made decisions, how their subordinate agencies implemented their orders and directives and why some operations were successful while others failed.

I have discovered many times during my research that a full understanding of decisions and actions documented in one part of the CCP’s administrative system depends
on analysis of decisions and actions taken at other levels and in other regions. Seeking to understand the internal and external frameworks for the CCP’s wartime development, a significant part of my dissertation research has focused on events that occurred outside Shandong, including those that led to the emergence of the GMD-CCP United Front in 1936, along with decisions made within the GMD and in foreign capitals that affected the progress of the war and also had repercussions at the local level. This was the multi-level framework and international context within which that the CCP fought its war of resistance, and within which Mao sought to establish his party-state.

My principal argument is that the Shandong CCP’s commitment to its party-state attained a watershed achievement after it underwent a financial revolution in Shandong during the spring of 1944. The CCP thus turned the trade between Japanese occupied and unoccupied zones, including trade with the Japanese, into its principal source of income. Meanwhile, the CCP carried out a cautious inflationary monetary policy in order to accumulate resources for the coming rush into Manchuria. The CCP’s success in Shandong occurred in the context of Chiang Kaishek’s Sichuan-based grand strategy for a total and protracted war of resistance against Japan. The successful implementation of the Nationalist strategy meant that Shandong was not on the priority lists either of the Nationalist government or the Japanese. Shandong’s marginal position during the war provided the CCP with an opportunity to fill a power vacuum created by the invading Japanese, who had made no detailed plans for their occupation and administration of China before the war began. When the Japanese began to sponsor Chinese collaborationist governments and the Nationalist Government sought to restore its prewar
administrative control in Shandong, a triangular conflict between the GMD, CCP and Japanese forces began.

The overwhelmingly superior Japanese forces considered that the NRA under Chiang’s leadership was their principal adversary. On top of Japanese military blows, the GMD-led coalition in Shandong suffered seriously from the CCP’s infiltration and raids. The situation deteriorated with catastrophic internal strife and rapid devaluation of the national currency, the fabi, because of the absence of a unified command and dependence upon parachuted supplies of banknotes. The NRA regular troops and the Nationalist provincial government consequently withdrew from Shandong in July and August 1943. By then, the CCP had built an administrative system reaching down to the grassroots by restoring and modifying a traditional revenue system thus establishing a tribute system of food staples and a banking system. It backed this administrative-financial structure with its strategy of guerrilla warfare, through which it maintained the presence of an army-in-being. After the NRA was forced out of Shandong, the CCP became hegemonic in rural Shandong. Although the Japanese continued to expand their control in the rural areas of Shandong until the summer of 1942, they lacked the resources to maintain these efforts after launching their war in the Pacific. The Japanese war economy was reliant upon the agricultural production of North China, especially supplies of cotton, salt, peanut-oil and other food staples, all of which were produced in Shandong. The Japanese forces therefore had no choice but to trade with their CCP opponents on disadvantageous terms, and thus acted as the CCP’s de facto financial supporters. Although Chinese nationalistic appeals in Shandong continued throughout the war, they were not as powerful as in the early months of the war. Despite their label of “traitor” (hanjian), the Chinese
collaborationist forces, driven by anti-Communist fear and hostility, turned out to be formidable opponents of the CCP.

The CCP’s military and financial successes paved way for its large-scale agrarian reform, which had no foundations in wartime conditions in Shandong. My research reveals that Mao tried several times to impose upon the CCP in Shandong his agrarian reform program, which was destructive to local CCP members. Before the summer of 1943, his push for agrarian reform jeopardized the survival of the Shandong CCP and was ended quietly. When he thought the CCP could afford the costs of agrarian reform in the summer of 1943, Mao renewed his effort and did not step back. His direct goal was to build a CCP-led rural society in North China by destroying the existing gentry-led social order. His strategic goal was to improve the CCP’s power of position in the power-sharing negotiations with the GMD and to hold North China when the war against Japan came to an end.

Chapter Two and Chapter Three discuss the framework within which the CCP fought its war of resistance. They review interactions between the Japanese, the GMD, the CCP and the Soviet Union during the period from the Manchurian Incident of September 1931 to the Battle of Wuhan in October 1938. They explain Chiang Kaishek’s adoption of a Sichuan-based grand strategy for a protracted war of resistance, why the Soviet Union interfered in the Xi’an Incident to achieve a peaceful solution and why the CCP then renounced its goal of establishing a CCP party-state. They also explain the CCP’s eastward expansion and discuss how Mao took advantage of a crucial moment in late July 1937, received a ticket of freedom of movement from Chiang Kaishek in the
name of conducting guerrilla warfare, how he was isolated and criticized after the fall of Nanjing on December 10, 1937 as well as how his resilience and patience won him the Comintern mandate in July 1938 which made him the supreme leader of the CCP.

Chapters Four through Seven focus on the triangular conflict in Shandong during 1938-1945, interactions between the Shandong CCP and the CCP Centre in Yan’an and the impact of events elsewhere upon the situation in Shandong. They also examines Yan’an’s essential role in policy-making, strategy-making and decision-making. They explain how the arrival of one of three CCP regular divisions boosted the local CCP, how the local CCP carried out Yan’an’s instructions and adopted various strategies during the war in addition to how the NRA was forced out of the province, surrendering rural Shandong to the CCP. They thus explain Mao’s decision after the war to rush into Manchuria and the CCP’s preparation and implementation for this strategic redeployment.

Chapters Eight through Twelve unravel the details of the Shandong CCP’s integrated system of finance, revenue collection, administration of trade and staple-food control. This system was the foundation on which the Shandong CCP established exclusive zones for its beipiao banknotes and paved the way for access to the Japanese resources. These chapters discuss the origin, structure and interrelations of each component in the system. By detailing how the CCP exploited the situation arising from the NRA’s withdrawal from Shandong and successfully established its exclusive zones for the BP, they demonstrate that the power of the Shandong CCP was based on the “capitalized coercion” distinguished by Tilly rather than on ideological and nationalistic appeals. Chapter Thirteen reviews the CCP’s claims regarding agrarian revolution and
proves on the basis of CCP documentation that the justification for radical reform of rural
social and economic institutions was absent in Shandong as well as that the CCP’s power
in the province was not based on a transformation of the agrarian order.
CHAPTER TWO

The Soviet Union and the Xi’an Incident

December 1936

On December 2, 1938, the Central Military Commission of the CCP (CMC) ordered one of the three divisions under its command, the 115th Division of the Eighth Road Army (8RA) of the National Revolutionary Army (NRA), to leave Shanxi province in North China to western Shandong province about 1,500 kilometres in the east. The division’s mission was to work with the local Shandong CCP to establish a strategic base area. The division’s redeployment to Shandong was a milestone in the CCP-GMD United Front which took shape during the Xi’an Incident in December 1936. The Xi’an Incident in which two generals mutinied against Chiang Kaishek, commander-in-chief of China’s national armies, dramatically turned the GMD and CCP from opponents into allies in twelve days. It has thus attracted continuous academic attention in the West since the 1950s and in China since reforms began in 1978. 1 Although the micro-aspects of the Incident and the Communist International (Comintern)’s influence are well-explored, historians are still examining these topics because of the accessibility to new materials such as Chiang Kaishek’s diaries as well as the progress of related research on topics such as the Comintern’s role in the post-Xi’an CCP’s decision-making regarding its United Front with the GMD. 2 The Xi’an Incident, however, has hardly been assessed in the

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perspective of Chiang Kaishek’s preparations for war against Japan, the behaviour of the
GMD and CCP toward one another throughout China’s war of resistance against Japan,
and the CCP’s military and logistical situation and power struggle before the Xi’an
Incident. Without exploring these questions it is difficult to understand and interpret the
CCP’s documents about its war efforts and relations with the GMD, which is essential to
explain the CCP’s victory in Shandong. This chapter provides working answers to these
questions by reassessing the Xi’an Incident based on the Chiang Kaishek diaries and
recent Chinese scholarship.3

1. Sino-Russia Rapprochements

The driving forces behind the Xi’an Incident were the Japanese expansionist
policy in Continental Asia and the Soviet Union’s double-pronged policy of supporting
the Nationalist Government led by Chiang Kaishek for its national security interests while
supporting the CCP’s insurgency for its ideological imperatives. After its military

(Beijing: Zhonggong zhongyang wenxian chubanshe, 2004): 381-446; 金冲及主编 (Jin Chongji), ed, 周恩
来传 (A Biography of Zhou Enlai) (Beijing: Zhonggong zhongyang wenxian chubanshe, 1998), 1.367-430;
杨奎松, 毛泽东与莫斯科的恩恩怨怨, 毛泽东与莫斯科的恩恩怨怨 (Hatred and Love: Mao Zedong and
Moscow) (Nanchang: Jiangxi renmin chubanshe, 2003): 1-114; 黄修荣 (Huang Xiurong), 国共关系史 (A
history of GMD-CCP relations). (Guangzhou: Guangdong jiaoyu chubanshe, 2002): 2. 930-1202; 刘统, 北
上: 党中央与张国涛斗争纪实 (Going northward: the CCP centre’s struggle against Zhang Guotao)
(Nanning: Guangxi renmin chubanshe, 2004): 339-361; 袁南生 (Yuan Nansheng), 毛泽东与斯大林、蒋
介石 (Mao Zedong and Chiang Kai-shek, Joseph Stalin) (Changsha: Hunan renmin chubanshe, 2003): 3.471-
500; [August, 1931-December 1938], Chiang Kai-shek diaries, [Box 8, Folder 9-13], [Box 36-39] Hoover
Institution Archives.
occupation of Manchuria on September 18, 1931, Japan turned out to be an immediate threat to both the Soviet Union and China. A rapprochement between the Soviet Union and China’s National Government under Chiang Kaishek’s leadership in Nanjing occurred, but mutual trust was lacking. Joseph Stalin did not forgive Chiang’s bloody anti-CCP purge ending the previous Comintern-sponsored GMD-CCP United Front of 1923 to 1927, while Chiang could not tolerate the Soviet Union’s two-pronged strategy which he later called “a double game.” As a result, the Comintern ordered the CCP to establish a “United Front from the under-classes (下层).” Taking advantage of the diversion of two Japanese invasions, namely the Manchurian Incident of 1931 and the Shanghai War in January 1932, the CCP expanded their base areas in Jiangxi and central China. This resulted in devastating anti-CCP Nationalist military campaigns beginning in the fall of 1933. A year later, the CCP was on the run, a retreat which would be described as a “Long March,” and lost contact with the Comintern.

Meanwhile, Adolf Hitler had Nazified Germany. Stalin realized that he had missed an opportunity to block the Nazis’ rise to power, concluding that he should have instructed the German Communist Party to establish an ad hoc anti-Nazi coalition with the Socialists. He ordered the Comintern to develop a policy called “the People’s Front,” a strategy of establishing anti-fascist coalitions. The policy was announced at the Seventh Congress of the Comintern during July 25-August 20, 1935. In this conference, Georgi Dimitrov, director of the Comintern, made this comment on its previous class-based

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5. 黄修荣 (Huang Xiurong), 国共关系史 (A history of GMD-CCP relations), 2. 930-935.
united front policy: “It is obvious that we are working on our programs with our right hand while destroying them with our left.”⁶ As a result, the Comintern became willing to ally itself with any anti-Fascist forces. In the case of China, a CCP-GMD rapprochement matched Soviet security interests. The Soviet Union therefore facilitated CCP-GMD secret contacts before and after the Seventh Congress of the Comintern during July-August 1935 and tentatively worked toward the formation of a Chinese anti-Japanese united front.

By the time of the Seventh Congress of the Comintern, the situation in China had rapidly deteriorated as the Japanese intensified their efforts since 1933 to establish a semi-independent North China as a buffer zone next to their puppet state of Manchukuo. As the Chinese Communists were too weak to reply on, the GMD under Chiang’s leadership was the only accountable force in China for the Soviet Union to counterweigh the Japanese. The potential united front would be under GMD’s dominance. Because of the rapidly deteriorating situation in both Europe and Asia, it became increasingly urgent for the Soviet Union to have a GMD-led anti-Japanese united front.

Chiang Kaishek recognized that the Soviet Union would be China’s only reliable source of support in the first phase of the total and protracted Sino-Japanese War which he foresaw and for which he was making preparations.⁷ The West’s recent inaction in response to his appeals for assistance in stopping the Japanese incursion into China

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⁶. Ibid, 2.946-947.

⁷. See Chapter Three for discussion of Chiang’s strategy for the war of resistance.
showed that he could not count on them for immediate help. As China’s principal ports would fall into Japanese hands early on if war began, the Japanese could easily block the seaborne assistance even if the West was willing to help. Because of its security needs and strategic demands in Europe, Germany, China’s principal supplier of weapons was trying to establish an anti-Soviet alliance, and would very likely cut off supplies to support Japan. In contrast, Soviet Union and China were continental neighbours and the supply routes from Soviet Union were safe and reliable. Nevertheless, Chiang found that the CCP’s insurgency supported by the Soviet Union made a potential Sino-Soviet anti-Japanese alliance impossible. Therefore, he asked the Soviet Union to either give up its support for the CCP or mediate a reconciliation between the GMD and the CCP.

Caught in the crossfire between the Japanese military invasion and the Bolshevik subversion, Chiang attempted to find a balance between two adversaries. He did not commit himself to either side and carefully calculated the potential risks and benefits of approaching the Soviet Union.


10. 黄修荣 (Huang Xiurong), 2.1000-1001.

11. In addition to their support of the CCP, the Soviets attempted to reach détente with the Japanese by selling Russia’s share in the Chinese Eastern Railway to the puppet sate of Manchukuo in March 1935, and thus Soviet-Chinese relations were damaged. (See: Chiang, op.cit., 47-48).

12. [December 19, 1935], Chiang Kai-shek diaries, [Box 38, Folder 8], Hoover Institution Archives. In Chiang’s initial view, the Soviet Union rather than Japan was China’s long-term enemy. Although Japan was an immediate threat, the two countries were interdependent economically, politically and culturally. [July 7, 1933], op.cit., [Box 36, Folder 19]; [October 6, 1933], op.cit., [Box 36, Folder 22]; [March 7,
Based upon the strategic considerations outlined, Chiang adopted a two-pronged diplomacy in approaching the Soviet Union beginning in early 1934.\textsuperscript{13} The first prong was to take the initiative to improve bilateral relations in preparation for a secret anti-Japanese military agreement.\textsuperscript{14} The second was to ask the Soviet leaders to persuade the CCP leaders to disarm in acceptance of a political solution in accordance with the Nationalist Government’s agenda for unification.\textsuperscript{15} Chiang launched another double-pronged strategy against the CCP. He intensified his anti-CCP military campaigns in October 1933 in order to destroy the CCP’s military forces, while also pursuing negotiations. The stalemate in the Soviet-Chinese relations was overcome and the rapprochement process gained momentum. By February 1936, Chiang had progressed in his efforts.

During the Sino-Soviet negotiations, the Soviet side promised to provide arms and other military equipment if a Sino-Japanese War broke out and agreed to promote GMD-CCP reconciliation. On 22 January 1936, Chiang asked the Soviet representatives to mediate and to persuade the CCP to put its army under his command as a significant step forward in China’s unification and war preparations, the Soviet government refused on

\textsuperscript{13} Chiang, \textit{op.cit.}, 47.
\textsuperscript{14} 黃修榮 (Huang Xiurong), \textit{op.cit.}, 2.1005-1006.
\textsuperscript{15} Ibid, 2.1006.
the grounds that the matter was part of China’s internal affairs.\textsuperscript{16} Regarding a secret military agreement, Soviet representatives were interested at first, but became suspicious when Chiang insisted that the foundation of the agreement would be the communiqué of January 1923 between Dr. Sun Yat-sen and Adolf Joffe, the Soviet Foreign Minister at the time. According to that communiqué, the Soviet Union’s Communist system was not suited to China. The Soviet representatives suspected that Chiang was trying to provoke a Soviet-Japanese war and turned the idea down with the excuse that it would be “a stab in the back for the heroic Chinese Communists and their army.”\textsuperscript{17} As a substitute for a secret military agreement, the two governments began negotiating an agreement of non-aggression. This came into effect in August 1937 after the war broke out.\textsuperscript{18} While the tentative Sino-Soviet negotiations were continuing, representatives of the National Government had established four channels of contact with the CCP in Moscow, Nanjing, Shanghai and Hong Kong, and the representatives of the rival parties had begun to hold talks.\textsuperscript{19}

\textit{2. Changes within the CCP}

As rapprochement between Moscow and Nanjing gained momentum, several events occurred within the CCP, which affected the course of the CCP-GMD-Moscow tripartite rapprochement, altering the landscape of the CCP leadership and led to the deployment of the 115\textsuperscript{th} Division to Shandong. The first set of events was Mao Zedong’s

\textsuperscript{16} Ibid.

\textsuperscript{17} Ibid, 2.1006-1007.

\textsuperscript{18} Ibid; Chiang, op.cit., 49-50.

\textsuperscript{19} 黄修荣 (Huang Xiurong), op.cit., 2.1009-1065.
rise within the CCP leadership to become its ultimate decision-maker in military affairs.

In January 1935, because of the military disasters before and during the early days of the Long March, the CCP reorganized its leadership at a meeting in Zunyi, a city in northern Guizhou. In that meeting, Zhang Wentian replaced Bo Gu and became the CCP’s General Secretary. Mao became a member of the Standing Committee of the Politburo and was assigned as a helper to Zhou Enlai, who was then the final decision-maker in military affairs.20 On August 19, 1935, a decision was made in a meeting of the Standing Committee of the CCP’s Politburo, called by Zhang Wentian and Mao Zedong, that Mao would replace Zhou as the final decision maker in military affairs. Zhou did not attend the meeting because of severe illness.21 The CCP leadership did not notify the Comintern of these decisions because of the disruptions in communications during the Long March. Although Mao’s mandate was limited to military affairs, it paved the way for his later dictatorship and was the beginning of the end of the Comintern’s patronage of the CCP.

The Long March also altered CCP’s relations with regional power-holders. Before and during the Long March, the CCP leadership negotiated with them to receive permission to pass through their territories.22 Soon after the CCP army’s arrival in northern Shaanxi, the CCP achieved *de facto* ceasefire agreements with Yang Hucheng and Zhang Xueliang, who later mutinied against Chiang Kaishek. The former was one of the local leaders of Northwest China. The latter was the commander who had been

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22. Huang, op.cit., 2.1068-1069.
expelled from Manchuria (the Northeastern Provinces) by the Japanese. The former hoped to maintain his position with the CCP’s help, while the latter hoped to wash away his humiliation by returning to the Northeast.\(^2\) The ensuing ceasefire led to the existence of an understanding between the CCP, Yang and Zhang. Yang permitted the CCP to establish liaison offices, helped it purchase military equipment and encouraged trade.\(^2\) Zhang provided the CCP with military equipment and funds in addition to all that Yang offered.\(^2\) This situation set the scene for the commanders’ rebellion against Chiang Kaishek at X’ian in December 1936.

The third set of events was a change of the political agenda in which the CCP’s radical agrarian policy was moderated. During its Long March, the CCP leadership completely lost contact with the Comintern and communication was not restored until November 1935, when a Comintern envoy arrived in north Shaanxi via Mongolia.\(^2\) The CCP leadership thus passed a resolution in which the war against Japanese aggression was placed at the top of the Party’s agenda and a moderate agrarian policy was promised.

The policy changes taking place in Moscow, Nanjing and the CCP facilitated the progress in CCP-GMD negotiations. After nine years of mutual attacks and demonizing the leaders of both parties found that they had to achieve minimum compromises on such principles as property ownership as well as consensus as soon as possible on a wide range

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\(^2\) Ibid; 傅虹霖 (Fu Honglin), 189.

\(^2\) Huang, op.cit, 1078-1081.

\(^2\) Ibid, 1096, 1104.

\(^2\) See: Liu, op.cit, 182-183; Yuan, 2.469.
of issues. These issues included relations between the CCP authority and the Nationalist Nanjing Government, the CCP’s status and its advocacy of violent social change and the reorganization of the CCP army, along with its size, funding and operational zones. It became apparent that the GMD and CCP were hardly compatible at all. Their only common goal was resistance against the Japanese invasion. But in the face of the escalated Japanese presence and the prospect of invasion, both the GMD and CCP leaders were hopeful that their opponents would be changed during the coming war of national resistance.

3. CCP’s Negotiations with the GMD and Difficulties

Chiang Kaishek regarded the CCP and its army as rebels. He insisted that they must be integrated into his agenda of national unification and nation-building based upon Dr. Sun’s Three People’s Principles as well as join the national war effort under his leadership. He presented four principles to the CCP: 1) to work for realizing the Three People’s Principles; 2) to terminate its rebellion and violent and radical agrarian policy; 3) to integrate its Red Army into the National Revolutionary Army (NRA) and obey the Nationalist Government; 4) to dismantle the CCP Soviets and turn them into administrative zones in the administrative hierarchy of the Nationalist Government for the purpose of realizing national unification.27

The CCP’s proposals were not as brief, clear-cut and strict as the GMD’s. The first items in its proposal of September 1936, the last before the X’ian Incident, concerned

27. Huang, op.cit., 1064-1065.
an immediate ceasefire, an end to the embargo, supplies of equipment, weapons, food, funding and supplies of manpower and the designation of an area as its operational zone. In that proposal, the CCP promised that its army would not attack the Nationalist forces and would be under the unified command of the Nationalist Government on condition that its internal authority structure, including the authority of official appointment, remained intact. The CCP would also terminate its policy of working to overthrow the Nationalist Government by force. As for the national military command, the CCP leaders stated that they would accept the GMD’s dominance if the CCP was represented in the military command. They also asked the GMD to commit to democratization and to hold a national congress of anti-Japanese representatives as the future parliament. The CCP proposed that the new national government would sign a mutual aid agreement with the Soviet Union and never have any peace negotiation with Japan. To implement the agreement, the CCP leaders proposed that a joint GMD-CCP committee should be established.28

The CCP’s proposals were unacceptable to the GMD. Chen Lifu, one of Chiang’s aides-de-camp and principal negotiators, gave Pan Hannian, the CCP negotiator, his straightforward comment: The style of the CCP proposals implied that the matter was one of state-to-state negotiation. The core of the problem, he told Pan, was the CCP’s possession of an army and its control of territory in a feudal manner.29 In addition to the problem of legality, the Najing Government was China’s sole national government and

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28. Ibid, 1051-1053.

29. Ibid, 1059.
the only one to receive international recognition, including recognition from the Soviet Union. Furthermore, the CCP was not in a strong position vis-à-vis Chiang Kaishek. Although the CCP had escaped from the NRA, arrived in northern Shaanxi and won a minor military victory over the Northeastern Army that brought about a ceasefire and a “triad” between the CCP, Zhang Xueling and Yang Hucheng, they knew that they were in a cage. Northern Shaanxi is a dry and barren border area lying between agricultural China and the steppe.

In order to break out of their confinement in northern Shaanxi and find resources to survive in February 1936, the CCP leadership launched an invasion in the name of a campaign against Japan into neighbouring Shanxi province, then under General Yan Xishan’s administration. Although the invasion, which the CCP termed an “eastward expedition,” showed that its army’s combat efficiency was superior to Yan’s army and won Yan’s admiration, it was a political error. It not only damaged the CCP’s prestige as a patriotic party and their political position in negotiations with the GMD, but also brought units of Chiang’s powerful Central Army into Shanxi, placing them in the start areas where they could launch devastating military strikes directly against the CCP forces.

The CCP’s invasion of Shanxi led to Dimitrov’s sharp criticism against the CCP in July 1936, which made it unlikely for the CCP to seize by force the resources essential for its survival. Consequently, the CCP Centre authorized Mao to telegraph Stalin and

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30. Huang, op. cit., 2.972.
the Comintern officially to request direct assistance a month later.31 Because of the Nationalist Government’s value to the Soviet security interests in Asia, Stalin had not encouraged the CCP to move northward to seek direct a link with the Soviet Union, for this would damage his relations with Chiang. The CCP leaders understood that consideration and had not asked for help earlier. Stalin and Dimitrov now concluded that the CCP’s situation was desperate and gave permission to the CCP army to conquer the fertile Hetao area of Ningxia above the Yellow River’s U-turn. The area shared a border with Mongolia, and across the border the Soviet authorities had prepared a supply base and a convoy of 150 trucks.32 In September, the CCP’s Central Military Command decided to launch a campaign into Ningxia in early November. But a few days after the battle began, the GMD Central Army arrived in Ningxia and forced the CCP leaders to give up their plan to occupy Ningxia.

Their abortive northern campaign deprived the CCP of assistance from the Soviet Union in the form of supplies. It meant that the CCP soldiers would not have food and winter clothing throughout the winter months unless a significant number of them moved elsewhere.33 Moreover, during the process of the CCP army’s Eastern Expedition and the battle of Ningxia, Chiang had reinforced his Central Army in the northwest where Yang Hecheng and Zhang Xueliang were stationed. At the national level, during the summer of

31. Yuan, op.cit., 2.517.


33. Ibid, 564.
1936, Chiang Kaishek succeeded in a bloodless suppression of a rebellion mounted by an alliance of semi-autonomous commanders in Guangdong and Guangxi provinces. This success greatly strengthened Chiang’s political position.

4. The Detention of Chiang Kaishek

Chiang was clearly well aware of the CCP’s difficult situation. At the end of October, 1936, he recorded the CCP’s change of attitude and attempts to seek good terms before “surrendering”. In early December, Chiang concluded that the Communists could not hold on for another month. Taking advantage of their weak situation, Chiang made the CCP negotiators an offer: the maximum number of troops under CCP command would be three thousand, and all cadres and officers above the divisional level must be dismissed, go abroad, and remain outside China for at least six months before being recalled to duty. Although Chiang did not insist on the first of these conditions, permitting a quota of up to 30,000 troops in early December 1936, he did not wish to make any other concessions. The CCP leaders concluded that Chiang did not wish to compromise. On December 10, they ordered to the CCP negotiator not to contact his GMD counterparts.

34. [本月反省錄, October 1936], Chiang Kai-shek diaries, [Box 39, Folder 3], Hoover Institution Archives

35. [December 4, 1936], ibid, [Box 39, Folder 5]

36. “潘漢年关于与国民党谈判情况给毛泽东等的报告 (Pan Hannian’s report to Mao Zedong and others on the negotiation with GMD, November 12, 1936),” 党的文献 (Party Literature), No.5 (1993): 71
Chiang Kaishek was well aware of Zhang Xueliang’s unauthorized deal with the CCP and signs of mutiny. He attributed it to Zhang’s weak and timid character. As the struggle against the CCP was at a crucial moment, Chiang thought that it was worth taking the risk to travel to Xi’an. He considered that his presence would be essential to push Zhang to carry out the final phase of an anti-CCP war that had lasted for nine years. But Zhang did not obey. On December 10, Chiang made a final offer to Zhang Xueliang and Yang Hucheng: they could choose either to fight against the CCP or to depart from the area. Chiang planned to leave for Nanjing on 12 December. He focused on Zhang and did not pay attention to Yang. Yang was a former bandit determined to fight tooth and nail to hold on to his hard-won turf. He persuaded Zhang Xueliang to place Chiang in detention and force him to publicly accept his alliance with the CCP and Zhang. Yang predicted that the CCP would support him and did not notify its leaders. A few hours before Chiang Kaishek was due to depart from Xi’an, Zhang and Yang kidnapped him.

The detention of Chiang Kaishek and Zhou Enlai’s contribution to a peaceful resolution are well-known. In addition to the Comintern’s order to the CCP to pursue a

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37. 本週反省錄, September 1936, Chiang Kai-shek diaries, [Box 39, Folder 2]; 本週反省錄, 本月大事預定表, October 1936, ibid, [Box 39, Folder 2]; 下週徒定表, November 1936, Chiang Kai-shek diaries, [Box 39, Folder 4]; November 25, 1936, ibid, [Box 39, Folder 4];
38. [November 28, 1936], ibid, [Box 39, Folder 4]
39. [December 2, 1936], ibid, [Box 39, Folder 5]
40. [December 10, 1936], ibid, [Box 39, Folder 5]; Fu Honglin, 203
41. Chiang Kaishek did not mention Yang in his diaries before the Xi’an Incident.
42. Ibid, 187
peaceful solution, Zhou Enlai’s mandate to make immediate decisions on the spot and his acknowledgment of Chiang as China’s national leader and the CCP’s obedience to Chiang during their first meeting on the Christmas Eve, are worth mentioning here.43

The deadlock by then was a consequence of Chiang’s refusal to give the kidnappers any promise, Zhang Yueliang’s consequent collapse and Yang Hecheng’s plot to kill Chiang and Zhang. Zhou Enlai emerged as the only person who could persuade the kidnapper to release Chiang, but the CCP’s insurgency was the cause of the crisis. Chiang would not compromise unless the CCP committed itself to obedience. In the PRC literature, Zhou was described a CCP diplomat who talked with Chiang in equal terms and rescued him from danger.44 According to Chiang’s account, Zhou behaved as Chiang’s subordinate and unambiguously acknowledged the CCP’s obedience to Chiang when Chiang asked straightforwardly if the CCP would obey him.45 Zhou’s obedient attitude, as the CCP representative mandated to make immediate and on-the-spot decisions, led Chiang to agree to negotiate with him. Zhou’s contribution to the peaceful solution of the crisis was to have Chiang released without signing any documents. Chiang’s public image was heroic. Zhang Xueliang’s subordinates, who held about twenty of Chiang’s senior officers, then became rebellious. They feared reprisals and insisted on Chiang’s written promise. When they found this impossible, they were inclined toward mutiny, publicly discussing the possible assassination of both Chiang and

43. Chongji Jin, ed, 周恩来传 (A Biography of Zhou Enlai), l. 410
44. Ibid, 415-416.
45. Fu, op.cit., 255; [December 26, 1936], Chiang Kai-shek diaries, [Box 39, Folder 5]
Zhang.⁴⁶ When they learned that Zhang, who escorted Chiang to Nanjing, had been detained, many rebelled. Zhou went to talk to these troops, persuaded them to calm down, to release the officers held hostage, and to obey Chiang’s commands.⁴⁷

**Conclusion**

The Xi’an Incident rescued the CCP from an impasse and concluded with an understanding rather than a written agreement. The driving forces behind the unwritten understanding were the Soviet Union’s security interests, the nationwide calls for national reconciliation in preparation for the coming war of resistance, and the charisma possessed by both Chiang Kaishek and Zhou Enlai. That understanding became the framework within which the CCP conducted war efforts under Chiang Kaishek’s leadership during the coming war of resistance against Japan. The ambiguities of the understanding led both the GMD and the CCP to entertain hopes and expectations. The former thought that the latter could be integrated during the process of the coming patriotic war, while the latter believed that it could reform the latter into a vehicle for its own achievement of national power. Those mutual hopes were foundations for a GMD-CCP marriage of convenience, while fundamental differences in expectations sowed the seeds of conflict. Although the Xi’an Incident allowed the CCP to avoid fatal blows from Chiang Kaishek’s forces, it remained confined in barren northern Shaanxi. It had tried to break out unsuccessfully before the Xi’an Incident and would continue this effort by exploiting its marriage of convenience with the GMD. This momentum of breaking out coincided with the power

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⁴⁶. Fu, op.cit, 256-257; Jin, op.cit, 1.416-417
⁴⁷. Ibid, 1.418-428
struggle in the CCP leadership, a Stalin-Chiang rapprochement against Japan and public pressure throughout China for national unity against the Japanese encroachments. Although violent conflict first erupted in the form of undeclared warfare between the two parties at the regional level, including conflict in Shandong, the strand of unity that formed in the Xi’an Incident was strong enough to hold the GMD and CCP back to maintain their United Front in an effort of national defence against Japan’s invasion. When the conditions that had allowed a peaceful end of the Xi’an Incident in December 1936 no longer existed after Japan’s defeat in 1945, the GMD-CCP conflict resumed in the form of an all-out civil war.
Mao’s Rise to Dominance

Mao was not the CCP’s final decision-maker until August 1938, even though he was prominent in the party’s leadership. The focus of this chapter is how Mao used his prestige in military affairs as leverage as he sought to become the CCP’s final decision-maker during the first phase of China’s war of resistance against Japan. It reveals the CCP’s decision making and implementation, the influence of CCP-GMD understanding upon the former and Mao’s identification of CCP’s windows of opportunity that led to the deployment of the 115th Division to Shandong in December 1938.

1. Mao’s strategy of guerrilla war and Chiang Kaishek’s approval

Mao’s success came from Chiang Kaishek’s grand strategy for a total and protracted war against Japan and his relentless exploitation of the crucial moment of its implementation in the early stage of the war when Japan had the opportunity to knock China out of the contest in a single strike. Chiang Kaishek’s grand strategy was based upon China’s unoccupied territory west of the Pinghan Railway with Sichuan as the centre and flows of international assistance. During its implementation, the Pinghan Railway was crucial. If the Japanese moved down from Beiping to Wuhan before China’s strategic retreat to western China completed, it would be impossible for China to stay in war. China’s protracted war of resistance against Japan, however, was crucial to the

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Map 1: Chiang Kaishek’s War Plan and CCP’s attempt before Xi’an Incident
Soviet Union. As a result, the Comintern was cautious with Mao’s strategy of guerrilla war and did not give him a full mandate of power over the CCP until August 1938 when the Japanese had missed their opportunity to prevent Chiang’s strategic retreat. But when Chiang’s strategic retreat was hanging in the balance on the eve of the fall of Nanjing in December 1937, Joseph Stalin was anxious and sent Wang Ming, a member of the Executive Committee of the Comintern, to Yan’an in December 1937 for the purpose of improving the CCP’s leadership and its relations with the GMD while maintaining its Communist identity in the United Front.²

Stalin’s ambiguous policy can be traced back to January 1937 when the CCP-GMD began their post-Xi’an Incident negotiations. Stalin wanted the CCP to work with Chiang for the sake of Soviet security interests, while asking the CCP to maintain its Communist identity and to try to transform the GMD into a partner in a Communist-led coalition. He reluctantly approved the CCP’s four-point guarantee to Chiang that downplayed and even eliminated the CCP’s public commitment to Marxist-Leninist revolutionary goals.³ Stalin’s ambiguous policy prevented finalization of the GMD-CCP negotiations before the Marco Polo Bridge Incident occurred, making it unlikely that the CCP would develop any well-defined military strategy before the outbreak of the war.

In addition to the problem of the CCP’s four-point guarantee, the CCP-GMD negotiations from February 1937 encountered a series of specific barriers. These barriers

². Yang, op.cit., 64-65.
³. Nansheng Yuan, op.cit., 2.523.
included the incompatibility of the Communist ideology of class struggle with the GMD’s Three People’s Principles; the relationship between the Nationalist Government and the CCP zones; and the size, structure and leadership of the CCP forces after being reorganized into the NRA. Chiang demanded that the CCP renounce the principle of class struggle in its ideology in its partnership with the GMD; that the limit of the reorganized CCP forces was three divisions with a total manpower of 45,000; that the political commissar system must be abolished in the CCP units; and the reorganized CCP forces would no longer have their own military command hierarchy. They would be under the control of NRA’s department of politics. Its leader, along with the heads of the proposed special zone, must be appointed by the Nationalist Government and Mao Zedong and Zhu De must take trips abroad. Zhou Enlai, the CCP negotiator, tried to gain more but was not successful. Having little to bargain with, the CCP leaders were ready to accept all these demands, refusing only to give up the right of appointing officials and to send Mao and Zhu overseas. But on the eve of a new round of negotiation in Lushan in July 1937, they decided that they would accept if Chiang agreed to name Zhu De as the head of the proposed department of politics.

Before negotiations at Lushan began, the clash at Marco Polo Bridge occurred. The CCP declared that their organization was willing to wage war against the Japanese under Chiang’s command and that its army was waiting for Chiang’s order and could

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4. Huang, op.cit.,1214-1218; 1223.
5. Ibid, 1238-1239.
6. Ibid, 1240.
move to the front within ten days. Despite these empty words, the negotiations failed to resolve the issue of the authority for appointing commanders and commanding hierarchies. When Japanese reinforcements began to arrive in northern China and fierce skirmishes broke out along the railway between Beiping and Tianjin, Mao recognized that the prospects for a Sino-Japanese compromise were dim and decided on a no-concession policy in negotiations with the GMD. On July 20, he ordered Zhou to leave Lushan for Shanghai and to wait there. A week later, Beiping was about to fall. At that time, the battle of Nankou had not yet broken out. Chiang Kaishek was not yet sure whether his strategy to direct the Japanese away from the Pinghan Railway would succeed. Chiang acquiesced to the CCP’s demands and sent an oral message to Zhou on July 27: rapid reorganization of the CCP forces and rapid transfer to the front on the Pinghan Railway. The GMD-CCP military negotiations then entered a new phase of discussion about the Red Army’s strategic role and operations.

On August 18, 1937, four days after the Battle of Shanghai began, Mao telegraphed Zhou the CCP’s proposals. These proposals included: 1) The CCP and its army would have legal status and administrative zones; 2) The CCP army keeps its commanding agency; 3) The GMD would offer the CCP army funding and supplies; 4) The CCP army’s strategic mission was to conduct guerrilla operations; 5) In order to conduction guerrilla warfare, the CCP army would have the right to decide the time and

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8. Ibid, 1280; “Telegram from Luo Fu and Mao Zedong to Zhou Enlai, Bo Gu and Lin Boqu (洛甫,毛泽东致周恩来, 博古, 林伯渠的电报), July 20, 1937,” in A Biography of Zhou Enlai, 1.449

9. The GMD asked two of the CCP divisions to move to the front in northern Shanxi along Tongpu Railway, whilst other one to Xushui, north of Baoding, via Pinghan Railway (See: Jin, A Biography of Mao Zedong (1893-1949), 485; Huang, op.cit., 1295-1296
scale of its deployments; 6) The units of the CCP army would not go to the war separately; they would stay together and cross the Yellow River in the east as a piece; 7) The first echelon of the CCP army would be deployed west of the Pinghan Railway and south of the Pingsui Railway under Yan Xishan’s command.\textsuperscript{10}

Chiang Kaishek’s approval of the CCP proposals would not only legalize the CCP’s army, but also give it the authority to carry out independent operations. It seems that Chiang did not recognize the potential dangers. Perhaps he was too focused on the engagements in Shanxi, Shanghai, and along the Pinghan Railway, or believed that the CCP had only barely survived his successful campaign to expel them from southern China.\textsuperscript{11} On August 22, the Nationalist Government issued an order about reorganizing the CCP army in north-western China as the Eighth Route Army of the National Revolutionary Army (8RA).\textsuperscript{12} A month later, the remnant force of the CCP guerrillas in central and eastern China was legalized and reorganized as the New Fourth Army of the National Revolutionary Army (N4A).\textsuperscript{13} As part of the agreement, the CCP agreed to terminate the commissar system in the 8RA and N4A in addition to the four-points guarantee made January 19, 1937. The negotiations over the CCP’s zones, military forces

\textsuperscript{10} “中央关于同国民党谈判的十项条件给朱德周恩来叶剑英的指示 (Central directive to Zhu De, Zhou Enlai and Ye Jianying on the ten preconditions for negotiating with the GMD), August 18, 1937,” ZGZYWJXJ 11.322-323.

\textsuperscript{11} Chiang Kaishek did not mention the CCP in his diaries from July 1937 to March 1938.

\textsuperscript{12} Later renamed the 18th Army. See Huang, op.cit., 1293.

\textsuperscript{13} 中国新四军和华中抗日根据地研究会 (The Chinese Association of Studies on the of New Fourth Army and the anti-Japanese base areas of Central China) ed, 新四军的组建与发展(The Formation and Growth of the New Fourth Army) (Beijing: Junshi kexue chubanshe, 2001): 5-6.
and relations with the Nationalist Government thus came to an end. Chiang regarded the four-point guarantee, the renaming of its armies and its acknowledgment of military subordination to the NRA to be the conditions of his financial support. The CCP leaders, however, did not explicitly accept these conditions. They considered that the CCP and the Nationalist Government were equal in status, and that they had achieved a fair deal with Chiang by giving up their anti-Nationalist military effort along with their agrarian revolution, in exchange for which they had received the Nationalist government’s recognition of both the CCP and its army. The CCP leaders also considered that they had received a promise of Nationalist reform efforts during the war. Zhou Enlai, therefore, never allowed any term such as “surrender” to be included in the formal GMD-CCP agreements.

Chiang Kaishek had not defeated his CCP opponents physically or psychologically, although he had confined them. The Japanese invasion distracted him from negotiations with the CCP. At the very moment when Mao dared not insist on the principles of staying in China and the integrity of the CCP’s commanding hierarchy, Chiang did not insist on driving those preconditions home. Chiang underestimated the CCP’s ambition and resilience. Instead of insisting on Mao and Zhu’s departure from China and on dismantling the CCP’s military command, which provided it with essential leverage to integrate its forces, he gave the CCP freedom of movement. Twenty years

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15. Huang, op.cit., 1223.
later, Chiang attributed his acceptance of the CCP to his conviction that the CCP had repented under the influence of his “Government’s moral influence.”

2. Mao’s Conduct of Guerrilla War and Stalin’s Intervention

Mao Zedong had to convince his colleagues of the necessity of guerrilla warfare and place it in the CCP official resolution. He called for a Politburo meeting on military operations before the CCP army departed for the front. Coincidently, the meeting was held on August 22, the same day that Chiang accepted CCP’s proposals of a week earlier. Although Mao’s mandate was restricted to military affairs, wartime circumstances enabled Mao to rise to a position of political dominance. His call for a Politburo conference, the Luochuan Conference, on the Red Army’s appropriate strategy during the war against Japan gave him an early opportunity to use his military position to bolster his political authority.

Although the CCP and Red Army leaders had reached a consensus on the political issues such as the goal of the war and the role of the party and army in the war, they had not yet developed their consensus into a Politburo resolution. Neither did they discuss issues related to the CCP army’s strategy and operations. Mao intended to achieve some sort of consensus on those issues. He placed issues related to military operations and CCP-GMD relations, in addition to political matters, on the conference agenda, and then dominated the proceedings by delivering two principal speeches on CCP-GMD relations and on military strategy and operations.

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17. Ibid, 56-57.
As for the CCP’s relations with the GMD, Mao emphasized independence.\(^{18}\)

Regarding military strategy and operations, Mao listed five “essential missions” for the CCP army during the war: 1) to establish base areas; 2) to slow down, distract and destroy the Japanese; 3) to provide strategic support to friendly forces; 4) to preserve and expand the CCP army; and 5) “to compete for the leadership of the national revolutionary war (争取民族革命战争领导权)”.\(^{19}\)

Mao pointed out that the Red Army’s principal form of operations would be “independent guerrilla warfare in mountainous areas” in order to secure the CCP’s leadership in the war effort through “igniting the masses”.\(^{20}\)

He demanded that the Red Army go through “a strategic transition” from the defensive mobile warfare of the first GMD-CCP war into guerrilla warfare.\(^{21}\)

Mao’s dominance of the conference turned his drafted roadmap *Ten Principles for Resisting Japan and Saving the Nation* (*Kangri jiuguo shida gangling* 抗日救国十大纲领) into a resolution. In that official roadmap, the CCP’s aim in the war was defined as the recovery of China’s territories lost to the Japanese without any compromise. The achievement of that aim was through a total war in which the current political system would be reformed; an equitable taxation policy would be introduced and guerrilla war

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\(^{19}\) Ibid, 479.

\(^{20}\) “Mao Zedong’s report at the Luochuan Conference (毛泽东在洛川会议上的报告), August 22, 1937,” in *ibid*, 479.

\(^{21}\) Ibid, 480.
would be encouraged. In an accompanying resolution restricted to the Party members, it was stated that the GMD had gone to war reluctantly and did not wish to conduct a total war through political reform. Consequently, the GMD-led government and armies would suffer severe setbacks. The CCP members were ordered to “stand at the front of the war and work hard to turn the Party into the core of the patriotic war”.

Beneath those stirring words were divergent views and hot debates. Although all who were present agreed with Mao’s promotion of guerrilla war, many of them, especially Peng Dehuai, the recently appointed Chief Commander of the 8RA who was about to leave for the front, did not want to give up mobile warfare. He argued that guerrilla warfare was too piecemeal to impress the public. In addition, there were also serious difficulties in logistics and military discipline in conducting guerrilla warfare. He argued that mobile warfare and guerrilla warfare were inseparable. The Luochuan Conference did not result in a clearly defined consensus on the issue of mobile warfare. The potential impact of the divergence in views was not noticeable at that time but became a contentious political issue four months later.

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24. Ibid, 326.


26. Ibid.
Because Mao was the CCP’s final decision-maker in military affairs, he resorted to separate guerrilla warfare in the CCP resolution above to expand territory while avoiding battles. He was not prepared to assist the NRA in the critical situation along the Pinghan Railway and in Shanxi. From the beginning, Mao avoided high expectations for the CCP army. He repeatedly instructed the CCP military leaders who were in contact with NRA officers that the CCP army was not suited to regular warfare and were only familiar with guerrilla warfare. He ordered one of them not to boast about CCP army’s power or conceal its deficiencies.\(^{27}\) Using the excuse of unsuitability for regular warfare, Mao declined Chiang Kaishek’s early request for deployment of CCP forces along the Pinghan Railway and received Chiang’s consent to move northward via the Tongpu Railway in Shanxi.\(^{28}\) Mao’s priorities in the fall of 1937 were to expand CCP’s base areas, to compete for national leadership when the opportunity arose, and to defend the Shaan-Gan-Ning border area if the NRA defences in Shanxi collapsed. Therefore, he made sure to keep routes of withdrawal open in deploying 8RA troops of three divisions (the 115\(^{th}\), the 120\(^{th}\) and the 129\(^{th}\)). With the help of Yan Xishan, the three 8RA divisions were transported into north Shanxi, north of Taiyuan and the Zhengtai Railway, via the Tongpu Railway. They were then deployed on the two sides of the railway with the mission to conduct raids attacking the Japanese coming from the north, to support the frontal defence by the NRA regular troops, many of whom had come from provinces as far away as Sichuan. When he realized that the NRA would lose the Battle of Shanghai,

\(^{27}\) “同各方接洽要有谦逊的态度 (Humbleness is required in contacts with other groups), August 10, 1937,” *MZDJSWJ* 2.28-29.

\(^{28}\) “红军主力不走平汉路而走同蒲路 (The CCP Army's main forces will take the Tongpu Railway rather than the Pinghan Railway), August 17, 1937,” *ibid.*, 30. Mao was furious with Chiang’s request to deploy the Communist forces along Pinghan Railway and regarded it as a plan to destroy the CCP army.
Mao began to pursue territorial expansion, breaking the CCP’s four-point guarantee. He predicted that the fall of Shanghai would alter the political and war situation in China.\(^{29}\) Mao asked Yan Xishan and Chiang Kaishek to launch a large-scale, long-range raiding campaign along Pingsui Railway with the 8RA’s participation on the one hand, while on the other hand ordering the participating CCP troops to confiscate the properties of large landowners.\(^{30}\) He wrote to Zhou Enlai, Zhu De and Ren Bishi who were at Taiyuan and asked them to prepare to reform Yan Xishan’s army and launch radical social reforms across Shanxi.\(^{31}\)

By October 1937, the war situation in Shanxi was bleak. The NRA’s defence at the strategic Niangzi Pass that controlled the Zhengtai Railway on the border between Shanxi and Hebei hung in the balance. If that pass was lost, the Japanese would advance to Taiyuan along the Zhengtai Railway and encircle the Chinese forces that were defending against the Japanese coming down from Datong via Pingsui Railway. When the defence at Niangzi Pass fell into crisis as early as October 21, Mao ordered the three 8RA divisions to remain west and south of the Tongpu and Zhengtai railways to avoid the blocking of their withdrawal routes by the advancing Japanese.\(^{32}\) Mao permitted the 115\(^{th}\) Division to leave a few units behind to conduct recruitment. The 115\(^{th}\) had successfully


\(^{30}\) “关于华北地区作战的战略意见 (Views on the strategy of operations in North China), September 5, 1937,” \textit{ibid}, 60-61.


\(^{32}\) “总部与一一五师的行动部署 (Operation plan for the 8RA headquarters and the 115\(^{th}\) Division), October 22, 1937,” \textit{ibid}, 80-81.
ambushed a Japanese logistical battalion and became well-known. The prospects of territorial expansion and recruitment to the CCP forces were too good to give up.33

After the fall of Taiyuan on November 8, Mao began to exploit the new situation to expand the CCP’s territory. He predicted that because of the necessity of defending the neighbouring Henan, Yan Xishan would try to hold southern Shanxi and would no longer be able to interfere in the 8RA’s work in civilian affairs. Therefore, the 8RA’s top priority, Mao ordered, was “to mobilize the masses without restraint, to increase manpower, to collect supplies and to recruit routed soldiers. Every division must develop a capacity strong enough to supply three extra regiments without GMD funding.”34 As for the deployment of those 8RA divisions, Mao claimed that the mountainous area in western Shanxi would be their principal base area.35 As few preparations had been made, Mao ordered Lin Biao, commander of the 115th Division, to lead Chen Guang’s brigade toward that area immediately.36 Mao also ordered the establishment of a Yellow River Command to guard ferry ports and build ferries to ensure that the 8RA in Shanxi could return to North Shaanxi if necessary.37 At this time, the NRA’s defence in Shanghai was collapsing. On November 12, the Japanese occupied Shanghai. In a telegraph next day, Mao attributed the fall of Shanghai to Chiang Kaishek, accusing him of avoiding total

33. On the same day, Mao ordered the restoration of the commissar system in the 8RA and the N4A.

34. “太原失守后华北将以八路军为主体开展抗日游击战争 (The principal war effort in North China will be the 8RA’s guerrilla war against the Japanese after the fall of Taiyuan), November 8, 1937,” ibid, 111.

35. Ibid

36. Ibid

37. Ibid.
war, claiming that China’s total war had not begun and that the 8RA would be the only force that could bring about the total war of resistance.38

Mao’s conduct of the 8RA’s war in Shanxi and his war agenda were not in accordance with Soviet security interest in China. The 8RA’s contribution to the defence of Shanxi was not impressive, while Mao was trying to replace Chiang prematurely. Stalin decided to intervene, sending Wang Ming to Yan’an as the Comintern’s representative. On November 29, 1937, Wang Ming arrived in Yan’an in a Soviet military plane. On the eve of his departure from Moscow, Stalin instructed him, “The CCP must do its best to increase Chiang Kai-shek’s determination to pursue a victorious outcome of the war of resistance.”39

Ten days after Wang’s arrival in Yan’an, a CCP Politburo meeting, which would be called “the December Meeting” in the CCP literature, was held from December 9-14, 1937. On the first day Wang delivered his speech “How to go on with the War of Resistance towards its Victory?” He pointed out that the CCP’s top priority was how to consolidate GMD-CCP cooperation and to work with Chiang Kai-shek, claiming that the CCP would in effect assist the Japanese if it did not work with him. Wang Ming sharply criticized Mao without mentioning his name, accusing him of damaging the CCP-GMD united front. He stated that the victory of China’s war of resistance was dependent upon her regular troops under a unified command rather than guerrillas. Therefore, the CCP

38. “过渡期中八路军在华北的任务 (The 8RA’s mission in North China during the transition period), November 13, 1937,” 116-117.

must place its army under Chiang Kaishek’s command and “let GMD officials feel that the [CCP’s] Special Administrative District is a part of the Republic of China as soon as they move in.”40

Before the conference was concluded, Nanjing fell on December 13, 1939. Many attendees echoed and agreed with Wang. They felt regret and “self-criticism” concerning their United Front work since the Luochuan Conference in August. Zhou Enlai had disagreed with Mao at the Luochuan conference and left Yan’an for Taiyuan afterwards, where he directed the 115th Division’s successful ambush of the Japanese logistical battalion mentioned above.41 At the December Conference, he agreed with Wang in criticizing Mao, saying that the CCP made excessive efforts to preserve its own power at a crucial moment of national survival. He argued that because the CCP had labelled itself as the vanguard force in the war of resistance, it should fulfill its promise through willingness to sacrifice and establish a model for friendly forces through battlefield victories.42

Mao found himself in isolation and reluctantly acknowledged that he had underestimated the changes in the GMD since the outbreak of the war; that the general goal of CCP’s work in the united front was to maintain the GMD-CCP peace. He defended himself on the issues about independence and military strategy, however,

40. Ibid, 522-523.
41. Gao, 67.
42. Ibid.
arguing that “without independence, the CCP will reduce itself to the GMD’s level.”\textsuperscript{43}

While acknowledging the necessity of integrating the 8RA and Communist guerrilla forces into the NRA, Mao emphasized that they must have their own political identity. He claimed that the CCP’s political influence grew since the deployment of 8RA. On the issue of strategy, Mao did not step back, claiming that the grand strategy of the war of resistance was protracted warfare in which the preservation of the armed forces was the key rather than holding territory, and the military strategy established in the Luochuan Conference was correct. Six years later when Mao became dominant in the CCP, he recalled that meeting: “I was in isolation then. I could acknowledge all except the principal issues about protracted warfare, guerrilla warfare and the [CCP’s] independence in the United Front. On those issues, I did not give in.”\textsuperscript{44}

Mao’s resilience in August 1938 must be attributed partially to Wang’s inability to put forward specific alternative proposals and partially to a series of political manoeuvres during the conference.\textsuperscript{45} As a measure to improve cooperation with the GMD, Mao proposed the establishment of the CCP Yangzi Bureau (中共中央长江局) with Zhou Enlai as secretary. Mao’s aim was to send Zhou to Wuhan in order to prevent a Zhou-Wang alliance in Yan’an. Wang decided not to stay in remote Yan’an and volunteered to lead the CCP delegation to Wuhan to work with the GMD. The Politburo members

\textsuperscript{43} Jin, op.cit, 524.

\textsuperscript{44} “The record of Mao Zedong’s speech at a CCP Politburo Conference (毛泽东在中共中央政治局会议上的发言记录), November 13, 1943,” \textit{ibid}, 525.

\textsuperscript{45} Peng Dehuai, the commander-in-chief of 8RA who did not agree with Mao’s strategy, was in attendance. He recalled that conference in the 1960s when he was being persecuted by Mao, stating, “What Wang Ming said made no contribution to specific problem-solving.” \textit{ibid}. 
agreed. In addition to the organizational arrangements above, the conference established a new arrangement for processing the incoming radio messages: Zhang Wentian, the General Secretary of the Party, was responsible for messages concerning the Party affairs; Mao was responsible for messages on military affairs; Wang would handle those on those on the United Front. Thus, the politburo conference in December 1937, which had been intended to consolidate the GMD-led United Front by curbing Mao’s campaign for independence, did not reduce Mao’s dominance in military affairs.

1. The Discovery of Shandong

Although Mao’s military authority remained intact, he had to behave more cautiously. He adopted the approach of “more suggestions and less criticism” of Zhang Naiqi, a pro-Communist banker. In the following months, Mao put forward several suggestions in military strategy to Wang and Zhou and asked them to pass on some of the proposals to Chiang. Published messages from Mao to Wang and Zhou revealed his strategic visions of the war, which would lead to the deployment of the 115th Division to Shandong.

As the 8RA’s participation in the Shanxi campaign shows, Mao’s strategic vision did not go beyond immediate military operations. It was not until the Japanese Expedition Forces North China (EFNC) and Expedition Forces Central China (EFCC) began the Battle of Xuzhou in December 1937 that his situation assessments became increasingly precise. He recognized CCP’s potential opportunities in the Battle of Xuzhou before it reached climax in May. His exploitation of opportunities led to his recognition of Shandong’s strategic value and deployment of the 115th Division to that province.
When the EFNC took Jinan, the provincial capital of Shandong, and the EFCC began to move northward along the Nanjing-Tianjin Railway in December 1937, Mao was sure that Xuzhou was the immediate target of the Japanese offensive and realized that the Japanese would then move westwards along the Longhai Railway to take Zhengzhou, as the end of their first phase of war.46 Mao claimed that the Japanese goal in their first phase of war was to occupy the key railway junctions in China and that in the second phase would be to establish a blockade.47 He predicted that those key junctions that the Japanese would try to occupy were Lanzhou, Wuhan and Guangzhou. Lanzhou is about seven hundred kilometres west of Xi’an and was the centre of the overland supply route from abroad, primarily the Soviet Union, while Guangzhou was China’s principal port following the fall of Shanghai. Mao considered that the Japanese would make Lanzhou and Guangzhou their priorities.48 The CCP’s military force in Guangdong was so insignificant that Mao did not take it into account, focusing instead on the potential Japanese offensive aimed at Lanzhou.49

Mao claimed to have received the information that the principal Japanese thrust would be from Ningxia, through the Yellow River U-Turn, and that the Japanese had moved about thirty thousand soldiers to that area. He thought that the Japanese would occupy Ningxia and then launch a two-pronged attack towards Lanzhou, assaulting from

47. Ibid.
48. Ibid.
49. Ibid.
Ningxia and also from Zhengzhou through Xi’an.\(^5^0\) Mao suggested to Chiang that one of the three 8RA divisions should move to Lanzhou, one to Ningxia and one to western Henan. These 8RA divisions would not be redeployed in full strength, and each would leave one regiment behind to conduct guerrilla warfare in Shanxi, Hebei and Shandong.\(^5^1\) As for the defence of Wuhan, Mao proposed that two principal military districts and six auxiliary ones be established surrounding Wuhan.\(^5^2\) In order to distract the Japanese from their distant rear areas in the east, Mao called for the establishment of a Jiangsu-Shandong military district. He suggested that the commander of the district be from the GMD with a CCP assistant.\(^5^3\)

When the Japanese met strong resistance from the NRA along Jinpu Railway, Mao recognized that the Japanese would have to trade off their rear-area security in Hebei and northern Shandong for offensives along the railway line through southern Shandong and northern Jiangsu.\(^5^4\) He radioed a message about the 8RA’s next deployment to its commanders and sent copies to Zhou and Wang, who were in Wuhan. Mao’s proposal was that the 115\(^{th}\) Division in western Shanxi move eastwards out of the mountainous province into flat, central and southern Hebei province. If it proved that it could not cross

\(^{50}\) Ibid.

\(^{51}\) Ibid.

\(^{52}\) “使敌攻武汉处于我战略包围之中 (Encircle the enemy forces now attacking Wuhan), December 30, 1937,” ibid, 136.

\(^{53}\) Ibid.

\(^{54}\) “关于一一五师分三步向河北山东等地进军的意见 (On deploying the 115th Division to Hebei, Shandong and other places in three stages), February 15, 1938,” ibid, 157.
the rivers, including the Yellow River, and could not survive in the plains, it would withdraw westwards or go southwards first and then turn westwards.\textsuperscript{55} If it proved practical and the GMD approved, two brigades of the division would keep moving eastward across the Yellow River and enter Shandong province. They would then spread over the entire province and develop the mountainous area in the southern part of the province as their “commanding base area (指挥根据地).”\textsuperscript{56} From Shandong, the division would move southward into Anhui province and establish another “commanding area” in the border area between Anhui, Henan and Hubei as an outer fortress for the defence of Wuhan.\textsuperscript{57} Mao asked Zhou Enlai to present the plan to Chiang Kai-shek when he considered the time was right. But Mao also reminded Zhou never to mention the 115\textsuperscript{th} Division’s potential movement beyond the Yellow River.\textsuperscript{58} This was the first time that Mao mentioned sending the 115\textsuperscript{th} Division to Shandong.

A few days later, Mao outlined his coherent strategic vision about the CCP’s development in a telegram to Zhu De, Peng Dehuai, and the three division commanders of the 8RA and the Yangzi Bureau.\textsuperscript{59} Mao declared that if Chiang were to win the Battle of Wuhan, he would never allow the CCP to have a foothold in Hubei, Henan and Anhui,
but if not, he would allow the Communists to stay in that area. Mao then talked about the establishment of six “important strategic strongholds for the protracted war of resistance”. He believed that these strongholds were within Chiang’s tolerance. These strongholds were: 1) Shanxi; 2) Hubei-Henan-Anhui; 3) Jiangsu-Zhejiang-Anhui-Jiangxi; 4) Shaanxi-Gansu; 5) Hubei-Henan-Shaanxi; and 6) Hunan-Hubei-Jiangxi. These six strategic strongholds would be supported by the Jiangsu-Shandong border area, by southern Hebei, by the border area between Hebei and Rehe, and by Daqingshan in Suiyuan province.

Mao predicted that Chiang would permit CCP to have a foothold in those areas if Wuhan fell. Mao presumed that two 8RA divisions would be deployed in the Hubei-Henan-Shaanxi border area and the Shaanxi-Gansu area respectively, while the other division would be in the border area between Hubei, Henan and Anhui. In addition to his ambition for national power, Mao’s immediate reason for such a deployment was because supply problems. Mao wrote: “Although the area west of the Pinghan Railway is vast, only the valleys of the Fen, Wei and Han are relatively productive. But the enemy will be surely determined to fight for the former two. If we want to expand the three

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60. Ibid, 160
61. Ibid
62. Ibid
63. Ibid
64. Ibid
divisions and to play important roles in the war, it will be necessary to deploy them in Hubei, Henan and Anhui.”

Although eastward expansion was essential, Mao could not make up his mind in the early spring of 1938. The first reason was that he was not sure whether the Japanese would advance westwards along the Longhai Railway with Xi’an as their strategic goal after taking Xuzhou and Zhengzhou, or whether they would head southwards towards Wuhan. As mentioned above, Mao assumed that the Japanese forces’ main pincer movement towards Xi’an would be through southern Shanxi. In this scenario, he would have to call the three 8RA divisions east of the Yellow River back to Shaanxi. The second reason was that Mao was not sure if guerrilla warfare would work in the plains, although local CCP networks had launched a series of uprisings and established CCP-led authorities in central and southern Hebei and several places in Shandong during the chaos.

65. Ibid

66. “在日军深入进攻条件下必须部署足够力量于外线 (Deploy sufficient forces outside the frontline when the Japanese conduct in-depth offensives), February 23, 1938,” ibid, 162-165; “须尽全力歼灭府城西进之敌 (Do your best to destroy the enemy moving westward moving from Fucheng), February 25, 1938,” ibid, 162-165; “三四三旅应即改变作战计划 (The 343rd Brigade should alter its operation plan immediately), February 28, 1938,” ibid, 167-168; “关于巩固河防的部署 (Consolidation of river defenses), March 2, 1938,” ibid, 175-176; “我后路不被隔断的条件下主力可留晋击敌 (The main forces can stay in Shanxi if the routes for withdrawal into Shaanxi are safe), March 3, 1938,” ibid, 177; “敌情与一一五师之部署 (Japanese advances and deployments of the 115th Division), March 3, 1938,” ibid, 179; “对陈光罗荣桓行动问题的指示 (Directive on the movements of Chen Guang and Luo Ronghuan), March 5, 1938,” ibid, 181-182; 有计划地部署晋豫边的游击战争 (Deployments for guerrilla war in the Shanxi and Henan border areas), March 6, 1938,” ibid, 183; “一二 O 师应与傅作义协力击破西进之敌 (The 120th Division must strive to work with Fu Zuoyi to halt the enemy’s westward advance), March 6, 1938,” ibid, 185-186; “三五八旅宜从娄烦方向打起 (The 358th Brigade’s assaults should begin from Loufan) March 7, 1938,” ibid, 188-189.
created by the Japanese invasion. Until April 1938, Mao’s only response to those indigenous CCP uprisings was sending a long-range reconnaissance detachment to eastern Hebei.\textsuperscript{67} Mao’s instructions about those uprisings were not coherent. They ranged from building authorities, reforming local militia to fund-raising and establishing interprovincial facilitating agencies.\textsuperscript{68}

In early April 1938 when Mao’s considerations about post-Xuzhou operations were taking shape, Li Yu (黎玉), the secretary of the CCP Shandong Provincial Committee, arrived in Yan’an. Li came to report the achievements of the CCP uprisings in his province and ask for help, especially cadres. Li Yu’s visit coincided with Mao’s considerations about sending the 115\textsuperscript{th} Division to southern Shandong. The achievements by the Communists in Shandong obviously impressed Mao. He selected fifty military and political cadres and sent them to Shandong under the command of Zhang Jingwu, a senior staff officer, and Guo Hongtao, the CCP district head in Shaaxin and recently appointed secretary of the CCP Shandong Provincial Committee, with the mission to conduct independent guerrilla warfare and establish an Anti-Japanese base area in Shandong.\textsuperscript{69} On April 21, Mao telegraphed a few of the 8RA and the CCP North Bureau leaders, claiming that guerrilla warfare in the plains of Hebei and Shandong was feasible; the key to success in guerrilla warfare was the availability of CCP-led local authorities. His

\textsuperscript{67} That detachment launched a failed uprising with the help of the local CCP in the summer 1938.

\textsuperscript{68} See: “以最快速度创造巩固的冀晋豫根据地 (Build up the base area of Hebei-Shanxi-Henan as rapidly as possible), March 24, 1938,” \textit{ibid}, 203-204.

\textsuperscript{69} Li Yu was then on his way to Wuhan. Guo was called back to Yan’an in the fall of 1939 and succeeded by Zhu Rui.
instruction was that those authorities must be established from scratch or through a united front such as an alliance with General Fan Zuxian in northwestern Shandong. As for the Party networks, Mao requested that they must be kept covert, and most Party members should appear in public as anti-Japanese activists.70

Xuzhou fell on May 19, 1938. At that time Guo Hongtao and his contingent from Yan’an were about to cross the Jinpu Railway. On May 20, 1938, Mao telegraphed his ideas about the CCP expansion in Shandong to a few leaders of the 8RA and to Wang Ming and Zhou Enlai who were in Wuhan. He claimed that the Japanese would advance to Henan soon and put Wuhan in jeopardy. He predicted that Chiang would then permit the 8RA to move southwards and to operate in the Japanese rear areas in Henan, Anhui, Jiangsu and Shandong.71 He stated that the 8RA must do its best to prepare. He told them about Guo’s arrival in Shandong, saying, “There are huge amounts of population and weaponry [in Shandong. Our approach] is, principally, to send cadres there. It would be better if one or two battalions could be sent there as the mainstay. The battalions will probably be stationed in Shandong and not return to their unit for a long time. We must be ready for that. Crossing the Yellow River to move southward will not be a problem.”72

70. “在河北山东平原地区大量发展游击战争 (Initiate widespread guerrilla warfare in the plains of Hebei and Shandong), April 21, 1938,” ibid, 217-219.

71. “准备向豫皖苏鲁敌后发展 (Prepare to advance into occupied zones in Henan, Anhui, Jiangsu and Shandong), May 20, 1938,” ibid, 225.

72. Ibid.
A week later, Mao recognized that the Japanese would advance towards Wuhan instead of Xi’an. He telegraphed to leaders of the 8RA, N4A and the CCP, claiming that his previous instructions about the potential Japanese westward advance to Xi’an and Lanzhou were incorrect, and that the next Japanese goal would be Wuhan. He stated, “In this context, it is now the best time to conduct widespread guerrilla warfare in northern China, especially in Shandong, Rehe and Daqingshan.”73

2. **Mao’s New Mandate from Moscow**

Released from the threat of direct Japanese military strikes against his home base and having laid a foundation for guerrilla warfare throughout northern China, Mao began lecturing on his theory of guerrilla warfare and developed his lecture into an essay called *On Protracted Warfare*. After the essay was published in Yan’an, Mao sent a copy to *Xinhua ribao*, the CCP’s newspaper in Wuhan, requesting that it be published there. Unexpectedly, Wang Ming, the editor of the newspaper, rejected it on the grounds that the theme of the work advocated a passive strategy against the Japanese invasion which, he claimed, was neither in the interests of the Chinese people nor in accordance with CCP’s international obligation of defending the Soviet Union.74 In order to conceal the divergence among the CCP leadership, Wang decided to publish the essay in pamphlets attached to the newspaper, claiming that he had received Comintern approval not to

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74. 王明 (Wang Ming), 中共五十年 (Fifty years of the Chinese Communist Party) (Beijing: Zhonggong dongfang chubanshe, 2004): 185.
publish it in *Xinhua ribao* beforehand. This was Wang Ming’s last strike against Mao. Just as he rejected Mao’s work, the Comintern decided to reject Wang.

Wang’s rapid fall must be attributed to his ambition and arrogance in addition to an ambiguous mandate from the Comintern. Because Wang had hardly worked in China, Dimitrov warned him never to act as the leader of the Chinese Communists before he left Moscow. The Comintern’s arbitrary authority brought Wang such power that he forgot the warning. In the meantime, Wang’s Comintern background provoked Chiang’s interest. Chiang was eager to know the Soviet Union’s attitudes towards the GMD-CCP relations via Wang and thus invited him to go to Wuhan. Wang did not seek the ideas of his colleagues in the CCP Politburo about Chiang and GMD beforehand and claimed that he volunteered to lead a CCP delegation to Wuhan. The official leader of the delegation, however, was Zhou Enlai. In Wuhan, Wang gave an enthusiastic speech praising Chiang, but did not receive a response from Chiang. Years later, Mao mocked Wang as a “[young woman] who dressed up to present herself to Chiang”, but Chiang “slapped and then kicked her out.” 75 Wang realized then that Chiang had not acknowledged the existence of the GMD-CCP coalition and viewed the CCP as a surrendered warlord. 76 Although he had discredited himself, Wang behaved like a fully-mandated CCP top leader in Wuhan where he made statements on behalf of the CCP Centre without consulting anyone, ignored the CCP Centre’s messages to the GMD and rejected the GMD Central

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75. Yang, op.cit., 73.

76. Ibid.
Committee’s decision to restore Mao’s GMD membership. He thus went too far. At a CCP Politburo meeting held in Yan’an from February 7 to March 1, 1938, Mao suggested that Wang should not return to Wuhan, but Wang insisted on going. A compromise was made: Wang would go but not stay for more than a month.

Soon after the Politburo meeting, Ren Bishi left for Moscow as a CCP envoy to report to the Comintern about China’s war of resistance as well as the CCP’s policy and achievements. When Ren arrived in Moscow, Pavel Mif, Wang Ming’s patron in the Comintern, was purged. Wang Ming hence became an unwelcome figure in Moscow as well. Moreover, when the Japanese withdrew eastward in face of the Yellow River flood in mid-June, it became obvious that Japan had missed their opportunity to bring China to her knees with a few military strikes, and the Soviet Union would not have to confront Japan in continental Asia in the coming year. During the summer of 1938, the Comintern made its final decision to support Mao’s military and political policy, and sent Wang Jiangxiang, the CCP’s representative, back to Yan’an. Before Wang’s departure, Dimitrov gave him special instructions that “[the problems in the leading agencies] of the CCP Centre should be solved under direction of Mao’s leadership, and that there should be an atmosphere of solidarity in the leading agencies.”

Wang Ming, staying on in Wuhan since March despite the Politburo’s restriction, was falling. As a principal supporter of Wang Ming, Zhou Enlai suffered a political setback in the CCP and his leadership position was reduced as well. It was a major supplement.
political mistake for which he would have to make numerous “self-criticisms” for the rest of his life.\textsuperscript{79} Moreover, Zhang Guotao, a founder of the destroyed Fourth Front of the CCP army, who had challenged Mao during the Long March, defected to the GMD in April 1938. With all challengers gone, Mao called for the Sixth Plenum of the CCP’s Sixth National Congress to legitimize his authority and policies. The plenum was opened on September 29, 1938 and ended on November 17. During the meeting, Zhang Jingwu and Li Yu, who were on their way to Shandong, telegraphed Mao Zedong, Zhang Wentian, Liu Shaoqi, Zhu De and Peng Dehuai about their meeting with Shandong’s native Communists on October 11, 1938. Their message was that because of the shortage of cadres, a supply system had not been established and the desertion rate was high; in contrast, the local GMD forces were expanding rapidly.\textsuperscript{80} Two days later, on October 27, Wuhan fell. Despite the strategic location of the city, where the Japanese deployed most of their striking forces in continental China during the Sino-Japanese War, as Chiang and Mao had predicted, they lacked the necessary resources for strategic offensives without further mobilization in the home islands. China’s struggle against Japan entered what Chiang called the second phase of War of Resistance and what Mao called a stalemate phase. Within twenty days of the fall of Wuhan, Mao decided to send the 115th Division to Shandong. On December 2, 1938, the formal order for the division to depart for Shandong was issued.

\textsuperscript{79} Jin, \textit{A Biography of Zhou Enlai}, 2. 520-522.

\textsuperscript{80} 罗荣桓传 编写组 (Compiling team), 罗荣桓年谱 (Annals of Luo Ronghuan) (Beijing: Renmin chubanshe, Press, 2002), 92.
3. Conclusion

The departure of the 115th Division for Shandong was a milestone in the history of the anti-Japanese War and the CCP history. The decision to send one of the 8RA divisions from CCP’s home base in northern Shaanxi fifteen hundred kilometres reflected the disappearance of a potentially fatal threat from Japanese military strikes. It did not come from CCP’s military resistance, but from Chiang Kaishek’s grand strategy for a total and protracted patriotic war and its successful implementation. The CCP was marginal and did little to contribute. The scarce resources and ambition for national power led to Mao’s strategy of guerrilla warfare. He recognized his opportunity in Chiang Kaishek’s grand strategy, Japanese arrogance and their lack of preparation for a total war in China, and he did not hesitate to exploit it with his strategy of guerrilla warfare. The CCP’s Sixth Plenum of its Sixth Congress and the deployment of the 115th Division to Shandong was the result of Mao Zeong’s shrewdness, ruthlessness and patience. Mao outwitted his CCP domestic rivals and Chiang Kaishek by advocating and insisting on his strategy of guerrilla warfare. He received Moscow’s mandate and became the de facto leader of the CCP while deploying one of his three divisions, without notifying the NRA, to Shandong, a vast, populous and productive province far away from Chiang Kaishek’s wartime headquarters in southwestern China.
CHAPTER FOUR

The Beginning

(December 1937-April 1939)

Shandong is a semi-peninsular province in North China with the alternative name of Lu. It is at the crossroads between Manchuria, North China, the Yangzi Valley, Korea and Japan. Being in such a strategic location, Shandong became a battlefield among the Japanese, the GMD and the CCP during the Sino-Japanese War. Because it was far to the east of the Pinghan Railway, Shandong was not prominent in Chiang Kaishek’s Wuhan-centred strategy. Its value lay in the Battle of Xuzhou after the fall of Nanjing in mid-December 1937. The fire of war, therefore, came to the province later than elsewhere in North China. Although engagements such as the Battle of Tai’erzhuang occurred in the province in the spring of 1938, they were components of the Xuzhou campaign. But those battles opened a Pandora’s Box in the province. Because of its territorial and population size, its diversity in geographic environments, national resources, economy and culture, Shandong was suitable for guerrilla warfare. As the Japanese had made no preparation for their occupation, rural Shandong became a hotbed of guerrillas of all kinds, including the NRA’s regular troops, militia forces led by local officials and strongmen, and local CCP forces. The achievements of CCP guerrillas impressed Mao and led him to the decision to send cadres and then deploy the 115th Division to the province. The arrival of regular CCP troops not only altered the CCP power structure in Shandong, but also led to an expansionist strategy, which would bring

1. As part of western Shandong was the territory of the ancient state of Lu (?1043-256 BC), Lu is used in terms such as Luzhong (central Shandong), andn Luxinan (southeastern Shandong).
about permanent changes in relations among the anti-Japanese guerrillas in the province. These achievements established a framework of the conflict for the triangular struggle between the GMD, CCP and the Japanese.

1. An Overview of Shandong

The territory of Shandong resembles a parallelogram of 156,700 square kilometres, in which one of two triangles is the peninsula called Jiaodong. One of end of this triangle-like Jiaodong peninsula juts into the sea.² The east-west distance of this large province is about 700 kilometres; from north to south it is about 420 kilometres wide. It was the largest province in North China in territory and population.

Shandong’s northern coastline was on the Bohai Gulf; and elsewhere faced the Yellow Sea. Across the Bohai Gulf lay Manchuria, and across the Yellow Sea were Korea and Japan. The important cities on the northern coast were Yexian, Huangxian, Penglai and Yantai. The overland neighbouring provinces were Hebei, Henan, Anhui and Jiangsu. The terrain of Shandong was diverse. The general characteristic of the Shandong terrain was the mountainous region in the centre and south. The central and southern mountainous region was often referred to as the Yimeng mountains or central Shandong, or central Shandong.³ To the north, south and west of the Yimeng mountains were plains. East of the Yimeng mountains was a region of undulating hills called the Jiaodong


(胶东) Peninsula or Jiaodong. On the plains west of the Yimeng mountains the Jinpu Railway and the Grand Canal system ran parallel to Pinghan Railway to the west. The Yellow River ran from west into the plains west of Yimeng mountains and then turns northeast through the plains and entered the Bohai Gulf, dividing the plains into two parts. As the Yellow River often changed its course and ran southwards into the Huai River, the southern part of the plains was often flooded. 4 Two lakes in the region were integrated into the Grand Canal system. On the plains south of the Yimeng mountains the Longhai Railway met Jinpu Railway and the Grand Canal at Xuzhou.

On the northern edge of the Yimeng mountains ran the Jiaoji Railway, resembling a bow in shape. It bisects the territory of Shandong and links Jinan, the provincial capital on the Jinpu Railway and the Grand Canal, with Qingdao, a city on Shandong’s southern coast with the best natural deepwater harbour in North China. Because of that harbour, the Imperial German government took the advantage of China’s defeat in the First Sino-Japanese War (1894-1895), leased Qingdao and obtained the rights for building a railway inland, the Jiaoji Railway, and for mining along the railway lines. Before the arrival of the Germans and the building of the Jiaoji Railway, however, the northern coast of Jiadong, was more prosperous than the south because of its easy communications with Beijing, Tianjin and Manchuria. 5 The distance between Yantai and Tianjin is 208 nautical miles, and Yantai is 89 nautical miles from Dalian, the largest harbour in the Manchuria and its


neighbouring city of Lüshun (Port Arthur), a naval base. About 90 kilometres east of Yantai is Weihai, formerly the base of the Northern Fleet of the Chinese Imperial Navy and then, after 1898, of the British Royal Navy in China. Although the rapid rise of Qingdao overshadowed Yantai and cities on the northern coast, the completion of the Jiaoji Railway in 1905 promoted communications between coastal and inland Shandong, and communications between Shandong and Manchuria.

Overland and maritime linkages with other parts of China, and with Korea and Japan, turned Shandong into a battlefield between China and Japan during the First Sino-Japanese War of 1894-1895. Later, although Shandong was far behind the frontline after the Battle of Xuzhou of the spring of 1938 and was theoretically under occupation, its size, in addition to the diverse and difficult terrain, especially in central Shandong and Jiaodong, soon made it nearly impossible for the Japanese to administer it effectively after they drove away the NRA forces from the principal communications lines. The NRA deployed a significant number of troops in the rural areas behind the Japanese-controlled railways and highways. With more urgent commitments elsewhere, Japan lacked manpower to administer Shandong. Nor was full control required given overwhelming Japanese tactical superiority. It meant that the principal Japanese security goal in Shandong was to establish Chinese collaborationist regimes and their associated security forces.

For the Chinese resistance movement within Shandong, the principal challenges were how to maintain constant and reliable contacts with rear areas and how to obtain needed resources, especially necessary industrial products such as weapons and
electronics such as radio equipment, from bases in the rural areas so as to survive a protracted war of resistance. As they showed during the war, the Japanese enjoyed absolute control of the railways, but were unable to control the cross-railway traffic completely. Railway crossings, however, became so costly that the Chinese troops learned to avoid them as much as possible. Moreover, regional diversity, especially in spoken dialects, made it risky to deploy cadres throughout the occupied zones, as outsiders could be easily identified by their accents. As a result, the anti-Japanese war in Shandong was an indigenized and localized conflict.

2. *The Rise of Shen Honglie*

The fire of war did not come to Shandong, except for the tiny area of Dezhou in the northwest, a result of the Japanese operation to protect their left flank along the Pinghai Railway, until late December 1937 when Han Fuju, the semi-independent provincial chairman deserted his province, ordering his troops to withdraw without resistance. Han’s decision resulted from his perception of the Sino-Japanese War. Before their all-out invasion of the province, the Japanese tried to persuade Han to lead a collaborative regime. But Han regarded himself as a good Chinese who would never collaborate with foreign invaders. In contrast to semi-independent counterparts in northern China such as Yan Xishan and Song Zheyuan, who stood up and resisted, Han did not realize the driving power of modern Chinese nationalism behind Chiang Kaishek’s decision for a total war, even though he predicted that the Japanese could not win due to China’s territorial size. He regarded the War of anti-Japanese resistance as equivalent to another war among warlords. In his view, the victors would be those who possessed the largest army when the conflict came to an end. He had made an attempt to
defend Dezhou and the north bank of the Yellow River, but found the Japanese too powerful. As he did not want to work with the Japanese and was unable to withstand the attack, he considered retreat to be his only choice. Thus, when the Japanese in northern Shandong and the Yangzi Valley began moving along the Jinpu Railway towards Xuzhou before the fall of Nanking in early December, Han disobeyed Chiang’s order to defend Jinan and the Jinpu Railway along the southern bank of Yellow River. Instead, he ordered his troops to withdraw into northern Anhui, even though he had many no plans whatsoever for a withdrawal. As his troops hurriedly departed, government administrations at all levels dissolved and the province fell into anarchy.

Although the provincial army departed, many Shandong people, including local officials, rural gentry, schoolmasters, and teachers to Communists and bandits stayed to resist the invasion. Among them was Admiral Shen Honglie, the mayor of Qingdao. After Han left Jinan, Shen destroyed the key factories in Qingdao, many of which were Japanese-owned, and then led his Marine and Revenue Police, about nine thousand men strong, in a withdrawal southwestward into the Yimeng mountains. After Chiang Kaishek ordered Han Fuju’s arrest and execution in January 1938, he appointed Shen as the Provincial Chairman of Shandong (山东省主席). When he received the appointment,
Shen was in Caoxian, a county in the southwest corner of the province. He immediately began to restore the governments at all levels and completed this in a few months.9 During the summer of 1938, Shen established the provincial government in Dongli, a commercial centre in the heart the Yimeng mountains.

Meanwhile, the Japanese did not move southwards along the Jinpu Railway in full strength. Instead, they sent a detachment eastward along the Jiaoji Railway to Qingdao. After joining another detachment that had landed in Qingdao, the joint Japanese force moved southwards along the coastal motorway toward the Longhai Railway via Linyin, a traffic centre in the southern plain, in order to outflank Xuzhou from the east. But the Japanese joint detachment was repulsed in Linyi. As a response to the failure to outflank Xuzhou from the east, the Japanese moved down along the Jinpu Railway and engaged in battle at Tai’erzhuang, a railway and canal intersection on Shandong’s southern border between Linyi and Xuzhou, about 15 kilometres north of the Grand Canal and 30 kilometres from the Longhai Railway. In Tai’erzhuang, the Japanese suffered their first military defeat in the war: a detachment of around twenty thousand men strong was encircled and destroyed. Although the Chinese victory could not prevent the fall of Xuzhou, it was a strong boost of morale. While withdrawing troops from Xuzhou, Chiang Kaishek deliberately left behind a large number of regular troops to raid communication lines, especially the railways of Jinpu and Longhai. 10 After the war became stagnant when the Battle of Wuhan came to an end, Chiang readjusted his

10. Ibid, 5.2959.
military strategy and reorganized the NRA in November 1938. In order to conduct guerrilla warfare behind the frontline, he established the LuSu (Shandong and Jiangsu) and JiCha (Hebei and Chaha’er) theatres of war with General Yu Xuezhong and Lu Zhonglin as their respective commander-in-chief.\textsuperscript{11} The general aim of the two theatres was to maintain the Nationalist Government’s presence and wage guerrilla warfare to slow down the establishment of collaborationist regimes and Japanese economic exploitation in their occupation zone.\textsuperscript{12}

3. The CCP Uprisings and Appeals to Yan’an

When Chiang established the LuSu Theatre, the CCP’s 115\textsuperscript{th} Division was about to leave Shanxi for Shandong. Although they conducted independent guerrilla warfare across the province for nearly a year, CCP forces in Shandong were meagre: party networks, military and administrative organizations were nascent; they had hardly any support from Yan’an except a few of cadres who arrived with Guo Hongtao in May 1939. Rather than Yan’an, the initiator of the Communist war efforts in Shandong was the North China Bureau (Beifangjü, the CCP North China Bureau) headed by Liu Shaoqi.

After the CCP Politburo passed their roadmap for victory resolution on August 25, 1937, the North China Bureau transferred the resolution to its branches including the Shandong Provincial Committee, and instructed them to implement it. In a subsequent meeting, the Shandong Provincial Committee decided to begin a campaign to mobilize

\textsuperscript{11} A concise history of the Sino-Japanese War, 2. 278.

\textsuperscript{12} Ibid, 269.
the masses through guerrilla war. When that decision was made, another North China Bureau instruction came and asked the Communists to “take off their long robes and engage in guerrilla warfare.” In mid-September, Liu Shaoqi chaired a North China Bureau meeting in Taiyuan which decided to wage a guerrilla war throughout northern China. Li Yu, the Secretary of the Shandong Provincial Committee, attended that meeting.

Up to then, the CCP’s war efforts in Shandong had been limited to the establishment of an agreement with Han Fuju. Mao Zedong sent Zhang Jingwu, a military intelligence officer, and Zhang Yaoyu, a professor of law and an underground CCP member, to contact Han. Han agreed to release the Communists under his custody and allowed the CCP to assign propaganda officers to his army, including those in the northwest corner of the province under Japanese attack. During his contacts with Han, Zhang Jingwu discovered that Han did not wish to mount a resistance and that his troops’ readiness was poor. Zhang then shifted the priority from working with Han to organizing uprisings except in the western part of the province where the Japanese had occupied Dezhou. In the Dezhou area, Fan Zhuxian, the Nationalist Commissioner of the Sixth


14. Ibid; also 黎玉 (Li Yu), “山东人民武装起义与山东纵队的建立和发展” (Shandong people’s uprisings and the Shandong Column’s establishment and developments), SDZD 1.17; 黎玉回忆录 (The Memoirs of Li Yu) (Beijing: Zhonggong dangshi chubanshe, 2005), 106.
Administrative Zone centred in Liaocheng, 90 kilometres west of Jinan, vowed to fight to death.\(^\text{15}\)

In October, the Shandong Provincial Committee held another meeting and decided to launch a series of uprisings across the province during the chaotic interval when Han withdrew and the Japanese had not yet moved in.\(^\text{16}\) This decision resulted in a series of uprisings across the province from November 1937 to February 1938. Those uprisings, as shown in Table 1 below, gave birth to the CCP armed forces in Shandong.\(^\text{17}\)

<table>
<thead>
<tr>
<th>Name</th>
<th>Leaders</th>
<th>Responsible CCP Agencies</th>
<th>Mediating Organization</th>
<th>Location</th>
<th>Time</th>
<th>First Combat</th>
<th>Result</th>
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<tbody>
<tr>
<td>JiLu bian uprising</td>
<td>Wenping Yu</td>
<td>JiLu bian gongwei</td>
<td>National Salvation Association of North China’s Public</td>
<td>Yanshan, Lelin, Ningjin, Qingyun and Wuli</td>
<td>Nov 1937</td>
<td>Raid against a local garrison in Qingyun, Yanshan (Nov 1937)(^\text{18})</td>
<td>Anti-Japanese government of Leling, Qingyun and Nanpi</td>
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<td></td>
<td>Zhenhua Ma</td>
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<td></td>
<td></td>
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<td>People’s 1st Anti-Japanese Corps</td>
</tr>
<tr>
<td>Uprising in NW SD</td>
<td>Linzhi Zhang</td>
<td>W SD tewei</td>
<td>Anti-Japanese guerrilla HQ of 6th Dist, SD</td>
<td>Liaocheng and Changqing</td>
<td>Nov 1937</td>
<td>Against local militias (Dec 12, 1937)(^\text{19})</td>
<td>10th Detach</td>
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<td>Uprising in Tianfushan</td>
<td>Qi Li</td>
<td>Jiaodong tewei</td>
<td>Guerrillas in Kunyu mountains</td>
<td>Wendeng</td>
<td>Dec 24, 1937</td>
<td>Against local government and militias (Dec 31, 1937)(^\text{20})</td>
<td>Anti-Japanese government of Xiexian and Penglai</td>
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<td></td>
<td>3rd Corps of SD People’s anti-Japanese Army</td>
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</table>

\(^{15}\) The Memoirs of Li Yu, 107-109; “关于争取韩复榘抗日建立抗日统一战线给中央的报告 (Report to the Centre on the possibility of a united front with Han Fuju), by Zhang Jingwu to Mao Zedong via Zhou Enlai and Ye Jianying), July 29, 1937,” SDGMLSDAZLXB 4.3.

\(^{16}\) Shandong people’s uprisings and the Shandong Column’s establishment and developments,” SDZD 1.19

\(^{17}\) Ibid, 21-26.

\(^{18}\) 杜步舟(Du Buzhou), “The storm on Gejin River (鬲津河畔的风暴),” SDZD 1. 171.

\(^{19}\) 赵健民(Zhao Jianmin), “The birth and development of the anti-Japanese forces in northwestern Shandong (鲁西北抗日武装的创立和发展),” ibid 1. 186.

\(^{20}\) 张修己(Zhang Xiuyi), “The Uprising in Tianfu Hills (天福山起义),” ibid 1. 247-248
Despite their grand titles, the CCP military organizations in Shandong were nascent and unstable, lacking essential supporting agencies. Their military effectiveness


22. 李福泽, 王文轩 (Li Zefu and Wang Wenzxuan), “The birth and growth of 8RA’s Seventh and Eight Detachment in eastern Shandong (八路军鲁东游击第七、第八支队的组建及战斗历程),” *ibid* 1.415.

23. 黎玉 (Li Yu), “The anti-Japanese uprising on Zulai hills (徂徕山抗日起义武装起义),” *ibid* 1.81.


26. 郭影秋 (Guo Yingqiu Guo), “Anti-Japanese uprisings in the west of the lake (湖西人民抗日武装起义),” *ibid* 1.545.
was limited. Few of the local CCP leaders had military experience. They did not know how to turn peasants into regular soldiers.27 The Shandong Provincial Committee therefore decided to send Li Yu to Yan’an for help. Li arrived in Yan’an in early April via Longhai Railway, then still under the NRA’s control.

As described in the preceding chapter, the Shandong Provincial Committee’s request coincided with Mao’s perceptions. Because he had not yet freed himself from the Comintern’s constraints and, in the meantime, had not been sure if the Japanese would advance towards Xi’an after the Battle of Xuzhou, Mao’s promised aid was limited to sending cadres, even though he said to Li that a regular 8RA regiment or more would be deployed eventually. The leader of the promised contingent of cadres was Guo Hongtao, Secretary of the CCP Committee of Shan-Gan-Ning. Before Guo’s departure for Shandong, Liu Shaoqi instructed him to find other cooperative GMD officials like Fan Zhuxian.28 As Li Yu was about to leave for Wuhan to report to Zhou Enlai and Wang Ming about his province and would not be back in Shandong for a while, Guo was appointed secretary of the Shandong Provincial Committee.

4. The Shandong CCP’s Provincial Strategy

Guo left Yan’an with fifty cadres, two radios and a group of radiomen for Xi’an where the contingent took a train and arrived in Caoxian via the Longhai Railway.29 Guo

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27. 江华 (Jiang Huang), “Four years of anti-Japanese war in Shandong (追忆山东敌后抗战的四年),” *ibid* 2.105.


29. Ibid, 125
arrived in Taixi in May and contacted Zhang Beihua, the leader of the local CCP armed force, in May. Zhang then escorted Guo, crossing the Jinpu Railway, and arrived at Nanshangzhuang, Taixi County, where the headquarters of the Shandong Provincial Committee was based, on May 20. On the next day, Guo held a Shandong Provincial Committee meeting. The meeting resulted in a new Shandong Provincial Committee and a strategic plan about building and expanding base areas in Shandong. The title of the strategic plan was *Fazhan he jianchi Shandong youji zhanzhengde zhanlue jihua* (*Strategic Plan for developing and persevering in the guerrilla war in Shandong*). 30 It was decided that the Communists’ efforts would be focused on building a “central base area” in the Yimeng mountains region at the beginning and then radiating into neighbouring areas: Qinghe (清河) in the north, Baodugu (抱犊崮) in the south, Binhai (滨海) in the east, Liangshanbo (梁山泊) and Weishanhu (微山湖) west of the Jinpu Railway, and Dazeshan (大泽山) in Jiaodong. The plan was then telegraphed to Yan’an for approval. 31

Guo and his colleagues who attended this Shandong Provincial Committee meeting in May discussed the united front work in Shandong and agreed with the strategy of persuading local power-holder Zhang Liyuan (张里元) and Shi Yousan (石友三) to join the Communist coalition, isolating Shen Honglie (沈鸿烈), and fighting against Qin Qirong (秦启荣). Zhang Liyuan was the governor of the 3rd Administrative District that

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31. Ibid. Guo Hongtao’s Memoir, 128-129.
covered the Yimeng mountains region. Zhang was a liberal intellectual who had graduated from the Department of Politics of Beijing University. Shi Yousan was the commander of the 69th Corps that Chiang deliberately kept behind the frontline. He was a warlord notorious for switching sides and was then staying with his troops in the Yimeng mountains. He allowed the CCP members to establish their networks in his army, hoping that the CCP would help him become provincial chairman. Shen, as mentioned above, was the recently appointed provincial chairman who was rapidly restoring the administrative system. Qin was the Provincial Minister for Construction, a GMD guerrilla leader in western Shandong. He was a Huangpu cadet during the 1920s, a dedicated believer in Dr Sun Yat-sen’s Three People’s Principles and a prominent GMD leader in Shandong before the war broke out. In addition, Qin was among the first leaders in Shandong to ring alarm bells about the Communist threat, insistently advocating a simultaneous war of anti-Japanese resistance and Communist-insurgency suppression.  

A week after the Shandong Provincial Committee meeting on 21 May, Mao recognized that the Japanese would not advance westwards after taking Xuzhou, and ordered the establishment of the Jiangsu-Shandong-Henan-Anhui border region base area. As a result, the Shandong Provincial Committee was renamed the Jiangsu-Shandong-Henan-Anhui Border Area Provincial Commitee (SuLuYuWan bianqu shengwei) with Guo as its head. As most of the pre-war CCP members were committed to uprisings and 

military branches, the Jiangsu-Shandong-Henan-Anhui Border Area Provincial Committee decided to switch some of military cadres to civilian sectors so as to maintain and expand CCP supporting administrative institutions.\textsuperscript{33}

When the CCP cadres in Shandong began increasing their efforts in building an administrative system in preparation for Mao’s strategic expansion into central China, the Chinese collaborators and GMD leaders were also busy with restoring or establishing their separate and hostile administrative systems. The collaborators established a Shandong Provincial Government (\textit{Sheng gongshu}, 省公署,) with Ma Liang (马良) as its governor on March 5, 1938. As an invader-imposed regime, it lacked essential legitimacy and public support during its early days and was unable to move beyond occupied urban areas along the railways. In contrast, Shen Honglie’s efforts to restore the dissolved provincial administration were smooth and rapid. He organized a team for administrative guidance and encouragement (\textit{xingzheng dudaotuan}, 行政督导团) composed of young officials and sent them travelling around the unoccupied territories on bicycle. As Han Fuju had simply deserted his province and the Japanese had not expanded their control beyond railways, most of the administrative institutions were intact. The main impact was limited to the interruption of the education and revenue systems.\textsuperscript{34} Elementary and secondary schools were closed. In areas where the Japanese had moved through, revenue


\textsuperscript{34}刘道元 (Liu Daoyuan), “抗战期间山东省政变迁(中) [Transformation of Shandong provincial government during the Anti-Japanese War (2)],” \textit{Shandong memorabilia} 8.3: 50-51.
systems were destroyed. Various organizations then began to impose taxes and collect revenue.\textsuperscript{35}

Admiral Shen Honglie, the legitimate provincial chairman and respected former mayor of Qingdao, rapidly restored trust in the provincial government. But his policy was not compatible with the CCP’s determination to be independent. As shown in Diagram 1 above, the first combat for most CCP troops in Shandong was against the current government rather than the Japanese invaders. The CCP-led guerrilla unites had various titles which did not show their CCP identification and their ties with the 8RA. Shen, the provincial chairman, resorted to his authority and asked the CCP-led guerrilla units to be obedient to his government. In order to neutralize Shen’s legitimate claim over those CCP troops without official titles, Guo asked for Yan’an’s permission to name the CCP forces with 8RA titles in order to justify them when Shen asked. Mao soon agreed and limited the titles to four detachments.\textsuperscript{36} But this strategy did not deter Shen, who was determined to restore the government’s administrative integrity and place the CCP-led armed forces under his command. When Guo began implementing the Shandong Provincial Committee’s strategic plan and ordered the CCP forces from Qinghe and Jiangsu to the Yimeng mountains in August 1938 during the peak of the Battle of Wuhan, a small-scale civil war broke out between the CCP and various local non-CCP armed forces ranging from militia groups and garrisons, especially those under Qin Qirong’s command or

\textsuperscript{35} Ibid.

\textsuperscript{36} “The telegram of Mao Zedong and Liu Shaoqi to Guo Hongtao about restoring 8RA names for the troops in Shandong (毛泽东刘少奇关于山东基干部队可以恢复八路军游击队番号致郭洪涛电)” SDZD 4.397; “Mao Zedong’s telegram about naming CCP guerrilla units in Hebei and Shandong with 8RA units (毛泽东关于直鲁等处属我领导之游击队应以八路军命名致电),” SDZD 4.398.
under his influence. In late October 1938, the Battle of Wuhan ended and with it the imminent threat of catastrophic national defeat. Subtle but significant changes began then to occur in relations between the CCP and the GMD, which made the situation in Shandong more complicated and volatile.

5. Mao and Moscow’s New Confrontational Policy

Mao’s hegemony in the CCP leadership and the departure of the 115th Division implied that the Communists in Shandong would continue their expansion with support from their regular troops, who would improve their position vis-à-vis their pro-GMD rivals as well as the Japanese. But the CCP did not take action until June 1939. Mao was not certain of Chiang Kaishek’s intention after Chiang began reorienting his strategy after the Battle of Wuhan. Nor did Mao have the Comintern’s support. As the immediate threat from the Japanese was gone, Chiang adopted a strategy of attrition and intended to slow down the Japanese efforts to establish collaborationist regimes, which were essential to exploit the resources in the occupied zones. Chiang asserted the presence of the Nationalist Government in the occupied zones through limited offensives and guerrilla warfare. His decision to establish the LuSu and JiCha theatres of war reflected this strategy. It was also intended to counter CCP’s policy of guerrilla action and expansion, however. Although the establishment of LuSu and JiCha theatres was a continuation of Chiang’s grand strategy, it also reflected the GMD elite’s growing concern with the CCP’s rapid growth during the first phase of the war. The issue became salient as the GMD and CCP had not yet achieved an agreement over their mutual relationship and postwar China. Neither did they have a consensus on possible peace terms with Japan.
During the CCP’s 6th Plenum in October 1938, Mao directly presented the GMD with three options about the GMD-CCP relationship and their United Front in his official report, which was published in *Jiefang (Liberation)*, CCP’s principal journal. The first was that the GMD would be transformed into a national union into which other parties would join while maintaining their identities and independence. Mao declared that the CCP preferred this form. He promised that unlike the practice in the first GMD-CCP cooperation in 1924, the CCP would publicize the name list of its party members who joined the GMD and would not accept applications to the CCP from the GMD members.

The second option was that all the political parties would form a national coalition with Chiang as the leader. Within the coalition, each party would enjoy equal status. Their representatives would form central and regional governments. The third choice was to continue the current situation, lacking a written agreement and regular form. The biggest deficiency of this proposal was that it was too loose to solve problems such as frictions at lower levels. In the end, Mao claimed that the CCP was strongly encouraging

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37. See: ZGZYWJXJ 11.759. The CCP tried to inform Chiang Kaishek and the GMD about the contents of this plenum, sending Zhou Enlai as its envoy to Wuhan before its fall. Zhou passed on to Chiang Mao’s letter about CCP’s war policy and proposal on its relations with the GMD. [A Biography of Zhou Enlai, 2.524].


39. Ibid
the GMD and other political parties in China to develop various forms of inter-party cooperation during the protracted war. 40

Chiang was interested in the CCP’s first option when Zhou presented it to him in Wuhan in early October. But in December, he suggested that the CCP should give up its identity and merge into the GMD. Zhou immediately turned down this proposal. Chiang then mentioned the GMD-CCP split in 1927, claiming that everyone was afraid of the Communists’ “revolutionary transition [from one stage to another].” 41 A week later, on December 13, 1938, Chiang met Wang Ming. In addition to repeating what he told Zhou, Chiang said to him “The Trans-party option [Mao’s first option]? Under no circumstance! It is my obligation to integrate the CCP within the GMD…. My previous struggles against you were to keep the revolutionaries in the CCP and integrate them into the GMD. This is a matter of life or death [for the GMD]. If I cannot achieve this goal, my soul will not rest after my death, and victory in the War of Resistance will make no sense…. It is not acceptable for the CCP to develop outside the GMD, because the people belong to the GMD. If the CCP wishes to expand among the people, conflict will be inevitable.”42

Before Yan’an gave Zhou and Wang any formal instructions, Wang Jingwei, the second-ranking GMD leader, surreptitiously left for Hanoi in December 1938, hoping to achieve a peace arrangement with the Japanese. Wang’s travel to Hanoi alerted the CCP

40. Ibid, 630.

41. Yang, op. cit, 86-87.

42. “陈绍禹等关于一个大党问题与蒋介石谈判情况及意见向中央的报告 (Cheng Shaoyu’s report about negotiations with Chiang Kaishek over the issue of one major party), January 21, 1939,” ZGZYWJXJ 12.6-7.
leaders that Chiang Kaishek might make peace with the Japanese at the expense of the CCP. Mao decided to take a wait-and-see strategy until the close of GMD’s Fifth Plenum which was to be held during January 21-30, 1939. He halted the 8RA’s major redeployments, including the 115th Division’s move into southern Shandong and northern Jiangsu. In the meantime, he emphatically rejected Chiang’s position on CCP-GMD integration, saying: “never let him have that position again.” Mao hoped to influence the GMD plenum through such measures. The results were disappointing, however.

Although the CCP leaders were relieved to learn that the GMD’s Fifth Plenum had condemned Wang Jingwei and expelled him from the party, vowing to fight Japan to the end, Chiang implied that a satisfactory “end” might be the return to the statues quo of July 7, 1937, without mentioning the recovery of Manchuria. In addition, to the dismay of the CCP leaders, the Nationalists had become aware of the CCP’s expansion efforts and were determined to put the CCP’s war efforts under control of the central command. Contrary to Mao’s hope that Chiang would share power, the Fifth Plenum gave Chiang an even stronger political mandate. Although he was not yet desperate about relations with the GMD, Mao began taking a series of preparatory actions. As early as the CCP’s Sixth

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43. “中央关于我党对国民党反共限党对策的指示 (Central directive about counter strategies against the GMD’s policy of containing the CCP), January 23, 1939,” ibid, 12-13. On 13 January 1939, Mao telegraphed Zhou Enlai, Zhu De and Peng Dehuai: “We must insist on expanding towards Shandong, Anhui and central China. As there are so many frictions [with the GMD], the CMC strictly forbids the 8RA to move into the central plain.” [See: 罗荣桓 (Ronghuan Luo), 罗荣桓年谱 (The Annals of Luo Ronghuan) (Beijing: Renmin chubanshe, Press, 2002), 96].

44. “中央关于拒绝所谓一个大党问题给周恩来的指示 (Central directive to Zhou Enlai about rejecting the so-called one major party proposal), January 22, 1939,” ZGZYWJXJ 12.5.

45. Huang, op.cit., 1333.

46. Ibid. 1334.
Plenum in October 1938, Luo Fu (alias of Zhang Wentian) outlined the policy towards GMD-CCP relations: “An avoidance of unnecessary frictions and strength in the face of necessary frictions”, he declared, “While it does no good at all to create unnecessary frictions, it does no good to avoid necessary frictions.” 47 During the proceedings of the GMD’s Fifth Plenum, a CCP Central Secretariat issued a directive on January 23, 1939 claiming that Chiang was trying to limit and isolate the 8RA and that one of his principal methods was to prohibit the 8RA’s involvement in local politics and programmes of fund-raising and setting of food supplies. 48 The instruction stated that if the CCP did not respond forcefully to the GMD restrictions, it would encourage the GMD hardliners to take further action to restrain the CCP; in order to justify their efforts to establishing administrative authorities in front of the GMD, the 8RA and CCP guerrillas “should point out straightforwardly that they cannot fight without eating and that they could improve their methods of gathering food supplies if their funding were increased.” 49 The CCP units everywhere were ordered to never to “give up the established administrative authorities easily.” 50 Three days later, on January 26, the Central Secretariat issued “principles” as the basis for the CCP to assist the GMD. It claimed that “[the CCP’s] assistance [to the GMD] must be conditional, limited and beneficial or it will damage us and damage the entire war of resistance.” 51

47. 洛甫 (Luo Pu), “关于抗日民族统一战线的与党的组织问题 (On the interactions between the United Front and the party organizations) about the united front and the party organization), outline of a speech at the Sixth Plenum, October 15, 1938),” ZGZYWJXJ 11.671.

48. “Central directive about counter strategies against the GMD’s policy of containing the CCP,” ibid, 12.12.

49. Ibid, 13.

50. Ibid, 13.

Bitter memories of the GMD-CCP split in 1927 began dominating Mao’s thoughts. On February 9, 1939, he reminded his colleagues of Chiang’s purge of the CCP in 1927 declaring that “[The CCP could not make] the GMD progress without struggle.” On February 10, the General Secretariat issued a directive on the GMD-CCP friction in northern China, in which the CCP leaders attributed the widespread and escalating tension to Lu Zhongling, Commander-in-Chief of the JiCha theatre, and Shen Honglie, the provincial chairman of Shandong. It claimed that Lu and Shen were working hard to seize power from the 8RA, and that “their wrong actions have produced serious frictions and quarrels and placed the war of resistance in northern China in extreme difficulty and danger.” The way to avoid friction, the instruction claimed, was to establish a unified military-political command. Accusing Lu Zhongling of making trouble, the Secretariat nominated Zhu De to replace him as commander of the JiCha theatre. In addition, it claimed that the prewar provincial borders had become outdated and should be redrawn in accordance with the actual sphere of power. Finally, the instruction asked the CCP to stand fast and fight back.

The change of GMD’s policy was confusing to Mao. He did not understand why Chiang and the other GMD leaders had not accepted the CCP’s proposals, and were

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52. Jin, A Biography of Mao Zedong, 556.

53. “中央关于华北各地摩擦问题的指示 (Central directive on frictions with the GMD in North China), February 10, 1939,” ZGZTWJXJ 12.23.

54. Ibid. 24.
instead attempting to restrict the CCP’s development.\textsuperscript{55} Considering that the Nationalist government was dependent upon Britain and the United States, Mao and his colleagues gradually attributed the change in policy to the West, particular to the Munich agreement four months earlier in October 1938. They suspected that the Western governments had extended an agreement to seek a compromise with the Axis at the expense of the Soviet Union and the Communist movements, including the CCP, across the world.\textsuperscript{56} Vladimir Lenin had asserted that the nature of the bourgeoisie was compromise, and the GMD was a bourgeois party. The CCP leaders suspected that Chiang was about to make a deal with the Japanese just as Neville Chamberlain had appeased Hitler.

On March 18, 1939, during the Eighteenth Congress of the Communist Party of Soviet Union, Joseph Stalin accused the British and French governments of guiding the Axis towards an attack on Russia. This declaration naturally affected the CCP leaders’ “situation assessment.”\textsuperscript{57} On May 30, 1939, the Comintern warned the CCP that the GMD’s possible compromise with the Japanese was the CCP’s most serious threat. It asserted this on the basis of the Western governments’ appeasement policy in the Far East. It was thus likely that the GMD’s anti-Communist stance was in preparation for a deal with the Japan at the expense of the CCP.\textsuperscript{58} A week later, on June 7, 1939, the Central Secretariat sent provincial committees instructions to be passed to lower levels orally only,

\textsuperscript{55} Yang, op.cit, 88.

\textsuperscript{56} Ibid.

\textsuperscript{57} Ibid. 89.

\textsuperscript{58} Ibid. 89-90.
which echoed the Comintern instruction.\textsuperscript{59} On June 10 and 13, Mao gave a long lecture on appeasement and the way to stop it during a conference of CCP senior cadres. \textsuperscript{60}

6. The Opponents in the Triangle

By the time that Mao and the Comintern had achieved a consensus over the GMD, CCP-GMD conflicts in Shandong had escalated as the Japanese increased their efforts to pacify Shandong, focusing on the GMD-led guerrillas as a result of their post-Wuhan strategic adjustment to a situation of protracted conflict in continental China. A triangular struggle among the Japanese, the pro-GMD coalition and CCP emerged. On the Japanese side, as a part of their strategic adjustment, the EFNC developed a three-phase pacification campaign for the years of 1939 and 1940, prioritizing the destruction of large guerrilla forces, the restoration of administration to the county level, and increased raw material production. For that purpose, on November 19, 1938, it established the 12\textsuperscript{th} Army as responsible for Shandong, northern Jiangsu and Anhui, with headquarters in the Shandong provincial capital at Jinan. In a month, it had under its command another two divisions that were redeployed from the Wuhan area.\textsuperscript{61} In February it undertook its first major operation (Operation Tō) in coordination with the EFCC, seeking to control the Longhai Railway east of Xuzhou and to destroy the bases of the NRA troops in the LuSu

\textsuperscript{59} “中央关于反对投降危险的指示 (Central warning on the potential of surrender), June 7, 1939,” ZGZYWJXJ 12. 80-81.

\textsuperscript{60} “反对投降提纲 (An outline of countering surrender: Outline of Mao Zedong’s speech for his report to senior cadres at Yan’an on June 10 and 13, 1939),” ibid, 82-130.

\textsuperscript{61} The pacification operations in North China, 2.115.
theatre; the next operation in March aimed to check the LuSu theatre’s planned raids against the Jinpu Railway.  

The Commander-in-Chief of the LuSu theatre was Yu Xuezong, who commanded the 51st Corps, the 57th Corps, the 89th Corps and the New 4th Division. Their commanders were Yu Xuezong, Liao Chengliu, Wu Huawen and Han Deqin respectively. The first two were the remnants of the Northeastern Army of Manchuria, while Han Deqin was the deputy Commander-in-Chief and provincial governor of Jiangsu. The New 4th Division had been Han Fuju’s bodyguard. The 51st Corps and New 4th Division were deployed in the Yimeng mountains with the latter in the north, while Han Deqin’s 89th Corps was in northern Jiangsu. The 57th Corps was deployed in between. Shen Honglie, the provincial chairman of Shandong, was appointed as the commander of the provincial security forces and guerrillas. He had no authority over Yu Xuezhong, nor did Yu have authority over Shen. Although the GMD forces controlled the best locations at the centre of the Yimeng mountains and made Donglidian, a fortressed market town into the commanding centre of Shandong provincial government, this parallel command system led to rivalry between Shen and Yu, hindering their effectiveness in the triangular confrontation.

7. The Birth and Challenge of the Shandong Bureau

Li Yu arrived in Wuhan and met Zhou Enlai in June 1938. He then went back to Yan’an. In August 1938, he led about 160 CCP cadres and left Yan’an for Shandong. They arrived in Fan Zhuxian’s territory in western Shandong a month later, in September

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62. Ibid. 113-114.
Their arrival alleviated the shortage of leadership in Shandong. When the 115th Division left western Shanxi for Shandong in December, the central CCP leadership began reorganizing its Party network and military hierarchy, and reformed the Jiangsu-Shandong-Henan-Anhui Border Area Provincial Committee into the Shandong Bureau (Shandong Fenju or Shandong Sub-Bureau) in preparation for the arrival of the 115th Division and the establishment of the 8RA Shandong Column (Shendong zongdui or the Shandong Column of the Eighth Route Army) as the unified commanding agency for the CCP guerrillas across the province. The Shandong Bureau members were Guo Hongtao, Zhang Jingwu and Li Yu with Guo as the head. The Shandong Column had ten detachments and three regiments. Each detachment had about 24,500 men. Zhang Jingwu and Li Yu were appointed as Shandong Column’s commander and the commissar respectively.

Two months after the formation of the Shandong Column, the headquarters of the 115th Division and two regiments entered Juancheng (鄄城) in western Shandong via Hebei. Its divisional commander was Chen Guang and the divisional commissar was Luo Ronghuan. Although these experienced units soon proved themselves in a combat against local collaborators, their arrival complicated the CCP leadership under Guo Hongtao. As no one in the Shandong Bureau was battle-tested or displayed urgently-needed talent in military affairs, Mao and his colleagues hoped that the CCP in Shandong would be under good military and political leadership under Chen Guang and Luo Ronghuan. Chen was

63. 耿光连 (Geng Guanglian), 黎玉 (Li Yu) (Beijing: Zhonggong dangshi chubanshe, 2005): 73.

64. The Shandong CCP History, 268.
an impulsive, quick-tempered figure and had proved to be a good tactician during the Long March. Luo, later one of the ten marshals of the PRC, was a quiet man of thirty-seven.

Luo Ronghuan was born in Hunan Province in 1902. His father was a village shopkeeper and a part-time teacher in the local elementary school. Luo began his education at age of eight and was interested in reading and the outside world. In order to keep his son at home, his father arranged for Luo to marry a local girl when he was seventeen.65 After marrying, Luo went to the provincial capital to study and was later admitted to the University of Qingdao. After three years in Qingdao studying engineering, Luo went to Guangzhou in 1926 to prepare for the entry exams for Zhongshan University. Because he did not pass the German language exam, he was not admitted and returned home in November 1926. After close contact with CCP members in Guangzhou, Luo began to organize a peasant movement in his home village. His father was furious and made him leave.66 Luo left for Wuhan where he was recruited into the CCP network in May 1927 and assigned to peasant organization work in July 1927. From Wuhan he sent letters to his parents and wife, who had delivered a daughter, telling them that he would never see them again.67 Soon afterward, Luo participated in the Mao-led Autumn Harvest Uprising of September 1927.

67. Ibid, 27.
During subsequent years, Luo spent most of his time as a political officer in the CCP army. He was introverted, but impressed Mao so much that he was appointed as political commissar in the 115th Division in August 1937. Zhu De and Peng Dehuai, however, were not so impressed. After Lin Biao, the divisional commander, was wounded on May 2, 1938, Zhu and Peng informed Chiang Kaishek without consulting Mao that Chen Guang, a brigade commander, would serve as acting divisional commander. When Mao told Zhu and Peng about his preference for Luo through a telegram, it was too late. Luo did not become a military commander in Shandong for another five years. The delay complicated the issue of CCP leadership in the province.

Expecting that the arrival of the 115th Division would alter the CCP power structure in Shandong, leadership arrangements in that province received the attention of the CCP’s highest military and political leaders. About twenty days after the division’s arrival (on March 24, 1939), Zhu De, Peng Dehuai, Yang Shangkun and Zhu Rui send a telegram to the CCP Centre and Mao Zedong about the official position of the 8RA headquarters and North China Bureau on the CCP’s leadership in Shandong. They claimed that Chen could not become a leading military commander, neither could Luo be in politics. They suggested that Xu Xiangqian, the deputy commander of the 129th Division of the 8RA (and the commander of former Fourth Front of the CCP army), should be appointed as commander of all CCP forces in Shandong, southeast Hebei and northern Jiangsu, the proposed First Column of the 8RA. Xu was a former instructor in

the Huangpu Military Academy and a prominent military commander, but had worked under Zhang Guotao, Mao’s rival, for years and had been the commander of the destroyed Westward Expeditionary Force two years before. Therefore, the leaders suggested that a “strong commissar must be assigned” beside him, recommending Zhu Rui, the Chief of Organization and the Chief of Department of Military Affairs of the North China Bureau.\(^7\) Zhu was an impulsive and outgoing thirty-three year-old. He had joined the CCP in Guangzhou in 1924 and travelled to Moscow in 1926 where he attended an artillery college and graduated. He had held various positions for conducting sabotage and liaison network. Their suggestion was approved on May 5, 1939. Zhu, who was responsible for personnel affairs in the North China Bureau, handpicked over one hundred cadres of various fields ranging from military commanders, staff officers and propagandists. At the end of June, Xu and Zhu arrived in the central Yimeng mountains and joined the Shandong Bureau. On their way from the 8RA headquarters in Shanxi to the Yimeng mountains, they met Chen and Luo in western Shandong.

By the time of their arrival in the Yimeng mountains, the first Japanese large-scale pacification operation in Shandong, aimed against at Shen’s provincial administrative centre at Donglidian, was coming to an end after providing the CCP with opportunities for expanding. After the operation was over, the CCP reorganized its leadership in Shandong by establishing the Shandong Military and Political Committee (Shandong junzheng weiyuanhui) in early August. Its members were Zhu Rui, Xu Xiangqian, Guo

\(^7\) Luo, op.cit., 99.
Hongtao, Luo Ronghuan and Li Yu with Zhu as its head.\textsuperscript{71} The CCP’s first attempt to integrate its indigenous network and newcomers thus resulted in a system centred in the Shandong Military and Political Committee under Zhu’s leadership. Despite the establishment of the Shandong Military and Political Committee and the First Column of the 8RA, the integration remained superficial and would not be completed until the fall of 1942. During the process, Luo rather than Zhu turned out to be the expected centre leader. Zhu turned out to be unsuitable for the role, although his handpicked cadres sent to Shandong proved to be the mainstay of the CCP administration and enabled the CCP to survive.

\textsuperscript{71} Zongyuan Li and Jianying Zheng, op.cit., 65.
CHAPTER FIVE

Escalation

(May 1939-December 1941)

As shown in Table 1 in the previous chapter, the first raids carried out by the CCP’s newly formed anti-Japanese guerrilla units during the period from December 1937 to March 1938 were attacks on local government security forces rather than the Japanese. The small-scale civil war in Shandong intensified with the 115th Division’s arrival in March 1939. It reached a climax in the first half of 1941 when the CCP conducted a six-month campaign of retaliation following the N4A Incident in January that year and became dominant in the Jiaodong area. The CCP’s territorial expansion at the expense of the GMD intensified tensions within the CCP and brought about a severe setback to the Shandong Bureau during the Japanese Operation Rō of November-December 1941.

1. Before the 115th Division’s Arrival

GMD-CCP rivalry in Shandong had been escalating since the summer of 1938, especially in the Sixth Administrative District centred in Liaocheng, west of Jinan, under General Fan Zhuxian. Fan allowed the CCP to work in his administrative system and expand its network freely. Liaocheng was nicknamed “Little Yan’an.” The CCP considered Fan to be a model for cooperation between the CCP and GMD. Fan’s tolerant policy towards the CCP, however, was opposed by local officials and gentry. Two CCP district leaders were assassinated in October 1938. Fan tried to keep the coalition alive, but was killed in a Japanese raid in November. The CCP was then pushed out of the area. At that time, an 8RA detachment of two regular battalions from the 115th and 120th
Divisions were nearby in the border area between northern Shandong and Hebei (the Jilu area). Xiao Hua and Fu Zuting, the commanders of the detachment, decided to intervene. They successfully strengthened the CCP’s presence, which developed into the Jilu Border District, one of the CCP base areas north of the railway running from Jiaodong to Jinan (the Jiaoji Railway).

Helpful intervention by CCP forces when the Shandong CCP members found themselves in collision with local pro-GMD elites was rare, however. Because of a lack of guidance from Yan’an, the Shandong Political Committee did not dare to disobey Shen’s provincial government openly. It tried to sustain the anti-Japanese united front through accommodation rather than taking risking bold actions. When Shi Yousan, who commanded a regular NRA corps, was redeployed from the Yimeng mountains to southern Hebei and left that strategically important area vacant in January 1939, the neighbouring CCP forces did not move but let the 51st and 57th Corps occupied the area. The CCP then found they were in a position of guarding those NRA forces when the Japanese attacked. Mao was disappointed and instructed that the CCP’s help to its allies “must be conditional, limited and beneficiary.” ¹ In early March 1939, when the SuLuYuWan (Jiangsu-Shandong-Henan-Anhui) Provincial Committee (PC) was about to alter its accommodation policy, the 115th Division arrived. A week later, the recently established Shandong Bureau made the destruction of Qin Qirong one of its goals.²

¹ “中央关于帮助国民党及其军队工作原则的决定 (Central decision on the policy of assisting the GMD and its armies), January 26, 1939,” ZGZYWJXJ 12. 20.

² “苏鲁皖分局关于当前各项工作情况的报告 (Report on current operations by the Jiangsu-Shandong-Anhui Bureau), March 11, 1939,” SDGMLSDAZLXB 4.53-54.53-54.
less than a month, on March 30, the so-called Taihe Incident occurred, in which local GMD guerrillas under Wang Shangzhi’s command broke their promise and destroyed a passing column of students on their way from the Third Detachment in Qinghe to the CCP provincial school in the Yimeng Mountains. Wang was a dedicated GMD member and hostile to the CCP. When he found the CCP company escorting the group was one that had defected from his command, he ordered an ambush and captured 210 of them. The CCP later claimed that ten of the captured men were executed, including a cadre who had come to Shandong from Yan’an with Guo Hongtao a year earlier. 3

A few days later, Stalin accused the Western governments of compromising with the Axis. Mao’s response to this was to criticize the North China Bureau and the Shandong Bureau for making too many concessions in the work of the United Front in Shandong, such as closing the North Sea Administrative Office and the North Sea Bank. He ordered the Shandong Bureau to collect the records of Qin’s anti-CCP raids and to appoint commissioners (zhuanyuan) and county governors, especially in Jiaodong, to replace those who had fled during Japanese attacks. 4 The CCP in Shandong and elsewhere across the country used the Taihe Incident to launch a publicity campaign. They pointed to Qin Qirong, accusing him of plotting against the CCP. In Shandong, the Shandong Bureau gathered the First, Second and Fourth Detachments of the Shandong

3. 杨茂常 (Yang Maochang), 太河惨案 (The Taihe Incident) (Beijing: Zhonggong dangshi chubanshe, 2005).

Column and carried out an attack on Wang Shangzhi using the 115th Division west of the Jinpu Railway as backup. The raid was carried out successfully in early April, destroying most of Wang’s army: 500 of his men were captured and 300 killed or wounded.5

2. The escalation of triangular conflicts

At the time of the the Taihe Incident and the CCP’s retaliation, Mao had not yet made up his mind about the nation-wide escalation of conflict between the CCP and the GMD-led coalition. With confirmation from the Comintern that the escalation was a part of a global bourgeois appeasement policy and a prelude of GMD-Japanese compromise at the expense of the CCP, he decided to take a confrontational policy and outlined that policy in an instruction to the Shandong Bureau on May 19. Mao predicted that frictions between CCP and GMD hardliners would become more intense, warning that the CCP had to compete for good base areas and should never surrender those under its control. Unilateral concessions would not reduce the friction. Mao declared that the CCP would adopt a strategy of “offensive defence” in dealing with the frictions. As for the issue of administrative entities or regimes (zhengquan 政权), Mao instructed: “[The CCP] have to realize that neither 8RA troops nor local guerrillas can establish and consolidate their base areas without establishing administrative systems. Therefore, they should never give up their established governing bodies. Instead, they must try to expand their administrative power to new territory. On the issue of finance and economy, the sources of revenue already controlled should never be given up and may be defended with the

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5. Guo Hongtao, op.cit, 130.
justification that the 8RA and the guerrilla soldiers cannot fight without food.”6 In addition, Mao outlined his strategy for dealing with the Northeastern Army under Yu Xuezhong’s command: “[The CCP] policy towards the Northeastern Army is to influence its commanders, promoting their political awakening and progress while expanding the existing party networks, especially among officers. But our network must be small, efficient and covert.”7

The Shandong Bureau leadership under Zhu Rui implemented the confrontational policy at once when the Japanese launched their first pacifying campaign in the Yimeng mountains with Donglidian, seat of the provincial government, as the target. Launched on June 1, 1939, the campaign was part of a Japanese operation to control the Longhai Railway east of Xuzhou. The Japanese tried to block Yu Xuezhong’s entrance into southern Shandong. When this attempt failed, the Japanese tried to persuade Yu to defect, but were rejected.8 Yu’s large army, along with his provincial government seat about 30 kilometres to the northeast, then became the Japanese targets. Although there were CCP forces in the area at the time, they were too meagre to attract Japanese attention. The Nationalist government had an effective intelligence network in the urban areas and sent warnings of the approaching Japanese campaign. Although the GMD forces had prepared themselves and afterward resumed raids against railways, the scale,

7. Ibid.
intensity and duration of the Japanese assaults, along with the Japanese tactical skills caught them off balance and imposed heavy losses including the death of a division commander. On the first day of the campaign, the Japanese air force bombed Donglidian, inflicting about 1,000 casualties including many officials and staff of the provincial government and the theatre headquarters. Shen Honglie narrowly escaped death in the Japanese air bombardment on Donglidian and had to hide from the approaching Japanese ground force with a few aides. Although the Japanese operation did not damage the morale of the GMD forces and local residents whose trust in Shen increased, it took the provincial government three months to resume operations after relocating to Luxiadian, about 30 kilometres north of Donglidian. The Nationalist government then discovered that the CCP had occupied a significant part of the area and set up their own officials in the aftermath of the Japanese attacks.

Xu Xiangqian, commander of the recently-established First Column of the 8RA, the combination of the Shandong Column and the 115th Division, acknowledged that during the Japanese large-scale pacification campaign during July and August 1939, Nationalist administration below the provincial level collapsed. Exploiting this opportunity, the CCP established its own authorities in the counties of Laiwu (莱芜), Xingtai (新泰), Mengyin (蒙阴), Yishui (沂水), Linqu (临朐), Dongping (东平), Pingyin

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9. MGSDTZ, 5.3004.

10. Ibid. 5.2963-2964.
During the enemy’s large-scale pacification campaign in central Shandong, the GMD authorities in a remarkably large area collapsed. The county-level mandarins ran away without a trace and left their territories as blank areas. Excellent! We exploited the opportunity, promptly establishing our authorities throughout that large area….When those GMD members at the county, district and township level slunk back, they found that no one paid any attention to them and thus had to run away with their tails between their legs. It was true that the establishment of those administrations was rushed and rudimentary as they were created by force of circumstances. Certainly, there was a great deal of post-establishment adjustment and consolidation to be done.\textsuperscript{12}

Xu’s “consolidation” refers to struggles against the provincial government’s efforts to restore its authority. During the period from June to December 1939, the Shandong Bureau spent more effort fighting against the pro-GMD forces than against the Japanese. More than ninety skirmishes occurred between the Shandong Bureau and pro-GMD forces in Shandong. The Shandong Bureau suffered over 1,350 deaths and over 1,000 men were captured. During the same period, the Shandong Bureau fought against the Japanese and their collaborators more than two hundred times, suffering about 1,200 casualties.\textsuperscript{13} To reinforce the CCP military power east of the Jinpu Railway, Guo Hongtao, Zhang Jinwu and Li Yu together asked Zhu De, Peng Dehuai and Mao Zedong, as early as June 1, 1939, to rapidly redeploy the regular 8RA troops from the 115\textsuperscript{th} and

\textsuperscript{11} Xu Xiangqian, “A year in Shandong,” \textit{SDZD} 1. 6.

\textsuperscript{12} Xu, \textit{A Historical Review}, 3.643.

\textsuperscript{13} “A year in Shandong,” \textit{SDZD} 1.10.
Xiao Hua’s detachment to the Yimeng mountains.\textsuperscript{14} After a successful ambush in which they destroyed a convoy led by a Japanese royal family member in early August, the divisional headquarters and a regiment infiltrated across the Jinpu Railway and arrived in the Yimeng mountains in early September.\textsuperscript{15} In mid-November, they occupied Matouzheng, a commercial centre on the bank of Yi River, expelled the local administrator appointed by the Nationalist government and confiscated weapons and other materials stored there, along with 200,000 \textit{yuan} in cash.\textsuperscript{16}

\textbf{3. The Threat of a Nationalist-Japanese Accord}

The escalation of conflict between the CCP and pro-GMD forces in Shandong was one component of the nation-wide escalation of GMD-CCP frictions after the GMD-CCP negotiations became deadlocked at the time of the GMD’s Fifth Plenum at the end of February 1939. The deadlock coincided with Stalin’s suspicion about the existence of an international anti-Communist conspiracy. During the summer of 1939, the situation became more volatile after the Soviet-Nazi Pact was signed on 23 August and World War II began in Europe on September 1, 1939. Because the British government, the principal supporter of the Nationalist Government, would have to focus on the war in Europe, Mao suspected that Chiang would soon come to an agreement with the Japanese. He claimed that the GMD would inevitably capitulate to the Japanese because it was a party representing the interests of the classes of the big landowners (\textit{da dizhu},大地主)

\textsuperscript{14} \textit{The Annals of Luo Ronghuan}, 105.

\textsuperscript{15} Ibid, 106-107.

and bourgeoisie (da zichan jieji, 大资产阶级) whose nature was “backward and accommodating.”

The CCP leaders then concluded that they were the principal obstacle to a GMD-Japanese compromise and that Chiang would have to remove this obstacle. Mao concluded pessimistically that the CCP would have no choice but try to prepare for the worst by occupying as much favourable territory as possible. To Mao, the most valuable area was the corridor between the remote and barren area of northern Shaanxi, where the CCP centre’s base was located, and central China via southern Shanxi, southern Hebei and western Shandong. It was like a windpipe for the CCP, without which northern Shaanxi was a trap, as the CCP discovered in 1936. In the fall of 1939, the CCP was far from controlling this corridor despite their infiltration. Because Mao believed that Chiang would soon reach an agreement with the Japanese, to control this corridor became urgent. An aggressive and expansionist policy resulted in rapidly escalating conflicts between the CCP and pro-GMD forces in the corridor area. When Yan Xishan, Provincial Chairman of Shanxi and Commander-in-Chief of the Second Theatre of War, tried to purge the CCP from his army in western Shanxi in November, a regional civil

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17. “中央关于目前战略形势的指示 (Central directive on the current strategic situation), July 23, 1939,” ZGZYWJXJ 12.145-146; “中央关于反对东方慕尼黑阴谋的指示 (Central directive on opposing Munich-style conspiracies in the Far East), July 29, 1939,” ibid, 150-151; “我们对于过去参政会工作和目前时局的意见 (Our opinions on the work of the previous Senate and the current situation), September 8, 1939,” ibid, 159-169; “论第二次帝国主义战争 (On the second imperialist war), September 14, 1939,” MZDJSWJ 2.465-479.

18. “中央关于对待局部武装冲突的指示 (1939年8月19日),” ZGZYWJXJ 12. 154;“中央对冀察晋工作的指示(1939年9月27日),” ibid, 176-177;“中央对时局的指示(1939年12月23日),” ibid, 221-222.
war broke out. It rapidly escalated as both sides committed their regular forces and did not stop until the CCP won this local struggle in early March 1940.

4. **Mao’s Criticism and Pressure against Shandong Communists**

Soon after the conflict in Shanxi began, Mao sent a strong message to the Shandong Bureau on December 6, 1939, criticizing them for missing opportunities to seize administrative authority (**zheng qu zhengquan**), for being indecisive in the face of pro-GMD forces, for failing to mobilize the masses, and for not consolidating their scattered base areas by piecing them together.\(^{19}\) He warned of increased frictions and the likelihood of NRA reinforcements. Mao then outlined Shandong Bureau’s assignment for the year 1940: 1) They should do their best to expand their administrative authority, which would be crucial to success in Jiangsu and Shandong; 2) Rapidly expand the Shandong Column and the 115\(^{th}\) Division to 200,000 to 250,000 men, even through recruitment of “barehanded soldiers” (**tu shou bin**, 徒手兵);\(^{20}\) 3) Make special efforts to expand into the bordering area between Shandong, Henan, Anhui and Jiangsu with the goal of building up an additional army of 150,000 men;\(^{21}\) 4) Continue the campaign of isolating Shen Honglie, striking against Qin Qirong, and befriending Yu Xuezong without making significant concessions.\(^{22}\) On January 28, 1940, Mao assigned the

\(^{19}\) “中央关于山东及苏鲁战区工作的指示 (Central directive on work in the LuSu theatre), December 6, 1939,” ZGZYWXJ. 12. 207.

\(^{20}\) Ibid, 209.

\(^{21}\) Ibid. 211.

\(^{22}\) Ibid. 208.
Shandong Bureau and the 115th Division a quota of increasing their forces by 150,000 armed men by the end of the year. 23

Mao’s urgent push for a rapid military build-up and expansion in Shandong and neighbouring provinces to the south and west resulted from his plans for a campaign in central China. He hoped that an intensive campaign in central China could divert Chiang Kaishek and public attention away from Shanxi, and improve the CCP’s position in the GMD-CCP military negotiations. In addition, Mao had felt increasing pressure from Japanese pacification operations in the semi-arid plains and barren mountains of northern China. 24 As early as February 1938, he realized that the CCP would have to fight its way out of North China before being strangled. 25 The 115th Division was the most powerful striking force of the CCP close to central China and located in the forward position in the Yimeng mountains overlooking the Longhai Railway and central China, therefore, Shandong, especially the Yimeng mountain area, was a natural base for military operations in central China. As the regions with military value were not yet under CCP control, especially those on the southern slope facing Longhai Railway, the CCP had to fight for this area. In 1940, the southern slope of the Yimeng mountains thus became the principal battlefield of Shandong.


24. “各方动员战胜敌人对晋察冀边区的围攻 (Fully mobilize to counter the enemy’s assaults in the Jin-Cha-Ji border area), October 2, 1938,” MZDJSWJ 2.369-370.

25. See the preceding chapter, 55-56, Note 154
The Yimeng mountains were known for their isolation, poverty and bandits. The town of Baodugu (抱犊崮) was at the centre of the area, named after a local legend in which a farmer found fertile land on a hilltop (gu崮). Because the paths upward were too steep for an ox to climb, the farmer carried (bao, 抱) a calf (du, 犊) in his arms on the hilltop and waited for it to grow.\textsuperscript{26} Baodugu was the hometown of Liu Guitang (刘桂堂), a legendary bandit who raided throughout northern China and survived numerous round-ups by the governmental troops.\textsuperscript{27} Its difficult accesses, accompanying poverty and proximity to railways turned it into a good sanctuary for bandits who preyed on railway traffic. It was here that a group of local bandits hid out with 51 hostages, including 26 foreign citizens, kidnapped from a passenger train in the Lincheng Incident of May 1923.\textsuperscript{28}

In defence against banditry, local society was protected by powerful families who built fortifications and maintained private security forces. Those powerful families, also \textit{de facto} bandits, stood in the way of the 115\textsuperscript{th} Division’s way deployment southwards. In the campaign to gain a footing in this strategic region, Luo Ronghuan, its commissar, showed diplomatic skills. He approached a few prominent semi-bandit families who had displayed patriotism, seeking to persuade them to join the CCP-led anti-Japanese United Front. Luo paid special attention to Sun Helin (孙鹤龄), a strongman whose fortified

\textsuperscript{26} 李维明, 85

\textsuperscript{27} Ibid, 5.274-279, 7.333-338; 郭易堂, “漫谈刘桂堂其人其事,” \textit{SDWX} 17, no. 3 (1993): 74-75

\textsuperscript{28} \textit{SDZYLSS} 5.239-248
village controlled Baiyan (白彦), which was a strategic intersection between Tengxian (滕县), Feixian (费县), Yixian (峄县) and Linyi (临沂). But Sun refused, looking down upon the poorly-equipped and ragged CCP soldiers. To counter the CCP presence, Sun promptly established an alliance with neighbouring strongmen and with Japanese forces occupying nearby urban areas. Instead of mounting direct assaults against Sun, Luo approached Huo Shouyi (霍守义), commander of the 114th Division of the Northeastern Army, after having obtained information about the latter’s personality and character through the underground CCP and sympathizers.  

Huo and his division, who had good contacts with the CCP in northern Shaanxi during 1935-1936, had been developed there from northern Anhui since the beginning of the year 1939. Huo was angry with Sun, who had detained a few of his wounded soldiers and had them killed. A coalition against Sun was formed. On the eve of the Chinese New Year Day on February 7, 1940, Huo stormed Zhengcheng (郑城) where Sun and his son were celebrating, seized the two and had them executed immediately.  

Nine days later, the 686th Regiment of the 115th Division raided and stormed Baiyan after covering over 60 kilometres in heavy snow within two days. Immediately after occupying Baiyan, they distributed Sun’s stores of food to the villagers and declared the establishment of a new government. They then destroyed the fortress, filled in the wells inside and evacuated all the residents to nearby settlements. They left Baiyan ahead of the arrival of the Japanese forces and then ambushed the Japanese troops. Although the Japanese troops together

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with the collaborationist troops accompanying them made their way to Baiyan, they
found it hard to stay: the CCP’s harassments and raids were constant and no labour or
water could be found to rebuild the destroyed fortress. In late March, the Japanese gave
up and left the area. The 115th Division’s success in controlling Baiyan altered the
situation in southern Shandong. It had not only establishing a footing in the region and
direct links with the Shandong Column in the north, but had also open the way towards
Longhai Railway in the south and a linkage with the N4A further to the south.

The improved situation and accompanying territorial expansion after the Japanese
pacification campaign in the Yimeng mountains in June 1939 paved the way for the
Shandong Bureau to establish a quasi-independent provincial government, parallel to the
Shandong provincial government based in Luxia under Shen Honglie’s leadership. By
the summer of 1940, the CCP forces across the province had created administrative
regimes (zhengquan) in their various base areas. During the uncertain period after the
outbreak of World War II in Europe, especially after the Nazi military triumph in France
in 1940, the CCP-led congresses of various social backgrounds provided certain
legitimacy. If the GMD concluded a peace with the Japanese, it could counter the GMD-
led Nationalist Congress. In 1940, Mao urged the leaders in the CCP base areas to head
congresses termed “3-3 systems” san-san zhi (三三制), in which one-third of the
members would be CCP members and their allies from the working classes; one-third
would be left-leaning professionals and intellectuals, and one-third entrepreneurs and
gentry who accepted Chinese Communism.
In July and August 1940, the Shandong Bureau held a “unifying congress” (lianhe
dahui, 联合大会) at its base at Qingtuosi (青驼寺), calling together various political and
patriotic organizations such as the province-wide congress of members elected to the
National Congress during the second round (复选) . The unifying congress resulted in
two institutions: the Provisional Provincial Senate of Shandong (山东省临时参议会)
and a committee for the promotion of wartime work (Shandong zhanshi gongzuotuixing
weiyuanhui). The CCP selected Fan Mingshu (范明枢, 1866-1947), a Japanese-educated
educator and dedicated independent anti-Japanese activist, as the senate’s leader.31 The
Wartime Work Promotion Committee became the CCP’s de facto provincial government
and was the direct predecessor of the current provincial government of Shandong. Li Yu
was elected as chairman of the Wartime Work Promotion Committee. The Shandong
Bureau then established administrative agencies across the province. During what CCP
historians have called the “golden age of the expansion of Shandong’s anti-Japanese
democratic authorities,” the Shandong Bureau established seventy-nine county
governments in the eighty-nine counties of the province and thus had authority over
nineteen million people, or half the provincial population.32 But as Xu Xiangqian
acknowledged near the end of his life, those authorities were rushed products of a chaotic
situation. During the fall of 1941, most of them collapsed in the face of a large-scale
Japanese pacification operation.

31 See: 王玉林、张鹏,“泰山青松范明枢”(北京：中共党史出版社 2005年)

32 SDZYLSS 6.207
To send a strong message to Shen Honglie, Zhu Rui, the Secretary of the Shandong Bureau, called up a brigade of the Shandong Column and raided Lucun (鲁村) where the Nationalist Shandong provincial government was temporarily based. In order to ensure the victory, Zhu requested two battalions from the 115th Division and camouflaged them as a part of the Shandong Column. After occupying Lucun, the CCP first repulsed counterattacks by Shen and did not leave until they received orders from Yan’an, inflicting heavy casualties upon Shen’s troops. As a reminder to Shen, CCP forces remained in the hills nearby. 33

5. The Battle of Huangqiao, Miscalculation and the New Fourth Army Incident

In contrast to Chiang Kaishek’s Sichuan-centred strategy of attrition, Shandong, particularly the southern slopes of the Yimeng mountains, was essential to Mao’s strategy of expansion towards central China. Aiming to fight a way out of northern Shaanxi to the Yangzi valley, Mao’s attention was switched eastwards toward Shandong and Yangzi valley. The shift of Mao’s strategic focus from Shanxi to central China also related to his campaign to distract Chiang and public’s attention from the CCP’s offensives against Yan Xishan. Mao launched concerted offensives into central China. In addition to the purpose of distracting attention from Shanxi, Mao also intended to improve the CCP’s position if the GMD reached an agreement with the Japanese or decided to reach an agreement with the CCP.34 The international situation, however, was so bleak by June 1940 that Mao and


34."在主要地区求得对内和平巩固已得阵地 (Pursue domestic peace while consolidating recently conquered territories.), March 5, 1940,”MZDJSWJ 2.517-519; “在华北军事上转为守势造成政治上有理
his colleagues considered that the Nationalist government could not hold on for long against Japan. Their suspicion increased after July 2, 1940, the day that the GMD ordered the 8RA and N4A to move into the area north of the Yellow River.35

Mao and his colleagues regarded this order as part of a plot to place the CCP forces between a Japanese hammer and a GMD anvil. They concluded that a GMD-Japanese deal was imminent. Mao responded by ordering the CCP forces to attack the NRA forces in northern Jiangsu. The 8RA troops coming down from Shandong and the N4A troops arriving from southern Jiangsu across the Yangzi River launched a concerted offensive to control northern Jiangsu by destroying the forces under the command of Han Deqin, the provincial chairman of Jiangsu and deputy commander-in-chief of the NRA’s LuSu War Theatre. Focused on the strategic town north of Jiangying of Huangqiao, the campaign is termed the Battle of Huangqiao in PRC sources. The campaign lasted for almost four months, ending with a CCP victory in late October 1940. The 8RA and N4A met north of Huangqiao and established a CCP base area in northern Jiangsu covering the large area between the Jinpu Railway, the Longhai Railway, the coast and the Yangzi River. The CCP thus succeeded in linking together its separate base areas scattered from northern Shaanxi to the Yangzi valley for the first time. This significant military success, however, was politically expensive. The CCP had resumed civil war and improved its position at the expense of the NRA forces under the leadership of Yan Xishan and Han Deqin. In order to reduce the domestic outcry against the CCP forces’ focus on fighting

有利地位 (Improve our political position by adopting a defensive strategy in North China), March 16, 1940,” ibid, 523-524.

35. Huang, op.cit. 2.1366-1369.
against the NRA rather than the Japanese, in early April 1940 Mao ordered Peng Dehuai to plan a series of raids against the Japanese-controlled railway system in Shanxi. When the CCP forces were winning the Battle of Huangqiao, the campaign of railway raids, the so-called Hundred Regiments Campaign, began on August 8, 1940.36

The two separate campaigns against GMD forces in Jiangsu and against the Japanese railway system in Shanxi in the fall of 1940 had repercussions in Shandong a few months afterwards. The first was the N4A Incident of January 1941. The second was increased Japanese efforts against the CCP-led guerrilla movement in northern China after the Hundred Regiments Campaign. The Japanese discovered to their surprise that the CCP forces had become a serious threat.

The attack on CCP forces in the N4A Incident resulted from the destruction of Han Deqin’s forces at Huangqiao. Chiang’s first response was to suspend the Nationalist Government’s funding to the CCP. Then, in late October, he ordered all N4A troops south of the Yangzi River, most of whom, about 9,000 men, were in southern Anhui together with the N4A headquarters, to move north of the Yangzi along assigned routes within a month.

The N4A was formed by the CCP soldiers deliberately left behind by their comrades who fled out of Jiangxi in the fall of 1934. They were those whom the CCP leaders then did not want or regarded as expendable. Although these soldiers’ survival through an extremely harsh time proved their value to the CCP, they were fragile and too

distant from the rest of the CCP forces. Moreover, the GMD was dominant in southern China, unlike situation in North China. The prospect for the N4A was bleak if it remained south of the Yangzi River. Therefore, during the Sixth Plenum during September and October 1938, the CCP leadership presented their preference to Xiang Ying, N4A’s commissar and its real power-holder: The N4A’s future lay in the north, and it should move northwards. 37 When Mao decided to launch the campaign for central China in January 1940, Zhou Enlai met Xiang Ying and informed him of the CCP centre’s decision to transfer the N4A north of the Yangzi River. 38 During the Battle of Huangqiao, Mao urged Xiang Ying to move northwards and cross the Yangzi River as soon as possible. 39

When Chiang ordered the N4A to leave, however, Mao ordered Xiang to hang on for another month. 40 Mao’s decision came from his belief in early December 1940 that


38. Ibid; “皖南部队须力争江北 (The troops in southern Anhui province must do their best to move north of the Yangzi River), January 29, 1940,” MZDJSWJ 2.512; “新四军能否应付国民党的袭击 (Is the New Fourth Army able to withstand Nationalist raids?)” April 3, 1940,” ibid, 540.


40. Yang, op.cit, 105.
Chiang Kaishek would make a deal with the Japanese without the CCP.\textsuperscript{41} Mao’s views on Chiang’s possible compromise with Japan were shifting as Britain, the United States and Japan were drawn towards a Pacific war after Japan signed a Tripartite Pact with Germany and Italy in late September 1940, and sponsored a collaborationist government in Nanjing, formed in March 1940 and led by Wang Jingwei. The United States and Britain responded by granting China loans and imposing economic sanctions against Japan.\textsuperscript{42} A formal anti-Japanese alliance with Britain and the United States must be around the corner. It was a goal toward which Chiang had been aiming for more than three years. Therefore, the possible GMD-Japanese accommodation so feared by the CCP was no longer a threat. Nonetheless, the CCP’s strategic offensives toward central China led to their isolation and made the CCP vulnerable to retaliation from the overwhelmingly superior GMD forces.

As a result, although a GMD-Japanese compromise was obviously out of the question, Mao became increasingly desperate.\textsuperscript{43} Although the Battle of Huangqiao was a CCP’s military victory, it led to anti-CCP outcries within the Nationalist government, especially from the Guangxi clique, which made GMD’s retaliation seemingly inevitable.

\textsuperscript{41} “中宣部政治情报第六号：英美拖中国加入其战争集团 (Central Propaganda Department, political intelligence report No. 6: Britain and the United States are dragging China into their bloc of war), October 20, 1940”, ZGZYWJXJ 12.521-523; “毛泽东关于不反对蒋加入英美集团及制止投降分裂致周恩来 (Mao Zedong’s letter to Zhou Enlai on not disagreeing with Chiang Kaishek over joining the war bloc of Britain and the United States and on preventing surrender and division), November 6, 1940,”ibid, 551.

\textsuperscript{42} Anthony Best, Britain, Japan and Pearl Harbor: Avoiding War in East Asia, 1936-41 (London: Routledge, 1995), 128-131; 137-138.

\textsuperscript{43} About Mao’s desperation, see Yang, op.cit, 98-102.
Mao felt cornered and preferred a confrontation with the GMD. A decision to confront Chiang’s forces, however, would dismantle the working agreement between the CCP and the GMD that had been established with the Xi’an Incident. Therefore, Mao had to achieve a consensus in the CCP leadership and gain the Comintern’s support. His colleagues including Zhou Enlai were hesitant, and Moscow did not agree with Mao. Dimitrov reminded Mao of the essential nature of the GMD-CCP United Front repeatedly in his telegrams to Mao. The Comintern’s opposition to Mao’s preference for a confrontational policy, together with the increased assistance from Britain, the United States and Soviet Union to Chiang Kaishek, led Mao to the conclusion that Chiang was bluffing and dared not do anything serious that could damage his relations with the United States, Britain and the Soviet Union which was Chiang’s only source of weapons then. Although the redeployment of the N4A troops in southern Anhui matched the CCP’s interests, Mao did not want to step back under Chiang’s military threat and decided to save face by delaying the redeployment. On December 21, 1940, Mao told Zhu De and Peng Dehuai that he wanted the N4A “to stay [in southern Anhui] for another month or two.”

Chiang’s deadline for the N4A to arrive on the northern bank of Yangzi was December 31, 1940, but it did not move until 4 January 1941. Instead of going directly northwards along Chiang’s assigned route, Xiang Ying, the N4A’s power holder, led his troops southward, suspecting that the NRA had set up traps on the northward routes. Three days later, the N4A was condemned as a rebel force, surrounded, and placed under determined attack.

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44. Ibid, 102.
45. Ibid, 98-102, 105.
46. Ibid, 104-105.
While the N4A soldiers were fighting for survival, Liu Shaoqi, secretary of the CCP Bureau for Central China, who was responsible for the N4A’s Party affairs, sent a telegram to Mao on January 12, 1941. Liu proposed that the 8RA troops in Shandong should surround Shen Honglie, while the N4A forces north of Yangzi River would surround Han Deqin and his remnant forces, in exchange for the release of Xiang Ying and his N4A headquarters.47 Mao agreed and ordered the troops concerned to be ready within ten days to attack Shen and Han so as to “completely solve the problem of central China if those N4A troops in southern Anhui are destroyed”. 48 But before the order was carried out, however, the enveloped N4A troops were destroyed. On January 17, 1941, Chiang Kaishek declared the disbandment of the N4A.

6. Mao’s new idea and CCP’s military revenges in Shandong

Mao was furious and wished to repudiate the agreement with the GMD and move to occupy all of Shaanxi province. Because it would be impossible to hold Shaanxi without controlling Sichuan, Mao envisioned striking into Sichuan, headquarters of the Nationalist war effort.49 Such a large-scale campaign was beyond the CCP’s capacity and could not be carried out without the Soviet Union’s support. The Soviet Union, however,


48. “包围韩德勤沈鸿烈以答复蒋介石对皖南新四军之围歼计划 (Respond to Chiang Kaishek’s plan to destroy the N4A by encircling Han Deqin and Shen Honglie), January 13, 1941,” MZDJSWJ 2.610; “在政治上军事上准备全面大反攻救援新四军 (Prepare an all-out political and military campaign to rescue the N4A), January 14, 1941,” ibid, 612.

49. Yang, op.cit, 108; Yuan, op.cit., 2.603.
did not approve. Dimitrov repeatedly reminded Mao of Chiang’s essential role in the war against Japan. At that movement, the Japanese launched a large-scale operation against the NRA troops in southern Shanxi and neighbouring Henan. Faced with Japanese military pressure, along with domestic and international criticism, Chiang sought reconciliation with the CCP and requested assistance from the 8RA troops from those areas. Lacking resources and political support, Mao decided to take advantage of a nationwide wave sympathy for the CCP following the N4A Incident and launched a series of limited offensives in Shandong. Shandong was one of the three “basic strategic areas” (jiben zhanlue diqu, 基本战略地区) that Mao envisioned after the N4A Incident. The others were the inter-provincial border areas straddling Hubei, Henan and Shaanxi, and southern Jiangsu and southern Anhui. In a telegram to Liu Shaoqi and Peng Dehuai, Mao explained:

“[The LuSu theatre] is [the CCP’s] basic base area in central China, where we made the biggest commitment and have our most powerful force. It is also where most anti-CCP forces are stationed. [You] must prepare to destroy those forces within a year. Moreover, you should regard the area as a powerhouse for sending armies westwards, and southwards, as Han Gaozu [reigned 206-195 BC] did in Guanzhong (the plain around Xi’an).”

Mao’s mention of the esteemed Emperor Gaozhu of the Han dynasty reflected his improved recognition of Shandong’s strategic value. The Han emperor had selected the Xi’an plain as his base area first. He then controlled Shandong and took it as the base for

50. Yang, ibid, 109; Yuan, ibid, 2.605

51. “目前华中指导中心应着重于三个基本战略区(1941年2月1日),”MZZJJSWJ 2. 621-624; ZRJZS 2.270.

52. MZZJJSWJ 2. 623.
a serious of victorious and decisive battles against his powerful opponents seated around Xuzhou. Although he was determined to control the province, Mao was not over-reliant on public sympathy following the N4A Incident. It would be premature to attack Shen Honglie, Qin Qirong and the Northeastern Army, who controlled the best parts of the Yimeng mountains in central Shandong. Instead, Mao targeted the pro-GMD local strongmen in Huxi, west of the Weishan Lake, and in Jiaodong. Huxi was part of a corridor between the N4A and the 8RA, Jiaodong was the most economically productive part of Shandong.

As the 8RA troops in Shandong had been preparing to move southwards to help the N4A according to Mao’s instruction, the 115th Division was mobilized as early as January 9, 1941 when the N4A headquarters in Anhui was under attack and intensified its operations against pro-GMD forces in Huxi and Hudong (east of Weishan Lake) by the end of the month.\(^{53}\) This turned out to be the beginning of a so-called “Anti-surrender campaign” which was six months long in the PRC accounts. The campaign proceeded from west to east. After establishing contact with their comrades in Huxi in the west, a brigade of the 115th Division together with another from the Shandong Column attacked from the indefensible Matou Plain, towards the undulating hills along the coast in the east and southeast, the area that the CCP called Binhai (滨海, seacoast). They destroyed the garrisons of local pro-GMD and collaborators’ troops, and occupied a coastal area stretching about 25 kilometres from Zhewang (柘汪) to Xiakou (下口) in Jiangsu. The control of this part of the coast proved to be one of the most significant victories of the

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\(^{53}\) *Annals of Luo Ronghuan*, 166.
CCP in Shandong. In striking contrast to the poverty of the Yimeng mountains, the coast was productive in fish and salt. In addition, the CCP established maritime communications with Jiaodong and Yangzi valley and therefore “laid down the foundation for developing the salt-producing industry and maritime trade,” industries that would enable the CCP to earn revenues at the expense of their GMD rivals in Shandong. The Shandong Bureau and the 115th Division headquarters immediately moved in from the Yimeng mountains. Although its leaders were soon ordered back, most of the CCP’s administrative offices remained in the Binhai area until 1946.

In contrast to its easy victory in Binhai, the CCP’s victory in the wealthier area of Jiaodong was hard-won. Unlike their Shandong Column counterparts elsewhere, who had been receiving the 115th Division’s various forms of help, the 8RA troops in Jiaodong had no contact with the division and remained purely indigenous units until the spring of 1941. In their competition against an anti-Communist coalition led by Zhou Baoyuan (赵保原), they were in a clearly disadvantageous situation and likely to be driven out. In order to alter the unfavourable situation, the Shandong Bureau and the Shandong Column decided to send Xu Shiyou (许世友), a brigade commander in Qinghe, to Jiaodong together with a regiment. The decision would turn out to be one of the most important decisions for the Communist victory in Shandong.

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54. Ibid. 239.
55. Ibid.
Xu Shiyou was a semi-literate and legendary Communist soldier. He became a martial-arts monk because of poverty, and then joined the CCP force commanded by Xu Xiangqian during 1920s. His bravery and skills in martial arts brought him rapid promotion and the appointment as Cavalry Commander of the Fourth Front of the Red Army. But his troop was destroyed during the Expedition Westward. Xu survived and made his way to Yan’an. He attributed the disaster to Mao and tried to flee when Mao’s followers subjected him to criticism, associating him with Zhang Guotao, Mao’s rival and the leader of the Fourth Front of the CCP army who made the Expedition Westward. Xue was captured and tightly bound. Mao happened to see Xu being taken away and asked why. Mao then untied Xu with his own hands, and patiently explained the situation to him.\(^{56}\) Xu was overwhelmed and was thereafter an ardent Maoist until passing away in 1985, six years after commanding the invasion into Vietnam in 1979.

Although Xu is not regarded as a good tactician, his personal bravery and toughness impressed his troop so much that he became symbolic of the current 27th Group Army. That army originated in Jiaodong with Xu as the first commander and would meet the US 1st Marine in fierce fights at the Chosin Reservoir in Korea in November 1950.\(^{57}\) It seems that valour rather than tactics was more valuable in the chaotic situation in

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\(^{56}\) Xu Shiyou 许世友回忆录 (The Memoirs of Xu Shiyou) (Beijing: Jiefangjun chubanshe, 1986): 18-19; see also Jin Ye 金冶, 许世友传 (Xu Shiyou’s Biography) (Shanghai: Shanghai renming chubanshe, 2001); Chen Tingyi 陈廷一, 许世友传奇 (The Legendary Xue Shiyou), 2vols, (Guangzhou: Huacheng chubanshe, 2000); Sun Xiao and Song Mei 孙晓, 宋梅, 一代名将许世友 (Xu Shiyou) (Zhengzhou: Huanghe chubanshe, 2004), 2004.

\(^{57}\) My late father-in-law, a senior officer of the 27th GA, told me many times that Xu and the Nie Fengzhi were the two founders of the army. Xu’s contribution was in toughness and bravery, while Nie’s in tactics.
Jiaodong where over twenty strongmen who maintained private armies formed an anti-Communist coalition with a total force of about 50,000 men. The coalition controlled favourable positions in Yashan (牙山), a range of hills in the centre of the peninsula that separated the CCP units from one another. Xu led his regiment from Qinghe into Jiaodong through the so-called Bohai Corridor, the only linkage between Jiaodong and the rest of Shandong north of the Jiaoji Railway. The corridor was about 60 kilometres long and 5 kilometres wide along the coast, with the estuary of Jiaolai River as the eastern end and the Yangzi at the west. It consisted of a series of coastal ferries and underground stops in villages that went through the Japanese overland defence line. Xu and his regiment moved into Jiaodong unnoticed and launched a surprise attack at Yashan. Cai Jinkang (蔡晋康), the defender, was the Commissioner and Security Force Commander of the 9th Administrative District. Cai did not know military affairs and was taken by surprise. In three days, his defences collapsed. Cai was wounded and fled, leaving behind his valuable arsenal and stored supplies. After meeting with Jiaodong’s indigenous CCP in the east, Xu led the CCP forces southwards to face Zhao Baoyuan.

Zhao was a regiment commander of the Northeastern Army and had been trapped in Manchuria during the Japanese seizure of the territory in September 1931. So he joined the army formed by the Japanese-sponsored state of Manchukuo and was appointed a brigade commander. But he was a Chinese patriot and looked for opportunities to serve


59. Xu, op.cit, 346-353.
China. After making many appeals to his superiors, he was posted to Shandong with his
brigade to assist the Japanese during the Battle of Tai’erzhuang in the spring of 1938.
There, he met the 51st Corps, his former comrades. Zhao ordered his soldiers to avoid
fighting. After the battle, he was posted in Jiaoxian, west of Qingdao. There, he led his
brigade of 3,000 men in a mutiny and joined an anti-Japanese coalition in November
1938. Because Zhao’s force was the most powerful part of the anti-Japanese coalition in the
region, Chiang Kaishek appointed him as the acting governor of Laiyang (莱阳)
County in February 1939, and as Commissioner and Commander of the Security Force of
the 13th Administrative District of Shandong Province in April the same year. Zhao
proved to be a good administrator and turned his district into a solid base around Wandi
(玩底, the current万第). In the spring of 1939, Laiyang was the only walled-county town
unoccupied by the Japanese. Zhao displayed diplomatic skills, making contact with
neighbouring administrators, strongmen and CCP leaders, and in April 1939 he
established the Ludong kangri lianjun (鲁东抗日联军, Anti-Japanese Joint Force of
Eastern Shandong). 60 Under Zhao’s leadership, the joint force defeated a force led by
Zhang Zongyuan (张宗援), a Chinese-speaking Japanese mercenary and self-proclaimed
sworn brother of Zhang Zongsun, a notorious warlord in Shandong, and also defeated a
bandit force led by Liu Guitang (刘桂堂). 61 But these victories marked the end of Zhao’s
coalition. In order to reorganize the pro-GMD forces in Jiaodong, in March 1940 Chiang

60. 贾若愚 (Jia Ruoyu), 胶东军事志 (Jiaodong military annals) (Beijing: Junshi kexue chubanshe, 1990):
148-149.

61. 王明长 (Wang Changming), “赵保原将军传 (General Zhao Baoyuan’s Biography),” Shandong
memorabilia 7.4: 9-11.
Kaishek appointed Zhao Guerrilla Commander of Jiaodong in the LuSu War Theatre. A month later, Zhao was appointed commander of the Temporary 12th Division of the NRA.62

The Shandong Communists had contacted Zhao and joined his anti-Japanese coalition forces in April 1939, but left the coalition in June when Zhao began taking action to stop CCP efforts to establish separate supply and administrative systems.63 Following in Zhao’s footsteps, other administrators and strongmen also began to block the CCP’s expansion. Their efforts soon escalated into a war within a war as the CCP kept expanding, and subverting or destroying the offices of local power-holders. A Zhao-led anti-Communist coalition thus came into being. By the end of 1939, a triangle between the Japanese, the CCP and the coalition led by Zhao Baoyan emerged in Jiaodong.64 Zhao then appeared to have adopted a balance of power strategy through reconciliation with the Japanese. The CCP leaders accused Zhao of rescuing a Japanese convoy of three trucks when it was being ambushed in Guanli (观里) in Qixia (栖霞) County, on 3 May 1940.65 Unlike other pro-GMD strongmen including Cai Jinkang in Jiaodong, who would compromise with the CCP when the situation changed, Zhao proved to be a determined anti-Communist hardliner. In May 1946, he committed suicide.

62. Ibid, 10.
63. Jia, op.cit, 150.
64. Ibid, 151.
65. Ibid.
when he was defeated in an ambush.\textsuperscript{66} But in the spring of 1941, Zhao was too powerful for the CCP.

After having defeated Cai Jinkang in Yashan in a surprise attack, Xu Shiyou overcame opposing views that Zhao was too powerful to challenge right away and immediately advanced southward to Haiyan (海阳) and Wangdi through Guocheng (郭城) and Facheng (发城).\textsuperscript{67} Exploiting the victory in the battle against Cai, Xu surprised Zhao. Zhao and his allies had not recovered from Xu’s previous attacks and did not expect that the CCP forces could immediately launch another surprise attack. Xu took Guocheng and Yushan (榆山) with ease and then turned to Facheng. Because of the lack of necessary heavy weapons to overcome fortress defences, Xu decided to lure Zhao out while stopping his reinforcements at Yushan. Zhao then tried to retake Yashan from Wandi, but was repulsed. He then appealed Yu Xuezong, the Commander of the 51st Corps nearby, for help. Yu sent a regular battalion to re-occupy Yushan.\textsuperscript{68}

The Communist defender was the 13th Regiment of the 5th Brigade of the Shandong Column. The regiment had lost its commander and commissar in a Japanese raid in December 1940.\textsuperscript{69} Despite this setback, it performed well during the raid into Yashan and Guocheng, and impressed Xu. Encouraged by the previous victories, the

\textsuperscript{66} Wang, op.cit, 11.
\textsuperscript{67} Xu Shiyou’s memoir, 357.
\textsuperscript{68} Ibid.
regimental commander deployed one of the battalions in front and the other two as an outflanking force. In contrast, the regular battalion from the 51st Corps seemed not to take the shabby CCP soldiers seriously in regular combat and did not prepare well for their attack. When they recognized their CCP opponents were ready to stand and fight, they found themselves outflanked. The battalion was routed.\textsuperscript{70} This victory was a turning point for that regiment, currently the 235\textsuperscript{th} Regiment which was honoured to participate in the military parade in Beijing in 1999 on the 50\textsuperscript{th} anniversary of the PRC.

The CCP’s victory in Yushan must be attributed to Yu Xuezong’s attitude. Yu, who was the CCP’s principal target in their united front campaign in Shandong, was then in the midst of a struggle against Shen Honglie for authority in the LuSu War Theatre. Yu was half-hearted in helping Zhao and withdrew his troops to the Yimeng mountains after this minor setback. Zhao’s defence in Facheng was strong, but he did not take the risk of outflanking the CCP forces besieging Facheng from his home base in Wandi after the battle of Yushan. After suffering considerable casualties in a three-month siege, the CCP took Facheng on 27 July 1941, but were unable to advance to Wandi. A stalemate between Zhao Baoyan and the CCP in Shandong came into being and lasted until February 1945. Although the CCP in Jiaodong would suffer setbacks when the Japanese intensified their pacification campaign in 1942, and were unable to defeat Zhao, they proved themselves militarily, consolidated their presence in the region and increased their prestige in the eyes of the inhabitants of the region. Popular confidence was an asset that would help to turn that productive peninsula into a money machine that helped the CCP in Shandong survive the difficult wartime years.

\textsuperscript{70} Xu, op.cit, 360.
7. Misjudging the enemy

During the summer of 1941, however, hardly anyone including the CCP leaders recognized the historical significance of the recent battles. The world’s attention was then focused on the Wehrmacht’s sweep into the Soviet Union and on the question of how long the Russians could hold on. In the shadow of the Soviet-German War, the Japanese indecision over going northward into Russia or southward into Southeast Asia led to two major decisions in July 1941. The first was to occupy southern Indochina, a decision that would lead the United States, Britain and the Netherlands to establish a trade embargo against Japan. The second was to implement the *kan-toku-en* (Kwantung Army Special Exercise, or 关特演) on July 9, 1941. This was a plan for mobilization and invasion of the Soviet Union if it collapsed. According to the plan, reserves in the home island were called up, while two divisions were redeployed from central China to the north under EFNC’s command. 71 But as early as the first week of August 1941, the General Staff’s Intelligence Division concluded that the Soviet Union would not collapse in 1941 and could hold on into 1942. In the meantime, the Army Ministry’s Equipment Bureau warned that Japan would no longer be able to wage a war after two years because of the embargo. 72 The two reports put an end to plans for a northward advance and brought about a consensus on invading Southeast Asia. The two extra divisions redeployed to North China from the south thus became idle and would certainly move southward if the Japanese decided to invade Southeast Asia. This unexpected extra manpower then made it

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72. Ibid. 240.
feasible for the manpower-hungry EFNC to launch a series of unprecedented intensive pacification operations in North China.

As early as the end of 1938, the EFNC identified the 8RA as the coming principal foe in northern China, but it did not realize the extent of the growth of CCP’s power until the Hundred Regiments Campaign of the fall of 1940. Although the Japanese repulsed the 8RA’s raids without difficulty, they were caught by surprise by the intensity and scale of the engagements. After reviewing its lessons, the EFNC made significant and comprehensive improvements in population control, economic development, intelligence-collection, counter-intelligence, counter-insurgency tactics, and the build-up of collaborationist forces. But the EFNC was severely restrained in manpower. Therefore the two extra divisions arrived just at the right time. The EFNC rapidly developed three separate operational plans for the fall of 1941: Operation Qinhe (沁河) in Shanxi from September 20 to October 20; the Operation Boxi (博西, or Operation Wa) west of Boshan in Shandong from September 1 to October 10; the Second Operation Lunan (鲁南, or Operation Rō) in the Yimeng mountains from November 5 to December 28).

All the operations were exclusively directed against the CCP, and two were in Shandong. Nonetheless, on the eve of those operations, Shandong’s CCP leaders did not realize the coming danger and were unprepared for a Japanese pacification operation that would be unprecedented in scale, intensity, precision and duration. Therefore the CCP

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73. Pacification operations in North China, 326-328; Annals of Luo Ronghuan (罗荣桓年谱), 201.
74. Ibid, 460.
leaders took no specific measures to overcome deficiencies in organization, leadership and training. Neither did they take action to improve their relations with neighbouring NRA forces, rural gentry groups, or the lower classes.

The CCP’s salient organizational deficiency was the existence of two separate military forces: the indigenous Shandong Column and the 115th Division. Although the latter was supposed to help the former with military expertise, their relations were sometimes just the opposite. In an effort to meet Mao’s quota of recruiting and arming a further 100,000 men during 1940, many commanders of the division simply incorporated groups of local troops that had been raised either by the Shandong Column or local Communist networks. Such “recruiting” not only disappointed the commanders of the Shandong Column, but also left the CCP’s agencies, cadres and sympathizers unprotected in hostile environments. In addition, there was a kind of cultural incompatibility between the Shandong Column and the 115th Division. To the soldiers of the division, the Shandong Column was a collection of loose and undisciplined peasants. In the eyes of many Column soldiers, the division was a set of arrogant, selfish, brutal, greedy and exploiting sojourners.75 Although the Shandong Bureau, Shandong Column and the 115th Division tried to integrate the two through various exchange programs as early as 1940, the process of integration was far from complete by the time of Operation Rō.

Zhu Rui, the secretary of the Shandong Bureau, was the CCP’s de facto top leader in Shandong and must be held responsible for the situation. He was not a suitable leader

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75. Li Weiming, 105-107,125.
for the situation in Shandong then. His published speeches show that he was enthusiastic, honest, dogmatic, ambitious, assertive, and impatient. He seemed to be good at public speaking rather than at specific day-to-day work in communication and institution building. His formal education in a Soviet military academy and fluency in Russian apparently provided him with confidence and authority. Before his arrival in Shandong, however, Zhu had not commanded a combat unit. As he was supposed to “help” Xu Xiangqian, an experienced senior commander, Zhu’s colleagues in the Shandong Bureau, Shandong Column and the 115th Division seemingly tried to avoid disagreements with Zhu that might have been created by reminding him of deficiencies and potential danger. His rigid implementation of Yan’an’s instructions about purges, united front work and social reform programs which were either vague, general or fluid, had already led to the deaths of thousands of CCP cadres and unnecessary attacks against potential allies. Zhu’s policy provoked hostility from the social elite and led to alienation among the lower classes. CCP relations with the Northeastern Army had gone from bad to worse. Instead of seeking reconciliation in face of the common enemy, Zhu put more resources into countering the Northeastern Army in the southeastern area of the Yimeng mountains, disregarding the Japanese to the north, even during the Operation Rō.

Zhu’s relations with Xu Xiangqian and Guo Hongtao seem to have been poor, as both of them were called back to Yan’an as early as the summer of 1940. His relationship with the leaders of the 115th Division, especially Luo Ronghuan, were not good, either.

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76. Although he proved to be an outstanding artillery educator in Manchuria during the Civil War, Zhu’s position as Secretary of the Shandong Bureau was his only post as a commander.

77. Annuals of Luo Ronghuan, 196-197.
On October 13, 1940, Zhu sharply criticized the 115th Division in a meeting of senior cadres of that division, claiming that the 115th had made no progress except in hygiene since its arrival in Shandong, and that it did not move a step forward without being pushed and pulled.\(^7\) He accused the division of a sojourn ing attitude and weak leadership. He suggested to Yan’an that Chen Guang and Luo Ronghuan should be posted elsewhere for rest and that the Shandong Column should rely on itself.\(^7\) With the excuse of seeking supplies and expansion, the 115th Division had moved further and further away from the headquarters of the Shandong Bureau and Shandong Column, moving toward the coast until Yan’an ordered it back.

In addition, Zhu was enthusiastic about theatrical productions. With his approval, the CCP propaganda units were busy with spectacular dramatic performances lasting all night and dramatic competitions lasting ten days in which as many as 20,000 contestants participated, including CCP soldiers. On October 17, 1941, Shandong’s CCP drama teams gathered in the Binhai district for an around-the-clock competition lasting five days and nights.\(^8\) Operation Rō began two weeks later.

The CCP intelligence services had warned of Operation Rō and had become familiar with the Japanese tactical improvements used to devastating effects in Operation Wa, carried out west of Boxi and north of the Yimeng mountains during September and

\(^7\) Ibid, 145.

\(^7\) Ibid. 147.

\(^8\) 穆敏 (Mu Min), 山东抗日根据地的文化 (The culture programs in the Shandong anti-Japanese Base areas) (Beijing : Zhonggong dangshi chubanshe, 2005): 66-72.
October. The Shandong Bureau, the Shandong Column and the 115th Division all took the coming Japanese operation as a part of an after-harvest routine and did not make special preparatory efforts until they found that the Japanese forces were suddenly at their doorstep.\footnote{Jiang Hua, op.cit, \textit{SDZD} 2.121; \textit{Annals of Luo Ronghuan}, 199; “中共山东分局关于敌人对鲁中山区大‘扫荡’的初步总结与指示 (Preliminary review and directive from the CCP Shandong Bureau on the enemy’s pacification operations in central Shandong), December 20, 1941,” \textit{SDGMLSDAZLXB} 8.13.} Although the CCP troops numbered about 6,000 men strong, only a battalion of about three hundred was armed.\footnote{Wang, Fengmei and Zhang, Yeshang}, \textit{山东抗日根据地的反‘扫荡’ (The counter-pacification campaign in the Shandong anti-Japanese base areas)} (Beijing: Zhongguo dangshi chubanshe, 2005): 89. The rest could do nothing but run. When they hurriedly scattered, seeking their usual hideouts, they were ambushed by the Japanese and their Chinese collaborators who had been waiting on various tracks and at intersections. The well-known tactic of “organized run-and-hide” became impossible. With the exception of the headquarters of the 115th Division, the CCP troops fled wildly or sought refuge wherever conditions seemed safe. With so many CCP soldiers and followers on the run, the Japanese were so focused on hunting down the leadership that they did not have time to take prisoners, but often machine-gunned and blew them up with grenades, even young women students, when they met with slight resistance.\footnote{Cui Weizhi and Tang Lanhua, “Outbreak in Daqingshan,” \textit{SDZYLSSJ} 7.330-331.} The headquarters of the Shandong Column slipped through the Japanese envelope thanks to Li Guitang, the legendary bandit, who let them pass through his territory.\footnote{Cui Weizhi and Tang Xiu’e). \textit{沂蒙抗日战争史 (An anti-Japanese War history in Yimeng Mountains)} (Beijing: Weishi chubanshe, 1991): 192.} When CCP authority collapsed all of sudden, many local Chinese people of influence who had lost either their property or prestige saw an opportunity to restore their fortunes, and came out to
welcome and help the Japanese. The Shandong Bureau was now paying the price of its policy of attacking and subverting pro-GMD forces.

After the Japanese finally left on 28 December, the CCP leaders determined that the Shandong Column and 115th Division had suffered over 1,400 casualties. Including deserters and captives, the civilian population loss was more than 14,000 persons, including about 3,000 who had staffed various CCP administrative offices. Over 800,000 kilograms of staple food supplies were lost as well. This amounted to about one-third of the available food supply for the population of the CCP-controlled territory. A number of senior cadres including two local military district commanders, a president of the Wartime Work Promotion Committee, the chief of secret police and the chief of liaison work of the 115th Division were killed. Zhu Rui’s twenty-two year-old pregnant wife was among those killed. As well as the losses of life and material supplies there was great damage to morale and public trust. The CCP’s paramilitary system evaporated along with other supporting associations. The only consolation was that except for its guard battalion, the “main forces,” which were a hybrid of the 115th Division and some units of

85. “山东抗日民主政权工作三年来的总结与今后施政之中心方案：1943年8月20日山东省战时工作推行委员会黎玉主任委员在省临参会一届二次大会上的施政报告 (A review of the achievements of the anti-Japanese democratic authorities in Shandong during the past three years and blueprint for future governance: Director Li Yu’s working report at the second plenum of the first meeting of the Shandong provincial provisional senate), August 20, 1943,” SDGMLSDAZLXB 10. 242.

86. Shandong Bureau, op.cit, SDGMLSDAZLXB 8.10


the Shandong Column, survived without many losses.\textsuperscript{89} It became obvious that the CCP in Shandong had to alter their social, political, external and military policies if they wished to remain in the province.

8. Conclusion

Despite tremendous losses during the Operation Rō, the CCP’s gains in Shandong were greater than their losses during the period from 1938 to 1941. Although Mao’s aggressive strategy and the Shandong Bureau’s loyal implementation antagonized other members of the anti-Japanese coalition and led to a province-wide mini civil war, the CCP improved its political and strategic situation across the province, growing up from a marginal force into a prominent one, especially in rural Jiaodong. Moreover, Operation Rō brought the CCP back to reality and exposed its deficiencies. A valuable lesson was learned just as the international landscape of China’s war of resistance was altered. During Operation Rō, the Japanese attack on Pearl Harbor occurred. As the outcome of its war against the United States would be decisive, Japan had to direct resources to the Pacific at the expense of its efforts in China, making attacks like Operation Rō less likely. The CCP thus had time to review experiences and improve its organization.

\textsuperscript{89} Shandong Bureau, \textit{SDGMLSDAZLXB} 8.10-11
CHAPTER SIX

Perseverance

(January 1942-November 1943)

Like Chiang Kaishek, Mao Zedong realized as early as October 1940 that the final outcome of the Sino-Japanese War depended upon whether the United States would enter the war. Mao clearly saw that if that occurred, the United States would destroy the Japanese navy and force its army out of continental China. The CCP therefore would have to prepare for a completely different situation.1 This chapter traces Mao’s preparation for the coming Pacific War and his intervention in the Shandong Bureau’s reorganization after Operation Rō and how the CCP in Shandong lived through a difficult time, exploiting deficiencies within the pro-GMD coalition, and established the CCP’s hegemony in rural Shandong by the end of 1943.

1. New Policy, reorganization and postwar redeployment

Although the participation of the United States in the war would prevent a GMD-Japanese compromise at the expense of the CCP, the CCP now faced the prospect of a US-supported GMD regime under Chiang Kaishek’s leadership, a perspective that Mao termed “the darkest situation”.2 As early as August 4, 1941, an instruction from the CCP centre pointed that “the general policy in the occupied zones is to kill time and store power” in preparation for a

1. “对目前世界形势的估计及对国民党可能进攻的对策 (Assessment of the international situation and countermeasures against possible Guomindang offensives), October 25, 1940,” MZDJSWJ 2.566-567.
2. Ibid, 567.
favourable post-war arrangement. This issue became salient after the devastating Japanese operations against the 8RA throughout northern China during the fall of 1941.

On December 28, 1941, the last day of Operation Rō and twenty days after the Pacific War broke out, the CCP centre and the Central Military Commission (CMC) sent out instructions about the CCP’s key tasks in 1942. At this time, the Japanese were moving troops from central and northern China toward the Pacific, while the GMD’s war efforts were limited to guerrilla warfare. In addition, the CCP base areas had suffered great losses. As a result, the war in China was de-escalated. Therefore, the CCP Centre ordered that the CCP’s principal task in 1942 was to recover and accumulate power through military and administrative reductions of personnel and expenses, economic development and training programs, while keeping a low profile and avoid combating as much as possible. As for the GMD, the CCP must avoid provocative words and protect the property of its officials. As for the Japanese and their collaborators, efforts would be limited to “political offensives”, which referred to verbal attacks.

3. “中央关于敌伪军伪组织的工作决定 (Central decision on work among the Japanese and collaborationist forces and organizations), August 4, 1941,” ZGZYWJXJ 13. 182.


5. Ibid, 272; “中央书记处关于保护友党友军党政军人员家属财产的指示 (Central Secretariat directive on protecting family members of the friendly parties and armies and their properties), December 9, 1941,” ibid, 253-254.

6. Ibid, 273. [See also: “关于敌后各根据地领导方法的指示 (Mao’s directive on leadership in guerrilla zones), December 12, 1941,”ibid, 255-256; “中央关于太平洋战争爆发后敌后抗日根据地的工作指示 (Central directive on work in the CCP guerrilla zones since the beginning of the Pacific War), December 17, 1941,” ibid, 262-265; “中央军委总政治部关于太平洋战争爆发后对敌伪及敌占区人民的宣传与工作指示 (Directive of the Central Military Commission’s General Department of Politics on the propaganda campaign in occupied zones), December 17, 1941, ” ibid, 266-269; “中央对华中工作的指示 (Central directives on the work in central China), December 18,
The situation in Shandong caught Mao’s special attention after Li Yu and Luo Shunchu (罗舜初), the Shandong Column’s Chief of Staff, proposed a reorganization plan for the Shandong Column to Peng Dehuai and Zuo Quan (左权), deputy Chief of Staff of the 8RA, which was copied to Yan’an on January 17, 1942. On 20 January, the CMC telegraphed Peng and Zuo about reorganizing the Shandong Column into military districts under the command of the 115th Division. On January 18, 1942, the Central Secretariat sent a telegram Zhu Rui, Chen Guang and Luo Ronghuan, informing them: “Comrade [Liu] Shaoqi will go to Shandong to discuss and resolve your quarrels. Please prepare the necessary materials such as work reviews in Shandong for his arrival.” Liu was then in northern Jiangsu as the secretary of the CCP’s Central China Bureau (zhongyuan ju, 中原局) and acting commissar of the N4A. Under the pretext of preparing for the CCP’s Seventh National Congress, Mao recalled Liu to Yan’an via Shandong, seeking his assistance in carrying out “rectification” in the party, a campaign which established Mao’s cult and Maoist discourse. To reconcile and reorganize the CCP leadership in Shandong became Liu’s extra assignment.

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8. Ibid; 中央军委关于山纵整编问题致彭德怀, 左权, 罗瑞卿电 (CMC telegram to Peng Dehuai, Zuo Quan and Luo Ruiqing on reorganizing the Shandong Column), SDZD 4.498-499.
Before the arrival of Liu Shaoqi, the Shandong Bureau reviewed its last battle and fell into a dispute. Zhu Rui was trying to hold on, but his colleagues did not support him. Luo Ronghuan, who kept a low profile in the Shandong Bureau, sent a series of reports to Yan’an and to the 8RA headquarters about the problems in Shandong. In addition to his decisive position as the commissar of the 115th Division, Luo gained in his colleagues’ trust following Operation Rō. At the crucial moment of being encircled, Luo had sensed the locations of entrapments prepared by the Japanese and made the correct decision to move toward the Japanese rather than directly to quiet zones. His headquarters therefore slipped through the Japanese envelopment without incurring losses. To lure the Japanese away and minimize the potential losses, Luo led headquarters and its only accompanying battalion back and forth across the Japanese lines throughout Operation Rō.

On the day after the CMC’s message about Liu’s arrival, Luo Ronghuan sent Chen Guang and others to the headquarters of the 8RA and to the Central Military Commission with a telegram about the Shandong Column’s leadership reshuffling and reorganization. They then reported the process of the recent engagements and the principal reasons for the losses. They pointed out that the Japanese had exploited the fact that most of the CCP forces were deployed against the North-eastern Army to launch a well-planned and precisely implemented surprise operation. The CCP leaders had forgotten that they were in a war against the Japanese invaders, and did not make adequate efforts in building infrastructure, popular support and military

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11. Luo, op.cit, 201.
preparations. Instead, they indulged in lavish performances and alienated the public. The CCP headquarters were then so overstaffed, cumbersome, and inefficient that they could not move fast enough when the Japanese came. In order to have supports from Shandong Column and make his argument more persuasive, Luo and Chen also contacted Li Yu, the Commissar of the Shandong Column, and Luo Shunchu, the Chief of Staff. In his telegram to the latter on January 22, 1942, Luo criticized Zhu Rui’s aggressive policy against the North-eastern Army, claiming that the Shandong Bureau must review its policy towards the friendly forces such as the North-eastern Army and other local strongmen.

Zhu Rui’s last resort to break the siege against him was to appeal to the need to maintain the Shandong Bureau’s prestige. Luo pressed on however. He rebuked Zhu directly in a telegram that was copied to Yan’an and the North China Bureau on January 30: “I have criticized the omnipresent war-neglect phenomenon since last April, asking for investigating and improving. The Shandong Bureau approved, but the decision was never implemented.” He then pointed out: “What was the key reason for the losses? Our work was irrelevant to the war and long-term planning. The work of arming the people was neglected. There was no specific plan for various scenarios in our operational planning, as was shown in how we dealt with the North-eastern Army.”

In a telegram sent together with Chen Guang, Chen Shiju and Xiao Hua to the Shandong Bureau and copied to the North China Bureau, the CCP centre, the Political Field

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13. Ibid, 203.
14. Ibid.
15. Ibid, 204.
16. Ibid. 205
17. Ibid 206
Department and the 8RA’s General Political Department on February 2, Luo formally put forward his criticism, claiming that he “could no longer remain silent after suffering such losses.”

On February 4, 1942, Mao passed on to Liu Shaoqi materials received from the leaders of the Shandong Bureau and the 115th Division, commenting: “Zhu and Luo have not been able to get along and have been quarrelling for a long time. The centre did not try to solve it. The problem of Zhu is pending. Please investigate it and resolve this during your stay in Shandong. The centre will call Zhu to Yan’an to attend the [CCP National] Congress if he wishes to leave.” In the telegram, Mao named possible candidates for a new leadership in Shandong. After Liu departed for Shandong on March 19, 1942, Mao sent another telegram to remind him of the losses from political purges in Shandong, stating that “purging will not be sufficient, and previous purges must be investigated thoroughly.” By this time, the Central Secretariat had notified Zhu Rui about Liu’s mission in another telegram.

The messages from Luo and Yan’an and the losses in Operation Rō were powerful enough to silence Zhu and provide Liu with a smooth visit in April 1942. On April 26, about

18. Ibid 207


20. *Annals of Liu Shaoqi*, 1. 389, 392; 李晨玉 (Li Chengyu), 情系山东：毛泽东对山东革命斗争的关怀 (Passion with Shandong: Mao Zedong’s care to the Shandong revolutionary struggles, (Beijing: Zhonggong dangshi chubanshe, 2005): 49-50. The authors of the two works do not reveal Mao’s candidates then, but he must have concluded that Zhu Rui must be transferred.


22. Ibid, 392. Liu planned to leave Shandong for Yan’an in May, but Mao did not want him to take the risk in travel and appointed him as the CCP centre’s representative in Shandong in June. Liu did not leave for Yan’an until early August 1942.
twenty days after his arrival in Shandong, Liu outlined the situation in Shandong and the CCP’s immediate goals in the province in a Shandong Bureau meeting. He pointed out that in the Japanese-GMD-CCP rivalry, the CCP was the weakest party and its immediate mission was to survive the Japanese pacification campaign and recent economic hardship while accumulating strength in anticipation of fundamental changes in the domestic and international situation. The approach to achieve that goal was to pay more attention to the collaborators, to repulse the GMD hardliners’ attacks, to improve relations with friendly armies, to build up administrative infrastructure and to reform old systems by working with the general population, in addition to organizing militias and military districts. To do all this, Liu pointed out that the CCP in Shandong would have to alter its grand style and to humble itself in day-to-day hard work on specific and practical projects. To become familiar with its territory, the Shandong Bureau needed to establish a cross-province data-collection network and the CCP cadres should live and work with ordinary villagers for long periods.23

After Liu’s speech, the Shandong Bureau and Shandong Military and Political Committee held a joint meeting and decided that as the first step of final integration, the offices of the Shandong Bureau and the headquarters of Shandong Column and the 115th Division should stay and work together, and that Zhu Rui and Li Yu should move into the headquarters of the division working with Chen Guan and Luo Ronghuan.24 On August 1, 1942, the Shandong Column was renamed the Shandong Military Region with Li Yu as the commissar and without a commander yet named. A month later, the CCP Politburo passed a resolution establishing united commands (一元化领导) in the CCP base areas. The resolution was implemented in Shandong in March

23. Ibid, 396.
24. Ibid.
1943 when the 115th Division and Shandong Military Region were terminated and integrated into a new Shandong Military Region with Luo as its acting commander and commissar. In September, Luo Ronghuan was appointed as secretary of the Shandong Bureau and became the central power holder in a united command.

Mao already had identified the potential value of Shandong after the war in a blueprint that would lead to the CCP’s military redeployment in the civil war after the Japanese defeat in 1945. In his telegram to Liu Shaoqi on 9 July 1942, Mao particularly reminded him of Shandong’s strategic value in the case of a postwar civil war, even though he was optimistic with the GMD-CCP cooperation in a new democratic republic. He pointed out that the wartime cooperation between Britain, the United States and Soviet Union would possibly go on into the postwar era. As a result, the CCP-GMD relations would not be worsened. Mao presumed that the GMD would seek to work with the CCP. Mao, however, emphasized that the CCP had to prepare the worst scenario of civil war. In this scenario, because the N4A was able to survive by itself, it should move northwards into Shandong. Because Manchuria was so important, Mao presumed that entire 8RA and N4A would move into that territory after the Japanese collapsed. In this postwar strategic redeployment, Mao stated that Shandong would be “the hub of transition.”

Even if civil war would not come, the N4A should go northward into Shandong and meet the 8RA.

2. **Two Commanders’ Rivalry**

In contrast to the CCP leaders in Shandong doing their best to reorganize themselves with help from Mao who began to consider postwar redeployment, the GMD and their allies were less...

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active. Until Shen Honglie, the provincial chairman, was called to Chongqing, the personal rivalry between Shen and Yu Xuezong, Commander-in-Chief of the LuSu War Theatre, was fuelled by the CCP and went from bad to worse. Their rivalry came from the establishment of the LuSu War Theatre in the beginning of 1939. By that time, Shen had restored the administrative system of the provincial government and thought he was the natural leader of Shandong. However, the Commander-in-Chief of LuSu Theatre was Yu Xuezong, the commander of the North-eastern Army which had deployed in Jiangsu in the spring of 1937. After his appointment as the LuSu War Theatre commander, Yu rapidly led his troops, the 51st Corps and 57th Corps, northward from their positions in north-eastern Anhui west of the Jinpu Railway, and northern Jiangsu, south of the Longhai Railway. He successfully crossed the two railways without serious losses. Immediately after Shi Yousan departed from the Yimeng mountains for Hebei to take command of the JiCha War Theatre War, Yu checked CCP advances and controlled the key points of that strategic area and the undulating hills of the coast.

With the armed forces of the provinces of Shandong and Jiangsu, including the North-eastern Army, the largest in the theatre, under his direct command, Yu took it for granted that he was the supreme leader of Shandong. Shen Honglie had a different view. Shen was the deputy commander of the LuSu War Theatre and commanded his own well-trained and equipped marine along with the New 4th Division, Han Fuju’s former security force. Shen regarded Yu as a member of his provincial government. He nominated him as a member of his government and submitted the nomination to the Nationalist Government for approval. Surprisingly, the nomination was approved. Yu responded by neither assuming the position nor rejecting it. 26

26 杨明清 (Yang Mingqing), “东北军离鲁与山东省政府的流亡 (The Northeastern Army’s withdrawal from Shandong and the Shandong provincial government’s exile),” SDZYLSS/ 7. 259. The reason for these strange
early 1939, Shen and Yu had their second meeting since the establishment of the LuSu War Theatre. After that they never met again, even though they had been acquainted for decades and were stationed less than a hundred kilometres apart.\textsuperscript{28} Their staff hardly worked together, seldom sharing intelligence about the Japanese.\textsuperscript{29} Each side seemed to wish avoid conflict with the other.\textsuperscript{30}

Nevertheless, conflicts emerged. An early cause of conflict was about the deployment of Shen’s marine and Wu Huawen’s New 4\textsuperscript{th} Division. Because those units were regular NRA troops, they were legitimately under Yu’s command. Shen wanted Yu to deploy them close to the provincial government in Donglidian as a defence against Japanese raids, but Yu insisted on deploying them at Jiangyu (蒋峪) in Linqu (临朐), a bottleneck on the way to the LuSu War Theatre headquarters. They would then take the brunt of the Japanese attack.\textsuperscript{31} Yu and Shen also disagreed about funding and supplies. \textit{Fabi} notes were then being dropped by parachute into Yu’s zones. If Yu was short of cash, however, he failed to pass any on to Shen. Moreover, Yu asked the provincial government, the Navy and the New Fourth Division to gather their own appointments remains unexplored. Yang Mingqing suspects that it resulted from Chiang’s strategy of “divide-and rule.”

\textsuperscript{27} 刘道元 (Liu Daoyuan), “抗战期间山东未曾沦陷(上) [Shandong did not fall during the Anti-Japanese War (2)],” \textit{Shandong memorabilia} 12. 2: 36. Yang recounts that immediately after Shen declared the news, Yu gave the former face-to-face his resignation, claiming the appointment was “insulting” (ibid), but he does not give the source. Liu, an employee in the provincial government and witness the interactions between Shen and Yu, did not mention Yu’s immediate resignation.

\textsuperscript{28} 郭易堂 (Yitang Guo), “不堪回首话刺于案 (The sad story of the attempt to assassinate Yu Xuezong),” \textit{Shandong memorabilia} 8.1: 93-96.

\textsuperscript{29} Liu, op.cit, 12. 2: 37.

\textsuperscript{30} Zhang Yufa and Sui Haoyu, “抗战志 (Shandong’s war of resistance against Japan),” \textit{MGSDTZ} 5.2972.

\textsuperscript{31} Yang, op.cit, 7. 259.
food supplies, although their territory was unproductive and poor. Furthermore, Wu Huawen, the divisional commander, was sensitive because he had been a lieutenant of Han Fuju and had not worked under Chiang Kai-shek’s direct command. Yu’s deployments and allocation of resources caused him to feel slighted. Wu first swung over to Shen’s side and later surrendered to the Japanese in January 1943.32

Security forces assembled by local or provincial officials such as Qin Qirong, Zhang Liyuan and Zhao Baoyuan were Shen’s appointees. Yu reorganized those forces with his mandate of theatre commander and reduced the available forces under Shen’s command.33 The two commanders also disagreed on policies towards the CCP. Shen was a hardliner in maintaining and an exclusive administrative system and did not hesitate to resort to force to bring the CCP under control. Yu, in contrast, did not like the CCP’s efforts to extend their territory and sometimes tried to stop them forcefully, but was not as committed to checking the CCP as Shen. The CCP observed Yu’s more sympathetic attitude as soon as he arrived in Shandong and established a policy of “striking against Shen while befriending Yu.” The result was a half-hearted effort on Yu’s part to control the CCP. When the CCP forces were attacking Luchun, Shen’s headquarters, Yu’s troops were nearby, looking on idly.34 Shen and Yu’s divergent policies toward the CCP fuelled their conflicts over other issues.

32. Ibid, 259-260. The fabi will be discussed in Section Three. Wu Huawen was known for switching sides. In August 1945, he switched to the Nationalist government and then turned to the CCP in September 1948.

33. Ibid, 260.

34. Guo, op.cit, 8. 93.
Shen and Yu’s efforts to avoid conflict were effective until August 1941 when an officer in Shen’s headquarters, who was later suspected to be a CCP agent, tried unsuccessfully to assassinate Yu. A month after the assassination attempt, Shen was called to Chongqing for debriefing and never returned. On January 9, 1942, after months of hesitation about how to replace Shen, Chiang Kaishek appointed Mu Zhongheng (牟中珩), commander of the 51st Corps, as the provincial chairman.

3. CCP Infiltration

Before Yu Xuezong and Mu Zhongheng could complete the reorganization, however, the Japanese 12th Army turned attention to the LuSu theatre on February 5, 1942. This operation, “Operation Ten”, came from the 12th Army’s conclusion that Operation Rō had destroyed the CCP in the Yimeng mountains and it was now time to destroy the unstable pro-GMD coalition through military strikes, blockades and negotiations in order to turn some members of the coalition into collaborators. The immediate targets of Operation Ten were Yu Xuezong, and Wu Huawen and his New 4th Division.

35. Ibid. 94.
36. Chiang considered Yu at first, but changed his mind and asked him to recommend two candidates. Mu was the second one. Zhou Congzheng (周从政), the first one, claimed that Chiang’s appointment of Mu was intended to place a wedge between Mu and Yu in order to split the 51st Corps from Yu’s command [See: 范予遂 (Yusui Fan), “我任国民党山东省党部主任委员的回忆 (My tenure as a member of the GMD Shandong provincial committee).” 文史资料选辑 (Selected historical materials) 17, (Shandong renmin chubanshe, 1985): 79-80.]
37. 张业赏 (Zhang Yesang), “论国民党军在山东敌后战场的地位和作用 (The role and contributions of the GMD forces in occupied Shandong in the national war effort),” 抗日战争研究 (Studies on the anti-Japanese War), no.1, (1996): 50-76.
To the CCP leaders, eager to de-escalate their war effort and reconcile themselves with the North-eastern Army after Pearl Harbor and Operation Rō, the timing could not be better. Despite Yu’s hesitation to strike against the CCP, the CCP’s relations with the North-eastern Army had deteriorated since the summer of 1940 because of CCP infiltration. The CCP’s all-out efforts to infiltrate the North-eastern Army may be traced back to battles in northern Shaanxi in December 1935 when they destroyed the latter’s two divisions. The CCP victory led to a ceasefire agreement between the CCP and Zhang Xueliang. The CCP centre then issued special instructions about the goals and strategies of the united front work with the North-eastern Army and the expansion of open and covert CCP networks within the army. The CCP’s influence in the North-eastern Army’s officer corps helps to explain why Zhou Enlai became a key figure in the settlement of the Xi’an Incident. Chang Enduo (常恩多), the commander of 111th Division under the 57th Corps, became a CCP sympathizer at that time and secretly joined the party in Shandong in the spring of 1939. In March 1938 Wan Yi (万毅), one of Chang’s regimental commanders, joined the CCP secretly. He was promoted to a brigade commander of the division in 1940. In addition to those two figures, Guo Weicheng (郭维城), who joined the CCP in 1934, became one of Zhang Xueliang’s aides-de-camp. Guo was in charge of


40. “中央关于东北军工作的指导原则 (The centre’s general policies toward the Northeastern Army), June 20, 1936,” *ZGZYWJXJ* 11. 33-42.

41. Fu, op.cit, 280.

42. Yang Qingming, “‘九二二锄奸’与‘八三起义’(The 9-22 Purge and the 8-3 Uprising)” *SDZYLSSJ* 7. 185.

communications before the Xi’an Incident and was one of Yu’s chief of secretaries in Shandong afterwards.\textsuperscript{44}

Despite the progress in recruiting these important officers, the CCP-facilitated peaceful solution of the Xi’an Incident and Chiang’s arrest of Zhang Xueliang was a heavy blow to the CCP’s prestige among the officers of the North-eastern Army. Along with the rapid decline of CCP’s influence was the Army’s steady disintegration. The North-eastern Army was a warlord army that depended upon on the officers’ personal loyalty to Zhang Xueliang for coherence. Many officers were from wealthy families and were not accustomed to the wartime hardships such as those encountered in Shandong, especially Miao Chengliu (缪瀓流), commander of the 57th Corps.\textsuperscript{45} Meanwhile, their survival was threatened by the CCP forces, which kept expanding, even into their territory. Wartime hardship and the CCP expansion led Miao Chengliu to negotiate secretly with the Japanese about releasing a senior Japanese officer captured in a raid in the summer of 1940.\textsuperscript{46} With the excuse of eliminating traitors, Chang Endo, with the help of Wan Yi, mutinied and tried to kill Miao on September 22, 1940.\textsuperscript{47} Miao was alerted beforehand and fled to the theatre headquarters, but his headquarters was destroyed. Although Yu quelled the mutiny peacefully, the damage was done. Chiang Kaishek dismissed the 57th Corps from the

\textsuperscript{44} 周燕 (Zhou Yan), “张学良身边的中共将领郭维城 (Guo Weicheng: A CCP agent beside Zhang Xueliang)” 中华儿女 (China’s People), no. 6 (2000)

\textsuperscript{45} Fu, op.cit, 166; Yang, op.cit, 7.185.

\textsuperscript{46} Ibid; 牟中珩 (My Zhongyan), “缪澄流通敌与常恩多起义 (Miao Chengliu’s contacts with enemies and Chang Enduo’s uprising,” 文史资料选辑 (Selected historical materials 19.57-74

\textsuperscript{47} Ibid, 188-189. Because of Mao’s determination to control Central China and the continuing battles in northern Jiangsu, Chang’s mutiny was obviously on instructions of Yan’an.
NRA’s order of battle and put its two divisions, the 111th and 112th, under the direct command of
the theatre. Anger against Chang and Wan became rampant in the North-eastern Army. Although
Chang remained in his post, Wan had to resign. On February 17, 1941, soon after his resignation,
Sun Huancai (孙焕彩), his successor, placed Wan under house arrest. This was a period when
the CCP’s campaign of reprisal after the N4A Incident had begun in South-western Shandong.
As mentioned above, that campaign culminated in a five-month battle against Zhao Baoyuan.
The North-eastern Army participated in the battle fruitlessly, suffering a routed battalion.

The CCP-backed mutiny in the North-eastern Army in September 1940 and the open
challenge on the battlefield the following spring was beyond the tolerance of officers such as Sun
Huancai. After the CCP forces under Xu Shiyou’s command had attacked Zhao Baoyuan in
April 1941 and repulsed the intervention by a battalion of the 51st Corps in Jiaodong, two of the
regiments of the 51st Corps, led by Zhang Benzhi (张本枝) and Rong Ziheng (荣子恒),
destroyed the CCP’s “bordering county” (bianlianxian, 边联县) base. This “county” was one of
the CCP’s base areas on the south slope of the Yimeng mountains, established by the 115th
Division a year earlier. The CCP forces managed to recover some territory, but fell into a
stalemate against the North-eastern Army. To break the stalemate, Zhang Benzhi raided the
headquarters of the CCP’s district committee of southern Shandong on October 27, a week
before Operation Rō began. Zhang captured Zhao Bo, secretary of the district committee and a
Shandong Bureau member, and buried him alive on November 19, 1941.

4. The Japanese policy change and the CCP’s responses
The CCP forces elsewhere were on the run during Operation Rō and did not retaliate. On December 9, 1941, Yan’an issued instructions about protecting the property of soldiers and officials in the pro-GMD coalition, offering the Shandong Bureau a pretext to review its previous provocative policy. The CCP did not take advantage of the pro-GMD coalition’s plight in the face of Japanese offensives as it had in 1939. The Shandong Bureau’s former western Shandong district had been transferred to the Shanxi-Hebei-Shandong-Henan Base Area because of the barrier of the Jinpu Railway. Its Huxi District west of Weihan Lake was wiped out except for clandestine channels through the communities of fishermen on the lake, which was the only conduit of communication between Shandong, central China and Yan’an. The troops in the CCP’s Hebei-Shandong Border District could not wear uniforms because of the Japanese pursuit. The neighbouring Qinghe district base shrunk to a sparsely populated estuary of a dried former riverbed of the Yellow River. The Yimeng mountains base became an isolated corridor five kilometres long and three kilometres wide. The situation in Binhai was more favourable, but the CCP-controlled areas there were intertwined with those of the suspicious North-eastern Army. Thus all the CCP-controlled areas in Jiaodong were steadily shrinking.


50. Yu Li, op.cit, 171.
The most ominous trend in the contraction of CCP territory was the steady advance of the Japanese-supported administrative system and the obvious improvement in combat effectiveness of the collaborationist troops. The CCP leaders were concerned to discover that those guerrilla zones, transition from enemy-controlled to CCP-controlled, were not increasing in proportion with the reduction of established areas. On the contrary, the guerrilla areas were shrinking very rapidly.\(^{51}\) This meant that the Japanese pacification campaign was supported by increasingly effective assistance from the Chinese collaborationist troops. If the trend continued it was clearly just a matter of time before the Japanese and their collaborators would deprive the CCP and other anti-Japanese guerrilla forces of room to breathe.

Japanese anti-guerrilla warfare developed and adapted to the Chinese war environment. Despite its comprehensive and overwhelming superiority over Chinese armies, the Japanese Imperial Army had not prepared for a total war in China or for a campaign against Communist insurgency before the war began. Before their first engagements in northern Shanxi during the winter of 1937, the Japanese commanders were unaware that their organization, training and tactics were poorly suited to the warfare they encountered.\(^ {52}\) During the first days after the clash at the Marco Polo Bridge, Japanese military and political decision-makers expected the Chinese to surrender after suffering a few blows as they had done before, and did not recognize the impact of continuing Japanese aggression in stiffening China’s nationalistic resistance. When Japanese commanders discovered, especially after Pearl Harbor, that they had to conduct

\(^{51}\) “中共山东局关于目前山东形势与紧急任务的决议 (the CCP Shandong Bureau’s decision on the current situation and urgent tasks), September 17, 1942,” SDGMLSDAZLXB 9.38.

\(^{52}\) Pacification Operations in North China, 1.81.
counter-insurgency campaigns in a foreign country where some of Japan’s essential raw materials were produced, they altered their polices. Anti-Communist, anti-colonial and pan-Asian goals replaced earlier slogans calling for punishment of the provocationist Chinese. The EFNC called for good discipline, prohibited atrocities against civilians and disciplined the collaborationist troops. For instance, General Yasuji Okamura, commander of the EFNC, took the numbers of young village women appearing in public and their facial expressions as a gauge in assessing units’ discipline.

Along with their changed political policy and improved military discipline, the Japanese launched economic development programs, especially to strengthen infrastructure. As early as 1939, the situation in the occupied urban areas seemed to have returned to pre-war normalcy. The establishment of Wang Jingwei’s reformed Republic of China in Nanjing in 1940 provided the Japanese invasion and occupation with at least a dim aura of legitimacy. In the early days of their occupation, the Japanese often depended upon local bullies or merchants associations to maintain law and order because they were unfamiliar with local communities or because local leaders were unwilling to serve Japanese invaders. As time went on, however, increasing numbers of prominent local people came out to assist the Japanese. During the days immediately after Pearl Harbor, the mood in occupied northern China was not in Japan’s favour. But Japanese

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53. Ibid, 1.68, 72-73, 109, 247, 257-258, 369, 448; 2.77.


55. “中央关于开展敌后大城市工作的通知(第一号) (Central directive on promoting work in occupied urban areas), September 18, 1940,” ZDZYWJXJ 12.490-493; Pacification Operations in North China, 1.55.

56. Pacification Operations in North China 1.240.
victories restored some trust in the Japanese.57 The EFNC showed its sophistication in dealing with anti-Japanese coalitions. Rather than seeking to destroy anti-Japanese force, the Japanese tried to induce side-switching through carrot-and-stick methods.58 These were partially successful. In Shanxi, the Japanese achieved a de facto ceasefire with the provincial leader Yan Xishan.59 In western Shandong, west of the Jinpu Railway, the Japanese 12th Army induced Sun Liangcheng (孙良诚), deputy commander of the 39th Army of the NRA, and the Commissioner of Western Shandong, to switch sides with the 25,000 soldiers under his command during their “Western Shandong Operation” of March 1942. Sun’s surrender was the beginning of a series of defections to the Japanese across northern China.

Although corruption, lack of discipline and incompetence in the Chinese collaborationist military and administrative systems damaged Japanese prestige, the troops who changed sides began to reshape the Japanese pacification campaign in North China. They provided the Japanese not only with needed manpower, but also local know-how and familiarity with administrative systems such as the time-tested population-control system of baojia, a system of interest to the Japanese because of its reputed contribution to Chiang Kaishek’s earlier victory over the CCP in southern China.60 To enhance their standing in local society, avoid friction and save manpower, the Japanese adopted a low-profile policy. The military presence receded from view and Chinese collaborators were encouraged to handle public affairs.61 The results of those efforts were hard to

57. Ibid, 2.33, 72-73.
58. Ibid, 1. 230, 2.16; Yasuji Okamura’s memoir, 327.
59. Pacification Operations in North China 2.121-129.
60. Ibid. 44
61. Ibid. 52-54, 105-107
discern at first, but Chinese collaborationist forces and their administrative systems were steadily strengthened as they were extended from urban to rural areas.

That slow and steady urban-to-rural expansion of Japanese administrative control was called a “silkworm-eating strategy” (canshi zhengce, 蚕食政策) in CCP documents. Like ravenous silkworms, it advanced steadily. As Mao and his colleagues had predicted that the Japanese would become increasingly dependent upon collaborators as early as the summer of 1938. During the summer of 1941, the CCP centre notified its regional authorities of the change in the Japanese occupation policy and the improvement in the collaborationist regimes and armies. It ordered them to establish a joint party-government-military Work Committee on the Enemy and Collaborators (diwei gongzhuo weiyuanhui, 敌伪工作委员会) in their base areas to promote projects to counter collaborators and their Japanese patrons. The CCP’s general strategy towards collaborators was tolerance, patience, recruitment and positioning of sleepers and striking only against the most stubborn.62 In a related instruction, the CCP centre pointed out that most collaborators were “double-dealers (两面派)”, and “the rapid increase of those double-dealers everywhere has provided us, in fact, with opportunities”.63 On August 17, Mao sent out a special telegram about the carrot-and-stick policy towards collaborators. He pointed out that without sticks, the collaborators would ignore the CCP’s authority, but too many punishments


63. Ibid.184. See also: “中央关于调查研究的决定 (Central decision on investigation and research), August 1, 1941,” ibid, 173-176; “中央关于实施调查研究的决定 (Central decision on the implementation of investigation and research), August 1, 1941,” ibid, 177-178.
would turn them into dedicated foes. As for the Japanese, there should be no killing of prisoners and no confiscation of Japanese private enterprises. The confiscation of Japanese military and government-owned enterprises must be strictly regulated. Some captured enlisted men could be released; officers including intelligence officers, spies and their families and military policemen should be exchanged for captured CCP members or material items of value. The central directive also encouraged goodwill gestures toward the Japanese such as truce, burying enemy’s killed soldiers, offering holiday greetings and gifts and exchanging essential materials.

After Operation Rō, the instructions about the collaborationist armies were reactivated in Shandong and became part of the dynamics of the CCP’s changed strategy. About three weeks after his arrival in Shandong, Liu Shaoqi held a meeting on the Shandong Bureau’s strategies on April 20. He pointed out that Shandong was in multi-triangular situation with interactions among the Japanese, collaborators, GMD-hardliners, friendly armies and the CCP (di-wei-wan-you-wo, 敌伪顽友我). The primary triangle was between that of the Japanese, GMD-hardliners and the CCP. The Japanese enjoyed overwhelming superiority and the CCP was the weakest in the triangle. Therefore, the CCP should carry out a covert strategy to deal with the Japanese and collaborators. They should try to be ignored so as to have resting time. At the same time they should enter into the recently enemy occupied areas to win over some of the double dealers as well as to identify and eliminate those who were extremely threatening. The work on

64. “关于对伪军问题的指示 (Directive on collaborationist armies), August 17, 1941,” ibid 191-192.
65. Ibid.
66. Ibid. 182-183.
collaborators was therefore at the top of the priority list and was intended to increase the
disparities between the collaborators and their Japanese masters. As for the GMD hardliners and
friendly forces, Liu’s instruction was that guarding current territory was the principal task, and
that military operations should be restrained to limited and well-planned ones with good political
justification.67 The CCP’s strategy against the Japanese was thus reduced to low-intensity
conflict. Following the change in strategy, CCP military operations were soon turned into covert
operations. These operations could rely for essential on the numerous double-dealing
administrative agencies under the CCP’s influence.68

The change in the CCP’s military operations in Shandong was part of Mao Zedong’s
post-Pearl Harbor program of reorganization and reorientation of social-economic policy, which
Mao termed “small but efficient army and government”, or “military and government reduction”
( Jingbing jianzheng, 精兵简政), “reduction of rents and interest rates” ( jianzu jianxi, 减租减息)
and “promotion of production” ( fazhan shengchan, 发展生产). This three-part program was
initiated in the summer of 1941.69 It was placed on the top of the priority list so as to meet the
operational demands of the low-intensified war and enable the CCP to survive the period of


68. “中共山东分局、一一五师政治部对反敌之蚕食政策的指示 (Directive of the Shandong Bureau of the CCP
and the Political Department of the 115th Division on measures against the enemy’s encroachment strategy),
June 1, 1942,” *SDGMLSDAZLX* 8. 345-347; “中共山东分局、一一五师政治部对滨海区对敌斗争的指示
(Directive of the Shandong Bureau of the CCP and the Political Department of the 115th Division on the Binhai District’s struggles
against the enemy), June 14, 1942,” *ibid*, 366-369; “中共山东分局关于目前对敌斗争的指示 (Directive of the
Shandong Bureau of the CCP on the present struggles against the enemy), originally published in the Shandong
Bureau’s 斗争生活 (The Life of Struggle), no.16 (August 1, 1942),” *ibid*, 449-456.

69. 军委关于陕甘宁边区部队生产工作的指示 (Directive of the Military Commission on material production by
military units in the Shaan-Gan-Ning border region), May 1941,” *ZGZYWJXJ* 13. 115-117.
severe material shortages. The “military and government reduction” effort was intended to reduce government budgets and taxpayers’ burdens and to increase administrative efficiency by establishing a unified command, merging administrative agencies and reducing the size of military units and organizations.

The Shandong Bureau implemented these instructions from Yan’an meticulously. In the process, a number of military men and women and government workers who were either aged or in poor health were ruthlessly pushed out. Their plight was observed and was so damaging to morale that the Shandong Bureau had to issue special instructions on proper arrangements for these discarded veterans. The initial treatment of their veterans, however, reflected the CCP’s capacity to adapt to adverse circumstances. It would soon be clear that the Shandong Bureau was


71. “Circular notice from the Central Secretariat on reviewing the experiences of military and administrative efficiency and down-sizing), April 23, 1942,” ibid. 376-378; “Directive on military and administrative efficiency and down-sizing: the pivotal part of current work), Editorial in Liberation Daily, August 28, 1942,” ibid. 526-530; “Decision of the CCP Centre on the unification of command and organizational adjustments in the anti-Japanese base areas), approved by the Politburo on September 1, 1942,” ibid, 426-436; “Central directive on intensifying the unification of command and on military and administrative downsizing), December 1, 1942,” ibid, 465-467

72. “Circular notice from the Shandong Wartime Executive Committee on appointments to government and military positions), January 15, 1942),” ibid. 8.98-103; “Decision of the finance department of the Shandong Wartime Executive Committee to reduce the size of administrative and military organizations), February 7, 1942,” ibid, 154-157.

much more adaptive than its NRA counterparts in the increasingly difficult situation in Shandong, and the instructions from Yan’an about non-provocative and low-profile policies were timely and wise. This paved the way for the Shandong Bureau to seek a reconciliation with the pro-GMD coalition led by Yu Xuezong. Eighteen months later, the Shandong Bureau’s efforts to reconcile with Yu paid off. Overnight, the Shandong Bureau was able to turn into the ruler of rural Shandong when Yu ignored the NRA rotation schedule and decided to leave the province in June 1943 before replacement forces arrived.

5. A Rare opportunity

The origin of Yu’s premature departure from Shandong was a mutiny in August 1942, together with the subsequent Japanese Operation Wa and Operation Rō. The leader of the mutiny was Chang Enduo, the commander of the 111th Division of Yu’s North-eastern Army. He was an underground CCP member and the patron of Wan Yi, another underground CCP member who had rebelled in September 1940. Wan had been in custody in the theatre headquarters since January 1941. In April 1942, Chiang Kaishek instructed Yu Xuezong to execute Wan secretly but Yu hesitated.⁷⁴ Guo Weicheng, Yu’s aide-de-camp and an underground CCP agent, realized that Yu’s hesitation occurred because Chang insisted on a court-martial.⁷⁵ Chang, however, was dying from pulmonary tuberculosis. It was obvious that as soon as Chang died, Wan would be executed and the 111th Division would fall under the command of Sun Huancai, the staunch anti-CCP leader who had detained Wan. Guo decided to prevent this from occurring and used the privilege of his position as Yu’s aide-de-camp to act as a go-between. He learnt that Chang did


⁷⁵. Chang, Wan and Guo seemed unaware of one another’s CCP identity.
not want Sun to assume command of his division after his death and hoped that Wan would lead it over to the CCP. On August 1, 1942, his physicians declared that Chang was on his deathbed. On the next day, Wan was sentenced to death. Guo began taking action by alerting Wan. Wan had planned his escape for a long time and fled without difficulties into the CCP-controlled area. Recognizing that he was under suspicion, Guo then went to Chang’s headquarters and urged him to mutiny. Chang immediately called up his regiment commanders and announced his decision to go over to the CCP side on the afternoon of August 3, 1942. The regiment commanders did not have any preparations for a mutiny and agreed under pressure. When they went back to their own regiments, one broke his promise to Chang and refused to mutiny. Although other regimental commanders kept their promise, most battalion commanders refused to obey their superiors’ orders. The 111th Division then fell into a bloodbath of internal strife. The mutineers besieged the theatre headquarters for a time, but were defeated. Although Chang made his way into the CCP-controlled area with 2,700 soldiers and 300 family members and died there on 8 August, most of his troops did not go with him. About 5,000 maintained their loyalty to Yu.

The Shandong Bureau did not know about the mutiny beforehand and blamed Guo for unnecessary plotting in its report to Yan’an. Mao criticized the Shandong Bureau for involvement in the mutiny when the GMD-CCP resumed their negotiations. Despite this, the CCP had to face a power vacuum around the Jiazi Hills after the 111th Division left. The Jiazi

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76. 邵维霞 (Shao Weixia), 甲子山讨吴战役纪实(The Battle of Jiazi Hills) (Beijing: Zhonggong danshi chubanshe, 2005): 97-98.


Hills is an area of seven and half square kilometres where the highest summit is 480 metres above sea level. This hilly area was about 185 kilometres southwest of Qindao. To the east was the coastal highway from Qingdao to Lianyungang in Jiangsu. To the south was the flat area crossed by the Longhai Railway. To the west lay the Yimeng mountains. Close to the neighbouring productive areas and also isolated, the Jiazi Hills were a good place for a guerrilla base. Therefore, immediately after Chang mutinied and fled with one-third of the troops of his 111th Division, Yu appointed Sun Huancai, the staunch anti-CCP brigade commander, as the new commander. With help from Zhu Xinzhai, a local pro-GMD strongman and guerrilla leader, Sun immediately occupied the Jiazi hills. Just at that time the Japanese, who did not want to miss the opportunity, attacked the theatre headquarters and nearly captured Yu Xuezong. The Shandong Bureau did not miss the opportunity, either. The Shandong Bureau members had often reminded themselves of their “missed opportunity” to control the Yimeng mountains at the beginning of 1939 when Shi Youshan left the area and before the North-eastern Army moved in. In order to have a kind of legitimacy, the Shandong Bureau decided to hide the news of Chang’s death so as to rename the mutineer troops as the 111th Division and accuse Sun of rebelling against Chang. With the excuse of suppressing rebels, the CCP began attacking Sun in the name of the 111th Division.

This battle was interrupted by Japanese attacks in October and November but ended with a CCP victory at the end of December 1942.

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79. Shao, op.cit, 1-3.

80. Weiming Li, op.cit, 189-190.

81. The Japanese launched a series of deceptive operations before their operation in October. Some Shandong Bureau leaders, including Li Yu and Ai Chunan, misread the information they collected and were misled. After concluding that the Japanese principal target would be Binhai, CCP leaders moved to the nearby Yimeng mountains and fell into traps. On November 2, they were encircled on the top of a hill. During their escape in the night, Li was wounded. (Lai Guangzu, Yue Tianbei and Li Guangze (来光祖, 岳天培, 李光泽), “The Battle of Duigu (奋战对崮纪实),” SDZD 3.149-158). Luo Ronghuan is claimed to have seen through the Japanese deception and remained in the Binhai zone (See: Li, op.cit, 183-185. )
The battle in the Jiazi Hills did not attract sufficient attention from Yu Xuezong. Yu had urgent priorities in the face of the increasingly precise Japanese encirclement operations directly against his headquarters and himself since February: the “Second Operation of Central Shandong.” Operation Ten was from February 5 to February 26, Operation A was in mid-May, the Third Operation of Central Shandong, also called Operation Wa, was in mid-August and the Fourth Operation of Central Shandong, also called Operation Re, was from August 21 to 30. During Operation Ten in February, Yu managed to escape from the Japanese encirclement with a cavalry company only. During the operations in August, he narrowly escaped capture, but more than 1,800 soldiers were killed; and 133 men were captured, including a few senior headquarters staff officers. Yu and his chief of staff were wounded. In addition to their direct strikes against Yu’s LuSu theatre headquarters, the Japanese launched operations elsewhere across the province. Those operations were in western Shandong (March 1-7), eastern Shandong (March 25-April 15) and central and southern Shandong (October 10-mid November). Faced with Japanese military strikes and monetary temptations, a number of guerrilla soldiers in the pro-GMD coalition who were former bandits or local strongmen turned to the Japanese side. Among them was Zhang Buyun (张步云), who helped the Japanese attempt to capture Yu in

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83. 王振乾(Wang Zhengqian), “常恩多起义(Chang Enduo’s Uprising)”, in *八路军敌军工作史* (The History of the 8RA’s work among enemy forces, ed. Liaison Office of the Political Department of the Jinan Military Region (General Department of Politics, 1998): 2.861.
84. Ibid, 186; “Shandong’s war of resistance against Japan”, *MGSDTZ* 5.3007.
85. Cui, op.cit, 217-218.
August 1942. During 1942, there were so many defectors that the Japanese could not accept them all because of a lack of funds.  

In addition to the Japanese attacks and defections was the growing difficulty of supplying. Since its first day, the LuSu War Theatre had to deploy a significant number of troops to cross the Jinpu Railway and Longhai Railway to the supply centre at Fuyang (阜阳) in north-eastern Anhui, as well as carry back supplies, particularly ammunition. As the Japanese steadily tightened their control, railway crossings became more difficult and costly. As combat during railway crossings became more frequent and intense, the quantity of supplies reaching Shandong, predominately ammunition, decreased. As early as the spring of 1942, it became obvious that the North-eastern Army could not stay in Shandong if no external reinforcements arrived soon. Nevertheless, the arrival of reinforcements would complicate the command of the NRA forces and have a negative impact on the North-eastern Army. Yu did not ask Chiang Kaishek for reinforcements until he faced a rapidly deteriorating situation after February 1942.

Chiang Kaishek had developed a reinforcement plan as early as the fall of 1939. He assigned the mission to the 92nd Corps commanded by Li Xianzhou (李仙洲) and deployed the corps in Fuyang in Anhui. The plan was not implemented, however, because of the 8RA and N4A’s offensives toward central China in 1940. Instead of moving into Shandong, the 92nd Corps was ordered to stop the CCP’s advances. Moreover, because of the complication of the

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86. Note 82, 186.
rivalry between Shen Honglie and Yu Xuezong and the risks of crossing two railways, the reinforcement plan was delayed until the fall of 1942.87

Just as the 92nd Corps began moving into Shandong in mid-January 1943, Wu Huawen, commander of the New 4th Division, switched sides to the Japanese together with his division of 20,000 men, the strongest in the LuSu theatre at that time, along with the 1st Security Division. Wu’s side-switching was not a surprise. Wu was a lieutenant of Han Fuju and held that position because the New 4th Division was his own division. He felt discriminated against in Yu’s plans for deployment and funding and was inclined to favour Shen. The Japanese recognized Wu’s difficulty after Shen Honglie’s departure and offered him funding. On January 18, 1943, Wu was appointed as a theatre commander-in-chief by Wang Jingwei’s collaborationist government in Nanjing.

Wu’s defection was a devastating blow to Yu Xuezong’s defences. It exposed the entire northern flank of both the provincial government and the theatre headquarters to Japanese attacks. From February onwards, the Japanese and their collaborators launched a series of operations against Yu. Those operations were so sweeping that Yu sought sanctuary in a CCP-controlled area in May 1943. The Japanese discovered his location and imposed losses totalling about 1,000 men on Yu’s headquarters and the regiment accompanying it.88 In June, Rong Ziheng, one of Yu’s remaining brigade commanders, also defected to the Japanese with 20,000 men. The LuSu theatre needed immediate assistance from the 92nd Corps to the west.

87. 李仙洲 (Li Xianzou), “我的回忆 (My Memories),” 文史资料选辑 (Selected historical materials) 7, (Shandong renmin chubanshe, 1979): 133.

By the time of Yu Xuezong’s sanctuary in CCP territory in May 1943, two regiments of Li Xianzhou’s 92nd Corps had crossed the Longhai and Jinpu railways and moved into the Yimeng mountains close to Yu’s headquarters. The eastward advance of the rest of the corps, however, met with CCP and Japanese resistance. The CCP by no means welcomed the arrival of the 92nd Corps, but it could not legitimately oppose it. In the name of welcoming friendly forces, the CCP raised welcoming banners in villages along the possible routes. The GMD accused the CCP of hostile intentions while the CCP argued that it would not have been possible to conceal the movement of an entire corps intending to cross two Japanese-controlled railways.89 This dispute was irrelevant, however, as the Japanese had been alerted and reinforced their armoured-vehicle and air patrols along the railways imposing significant casualties which made any large-scale railway crossing unlikely.90 Li Xianzhou then tried to destroy the CCP guerrillas occupying South-western Shandong west of the Jinpu Railway. The CCP did not respond at first, waiting for the split between Li and Yu to become public.91

Before his departure for Shandong, Li Xianzhou began to contact the Shandong Provincial Government, an act that increased Yu’s suspicions. When Li began to move, Chiang Kaishek transferred Zhao Baoyuan and Liu Guitang, who were officially under Yu’s command, to Li’s. Yu responded by reorganizing the security troops under the provincial government’s

89. “中共山东分局关于李仙洲部来鲁后的统战工作指示 (Directive of the Shandong Bureau on united front work after the arrival of Li Xianzhou’s troops), January 1943,” SDGMLSDAZLXB 9.258-261; Yang Mingqing (杨明清), “The beginning and end of Li Xianzhou’s entry into Shandong (李仙洲入鲁始末),” SDZYLSSJ 7. 250, 252.

90. Ibid, 251

91. Ibid, 252.
command through Mu Zhongheng, the provincial chairman, who was his military subordinate. In order to avoid another competition for power like the rivalry between Shen and Yu, Chiang Kaishek altered his reinforcement plan to a series of rotations.\(^\text{92}\) Yu was glad to be relieved his command.

The Shandong Bureau saw an opportunity in the rotation and acted rapidly. When he heard of the rotation in mid-June, Luo Ronghuan was in a N4A hospital in northern Jiangsu for treatment of his kidney illness. He returned to Shandong immediately and began developing an official Shandong Bureau plan for Yan’an’s for approval. He first asked Guo Weicheng to comment on his plan, explaining: “The rotation results from the GMD’s distrust of Yu. Normally, Yu should wait and not leave before Li’s arrival, but it would be good if Yu were to leave before Li arrives. If we could slow down Li’s arrival while expediting Yu’s departure, then Yu will leave first.”\(^\text{93}\) Guo agreed, claiming that the key condition was how long the CCP troops could contain Li. On July 4, 1943, the Shandong Bureau sent a telegram to Yan’an outlining the plan.\(^\text{94}\)

On 15 July, Yan’an approved. The CCP forces under the command of the Shandong Military Region and six regiments of the neighbouring Shanxi-Hebei-Shandong-Henan Base Area who were responsible for Shandong west of the Jinpu Railway launched a coordinated campaign against Li Xianzhou on the pretext of protecting their people. Faced with both the Japanese railway defence and the CCP forces’ continuous raids and ambushes, Li’s eastward advance soon

\(^{92}\) Ibid.

\(^{93}\) Li Weiming, op.cit, 230.

\(^{94}\) “关于对待李仙洲、于学忠军事部署(朱瑞、罗荣桓、黎玉、肖华致军委、集总) (Message from Zhu Rui, Luo Ronghuan, Li Yu, and Xiao Hua to the Military Committee and to the headquarters of the 18\(^{\text{th}}\) Army regarding military deployments against Li Xianzhou and Yu Xuezhong), July 4, 1943,” SDGMLS/DAZLXB 9.535-537
lost momentum after suffering heavy losses. By the end of July, the 92\textsuperscript{nd} Corps had been reduced from 20,000 to 8,000 men. The troops who had crossed the Jinpu Railway were cut off from supplies and could not keep moving eastward. Further to the east, Yu began his departure. As part of a tacit agreement, while they were preparing their meals Yu’s troops alerted the CCP forces to their presence.\textsuperscript{95}

The CCP’s Shandong Military Region also launched a campaign in the northern Yimeng mountains against Wu Huawen and the remaining members of the pro-GMD coalition which attempted to occupy the territory vacated by Yu. During the “first battle against Wu” (July 5 to July 6, 1943), the Shandong military region successfully defended key areas that connected its separate base areas in Jiaodong, Binhai, central Shandong and southern Shandong. As Yu departed before Li’s arrival, it no longer made sense for Li to continue his eastward advance. In August, Chiang Kaishek ordered Li Xianzhou to withdraw his remaining troops from Shandong and return to Fuyang in Anhui.\textsuperscript{96} As there were no troops to protect the Shandong provincial government, in July 1943 Chiang ordered it to withdraw to the base in Fuyang with the North-eastern Army.

The departure of the North-eastern Army, the 92\textsuperscript{nd} Corps and the Shandong provincial government marked the end of the Nationalist Government’s presence in the province. It was not only a heavy blow to the morale of the remaining members of the pro-GMD coalition but also gave the CCP the good opportunity to fully legitimize their control of the province. From that

\textsuperscript{95} Li Weiming, op.cit, 232.

\textsuperscript{96} Li Xianzhou, 133.
point onward, the Shandong Bureau could justify its military operations against pro-GMD coalition members under the pretext of fighting against collaborators, as every military-political entity in the province had contacts with the Japanese (including the Shandong Bureau itself). For instance, during the first battle against Wu Huawen the CCP discovered Qin Qirong nearby. Qin was an anti-CCP GMD hardliner who had refused to depart with the provincial government. The CCP forces launched assaults against Qin, killing him on August 6, 1943. When Yan’an passed on Chiang Kaishek’s angry questions about Qin’s death, the Shandong Bureau answered that Qin had been found with collaborationist forces.  

6. Conclusion

The changed landscape in Shandong’s unoccupied zones during the summer of 1943 greatly favoured CCP expansion. The situation was created by the internal problems of Yu’s North-eastern Army and the GMD-led anti-Japanese coalition as well as opportunistic Japanese military strikes. The Shandong Bureau initiatives played a lesser role. The first part of this chapter shows that because of severe losses during Operation Rō, the Shandong Bureau reorganized itself by establishing a unified military-political command and adopted a low-profile time-killing strategy. These changes in organization and strategy placed the Shandong Bureau in a favourable position vis-à-vis rivals in the pro-GMD coalition who had to take the brunt of Japanese military assaults without a unified military-political command. The Shandong Bureau’s reorganization in 1942 may be attributed to Mao’s decisive involvement. His response to the personal rivalries in the Shandong Bureau led to a solution of the leadership struggles. In addition, his post-Pearl Harbor instructions about time-killing and budget-cutting proved to be

appropriate and timely. They offered the Shandong Bureau strategic vision and became the framework for the CCP regional authorities to plan their separate campaigns, to identify opportunities and to coordinate their operations. An example of these operations would be their campaign halting Li Xianzhou and facilitating Yu Xuezong’s departure during the period from June to August, 1943.
CHAPTER SEVEN

Encroachments and redeployments

(Sep 1943-Oct 1945)

Just as the Shandong Bureau leaders realized that they were no longer constrained by the CCP-GMD United Front and could make military strikes against anyone in the pro-GMD coalition by accusing them of collaborating with Japan, they observed a change in tactics on the Japanese side. The Japanese forces in Shandong had stopped their silkworm-like expansion, quietly given up their forward posts and moved west after a sporadic pacification operation in the central Yimeng mountains in November 1943.\(^1\) A new phase of the CCP’s anti-Japanese war in Shandong began. This chapter reviews the CCP’s new strategy of encroachment in Shandong. Implementation of this strategy not only steadily improved the Shandong Bureau’s military and political situation vis-à-vis both the Japanese and the remnants of the pro-GMD coalition, but also helped prepare the Bureau for the postwar situation.

\(1.\) The Shandong Bureau’s strategy of encroachment

As early as their first year of occupation in Shandong, the Japanese had routinely conducted pacification operations after the fall harvest season. Like the devastating Operation Rō of 1941 which had caught the CCP off balance, a Japanese operation in the late fall of 1943 again came as a surprise. But this time, 8RA company in the rearguard

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\(^1\) Pacification operations in North China, 2.355-356.
succeeded in holding off air-supported Japanese assaults for eighteen days.² The CCP soldiers then discovered that their Japanese adversaries were no longer as formidable as before. These were not the dedicated, persistent, and aggressive professionals they had come to know. Luo Ronghuan and his colleagues recognized that the Japanese military effectiveness was declining, along with the soldiers’ physical condition. With this realization and the quiet Japanese retreat from the peripheral areas and move west, the CCP in Shandong at last began to see signs of the end of the war.³

Despite their war-weary state, the Japanese forces redeployed westward were on their way to a massive new operation called Operation Ichigō. This was an effort to break the stalemate which had existed since the Battle of Wuhan in October 1938 and intended to establish overland communication between Korea and Singapore through China in preparation for Japan’s loss of maritime access to the essential resources in Southeast Asia. In order to break through China’s defences along the Pinghan Railway and slice through Free China along the railway, the Japanese 12th Army was redeployed westwards to the railway with one division, the 59th, left behind in Shandong in April 1944.⁴ The Japanese did not increase their garrison or re-establish any army-level headquarters in the province until late March 1945. By that time, the US Navy had destroyed the Japanese navy and was about to land on Okinawa. The Japanese re-establishment of the 43rd Army

² “肖华同志在全山东政治工作会议上的总结报告 (Comrade Xiao Hua’s concluding report at the All-Shandong conference on political work),” SDGMLSDAZLXB 12.34.
³ Ibid.
⁴ *Pacification operations in North China*, 2.399, 411.
headquarters in Shandong was in preparation for possible landings by Allied forces in the province.\(^5\)

The Japanese strategic redeployment in the fall of 1943 turned Shandong into a backwater in the war. Exploiting the opportunity that the Japanese focused on the Pinghan Railway with no NRA regular troops left in Shandong, the Shandong Bureau adopted a low-profile strategy of encroachments in order to improve its strategic and political situation as well as gain control over communication lines that would be needed in prospective postwar redeployments. This low-profile expansionist strategy led to the following campaigns. The first was territorial expansion through conventional military strikes against the remnants of the pro-GMD coalition such as Zhao Baoyuan. The second was the increase of the CCP presence and influence in peripheral areas and among the collaborator troops through special operations. The third was intelligence preparation through the establishment and expansion of the underground CCP networks in urban areas such as Jinan and Qingdao. The fourth was material preparation. The fifth was a program of social reform. In CCP terminology, the military strikes fill in the category of military struggle (junshi douzheng 军事斗争). Special operations were defined as infiltration and conversion efforts among enemy forces (dijun gongzuo 敌军工作), work in occupied zones (di zhan qu gongzuo 敌占区工作), and low-intensity terror attacks by military units in plainclothes (wugongdui gongzuo 武工队工作). The intelligence preparations, which were often a part of the expansion of underground networks, were part of “urban work” (chengshi gongzuo 城市工作). Material preparation was called “economic struggle” or “economic work” (jingji douzheng 经济斗争, jingji gongzuo 经

\(^5\) Ibid, 2.445.
济工作)，and social reconstruction was “work among the masses” (qunzhong gongzuo 群众工作)，which included the rent and interest-rate reduction program (jianzu jianxi 减租减息). 6

2. Military strikes

Efforts in various areas frequently overlapped. A success in one field could lead to a chain reaction. Although the Shandong Bureau did not engage in any noteworthy battles against the Japanese after the last major pacification operation in November 1943, it launched a series of well-planned offensives against five pro-GMD local strongmen and collaborator forces, aiming to link the CCP’s separate areas or to increase CCP prestige. In addition to the battle for the Jiazi hills which led to direct links between Binhai and southern Shandong, significant engagements included: the long-range raid against Liu Guitang in the southern Yimeng mountains (November 15, 1943), the battle of Yugan (November 1943), the battle against Wu Huawen (March-April 1944), the battle of Yishui (August 15, 1944), the Battle of Juxian (November 1944) and the battle against Zhao Baoyuan (February 1945). Among these, the battles against Liu and Zhao were especially significant.

Liu Guitang was a legendary bandit. Before he accepted Chiang Kaishek’s appointment in 1939 as commander of the New 36th Division of the NRA in Feixian, his home county in southern Yimeng, he had roamed throughout Shandong, Jiangsu, Henan,

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6. Ibid.
Hebei and Inner Mongolia during the 1920s and 1930s, and had assisted the Japanese in Jiaodong. A succession of Shandong provincial chairmen tried to destroy him but Liu survived every attack. In the fall of 1943, he accepted a Japanese appointment once again. His relationship with the CCP was as inconsistent as with others. Liu had permitted the Shandong Column headquarters to pass through his territory during Operation Rō in November 1941. Usually, however, Liu Guitang and the CCP were in conflict.

The Shandong Bureau leaders understood that the local people were intimidated by Liu. They identified him as a major obstacle in their effort to control the Yimeng mountains and had tried to eliminate him several times. After the departure of the Northeastern Army and the 92nd Corps, Luo identified Liu as his principal adversary in the Yimeng mountains, declaring to Wang Lushui (王麓水), commander of the CCP’s South Shandong Military District: “Liu Guitang is the principal reason why we cannot mobilize the masses in Lunan. He is a boulder pressing on the masses’ hearts. Please try to smash that boulder.” After a series of deceptive manoeuvres, Wang Lushi led twelve companies on a straightforward assault on Liu’s fortified village. Liu was surprised, but successfully slipped through the CCP encirclements and nearly escaped. An 8RA messenger who was just coming back saw a man running and shot him dead. It was Liu. A village-to-village travelling display of Liu’s body was immediately arranged.

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7. 樊琦、杨静、吉薇薇、卢少林、王善刚 (Fan Qi, Yang Jing, Ji Weiwei, Lu Shaolin and Wang Shangang), 赵博,符竹庭,王麓水 (Zhao Bo, Fu Zhuting and Wang Lushui) (Beijing: Zhonggong dangshi chubanshe, 2005):137.
8. Ibid, 137-141.
9. Cui, op.cit, 337.
Zhao Baoyuan was a bigger challenge. After the CCP’s assault against him in 1941, Zhao was an uncompromising anti-CCP opponent. In his territory centred on Wandi, Zhao established an administrative system ranging from population registration in the baojia system to issuing banknotes and building arsenals. By the time of the CCP’s assaults in February 1945, Zhao had an army of 5,600 men and was also the leader of the Jiaodong region’s anti-CCP coalition forces numbering 27,000. The CCP had tried to weaken Zhao through various means including diplomatic manoeuvres, direct negotiations, blockades, sponsoring migration from his territory and military raids, but none of these methods were particularly effective. Eventually, determined not to let Zhao’s sizable army block the future route to Manchuria, the Shandong Bureau’s Jiaodong Military District gathered five regiments and five battalions, including an artillery battalion, and launched assaults on Wandi in the evening of February 11, 1945, the eve of the Chinese New Year. The intensive battle lasted for eight days and ended with a clear CCP victory. The attackers inflicted 2,000 casualties, captured 7,370 men and routed another 2,000 troops. With this victory, the CCP gained control of a territory with a population of 800,000 and became dominant in rural Jiaodong. During the battle, Zhao called on the Japanese for help, who sent ten airplanes to bombard the CCP forces on February 13 but was forced to flee with less than 1,000 men through an occupied zone to a sanctuary in Jimo (即墨). After the destruction of Zhao, only two strongmen remained

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11. Ibid; Xu Shiyou’s memoir, 399-400.
12. Ibid.
who possessed armies of the similar size: Zhang Jingyue (张景月) in Shouguang and
Zhang Tianzuo (张天佐) in Changyi north of the Jiaoji Railway.  

3. Special operations in peripheral Areas

Despite the scale and intensity of the battle against Zhao Baoyuan, the general
situation in Shandong was quiet. That battle was a part of Luo’s plan for the year 1945.
The general intention of that plan was to “expand northwards and southwards along the
eastern part of the Jiaoji Railway so as to consolidate and shorten the connections
between Jiaodong, Baohai, Central Shandong and Binhai,” and to expand CCP-controlled
territory along the principal communication lines and in urban areas, “on the condition of
not provoking the Japanese.” Luo emphasized in that plan that military operations must
strictly fit the policy of limited military offensives for maximum political influence.”

As most of the Shandong Bureau’s military operations were limited in scale and intensity and
were conducted within strict political constraints, they were similar in nature to
contemporary “special operations.”

The Japanese adopted a similar strategy that was referred to as “thirty percent
military operations, seventy percent politics” in the CCP documents. The EFNC updated

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13. David M. Paulson provides a detailed account of Zhang Jingyue, in his “Nationalist Guerrillas in the
Sino-Japanese War: ‘The Die-Hards’ of Shandong Province’” in Single Sparks: China’s Rural Revolution,

14. Annals of Luo Ronghuan, 401; see also: “山东根据地之发展情形与今后军事部署(罗荣桓、黎玉、
肖华致各军区并报集总、军委) (The current expansion of the Shandong base areas and future military
redeployments), Message from Luo Ronghuan, Li Yu and Xiao Hua to each military district and the
headquarters of the 8RA and the Central Military Commission), October 12, 1944,” SDGMLSDAZLXB
13.76-79
its counter-insurgent organization by establishing the HTK (North China Special Security Guard Hokushina Tokubetsu Keibitai 北特警), a kind of task force consisting of police and reconnaissance scouts, in September 1943, which according to CCP reports proved its effectiveness until at least as late as the spring of 1945. But the shift of attention to special operations reflected the de-escalation of the war. Combat intensity had declined to such an extent by the spring of 1944 that Xiao Hua, chief of the political department of the Shandong Military Region, remarked in his official report that “the longer this war goes on, the less it looks like a war.”

As the directives from Yan’an during December 1941 and January 1942 requested, the Shandong Bureau carried out a policy of not provoking the Japanese. As a part of the time-killing strategy, special operations, especially those against the collaborationist armies, became increasingly important. The CCP’s earliest directive on special operations was the centre’s resolution of August 4, 1941 on these armies. The reduced Japanese occupation presence and financial difficulties both led to the rapid and steady increase of collaborationist troops, including many former pro-GMD forces, during the period from

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17. “中共山东分局，山东军区政治部关于发展与巩固伪军伪组织中两面派与革命两面派的决定 (Decision of the Shandong Bureau and the Political Department of the Shandong Military Region on developing and consolidating double agents among the collaborationist forces and organizations), Sept. 12, 1943,” *SDGMLSDAZLXB* 10. 339-343.
1941 to 1943. Their numbers grew from 101,460 in 1941 to 132,350 in 1942 to 169,894 in 1943.\textsuperscript{18} The former NRA units were deployed only against the CCP because of their refusal to fight against NRA comrades. The Japanese successfully reorganized many of these units and improved their combat-effectiveness to the point that many could operate independently. Despite obvious shortcomings such as factional rivalries, corruption and a lack of aggressiveness, these forces became a threat to the CCP.\textsuperscript{19} By the summer of 1944, the CCP had developed an approach to counter the increased numbers of collaborationist armies and Japanese special operations in Shandong.

In its organizational and operational aspects, the Shandong Bureau emphasized small units (\textit{xiaobudiu} (小部队,) and increased the numbers of special force (\textit{wugongdui} 武工队). They upgraded the tactical and operational role of the special force to a strategic level. Those commandos were in plain clothes during operations in occupied zones. Their operations were limited to maintaining the Shandong Bureau’s military presence in the occupied zones such as eliminating or intimidating prominent collaborationist leaders and their families.\textsuperscript{20} At same time, the Shandong Bureau acknowledged that military methods

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\textsuperscript{18} Xiao Hua, op.cit, \textit{SDGMLSDAZLXB} 12.36. \\
\textsuperscript{19} “中共山东分局、山东军区关于反对敌人重点主义进攻的指示 (Directive of the CCP Shandong Bureau and the Shandong Military Region on countermeasures against Japanese precise strikes), December 27, 1943,” \textit{SDGMLSDAZLXB} 11. 202-203; “中共山东分局、山东军区政治部关于坚持边沿对敌斗争的指示(The Shandong Bureau and the political department of Shandong Military Region’s directive on persevering struggles in the peripheral areas), February 26, 1944,” \textit{ibid}, 266-267; “中共山东分局关于对敌斗争总结及今后任务的指示 (The CCP Shandong Bureau’s directive on reviewing the struggles against the enemies and on agendas), April 26, 1944,” \textit{ibid}, 11.391; Xiao Hua, op.cit, \textit{SDGMLSDAZLXB} 12.32. \\
\textsuperscript{20} Ibid, 60-62. See also: “山东军区训令 (Shandong Military Region’s Order), July 24, 1943,” 561-562; 附：“小部队的建设问题：肖华在分局召开的区党委书记联席会议上的报告提纲 (Appendix: ‘On
would not be effective in the absence of patriotic appeals and institutional support.

Patriotic appeals were intended to evoke a sense of shame among the Chinese citizens of the occupied zones, and the institutional work involved the registration of collaborators’ family members who resided in the CCP areas. In addition, other means such as covertly offering bribes and banquets were often employed. In the course of covert operations, a few embarrassing incidents inevitably occurred. In one such incident, a CCP agent fell in love with the concubine of a collaborator officer. The concubine then stole a large sum of money from her husband and eloped with the agent, thus exposing one of the CCP’s operations.

4. Covert operations in urban areas

Parallel to the special operations in peripheral areas were covert works, then classified as dizhan qugongzuo (敌占区工作, occupied zone work) and chengshi gongzuo (城市工作 urban work). The principal driving force in this field was the CCP centre,
which had instructed the regional agencies to devote their attention to such work in the
occupied urban areas as early as April 1941.\textsuperscript{23} The principal assignments in the urban
work category were to preserve the Party networks, obtain information and purchase
materials.\textsuperscript{24} After Pearl Harbor, covert work in the occupied areas became increasingly
important for the post-war situation. On June 5, 1944, the eve of D-Day in Europe and a
week before the US Marines landed on Saipan, the CCP’s centre sent out a special
instruction about urban work. It began with the statement: “It is unlikely that we can drive
out the Japanese without occupying the urban areas and essential communication lines.”
It asked its members to alter their view that only the GMD would be able to do such
things. The CCP regional authorities were ordered to give the highest priority to
preparations for launching uprisings in urban areas and seizing control of essential
communication lines.\textsuperscript{25} They were asked to pay special attention to the hundreds of
thousands of migrant workers and business travellers who moved between the CCP areas
and occupied cities, between the rural areas in Jiaodong and northern Jiangsu and
between the centres in Manchuria and the Yangzi Valley.\textsuperscript{26}

\textsuperscript{23} “中央城委关于敌后大城市群众工作的指示 (Directive from the Central Urban Commission on work
in the occupied urban areas), April 4, 1941,” \textit{ZGZYWJXJ} 13. 72-74. To gather information about Free and
Occupied China from published sources, the CCP centre established organizations in Yan’an and ordered
its agencies elsewhere to do likewise. “中央关于调查研究的决定 (Central decision on investigation and
research), August 1, \textit{ibid}, 173-176; “中央关于实施调查研究的决定 (Central decision on the
implementation of investigation and research), August 1, 1941,” \textit{ibid}, 177-178.

\textsuperscript{24} “中央关于城市工作的指示 (Central directive about operations in the urban areas), June 5, 1944,”
\textit{ZGZYWJXJ} 14. 244.

\textsuperscript{25} \textit{Ibid}, 244-245.

\textsuperscript{26} \textit{Ibid}, 251.
In the meantime, the CCP leaders recognized the commercial value of their covert networks in urban areas. At the request of Chen Yun, who was appointed as the CCP’s chief financial officer at the beginning of 1944, the CCP centre sent a directive to the regional agencies on economic intelligence on 22 July 1944. Chen’s urgent task was to overcome the ongoing financial crisis in Yan’an.27 The instruction to the CCP regional authorities stated that “One of the most essential tasks in the anti-Japanese base areas is to organize agricultural and industrial production, and to promote internal and external trade. [The CCP leaders in] the base areas, however, find that they lack information about finance and trade in the occupied zones and Free China….Economic losses have thus [occurred].”28 Accordingly, the CCP regional authorities were obligated to collect “economic intelligence of strategic value, e.g. the monetary policies of the Japanese and the Nationalist Government, and other classified information about finance”, and “report them routinely (weekly, biweekly or monthly) in a special cipher for economic affairs” to Yan’an, or report immediately if significant events such as financial crises occur.29 In order to collect and disseminate economic intelligence, the CCP regional authorities must establish special economic intelligence centres. The sources should be commercial news and CCP members or sympathizers who work in economic fields. Although the CCP network was the mainstay of the economic intelligence branch, it was strictly regulated that intelligence work must be separated from covert Party networks.30 According to that

27. “中央关于收集研究全国经济情况的通知 (Circular notice from the Centre about collecting and analyzing economic intelligence nationwide), July 22, 1944,” ibid, 285-287.

28. Ibid. 285.

29. Ibid, 286

30. Ibid, 286
instruction, the Shandong Bureau was responsible for monitoring economic and financial conditions in and through the cities of Jinan and Qingdao.

Two months later, the CCP centre ordered the Shandong Bureau and the CCP Jiaodong Committee, along with the Hebei-Rehe Border Area Committee, to begin their Manchuria works immediately claiming that “the Manchuria work will decide the future of China and are so urgent that a single minute is not allowed to be delayed.” This instruction of September 4, 1944 ordered the Shandong Bureau and the Jiaodong CCP Committee to establish a special team on Manchurian affairs under Yan’an’s direct leadership with a separate radio and cipher translator.31

The Shandong Bureau leaders apparently understood Yan’an’s policy well and implemented the instructions precisely. By using this policy, they had built a good infrastructure in occupied zones. Their efforts of infrastructure building began in the fall of 1941 when the bureau carried out a comprehensive review of its work in the occupied areas. The review concluded with a report in February 1942 and resulted in the establishment of investigating agencies. In that review, the bureau acknowledged that many underground Party members were so ignorant about covert methods that even ordinary city dwellers could recognize.32 The Shandong Bureau then carried out a policy of erring on the line of caution. It fully integrated its intelligence and counterintelligence

31. “中央关于开展满洲工作给晋察冀分局的指示 (Central directive to the JinJiCha Bureau on preparing programs in Manchuria), September 4, 1944,” ibid, 322.

systems and significantly improved its underground networks. In wartime Jinan, only two significant breakdowns occurred in the network, both before the Shandong Bureau began to improve its underground network. One was in February 1939 and the other in the spring of 1942. The bureau also infiltrated into the Japanese and collaborationist intelligence and counterintelligence services. In Jinan, the CCP did not stop supplying their comrades in rural areas with various kinds of industrial products and information.

33. Ibid. See also: “中共山东分局关于建立全省调查研究机关的决定 (Decision of the Shandong Bureau of the CCP on establishing cross-province research and investigation agencies), February 6, 1942,” ibid., 147-148; “中共山东分局关于进行调查研究工作的指示 (Directive of the Shandong Bureau of the CCP on programs of research and investigation), February 6, 1942,” ibid., 148-152; “山东省战时工作推行委员会关于各级政府设立调查研究组的决定 (Decision of the Shandong Wartime Executive Committee on establishing research and investigation agencies at each level of government), June 1, 1942,” ibid., 348; “中共山东分局对敌斗争委员会关于山东半年来对敌斗争工作的检讨与今后工作意见 (The review on the war against the enemy in the previous six months in Shandong and suggestions for the operations in the future by the Committee of Struggle against the Enemy, the Shandong Bureau), November 16, 1942,” SDGMLSDA2LXB 9.123-136; “中共山东分局关于对敌斗争组织与领导的决定 (The Shandong Bureau’s decision on the organization and command of agencies for covert operations), June 20, 1943,” ibid., 505-506; “中共山东分局关于敌伪工作组织领导的决定 (The Shandong Bureau’s decision on the covert operation organizations and their commands), July 1, 1943,” ibid., 527-530; “中共山东分局关于加强敌占区职工运动的指示 (The Shandong Bureau’s directive on starting union drives in the occupied zones), July 1, 1943,” ibid., 531-532; “中共山东分局对目前开展大城市工作的指示 (The CCP Shandong Bureau’s directive on conducting metropolitan programs), July 1, 1943,” ibid., 532-534; “加强反对特务斗争: 肖华在山东锄奸工作会议上的报告 (“Intensify the counter-espionage campaign: Xiao Hua’s speech in the conference of purge works), August 24, 1943,” SDGMLSDA2LXB 10.104-139.


They even hospitalized dozens of wounded CCP soldiers for twenty days without being discovered.  

After the two sets of instructions from Yan’an in June and July 1944, the Shandong Bureau established a facilitating committee to coordinate its covert programs among various agencies such as *digong*, intelligence, counterintelligence, industry and external trade. It remained as cautious as before with a policy of “not volunteering to create struggles.” By mid-October, it could report that its underground networks had infiltrated among the railway workers of both the Jiaoji and Jingpu railways, and that morale was high in its secret army among the railway workers in southern Shandong.

5. *Mao’s situation assessment and the Shandong Bureau’s summer offensive of 1945*

Good intelligence networks and intelligence analysis must be attributed to Mao’s well-calculated strategic decisions at the national level and the Shandong Bureau’s proper decisions at the regional level. The interactions between timely and precise intelligence and the resulting decisions at the national and regional level, coincidentally or not, placed the CCP forces in Shandong in a good condition and at the right places on the eve of the Japanese defeat in August 1945.


37. “中共山东分局为贯彻中央关于城市工作的指示的指示 (The Shandong Bureau’s directive on implementing Centre’s directives on urban works), August 7, 1944” *SDGMLSDAZLX B* 12.317-323.

38. Ibid.

39. “中共山东分局关于城市工作现状的简报 (The CCP Shandong Bureau’s newsletter about the current situation of urban works), October 17, 1944,” *ibid*, 85-89.
At the national level, in addition to strategic preparations for withdrawing the N4A into Shandong from the Yangzi Valley while advancing the Shandong CCP forces into Manchuria, Mao recognized in late September 1944 that the Japanese were making continental China into their last fortress. By that time, the Operation Ichigō had continued for six months and the Japanese navy had suffered a catastrophic defeat in the Philippine Sea. Therefore, the Japanese would concentrate their land forces to the coastal China to halt a potential Allied landing and would increase their pressure on the Chinese forces.40 Chiang Kaishek’s uncompromising attitude regarding power-sharing with the CCP and the poor performance of his armies during Operation Ichigō altered the public mood in Free China and encouraged Mao Zedong to assume a confrontational policy against Chiang when the war ended.41 Mao ordered the N4A to take advantage of the anticipated Japanese pacification operations along the coast of Zhejiang which was under the GMD’s control, and to infiltrate into that area and the Yangzi Valley so as to control Shanghai when the Japanese collapsed.42


41. “关于扩大解放区的指示 (Directive on expanding the liberated areas), Mao Zedong’s telegram to Cheng Zihu, December 18, 1944,” ibid,430; “中央关于目前形势的分析与任务的指示 (Central situation assessment and agenda directive), December 25, 1944,” ibid, 431-434.

42. “中央关于开展苏浙皖地区工作给华中局的指示 (Central directive to the Central China Bureau on programs in the Yangzi Valley), September 27, 1944,” ibid, 357-358; “中央关于华中军事部署的指示 (Central directive on military deployments in Central China), November 26, 1944,” ibid, 404; “华中局给粟裕、谭震林,黄克诚,邓子恢的指示 (Central China Bureau directive to Su Yu, Tan Zhenlin, Huang Kecheng, and Deng Zihui), November 7, 1944,” ibid, 405-409; “华中局关于发展东南的部署向中央的报告 (Report from the Central China Bureau to the CCP Centre on military deployments for expansion into southeastern China), November 20, 1944,” ibid,
Months before that deployment began, Mao did not miss an opportunity arising from Operation Ichigō. He ordered the Central China Bureau to send a detachment to follow the advancing Japanese army and try to establish base areas in southern Henan and northern Hubei or somewhere in Hunan. In Northern China, in order to prevent Yan Xishan from returning to his capital in Taiyuan when the war ended, Mao ordered the CCP in that province to take action to conduct a “disintegration” (wajie 瓦解) campaign, a kind of covert operation of subverting and coercing, directed against Yan’s troops in preparation for military strikes to follow.

The CCP’s underground networks at the regional level of Shandong, particularly those along the railways, were good sources of intelligence about Japanese military movements. They reported a steady increase of Japanese troops in Shandong, particularly in the coastal areas, beginning in the spring of 1945. With the aid of strategic intelligence and guidance from Yan’an, Luo Ronghuan concluded that the intention was defensive. It was to strengthen the Japanese coastal defences against a landing by the Allied forces.

409-411; “中央关于向皖南、浙东、苏南发展的战略方针给华中局的指示 (Central directive to the Central China Bureau on the strategy of expanding into southern Anhui, eastern Zhejiang and southern Jiangsu), February 24, 1945,” ibid 15.32-37.

43. “关于华中部队准备向河南发展的指示 (The directive about being ready for expanding into Henan by troops in Central China), Liu Shaoqi and Chen Yi’s telegram to Zhang Yunyi, Rao Shushi, Li Xiannian, and Zheng Weisan, June 23, 1944,” ibid 14.259-260; “中央关于向河南敌后进军部署的指示 (Central directive on deployments for expansion into the occupied zones in Henan), July 25, 1944,” ibid, 293-294. When the Japanese surrendered, a part of that detachment had a foot in the border areas between Hunan and Guangdong.

44. “中央关于瓦解阎锡山部队扩大太岳解放区的指示 (Central directive on subverting and breaking up Yan Xishan’s Army and expanding the Taiyue liberated zone), February 27, 1945,” ibid 15.40-41.
rather than preparation for pacifying operations like Operation Rō. As a result, Luo postponed instead of revising the Plan for offensive operations during the summer season (May, June and July) which was issued on April 12, 1945. Two days later, the CCP troops began to attack Zhang Jingyue, the second-most powerful pro-GMD strongman in Shandong.

As the purpose of that plan was to consolidate and shorten the linkages between the various CCP areas through destroying or expelling the remaining strongmen such as Zhang Jingyue and Wang Hongjiu north of Linyi who had sizable armies, it was essential to concentrate troops. As in any military build-up, this troop concentration was a complicated process that involved various supporting administrative agencies and took months. Because the Japanese still enjoyed overwhelming tactical superiority, concentrated masses of CCP troops, along with their supporting agencies and depots of essential supplies, were excellent targets. On May 1, two weeks after the plan for summer offensives was issued, the Japanese launched a large-scale pacification operation with thirty thousand men in the CCP military districts of Bohai, Jiaodong, Binhai and central and southern Shandong. They occupied Juxian and Tuowang in Binhai, the principal salt-producing areas which had been in CCP hands since early 1941.

Partly thanks to good intelligence and partly out of instinct, Luo decided to take the risk of continuing the work of battle preparation which might invite the Japanese military strikes and merely postponed the planned offensives in Jiaodong. When the

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46. Ibid, 412-413.
Japanese began to build their coastal defences, Luo ordered the launching of the delayed summer offensives. By August 10, when the first phase of offensives had ended, the CCP base areas south of the Jiaoji Railway, including Jiaodong, Binhai, and central and southern Shandong had re-established direct links. The next phase of offensives was planned to begin in late August. Its targets were Zhang Jingyue in Shouguang and Wang Hongjiu north of Linyi. Zhang’s base was between the districts of Jiaodong, Bohai and central Shandong, and Wang’s position threatened the flanks of central and southern Shandong and Binhai. Luo Ronghuan did not think they were too powerful to overcome. The CCP forces destroyed one of Zhang’s regiments in direct assaults in July. As for Wang, Luo did not take him very seriously. Wang Hongjiu was a GMD-appointed guerrilla commander, who lacked a good record of military performance and had preferred to avoid confrontation with the CCP. Luo did not plan to attack Zhang Tianzuo in Chiangyi, near Weifang, estimating that he was too strong for the CCP. Just as the first phase of CCP summer offensives in Shandong was ending and the second phase was in preparation, Japan’s Emperor declared an end to the war.

6. The Battle of Linyi and strategic redeployment

For Mao Zedong, Japan’s surrender was sudden. In his telegram to the leaders of the recently established CCP base areas in Henan on August 4, 1945, Mao predicted that Japanese could hold on for another year. In his instruction to the Shandong Bureau on August 6, the day Hiroshima was bombed, he still thought that US forces would land in

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47. “中央关于发展豫鄂根据地对付将来的内战危险给郑位三的指示 (Central directive to Zheng Weisan on developing the Henan-Hubei Base Areas to prepare for a potential civil war), August 4, 1945,” ZGZYWXJ, 15.200-201.
Shandong and ordered the Shandong Bureau to prepare to occupy the urban areas in the province.\textsuperscript{48} He did not realize the immediate coming of the Japanese surrender on August 10, two days after the Soviets launched their all-out offensive into Manchuria on August 8, and did not issue marching orders until midnight on the day Japan declared unconditional surrender.\textsuperscript{49}

The time of the Japanese surrender could not have been better for redeploying the CCP forces in Shandong. They were in an interval between two planned battles and could move anywhere almost immediately. When they received instructions from Yan’an at midnight on August 10, the leaders of the Shandong Bureau and the Shandong Military Region held an immediate meeting about the implementation. They decided to mobilize the resources under their control and identified Jinan, Qingdao and Xuzhou, along with the Jiaoji and Jinpu Railways, as the immediate targets to control. Before the Japanese surrender, the CCP forces in Shandong were in a military district system that fitted to situation of a severe shortage of supplies. In this system, the largest units were regiments. Those regiments were not intended for mobile operations. In order to increase mobility and meet the postwar situation, they were reorganized into divisions on August 13, 1945, with Mao’s approval. Within a few days of this troop reorganization, however, the

\textsuperscript{48} “中央关于造成控制山东全局的条件给山东分局的指示 (Central directive to the Shandong Bureau on facilitating control of the entire province of Shandong), August 6, 1945,” \textit{ibid}, 205-206.

\textsuperscript{49} “中央关于苏联参战后准备占有城市及交通要道的指示 (Central directive on being prepared to move into urban areas and control principal communication approaches after the Soviet Union’s entry into the war), August 10, 1945,” \textit{ibid}, 215-216; “中央关于日本投降后我党任务的决定 (Central decision on the CCP’s agenda following Japan’s surrender), August 11, 1945,” \textit{ibid}, 228-231.
situation at the national level and the regional level in Shandong had not unfolded as the CCP leaders had hoped.

At the national level, the CCP leaders found that their Soviet comrades were bound by the Sino-Soviet Friendship Treaty signed on August 14 and unable to assist them openly. The Soviet forces in Manchuria were awaiting the arrival of NRA forces and did not allow armed CCP units into that territory. Furthermore, Chiang Kaishek ordered the Japanese not to surrender to CCP forces. They were also waiting for the NRA’s arrival. At the regional level, Luo Ronghuan and his colleagues found that the CCP forces were insufficiently powerful to complete the mission of controlling the railways and metropolitan areas. They sent ultimatums to the Japanese commanders in Qingdao and Jinan who politely declined their demands. In the meantime, the Japanese escorted He Siyuan in one of their armoured railcars to Jinan. He Siyuan was the newly appointed provincial chairman of Shandong who had secretly arrived in Zhang Jingyue’s territory near Shouguang. Together with He, the Japanese also transported Zhang and his army into Jinan by train on August 18. The situation along the Jinpu Railway was not favourable for the CCP either. On August 20, Chiang Kaishek appointed Wu Huawen, who was in Benfu south of Xuzhou ready to move northward, as Commander of Jinan Garrison. But compared with those embarrassments, the battle of Linyi was a painful humiliation even though the CCP finally conquered the city.

The Japanese garrison stayed in that strategic city in southern Shandong until 16 August when they abandoned their Chinese collaborators and withdrew to Zaozhuang on the Jinpu Railway. The Shandong Bureau leaders including Luo, presumed that the
collaborators were demoralized and that a takeover of that city would not be difficult. To their surprise, the despised collaborators turned to be a group of dedicated soldiers such as they had not encountered in Shandong for years. Before the Japanese departure from Linyi, the collaborator garrison in Feixian withdrew into the walled city to join the local garrison. They made contact with the anti-Japanese GMD guerrillas under Wang Hongjiu’s command north of the walled city and formed an *ad hoc* anti-CCP coalition of about 4,000 men. The three CCP regiments besieged the city and launched a barrage of assaults on August 20 and 22, but were repulsed and suffered heavy casualties. It was not until September 11 that the CCP’s finally destroyed the garrison at Linyi after breaking the city wall through tunnel mines. The battle of Linyi revealed that the tactics of CCP forces were rudimentary. It would take them more than two years to become confident of their tactics in frontal assaults.

The tactical deficiencies revealed at Linyi, along with difficulties arising from the Japanese refusal to surrender to the CCP forces and the Soviet Red Army’s deference to the NRA, led Mao to put on hold his ambition of controlling the urban areas and the communication lines in between. In his instruction to CCP regional agencies and military regions on August 22, Mao stated that it was improbable that the CCP could control the metropolitan areas and stop the NRA forces. He ordered the CCP forces to switch their resources to small cities and to attempt to slow down the advance of the NRA troops,
particularly along the Jinpu Railway, the shortest route to Manchuria, in order to win time for the CCP forces to improve their position in that crucial region.\textsuperscript{50}

Earlier, Mao had sent a message to Luo Ronghuan and Li Yu. In that message of August 18, Mao ordered them to transfer all available soldiers and cadres who had originally come from Manchuria to a detachment under the command of Wan Yi, the former North-eastern Army commander, and to send them to their native region as soon as possible.\textsuperscript{51} On August 20, Mao ordered the CCP agencies in regions neighbouring Manchuria to send nine regiments to that area. The quota for the Shandong Bureau was two. Four regiments in all would be under Wan Yi’s command, drawn from the Shandong Bureau, the Hebei-Shandong-Henan Bureau and the Central Hebei Bureau.\textsuperscript{52} While Mao was urging CCP regional bureaus to move troops into Manchuria, Chiang Kaishek sent two invitation letters requesting face-to-face negotiations with Mao in Chongqing. On August 26, Mao decided to go after receiving Chiang’s third letter.

\textsuperscript{50} ZGZYWJXJ 15.243-244; see also: ibid. 245-246; ibid. 256; ibid. 257-259.
\textsuperscript{51} Annals of Luo Ronghuan, 435.
\textsuperscript{52} MZDJSWJ 3.45.
Mao considered that the popular longing for peace, diplomatic pressure from the United States, the Soviet Union and Britain along with the strength of the CCP, would all deter the GMD from starting a full civil war, particular when the CCP was ready to compromise. But Mao claimed that “compromise is possible only when both sides’ fundamental interests are not jeopardized.” He anticipated the course of negotiations with Chiang: expecting to begin with Guangdong and Hunan, then the regions south of the Yangzi River and next the north, and set CCP bargaining limits: “We must be dominant in the area north of Longhai Railway and Outer Mongolia.” If the CCP could not control at least that part of China, Mao stated, “There will be no peace agreement. We will have to be ready to go to prison. In the history of our party, there is so far no record of us putting down arms without a fierce fight.”

Mao flew to Chongqing in a US military plane on August 28, 1945, accompanied by Patrick Jay Hurley, the US Ambassador to China.

In order to improve the CCP’s position in Manchuria, the centre with Liu Shaoqi as the acting chairman telegraphed the regional authorities about moving more troops into that area. The Shandong Bureau was asked to send troops and cadres into Manchuria by sea as soon as possible. On the same day that the CCP forces finally controlled Linyi, Luo was asked to send to Manchuria four divisions of twelve regiments, about 25,000 to 30,000 men in all, under Xiao Hua’s command.

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53 Jin, Mao Zedong’s biography, 756.
The CCP’s active strategic redeployment provoked the strong interest of Huang Kecheng, a N4A divisional commander. On September 14, he submitted proposals about a post-war strategic redeployment for the potential civil war. He was pessimistic about the negotiations with the GMD, believing that Chiang was trying to buy time that would allow the NRA to control principal communication lines. As for the CCP forces, Huang frankly pointed out that despite their impressive size, only a few CCP units were tough enough for regular combat. Moreover, the CCP’s strategic areas were separated from one another. Therefore, Chiang’s strategy of buying time was actually threatening to the CCP and would make a showdown inevitable. In response to Chiang’s strategy, the CCP should be negotiating while also preparing decisive military battles in order to link the separated strategic areas in anticipation of a protracted civil war. Huang then put forward specific suggestions for preparing for decisive battles: 1) To send as many troops and cadres, or at least fifty thousand men including the best party and military leaders, to Manchuria for the purpose of turning that area into the home base area for the base areas south of the Great Wall; 2) To designate the region of Shanxi, Suiyuan and Chaha’er as a first strategic base area where at least 100,000 troops from the main forces should be deployed; 3) To make Shandong a second strategic base area where about 150,000 soldiers from the main force troops should be deployed; they were intended to control the whole province and Xuzhou; 4) To make the other base areas the satellite base areas around the above strategic base areas.\(^{54}\)

\(^{54}\)“黄克诚关于目前局势和方针的建议 (Huang Kecheng’s situation assessment and strategy suggestions), September 14, 1945,” *ZGZYWJXJ* 15.285.
In order to control those strategic base areas, Huang claimed that most of the areas south of the Longhai Railway would have to be given up and their troops redeployed northward. Among the redeployed soldiers, about thirty to sixty thousand should be moved into Shandong while thirty to fifty thousand Shandong soldiers should go to Manchuria. He pointed out straightforwardly that the Communist forces south of the Longhai Railway could not defeat the coming NRA troops. The First N4A Division under his command, he wrote, “is tough and the best of the N4A troops, but would be hopeless in battle against GMD forces. It would be only a matter of time before it would degenerate into a guerrilla unit when its communications northwards were cut. It would be colossal waste to use a battle-tested main force as guerrillas.” Finally, Huang pointed out that time was of the essence and that the sooner such suggestions were followed the better.55

Huang’s suggestions had an obvious effect. On September 17, Liu Shaoqi sent a telegram to Mao in Chongqing in the name of the CCP centre, proposing a strategy of “advancing northward and defending southward.” Mao approved on September 19 and on the same day the Shandong Bureau received an order from the CCP centre that it was to be renamed as the Eastern China Bureau with Rao Shushi, the former head of the Central China Bureau, as secretary, and Li Yu and Chen Yi, commanders of the N4A, as the deputy secretaries. Luo Ronghuan was to go to Manchuria. He departed for Dalian six weeks later, on November 5, from Longkou, west of Yantai. The Shandong Bureau existed until the redeployment was completed in December. By then, about 90,000 CCP

55. Ibid.
soldiers and 6,000 administrators had hurried into Manchuria. In the meantime, increasing numbers of N4A soldiers poured into Shandong from the south. Joining those soldiers from the Yangzi Valley was the East River Column from Guangdong. As a part of the CCP-GMD Agreement on October 1945, a US Navy vessel transported that force of 2,583 men to Yantai on July 5, 1946. By that time, the GMD-CCP conflict had escalated into a full-scale civil war.

7. Conclusion

Compared with their earlier performance, the Shandong Bureau leaders were more sophisticated when the anti-Japanese war ended. After ruining Chiang Kaishek’s rotation plan and forcing the regular NRA troops out of Shandong together with the provincial government, Luo Ronghuan adopted a cautious strategy of encroachment. This strategy enabled the Shandong Bureau to keep its momentum of territorial expansion and establish its hegemony in rural Shandong while infiltrating into urban areas without provoking retaliation from the Japanese and the GMD. In addition, it moved the CCP forces into a good position for advancing into Manchuria when the Japanese collapsed and brought about a good situation for Mao’s decision-making; either to work out a postwar power-sharing arrangement with Chiang Kaishek or to fight it out with him.
CHAPTER EIGHT

The birth of Red Banking and fiscal affairs in wartime China

In establishing a sizable army from scratch and out-lasting its GMD rivals in an isolated area behind the frontlines, the Shandong Bureau achieved a remarkable achievement. The rapid redeployment of 96,000 soldiers to Manchuria within four months while also accommodating the arrival of hundreds of thousands of N4A soldiers was a reflection of the effectiveness of Shandong Bureau’s supply system and material power. The core of this system was the North Sea Bank (Beihai Yinhang), was one of the three forerunners of the People’s Bank of China, China’s current central bank. Its banknotes, the beipiao (北票), spread from Shandong throughout eastern China and remained in circulation until December 1949. Its essential contribution to CCP’s national victory began to be recognized after Deng Xiaoping’s market reforms began in the late 1970s.¹ The North Sea Bank was not an independent commercial bank. Rather, it was a component of the CCP’s financial system, and was thus exposed to influences from the CCP officials. Because the North Sea Bank developed together with the CCP’s wartime financial system and out of financial decisions made by Mao, and account of these developments and decisions is given here. This account is will be the basis for exploring the structures of the North Sea Bank and the Shandong Bureau’s supply and financial system.

1. The CCP and Zhang Yutian

On June 30, 1943, the Shandong Bureau made a decision to eliminate the fabi, then the official currency of the Republic of China, from the markets in the CCP zones, and replace it with beipiao. The decision was announced through various media, including posters and the official CCP newspaper Dazhong ribao (Public Daily) on July 9, 1943. When the decision was announced, the use of fabi was immediately prohibited in the staple food trade, and it would be illegal for government employees and units to possess fabi after July 20. The fabi holders could exchange their fabi notes for beipiao at a ratio of 1:1 during the period of July 21-31 or at 2:1 during August 1-10. Privately-held fabi would be confiscated after August 10. This was the Shandong Bureau’s second attempt to prohibit the Nationalist currency. The officials concerned, especially Xue Muqiao, a first-rate economic specialist who promoted the campaign, were relieved when the fabi disappeared and did not return. The beipiao was the sole currency in the CCP zones in Shandong and elsewhere in East China until December 1949, a year after the North Sea Bank had been merged with two other banks, becoming part of the People’s Bank of China. It was an achievement that Zhang Yutian (张玉田), its principal founder, had never thought of when he established the bank in 1938. Zhang, however, had


3. “中共山东分局关于停用法币的指示 (Directive from the Shandong Bureau on eliminating the fabi); “滨海专署关于停用法币的决定 (Decision of the Binhai Commissioner’s Office on eliminating fabi),” ZGGMGJDBHYHSL 1.301-303.

been executed in Qingdao in 1946 because of the rivalry between Zhao Baoyuan, his former patron, and Li Xianliang (李先良), the mayor of Qingdao.⁵

The original purpose of the North Sea Bank was to supply the nascent anti-Japanese coalition in Yexian (掖县, now Laizhou) on the northern end of Jiaodong Peninsula, southwest of Yantai, the main component of the coalition was the CCP’s Third Corps. Following the Tianfushan Uprising of December 24, 1937 east of Yantai, the first leaders of the corps were Li Qi, the Secretary of the Jiaodong tewei (special committee), and Yu Deshui, a survivor of the CCP rebellion in November 1935 in the nearby Kunyu Mountains.⁶ Like the CCP forces elsewhere in Shandong then, the Third Corps lacked a supply system and was dependent upon grain collections or donations of ready-to-eat foods. Its soldiers went to peasant families for meals and other necessities. Lacking means of payment, they left receipts.⁷ On February 13, 1938, Li Qi led his Third Corps as it raided and occupied walled town of Muping for a day. Encouraged by the raid of Muping, the CCP in Yexian took actions.⁸

The leaders of the CCP network in Yexian were Zhang Jialuo (张加洛) and Zheng Yaonan (郑耀南), both natives of Yexian. The former was born in 1919 to a poor family


⁶ See: Diagram 1.


which migrated to Manchuria, returning to Yexian when Zhang was ten years old. After being admitted to a local secondary school, Zhang joined the CCP’s underground network. After graduation, he was instructed to join the Northeastern Army. In October 1937 he was ordered to return to Yexian to organize uprisings. Zheng was born in 1909, and became a CCP leader in Jiaodong as early as 1928. After the Japanese occupied Qingdao and Yantai in late December 1937, they established a united front with local GMD members and occupied in Yexian in early March 1938. Their joint force was named as the Third Anti-Japanese Guerrilla Detachment of the Jiaodong People, or *Jiaodong renmin kangri youji di san zhidui* (胶东人民抗日游击第三支队). A CCP sympathizer was appointed as the new county head. A new CCP-led United Front government thus came into being.

From the very beginning, the leaders of the Third Detachment gave extraordinary attention to financial affairs. A financial committee was established to plan the budget and projected a monthly income for the detachment of 300,000 *fabi yuan*: half collected as taxes on salt and other items, and half from the “patriotic taxes” levied on local merchants and landowners. The Third Detachment soon began transferring revenue to

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10. Ibid, 283.


12. Ibid. 292.
the Shandong Bureau. Moreover, Committee members had the idea of issuing currency, although this issue was not placed on the agenda until the arrival of Zhang Yutian.

Zhang Yutian, a Yexian native, was the general manager of a private bank in Qingdao until 1935 when the bank was temporarily closed by government order. Before the fall of Qingdao in December 1937, Zhang had been deputy chairman of the Qingdao stock market, General Manager of a Fishing Company, and a regular member of both the Municipal Commercial Commission and the Banking Association. On the eve of fall of Qingdao, Zhang Yutian left for his home village with his money and two automobiles via Pingdu (平度), while his colleagues moved to Tianjin, Shanghai or to Chongqing. There was an anti-Japanese force led by Zhang Jinming (张金铭), a former secondary school headmaster. He heard of Zhang Yutian’s return, Zhang Jinming invited the latter to join his force, but was turned down. He then tried to kidnap Zhang Yutian, who fled to Yexian, seeking sanctuary with his son who was an official in the new county government established by the Third Detachment. Zhang Jinming seized Zhang Yutian’s money and property.

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14. Ibid. 18. Li Zhuochang, a contemporary of Zhang Jialuo had a different account. He claimed that it was Zhang Yutian who put forward the idea of establishing a bank at first. (See: Li Zuochang, “李佐长的复信 (Li Changzuo’s reply),” ibid, 107.

When Zheng Yaonan heard of the banker’s situation, he immediately sent 200 yuan to Zhang Yutian. Zhang was appreciative and made a courtesy call to the headquarters of the Third Detachment. In his meeting with Zheng Yaonan and Zhang Jiaoluo, Zhang Yutian expressed his willingness to assist them. The arrival of Zhang coincided with the discussion on issuing currency. Zheng and Zhang Jiaolo then paid a return visit to Zhang Yutian. Zheng stated that the Third Detachment wished to issue its own currency and asked him if he could take care of it. Zhang Yutian was enthusiastic, saying, “I have no expertise other than banking. I have been working in the finance industry for two decades and know how to establish banks and issue banknotes. As long as you trust me, I can carry this out.” Zheng then inquired about the necessities for establishing a bank and issuing banknotes. Zhang answered that the only necessity was a certain amount of capital, and he could have all the rest done. Zheng then asked the amount. Zhang answered that it would be from 200,000 to 300,000 yuan. Zheng immediately promised him 250,000. Zheng and Zhang Jialuo then invited him into the Financial Committee as its deputy director and gave him a full mandate for establishing the bank. This was in May 1938.

2. The CCP Jiaodong Authority, Zhang Yutian and the birth and dissolution of North Sea Bank

A few days after it gave Zhang Yutian the full mandate for establishing a bank, the Third Detachment entered a struggle against Zhang Jinming, who wished to take over

17. Li, op.cit, 107.
18. Ibid; Zhang, op.cit, 19.
Yexian and the Third Detachment. Facing overwhelming numbers, Zhang Jialuo and Zheng Yaonan sought help from neighbouring CCP forces, the Third Corps in Muping and the Eighth Eastern Shandong Detachment in Changyi (昌邑), and repulsed the attack after a month-long fight. The CCP-GMD coalition which had founded the Third Detachment fell apart, however, because of quarrels between GMD and CCP members. On July 6, Zhang Jialuo and Zheng Yaonan launched a coup and executed all GMD members in the Detachment’s headquarters. In August they merged the Third Detachment into the Third Corps, which in September became the Fifth Detachment of the Shandong Column of the 8RA, under the direct command of the CCP Special Committee in Jiaodong. The commander of the Fifth Detachment was Gao Jinchun (高锦纯).

Before the merger of military forces occurred, the Jiaodong Special Committee merged the CCP administrative agencies in Yexian, Huangxian and Penglai into a new Commissioner’s Office of the North Sea Administrative Zone (Beihai xingzheng ducha zhuanyuan gongshu 北海行政督察专员公署), and appointed Cao Manzhi (曹漫之) as commissioner on August 15. The registered area under the Office was 3,177 square kilometres in size and the population was 1.63 million.19 This CCP administrative area, in which the Fifth Detachment operated, is often termed the Peng-Huang-Ye Base Area in PRC sources. This CCP authority was rudimentary, weak and threatened by the powerful competitors surrounding it. Almost immediately after its establishment in September, the Fifth Detachment devoted itself to a defence against the attack by a coalition of Liu

19. 中共山东省委党史研究室(History Unit of the CCP Shandong Provincial Committee), Chronology of the CCP in Shandong during the New Democratic Revolution, 192.
Guitang (刘桂堂), Zhang Buyun (张步云), Zhang Zongyuan (张宗援), and Zhao Baoyuan (赵保原). During the summer and fall of 1938, Zhang Jiaoluo, Zheng Yaonan and other CCP leaders were so occupied with external and internal crises that they did not even ask about the establishment of the bank. Zhang Yutian was working almost on his own and only occasionally reported his progress.

Zhang Yutian recruited seven bank employees with whom he was acquainted, including Xing Yansong, who had worked in Qingdao or Yantai before the war, and had sought refuge in their hometowns. Zhang and his colleagues chose the name North Sea Bank because of the location of Yexian facing the Gulf of Bohai on the north, and in an allusion to a local Chinese New Year couplet in which “North Sea” signified long-lasting fortune. In August, Zhang printed the first banknotes in ten fen, twenty fen, fifty fen and one yuan denomination in Yexian and immediately distributed them in local markets.20 The exchange ratio with the fabi was 1:1. On December 1, 1938, the bank was officially inaugurated with Zhang as its general manager. Gao Jinchun and Zheng Yaonan attended the opening ceremony and gave brief speeches.21 Separate branches of the North Sea Bank were established soon afterwards in Huangxian and Penglai.

20. “邢松岩同志谈北海银行筹建与开业情况 (Comrade Xing Songyan talks about the birth and early days of North Sea Bank),” ZGGMGJDBHYHSL 1.28. Xing Songyan recalled in 1988 that the name of the Bank of North Sea came from Gao Jinchun, the commander of the 5th Detachment (See: Xing, op.cit, BHYHSZJNW 109). His memory must have been good at that point, as the 5th Detachment did not come into being until September, but the first banknotes were printed in August. [See: 孙守源 (Sun Shouyuan), “北海银行的创立及其最初印发的纸币 (The establishment of North Sea Bank and its first banknotes),” 中国钱币 (The Chinese Currencies), no. 2, (1993): 56-60]

21. Ibid.
Because Zhang and his colleagues were experienced in local banking, the entire process of the establishment of the North Sea Bank was smooth, although it involved risks. There was a risk involved in smuggling the essential Dowling paper and copperplates from occupied zones. Zhang went to Tianjin himself to purchase the paper through his contacts there. With their help, he shipped this back by sea to a harbour close to Yexian. The copperplates were made by Ban Pengzhi (班鹏志) in his office in Qingdao. One of Ban’s employees designed the banknotes. Ban knew that his clients were CCP men. As it was too risky to take the eight copperplates through Japanese checkpoints, Ban mailed them to the printer in Yexian through a friend working in the post office. Soon after the paper and copperplates arrived, a Yexian local printer produced the first run of notes, totalling 95,000 yuan in value.

At the time beipiao became available in Yexian, there were various currencies in circulation. Unlike in southern China where the fabi was dominant, there was no unified currency in North China before the war. The Japanese invasion caused a chaotic situation to deteriorate further. As elsewhere in Jiaodong, there circulated in Yexian besides the fabi and the notes of the Joint Preparation Bank Of China (中国联合准备银行), notes of “central bank” of the collaborationist regime in North China, along with banknotes from Han Fuju’s Minsheng Bank (民生银行) that the Japanese had taken over. In addition,

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22. Sun, op.cit, 57.


24. 范心然同志谈北海币的发行情况 (Comrade Fan Xinran talks about the issuing of beipiao,” ibid, 26-27; “刘涤生同志谈北海币的印制情况 (Comrade Liu Disheng’s talk about the printing of beipiao,” ibid, 27.
many local strongmen and influential enterprises issued their own currencies. In the CCP and GMD literature, banknotes from collaborationist regimes were termed as weichao (伪钞, puppet currencies); all the rest were zabi, zachao (杂币, 杂钞: miscellaneous currencies) or tuzabi (土杂币: local miscellaneous currencies).

The print quality of the beipiao was better than zabi, impressing the local residents. But that was then the beipiao’s only distinction. The Third Detachment and its successor Fifth Detachment did not keep Zheng Yaonan’s promise to Zhang Yutian of 250,000 yuan in the spring. It did not invest a penny. Other CCP-led agencies did not fulfill their promised investment either. (See the table below)

Table 2.1  Initial Investment in the North Sea Bank

<table>
<thead>
<tr>
<th>Investor</th>
<th>Promised Amount</th>
<th>Actual Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 5th Detachment</td>
<td>75,000</td>
<td>0</td>
</tr>
<tr>
<td>Yexian Economic Committee</td>
<td>65,000</td>
<td>55,672.02</td>
</tr>
<tr>
<td>Huangxian Economic Committee</td>
<td>55,000</td>
<td>45,664.545</td>
</tr>
<tr>
<td>Penglai Economic Committee</td>
<td>55,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>250,000</strong></td>
<td><strong>101,336.545</strong></td>
</tr>
</tbody>
</table>

Except for a limited number of shares purchased by merchants in Yexian and Huangxian, most of the investment came from administratively assigned household of (delete)fees (tanpai 摊派), levied on villagers through the CCP-controlled government structure. The purchasers received informal receipts. These villagers did not view the

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25. Xing, op.cit, BHYWSZNJNW 111.


27. Sun, op.cit, 58; “关于北海银行创建时的民股及发还情况 (Share issues and cash in the North Sea Bank during its early days),” ZGGMGJDBHYHSL 1.31.
receipts as shares but regarded them as further *tanpai*. They did not think them worth preserving, especially after the CCP army was forced out of the walled city of Yexian in January 1939 after a two-month battle.28

The battle for the defence of Yexian began in October 1938 when a coalition force led by Zhang Buyun (张步云) and Liu Guitang (刘桂堂), two leaders known as bandits, together with Zhang Zongyuan (张宗援), a Chinese-speaking Japanese mercenary, and Zhao Baoyuan (赵保原) who commanded a puppet brigade from Manchukuo, tried to take control the coastal area comprising Penglai, Huangxian and Yexian. But Zhao, the most powerful member of the coalition, switched sides and withdrew from the coalition in November. The improved situation altered at the end of December when one regiment and two other battalions of the Fifth Detachment were called to the Yimeng mountains to reinforce the CCP forces there.29 Taking the opportunity, Zhang Zongyuan and Liu Guitang launched an offensive towards Yexian in early January and forced the Fifth Detachment out of Yexian on the afternoon of January 16, 1939.

About two weeks before the fall of Yexian, the North Sea Bank received a withdrawal order on December 30 and left the city immediately for Huangxian with the documents, copperplates and about 480,000 *yuan* in *fabi* and other currencies in cash in

28. Ibid.

29. Jia, op.cit, 133.
two unguarded rented carts.30 On their way, Zhang Yutian reached the leaders of the Fifth Detachment and asked them to take care of the treasury but was not successful.31 It took Zhang Yutian and his staff six days to arrive at Huangxian. In Huangxian, Zhang Yutian did not feel safe carrying the documents and the copperplates through the tumult. So he stored them in the home of one of his friends nearby. A month later, Huangxian fell. Zhang Yutian and his staff moved several times, but discovered each time that they were followed by Zhang Zongyuan, the Japanese mercenary. Zhang Yutian realized that the mercenary intended to seize the bank, and made a decision to dissolve it. Around that time, the Jiaodong Special Committee dissolved its Commissioner’s Office after Cai Jinkang, Commissioner of the Ninth Administrative Zone, agreed to pay the CCP 20,000 yuan per month.32

At that point, Zhang Yutian must have been disappointed with the CCP. In addition to the CCP leaders’ unrealized investment promise and their carelessness during the withdrawal, they arrested his only son, Zhang Zhonghou who served in the CCP-led government. His son, a graduate from a college in Japan, was alleged to be a Trotskyist and was to receive the death penalty. He escaped execution because of Zheng Yaonan’s determined intervention.33 After dissolving the bank, Zhang Yutian did not work formally for the CCP again, although he stayed in contact, returning the bank documents and

30. Fan Xinran claims that the treasure that the BY brought out Yexian was five times more than the beipiao it issued (See: 范心然 (Fan Xinran), “北海银行撤出掖县前后 (Before and after North Sea Bank’s withdrawal from Yexian),” BHYHWSZNJNW 114.

31. Xing, op.cit, 112.


33. Zhang, op.cit, 22.
copperplates and later helping in printing beipiao. He was a long-time acquaintance of Zhao Baoyuan. In early 1939, Zhao and the CCP were allies in the Anti-Japanese Coalition Forces in Eastern Shandong (Ludong kangri lianjun 鲁东抗日联军), with Zhao as the commander. Zhao asked the CCP for Zhang’s service, and the latter agreed. Zhao appointed Zhang Yutian as a county head, and possibly as his chief financial officer as well.

Before Zhang left, both Zheng Yaonan and Zhang Jialuo had been called to Yan’an to report the situation in Jiaodong and would stay in Yan’an for the remainder of the wartime period. “It is hard to say if Zhang Yutian would have left had Zheng and I stayed in Jiaodong,” Zhang Jialuo claimed in the 1980s; “Zhang Yutian assumed the entire responsibility of establishing the North Sea Bank. He worked hard. His contribution is immortal.”34 Zhang Yutian’s departure, he acknowledged, was “doubtless the result of the incorrect policy of the CCP in Jiaodong. It was a result of Leftist thinking. It was a costly lesson.”35 In his view, Zhang’s son’s brush with death destroyed Zhang’s trust in the CCP.36

3. Mao’s financial anxieties and his Intervention in North Sea Bank

The dissolution of the North Sea Bank occurred at when the 115th Division of the 8RA was on its way to Shandong, sent by Mao as part of a new strategic expansion following

34. Zhang, op.cit.
35. Ibid.
36. Ibid.
the Battle of Wuhan. Mao’s plan included establishing strategic base areas en route to the Yangzi Valley through the interprovincial border areas between Shandong, Jiangsu, Anhui and Henan. To control Shandong, especially the Yimeng mountains, was an essential part of the strategy. Despite their strategic value in approaching Central China, the Yimeng mountains were an area of poverty. The CCP presence there, consisting of the Fourth Detachment of the Shandong Column and the provincial leadership, was dependent on financial aid from the Third/Fifth Detachment. Although the amount of aid is unknown, the following accounts reflect its significance. Zhang Jialuo recalled:

“During the period from the second half [of 1938] to the beginning of 1939, the means for the Jiaodong Party Committee to assist the Shandong Bureau was still to send banknotes from the three banks [fabi notes issued by the Bank of China, the Bank of Communications and the Central Bank]. Every group of cadres going to Lunan [the Yimeng mountains] carried 50,000 to 100,000 yuan.” 37 Zhang’s official biography states that the Third Detachment “provided the Jiaodong District Provincial Committee and the Shandong Bureau with a significant amount of caikuan (财款), literally “treasure and cash.” 38 The cai (财, treasure) must have been gold. Jiaodong has been one of the principal gold producing areas in China since the seventh century BC. 39 The most productive gold mine in Jiaodong was in Linglong (玲珑) in Zhaoyuan (招远), one of the counties neighbouring Yexian. In July 1938, the Jiaodong Special Committee established a Zhaoyuan Gold Mining Management Committee (Zhaoyuan caijin guanli weiyuanhui,

37. Zhang, op.cit, 17.
38. Jia, op.cit, 308.
The committees controlled the unofficially produced gold by sending covert purchasing agents to make contact with the miners. A significant portion of the gold was sent to Yan’an and the Shandong Bureau. Because the financial aid from the Fifth Detachment to CCP comrades in the Yimeng mountains was so precious, the Communists there nicknamed their comrades in Jiaodong the *Wushaoye* (少爷 “honourable fifth elders”) and always looked forward to their arrival. Whenever they came, the CCP forces in the Yimeng mountains would receive allowances that made their days less difficult.

The financial contribution of the Jiaodong CCP and their achievements in financial affairs not only attracted Mao’s special attention, but also coincided with his anxiety over the CCP’s potential financial crisis in the post-Wuhan period of war. The CCP army had been suffering from financial and supply shortages since birth. After its arrival in North Shaanxi in the fall of 1935 and until the 8RA’s deployment in Shanxi in August 1937, its military campaigns such as the incursion into Shanxi in the spring 1936,

40. Ibid, 271


42. Cheng Kaxi claimed that the first arrival of the Zhaoyuan gold to Yan’an was in 1940; and that during the year 1940 more than twenty thousand *liang* of gold reached Yan’an from Zhaoyuan. But few details about amounts and arrival times have been revealed.

43. 刘涤生 (Liu Disheng), “从胶东分行到鲁中分行 (From the Jiaodong branch to the central Shandong branch),” *BHYHSZJNW* 121.
the unsuccessful battle for Ningxia, and the disastrous expedition to Xinjiang in the fall of the year, all were intended to secure supplies. As a part of the GMD-CCP agreement after the Xi’an Incident, the CCP began to receive monthly funding from the National Government in addition to food supplies as early as March 1937. After the CCP reorganized its army into the NRA in August 1937, GMD funding rapidly increased. The CCP leaders complained that the funds fell short of their requirements and repeatedly requested financial aid from the Soviet Union. Nonetheless, about 60% of the income of the CCP’s Shaan-Gan-Ning Border Region Administration came from the Nationalist government during the period from July 1937 to October 1940. Given that “external aid” was over 90% of the income of the CCP Border Region Administration in 1939, the portion in 1938 was probably higher.

Financial dependence upon the GMD was not compatible with Mao’s strategy of expansion after the Battle of Wuhan. In addition, as the war against Japan entered a stalemate phase, the GMD fell into increasing financial difficulties. Mao was especially concerned with the economic and financial affairs and outlined a wartime economic policy in his report to the CCP’s Sixth Plenum in mid-October 1938.

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44. See: Chapter Two, 37-38.
45. Huang, op.cit, 2. 1215.
The first priority in Mao’s policy was the promotion of production in industry, agriculture and handicrafts through political agitation, wage increases, management innovation and low interest loans from state banks. The second priority was the promotion of trade through protection of private entrepreneurs and the development of collective enterprises. The third was revenue reform. Mao asked for termination of the old practice of tanpai and its replacement with progressive taxation (you qian chu qian有钱出钱, “those who have money contribute”). The fourth priority was government bonds and grain collection in a “national salvation public grain” system (jiuguo gongliang 救国公粮). The fifth was to “permit [local authorities] to establish banks and issue banknotes in isolated regions to compete against the weichao [currencies issued by collaborationist regimes]”. The sixth was to launch campaigns against corruption and waste, and carry out wage reforms. Mao’s seventh priority was to restore and develop postal services in the war zones. In the end, he emphasized that because China’s urban areas and essential communication lines were under Japanese occupation, resources for the war effort would be drawn mainly from the rural areas.

The CCP plenum endorsed Mao’s report, placing his calls for a new wartime economic and financial policy in the form of a resolution. A month later, Mao

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49. Ibid, 615-616.
50. “The Political Resolution of the CCP Extended Sixth Plenum (The new phase of the patriotic war and the national united front against the Japanese invasion: Comrade Mao Zedong’s report was accepted as a resolution at the CCP Extended Sixth Plenum on November 6 1938),” ibid, 752.
emphasized the potential financial crisis to senior 8RA cadres on December 8, 1938: “Although we lack funds, we do have some money; although our food is certainly not good, we can eat. We have to prepare for the day when we have no money and no food. We will have no more than three options. The first will be to starve. The second will be to disband. If we do not want to starve or to disband, we will have to produce what we need ourselves. This is our third option.”

In Mao’s production-focused wartime economic policy, banking was expected to play an essential role in both production and trade. He spoke only generally about this at the Sixth Plenum, however, using the term “permit [local authorities] to establish banks.” This was because his report and the plenum’s resolutions would be sent to the GMD leadership in Chongqing. In an agreement between the CCP and the Nationalist government, the Bank of the Shaan-Gan-Ning Border Area had been established in Yan’an on October 1, 1937. This bank handled the transfer the government funds to the CCP and financial transfers within the CCP administration. It could not operate in public or issue banknotes. The North Sea Bank created out of local CCP initiative exactly matched Mao’s criteria and did not ask for any help from Yan’an.

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Mao must have been disappointed by the dissolution of North Sea Bank in February 1939. Chiang Kaishek had outlined his intention to integrate the CCP into the GMD before the opening of the GMD’s Fifth Plenum in late January 1939. The CCP in Hebei and Shandong then entered a struggle against Lu Zhonglin and Shen Honglie, the respective chairmen of the two provinces, because of Shen’s efforts to restore the pre-war administration and incorporate the CCP armies into his own, especially their command structures. Taking advantage of the escalating conflict, Mao on February 10, 1939, indirectly criticized the CCP leaders of the two provinces by asking them to stand fast, saying “determined counterattacks against those unjustified attacks are necessary; never speak about concession easily”.53 He told the CCP agencies that “the government’s funding is so insufficient that the 8RA and its guerrillas have to find ways to feed themselves locally…It will be so in the future. [The 8RA] cannot fight on empty stomach.”54

On March 31, the Taihe Incident occurred when a pro-GMD unit under Qin Qirong’s influence broke its promise to a CCP contingent of five hundred who had received permission to pass by and attacked them. This time Mao criticized the Shandong Bureau with a direct reference to the North Sea Bank.55 He ordered the CCP to make no further concessions related to administrative authorities (zhengquan), especially

53. “中央关于华北各地摩擦问题的指示 (Central directive on frictions with the GMD in North China), February 10, 1939,” ZGZYWJXJ 12, 24.

54. Ibid.

55. “中央对山东问题之处置办法 (Central strategy toward the Shandong issue), April, 1939,” SDGMLSDAZLXB 4.6
in Jiaodong.56 After the reprisal campaign against Qin Qirong, and after the 115th
Division broke out from a Japanese encirclement in Lufang, a small township in western
Shandong, Mao ordered the Central Secretariat to send the Shandong Bureau two mildly
worded instructions in mid-May. The first was specifically about Jiaodong. In his
telegram on May 13, 1939, Mao praised the local CCP leaders’ achievement and
encouraged them to consolidate their bases. Regarding financial affairs, Mao reminded
them not to overtax the merchants.57 In contrast to that affirmative message, he reminded
the Shandong Bureau in a telegram on May 19 to prepare for long-continuing friction
with the GMD, urging the defence of revenue systems.58

Earlier, the Shandong Bureau had responded to Mao’s instructions with a
resolution on February 23, 1939.59 In the resolution, the Shandong Bureau leaders vowed
to defend the CCP authorities in Yexian and to continue with revenue-raising.60 The
restoration of the bank and renewed issuing banknotes were placed on its agenda.61 In the
summary reported to Yan’an, economic and financial objectives were listed as follows:

1) Achieve economic self-sufficiency;

56. Ibid.

57. “中央关于胶东工作的指示 (Central directive on the work in Jiaodong), May 13, 1939,” ibid, 69.

58. “中央关于山东工作方针的指示 (Central directive on policies in Shandong), May 19, 1939,” ibid, 70.

59. Guo Hongtao’s memoir, 143.

60. “山东分局对苏鲁工作的决定 (Resolution of the Shandong Bureau on the agenda in Shandong and
Jiangsu), February 23, 1939,” SDGMLSDAZLYB 4.52.

61. “苏鲁皖分局关于当前各项工作情况的报告 (Report on Current Operations by the Jiangsu Shandong-
Anhui Bureau), March 11, 1939,” ibid, 53-54.
2) Develop and reorganize command of financial work in Jiaodong;
3) Promote commerce and collective enterprises;
4) Restore banks and promote the circulation of banknotes;
5) Establish a unified budget and supply system;
6) Promote savings and anti-corruption measures;
7) Promote development of the military supply industry, and increase the output of machineguns, rifles and ammunition. 62

The Shandong Bureau’s response on May 19 to Mao’s later instruction was a directive to the CCP leadership in Jiaodong. It ordered that “the established authorities in the counties of Penglai, Huangian and Yexian must be defended resolutely,” and that “North Sea Bank must be run well under our control and developed into a provincial agency.” 63 Restoration of the North Sea Bank was thus placed on the agenda, which, together with Mao’s warning on overtaxing merchants, reflected the CCP’s progress in developing wartime financial and economic policies.

4. Working towards an equitable taxation system

Earlier, the CCP’s wartime financial policy was a basic one of “fair-sharing of burdens” (heli fudan合理负担). This policy appeared in the earliest wartime administrative orders of the Second War Theatre under Yan Xishan and was then copied.

62. Ibid, 54.

63. “山东分局对胶东今后工作意见 (Views of the Shandong Bureau on future operations in Jiaodong), May 1939,” ibid, 72.
by the CCP. In a roadmap for the war, the *Ten major principles of Anti-Japanese national salvation* (*Kangri jiuguo shida gangling* 抗日救国十大纲领) announced on August 25, 1937, Mao defined the CCP wartime financial policy as “the principle of assumption of financial responsibility by the wealthy and of confiscation of the property of collaborators (*hanjian* 汉奸).” As the war spread into Shanxi, the CCP found Yan’s policy to be better and adopted it. In northern Shanxi, where the CCP forces were first engaged against the Japanese and where administrative systems had collapsed in the face of the Japanese advance, the fair-sharing of burdens policy created unexpected confusion. Peng Zhen, a senior CCP cadre, recalled that in the absence of a unified budget and supply agency, the troops had to find food while using “fair-sharing of burdens” as a slogan. He reported to Yan’an that “A great deal of waste and corruption occurred, but little money or food [for the CCP government] was collected. The people were complaining, and Heaven became furious (*tiān wù rén yuàn*). Many landowners fled to the occupied zones.” Although the difficulties eased after the CCP’s administrative authority was established, the CCP’s progressive taxation policy imposed the entire burden on just 20-30 percent of the entire population, or 10% in some areas while 70-80% of the peasant households were free of material and monetary obligations. Some landowners had to surrender all their rental income to pay taxes. The so-called fair-sharing policy was actually not equitable.

64. *Finance and economy in the anti-Japanese base areas*, 12.


A similar situation occurred in Shandong when the CCP tried for a year and half to implement the fair-sharing policy in its recently controlled areas. The situation became so serious that on August 21, 1939, Zhang Jinwu, commander of Shandong Column, and Guo Hongtao directly asked Yan’an to terminate the fair-sharing of burdens policy.\(^69\) They claimed that a precondition for implementing the fair-sharing policy was the existence of a property-registration system, which was not yet available in Shandong. The steeply progressive tax rate, which freed most population from taxation duties, threatened to bankrupt the rich peasants (\textit{funong}, 富农) and petty landowners (\textit{xiaodizhu}, 小地主) and drive them into the enemy’s embrace, thus reducing the CCP revenue. In the absence of a unified tax collection agency, the administrative offices at the county and village level resorted to the traditional \textit{tianfu} system to meet “fair-sharing” quotas, exacerbating the situation.\(^70\) Zhang Jinwu and Guo Hongtao suggested that the fair-sharing policy could be replaced with a regular progressive taxation system that covered most population.\(^71\)

As an essential component of the taxation system, Zhang Jingsu and Guo Hongtao suggested that a property registration system should be introduced. Landholders would be

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\(^{68}\) Ibid, 12.

\(^{69}\) The date in the original document is incorrect: August 21, 1938. To keep the original document intact, the editors placed it with others from 1938 with an explanation. [See: \textit{山东革命历史档案资料选编目录索引} (The Index of \textit{SDGMLSDAZLXB}, Jinan: Shandong renmin chubanshe, 1986): 3, 28-29].

\(^{70}\) “\textit{山东分局关于实行统累税的请求报告} (Shandong Bureau’s report for implementing progressive taxation), August 21, 1938,” \textit{SDGMLSDAZLXB} 4. 21-22; See Chapter Nine for details about \textit{tianfu}.

\(^{71}\) Ibid.
classified into several categories. Peasants would report the value of their products according to market prices. Certain items produced and sold by low-income peasant families would be tax-free, as would the goods of petty merchants. Property registration was to be carried out by property evaluation boards in each administrative unit such as a village. Potential taxpayers would report their property to the board and then arrive at public agreement on its value. The board members would establish assessment of property value after attending the public property-evaluation meetings.\textsuperscript{72} Zhang and Guo suggested that the tax imposed upon the poor peasants (\textit{pinnong}, 贫农) and the middle peasants (\textit{zhongnong}, 中农) should be limited to 5\% of their annual income; rich peasants (\textit{funong}) would pay 10\%; small landholders (\textit{xiaodizhu}) 20\%; middle landholders (\textit{zhongdizhu}, 中地主) 30\%; and large landowners (\textit{dadizhu}, 大地主) 35\%.\textsuperscript{73}

5. \textit{Structure of the CCP’s financial-economic system}

In spite of the problems aggravated by “fair-sharing of burdens” policy, it was not replaced officially with the regular progressive taxation policy until September 18, 1940.\textsuperscript{74} Mao did not discourage regional leaders from pursuing their own initiatives, however. Mao’s attention was focused instead on building a financial system after he adopted a confrontational policy against the GMD in early June 1939. His first instruction was an order, in the name of the Central Secretariat, to establish a unified system of

\textsuperscript{72} Ibid.

\textsuperscript{73} Ibid.

\textsuperscript{74} “\textit{中央关于统税问题的指示} (Central directive on the issue of progressive taxation), September 18, 1940,” \textit{ZGZYWJXJ} 12. 494-495.
revenue, bookkeeping and budgeting in each CCP base area.\textsuperscript{75} It was regulated that none of the CCP agencies and troops were permitted to spend collected revenue before reporting to Yan’an. Every CCP state-owned enterprise (公营企业) must be under the leadership of one of the chains of command, either the Party, the military, or the government. No unit was allowed to spend income before it was reported to the central treasury. Each unit must establish a monthly budget system, and submit its budget beforehand to the central treasury for approval and provide receipts afterwards strictly according to deadline. Those who did not meet their deadline would not receive their grants. It was declared that an office of bookkeeping and an audit office would be established in the central treasury.\textsuperscript{76}

The result of Mao’s avoidance of decision-making on the “fair-sharing” taxation policy was a \textit{de facto} policy of \textit{laissez-faire} for the regional leaders. In neighbouring Shanxi province, where the CCP’s infiltration into Yan Xishan’s army led to a province-wide civil war during the period from December 1939 to March 1940, the CCP maintained a discriminatory fair-sharing policy and even radicalized it. By December 1939, this policy and the provincial civil war led to financial collapse and severe food shortages in western Shanxi.\textsuperscript{77} Economic difficulties quickly spread across the CCP zones in Shanxi, fragmenting the fragile communities and increasing hostility to the

\textsuperscript{75} “\textit{中央关于严格建财政经济制度的决定} (Central decision regarding the establishment of a system of strict financial discipline), June 5, 1939,” \textit{ZGZYWJXJ} 12. 78-79.

\textsuperscript{76} Ibid, 78-79.

\textsuperscript{77} \textit{Chronology of economic affairs in the Chinese revolutionary base areas, 1937-1949}, 9.
In directives to CCP regional leaders on February 1, 1940, the Central Secretariat stated that financial and economic work was an essential part of the war effort. The CCP regional agencies were required to develop plans for financial and economic development and report them to Yan’an within a month. The instructions also outlined the structure that would serve as the base of the CCP party-state administration until the 1980s. It stated that planning would be divided into “Economy” and “Finance.” Under Economy would be three sections: agriculture, industry and commerce. The Central Secretariat also instructed that the central bureaus such as the North China Bureau (zhongyangju), sub-bureaus such the Shandong Bureau (fenju) and provincial committees must all have a Finance Committee. This committee was intended for planning and reviewing financial lessons, and should not displace the administrative agencies. In addition, the CCP regional bureaus were reminded of their financial obligations to Yan’an, “All [regional] agencies have the obligation to offer financial aid to the centre. With the exception of the Shandong Bureau which already has a quota, the other agencies should contact the central treasury to determine the amount of their financial obligations.”

78. Bo Yibo, op.cit, 301; Deng Xiaoping, 邓小平自述 (Deng Xiaoping’s autobiography, (Beijing: Jiefangjun chubanshe, 2004): 95.

79. The full name for the committee was “committee for finance and economy” (caizheng jingji weiyuanhui, 财政经济委员会). The short form of this name in Chinese is caijingwei. For the sake of convenience, this short term is translated as “Finance Committee.”
Central Secretariat also called for a “Spring Sowing Campaign” to be launched. On the next day, the Secretariat and the Central Military Commission instructed the CCP military commanders and the cadres in economic and financial affairs to establish training schools or enroll in courses in economics in CCP cadre and military schools. On March 23, 1940, Mao ordered the CCP regional authorities to establish trade bureaus (maoyiju, 贸易局) to control the flow of goods between the CCP and the occupied zones.

Although the instructions summarized above left permanent footprints in the CCP’s financial and economic institution, the calls for a mass campaign to lead the spring sowing proved to be a failure. The CCP authorities sent office workers to the villages and organized 3,828 “sowing teams” totalling 56,000 men. The campaign was superficial and did not help to ease food supply difficulties. It was not until April 1 that the North China Bureau began to replace the fair-sharing of burdens policy with institution-building. This was the prelude of a new economic and financial policy. In addition to emphasizing discipline in the unified budget systems, the North China Bureau ordered restoration of the tianfu (田赋), a traditional integrated land tax and monetized corvée, which was the

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80. “中央关于财经工作的指示 (Central directive on financial work), February 1, 1940,” ZGZYWJXJ 12. 266-267.

81. “中央、军委关于培养财经人员理论知识分子和技能的指示 (Directive of the CCP Centre and the Central Military Commission on producing financial specialists and skilled workers), February 2, 1940,” ibid, 273-280.

82. “中央关于对敌人经济斗争的指示 (Central directive on economic struggles against the enemy), March 23, 1940,” ibid, 339-340.

CCP’s prospective largest source of income. CCP cadres were asked to update the relevant information about tianfu collections. At the same time, the North China Bureau issued directives on CCP banks and banknotes. No bank should be established without Yan’an’s approval; the quantity amount of recently printed banknotes should be reported to the North China Bureau immediately; and the CCP banknotes were to be strictly restricted to their separate administrative zones and could not circulate freely between the CCP zones.

On April 15, 1940, the Central Secretariat forwarded the North China Bureau’s instructions to other regional authorities with its approval and additional remarks. It noted that the system proposed by the North China Bureau would be comprehensive only when an accompanying treasury system was established. Therefore, the establishment of a treasury system was the top priority. The following day, Deng Xiaoping chaired a meeting of senior cadres in Licheng (黎城) in southeastern Shanxi. The meeting was intended to alter the previous radical social and economic policies, and establish a unified revenue and budgetary system in the Jin-Ji (Shanxi and Hebei) border base area.

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85. Ibid, 363.

86. “中央关于财政经济政策的指示 (Central directive on policies in financial and economic affairs), April 15, 1940,” ibid, 360.

6. **Conclusion**

The Licheng Conference of April 1940 was a milestone in the CCP’s economic history during the War of Resistance. It marked the termination of the CCP’s levelling socio-economic policy during the first three years of war and completion of the framework of the party-wide centralized budget and treasury system. Although the system remained rudimentary, it offered the CCP higher authorities various institutional means to monitor and control the revenue of their subordinate authorities who had little experience in finance. Deng Xiaoping later stated that he and his revolutionary comrades paid hardly any attention to financial affairs before 1940, let alone treasury and budgetary systems.88 This was partly because their contempt for capitalism committed them to the Communist revolution. Like Deng, the young revolutionaries in Jiaodong did not realize the limits of coercive power and the potential of monetary power until they began to gather supplies for their followers through a system of combined coercion and finance. Their progress, however, was empirical only and lacked vision. One of Mao’s contributions was his guidance in policy-making and system-building. He guided the CCP cadres in merging coercion and finance within a cellular but highly centralized treasury and budgetary system. With Mao’s criticism of the dissolution of the North Sea Bank, the CCP regional authorities were encouraged to establish “Red banking” as an integral part of the CCP’s financial and supply system, thus moving into a new phase of development which would become increasingly important in each of its base areas, especially in Jiaodong, one of North China’s few productive areas.

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88. Deng, op.cit, 95-96.
CHAPTER NINE

Institutions of Economic Control

The focus of this chapter is on the restoration and development of the North Sea Bank and its branches as part of the Shandong Bureau’s system of finance and logistics. As banking became an essential part of the Shandong Bureau’s efforts in building its financial and supply institutions, North Sea Bank was no longer just a fund-raising agency, as when the Jiaodong Special Committee had created it a year before. It now became integrated with other branches of the Shandong Bureau’s centralized supply system. Because the Bureau’s base areas were of varying endowments and were scattered throughout Shandong, the North Sea Bank was compartmentalized. The development of its district branches varied with the Jiaodong branch leading the way.

1. North Sea Bank and its branches

a) Jiaodong

The work of restoring the North Sea Bank began in the early spring of 1939. With a mandate from the Jiaodong Special Committee, Chen Wenqi, director of the Branch in Huangxian, contacted Zhang Yutian, the county governor of Laiyang, and received the bank documents and copperplates. The work of printing banknotes was assigned to the printing house of the Dazhong ribao (Public Daily), the Shandong Bureau’s newspaper. The printing press assigned one of its two lithographic machines to printing the banknotes. The restored bank’s first notes were produced in September 1939 and immediately put into circulation. Their success in the market resulted from a good
decision on the part of the Jiaodong Special Committee after it withdrew from the walled cities of Yexian, Huangxian and Penglai nine months before.

To meet dramatically increasing military expenses during the intensive defence of Yexian during the fall of 1938, the Jiaodong Special Committee launched a fund-raising campaign with the aim of raising 1.5 million fabi yuan. The campaign was a complete failure. Many of the better-off merchants in the area left for the Japanese-occupied zones or went abroad.¹ This and the subsequent forced withdrawal of its forces from the walled cities discredited the CCP. When the CCP’s agents were collecting taxes afterwards, many residents offered to pay using beipiao, the notes of North Sea Bank, catching the agents off balance. Jiaodong’s Special Committee members realized that they could not afford the risk of refusing to accept their own banknotes. They checked their committee treasury and found that it contained 480,000 fabi yuan, about five times the amount of the issued North Sea notes. Calculating that they would receive up to half the total beipiao note issue of 96,000 yuan in tax payments, they accepted such payments. Therefore the beipiao continued to circulate, even when the CCP was obviously at a low point in its military strength.²

A major weakness in the Shandong Bureau’s banking system was the shortage of printing machines, skilled workers and materials such as paper which were available only

¹.朱玉湘 (Zhu Yuxiang) eds., 山东革命根据地财政史稿 (A manuscript for the economic and financial history of the Shandong revolutionary base areas) (Jinan: Shandong renmin chubanshe, 1989): 34.
². Fan, op.cit, BHYHWSZNJNW 114.
in the occupied urban areas.\(^3\) The CCP’s limited printing capacity was one of the principal constraints to the increased circulation of the *beipiao*. In December 1939, the *Dazhong ribao* lost its lithographic machine during a Japanese attack and took back the one it had allocated to printing banknotes. The situation did not improve until the spring of 1941 when CCP forces captured printing equipment belonging to Cai Jinkang. The copperplates were produced secretly in the occupied zones until 1944 when the Jiaodong CCP recruited skilled workers from Shanghai with the N4A’s help and established a copperplate factory. By then, the Jiaodong CCP had made several attempts to produce copperplates. Its agents in Qingdao even made use of the custom of remembering the dead by burning paper that stood for banknotes. Many local residents believed that the dead needed money in the nether world. They routinely burned printed paper called “money for the nether regions.” CCP agents had copperplates produced in Qingdao under the cover of printing notes for the nether region, on which the words Bank of the Underworld (*mingfu yinhang* 冥府银行) were printed. After those copperplates were received, skilled workers in the Jiaodong printing house would remove two characters (*mingfu*, 冥府) from the copperplates and replace them with North Sea (*Beihai*).\(^4\)

In contrast to acquiring machines, copperplates and skilled workers, gaining access to paper and printing ink was so difficult that it turned out to be the principal

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\(^4\) Chen, *op. cit.*, 133.
obstacle in printing banknotes.\(^5\) Although the Jiaodong CCP had gold to purchase supplies, a variety of essential materials were under Japanese control. The CCP established some “grey shop,” to purchase and smuggle printing materials, but the business was risky, time-consuming and too dependent on merchants in the occupied zones. Petty merchants lacked capital while experienced merchants were often distracted by more profitable business, either breaking their promises to the CCP or charging very high prices. The materials that inexperienced merchants purchased and smuggled into the CCP zones often fell short of requirements. When merchants were prominent, they were likely to attract the attention of the Japanese police.\(^6\)

Throughout the war, the North Sea Bank was dependent upon smuggling to obtain essential supplies. Smuggling allowed the bank to survive, but there were problems of quality and costs. The quality of smuggled paper and printing ink was inconsistent, therefore the paper and colours of the banknotes lacked uniformity. This encouraged counterfeiters. To check counterfeiting, the Shandong Bureau resorted to increasingly strict social control, intensified its campaigns for identifying fake notes and issued a set of harsh penalties.\(^7\)

In addition to the problem of material shortages, the North Sea Bank staff had to prepare for potential Japanese raids. The printing equipment was scattered in several

\(^{5}\) Liu, op.cit, *ibid*, 134.

\(^{6}\) “Review of banknotes issues by the Jiaodong Branch in 1945 ( 胶东分行 1945 年发行工作总结),” *ibid*, 138.

\(^{7}\) Chen, op.cit, *ibid* 134.
caves in Yashan, the hilly area that the CCP forces seized from Cai Jinkang during the spring of 1941. There was a hammer beside every printing machine to be used as a last resort. The workers were ready to dismantle the equipment and wrap the parts with waterproof cloth on short notice, and then carry them of the caves to conceal them in a nearby riverbed. Fortunately, it was never necessary to smash machinery although the bank’s printing equipment was hidden several times in the course of the war. Elsewhere, North Sea Bank branches were less fortunate.

b) Central Shandong

While the Dazhong ribao printed out beipiao, the notes of the North Sea Bank, in Jiadong in September 1939, the Department of Logistics (Gongjibu) of the Shandong Column in the Yimeng mountains area (also called central Shandong or Luzhong) also began to print banknotes. CCP logistical officers secretly commissioned the work to a firm in occupied Jinan, the Public Press (Dazhong yinshuaju 大中印刷局), issuing an unknown quantity of beipiao. As a safeguard, these notes were printed without the name of “North Sea Bank.” The unfinished notes were then placed into empty kerosene cases which were bound with straw ropes, covered with tar, rolled around on muddy ground then loaded on carts and sent out of the city. At the check-points, the drivers, who often went between the two zones and were acquainted with the guards at each stop, would bribe the guards with cigarettes and alcohol. Thus all shipments of North Sea Banknotes

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8. Ibid. 133.

to central Shandong during the war arrived safely. To finish the banknote printing process, a number of skilled workers were brought from Jinan to the Yimeng mountains.\textsuperscript{10}

After the establishment of the Shandong Wartime Executive Committee in July 1940, the Department of Logistics decided to establish a printing house, and commissioned Ren Ziming, a worker of the Dazhong Printing House who had been printing and transporting \textit{beipiao}, to recruit other skilled workers and purchase materials and equipment for shipment to central Shandong. Ren discussed the matter with his employer who proved willing to sell all his equipment for ten thousand \textit{weichao yuan} in gold. The skilled workers were also willing to relocate to central Shandong. The lithographic machines were dismantled and safely shipped to the CCP zones on the backs of mules. The biggest difficulty was handling a double rolling printer which could not be dismantled. Ren arranged to send this machine by rail to Tai’an, about 100 kilometres south of Jinan, with the help of a transport agent who had worked with the CCP before. The machine caught the attention of Japanese police stationed at Tai’an Railway Station and was stopped. The Japanese traced the shipment back to Jinan, but Ren fled to central Shandong.\textsuperscript{11} The loss of the double rolling printer and shortages of other materials limited printing capacity in central Shandong area. The Department of Logistics, which in the spring of 1941 was renamed the Head Office of the Bank of North Sea because it was

\textsuperscript{10} 任子敏 (Ren Ziming), “My experience at the banknote printing press of the North Sea Bank’s General Office (我在北海银行总行印钞厂的经历),” \textit{ibid}, 141-143.

\textsuperscript{11}  Ibid.
under the direct leadership of the Wartime Executive Committee, relied on supplies of banknotes and gold sent from Jiaodong by mule caravans.12

c. The JiLu border area and Qinghe

CCP bankers in the border region between Shandong and Hebei (the JiLu area) east of the Jinpu Railway, where the first Communist guerrillas in the province were organized in the fall of 1937, were not as lucky as those in the Central Shandong. The *tewei* (CCP Special Committee) of the JiLu Border Area attempted to establish a bank in early 1939 but was not successful until April 1941. Because the *tewei* was under the leadership of the South Hebei Comittee, it asked for permission to use the name Jinan Yinhang (Bank of South Hebei). The request was turned down because the JiLu Border Areas was separated from the Hebei war theatre by the Jinpu Railway. The Shandong Bureau decided that the JiLu bank should use the name of North Sea Bank. Like their comrades in Jiaodong and central Shandong, the JiLu area’s bankers made covert arrangements for the printing of notes in the occupied zone. They established printing operations in Tianjin, purchasing a small printing company there. But their situation in Tianjin zone deteriorated day by day. It became impossible to find a safe place to set up their press. They installed their equipment in the homes of several farmers by digging hideouts inside farm buildings. Pretending to work in the fields during the day, they printed banknotes at night. During the spring of 1943, the CCP JiLu Border Area authority found it could no longer hang on and with Yan’an’s approval withdrew

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12. 刘涤生(Liu Disheng), “从胶东分行到鲁中分行(From the Jiaodong Branch to the Central Shandong Branch),” *BHYHWSZNJNW* 121.
eastwards to merge with the Qinghe District CCP. The JiLu bank was integrated into the North Sea Bank’s branch in Qinghe.13

The Qinghe Branch of the North Sea Bank was established on June 1, 1940 and established two banknote printing presses.14 Some materials were smuggled from Tianjin and Jinan, and others provided by the CCP in Jiaodong which also required clandestine transport before the two areas were in direct communication in 1944. Although the Qinghe Branch survived the war, it suffered damaging attacks. In January 1942, a local pro-GMD strongman named Cheng Jianji (成建积) discovered one of the presses and launched a night raid that caught the CCP by surprise. The staff of the press, together with all the materials and copperplates, were taken to Cheng’s stronghold and put to work printing North Sea Bank notes for him. Another attack occurred during a Japanese pacification operation of October 1943. The printers of the North Sea Bank’s Qinghe Branch buried their equipment in sand dunes along the coast. The Japanese searched the dunes for ten days, finally apprehending a mule-cart driver employed by the press and forcing him to reveal the location of the machinery. Although the Qinghe Branch did not suffer many casualties, it lost all its equipment and supplies. Its banking operation continued with assistance from Jiaodong.15


D. Binhai and southern Shandong

In addition to the head office and branches above, there were two other branches in the North Sea Bank: Binhai and southern Shandong branches. The origin of the Binhai Branch was in a decision of by the local CCP authority, the Military-political Committee of Southeastern Shandong (Ludongnan junzheng weiyuanhui,鲁东南军政委员会) to establish a minor office in the name of the North Sea Bank in July 1941. Its banknotes were supplied by from the head office in central Shandong. The office was upgraded to a branch in September 1942 when the local situation was in transition following the mutiny of the 110th Division of the NRA and the battle of Jiazi Hills. After Yu Xuezong left the area in June 1943, the head office of the North Sea Bank was transferred to Binhai.16

The Central Shandong Branch of the North Sea Bank was established by the financial desk of the Baodugu Commissioner’s Office (抱犊崮山区专员公署) in the late fall of 1939 when the 115th Division moved into that area and established the office. This authority issued a currency named the Lunan kangri liutong juan (鲁南抗日流通劵, Anti-Japanese scrip of southern Shandong). Grain supplies were its principal backing, supplemented by a small amount of silver coinage. The volume of currency issued was excessive in relation to this reserve. Luo Ronghuan and other CCP leaders in the area called this overprinting “suicidal” and ordered the desk to recall its notes.17 It was not


17. “关于 ‘临郯费绎流通劵’ 的通信 (Correspondence about southern Shandong banknotes),” BHYHWSZNJNW 132-133.
until the fall of 1942 that the Binhai branch of the North Sea Bank was upgraded to a branch. The Binhai branch then established an office in southern Shandong and supplied all its notes. The South Shandong Office was not upgraded to branch status until July 1944. 

2. Economic Control Institution

The CCP Central Secretariat’s instructions of February 1, 1940 created a financial-economic control institution embracing the finance committees in all levels of CCP committees. This was a highly-centralized institution. The subordinating agencies must submit all of their incomes to the higher-level of authority and then had their grants. This institution was also regionally compartmented. In this institution, finance and economies were put into two separate categories. Generally, “finance” referred to fiscal related efforts while “economies” referred to production related ones. By the time of Japan’s Operation Rō of November 1941, the Shandong Bureau had developed a financial-economic institution based on a tripod of revenue collection, control of grain supplies and regulation of trade. As well as allowing the CCP base areas to survive the war and expand, the Shandong Bureau’s financial and economic system was the prototype for the command-economy system of the People’s Republic of China until the mid-1990s.

18. “鲁南分行的建立及发展变化 (The birth and development of the Southern Shandong Branch),” ZGGMGJDHYHSL 1.121-123.
Chinese historians investigating the economy of the CCP’s base areas in Shandong have divided the development of the Shandong Bureau’s revenue-supply system before Operation Rō into two phases.\textsuperscript{19} The first phase began with the CCP uprisings at the end of 1937 and ended with the establishment of the provincial Wartime Executive Committee in July 1940. The prominent feature of this phase was the absence of a budgetary system on the part of the Shandong Bureau or an agency to coordinate its revenue collection and works of military supplies across its territory. Its armed units could tax the local people and collect materials for use at their own discretion. This led to waste, corruption and resentment among the people, while failing to secure supplies for the CCP troops and their administration. The second phase featured efforts to establish a Shandong Bureau-directed budget system of two interdependent sub-systems across the province: a system of revenue collection and a system of collecting, storing and distributing grain.

During the first phase, the Jiaodong Special Committee was the first CCP agency in Shandong that attempted to institutionalize its revenue and supplies. As soon as the leaders of the Third Detachment established a Finance Committee to supply the rapid expansion of forces after occupying the town of Yexian, they sought to secure income by taking over the locality’s functioning revenue institutions. Because the Third Detachment was a force of the local GMD-CCP United Front that was in its honeymoon, it was possible to recruit revenue staff of the former government’s revenue agency. With the help of this local expertise, the leaders of the Third Detachment began collecting taxes

\textsuperscript{19} Zhu, \textit{op.cit.} 28, 65.
that the former government had imposed: the *tianfu*, salt tax, products tax and custom tax.

In addition, it imposed a “national salvation levy” (*jiuguojuan*, 救国捐) on merchants. The revenue from these taxes served as the initial backing that Zhang Jialuo promised Zhang Yutian for the establishment of a bank. The leaders of the Third Detachment also established a rudimentary system of budgeting, treasury control and supplies. They noted the fundamental deficiencies of the *tianfu*. These deficiencies were as follows. 1) The lack of identification of the taxed lands and their taxpayers. The owners of land subject to taxation were not always the taxpayers. Owners might illegally transfer their taxation obligation to others.

2) Many taxable lands were not registered or taxed. The Third Detachment, therefore, began re-registering lands as early August 1938 when the first banknotes of North Sea Bank became available.

When the leaders of the Third Detachment were creating their primitive revenue system, they contacted their CCP comrades in the neighbouring areas to coordinate programs of food supplies to their troops. This effort resulted in the establishment of a Joint Department of Supplies (联合供应部, *lianhe gongyingbu*). In the meantime, representatives of Yexian, Huangxian and Penglai counties met with the supply officers of the local troops and formed a Grain Committee (粮食委员会) to make joint plans for staple grain collection and rationing. The Joint Department of Supplies established three depots for grain collection and the Grain Committee set up two depots.20

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20. Ibid, 57.
The Shandong CCP’s efforts to establish finance and supply systems were limited to particular districts. Guo Hongtao, the secretary of the Jiangsu-Shandong-Henan-Anhui border area administration worked hard to develop a unified budget system across the province and build up a unified treasury. During the second half of 1938, he established a Finance Committee at the provincial level of the CCP, which was renamed as the Finance Committee of the Shandong Bureau. In February 1939, the Shandong Bureau placed the establishment of unified finance and budgetary system on its agenda. However, the program did not gain momentum until the summer of 1939. At first, the driving force was from Yan’an for a confrontational policy against the local GMD authorities and forces after the arrival of the 115th Division and the Taihe Incident. Another source of momentum was the power vacuum created by the Japanese pacification operation of June 1, 1939 and the emergence of rudimentary CCP authorities at the county level. In addition, the founding of the Shandong Committee for Military and Political Affairs on August 9, 1939 provided further momentum. Although the Shandong Committee for Military and Political Affairs only provided for irregular arrangement of meetings among the leaders of the Shandong Bureau, the Shandong Column and the 115th Division, it was the first official platform for communication and coordination between the CCP leaders of various units. It paved the way for the creation of a cross-provincial institution.21 Yet another source of momentum was decisive: Mao’s instructions on February 1, 1940 to establish a financial committee under the CCP commanding committee at each level. These forces led to the Shandong Bureau’s decision on February 29, 1940 to establish a

unified system based on work of the financial committees across the province.\footnote{22 “山东分局关于统战、政权、战略、财经工作的指示 (Directive of the Shandong Bureau on work in building the united front and administrative authorities, strategy, and finance), February 29, 1940,” \textit{SDGMLSDAZLXB} 4. 164-165.} By May 1941, the three-part base of revenue collection, control of grain supplies and regulation of trade had been established.

Of the three parts of the tripod, the Finance Committee was the leading organization in economic and fiscal affairs. The revenue collection function of the Finance Committee was established first. In a decision on February 29, 1940, the Shandong Bureau designated its Finance Committee as the policy-maker and executor of financial policy in the province. The Finance Committee would be enlarged and all the Shandong Bureau’s agencies of supplies and finance were instructed to contact the committee immediately to establish working arrangements. In addition, it was ordered that treasuries must be established at all levels under the unified command of the provincial Treasury Department. All revenue income must be sent to the treasuries and all expenses must be budgeted and issued from the treasuries after being approved.

To train financial personnel, the Shandong Bureau ordered every district committee (\textit{qu wei}, the CCP district committee of a strategic zone directly under the leadership of the Shandong Bureau) to establish a financial academy in its district. In March 1940, the Shandong Bureau established its Finance Committee with Li Yu as its director and Ai
Chunan (艾楚南) as deputy director. Soon afterwards, the subordinate district committees established corresponding Finance Committees. The Shandong Bureau’s framework centred on the Finance Committee was thus created. (See Diagram 2.2)

In addition to its Finance Committee, the Shandong Bureau established an agency called the Government Affairs Department (zhengfu gongzuobu, 政府工作部) which was responsible for administrative duties in welfare, finance, economics, education, militia, public security and police until April 1, 1941, eight months after the establishment of the Wartime Provincial Executive Committee in August 1940. The Government Affairs Department was an executive agency with a mandate from the Unification Congress (lianhe dahui), a quasi-parliament set up to legitimize the CCP authorities vis-à-vis the GMD-led National Congress in July 1940. It had 23 members at the beginning and five units for political, military, financial-economic, educational and mobilization work. The chief leader of the provincial Wartime Executive Committee was Li Yu. Its Finance Committee was led by Ai Chunan, deputy director of Shandong Bureau’s Finance Committee. After April 1, 1941, the Government Affairs Department of the Shandong Bureau was merged into the provincial Wartime Executive Committee with Li Yu as secretary and Chen Ming as deputy secretary. The Shandong Bureau then established a Government Affairs Commission (Zhengfu gongzuo weiyuanhui, 政府工作委员会,) of seven members including Zhu Rui, Li Yu, Ai Chunan and Chen Ming with Zhu as the director and Chen Ming as the deputy. The reason for these organizational arrangements was the situation of the Provincial Wartime Executive Committee, a forerunner of the current Shandong Provincial Government. When it was established in the summer of
1940, it was similar to many of today’s unstable and unreliable Non-Governmental Organizations (NGOs). Many of its members were not CCP members. The Shandong Bureau’s Government Affairs Committee was intended as the hardcore of the unstable Provincial Wartime Executive Committee. The Shandong Bureau’s crucial power base was in its various committees. The Finance Committee and the Government Affairs Committee were the prominent ones. Many of the responsibilities and members of those committees were overlapping. The overlapping chairmen were the decision-makers and executors but they did not make decisions in the name of the Shandong Bureau or implement their decisions in the name of the Government Affairs Commission. Their decisions appeared in public in the name of their respective governmental offices. (See Diagram 2.3)

The CCP was a Leninist-Stalinist organization and the Shandong Bureau’s subordinate agencies transplanted that party-state model to their districts through hierarchical networks. Three weeks after the termination of the Government Affairs Department and the establishment of the Government Affairs Commission, the provincial Wartime Executive Committee decided to divide Shandong into six chief administrative districts (xingzheng zhurenqu, 行政主任区) according to the six strategic zones (zhanluequ): Jiaodong, Qinghe, the Julu


24. Ibid.
Border Area, Central Shandong, South Shandong and West Shandong. The strategic zones were triads of military districts, party zones and administrative zones under the Wartime Executive Committee. The emergence of overlapping military, party and government administrative zones during 1940-1941 laid the foundation for the establishment of an overall unified command in the spring of 1943. Although the six strategic zones were modified to adapt to the war situations, their triadic framework of adaptation continued into the 1990s. The six triadic strategic zones in September 1943 are listed in Diagram 2.4.

Diagram 2.4  The Triadic Strategic Zones

<table>
<thead>
<tr>
<th></th>
<th>Party (QW: Quwei, District Committee)²⁵</th>
<th>Military Force (JQ: Junqu, Military District)²⁶</th>
<th>Civil Administration (Zhengfu)²⁷</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jiaodong</td>
<td>Jiaodong QW</td>
<td>Jiaodong JQ</td>
<td>Jiaodong Chief Administrative Office (胶东行政主任公署)</td>
</tr>
<tr>
<td>Qinghe</td>
<td>Qinghe QW</td>
<td>Qinghe JQ</td>
<td>Qinghe Chief Administrative Office (清河行政主任公署)</td>
</tr>
<tr>
<td>Binhai</td>
<td>Binhai QW</td>
<td>Binhai JQ</td>
<td>Binhai Direct Administrative Office (滨海直属专署)</td>
</tr>
<tr>
<td>Southern Shandong</td>
<td>Southern Shandong QW</td>
<td>Southern Shandong JQ</td>
<td>Southern Shandong Directive Administrative Office (鲁南直属专署)</td>
</tr>
<tr>
<td>Central Shandong</td>
<td>Central Shandong QW</td>
<td>Central Shandong JQ</td>
<td>Central Shandong Joint Administrative Office (鲁中行政联合办事处)</td>
</tr>
<tr>
<td>JiLu Border</td>
<td>JiLu Border QW</td>
<td>JiLu Border JQ</td>
<td>JiLu Border Area Wartime Administrative Committee (冀鲁边战时行政委员会)</td>
</tr>
</tbody>
</table>

The triadic hierarchical levels below the strategic zones were county (xian), sub-district (qu) and township or sub-district (xiang), but their military wings became less and less visible and degenerated to poorly trained and equipped part-time militias. The sub-district

²⁵ 魏训洲 (Wei Xunzhou), 中国共产党山东省地方组织机构沿革 (An organizational history of the CCP Shandong authorities and agencies) (Beijing: Zhonggong dangshi chubanshe, 2005): 92-100.

²⁶ A history of military operations of the Chinese Peoples’ Liberation Army, Diagram 3, 2.29.

and township were not fixed administrative levels. Their establishments depended upon the specific administrative requirements. The grassroots unit were so-called administrative villages (xingzheng cun). A large natural village (ziran cun) could be divided into two or more administrative villages while a few tiny villages could be put into one administrative one for administrative convenience. The principal obligation for the triadic regimes below the county level was to support military operations with materials and labour. Although the CCP’s administration did not reach below the sub-district level, its dominance extended into villages through its party network. The county was the lowest level of CCP officialdom and at that level, full branches of the budget, revenue and treasury framework were centred on the Finance Committee. At the level of the sub-district, a financial-economic assistant (财经助理) was posted.

Diagram 2.5 The Finance Committee-Centred Revenue System (1940.2-1943.9)

<table>
<thead>
<tr>
<th></th>
<th>Shandong Bureau</th>
<th>Wartime Provincial Executive Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provincial Level</strong></td>
<td>Finance Committee</td>
<td>Finance and Economic Unit (财政经济组) (August 1940-March 1941)/Finance and Economic Office (财政经济处) (March 1943)</td>
</tr>
<tr>
<td><strong>Strategic Zones (qu)</strong></td>
<td>Finance Committee</td>
<td>Finance Section (财政处/科)</td>
</tr>
<tr>
<td><strong>Commissioner’s District (zhuanshu) or County (xian)</strong></td>
<td>Finance Committee</td>
<td>Finance Sector(财政科)</td>
</tr>
<tr>
<td><strong>Qu (sub-district)</strong></td>
<td>N/A</td>
<td>Finance Assistant (财经助理)</td>
</tr>
</tbody>
</table>

In this revenue system centred on the Finance Committee, the committee members were not tax collectors themselves. They were the policy and decision-makers behind the scenes. Their policies and decisions were either legitimated by the provisional provincial Senate, the CCP-controlled legislature or directly implemented through the CCP-controlled executive system under the Finance Committee, the provincial administration mandated by the provisional provincial Senate. In December 1940, the Senate passed a series of acts about taxation and revenue agencies. According to those acts, the taxes in the province were classified into seven categories: the tianfu, salt tax, mining tax, products tax, stamp tax, property transfer tax and livestock butchering tax. The revenue agencies were then extended down to the county level. During the fall of 1941, before Operation Rō, the Finance Committee established salt markets (yanye jiaoyisuo, 盐业交易所), bestowing official titles on its workers and tax collectors and

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29. Ibid, 82.
30. See: “山东省税收暂行条例 (Shandong provincial provisional regulations for revenue collection),” in Zhu, op.cit, 135.
classifying them as government employees with monthly salaries. Until then, the tax collectors had been autonomous tax farmers. The organization of these revenue agencies is shown in Diagram 2.6.

The second component of the CCP’s tripod financial structure was a control of grain supplies for collection, storage and distribution. It was referred to as the grain agency (liangshi jigou, 粮食机构) or grain system (liangshi xitong, 粮食系统). The original intention in establishing a food control system was to determine and coordinate military needs to ensure a constant supply of food to the troops often on the move so that they would not have to gather their own food supplies from civilians. An official system would not only limit the abuse of power and wasteful use of supplies by military units, which would damage the 8RA’s prestige, but was also intended to avoid severe food shortages in areas where troops often moved and were stationed by supplying food brought from elsewhere beforehand. The first coordinating agency for food supplies appeared in Jiaodong in August 1938 when the CCP imposed “national salvation grain requisitioning” (jiuguo gongliang, 救国公粮) on local farmers. The Shandong Bureau’s Finance Committee was responsible for the grain supply system, improving practices in Jiaodong and ordering the introduction of grain rationing system in September 1940. In November, it began to establish a cross-province grain control system at the grassroots level.

On November 7, 1940, the provincial Senate passed a resolution on the “Regulation of government organizations and structures at county, sub-district, township
and village levels in wartime Shandong (山东省战时县区乡村各级政府组织条例).” It specified that a county government must have a grain office (liangshike, 粮食科) with three cadres and several workers. The responsibility of this office was to draw up a food survey in its county determining the total annual output of staple foods and their types, the total population and annual consumption of staple foods, the balance of staple food production and consumption, the numbers of military men and government workers in its territory and the amounts of grain, fodder and firewood required. The office was also responsible for collecting, storing and distributing the “national salvation grain requisition” collections, transporting food supplies between administrative zones as well as the provision of firewood, fodder and food to military and government organizations. The office introduced a ration coupon system called the “grain ticket” (liangpiao 粮票). The CCP military and civilian personnel and units were required to present these ration coupons in return for supplies distributed by local officials. Not all accepted the system readily; a number of reports of unfair treatment by grain offices were received at upper levels of the CCP authority in Shandong.31

In January 1941, the provincial Wartime Executive Committee issued a “Resolution on staple food and fodder supplies,” ordering the establishment of a comprehensive provincial system of controlling staple food and fodder. It stated that a Administrative Office (zhuanshu, 专署) must have a Grain and Fodder unit (liangmo ke, 粮秣科). Such office would have three sub-offices (gu, 股) with responsibilities for the census, bookkeeping and ration coupons.

31. Ibid, 84.
In a county government, its *liangmoke* had a staff of twelve officers in three sub-offices. At the sub-district level (*qu*), an assistant for staple food and fodder (*liangmo zhuliyuan, 粮秣助理员*) and two helpers (*ganshi,干事*) were posted. They were responsible for collecting, storing and distributing staple food and fodder and for coupon collection.\(^{32}\) At the township (*xiang*) level, there was an assistant for the staple food and fodder duties (*liangmo ganshi *) whose responsibility was the same as that of the sub-district staff. (See *Diagram 2.7*) At the same time, military units above the brigade level were ordered to establish corresponding staple food control bureaus (*liangshi guanliju*).\(^{33}\)

<table>
<thead>
<tr>
<th>Diagram 2.7: Grain and Fodder Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title</strong></td>
</tr>
<tr>
<td>Adm Office</td>
</tr>
<tr>
<td>County</td>
</tr>
<tr>
<td>Subdistrict</td>
</tr>
<tr>
<td>Township</td>
</tr>
</tbody>
</table>

In May 1941, the provincial Wartime Executive Committee called together government and military units concerned with the control of food supplies and hosted a provincial conference on grain supplies (全省粮食会议). The conference resulted in a cross-province unified network of staple food control. According to the resolution of the conference, the Wartime Executive Committee and the commissioner’s offices (主任公署) established the Staple Food Control Bureau (粮食管理局) as the Wartime Executive Committee’s executive agency to supervise the food offices in its subordinate

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32. Ibid.

33. Ibid, 84-85.
administrative districts. It also regulated that the governments at the county level and above must establish Staple Food Committees. The members of a Staple Food Committee would be the heads of local party networks, governments and military units as well as the leaders in food control agencies. The chair of the committee director was the secretary of the local CCP network, and the deputy chair was the local government leader. The responsibility of the staple food committees was to coordinate the efforts of food collection, storing, transportation and distribution.\(^{34}\) (See Diagram 2.8)

The regulation of trade was the third component of the CCP’s financial tripod. This was intended to provide protection to the economies of the CCP base areas.\(^{35}\) On December 14, 1940, the provincial Senate passed a resolution about establishing a trade control system. The leading office of the trade control system was the General Trade

\(^{34}\) Ibid, 84-85.

\(^{35}\) “各级贸易局组织暂行条例 (Provisional regulations for the commercial bureaus at each level) December 14, 1940),” *SDGMLSDAZLXB* 6. 172.
Bureau (maoyi zongju, 贸易总局) under the direct supervision of the Finance Committee of the Shandong Bureau and the Wartime Executive Committee’s finance department.\(^{36}\)

At the administrative level, a sub-bureau (fenju, 分局) would be established. At the county level, a county bureau (xiangju, 县局) would be established. At major traffic intersections, stations (daibansuo, 代办所) would be established under the direction of sub-bureaus. Trade control offices were responsible for the offices mentioned above.\(^{37}\) Local governments were obligated to provide the trade control agencies at their level with administrative support but did not have authority over them.\(^{38}\) The approach to the control of trade between the occupied zones and CCP territory was through licensing. Traders without appropriate licenses would be subject to punishments ranging from fines and confiscation to incarceration.\(^{39}\)

*Diagram 2.9 Revenue Collection*

\(^{36}\) Ibid.

\(^{37}\) Ibid.

\(^{38}\) Ibid, 176,

\(^{39}\) “贸易暂行条例 (Provisional commercial regulations), December 15, 1940,” ibid 177-180.
In addition to its financial tripod of revenue collection, control of grain supplies and regulation of trade control, the Shandong Bureau established rationing and postal service systems. Rationing was both comprehensive and specific, concerning all the necessities of daily life even including women’s menstrual pads. The postal service originated in a covert communication system under the leadership of the Shandong Bureau’s Organization Department and was responsible for the conveyance of messages, publications and bullion and for escorting cadres. During the summer of 1941, the Shandong Bureau began to develop its covert system into a regular postal service by copying the regulations of the Post Office of China. The Shandong Wartime Post Office was established following Operation Rō on February 7, 1942. Its service soon extended throughout the CCP zones in Shandong soon. Most messages were carried on foot. It took

40. “山东省战时工作推行委员会关于保健养病育婴等费的规定 (Regulations of the Shandong Provincial Wartime Executive Committee on allowances for health care and child care), November 7, 1940,” ibid, 44-45; “山东战时工作推行委员会关于招待费及菜金马干费的决定 (Regulations of the Shandong Provincial Wartime Executive Committee on hospitality expenditures), November 7, 1940,” ibid, 45-46; “山东省战时工作推行委员会关于各机关部队团体口粮标准及领取、食用办法的通令 (The Shandong Provincial Wartime Executive Committee’s circular order on food rationing, distribution and consumption by military and administrative units and persons), November 20, 1940,” ibid, 97-98; “山东省战时工作推行委员会关于今冬烤火费的通知 (The Shandong Provincial Wartime Executive Committee’s Notice on firewood allowances during the coming winter), November 20, 1940,” ibid, 98.

41. 张衍霞 (Zhang Yanxia), 山东抗日根据地的战时邮政 (Wartime postal service in the Shandong anti-Japanese base areas) (Beijing: Beijing zhonggong danshi chubanshe, 2005): 10-11, 72.

42. Ibid, 13-14.

about twenty days to deliver mail from Jiaodong to the other end of the Shandong Bureau’s territory, about five hundred kilometres to the west.44

3. Conclusion

The Shandong Bureau’s primitive but reliable postal service reflected its achievements in building a party-state. Although the Third Detachment’s leaders’ efforts in establishing the North Sea Bank and grain supply agencies to ensure military supplies illustrated their capacity for expedient problem-solving. Although these systems were experimental and rudimentary isolated, they were the starting points for development after Mao pushed for the establishment of comprehensive, unified and compartmentalized institutions of financial and economic control. They then developed into a compartmentalized system of revenue collection, grain control and trade regulation directed by the Shandong Bureau’s Finance Committee. Although the system remained rudimentary, it nonetheless provided the Shandong Bureau with a significant institutional advantage over its GMD rivals.

44. “两年来山东战邮工作概括总结及今后任务：赵志刚在山东战邮工作干部会议上的报告(A survey of Shandong’s wartime postal services in the past two years and the tasks in the future), August 1944,” ibid 12.393.
CHAPTER TEN

Policy Changes

The tripod of revenue collection, grain control and trade regulation by the Finance Committee of CCP authorities from the provincial level above existed into the mid-1990s when China’s market-oriented reforms made grain rationing unnecessary. Compared with this sturdy institution of economic control, the CCP’s wartime social and economic policies were shaped by Marxism, pragmatism, opportunism and in flux. The salient changes in policy were those concerning tianfu, the “national salvation grain requisition” program, trade with the occupied zones, currencies issued by puppet regimes (weichao) and the Nationalist currency (fabí). These changes originated sometimes in Yan’an, but also came from CCP initiatives in Shandong, or from the momentum of institutional evolution. This chapter discusses the Shandong Bureau’s developing statecraft by reviewing its institutional innovations and its changing policies. These produced foundation of rapid increase of financial power of the summer of 1943. The Shandong Bureau’s success in restoring and modifying the tianfu tax, its biggest source of revenue from 1941 to 1944, was a reflection of the value of institutional innovation and the effectiveness of the CCP’s hybrid approach of coercion and ideological mobilization.

1. The tianfu tax

The tianfu was a traditional property tax that may be traced back to 594 BC. A fundamental modification was made during the 1580s when a landholder’s corvée duty was monetized into a certain amount of silver and added to the property tax. The tianfu then became the central government’s principal revenue income. During imperial times,
the county governments in Shandong were responsible for collecting *tianfu*. They sent their collections to the provincial government which would then transfer the money to Beijing. In recognition of their needs, provinces were permitted to retain a portion of the tax collection. During the last years of the imperial period, for example, the Shandong provincial government retained more than 10 % of *tianfu* revenue, returning most of this to county governments.\(^1\) In 1912, following the establishment of the Republic of China, the *tianfu* was defined as a central government tax and the percentage retained at the provincial or county levels limited to 3 %. With the rapid decline of central authority, the warlord-controlled Shandong government reduced its remittance of *tianfu* collection to the central government year by year, eventually retaining all *tianfu* revenue.\(^2\) In 1912, 91.37 % of the province’s total income was received from *tianfu* payments. Because of industrialization and civil wars, the percentage of *tianfu* in the total income of the province fell steadily after 1912. Even so, it stood at 62.2 % in 1923.\(^3\) In May 1928, the *tianfu* was officially defined as a provincial tax and kept this designation until the fall of 1941. The share of the *tianfu* in total provincial revenue was around 60 % during the 1930s. In 1934, for instance, it was 59.08 %, amounting to 13.4 million *fabì yuan*.\(^4\)

As an integrated assessment of property and monetized service duties, *tianfu* was dependent on the registration of land and population and on accurate identification of

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\(^1\) 刘大可 (Liu Dake), 民国山东财政史 (A history of Shandong provincial finance during the Republican Period) (Beijing: Zhonghuashuju, 1998): 58.

\(^2\) Ibid, 34.

\(^3\) Ibid, 29.

\(^4\) Ibid, 65.
landowners and the size of landholdings. The registers, however, were inaccurate because of the lack of a supporting system to update information about changes in landholdings and population. While registered cultivated lands might be lost or deserted in floods but not removed from the tax rolls, newly cultivated lands were often not registered.

Regarding population registration, the registered taxpayers were normally male household heads but updated information was not regularly recorded in the registers following deaths and marriages. Moreover, the landlords often transferred their tianfu obligations to tenants who would transfer them to new tenants if they had the opportunity. Therefore, landowners could avoid their obligations while shifting tax burdens to the landless. A separation between landownership and tax obligations was common in Shandong before the war.5

A further deficiency of the tianfu system was that the tax was assessed on acreage rather than output. A landholder whose land was unproductive might pay more than one whose land was fertile. A deficiency of the tianfu system was its monetized corvée component, which opened the doors to predatory taxation with various excuses.

Monetized duties in addition to tianfu were called “supplementary taxes” (fushui, 副税) and increased rapidly, especially after the termination of the internal transit tax (lijin) in 1931. It is estimated that by 1937 the annual collection of “supplementary taxes” amounted to six or seven times that of land taxes.6

6. Ibid, 58.
In Shandong, as elsewhere in early twentieth-century China, *tianfu* collection involved a great deal of corruption and extortion, occasionally leading to violent protests.\(^7\) Nonetheless, CCP leaders considered that the *tianfu* system had stood the test of time and seemed worthy of maintaining with modifications. During his tenure as the governor of Shandong, Han Fuju had already begun to modify the *tianfu* by removing various items from the list of “supplementary taxes” and restricting the addition of new ones. He even began to re-register cultivated land.\(^8\) The Japanese invasion and Han Fuju’s desertion disrupted collection of *tianfu*; total yield dropped to a mere 84,000 *yuan* in 1938 from 13.4 million *yuan* in 1935, and in 1939, fell further to 27,550 *yuan*.\(^9\)

The CCP cadres in Shandong were unfamiliar with the *tianfu* and paid little attention to it until the Third Detachment’s occupation of Yexian in March 1938. With the birth of the North Sea Bank, the *tianfu* became relevant. Advice was sought from the local elite. The *tianfu* income then became part of the backing for the North Sea Bank. With the help of former public servants who were out of work because of the collapse of the Nationalist provincial government, the CCP cadres became aware not only of the value of the *tianfu* system but also its deficiencies. When the Jiadong Special Committee established the Commissioner’s Office of the North Sea Administrative Zone in August 1938, it immediately ordered the Commissioner’s Office to restore and reform the *tianfu* system. The Commissioner’s Office then developed a two-stage plan, in which the first stage would be to recover *tianfu* registries and assess tax obligations as soon as possible.

\(^7\) Ibid, 589-591.

\(^8\) Ibid, 586-587.

\(^9\) Liu, op.cit, 65.
The second stage would be to undertake a program of surveying and measuring landholdings. Before the plan was implemented, however, the Commissioner’s Office was forced out of Yexian in January 1939 and then closed when Cai Jinkang, the administrator appointed by the Nationalist government, agreed to provide the Jiaodong Special Committee with monthly expenses of twenty thousand yuan.

After Yan’an ordered to Shandong Bureau not to make concession to the GMD in local administrative authorities and criticized the dismiss of North Sea Bank the Shandong Bureau placed the restoration and modification of the tianfu on its agenda in early February 1939. The CCP-led government of Yexian then implemented its tianfu plan developed a year earlier. Other CCP-led county governments in Jiaodong soon followed the suit and began to implement it in their areas. The effort had far-reaching effects. The Shandong Bureau received stable and regular revenue for the first time. As its income from tianfu collections increased, the Shandong Bureau became less dependent upon sporadic and irregular fund-raising campaigns in the name of “national salvation donations” (jiugu juan). During 1941, the tianfu became the CCP’s largest source of revenue in Jiaodong. Because the tianfu was so venerable, it enjoyed legitimacy as long as the added “supplementary” assessments were not excessive. Moreover, it was possible to begin to correct the institutional deficiencies of tianfu by restoring the link between

10. Zhu, op.cit, 44.


12. 胶东区行政主任公署 (Chief Administrator’s Office of Jiaodong), “胶东区 1938-1942 年五年来财政经济建设工作总结 (A reviews of the works in economic and financial affairs in Jiaodong during the previous five years), February 1943,” SDGMGJDCZSLXB 1.237-238.
landholdings and taxpayer so as to reduce problems of inefficiency and social injustice. Improvements would not only increase the Shandong Bureau’s revenue collections but also enhance its public prestige. As efforts to overcome deficiencies in the system would not be successful without precise information about taxable land and taxpayers, the Shandong Bureau began a program of surveying and re-registering cultivated lands. There was a consensus in support of this effort among tianfu officials and the rural residents, especially tenants who had been taxed illegally and subject to extortion. Thus the data collection effort did not meet open resistance but served as an initial momentum in reconstructing the village power structure. The effort to update tianfu assessments was a prelude to the radical agrarian reform program carried out during the CCP-GMD civil war (1946-1949).

The work of surveying and re-registering cultivated lands in Jiaodong brought immediate and impressive benefits. In Yexian, 800,000 mou of cultivated land was registered. Although the CCP controlled just part of the county in 1939 and had no access to three of its districts, cadres succeeded in registering 752,214 mou that year and began to collect tianfu taxes in 1940. In the year 1940, land valued at an additional 12.22 liang of silver in total was found in Rongcheng county. In Huangxian the

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13. Few CCP documents for areas other than Jiaodong before 1940 have survived.


15. The unit weight of liang was for the tianfu paid in silver. In the area of Jiaodong, where Rongcheng is located, the pre-war tianfu was 1 liang of silver for 50-80 mou. In the Nanhai district, it was 60 mou; in the Donghai district where Yexian and Huangxian were located, it was 20-25 mou. In the North Sea District where Penglai is located, it was 20 mou (Ibid).
increase was 1,390 liang. The disparity between taxed and taxable lands in southern Shandong was much worse than in Jiaodong. The registered lands in 17 villages in the county of Feixian, for example, totalled seven qiang in area. According to the CCP survey, the taxable land actually totalled over 60 qiang, nearly ten times more than the registered area. In Yinan County, over 200,000 mou of cultivated land that had not been registered was discovered.

2. Patriotic requisitioning of grain

The CCP’s campaign to survey and re-register cultivated lands in Shandong was concurrent with the introduction of “patriotic grain requisitioning” (Aiguo gongliang), which was collected on a progressive basis. This collection, called “national salvation grain requisitioning” (jiuguo gongliang) in other base areas, was declared as a component of the fair-sharing of burdens taxation policy in October 1938 in a resolution of the CCP Sixth Plenum. Mao and his colleagues recognized that the Japanese occupation of China’s developed and urban areas would impose increasing financial and economic pressure on the unoccupied areas. They knew from their Bolshevik teachers and their experiences during the Jiangxi Soviet period that in conditions of material shortages and inflation it was risky to rely on the fabi for essential supplies, particularly staple foods. The CCP leaders were thus determined to establish a system to control food supplies in tandem with their revenue collection system. Yan’an’s policy coincided with the initiatives of the Jiaodong Special Committee to establish a system coordinating staple food supplies.

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16. Ibid, 205.
17. 1 qian was about 3.75 gram (0.12 ounce). Zhu, op.cit, 44.
18. Ibid, 45.
during the summer 1938, when it was planning to restore the tianfu system. Recognizing that the assessment of tax on acreage rather than on output was one of the deficiencies of the tianfu system, the Shandong Bureau established output per mou as one of the determinants of landholding obligations in the ““patriotic grain requisitioning” system. In November 1940, the Wartime Executive Committee published an implementation program for the system.

Unlike the time-tested tianfu system, “patriotic grain” system was new, egalitarian and experimental. It was intended to meet a county government’s assigned quota of grain. After a county’s quota was determined, the county head would call a joint meeting of district headmen (quzhang) to assign each district’s quota. A district’s quota would then be divided among its townships and villages. Villages were the operation unit. The Shandong Bureau was not confident that the new system would work. Recognizing the diversity and complexity of the rural areas under its control, the Bureau gave the counties three programs from which to choose. These programs, which may be called A, B and C, were of increasing complexity. The Shandong Bureau instructed that in those areas where the fair-sharing tax system had not been implemented, the “patriotic grain” collection system should commence with A and then be upgraded to B. It suggested that Program C should not be implemented before Program B was working effectively. The Shandong Bureau’s cautious approach was also reflected in its permission to subordinate agencies of

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all levels to develop their local programs, which could be put into action if they were approved by a higher authority, namely the Commissioner’s Office.20

A few months after versions A and B of the “patriotic grain” requisition program were implemented, it was clear that Program A had fundamental shortcomings such as: it was household-based, its rate of progression was too high and it combined a household’s staple food production with other income in assessments. According to Program A, households (hu) were the assessment for the obligation of “patriotic grain” provision. The households in a village would be divided into ten classes on the basis of income. A village headman, the village board (cunweihui, 村委会) and the representatives of anti-Japanese associations in each village would then propose class designations for each household, according to a Household Income Survey Form (公平负担比例分数调查表) and a Progressive Assessment Table (合理负担累进分数表) that accompanied Program A.21 They would then present in results to the village congress for approval. In addition to the ten regular classes, those who were especially wealthy would be categorized as tehu (特户, special households). But that designation could only be made by a district’s Administrative Committee.22

20. “山东省战时工作推行委员会关于公布公平负担暂行办法的通知 (The Shandong Provincial Wartime Executive Committee’s circular notice on provisional regulations on implementing the fair sharing of burdens), November, 1940,” SDGMLSDAZLXB 6.100.


Among those ten classes of households, a household in Class 1 at the highest income level had a 12-point obligation while a Class 10 household was assessed 0.5 points. The so-called special families (tehu) were required to meet over 80% of the collection quota for their villages. In a village in Junan County for example, the amount imposed upon 100 mou of owned by five “special families” was as great as the assessment on the 3000 mou of land held by all the other villagers. In the same areas, the quotas assigned to “special families” even exceeded their total production and the families were forced to mortgage their land or flee to occupied zones. Program A, therefore, was only suitable for areas recently brought under control by the Shandong Bureau.

Although Program B of the “patriotic grain” requisition system had deficiencies, it could be modified. Program C was never implemented. Assessments in Program B were based on the acreage and fertility of land that each member of a household averagely possessed. Household members included parents, grandparents, in-laws, adolescents, employees and long-staying dependent relatives. Married daughters, relatives who had not been heard from recently and those who spent most of their time in Japanese-occupied

25. Ibid.
27. Ibid, 122.
zones were not counted. According to Program B, a county should divide the villages in its territory into high, middle and low categories according to the fertility of the land. In a village with land of high fertility, an area of seven fen per person would be exempt from the obligations of “patriotic grain” collections while the rest would be taxed progressively. The Program B exemption in a middle-level village was one mou per person and in low fertility villages it was 1 mou and 3 fen per person. Income from such activities as commerce, renting land, maintaining orchards and animal husbandry (over five head of cattle or fifty sheep or goats) was also subject to “patriotic grain” obligations.

The procedure for implementing Program B of the “patriotic grain” collections was similar to Program A. After a county received its quota assignment, its head would call a meeting of district leaders to decide each district’s quota. A district leader would then call a meeting of township leaders and representatives of anti-Japanese associations in his area to determine the quota of each township. A township leader would then follow the procedure to determine the quota for each village. A village headman would then call a meeting of the village board and representatives of anti-Japanese associations in the village to determine the quota for each household. After this, Program B varied from Program A. In the second version, the households in a village would be divided into eleven classes according to the average acreage of land that each member in a household

29. “山东省公平负担暂行办法 (乙种) (Provisional regulations on the fair sharing of burdens [Program B] in Shandong province”), SDGMLSDAZLXB 6.109
30. It was about 0.24 acre. 1 mou =10 fen = 0.16472 acre.
possessed. After each household’s quota was calculated, the headman would call a
villagers’ meeting in the name of the village board and the anti-Japanese associations to
have the scheme approved. A household’s quota would then be calculated according to
the following formula:

\[
\text{A Household’s Quota} = \frac{\text{the Village Quota}}{\text{Total area of the village’s land subject to grain collection}} \times \frac{X}{\text{the total acreage of land subject to grain collection obligations per person in a household}}
\]

A few months after Program B was implemented during the wheat harvest of summer 1941, the Wartime Executive Committee made two major revisions to the system. The first was to exempt from the requisition incomes earned from fruit productions, livestock, land rental and banking. Those items were subjected to taxation in the grain requisition in the preceding version but were found too complicated to operate. The second was the introduction of “standard staple food” and “standard mou”. Wheat was defined as the “standard staple food” to determine according to the current prices in local markets the requisition quotas for other staple foods such as sorghum, sweet potatoes,
millet, peanuts and beans. The “standard mou” was to address the varying fertility of land in the province. Land in Shandong was divided into three categories: A) mountain land, B) plains land and C) extraordinarily productive land. Categories A and B each contained twelve classes and Category C contained ten. Class 5 in each category was the standard mou of that category.

The range of the annual output of wheat, the standard staple food, per standard mou in Category 1 (Class 5) was 76-100 jin. Output in Class 1 was 30-40 jin and equalled 2.5 standard mou. The tables below present the details. Because of the output of per unit in the classes from 1-4 was less than that of standard mou, the grain requisition on the same acreage of land was less. The output of 2.5 mou of Class 1 was assumed as much as 1 standard mou (Class 5). Therefore, 2.5 mou of Class 1 was regarded as taxable as 1 standard mou (Class 5).

Diagram 2.10: The Expected Output on Land in Wheat

<table>
<thead>
<tr>
<th>Class</th>
<th>Annual Output (Unit: jin)</th>
<th>Equivalent amount to a standard mou</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30-40</td>
<td>2.5</td>
</tr>
<tr>
<td>2</td>
<td>41-50</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>51-60</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>61-75</td>
<td>1.25</td>
</tr>
<tr>
<td>5</td>
<td>76-100</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>101-120</td>
<td>0.85</td>
</tr>
<tr>
<td>7</td>
<td>121-140</td>
<td>0.7</td>
</tr>
<tr>
<td>8</td>
<td>141-160</td>
<td>0.6</td>
</tr>
</tbody>
</table>

35. “山东省战时工作推行委员会关于陈报土地决定与乙种公平负担办法及其修正决定的几个修正(The Shandong Provincial Wartime Executive Committee’s decision on the registration of and on revision of the fair sharing of burdens, Program B), June 5, 1941,” ibid, 7.

36. Ibid, 4-5.

37. Ibid, 4.
Diagram 2.11: The Expected Output on Land in Wheat

Category B

<table>
<thead>
<tr>
<th>Class</th>
<th>Annual Output (Unit: jin)</th>
<th>Equivalent amount of a Standard mou</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50-70</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>71-90</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>91-120</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>121-150</td>
<td>1.25</td>
</tr>
<tr>
<td>5</td>
<td>151-180</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>181-210</td>
<td>0.85</td>
</tr>
<tr>
<td>7</td>
<td>211-250</td>
<td>0.7</td>
</tr>
<tr>
<td>8</td>
<td>251-300</td>
<td>0.6</td>
</tr>
<tr>
<td>9</td>
<td>301-350</td>
<td>0.5</td>
</tr>
<tr>
<td>10</td>
<td>351-400</td>
<td>0.45</td>
</tr>
<tr>
<td>11</td>
<td>401-450</td>
<td>0.4</td>
</tr>
<tr>
<td>12</td>
<td>451-500</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Diagram 2.12: The Expected Output on Land in Wheat

Category C

<table>
<thead>
<tr>
<th>Class</th>
<th>Annul Output (Unit: jin)</th>
<th>Equivalent amount to a Standard mou</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>70-100</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>101-150</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>151-200</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>201-250</td>
<td>1.2</td>
</tr>
<tr>
<td>5</td>
<td>251-300</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>301-350</td>
<td>0.85</td>
</tr>
<tr>
<td>7</td>
<td>351-400</td>
<td>0.7</td>
</tr>
<tr>
<td>8</td>
<td>401-450</td>
<td>0.65</td>
</tr>
<tr>
<td>9</td>
<td>451-500</td>
<td>0.6</td>
</tr>
<tr>
<td>10</td>
<td>501-550</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Shandong’s Wartime Executive Committee observed implementation of the “patriotic grain” program closely. On July 18, 1941, immediately after the summer

38. Ibid, 5.

harvest, it ordered the agencies and workers concerned to hold discussions on Program B.\(^{40}\) It found that although Program B worked better than Program A, it had deficiencies. One shortcoming was that the exemption of about 30-40% of the rural population was too high. Another problem was that the rate of progression was too low. The third shortcoming was calculations involved were complicated for ordinary villagers, providing opportunities for the rural elite to manipulate the process.\(^{41}\) The Wartime Executive Committee tried to revise Program B after the fall harvest in October 1941.\(^{42}\) In addition, the hostility of better-off groups towards the CCP during the Operation Rō, the severe supply situation in 1942 and the time-killing strategy after Pearl Harbour led to attempts by the Shandong Bureau to achieve a rapprochement with the rural elite. The first attempt was made in October 1941, a month before Operation Rō. The Shandong Bureau issued a “Decision by the Wartime Provincial Executive Committee of Shandong to Revise the Staple Grain Requisition Program (山东省战时工作推行委员会关于修正征粮办法的决定).” Programs A and B of the “patriotic grain” collection system were both terminated.

The new program of “patriotic grain” collection was based on the annual output per person in a household. Households were divided into fifteen classes except for households whose average annual output per person was less than 100 jin, who were

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40. “山东省战时工作推行委员会关于讨论修订乙种公平负担办法的通知 (Circular notice from the Shandong Wartime Executive Committee regarding discussion on revising the fair sharing of burdens, Program B)”, July 18, 1941, 7.187.

41. Zhu, op.cit, 122.

42. “修正山东省乙种公平负担暂行办法草案 (Draft Amendment on Program B of the fair sharing of burdens), October 2, 1941,” SDGMLSDAZLXB 7.372-379.
exempted. Those producing 101-250 jin were in classes 1 to 3. The rate of taxation was 1% per class. Those who produced 251-500 jin were in classes 4-9. In this group, the rate was 2% per class. Those producing 551-750 jin were in classes 10-13. They were subject to a rate of 3%. Those producing 751-800 jin were in Class 14, and their rate was 4%. Those producing 801-1000 jin were in Class 15, and their rate was 35%. The requisition rate for those producing more than over 1000 jin was also 35%. In an emergency situation, the rate could be as high as 45% subject to approval by the leaders of the local strategic zone and the landowner’s consent. It was regulated that whatever the situation, the requisition rate could not exceed 45%. The biggest deficiency in the new program was that farmers lacked incentives to increase their productivity and output. The Shandong Bureau leaders realized this and tried to make adjustments during 1943 and 1944. They did not overhaul the system, however, and the problems remained.

As in the tianfu system, operation of the quota-driven grain requisition system depended upon timely and precise information about landholdings and population. The Shandong Bureau’s campaign of re-measuring and re-registering cultivated lands to update the tianfu system overlapped with its efforts to institute regular grain collections. The Shandong Bureau thus issued a number of instructions about census-taking and

43. Zhu, op.cit, 122-123.
surveying and re-registering cultivated lands. The data concerned not only the livelihoods of millions of rural people, but also the new power structure in the rural communities. In addition to its earlier record of plundering and squeezing the better-off segments of the population across the province, the implementation of Program A of the grain requisition program communicated the aim of the CCP authorities. The process of census-taking and surveying was clearly part of a struggle for power and wealth. Therefore, following its instructions on data collection, the Wartime Executive Committee issued orders about reforming village governance and finance.

44. See: “山东省战时工作推行委员会关于陈报土地决定与乙种公平负担办法及其修正决定的几个修正(The Shandong Provincial Wartime Executive Committee’s decision on the registration of and on revision of the fair sharing of burdens, Program B), June 5, 1941,” ibid 3-7; “山东省战时工作推行委员会关于统计工作问题的通知 (The Shandong Provincial Wartime Executive Committee’s Circular notice on statistical programs), June 15, 1941,” Ibid, 11-12; “山东省清查土地登记人口暂行办法草案 (Draft regulations for land surveying and census-taking in Shandong province), ibid. 415-423; “中共山东分局关于建立全省调查研究机关的决定 (Decision of the Shandong Bureau of the CCP on establishing cross-province research and investigation agencies), February 6, 1942,” SDGMLSDAZLXB 7. 147-148; “中共山东分局关于进行调查研究工作的指示 (Directive of the Shandong Bureau of the CCP on programs of research and investigation), February 6, 1942,” ibid 148-152; “山东省战时工作推行委员会关于各级政府设立调查研究组的决定 (Decision of the Shandong Wartime Executive Committee on establishing research and investigation agencies at each level of government), June 1, 1942,” ibid, 348.

45. “山东省战时工作推行委员会关于村政组织与工作的新决定 (The Shandong Wartime Executive Committee’s new decision on village governance), October 12, 1941,” SDGMLSDAZLXB 7. 394-402; “山东省战时工作推行委员会关于统一村镇财政及人民负担的决定 (Decision of the Shandong Wartime Executive Committee’s on standardizing village fiscal management and villagers’ tax burdens), May 30, 1942,” SDGMLSDAZLXB 8. 311-313; “中共山东分局关于整理村镇财政的决定 (the CCP Shandong Bureau’s decision to reorganize Village-level fiscal affairs), July 1, 1942,” ibid 407-408; “山东省战时工作推行委员会关于村政人员粮食津贴的决定 (Decision of the Shandong Wartime Executive Committee on food allowances for village administrators), July 15, 1942,” ibid, 418.
In the struggle for power in the rural communities, the CCP exploited divisions and tensions caused by long-existing irregularities and injustices in the \textit{tianfu} system, adopting a variety of approaches in its effort to replace the traditional gentry-dominated power structure of rural society with units under the command of CCP cells. Among the CCP’s techniques in re-shaping rural society were appeals to patriotism, promotion of production, ideological guidance, the manipulation of congresses, subjected rivals to discrediting, intimidation, humiliation and coercion, assassinations and military strikes against those who resisted.

3. Trade

The decisive determinants of CCP strategy were Mao Zedong’s calculations on attaining national power rather than the local CCP’s immediate and short-term interests. Determined to maintain the United Front with the GMD, Mao curbed radical and violent social reforms initiated by local CCP authorities in North China. After the N4A Incident in January 1941, he ordered the CCP to keep a low profile and cultivate good relations with local elites. In order to survive the situation of protracted war in which material shortages were more severe by the day, he ordered local CCP leaders to learn business and become successful businessmen. This policy generally led to relative calm in rural Shandong especially after Operation Rō in December 1941. Having experienced the benefits of commerce and banking in Jiaodong during the early days of the war, the Shandong Bureau continued to pay careful attention to them. When the system controlling revenue, staple food and trade was established, it served as a basis for the control and manipulation of the trade between the occupied and CCP zones. From 1943
onwards, the Shandong Bureau’s tax income from trade exceeded the *tianfu* collection and became the Shandong Bureau’s most important source of revenue.

Similar to policy changes effected during its efforts to institute regular requisitioning of “patriotic grain,” the Shandong Bureau’s trade regulation policy evolved from naïve idealism to pragmatic sophistication. Chinese nationalists had a long history of boycotting goods from those countries they did not like. Chinese indigenous industrialists who faced foreign competition supported popular boycotts in accordance with their commercial interests.46 In the pre-war era, boycotts against Japanese-made goods (日货) were so widespread and frequent that Japan raised the issue many times, in diplomatic negotiations with the Chinese Nationalist Government. After the war began, Japanese goods were called “enemy goods” (*di huo*敌货) or “detestable goods” (*chou huo*, 仇货). Strict prohibitions against Japanese goods (禁绝日货) naturally became a feature of the CCP’s roadmap for the war.47 In Shandong, the CCP tried to carry out the policy literally during the early period of the war. In Jiaodong, the Third Detachment established an anti-smuggling committee (*缉私委员会*) and anti-smuggling teams to halt Japanese goods. In Qinghe, the CCP’s Eighth Detachment confiscated 1,800 rolls of Japan-produced cloth from the market in one operation. Shortages of essential daily goods followed almost immediately, however, and the CCP realized that the anti-smuggling policy was too costly. In Jiaodong, the CCP-led government converted its Anti-

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47. *ZGZYWXJ* 11. 329.
Smuggling Committee into an Office of “national salvation goods contributions” (货物救国捐征收处) in the second half of 1938.48

The renaming of an office was the first change of trade policy by the CCP leaders in Shandong. They gave up their prohibition and confiscation policy, accepted the presence of Japanese goods and attempted to control the trade through taxation measures.49 The CCP leadership in Yan’an arrived at a similar conclusion a year later. In an order of March 20, 1940 to establish a Trade Bureau system under the Finance Committee, Yan’an explained that neither an embargo nor laissez-faire would be beneficial; therefore the CCP must institute a system of regulating trade. The CCP leaders in Shandong then recognized the advantage of imposing transit taxes on goods flowing and tried to control the flows of goods by adjusting these taxes. The CCP leaders sought to encourage the importation of war materials such as tools, hardware and electronic equipment while restricting the inflow of items such as cosmetics and alcoholic beverages. The CCP leaders also promoted the export of local handcrafts while forbidding the export of strategic materials such as staple food and cotton.50 In addition, the Trade Bureau system was a commissioned purchasing agency for imports and exports. By these means, the CCP avoided internal competition for goods and reduced costs and opportunities for

49. Ibid.
manipulation by middlemen.\textsuperscript{51} The Trade Bureau system later became the basis of the PRC’s national foreign trade monopoly system that existed until December 2002 when China acceded to the World Trade Organization (WTO).

The Shandong Bureau responded to Yan’an’s directive enthusiastically. As early as May 11, 1939, the Shandong Bureau outlined its wartime economic policy in an editorial in its newspaper Dazhong ribao, which echoed the call for a self-sufficient wartime economic system made at of the CCP’s Sixth Plenum in October 1938.\textsuperscript{52} The Shandong Bureau pointed out that the Japanese were conducting an economic war aimed at strangling and destroying the economy of the CCP’s anti-Japanese base areas. It claimed that the seizure of staple food supplies was an aspect of Japan’s economic warfare; in order to counter Japanese economic strangulation, Chinese patriots needed to establish a system of staple food control and promotion of production to ensure supplies and revenue.\textsuperscript{53}

In January 1940, six months after the editorial appeared, Ai Chunan, a CCP financial specialist, arrived in Shandong. He was appointed commissar of the Department of Supply of the Shandong Column. Ai was from a remote county in northern Shaanxi, became a CCP member during his high school days when he was about twenty years old and soon showed a talent for finance. In January 1935, Ai was appointed as Finance

\textsuperscript{51} Ibid.

\textsuperscript{52} “关于游击区的财政经济政策 (On the financial and economic policies in the guerrilla war zones ), Dazhong ribao’s editorial, on May 11, 1939,” SDGMGJDZSLXB 1.7-9.

\textsuperscript{53} Ibid, 8.
Minister of the Shaanbei (North Shaanxi) Soviet. In mid-fall that year, Mao and the
survivors of the Long March arrived. In a short period of time, Ai purchased a substantial
amount of cotton and wool which was essential for the CCP soldiers for clothes to survive
the coming winter. He had purchased the materials in non-CCP areas and transported
them to the CCP Soviet zone using a few silver coins, local CCP banknotes and local
products such as dates, hides, cattle, sheep and donkeys. Ai’s performance impressed
Mao and his colleagues so much that he was appointed as financial minister to the Shaan-
Gan Soviet. After the Sino-Japanese War began, he served as the deputy financial
minister of the Shan-Gan-Ning Border Area Administration until he was assigned to
Shandong in August 1939.

The deployment of Ai, a senior and creative financial cadre, to Shandong reflected
the increasing importance of the province to the CCP’s central treasury and to Mao. Ai
was a leading figure in the Shandong Bureau’s financial affairs throughout the war and
shaped its trade policies during 1940-1943. Ai stated that the goal of his wartime financial
and economic policies was to feed, clothe and arm soldiers and civilians during a
protracted war. He claimed that an embargo on trade in Japanese goods would be suicidal
and unlikely to succeed. In his view, external trade was secondary only to agricultural
production in importance. He advocated trade regulation so as to make use of imports to
promote domestic production and echoed instructions issued from Yan’an in pointing out
directly that trade was “an essential link in the wartime economy”.54 Without that link, he

54. 艾楚南 (Ai Chunan), “战时财政经济政策 (On wartime financial and economic policies), August 1940,”
SDGMLSDAZLXB 5. 298-306.
claimed, “the products from the [CCP controlled interior areas] would not have markets; and that [the CCP] would not receive essentials from outside”.  

Although Ai advocated controlled external trade, his views on trade control were rudimentary and impracticable. Like his peers in Shandong and superiors in Yan’an, Ai did not recognize the economic interdependence between the rural and urban areas and was haunted by the prospect of wartime famine. He and his Shandong Bureau colleagues regarded the cross-zone trades of war materials, especially of staple foods, from the perspective of zero-sum games and tried to stop them by embargoing the export of any war-related materials such as staple food supplies, cotton, coal, wool and iron. As for the medium of exchange, Ai advocated barter trade and restraints on outflows of fabi and inflows of currency issued by the collaborationist regimes in occupied areas (weichao).

Ai recognized the difficulties in conducting a trade that unilaterally benefitted the CCP because the Japanese would not benefit and would halt it. His solution was covert

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55. Ibid, 300. Despite his pragmatic attitude on the CCP’s policy in external trade, Ai adhered to Marxist anti-private ownership principles and was enthusiastic about collectization.

56. Ibid, 301; see also: “展开敌后经济争夺战粉碎敌‘以战养战’ (Conduct economic warfare in the occupied zones and defeat enemy’s strategy of ‘supporting war with warring’), Dazhong ribao’s editorial, August 4, 1940,” SDMGJDCZSLXB 1.9-11; “展开藏粮节约与禁止运粮敌的斗争 (Conduct a movement of grain hiding, saving and embargoing), Dazhong ribao’s editorial, September 19, 1940,” ibid, 24-25; 陈明 (Ming Chen), “一个紧急的战斗任务: 克服春荒，解决军食民食 (An urgent task: to overcome spring shortage of food supplies), February 4, 1941,” ibid, 53-57; “用反封锁粉碎 敵人的封锁 (The defeat Enemy’s blockade with counter-blockade), Dazhong ribao’s editorial, March 13, 1941,” ibid, 57-59; 戚铭 (Ming Qi), “战时食粮问题 (On wartime food supplies), March 22, 1941,” ibid, 60-67; Also see: “山东省战时工作推行委员会关于颁布禁止运棉资敌暂行办法的通知 (Circular notice from the Shandong Wartime Executive Committee on the regulation of cross-zone trade in cotton), [附: “禁止运棉资敌暂行办法 (Appendix: Provisional regulations on cross-zone trade in cotton), September 3, 1941,” SDGMGLSDAZLXB 5.244-246.
trade: to encourage those merchants who were covertly transporting prohibited Japanese goods into the CCP zones and also shipping goods not needed by the CCP into the occupied zones. As an effort to promote food production and food conservation, the Wartime Executive Committee issued orders prohibiting alcohol making and ox butchering. However, the orders remained on paper only. It would take years for the CCP leaders to understand that the economies of their zones and the occupied areas were closely integrated through numerous rural markets in border areas between the two. Therefore, it was unlikely that effective protective tariff barriers could be established through administrative orders especially when three kinds of currencies were in circulation in the CCP areas: fabi, weichao and the notes of the North Sea Bank (beipiao), among which the North Sea Banknotes were the weakest.

*Monetary policy*

Although the Shandong Bureau and other CCP regional authorities operated banks, they regarded their banknotes as supplementary to the fabi until the Pacific War began in December 1941. From 1937-194, the CCP’s general monetary policy was to: “issue and consolidate [CCP] currencies, protect the fabi, resist the weichao and eliminate

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57. Ai, op.cit, 301.

58. “山东省战时工作推行委员会关于禁杀耕牛及禁运棉花出境的通知 (Circular notification from the Shandong Wartime Executive Committee about the ban on cattle slaughtering and on the cotton trade embargo), September 18, 1941,” *ibid*, 255-256; “山东省战时工作推行委员会关于禁止酿酒的决定 (Decision of the Shandong Wartime Executive Committee on the prohibition of distilleries in Shandong), January 9, 1942,” *ibid*, 97.
miscellaneous bandit banknotes”. This reflected the chaotic situation of currency in North China after the Japanese invasion. The miscellaneous local currencies (zachao) in circulation in wartime northern China were means by which local strongmen raised funds to support their armed forces. These local leaders were in competition with the CCP. Like the CCP, they lacked the legitimacy of the Nationalist government and the resources of the Japanese. Although the CCP had no hesitation in eliminating zachao, they were cautious in dealing with currencies issued by Yan Xishan and Fu Zuoyi. Their policies towards the currency of the Joint Bank (lianyinjuan, also popularly known as weichao) which were banknotes issued by the collaborationist regime in North China, as well as the Nationalist government’s fabi, were intertwined and complicated.

In its early days of occupation, the Japanese Army purchased supplies locally using fabi which led to fabi shortage. As a response to the shortage of fabi, the Chinese collaborationist regime in northern China and the Japanese occupation army separately issued currency. In late fall 1937, the Japanese occupation army commissioned the Bank of Chosen to provide banknotes for North China. The introduction of another currency created further confusion in markets that had already been chaotic before the war, especially as the enormous demand for war material caused inflation. Because the Japanese-supported currencies were linked to the Japanese yen, they carried inflation in

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60. Ibid.
North China to Japan’s home islands.\textsuperscript{61} The Japanese authorities in North China thus became eager to bring an end to the chaotic situation and in March 1938 established the Joint Preparation Bank of China (\textit{liányīn}) as the central bank of the collaborationist regime in North China. The Japanese occupation authorities ruled that the Joint Banknotes were to be the sole currency in the occupied zones; that all transactions including salary and tax payments must be made in Joint Banknotes and those who refused the Joint Banknotes would be punished. It also forbade Japanese residents in China to use Japanese yen.\textsuperscript{62} The policy soon proved successful. By May 1939, the \textit{fabi} no longer circulated in the occupied zones and the Joint Banknotes became dominant in North China.\textsuperscript{63}

The emergence of Joint Banknotes in northern China was threatening to the CCP and other members of the anti-Japanese coalition. The birth and spread of Joint Banknotes was associated with Japanese military expansion and occupation. This currency was not only a symbol of Japanese power, but also served the Japanese as means of gaining access to Chinese resources to support their war against China. Before December 1941, however, the Joint Bank’s currency not as threatening as it later became because the \textit{fabi}, still an international currency, served as a buffer.

The \textit{fabi}, China’s first national currency, was established in November 1935 as a result of the Nationalist government’s concerted effort in nation building and military


\textsuperscript{62} Ibid, 100.

\textsuperscript{63} Ibid, 101.}
preparation, assisted by a low-profiled British policy of assisting China to strengthen itself against Japan. At that time, Britain was beginning military preparations for a possible war against Germany. Lacking resources that would be needed to fight wars against both Germany and Japan, the British government could not afford to incur diplomatic damage by antagonizing Japan through public support of China. An overtly pro-China British policy might even drive Japan and Germany together as allies. The British government consequently adopted a policy of providing British banks with official guarantees for loans to China’s Nationalist government. The guarantees gave China’s government access to the financial resources of the British Empire in its war preparation programs including national currency reform.\(^{64}\) The fabi, therefore, was a respected international currency whose value was linked to the British pound.

Because of the fabi’s status as an internationally convertible currency, the Japanese occupation authorities implemented a policy of exchanging the Joint Banknotes for fabi and then purchasing materials in international markets using fabi. Their policy led to shortages of fabi. The CCP policy of protecting fabi was to restrict outflows to the Japanese zones. In the CCP zones, the local CCP currencies were exchanged for fabi, which the CCP then used to purchase material from markets in Free China. The CCP-Japanese competition for scarce fabi currency heightened Japanese anti-Communist hostility in the period before Pearl Harbor. To compensate for the shortage of fabi in North China, Chiang Kaishek permitted provincial governments to issue limited amounts

\(^{64}\) Anthony Best, *Britain, Japan and Pearl Harbor: Avoiding War in East Asia, 1936-41* (London: Routledge, 1995).
of small-denomination notes. This central authorization then became a justification for the CCP’s North Sea Banknotes.

Competition between the CCP and the Japanese in North China over the *fabi* ended abruptly when the Japanese lost their access to international markets after attacking Pearl Harbor on December 7, 1941. At the same time, the Japanese greatly increased their holdings of *fabi* with their occupation of Hong Kong and China’s financial centres in formerly neutral international zones. The occupying forces closed treaty ports and destroyed the foreign currency exchange market in these centres. They confiscated significant amounts of *fabi* held in financial institutions. Inflation led to the relative devaluation of the *fabi*, as the Japanese used large amounts to purchase materials in unoccupied zones. The devaluation of the *fabi*, which had suffered since the fall of France and the loss of Xiangfan in Hubei to the Japanese in June 1940, accelerated as materials found their way to the occupied zones.

Although the CCP regional authorities had issued currencies such as the North Sea Banknotes in their base areas, all were denominations of *fabi*. The *fabi* was the unit of account in CCP budgets and revenue collection at its central and regional levels. The CCP leaders were therefore familiar with the *fabi*’s value as well as with the Nationalist government’s budgets, balance of accounts and financial policies. On January 5, 1942, the CCP’s central Department for Financial and Economic Affairs issued instructions about the post-Pearl Harbour devaluation of the *fabi*. It estimated that with the closure of the foreign exchange markets in Shanghai and Hong Kong, nearly 90 billion *fabi* yuan would
move to the unoccupied zones. The increased volume amount of *fabi* in inland markets would depress purchasing power in unoccupied China and hasten devaluation.65

The central instructions recognized the financial difficulties of the Nationalist government and imminent devaluation of the *fabi*, analyzing the Nationalist government’s budget projections for 1942. Total expenses would be 27 billion *fabi yuan* and income would total 13.9 billion *yuan*. The authors of the instructions predicted that the principal means of covering the deficit would be to increase the amount of *fabi* in circulation. The amount of *fabi* in circulation had been already 20 billion *yuan* before the Pacific War began. The flow of *fabi* from Shanghai and Hong Kong to the interior would surely accelerate depreciation of the *fabi*, the document concluded.66

As for the potential impact of the *fabi*’s devaluation in CCP zones, the central CCP instructions of January 1942 predicted that as the CCP currencies were based on the *fabi*, they would also depreciate. The Japanese would then dump *fabi* into the CCP zones to gain access to materials and disrupt CCP finances. They also predicted that with the demand of materials in the Pacific War, the Japanese occupation authorities in China would likely adopt an inflationary policy and would start to devour the resources in the occupied zones. Therefore, the collaborationist *weichao*, including the Joint Banknotes,


would depreciate with an impact on the CCP currencies.\textsuperscript{67} The declining value of \textit{weichao} would partly offset the depreciation of the \textit{fabi}.

For the purpose of avoiding and reducing losses with the depreciation of \textit{fabi}, the CCP central instructions outlined medium and long-term financial policies and immediate countermeasures. The policy would develop “an independent and unified finance system”, control external trade and establish self-sufficient local economies.\textsuperscript{68} The instructions pointed out that private enterprises in agriculture were the principal taxpayers and they should be encouraged. The independent and unified finance system was intended to protect the resources of CCP zones. To rely solely on financial measures such as printing banknotes would be hopeless. The regulation of trade was intended to barter surplus products made in the CCP zones for needed supplies from the occupied zones.\textsuperscript{69}

Yan’an’s instructions in January 1942 notified the CCP authorities in the consolidated base areas of North China that their currencies did not need to be linked to the \textit{fabi}. Instead, they were asked to secretly link their currencies with the Joint Banknotes and to conduct barter trade with the occupied zones.\textsuperscript{70} In addition to making efforts to de-link from the \textit{fabi} to reduce losses from Japanese dumping, the authors instructed regional CCP authorities to look for substitutes for imported items such as

\begin{itemize}
\item \textsuperscript{67} Ibid, 302.
\item \textsuperscript{68} Ibid.
\item \textsuperscript{69} Ibid, 302-303.
\item \textsuperscript{70} Ibid, 303.
\end{itemize}
walnut oil for kerosene and flints for matches, so as to minimize need for imports. It also asked them to take advantage of any profitable opportunities to spend fabi in the GMD zones, going into Free China to purchase materials there if it was profitable. As for unsecured CCP base areas in Central China including northern Jiangsu province, the CCP leaders were ordered to establish banks and issue currency as soon as possible.

At first, the Shandong Bureau’s Commission for Financial and Economic Affairs did not respond enthusiastically to those instructions from Yan’an. Monetary policy was a low priority on its agenda for 1942, coming after: 1) improvement of administrative efficiency by overcoming lavish and sloppy work habits, 2) the reduction of waste, 3) the struggle against corruption and theft, 4) finding new sources of revenue and 5) enhancing professionalism through education. The Commission for Financial and Economic Affairs responded only with a generic directive that the notes of the North Sea Bank should be regarded as the basic currency and its exchange ratio with the fabi should range from 70% to 90%. The collaborationist and local warlords’ currencies (weichao and zachao) were prohibited, but authoritarian and coercive methods of enforcing the ban were explicitly forbidden. The Shandong Bureau was preoccupied with reorganization after Operation Rō. In addition, the Shandong Bureau recognized the political costs of establishing an independent financial and monetary system. To contribute to the

71. Ibid.

72. Ibid, 304.


74. Ibid, 122.
depreciation of fabi would associate the CCP in Shandong with the Japanese policies and would damage rapprochement with the local pro-GMD coalition.\textsuperscript{75} In practical terms, the insufficient supply of materials such as Dowling paper and printing ink severely limited the Shandong Bureau’s ability to issue currency. In its directive on issuing 10 million yuan in North Sea Bank beipiao on April 4, 1942, it ordered the North Sea Bank to prepare sufficient printing materials for two years.\textsuperscript{76} In brief, although the Shandong Bureau did not plan to hold a fabi reserve fund and ordered its trade and supply agencies to use fabi to facilitate barter trade, it did not have a plan to prohibit the circulation of fabi in its zones. Of the 10 million yuan of North Sea Bank beipiao to be issued in 1942, 50% would be invested in agriculture, 20% in collective enterprise and private firms, 15% in commerce and 15% in arsenals.\textsuperscript{77} Despite instructions from Yan’an about eliminating the collaborationist currencies and establishing an independent monetary system in 1942, the fabi circulated freely with Joint Bank currency (weichao) and beipiao in the Shandong Bureau’s zones.

The Shandong Bureau’s Commission for Financial and Economic Affairs did not recognize the severity of the fabi situation until late May 1942. The collaborationist regime established in Nanjing under Wang Jingwei declared that fabi would no longer be permitted in its zones after June 25. Fabi holders could exchange their notes for banknotes of its “central bank” at the rate of 2:1 before June 25. Meanwhile, the

\textsuperscript{75} 若非 (Ruo Fei), “禁用法币的我见 (My view on prohibition of fabi),” ZGGMGJDBHYSL1.237-238.
\textsuperscript{76} “中共山东分局财委会对各财委会工作指示 (Directive of the finance committee of the Shandong Bureau of the CCP on the work of finance committees), April 5, 1942,” SDGLMLSDAZLXB 8. 243-249.
\textsuperscript{77} Ibid, 248-249; see also: “中共山东分局财委会关于今后财经工作的指示 (Directive of the Shandong Bureau of the CCP on future financial work), April 12, 1942,” ibid, 260-264.
collaborationist regime in Beijing also began to restrict the circulation of *fabi*. It ordered *fabi* holders to exchange their notes for Joint Bank currency at the rate of 2:1. Moreover, rumours circulated that the Nationalist government would forbid the use of banknotes printed in the provinces of Jiangsu, Anhui and Zhejiang in its “Free China” zones.

Located between the two collaborationist regimes, one in the north and the other in the Yangzi valley, the CCP base areas in Shandong became a place of refuge for unwanted *fabi* currency. On May 29, 1942, the Shandong Bureau’s Commission for Financial and Economic Affairs issued a special order that all Shandong Bureau agencies and enterprises could accept the *beipiao* only and that bartering was the only acceptable form of trade between zones. But before they could take any effective action to halt an outflow of materials, the CCP in Shandong suffered great losses. On July 22, 1942, the Shandong Bureau claimed that losses associated with depreciation of the *fabi* and the influx of *weichao* during the first half of 1942 had exceeded in value the total losses imposed by the Japanese during their pacification operations since June 1939. As a result, the Shandong Bureau district authorities of the Binahi, South Shandong, Jiaodong and Qinghe zones tried to expel *fabi* from their territories and to establish exclusive zones for the *beipiao* from August 1942 onward. The authorities of Binhai and the zones in southern and central Shandong began their campaigns on August 1. Jiaodong’s measures took effect on September 19 and Qinghe’s on October 17.

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78. "对敌展开货币战 (Conduct monetary warfare ), July 19, 1942," *SDGMGJDCZSLXB* 1.170

79. “滨海区部署八月一日起以北海币为本位币, 八月十五日起法币五折 (Beipiao will become a sole currency in Binhai District after August 1; *fabi* will be discounted 50 % after August 15),” *Dazong ribao*, 4 August 1942, in *ZGGMGJDBHYSL* I.276-277; “胶东区行政公署关于停止法币流通的布告 (The Notice of Chief Administration Office of Jiaodong on prohibition of *fabi*),” *Dazong ribao*, 19 September 1942, *ibid*, 1.247-248; *Qunzhong bao*, 17 October 1942, *ibid*, 1.285-286.
As the Shandong Bureau hastily launched its campaign to expel the fabi, its leadership failed to recognize the complexity of the situation and attempted to control the circulation of currency through administrative means. In Binhai and central Shandong, the beipiao-fabi exchange rate was arbitrarily set 1:2; in Qinghe, it was 1:1.8. Having made insufficient preparations, the Shandong Bureau did not establish a sufficient number of currency exchange offices. Neither did they have enough beipiao to replace the fabi that people wished to turn in. Except in two sub-districts in Jiaodong, the campaign was a failure and caused a political backlash after having created such confusion that regular commercial activities were disrupted. In central Shandong and the Binhai zone, there were outcries against the CCP: “While [the Japanese] devils are striking against the fabi, the 8RA is also attacking it. Aren’t they assisting the devils?”\(^{80}\) “It must be an 8RA plot. The army is about to leave, so is purchasing fabi desperately.”\(^{81}\) “This is bandits’ behaviour, as bad as robbing the public.”\(^{82}\) Although the Shandong Bureau’s agencies were ordered to use the beipiao and only accept tax payments in beipiao as early as on May 29, 1942, this order could not be implemented. Even in the Shandong Bureau’s agencies, the fabi remained as dominant as before.\(^{83}\)

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80. “对敌货币斗争的初步检讨 (A primitive review on currency warfare),” ZGGMGJDBHYHSL 1.277
81. Ibid
82. Ibid
83. Li Yu, “五年工作总结及今后任务 (A review of the works during the previous five years and missions in the future,,” ibid, 1. 297. Parts of Li’s speech on finance were not included in the version of SDGMLSDAZLXB (see: SDGMLSDAZLXB 10.74-75.
In his review of the first campaign against fabi in the second half of 1942, Li Yu attributed the success in Jiaodong to the local CCP’s healthy financial state thanks to its possession of Joint Bank currency, gold and local products, assets that had created a budget surplus. Thus, the CCP could adjust the exchange rates between the beipiao, the fabi and Joint Banknotes according to market conditions. Lessons to be learned in the failed campaign, he claimed, were the following: 1) The quantity of the beipiao was too insufficient, as was its capital reserve; 2) Little was known about market forces, and exchange rates were set arbitrarily; 3) There had been little attention to explaining the policy to the public, while the number of Shandong Bureau’s finance workers was inadequate and financial staff did not take the Shandong Bureau’s orders seriously; 4) The enterprises owned by the Shandong Bureau did not follow the Shandong Bureau’s orders, contravening for their own commercial benefit regulations restricting the use of fabi. On the basis of these lessons, Li Yu proposed modifications of measures for the next attempt: 1) The value of capital reserve backed by material goods should be as much as 50 % of the total value of the currency issued by the North Sea Bank; 2) It would be essential to study the market and avoid issuing orders that went against the invisible power of the market; 3) It was essential to set up enough exchange centres and to establish exchange rates in relation to market conditions that would be subject to Trade Bureau approval before being announced; 4) Because the “currency struggle” (huobi douzheng, 货币斗争) was an integral part of the “economic struggle” (jingji douzheng, 经济斗争) and was closely connected to the regulation of trade, it would be necessary to establish a unified command to coordinate related programs in various areas.\(^8^4\)

\(^8^4\). ZGGMGJDBHYHSL, 1.297-298.
5. Conclusion

The tone of Li Yu’s review and of criticisms in newspapers such as *Dazhong ribao* were positive and confident, despite the failed attempt to establish an exclusive *beipiao* zone by driving out the *fabi*. The attempt itself reflected the Shandong Bureau’s progress in establishing and managing an independent financial-economic system based on the tripod of revenue collection, control of grain supplies and regulation of trade. By the time of Shandong Bureau’s first attempt to expel the *fabi* during the summer of 1942, those branch systems had been established and running for years or at least for months. Although each system, such as “patriotic” grain requisitions, had obvious deficiencies which the Shandong Bureau would never overcome, as a whole the three-part system proved its resilience and agility during and after Operation Rō. For instance, the separate systems of control and distribution of grain supplies based on the “patriotic” grain collections minimized losses associated with the depreciation of the *fabi* and protected the CCP from severe food shortages. Moreover, in each part of the system there was potential for improvement which had not yet been tapped. Although the Shandong Bureau’s first attempt to expel the *fabi* had failed, its general failure in most of its zones and partial success in Jiadong revealed not only operational shortcomings which could be overcome such as an insufficient quantity of *beipiao*, but also made clear the connections between trade conditions and the circulation of currencies. Both success and failure, moreover, also illustrated the need for an agency that could coordinate monetary, production as well as commercial policies and programs. A consensus on these points was reached in the Shandong Bureau by the end of 1942, on the basis of which the Shandong Bureau would again seek to establish exclusive zones for the *beipiao*. 

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CHAPTER ELEVEN

Xue Muqiao, salt and exclusive currency zones

At the time of the Shandong Bureau’s failed first attempt to establish a zone for the exclusive circulation of its North Sea Bank currency (beipiao), the war situation in Shandong underwent fundamental change. The Shandong Bureau’s integrated party-military-administrative command under Luo Ronghuan’s leadership was taking shape; the 8RA troops in Binhai were about to win control of the Jiazi Hills and Wu Huawen was about to switch sides to join the Japanese. The Shandong Bureau saw that its defence expenditures were increasing rapidly and that it needed to ease the financial pressure. This was the situation when Xue Muqiao arrived in Shandong in February 1943. Xue was one of the CCP’s best economic specialists. He came from a declining wealthy clan and helped the CCP develop its justification of agrarian reform during the early 1930s. His family background and theoretical exploration in China’s rural society left an obvious footprint in Shandong Bureau’s decision-makings in financial and economic affairs for rest of war years after 1943. The focus of this chapter is Xue’s involvement in the Shandong Bureau’s effort in 1943 to create a beipiao exclusive zone. To understand Xue’s role in the establishment of the beipiao zone and the CCP’s financial revolution which followed, this chapter will first follow Xue’s steps toward becoming a leading CCP economic specialist.

1. Xue Muqiao

Fifty years before he became one of China’s most influential policy-makers during the market-oriented reforms of the late 1970s, Xue was already a prominent
economist. In February 1943, he was on his way from Jiangsu to Yan’an, following the route taken by Liu Shaoqi a year before, entering the Binhai District, where Luo Ronghuan and his headquarters were located. Xue did not expect to spend five years in this place, translating economic theories into practice.

Xue was born in 1904 to a literati family in a wealthy clan in Lishe, a township in Wuxi in Jiangsu province. About 120 kilometres from Shanghai, Wuxi had been one of the most developed and commercialized areas in China since the thirteenth century. The clan’s wealth was established by a dismissed general during the Ming Dynasty (1368-1644). The general settled in Lishe with a significant amount of money, invested in local property and became a big landowner. In order to provide a kind of social insurance to his five sons and twenty-five grandsons and their descendants, he allocated 1,350 mou of his best land to serve as a foundation (义庄) for welfare needs, scholarships, weddings and funeral expenses.¹ So many descendants were spoiled by reliance on the foundation that the clan’s ambitious members, including Xue’s father, considered it shameful to apply for assistance. The senior Xue was the oldest son in his family. After the death of his father, he began to support his two younger brothers when he was fifteen years old. To sustain the family, his mother sold the inherited land piece by piece, and he opened a shop selling local tobacco. Unable to withstand the competition of cigarettes when they entered the Chinese market at the beginning of the twentieth century, the family business began to incur losses.² After falling into serious debt, Xue’s father hanged himself.³

². Ibid, 2-3.
³. Ibid, 7.
Xue Muqiao was then a student of sixteen years old in a provincial teacher-training academy. He received a classical education and an affordable modern education as well, including instruction in English, and showed his academic talent. After his father’s death, he left school and became a trainee accountant in the Hangzhou Railway Station, the terminus of the British-managed Shanghai-Hangzhou Railway. His knowledge of English helped him secure the position. In 1924, at age twenty, Xue became the director of the Xinlonghua Station in Shanghai. As a railway station director, he was exposed to warfare between the warlords of Jiangsu and Zhejiang.\(^4\) In 1925, the May Thirtieth Movement, a wave of nationalist protests against foreign privileges in China, began and spread nationalism through the influence of the first GMD-CCP United Front (1923-1927).

During the protests of the May Thirtieth Movement, a CCP man approached Xue as a United Front representative. Xue, discouraged by the warlords’ conflicts, missed his days as a student and responded with interest. He became attracted to Communism after reading a few books that the CCP member gave him. One of the books dealt with Marxist political economy. In March 1927, Xue secretly joined the CCP.\(^5\) After Chiang Kaishek began his violent campaign against the CCP, Xue was arrested in Hangzhou in June 1927 and spent the next three years in prison. Because he did not reveal his status as a CCP


\(^5\) Xue, op.cit, 12.
member and kept quiet, he was released in 1930. Returning to his hometown, Xue worked as a teacher in a local elementary school.\(^6\)

In early 1932, Xue received a letter from three of his schoolmates who were working for Dr Chen Hansheng (陈翰笙), a historian-sociologist of the Academica Sinica in Beijing who was an underground Comintern agent, asking Xue to join their research program on the rural economy in China, a project promoted by the Comintern and the CCP.\(^7\) Because the CCP’s effort to develop revolutionary conditions in the urban areas had failed, the new policy was oriented toward China’s vast rural areas. This deviation from the Marxist orthodoxy that peasants were property owners and therefore lacked revolutionary incentives needed to be justified in the discourse of Marxism. This task was assigned to the Agrarian Economic Institute in Moscow where Dr. Chen Hansheng had stayed.\(^8\)

Dr. Chen received postsecondary education in the United States, earning a MA from the University of Chicago in 1921. He received his PhD from the University of Berlin in 1924 and then became a professor at Beijing University in the same year. Through Li Dazhao, a founder of the CCP and also a professor of the Beijing University, Chen established contact with the Soviet Legation in Beijing and often wrote reports for

\(^6\) Ibid, 28.

\(^7\) Ibid, 34; 侯建新 (Jianxin Hou), “二十世纪二三十年代中国农村经济调查与研究评述 (A survey and review of the research programs about rural societies and economics in rural China during 1920-1930s). 史学月刊 (The journal of history studies), no. 4, 2000.

\(^8\) Xue, op.cit, 34.
the Comintern. He joined the CCP secretly in 1924. After Li Dazhao’s arrest in April 1927, Chen fled to Moscow with the Russians’ help and stayed at the Agrarian Economic Institute in Moscow for a year. A few months after his arrival, Chen was assigned the project of justifying Moscow’s new policy on the Chinese revolution but soon found the project was just compiling quotations from Marx, Engels and Lenin. Chen then contacted Cai Yuanpei (蔡元培), the president of Academia Sinica. Cai then appointed him as the Deputy Dean of the Institute of Social Sciences of the Academica Sinica in Beijing.

The mission of China’s national institute of Social Sciences was to survey rural China. Because China was too large and too diverse for a nation-wide survey, Chen selected three sample areas. The first was Baoding district in Hebei province; the second was in Wuxi, Xue Muqiao’s home county, and the third was in Pearl River Delta in Guangdong province.9 Xue’s friends who were working for Chen naturally recommended him to Chen. Chen hired Xue as a temporary assistant.10 When Xue was laid off after a funding cut, Chen sent him to do research in his hometown.

Xue’s research in Wuxi resulted in a report that Chen entitled as “A microcosm of rural decline south of the Yangzi river” (Jiangnan nongcun shuailuo de yige suoying 江南农村衰落的一个缩影). Chen then arranged for publication of the work in a leftist

9. Ibid.
10. Ibid, 37.
When Xue visited his hometown for research in 1932, the fleets of barges and pawnshops were long gone. Under their umbrella of stable income from rents and the welfare foundation, the clan members lacked the incentive to work. Many spent their time smoking opium and gambling. Able members of the clan migrated to industrial centres such as Shanghai, but most members remained and depended upon the welfare foundation. Xue attributed the depression of the local rural economy to heavy rent burdens, high land taxes, usury and the landowners’ decadent way of life, in addition to
commercialization. He singled out the high rental rates as the major problem and criticized the Nationalist Government for not implementing its promised policy of carrying out a 25% reduction in agricultural land rents.

Earlier, the CCP’s Sixth National Congress held in Moscow from June 18 to July 11, 1928 had passed a resolution about the nature of Chinese society and revolution. It declared that the nature of Chinese society was semi-colonial and semi-feudal, and the nature of the Chinese revolution was bourgeois. As a result of this resolution, Chen and his underground CCP comrades in academia such as Guo Moruo (郭沫若, 1892-1978) and Jian Bozan (翦伯赞, 1898-1968) began interpreting the Chinese society and history according to Marxist theory. They applied the formula of Marxian historical materialism to Chinese history and divided it into primitive, slave and feudal phases. They defined contemporary Chinese society as “semi-colonial and semi-feudal,” in which the feudal elements and Western imperialists both preyed upon China’s peasant class and working class. The mission of the Chinese revolution, therefore, was to overthrow the feudal-imperialist yoke. Their interpretation ignited a national debate on the nature of Chinese society and Chinese history.

Mainstream thinking then followed either the Qianjia School (乾嘉学派) or Positivism. The former developed in the mid-1700s and focused on textual research. The latter was transplanted from the United States by Hu Shi (胡适 1891-1962), an

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13. Xue did not use the term urbanization, but clearly linked commercialization with urbanization. (Ibid, 40)
enthusiastic follower of John Dewey who had studied at Columbia University.  

Because the two schools of thought were overlapping, Hu developed a large following. The Qianjia-positivist school became dominant and dismissed the Marxian interpretation of Chinese society and history as unsubstantiated and non-academic. Hu and Tao Xisheng, another prominent intellectual, pointed out that China’s economy had been highly commercialized for centuries and that the feudal era in China had ended over two thousand years earlier with the establishment of the dynastic bureaucracy.  

They held the view that China’s pre-Opium War society was a “commercial capitalist society” and had since then become “a commercial capitalist society under the oppression of imperialists.” They argued that the mission of the Chinese revolution was to restore China’s sovereignty and to implement social and economic programs simultaneously. An ally of the Qianjia-positivist School was a group of independent Marxists who thought that Chinese capitalism was too insufficiently developed for a Communist revolution. They concluded that the Chinese Marxists’ top priority was therefore to promote capitalism. The CCP castigated that group, labelling it a “Trotskyite-Chen Duxiu clique.”

Xue did not join the debate until the summer of 1934 when Chen Hansheng established a registered journal called Zhongguo nongcun (Rural China) in the French Settlement area in Shanghai and appointed Xue the editor of the journal.  

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16. Xue, op.cit, 61.


Chen’s rural survey program had brought together a great deal of data. Joining the debate on Chinese society, Xue claimed that because of the scientific method applied in Chen’s research projects, the information obtained was precise.\(^{19}\) That method was adopted from Lenin’s analysis in his classification of peasants as rich peasants (funong, 富农), middle peasants (zhongnong, 中农), poor peasants (pinnong, 贫农) and landless peasants (gunong, 雇农) according to “their class exploitation status” (jieji boxue, 阶级剥削) which was determined by land rental, sale of labour and exploitation by money-lenders.\(^{20}\) Xue asserted that that Lenin’s method was a “landmark of the proletarian approach as distinct from that of the bourgeoisie in rural surveys.”\(^{21}\)

Xue’s essential proof in support of the Marxian interpretation of Chinese society as semi-colonial and semi-feudal was data showing that landlords (dizhu, 地主) and rich peasants comprised about 10% of the rural population which itself comprised about 90% of China’s entire population. This 10% owned nearly 70% of the cultivated land.\(^{22}\) He claimed that that figure was based on calculations from the survey data, writing that “the landlords possess 45.8% of all the cultivated lands and the rich peasants 18.2%. As most of the fertile lands are in the hands of these two groups, the percentage of their ownership

\(^{19}\) Ibid, 91.
\(^{20}\) Ibid. The translation is strictly following the original unclear phrase: 按照阶级剥削 (包括交租, 出卖劳动力和高利贷等).
\(^{21}\) Ibid.
\(^{22}\) Ibid, 73-74, 83.
is more than 70% if the land quality is taken into account.”

This figure was later used to legitimize the CCP’s revolution and became part of the standard educational curriculum of the PRC, remaining unchallenged until the late 1990s.

Xue used the 70% figure to interpret China’s rural commercialization and argued for the necessity of a CCP-led agrarian revolution. He claimed that the situation in his clan where landowners and taxpayers were separated, similar to the defect in the tianfu taxation system, reflected the polarization of landownership in China. He then reached the conclusion that landownership in China as a whole was feudal with a feudal triadic exploitive system of landlords, merchants and usurers. Xue later went further, claiming that the triadic system of exploitation had linked up with the invading foreign imperialists who were either dumping their commodities or establishing factories and banks for the purpose of plundering China’s agricultural products.

In addition to efforts by Chen Hansheng and Xue to justify a social revolution, their argument was intended to attract young people by discrediting a current rural survey program on rural reform conducted by the National Land Commission. In association


25. Xue, op.cit, 74.

26. Ibid.
with this program, John Lossing Buck, Liang Shuming and Yan Yangchu denied the
polarization of landownership and advocated technological innovation, rural education
and the reorganization of farm work.\textsuperscript{27} Xue displayed his organizational talent again
during his tenure as an editor. He fully exploited the foreign judicial protection provided
in Shanghai’s French Settlement and exploited its privileges of academic research,
turning the editorial office of the journal into a means of advertising the CCP’s rural
policy and a centre for recruitment, training and liaison work.\textsuperscript{28} In 1937, \textit{Rural China}
moved first to Nanchang, then to Wuhan and finally settled in Guilin in Guangxi province
where it stayed until May 1943 when it was closed by the Nationalist Government.

Xue left the journal and joined the N4A at the end of October 1938 when Xiang
Ying, the commissar of that army went to Wuhan to recruit for his headquarters before
the city fell. Although he had many privileges in Xiang’s headquarters, Xue deemed it
necessary to become a qualified military officer during the war. He treated himself as a
foot soldier and followed the training schedule strictly. In a few months, he could act as a
military commander. Rather than commanding troops, however, his principal assignment
in the N4A headquarters was to train political instructors who would then train other
political officers. Naturally, the focus of his lectures was on rural China, relating
landownership to the triadic system of exploitation and the need for a CCP-led revolution.

\textsuperscript{27} Ibid, 78-83.

\textsuperscript{28} Ibid, 51-54, 94-95.
Xue stayed with the N4A headquarters until December 1940 when he and 3,000 other non-combatants, most of whom were unarmed, were ordered to travel northward to northern Jiangsu through an area under GMD control just a month before the N4A Incident. The GMD troops did not stop them. Many of the GMD troops they encountered were friendly and provided them with tea and food.29

For the next two years, Xue continued working as an instructor in courses on Marxist economics and the Chinese revolution in a N4A military school in northern Jiangsu province. At the beginning of 1943, Mao Zedong assigned him to lead a group of intellectuals serving in the N4A to travel to Yan’an via Shandong.30 Later reviewing his years in the N4A from October 1938 to January 1943, Xue stated that most of his time was spent on the political branch of the CCP military education. During his service as an instructor, he had contact with CCP officers of various backgrounds ranging from semi-literate villagers to well-educated young nationalists. Xue also assumed various leadership posts. By the end of the period, he was well grounded in Marxist ideological education and leadership.31 He claimed that the nationalistic sentiment sparked by the Japanese invasion in Chinese youth was so overwhelming that they could all become dedicated CCP members if a proper approach in education were developed and applied. The key to the approach, in his view, was to link the Japanese invasion and military victory with the triadic system of exploitation by landlords, merchants and usurers in association with foreign imperialists as well as to prove that the GMD would not be able

29. Ibid, 123.


31. Ibid, 150.
to rescue China because it was a party of the bourgeois class and landlord classes therefore the CCP was China’s only hope. The call to Yan’an was a reflection of Xue’s contribution to the CCP’s program of ideological indoctrination.

2. *Increased financial pressure and new policy experimentation*

Immediately after Xue’s arrival at the Shandong Bureau headquarters in the Binhai District, Zhu Rui, leader of the Policy Studies unit of the Shandong Bureau, paid him a visit and asked him to give lectures to Shandong Bureau cadres on rural China’s economy, the CCP’s agrarian policy and the Chinese revolution. Xue’s lectures impressed Zhu who then invited the former to attend the meetings of his unit and sought his advice on various questions. One of those questions was about the “reduction of rents and interest rates (RIR)” policy. At that time, the RIR policy was called “reduction of rents increase of wages” (jianzu zengzi 减租增资) in Shandong and had encountered difficulties in the process of implementation. After being briefed about the problems, Xue asked how many employees remained in their jobs after their wages were increased. He was not surprised to learn that many workers were dismissed after the CCP ordered a wage increase.

Xue explained to Zhu that the CCP’s current campaign “against feudalism did not include one against those landlords (dizhu ) and rich peasants (funong ) who managed
their businesses in a proto-capitalist manner.”35 Zhu asked Xue to stay in Shandong for three months to help the Shandong Bureau in its monetary reform program. Although he missed his wife who was then in Yan’an, Xue was enthusiastic about the opportunity to put his ideas into practice.36 Zhu then sent a telegram to Yan’an, asking for permission to keep Xue in Shandong to assist the Shandong Bureau in its monetary reforms and in the RIR and “patriotic grain” requisition programs. Zhu explained that there were not many intellectuals in Shandong. The CCP centre granted its permission.37

When Xue became involved in the Shandong Bureau’s financial and economic programs in the spring of 1943, the Shandong Bureau was experiencing increased financial pressure. Expenses were increasing with territorial expansion following the victory of the battle of Jiazi Hills and the continuing campaign to halt the advance of Li Xianzhou while facilitating the departure of Yu Xuezong. The Shandong Bureau needed to establish administrative systems in the new territories, to support those who had recently switched sides to join the CCP, provide Yu’s departing troops with food and fodder as well as to support its own troops against Li Xianzhou. In addition, the establishment of a village militia system also required expenditures.38 Cadres of the Finance Committee of the Shandong Bureau were relieved to find, in reviewing their work in 1942, that they had established a comprehensive financial and economic control

35. Ibid.
36. Ibid.
37. When Zhu Rui was called to Yan’an in August 1943, Xue replaced him as director of the Policy Studies unit.
system which not only sustained them through the difficult year of 1942, but also placed them in a much better situation than their opponents of the pro-GMD coalition.

The Shandong Bureau’s Finance Committee concluded from numerous meetings and discussions that there were three ways to increase revenue collections. The first was to “take from the people (quzhiyumin, 取之于民)”. The Finance Committee reviewed its previous policies and concluded that they had revealed the limit of this approach; although they had established effective tax-collecting systems, they had focused on “collecting food and money and neglected the promotion of production.” The second approach was to take from oneself (quzhiyuji, 取之于己). This was to reduce spending. In this respect, previous efforts had emphasized reduced spending and neglected self-sufficiency. The third was to take from the enemy (quzhiyudi, 取之于敌). The focus here was on defence against the Japanese blockade and Japanese plundering. All of these efforts had been passive and piecemeal, and had not been developed into a comprehensive and aggressive campaign to increase income through “economic warfare” (duidi jingji douzheng 对敌经济斗争). The Finance Committee concluded that the rigid implementation of a barter policy had significantly reduced the Shandong Bureau’s cash income, although it had halted the outflow of resources.

40. Ibid.
41. Ibid.
42. Ibid.
The Shandong Bureau reported their conclusion to the North China Bureau in March 1943. With the approval of the CCP centre, the North China Bureau issued instructions on economic affairs to the Shandong Bureau on April 20, 1943. The North China Bureau began praising the Shandong Bureau’s achievements and then stated that its main shortcoming was that it had not paid sufficient attention to financial and economic affairs. As a result, economic achievements had fallen short of military ones. The North China Bureau pointed out that the CCP’s material foundation for economic war was agricultural production as well as that the party had to make great efforts to engage into the process of agricultural production in order to dominate it and to control agricultural products and their sales. The Shandong Bureau should assign its best cadres to work in economic and financial affairs. In response to these instructions a joint conference of the Shandong Bureau and its district leaders was held to review its previous work and develop a new agenda. The conference continued from April to August and produced a final report, in which financial and economic work was defined as “controlling materials, developing trade, conducting monetary warfare and improving grain requisitions.” It outlined a strategy consisting of plans to: 1) increase production; 2) accelerate economic development; 3) control materials and promote trade; 4) continue the Monetary War; 5) modify the “patriotic grain” collection system; 6) extend loans for agricultural production and 7) continue the campaign for reduced spending. Although CCP cadres then and historians afterwards have not used the term “financial revolution,” the Shandong

43. Ibid.

44. Li Yu, “A review of the works during the previous five years and missions in the future,” SDGMLSDAZLXB 8.44.

45. Ibid, 71-77.
Bureau’s dramatically increasing financial needs forced it to seek new approach to increase its income. Although the new approach remained implicit and generic, it was outward-oriented and aggressive and was intended to gain access to the resources of the enemies’ territories through a campaign of concerted operations in production, trade, banking and budgetary control.

3. Xue and the Shandong bureau’s decision-making

Before the Shandong Bureau could turn its financial strategy from words to reality, it had to halt the outflow of resources from its territory. By the time the new strategy was officially adopted on August 19, 1943, the Shandong Bureau’s second campaign to expel the fabi was at its peak after the Binhai Finance Committee announced the decision to ban the fabi in its territory from August 10, 1943. Xue participated in the whole process of the decision-making, preparation and implementation. Although the fabi continued to depreciate, the recent failure of the first campaign made the Shandong cadres such as Ai Chunan, the minister of finance, and Sa Haiqiu (洒海秋), the manager of the North Sea Bank to hesitate to try again.46

After numerous meetings, Xue concluded there was no choice but to expel the fabi and establish exclusive zones for the beipiao. Xue knew that a currency’s value depended upon the quantity of notes in circulation and the backing they had. As long as the

46. In his memoir, Xue claimed that he “bravely” put forward the idea of expelling fabi as if he was the initiator (Xue, op.cit, 164). But it was unlikely that he did not know previous of the previous attempt and its failure. In his report in March 1944, he mentioned the divergent views and lack of confidence in initiating second attempt. [See: Xue, “滨海区半年来的货币斗争 (A review of the monetary struggle in Binhai District since six months ago), March 1944,” SDGMLSDAZLXB 11. 322]
Nationalist Government tried to make up its deficit by printing banknotes and the Japanese continued to dump *fabi*, the *fabi* would continue to flow into the CCP zones and draw out valuable materials.\(^47\) In Xue’s view, the principal reason for the failure in 1942 was a lack of confidence and organization. In 1942, most of the CCP leaders in Shandong still held the traditional view that banknotes had to have sufficient backing in bullion and foreign currency. As the Shandong Bureau lacked this backing, it tried to make substitutions of administrative authority. Xue told the Shandong Bureau leaders that their approach was correct; the days of bullionism were over. Banknotes, he claimed, were just a medium for exchanging goods and services; what the Shandong Bureau needed was good organization and adequate preparation for the next try. Xue then explained his understanding of the war economy and the Shandong Bureau’s opportunities.\(^48\)

As there was at the time a shortage of all kinds of materials, Xue claimed, *beipiao* would be popular as long as the CCP controlled a significant reserve of essential items such as staple food supplies, cotton, peanut oil and salt, and used them as backing. As Xue pointed out: “During a period of material shortage, food and cotton are more valuable than gold and silver, which cannot fill stomachs and protect against the cold; the people in the [CCP] base areas do not need gold, let alone US dollars and British pounds.”\(^49\) Administrative means would not be sufficient for controlling those goods. Xue claimed that essential supplies were interdependent parts of the local rural-urban markets

\(^47\) Xue, *抗日战争时期和解放战争时期山东解放区的经济工作* (*The economic works in Shandong Liberated Areas during the war of resistance and war of liberation*) (Tianjin: Tianjin renmin chubanshe, 1984): 185-186.

\(^48\) Ibid, 172-173.

\(^49\) Ibid, 175.
and that market exchange of these commodities could not be interrupted.\textsuperscript{50} The Shandong Bureau’s failure in 1942 lay in its leaders’ ignorance of market forces which led to their attempt to challenge those invisible actors with administrative authority.\textsuperscript{51} Xue claimed that the CCP could manipulate market forces and benefit in doing so, but would suffer heavy losses from the backlash of those forces if they challenged them.\textsuperscript{52} In an effort to expel the \textit{fabi} by manipulating the market forces in the \textit{fabi} - \textit{weichao} – \textit{beipiao} triangle, the Shandong Bureau must have sufficient \textit{beipiao} ready to supply the needs of the local market before the campaign began.\textsuperscript{53} In addition, in order to maintain the exchange of goods between the Japanese-controlled urban areas, the CCP zones, and the GMD-controlled rural areas and manipulate the process to its advantage, the Shandong Bureau must establish sufficient reserves of \textit{fabi} and \textit{weichao}.

Xue’s understanding of China’s rural economy and his communication skills as an experienced CCP leader apparently made his argument persuasive to his hesitant comrades and helped them make up their minds. The Finance Committee of the Shandong Bureau decided to try once again and selected salt as the principal commodity for building up reserves of \textit{fabi} and \textit{weichao}.

\textsuperscript{50} Ibid, 173-174.
\textsuperscript{51} Ibid, 171.
\textsuperscript{52} Ibid, 174, 176.
\textsuperscript{53} Xue, “货币问题与货币斗争 (Currency and currency struggle),” \textit{ZGGMGJDBHYHSL} 1.370, 379.
4. A salt-protected exclusive currency zone

Most of the coast in Shandong and northern Jiangsu was suitable for producing salt. Salt had been a principal export item of the province for centuries and a source of revenue for the central government. During the Nanjing period, the Nationalist government allowed the provincial governments to retain the tianfu income but kept the salt revenue. The revenue from salt produced in Shandong accounted for at least 20% of the national total during the 1930s. Salt revenue was a significant contribution of Shandong to the central revenue but the provincial government could not keep it to the provincial revenue legally. In 1934, Shandong’s total salt revenue in 1934 was 10.5 million silver yuan.\textsuperscript{54} It was about 46% of the provincial revenue of 22.4 million yuan.\textsuperscript{55}

The portion of salt revenue in Shandong’s taxation implied that the salt revenue was decisive. It could bring about significant benefits to provincial politicians if the central government could no longer have access to it. It was what occurred after the Japanese invaded the Province in December 1938 and disrupted China’s salt revenue system there. The Japanese thus provided an opportunity for the CCP to reorganize the salt industry and revenue system.

Shandong’s salt tax was collected along two major transportation routes leading from the salt fields along the coast to inland markets. The salt produced along the coast of the Bohai Gulf, the CCP’s Qinghe District, was carried along the Jiaoji Railway into areas of western Shandong and southern Hebei. Salt from the coast south of Qingdao, later the

\textsuperscript{54} Liu, op.cit, 47.

\textsuperscript{55} Ibid, 81.
CCP’s Binhai District, went westward overland into central Shandong, south-western Shandong, Anhui, Henan and Hubei.\(^56\)

Salt was taxed through a tax farming system called a “salt channel” (yancaozì, 盐槽子). Anyone who paid the government a certain amount of money could become a member of the channel, establishing salt fields and renting them to salt farmers. Many salt farmers were landless peasants who had fallen into extreme poverty. The “salt channel” operator provided salt-farming tenants with food and other essentials needed for the salt production at low prices. The maximum annual output of an average salt farmer was 160 dan worth about 16 yuan which could buy about 500 jin of sorghum.\(^57\) This was enough food to support only a single adult male.\(^58\) The government imposed a ceiling on salt production to protect the price of salt and its revenue. Therefore, there was fierce competition for production quotas among the brokers.

The Japanese invasion not only drove away the Nationalist salt revenue collection system but also turned the salt industry upside down from the inside. Japan’s domestic production of salt could meet only 30% of the nation’s requirements.\(^59\) Therefore the Japanese tried to gain access to salt supplies in North China. Because the Chinese

\(^{56}\) Zhu, op.cit, 224.

\(^{57}\) 1 dan was 50 kilogram or 112 lb.

\(^{58}\) Yang Bo (杨波), “民主政府食盐管理下滨海盐业繁荣概况 (The booming of salt industry in Binhai under the democratic government’s administration), April 1946,” \textit{SDGMGJD\textsc{CZSLXB}} 5. 315

government monopolized the salt industry, Japanese efforts were not successful during the prewar period. But the Chinese salt control system collapsed in the face of the Japanese invading army and salt officials fled. Immediately after taking control of the salt farming fields, the Japanese began to modernize them.\textsuperscript{60} In order to increase output, however, the Japanese made a critical mistake in managing the salt industry. They imposed a ceiling limit on price of salt, hoping that this would reduce the production costs and maximize the exports to Japan.\textsuperscript{61} Because of inflation, especially after 1941, the situation of the salt farmers in the Japanese zone became unbearable. In 1943, 1 dan of salt was set all 5 $\text{weichao yuan}$, while 1 jin of sorghum cost 3 yuan. This meant that the total annual wage of a salt farmer was 267 jin of sorghum, insufficient to keep an adult from starving. In addition, the tax collection points in the salt transportation system became more numerous. For instance, there were 24 points between Ganyu in northern Jiangsu and Longgang in Anhui, a distance of less than 300 kilometres. The tax payment thus amounted to as much as 205.55 yuan per dan.\textsuperscript{62} The high price of salt in the inland markets and the plight of the salt farmers along the coast turned out to be a window of opportunity for the Shandong Bureau.

The Shandong CCP first became familiar with salt taxes when it controlled Yexian in March 1938.\textsuperscript{63} The local Jiaodong Special Committee abolished the official monopoly and placed the salt-tax collectors in the same category as regular tax collectors.

\textsuperscript{60} Ibid, 205-210.

\textsuperscript{61} Yang, op.cit., SDGMGJDCZSLXB 5. 315; Yufa Zhang, “Salt Industry,” MGSDTZ 11.1169.

\textsuperscript{62} Yang Bo, op.cit.

\textsuperscript{63} Zhu, 52.
The first significant innovation occurred in late 1941 when the Shandong Bureau sent its officers into the “the salt channel” and began to give allowances to those members who wanted to work for the CCP. Recent members of the “salt channel” did not have stable income and often were bullied. By providing junior members of the “salt channel” with financial security, the Shandong Bureau turned it into a set of “salt industry exchange centres” (Yanye jiaoyisuo, 盐业交易所). The Shandong Bureau also encouraged salt farmers to establish new fields, particularly near the Japanese-controlled fields. This was a practice that the Japanese had strictly prohibited to protect their salt fields. The Shandong Bureau intensified its efforts in salt production in the spring of 1943 after it won the battle of the Jiazi Hills in December 1942. That military victory placed a significant portion of the coastal areas, including the salt fields of Zhewang, under the Shandong Bureau’s control. By the time of its announcement about terminating the fabi in July 1943, the annual output of salt in Zhewang alone had reached 500,000 dan. The challenge was how to transport the salt westward to the interior markets. The routes passed through areas controlled by the North-eastern Army. Taxation rates and security during transport thus lay beyond the control of the CCP. However, there was a prospect that these obstacles would soon disappear: Chiang Kaishek’s planned rotation was becoming a withdrawal with Yu Xuezong’s departure before the arrival of Li Xianzhou. As described in Chapter 5, the Shandong Bureau recognized the opportunity and

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64. “盐业交易所组织暂行办法 (Provisional regulations for the salt market),” SDGMLSDAZLXB 8.44-45.

65. 岑 (Cen), “滨海区的盐业一瞥 (A glance at the salt industry in Qinghe), June 14, 1941,” SDGMLJDCZSLXB 5. 308-309

66. Yang, op.cit, 5. 315.
successfully turned Chiang Kaishek’s plan rotation into a unilateral withdrawal. The North-eastern Army, the principal obstacle on CCP’s salt shipping routes, was removed.

Immediately after the Nationalist troops left Shandong, the Shandong Bureau designed several routes for salt transportation from Zhewang to the Jinpu Railway which was about 400 kilometres to the west. The CCP repaired the damaged roads, offered security by assigning to troops for patrols, built accommodation facilities, regulated divergent prices and profit rates and increased purchase prices in the salt fields from 15 yuan per dan to 40 per dan.67 The Shandong Bureau could afford the increased cost because of a good harvest in 1943 and because the “patriotic grain requisition” system enabled them to control a sizable proportion of grain supplies. The salt price increase in the CCP zones led to an exodus of salt farmers from the Japanese zones and led to rapid decrease of output in the latter. In 1943, the output of salt in the Japanese zone decreased by more than 85%.68 In 1944, all the salt fields elsewhere outside CCP territory ceased production except those in Jiaodong and Jiao’ao near the city of Qingdao.69

The Shandong Bureau thus controlled most of Shandong’s salt production as well as the entire system of inland transportation and sales in Shandong and northern Jiangsu. This occurred at an opportune time for its efforts to expel the fabi. The critical moment came in early August 1943, twenty days after the official closing of the fabi exchange in Binhai on July 20, 1943. After July 20, it was illegal for government employees and units

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67. Yang, op.cit., SDGMGJDCZSLXB 5. 316.
68. Yufa Zhang, op.cit, 11. 1170.
69. Ibid
to possess fabi. The fabi holders could change their fabi to beipiao at a rate of 1:1 after July 20 until July 31. During the period from August 1 to August 10, the fabi holders could change their fabi notes into beipiao at a rate of 2:1. After August 10, the remaining fabi would be confiscated.

As Xue and his colleagues had expected, many people and institutions began to rid themselves of fabi in the local markets. Among them were many of the Shandong Bureau institutions and military units, which tried their best to use up the fabi in their possession. They even gave fabi to their soldiers as food allowances. A rapid rise in prices ensued.70 The situation after July 21 looked good on the surface in that the official beipiao-fabi exchange rate fell from the previous 1:1 to 1:08. The amount of fabi sold by the exchange offices, however, was more than they purchased. It meant local residents increased their stakes in fabi despite the rise in retail prices. The situation improved a few days later when retail prices began to decline again and the quantity of fabi purchased in the offices gradually increased. It worsened again on August 3 when the Binhai Commissioner’s office announced that the exchange rate was 1:06. Although this was 10 % higher than the previously announced rate of 1:05, the amount of fabi sold by the exchange offices then again exceeded what was bought in. This meant that local residents further increased their stake in fabi, believing that the CCP would again fail in execution of its monetary policy. Meanwhile, retail prices continued to fall. Xue and his colleagues knew well that the situation hung in the balance. When he reviewed those crucial days from July 20 to August 10, 1943, the last days of free exchange, Xue stated that the “The

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70 Xue, “A review of the monetary struggle in Binhai District since six months ago,” SDGMLSDAZLXB 11. 322-323.
total quantity of *fabi* sold exceeded what was purchased….Our victory was only tentative and not consolidated.” This was a politically correct way of reporting a severe situation. The local residents did not trust the *beipiao*. The black market exchanges were active. Xue recognized that the black market exchanges reflected the real situation and the invisible forces of the market. The black market *beipiao-fabi* exchange rate was 1:07 and rose to 1:1 by the end of September. The Shandong Bureau seemed to be fighting a losing battle. But just at that time, a large quantity of salt from Binhai arrived in western Shandong. The value of the *fabi* on the black markets then plummeted to 1:05. Those who had not trusted in the *beipiao* and placed their stakes in the *fabi* suffered losses. Xue was so pleased that forty-five years later, he still happily recounted how some people had miscalculated.

The cross-province transportation of salt, the crucial edge that the CCP in Shandong had recently gained, now became a profitable industry. In Binhai district, the income from salt transportation was as much as 25% of the total tax revenue collected in trade and industry. Because the industry was so profitable and labour-intensive, some 8RA units such as the Special Operations Regiment of the Shandong Military Region (a regiment under the direct command of the military region’s headquarters) participated in the work. Income from salt transportation covered 27% of the regiment’s expenses. As

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71. Ibid, 323.
72. Ibid.
73. Xue, “‘北海币’ 回忆录 (Memory about *beipiao*),” *BHYHSZNJNWJ*, 10.
74. Zhu, 225.
75. Ibid, 224.
the CCP regulated the salt transportation by assigning shipping routes, the people along the salt routes in the poor regions of central and southern Shandong benefitted from salt transportation. Young males there normally went to Manchuria after fall harvest for employment. They now found employments in shipping salt. Well organized and supported by the “patriotic grain” collection system, the salt production and inland sales drew in large quantities of fabi and weichao which became the Shandong Bureau’s currency reserve. Xue listed the control of salt distribution and the good harvest in 1943 as the second and the third most important reasons for the successful expulsion of fabi in the second half of that year. Salt became the first line of defence of the Shandong Bureau’s beipiao exclusive zone against the return of the fabi.

5. Conclusion

The establishment of the beipiao exclusive zone was a watershed in the Shandong Bureau’s road toward financial revolution. The beipiao exclusive zone reflected the maturity of the CCP party-state in Shandong. The CCP in Shandong was dependent upon the fabi until the fall of 1943. Thereafter, it grew into a party-state of de facto full sovereignty. The beipiao exclusive zone not only checked the outflow of resources but also revealed to the Shandong Bureau leadership the full leverage available to a sovereign state, including ideological appeals, financial incentives and ultimately compulsion. Dedicated and experienced revolutionaries could manage ideological appeals and

76. Ibid.

coercion but they knew much less about market forces and financial incentives, let alone about how to combine various methods. As Xue claimed, the Shandong Bureau’s failure in 1942 resulted from its ignorance of market forces. Its success in 1943, however, could not be attributed solely to the Shandong Bureau’s understanding of the market. It also resulted from the major military successes in gaining control of rural Shandong as well as from the strength of the Shandong Bureau’s three-part system of fiscal control, control of grain supplies and trade regulation. Each aspect was essential in establishing the beipiao exclusive zone. Xue’s principal contribution was in strategy-making and decision-making. His insights into China’s rural social and economic conditions helped the Shandong Bureau select a viable strategy and make the right decision at the right time.
CHAPTER TWELVE

Accessing the Enemy’s Resources

As described in the previous two chapters, one of the principal incentives for the Shandong Bureau to establish exclusive zones for the beipiao was to halt the outflow of materials. Unlike its earlier passive and ineffective efforts, the program launched in March 1943 was part of an aggressive financial strategy to access the resources outside its territories. Especially after June 1944, when Mao ordered the Shandong Bureau to prepare to occupy urban areas and march into Manchuria after the Japanese were defeated, the Bureau’s policy was intended to store materials as much as possible. The focus of this chapter is on how Xue and his colleagues exploited favourable conditions as the beipiao exclusive zones emerged and carried out a financial revolution. They transformed external trade with the occupied zones and the Japanese invaders into the Shandong Bureau’s principal source of revenue, and also implemented a controlled inflationary policy near the end of the period of the War of Resistance.

1. Material-oriented mercantilism

Xue’s view of bullionism reflected the purpose of the beipiao exclusive zones: to maximize the CCP’s control of materials. In contrast to bullion-focused mercantilism, it was a sort of mercantilism based on materials. Because Shandong’s local economies were commercialized and integrated, the key to success was to manipulate market forces rather than seek to control the flows of materials through administrative fiat. Therefore a significant quantity of reserve capital was essential. The Shandong Bureau’s success in establishing the beipiao exclusive zones in 1943 may be explained by the
strength of its capital reserve. Until the second half of 1943, the Bureau had to spend 60% of its revenue to buy cloth from the occupied zones.\(^1\) In 1943, Xue and his colleagues were fortunate: the provincial salt industry became the CCP’s financial reservoir. Moreover, during the second half of 1943, the Shandong Bureau achieved self-sufficiency in supplies of cotton and cotton cloth. According to Xue Muqiao, this achievement “filled the largest leaking hole in the [the Bureau’s external trade] and ensured a favourable balance of trade.”\(^2\)

To exploit the advantages of the exclusive zones for the currency of the North Sea Bank (beipiao) and self-sufficiency in cloth, Xue and his colleagues in the Finance Committee of the Shandong Bureau established a Bureau of Industry and Commerce (BIC), with the aim of integrating production, trade and finance in the Shandong Bureau’s territories across the province. They successfully developed the separate base areas into an economically integrated entity. The local economies in areas under the Shandong Bureau were also connected to the urban economy under Japanese control. The CCP economic zones were much less dependent on the urban economy than *vice versa*,

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\(^1\) Total income in 1943 was 164.5 million *yuan* and military expenses were 108.3 million *yuan*. See: “山东省1943年财政收支统计表 (The statistics of the Shandong provincial fiscal incomes during 1943),” and “山东省1943年财政支出统计表 (The statistics of the Shandong provincial fiscal expenditures during 1943),” SDGMLSDAZLXB 5.414, 415. Xue claimed that in 1943 the Shandong Bureau spent 100 million *yuan* to purchase cloth for its army. [See: Xue Muqiao, “山东抗日根据地内的纺织手工业 (The handcraft textile industry in the Shandong anti-Japanese base areas),” originally published in *七一、七七纪念文献 (For the CCP Birthday and the Anniversary of the Marco Polo Bridge Incident)*, Jiaodong lianheshe, 1944,” SDGMLSDAZLXB 12.259.

\(^2\) Ibid, 12.258.
however. This gave the Shandong Bureau an edge over the Japanese, enabling it to access the resources of the occupied zones.

2. *The cotton industry and self-sufficiency of the Shandong Bureau*

The Shandong CCP’s efforts to achieve self-sufficiency in cloth began in the spring of 1939 when the logistics officers of the Shandong Column tried to provide their soldiers with uniforms. They found that although their territories in Qinghe and the Hebei-Shandong border area were productive in cotton, local cloth-making capacity was very limited. ³ Most of the cotton that the local peasants produced was sold to textile mills in the occupied urban areas such as Jinan, Weifang and Qingdao. This highly commercialized cotton production had developed since early in the century, when Chinese officials became aware that cotton varieties grown in the United States had longer fibres than indigenous cotton. After American cotton was introduced to Shandong in 1906, the yields of imported varieties per *mou* of cultivated land turned out to be five times greater than the local crop. ⁴ With the help of missionaries, Shandong peasants adapted the imported cotton to the local environment and planted it widely as a cash crop beginning in 1913. Before the war began, Shandong had become one of the largest cotton-producing provinces in China, and cultivated acreage reached a peak in 1937,


when despite the damage of war, Shandong’s cotton harvest totalled 1.8 million dan, surpassed only by the harvests of 1930 and 1931.\(^5\)

The principal cotton-producing areas in Shandong were the plains area in the west along the Great Canal, the plains north of the Jiaoji Railway (the CCP called Qinghe area during the war) and Gaomi in Jiaodong, about 100 kilometres west of Qingdao.\(^6\) The cotton produced in the region along the Grand Canal and in part of Qinghe was transported to the provincial capital of Jinan, and from there most of the cotton was either shipped northward to Tianjin via the Jinpu Railway for export or southward to mills in the Yangzi valley region. The remainder supplied mills in Jinan. Jinan thus became China’s largest cotton market. In addition, a significant portion of the cotton produced in Qinghe was transported to the mills along the Jiaoji Railway, especially those in Weifang. The cotton produced in Gaomi was to the mills in nearby Qingdao.

Before the introduction of American cotton varieties, Shandong already had an extensive textile industry.\(^7\) As early as 1909, a few high-ranking officials in the central and local governments and local merchants began to invest in modern mills. They established schools in Jinan to train textile workers.\(^8\) During World War I, the absence of

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\(^6\) 刘大可 (Liu Dake), “民国初期山东经济的变迁 (The economic development in the early Republican period),” *SDZYLSSJ* 5.390


\(^8\) Ibid; Liu, op.cit, 5.3983-384.
competition from Europe led to a manufacturing boom in China. Investment in textile mills increased greatly in Shandong. Some investors purchased expensive modern equipment to produce fashionable clothing, and others directed production to rural markets. Small-scale entrepreneurs purchased *tielunji* (铁轮机), an inexpensive Japanese-made hand loom, which turned out plain and durable fabric. Instead of establishing mills, these investors scattered the process of production to individual households in rural and peri-urban areas, leasing the *tielunji* and supplying yarn. Most of the weavers were the female members of peasant families. Production in this putting-out system reached a peak during the 1920s, declining rapidly during the Great Depression. Japanese textile entrepreneurs based in Qingdao also tailored their products to rural markets, producing the same types of inexpensive cloth at much lower cost. Although most of the peasant households in Qinghe continued to weave cloth for their family members, their product had been marginalized in the local markets by the time warfare spread into Shandong at the end of 1937.

After occupying the urban areas along the railways of Shandong, the Japanese recognized the dependence of both the pro-GMD coalition and CCP guerrilla forces on textile production in the Japanese occupation zones, and in August 1940 imposed an

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9. 史建云 (Shi Jianyun), “第一次世界大战后十年间中国手工业的转型 (The Transition of China’s craft industry after World War I)” in 1920年代的中国 (China during the 1920s), ed., 中国社会科学院近代史研究所民国史研究室 (Unit of Republican history study of Modern History Institute, Chinese Academy of Social Sciences) and 四川师范大学历史文化旅游学院 (History and Culture College, Sichuan Teacher’s University) (Beijing: Shehuikexue wenxian chubanshe, 2005).

10. 翁惠明 (Huiming Weng), “外国资本与山东工业 (Foreign capital and Shandong industry),” *SDZYLSSJ* 6.413.

11. Ibid.
embargo on cloth and other materials of the garment industry such as sewing machines.\textsuperscript{12}

But this embargo policy was hardly enforced.\textsuperscript{13} Although the Nationalist government had identified cotton as one of Japan’s most sought-after Chinese commodities before the outbreak of the war, it did not try to prohibit sales until after the Japanese took action.\textsuperscript{14}

The Shandong Bureau’s policy was ambiguous. Cotton was not on its embargo list until September 3, 1941 when the Wartime Executive Committee announced restrictions on individual shipments of cotton.\textsuperscript{15} These regulations did nothing but create inconvenience in an important local business, however. Xue later stated that the CCP had lost revenue and had provoked many complaints as a result of its restrictions on trade with the occupied zones.\textsuperscript{16} Li Yu was more straightforward and called the embargo “a foolish policy” in his official report of June 1945.\textsuperscript{17}

\begin{itemize}
  \item \textsuperscript{12} Yu, op.cit, 311-312; 国防部史政局 (The Bureau of history studies of the Department of Defense, the Republic of China), 中日战争史略 (上下) (A concise history of the Sino-Japanese War), 2.105; 中央档案馆, 中国第二档案馆, 吉林省档案馆 (Central Archives, Second National Archives and Jilin Provincial Archives), 华北经济掠夺 (Japan’s economic squeeze in North China) (Beijing: Zhonghua shuju, 2004): 788-797.
  \item \textsuperscript{13} Pacification operations in North China, 368.
  \item \textsuperscript{14} A concise history of the Sino-Japanese War, 1.105.
  \item \textsuperscript{15} “山东省战时工作推行委员会关于颁布禁止运棉资敌暂行办法的通知 (Circular notice from the Shandong Wartime Executive Committee on the regulation of cross-zone trade in cotton), [附: “禁止运棉资敌暂行办法 (Appendix: Provisional regulations on cross-zone trade in cotton), September 3, 1941,” SDGMLSDAZLX 7. 244-246
  \item \textsuperscript{16} Xue, The economic works in Shandong Liberated Areas during the war of resistance and war of liberation, 4.
  \item \textsuperscript{17} “山东过去对敌经济斗争的认识与今后斗争的新阶段：1945年6月黎玉在全省工商工作会议上的报告 (A review of the previous economic warfare in Shandong and the struggles in a new stage ahead: Li Yu’s speech in the provincial conference on industry and commerce in June 1945),” SDGMLSDAZLX, 15.75.
\end{itemize}
The momentum to achieve self-sufficiency in cloth did not begin until the spring of 1942 when the *fabi*’s depreciation led to an outflow of materials and a severe shortage of cloth in the CCP zones. As a part of the effort to stop the outflow and overcome the cloth shortage, the Wartime Executive Committee and the CCP district authorities established a textile industry bureau (*fangzhiju*) in the summer of 1942 to develop the indigenous textile industry. The bureau adopted the approach that rural entrepreneurs had used during the 1910s and 1920s, adapting it to the wartime situation by extending the process to spinning. Instead of yarn, the *fangzhiju* provided loans of cotton and cash for purchasing spinning and weaving machines. Loans for the textile industry became the largest share of loans granted by the Qinghe Branch of the North Sea Bank in 1942 and the second largest in 1943.\textsuperscript{18} The *fangzhiju* distinguished three categories of yarn according to quality and encouraged rural women to learn to spin. The yarn that beginners produced was too coarse for weaving, but could be used for packing and was purchased by CCP-operated enterprises at subsidized prices.\textsuperscript{19} A beginner could become a skilled worker in one or two months.

3. *The peanut industry*

As the Qinghe territory was cotton-producing and had a prosperous homemade textile industry a decade earlier, self-sufficiency in cloth was not a problem there. The problem was finding markets. Other CCP districts such as Jiaodong, Binhai and central Shandong

\textsuperscript{18} “胶东分行一九四五年春贷工作总结(Review of spring loan projects of Jiaodong branch),”\textit{ ZGGMGJDBHYHSL} 1.486-487, 488.

\textsuperscript{19} Xue, “The handcraft textile industry in the Shandong anti-Japanese base areas,” \textit{SDGMLSDAZLXB} 12.258.
(Luzhong) were not cotton-producing areas. They did not have a textile tradition and depended upon imported cloth. Rather than cotton, their principal cash crop was peanuts.

Peanuts were introduced into China’s southeastern coastal region during the sixteenth century and had gradually spread across the country by the 1850s. Although Shandong was the largest peanut-producing province in China, the influence of peanuts was limited until Archdeacon Thompson, and Charles R. Mills, two missionaries from the American Presbyterian Mission to China, brought four quarts of peanuts from the United States to China during the late 1880s. Mills took two quarts to Penglai, and found that the crop thrived there, especially in dry and sandy lands. Promoted by the imperial government and the succeeding republican government, the new peanuts had replaced local varieties by 1912. Driven by market demand, the peanut output in Shandong increased twenty-fold from 1912 to 1931, with 80 to 90% of the crop being exported to Japan and Shanghai. In 1931 peanuts were the largest export item from the port of Qingdao.

Although peanuts were widely planted throughout the province, a few zones began to specialize in the crop. The first of these was around Jiyang (济阳) and Zhangqiu (章丘), northeast of Jinan, where peanuts were planted on 45% of the cultivated land. The second was in Jiaodong, where in the area surrounding Yantai the planted proportion was about one-third. The third zone was in Binhai. Oil-pressing mills became common in

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association with peanut cultivation. The principal markets for peanut oil were Shanghai, Jinan and Tianjin. The peanut-producing areas produced almost no cotton and depended on importation of fabric from the occupied zones. Xue and his colleagues had to find markets for the peanuts produced in Jiaodong and Binhai and cotton for their nascent textile industry. Cotton and peanuts were much more challenging than salt. Their storage and transportation was more difficult than salt, and peanuts had to be processed quickly. In addition, urban areas under the Japanese occupation were the principal markets for both cotton and peanut oil which were produced in CCP zones. Therefore, cotton and peanut oil put the Shandong Bureau into a situation of Catch 22. Because it was impossible to establish a blockade between the occupied urban areas and CCP’s rural areas, the Shandong Bureau had to stand the cross-zone trades. Because of the scissor gap between agricultural products and industrial products, the CCP was in a disadvantaged position, as the amount of the Bureau’s budget for cloth purchasing showed. A solution to the Catch 22 situation was to established a self-sufficient economy and minimize the importation from urban areas. The Bureau’s efforts to achieve self-sufficiency in cloth were among its endeavours for a self-sufficient economy. The establishment of the Bureau of Industry and Commerce (Gongshang guanli ju or BIC) in September 1943 was a milestone in the Shandong Bureau’s progress.

4. The BIC, comprehensive control and inter-zone trade

By the time Xue and his colleagues began their second attempt to expel the Nationalist currency (fabì) from their territories in July 1943, they understood that trade between the CCP zones and the occupied zones could not be halted or restricted to barter trade. Economic integration between the two was too highly developed. They had learned
from the failure of the previous year that administrative measures were essential but would backfire if market forces were disregarded. Because regional commercial networks extended beyond the borders of the zones under Shandong Bureau’s authority and were closely tied to local production and to the circulation of currencies, it was necessary to have an agency to coordinate commerce, production, and monetary affairs. For this purpose the Shandong Bureau created its Bureau of Industry and Commerce (Gongshang guanliju or BIC) on September 10, 1943.

The BIC was intended to correct organizational deficiencies in the Shandong Bureau’s financial and economic affairs, and to conduct economic offensives into the Japanese controlled zones. Its specific responsibilities were divided into the following categories:

1) **Industrial Production**: to direct handicrafts production, CCP-operated enterprises, fishing, salt and mineral industries; to issue and manage industrial loans; to provide administrative and technical supports;
2) **Trade Control**: to control imports and exports; to direct the flow of goods in local markets; to monopolize the sale of certain goods;
3) **Currency Control**: to adjust currency exchange rates and control foreign currencies; to manage exchange centres;
4) **Commercial Administration**: to register

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21. Xue, *The economic works in Shandong Liberated Areas during the war of resistance and war of liberation*, 4, 209; "工商管理工作的方针和政策：1945年5月薛暮桥在全省工商工作会议上的报告 (Policies and approaches in regulating industry and commerce: Xue Muqiao’s report in the provincial conference on industry and commerce in May 1945),” *SDGMLSDAZLXB* 14.391-392; “我们的工商管理工作:黎玉同志在滨海鲁中鲁南工商管理工作会议上的总结 (Our works in regulating industry and commerce: Comrade Li Yu’ conclusive speech in the conference of regulating industry and commerce in the districts of central, southern Shandong and Binhai), August 5, 1944,” *ibid* 12.291; “山东过去对敌经济斗争的认识与今后斗争的新阶段:1945年6月黎玉在全省工商工作会议上的报告”15.57, 64; Zhu, op.cit, 211-212.

22. Ibid.
merchants, direct commercial associations and supervise markets; 5) Tax Collection and Anti-Smuggling; 6) Cooperative enterprises (合作社事业). 23

With the establishment of the BIC, (delete comma) the existing trade agencies and offices of revenue, salt distribution, currency exchange, mineral management and textiles were closed and their operations transferred to the bureau. The BIC had offices at four administrative levels: provincial, strategic district, commissioner’s district and county. It also had posts in the important markets and producing areas. The provincial BIC became a part of the Wartime Administrative Committee of Shandong Province (战时行政委员会) on September 10, an extension of the Committee of Finance and Economics of the Shandong Bureau. 24

As many CCP cadres looked down on work dealing with money and profits and lacked the patience needed for this kind of work, the Shandong Bureau resorted to party discipline. In its decision to establish BIC, the Shandong Bureau required that “economic construction must be a top priority for CCP leaders in each district. To lead the work, each district party committee must assign one of its members to the district BIC office.” 25

23. Ibid.

24. The Shandong Wartime Executive Committee was renamed as “Shandong Wartime Administrative Committee” on September 10, 1943.

25. “中共山东分局关于设立工商管理局加强对敌经济斗争工作的指示 (The Shandong Bureau’s directive on the establishment of Trade and Industry Bureau to intensify the economic warfare against the enemy), the instruction about setting up industrial and commercial administration bureau to strengthen the work against the enemies’ economy by Shandong Branch Bureau of CCP) September 10, 1943” SDGMLSDAZLXB 10.338-339.
The organizational structure of the BIC system and its relations with the Wartime Administrative Committee and the CCP hierarchy is shown in Diagram 2.13. The system covered the entire field of non-agricultural activities of the rural area under CCP control. Together with the tianfu and the Patriotic Grain Requisition, the establishment of the BIC was the culmination of the CCP’s effort to establish comprehensive systems of economic regulation within its territory in Shandong. Xue and his colleagues immediately directed the work of BIC to consolidate their initial success in expelling the fabi, and gained the upper hand in their economic struggle against the Japanese by establishing exclusive zones for the currency of the North Sea Bank (beipiao).

Diagram: 2.13.

Organizational structure of the Bureau of Industry and Commerce (BIC)
Although it would take months for Xue Muqiao and his colleagues to understand the potential of the BIC system, such as its capacity to adjust currency exchange rates, and the connections between harvests and the quantity of currency in circulation, they were aware from the beginning that regulation by the BIC could not be rigid. The BIC became a component of a three-part revenue system together with the tianfu and grain requisitions through the Patriotic Grain Requisition. Because the parts were interdependent, survival of the BIC would depend on all its components. Its expansion would also be linked with the economies of the Japanese-occupied areas. Mao Zedong was making plans for action after the war against Japan came to an end, meant improving the CCP’s bargaining position for postwar negotiations with the GMD. In preparation for the advance Manchuria and the movement of the New Fourth Army (N4A) into Shandong, the Shandong Bureau had financial and economic obligations far beyond its administrative zones. It had to prepare to increase its troop strength rapidly while also supplying the arriving N4A soldiers. Therefore, the Shandong Bureau needed to accumulate resources as much as possible before the Japanese were defeated. The tianfu and Patriotic Grain Requisition were locally focused. They were intended to tax the rural population in CCP’s zones, and unlikely to provide needed supplies in the absence of radical agrarian reforms, which would be impractical while the war continued. In contrast, the BIC system was creative and expansionist. Potentially it could minimize fiscal obligations imposed on the inhabitants of the CCP zones at the same time as storing up supplies. Xue Muqiao and his CCP colleagues were dedicated mercantilists, seeking to maximize their trade surplus in material terms. After the BIC system was established in
the second half of 1943, its top priority became to halt the importation of cloth into the CCP zones.

Xue Muqiao’s solution for the peanut markets and the supply of cotton for Jiaodong and Binhai was to continue the traditional peanut trade with Shanghai, while at the same time purchasing cotton supplies from CCP zones in neighbouring areas. Cotton was shipped into Shandong from northern Jiangsu which was under control of the N4A, and also from the cotton-producing area along the Grand Canal and the Jinpu Railway in western Shandong, an area under the CCP’s Henan-Hebei-Shandong-Jiangsu Border Administration. The BIC also became involved in the shipment of Shandong’s peanut oil to Shanghai. Peanut oil had come to be regarded as a high-quality cooking oil in Chinese cuisine, and the Japanese army and navy units stationed in Shanghai were important consumers of peanut oil from Shandong. They became major customers of the BIC. Not only did Japanese officers in Shanghai discreetly arrange protection for the BIC’s shipments of peanut oil, they were also liberal in allowing BIC agents to use their earnings to purchase supplies in Shanghai and to ship them back to Shandong, even when such supplies included various embargoed goods such as newsprint, medicines, chemicals, electronic goods, and equipment with military uses. To the west, meanwhile, peanut oil

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26 “A review of the previous economic warfare in Shandong and the struggles in a new stage ahead: Li Yu’s speech in the provincial conference on industry and commerce in June 1945,” SDGMLSDAZLXB 15.72.

27 “Policies and approaches in regulating industry and commerce: Xue Muqiao’s report in the provincial conference on industry and commerce in May 1945,” SDGMLSDAZLXB 14.418; Xue Muqiao’s Memoir, 167. Xue did not mention the specific appliance of the peanut oil by the Japanese. The Japanese possibly used peanuts as substitutes for lubricants.

28 Ibid; “Our works in regulating industry and commerce: Comrade Li Yu’ conclusive speech in the conference of regulating industry and commerce in the districts of central, southern Shandong and Binhai), August 5, 1944,” SDGMLSDAZLXB 12.295-296.
from the Binhai zone was transported along with salt overland through central and southern Shandong, also minor peanut-producing areas, to the cotton-cultivation areas along the Grand Canal. Cotton was shipped back in return for peanut oil and salt. From the Jiaodong zone, peanut oil, salt, and imported industrial products were shipped to the Qinghe area, where staple food supplies and cotton were purchased and shipped back to Jiaodong.29

Numerous problems, such as inter-regional and inter-district quarrels and competition arose in this inter-regional system that was administered by the BIC. On the whole, however, the system worked well. By the end of 1943, the Jiaodong zone became self-sufficient in cotton cloth, the last of the CCP zones in Shandong to achieve this.30 Xue Muqiao claimed that this led to a saving of about 100 million fabi yuan in 1944.31 This amounted to about 60 % of the Shandong Bureau’s total revenue in 1943 and the entire defence spending that year.32 In his report about the Communist textile industry, Xue estimated that the output of fabric in 1944 would be worth between 2 and 3 billion fabi yuan.33 Many jobs would thus be created for the inhabitants of the CCP zones, in addition to increasing employment in the peanut and salt industries. In the less productive regions of central and southern Shandong, many of the adult males in poor families, who

29. The coast of Bohai in Qinghe also produced salt, but Zhang Jingyue controlled the principal fields in Shaoguang, and was a powerful commercial rival for the CCP.


31. See: Note 1.

32. Ibid.

formerly left their home villages to look for work after the fall harvest or in bad years, found employment transporting peanut oil, salt, and cotton. The development of the household-based textile industry in Jiaodong and Binhai turned women who had long been marginalized in the Chinese patriarchal system into wage-earners. This not only increased the incomes of many peasant households, but also paved the way for female emancipation in the rural areas.\textsuperscript{34} The quality of life improved for many poor families. Xue observed that most people in Binhai were wearing new cotton-padded winter jackets and trousers by the beginning of the winter of 1943, while it remained common both in Free China and the occupied zones for many people to endure the winter cold clothed only in ragged winter jackets and thin trousers.\textsuperscript{35}

5. \textit{Lessons from the other side of the coin}

The progress described above was remarkable. The Shandong Bureau’s efforts to establish a self-sufficient economy, especially after the Pacific War began, finally paid off. But when Xue and his colleagues consolidated their program for maintaining exclusive zones for the \textit{beipiao}, their knowledge of currency, price and production remained limited. They were unfamiliar with the power of adjusting currency values. Concerned about the potential damage of inflation, they did not appreciate the dangers of deflation, until they realized that something had gone wrong after the fall harvest of 1943. This was a few weeks after they had purchased a large quantity of \textit{fabi} using salt in late September. With


\textsuperscript{35} Xue, op.cit.
the disappearance of the *fabi* from the CCP zones, all prices except that of salt began major declines for the first time since the war began. The value of the *beipiao* against both the *weichao* (Japanese-sponsored currencies issued in Beijing and elsewhere) and the *fabi* also fell sharply. (See diagrams 2.14 and 2.15)

Diagram 2.14
Prices in July and December 1943

<table>
<thead>
<tr>
<th>Unit: jin</th>
<th>Price in July (beipiao)</th>
<th>Price in December (beipiao)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>4.00</td>
<td>1.50</td>
</tr>
<tr>
<td>Sorghum</td>
<td>4.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>48.00</td>
<td>11.00</td>
</tr>
<tr>
<td>Local cloth</td>
<td>320.00</td>
<td>180.00</td>
</tr>
<tr>
<td>Imported cloth</td>
<td>1,700.00</td>
<td>1250.00</td>
</tr>
<tr>
<td>Salt</td>
<td>40.00</td>
<td>40.00</td>
</tr>
<tr>
<td>Peanut oil</td>
<td>13.50</td>
<td>2.80</td>
</tr>
<tr>
<td>Hogs</td>
<td>16.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>

Diagram 2.15
Value of the *beipiao* against the *fabi* and the *weichao* (July-December 1943)

<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabi</td>
<td>1.00</td>
<td>0.80</td>
<td>0.50</td>
<td>0.40</td>
<td>0.30</td>
<td>0.20</td>
</tr>
<tr>
<td>Weichao</td>
<td>8.00</td>
<td>7.00</td>
<td>4.50</td>
<td>3.00</td>
<td>2.00</td>
<td>1.50</td>
</tr>
</tbody>
</table>

At first, Xue and his colleagues attributed these falling prices and exchange rates to their success in expelling the *fabi* and took them as a good sign. Xue then left Binhai for the Yimeng mountains to conduct field research, but continued to watch the prices closely. He then became confused and nervous as prices continued to fall steadily and the

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37. Ibid.
beipiao depreciated. Observing that the peasants were eager to sell their produce after the harvest and that the recently established collective firms were going bankrupt, he realized that something was seriously amiss and hurried back to his office in Binhai. When Xue returned, his colleagues welcomed him back with congratulations about the falling prices. Xue told the astonished cadres that falling prices were a bad thing just like uncontrolled inflation. The eradication of the fabi had provided conditions for the deflation, he explained, while the immediate cause was an insufficient quantity of beipiao in circulation just at the time when the fall harvest was coming on the market. Xue immediately reported to the Shandong Bureau, asking for an increased supply of beipiao and for a program of purchasing agricultural produce in bulk through the BIC to forestall further price declines. Although the Bureau approved Xue’s proposals, the North Sea Bank’s small-scale printing operation was unable to issue the required quantity of notes. Xue could only watch helplessly as prices continued to fall. Because of a lack of currency, a valuable opportunity had been lost to accumulate stores of valuable materials in preparation for rising prices as shortages arose in the spring. Just as Xue predicted, prices bounced back during the spring of 1944, soon rising above their levels of the previous August.

In a report in March 1944 on the campaign to eliminate the fabi in Binhai, Xue acknowledged that a valuable lesson was learned through the experience of unexpected deflation. Although he and his colleagues had foreseen depreciation of the beipiao and

38. Xue Muqiao’s Memoir, 166.
40. Ibid, 167.
lower commodity prices, the extent was beyond their predictions. The failure of 1942 was so fresh in their minds, Xue claimed, that many colleagues were not confident about a second attempt and did not prepare adequately. He estimated that the deflation had cost the BIC more than ten million beipiao yuan, stating: “If we had made preparations for the rapid fall of prices, most of the financial losses could have been avoided.”41 He observed that the fall of prices was a blow to manufacturing and commerce. Many small operations, including numerous collective enterprises dealing in peanuts and oil-pressing, had been bankrupted. As its price in beipiao fell sharply, the peanut crop had been sucked into the Japanese-occupied areas, without providing profits to the BIC system. Although the price of cotton cloth fell along with other commodity prices, the extent of decline was less serious, but nonetheless caused a problem by contributing to a widening “scissors gap” in the relative prices of industrial and agricultural products in the CCP zones.42 “Fortunately”, Xue claimed, “the impact on the textile industry was limited due to the fact that the price of cotton fell more than yarn, while the price of yarn fell more than the price of cloth. On the whole, there were still profits for the textile industry.”43

A further lesson concerned the necessity of price stability. Xue observed that rapid fluctuations in prices were jeopardizing entire economic networks, involving employers and employees, debtors and creditors, and tax collectors and taxpayers, producing numerous tensions. He attributed the instability of the beipiao to its lack of close

41. “A review of the monetary struggle in the Binhai District since six months ago, March 1944” SDGMLSDAZLXB 11. 327.
42. Ibid, 327-328.
43. Ibid, 328.
connections to other items and measures of value. For the purpose of maintaining its stability, Xue now suggested that the beipiao should be linked to bullion or certain essential materials, and that the Shandong Bureau should make efforts to realize currency unification throughout its districts, in accordance with local circumstances. From then on, careful maintenance of the beipiao’s stability was a constant theme in Xue Muqiao’s developing doctrine of financial and economic management.

Three years later, after full-scale civil war had begun in April 1947, Xue outlined the CCP’s financial and economic policies at a North China Financial Conference by reiterating the need to maintaining the stability of the CCP’s currency through the control of essential materials. He stated, “The essential purpose of [our] monetary struggle is to compete for essential materials and maintain prices.” By quoting lessons learned in the fall of 1943, he claimed that uncontrolled and rapid deflation and inflation could both cause such turmoil that production would be disrupted and remain stagnant and enormous financial losses would be incurred. On the basis of his experiences in Shandong, he recommended a policy of gradual inflation. He said that administrative measures would be unlikely to prevent price increases in any case, and that if inflation were limited to about 100 % annually it would not cause problems. “Such inflation will not damage production and trade. On the contrary, it will promote their development.”

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44. Ibid, 328-329.
45. Xue, The economic works in Shandong Liberated Areas during the war of resistance and war of liberation, 19.
46. Ibid, 16.
47. Ibid, 17.
that the maintenance of price stability should exhibit three components, the first of which was control over the quantity of currency in circulation.\textsuperscript{48} Adequate quantities must be available in the markets when required and should be withdrawn when no longer needed. The second component was the backing of a reserve of essential materials while the third was a united authority to regulate monetary affairs.\textsuperscript{49}

Despite the above adverse lessons, Xue and his colleagues were happy with their success in expelling the \textit{fabi} and establishing exclusive \textit{beipiao} zones in Shandong. With the \textit{fabi} gone, the Shandong Bureau was protected from the Nationalist currency’s rapid inflation and the consequent financial crisis affecting Free China. Moreover, as the \textit{beipiao} became the sole currency throughout the zones under the Shandong Bureau, the inhabitants of the occupied zones and Free China needed \textit{beipiao} if they wished to obtain the products of these CCP-controlled zones. Because the BIC controlled the supply of important materials and regulated inter-zone commerce, it had influence over the terms of trade in exchanging materials directly with Japanese purchasers. In his report in March 1944, Xue claimed that Japanese firms had sent representatives to the CCP-controlled zones to make inquiries about the Shandong Bureau’s official prices for peanuts and wheat.\textsuperscript{50} The CCP thus enjoyed unprecedented strength \textit{vis-à-vis} the Japanese in Shandong just as the US offensive in the Central Pacific gained momentum after the Battle of Tarawa in November 1943, culminating in the capture of the Marshall Islands

\textsuperscript{48} Ibid, 17-18.

\textsuperscript{49} Ibid, 18-19.

\textsuperscript{50} Xue, “A review of the monetary struggle in the Binhai District since six months ago,” \textit{SDGMLSDAZLXB} 11.324-325.
early in 1944. With these victories for the Allied forces, Japanese defences in the Pacific began to collapse.

6. Increased demands and costs

To the Shandong Bureau, the approaching collapse of Japan’s overseas empire meant that preparing for a strong postwar bargaining position against the GMD became the first priority. Although the supply situation at the end of 1943 had fundamentally improved since a year earlier and was getting better every day, the Shandong Bureau’s stores of supplies were still small compared to the demands it might face in the near future. Early in January 1944, the CCP-led Wartime Executive Committee in Shandong instructed subordinate offices that a principal task of the various levels of the CCP administration was to stockpile materials, with special efforts to gather military and medical supplies.  

In the same month, the Shandong Military Region instructed regular soldiers and militia units across the province to step up their collections of used cartridges, and ordered its arsenals to increase their production of shells and explosives. By then, the Shandong Bureau had established a complex of arsenals in its base areas and could produce a variety of weapons and ammunition. The arsenals had already been ordered to

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51. “山东省战时行政委员会关于生产节约的指示 (The Shandong Provincial Wartime Executive Committee’s directive on production promotion and material saving), January 29, 1944,” SDMG/IDCZSLXB 2.2.

52. 王楗夫(Wang Jianfu), 抗战时期的八路军兵工厂(The 8RA’s arsenals in Shandong during the anti-Japanese War) (Beijing: Zhonggong dangshi chubanshe, 2005): 36.
increase the proportion of heavy weapons in their output March 1943. A year later, they were producing bayonets, grenades, shells, rifles, machineguns, 100-millimetre mortars, and 82-millimetre cannons adapted from mortars. The Shandong Bureau’s arsenals in Jiaodong were its most advanced, serving as the principal supplier of ammunition to the N4A troops and other CCP forces in eastern China. The artillery pieces were crudely made but dramatically increased the 8RA’s offensive strength, contributing to the victories over the remnants of the pro-GMD coalition in Binhai at the end of 1943. Veterans of those engagements formed the earliest artillery units in the 8RA, playing a key role in the assault on Zhao Baoyuan in February 1945. Despite their progress, however, the Shandong Bureau’s arsenals suffered from shortages of materials and expertise, especially in producing explosives. In order to overcome the shortages, the Shandong Bureau’s munitions experts tried three approaches. The first was to search for substitutes such as used photographic film for explosives, but supplies of such substitutes were limited and they soon gave this up. The second was to produce the inputs themselves. This approach led the Jiaodong Military District to establish six sulphuric acid mills that together could produce about a ton of acid daily. Not only was this quantity insufficient, but the chemical plants in Jiaodong could not produce stable high-explosive material, especially as needed for fuses. Quality problems reduced the precision and effectiveness of locally-produced weapons and ammunition. The third

53. Ibid, 115.
54. Ibid, 86.
55. Ibid, 122.
56. Ibid, 84.
57. Ibid, 103-104.
approach was to purchase needed supplies from the Japanese. During the last two years of the war, the Shandong Bureau purchased a variety of war materials from Japanese agents, ranging from medicines and electronics to chemical supplies. On one occasion, a single purchase of 400,000 rounds of Japanese ammunition was shipped in.58

In order to improve its disadvantageous position because of the scissors gap between industrial and agricultural prices, the Shandong Bureau did its best to develop a balance of trade surplus.59 In a speech concerning commercial policy in August 1944, Li Yu encouraged cadres responsible for trade to aim for a trade surplus and to accumulate weichao. He predicted that a large surplus could be achieved in the balance of trade with the Japanese zones. Referring to sales of agricultural products to customers in the occupied zones, he asked the audience: “Certainly, we do not want to take back the fabi and the weichao. So what on earth do we wish to receive in exchange? This issue is part of our economic struggle, and one that we must understand well.”60

Li Yu then explained: “The trade surplus is a good thing. Without it, we could not have gained the initiative in our economic struggle…. We are not worried that the quantity of external currency that we possess is excessive. We may use this cash to buy many of the materials that we need, such as military equipment, medicine, electronics and

58. Liu, The Economy in the Shandong anti-Japanese base areas, 89.

59. “Our works in regulating industry and commerce: Comrade Li Yu’ conclusive speech in the conference of regulating industry and commerce in the districts of central, southern Shandong and Binhai,” SDGMLSDAZLXB 12.297.

60. Ibid, 295.
stationery. We need these in quantity…. We must have long-term plans. There will many
difficulties ahead and we should not be satisfied with the current situation.” He
criticized Shandong Bureau cadres who dared not accept the weichao when its price fell
sharply, first to half, and then to less than one-third the value of the beipiao after the
Japanese lost the Battle of the Philippine Sea in June. Li regretted missing a good
opportunity to absorb large quantities of the weichao at a favourable rate and asked his
subordinates to be patient next time, predicting that the currency of collaborationist
regimes would not become worthless overnight. Nine months later, in May 1945, Xue
Muqiao reiterated this, pointing out that although Japan’s final defeat was not far away,
the weichao remained useful, and the best strategy was to exploit the opportunity of its
devaluation to extend the territory of circulation of the beipiao.

7. Selected monopoly policy

The approach that the Shandong Bureau followed to maximize the benefits of
trade was to manipulate interactions between exchange rates, trade and production by
monopolizing the sale of important goods such as peanut oil within its zones and
controlling commodity exports. Reviewing later the CCP success in Shandong during the
period of War of Resistance against Japan, Xue claimed that the key to the success was
“to place the essential exporting materials under control…According to our experience in
Shandong, the results of exportation of a particular item in a particular quantity were
completely different before and after we controlled it. The sale of salt, for example,

61 Ibid.
62 Ibid, 293.
63 Ibid.
created a gap through which the *fabi* invaded our liberated areas before brought it under control. Afterward, it became a powerful weapon in our monetary struggles…in the effort to control supplies of materials, we had to use a combination of political and economic means, as shown by our experience in Shandong. Political measures included official monopolies and prohibitions, while economic measures were those such as selective market purchases.  

As Li Yu had done in August 1944, Xue emphasized the necessity for a trade surplus and recommended linking the *beipiao* to the *fabi* and *weichao* at official exchange rates. He pointed out that exchange rates were determined by the prices in their zones and by market conditions in trade between the zones. The value of the *beipiao* would rise when the CCP side was in a surplus position in its balance of trade. A surplus, therefore, would enable the CCP to set favourable exchange rates. The rapid depreciation of the *beipiao* during the fall of 1943 showed that it was not in the CCP’s best interest to minimize its value against the *fabi* and *weichao*. The optimal exchange rates would help to balance trade and production and should be achieved naturally in markets rather than through administrative means.

Li Yu and Xue Muqiao both recognized that Japanese administrators were also seeking to control the market and seeking to apply monetary leverage. Every year in springtime, they would release stockpiled commodities onto the market to prevent prices  

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64. Xue, *The economic works in Shandong Liberated Areas during the war of resistance and war of liberation*, 22-23.

65. Li Yu, *op.cit*, *SDGMLSDAZLXB* 12.293.
from jumping up, thus drawing in excess currency in exchange for the goods. During the harvest season, they would implement a reversal of this policy, making an increased quantity of currency available for the purchase of agricultural produce. The Japanese were also aware that the value of their weichao was directly linked to the battles in the Pacific which were out of their control. A Japanese naval defeat in the Pacific often led to a rapid devaluation of the weichao. The Japanese defeat in the Battle Leyte in October 1944 and following depreciation of the weichao occurred during the fall harvest in Shandong. As the economy in the CCP zones were directly linked to the occupied urban areas, the Japanese presence, the value of the weichao also affected prices and production in the CCP zones. As Xue found from the experience in the fall of 1943, currency instability was not in the CCP’s interests. It was a situation that Xue Muqiao hoped to avoid. In order to minimize the impacts of weichao’s rapid depreciation upon the price and production in the CCP zones, Xue and his colleagues resorted to adjusting exchange rates between the beipiao and the weichao. CCP financial cadres recognized that to set prices and exchange rates was a constant and risky responsibility, requiring a close watch on the black market combined with expedient decision-making.

The uncertainty and risks associated with currency exchange rates made it necessary for the BIC to monopolize sales of goods such as peanut oil, the commodity that earned 300 million yuan in 1944 for the CCP-controlled economy of Shandong. Xue and his colleagues discovered that the price of peanut oil fluctuated seasonally. During

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67. Ibid.

68. Ibid, 402.
the winter production season, its price would fall. Japanese agents would then take the opportunity to press its purchase price downward. When the weichao suffered instability during the fall of 1944, the BIC monopolized the trade in peanut oil, making bulk purchases and storing supplies until the price rose from 300 to 600 yuan per dan. The higher export price lifted the price in local markets and benefited producers. Although the official peanut-oil monopoly was essential, Xue warned cadres that to abuse monopoly privileges would disrupt trade and discourage production as well as lead to various other problems. The best policy would be to establish official monopolies on just a few commodities.

8. Commercial revenue and inflation

The policy of selective monopoly control and its successful record in controlling peanut oil exemplified the success of the BIC’s three-part program of controlling currency, trade and production. It not only turned trade revenue into the Shandong Bureau’s principal source of income, but also made a controlled inflationary policy possible. During the period from 1938 to 1943, the tianfu was the largest source of income for the Shandong Bureau, as much as 46% of its annual revenue. In 1944, the earnings of the BIC accounted for 50% of the Shandong Bureau’s income. In the Binhai zone in

69. Ibid, 419.

70. Ibid, 413.

71. Ibid, 412.

72. “山东省第二次行政会议财政组总结报告(1he conclusive report by the finance unit of the second conference on in the provincial administration of Shandong), December 1944,” SDGMLSDAZLXB 13.296.

73. “大反攻前夜的经济工作：1945年7月17日黎玉在财经委员会扩大会议上的报告提纲 (The
1944, the Shandong Bureau met 70.8% of its local expenses through the earnings of the district BIC. Because the revenue collected in *tianfu* taxes in Binhai accounted for such a small share of local revenue by that time, it was waived in the area for the first half of 1945. Encouraged by the achievement in Bihai, Li Yu set the following objectives for Shandong’s Wartime Administrative Committee: for the second half of 1945, 60% of the Committee’s income should come from BIC earnings, and in 1946 the proportion should reach 80-85%.

The Shandong Bureau’s expenses, however, were dramatically increasing even as revenue collections rose. In expectation of a new situation soon, Li Yu ordered the stockpiling of a large quantity of military supplies, enough to last for a year. The increased expenses and the suspension of *tianfu* collections in Binhai reflected the Shandong Bureau’s confidence following the successes of the BIC program. Li Yu’s orders were to gather military supplies through the trade surplus policy and the control of materials by the Shandong Bureau. Li’s order, along with the increasing share of revenue provided by the BIC and the reduced share of the *tianfu* collection in the total revenue of the Shandong Bureau, meant that the Bureau had broken free of the agrarian-economic works on the eve of the general counteroffensives: the outline of Li Yu’s speech in the enlarged conference of the Finance Committee on July 17, 1945),” *ibid* 15.134.

74. Ibid.
75. Zhu, 238.
76. “A review of the previous economic warfare in Shandong and the struggles in a new stage ahead: Li Yu’s speech in the provincial conference on industry and commerce in June 1945,” *SDGMLSDAZLXB* 15.84, 152.
77. Ibid 15.84.
78. Ibid.
bound limits of *tianfu* revenue and gained access to revenue earned in commerce, industry, and finance both within and beyond its territory. Although the Shandong Bureau’s financial experts were actually newcomers to financial affairs and lacked technical sophistication, in just six years they managed to build a comprehensive regulatory system from scratch. Gaining familiarity with interactions between production, commercial conditions, and currency supplies, they were successful in influencing these interactions to strengthen the financial position of the Shandong Bureau. (See Graph 2.16).

From 1943 onward, the Shandong Bureau incurred budget deficits. The deficits were slight but contradicted the CCP’s central policy prohibiting deficit spending. Li Yu’s order to purchase and stockpile supplies through the BIC obviously put the Shandong Bureau at risk of greater deficits and inflation. But such risks were acceptable when Japan’s defeat was on the horizon. As the experience of the fall of 1943 showed, inflation could encourage production. Moreover, inflation in the occupied zones, which the Shandong Bureau observed closely, was much worse. As new resources became available through its policy of controlled inflation, the Shandong Bureau was not only able to re-equip its army with heavy weapons and increase its capacity to contend with rivals like Zhao Baoyuan, but also to stockpile materials ahead of the expected landing of Allied forces, in preparation for the strategic redeployment of CCP forces and a CCP takeover of urban areas.⁷⁹

Later, when discussing financial and economic policy in preparation for an imminent all-out civil war, Xue Muqiao pointed out in April 1947 that the CCP’s rural

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⁷⁹. “The economic works on the eve of the general counteroffensives,” *ibid* 15.133.
zones in North China would be unable to finance the CCP’s struggle against the urban-based GMD forces. He claimed that the CCP had no option other than inflation. The CCP financial situation in the second half of 1948 was much worse than he had expected eighteen months earlier, however. Like the GMD, the CCP had now resorted to printing large quantities of banknotes to sustain its operations. The CCP’s problem was mild, however, in comparison to the spiralling hyper-inflation of the fabi. Li Yu’s deliberate deficit policy in 1945 was, therefore, a financial rehearsal for the civil war. Yet it was only possible after the Shandong Bureau had established its exclusive beipiao zones. Because the base areas in Shandong were the largest, most densely populated, and most productive of the CCP-controlled territories across the country, the emergence of the beipiao zones in the fall of 1943 and their consolidation in the spring of 1944 helped make Shandong a springboard to national victory. The economic strength of the zones in Shandong was therefore a foundation of the full-fledged CCP party-state.

Diagram 2.16
Budget of the Shandong Bureau (1941-1945)
unit: yuan

<table>
<thead>
<tr>
<th></th>
<th>1941, first half</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945, first half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>5,434,135.94</td>
<td>1,088,917</td>
<td>164,525,596</td>
<td>N/A</td>
<td>73,018,000</td>
</tr>
</tbody>
</table>

80. Xue, The economic works in Shandong Liberated Areas during the war of resistance and war of liberation, 19.

81. Xue Muqiao’s memoir, 197.

82. “山东省各区 1941 年上半年财政收入统计表 (The statistics of the fiscal incomes in the district across Shandong during the first half of 1941),” SDGMGJDHZSLX 5.409.

83. “山东省各区 1942 年收入统计表 (The statistics of fiscal incomes the districts across Shandong during the first half of 1942),” ibid, 411.

84. “山东省 1943 年财政收入统计表 (The statistics of the Shandong provincial fiscal incomes during 1943),” ibid, 414.
<table>
<thead>
<tr>
<th></th>
<th>Expenditure</th>
<th>(including 6.9 million yuan in loans from the BY)</th>
<th>Balance</th>
<th>Deficit as a percentage of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td>3,483,893.91</td>
<td>1,007,093</td>
<td>175,559,217</td>
<td>N/A</td>
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<tr>
<td>Balance</td>
<td>1,950,242.03</td>
<td>81824</td>
<td>-18,028,712</td>
<td>-6,566,573</td>
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<tr>
<td>Deficit as a percentage of income</td>
<td>Nil</td>
<td>Nil</td>
<td>10.95 %</td>
<td>N/A</td>
</tr>
</tbody>
</table>

8. Conclusion

In the spring of 1944, Xue Muqiao and his colleagues had established a system of comprehensive economic regulation in the territory of the Shandong Bureau. Through the operations of the BIC, they had become familiar with the interdependence of currency supplies, commerce, and industry. They were aware of Japan’s worsening circumstances and continuing Japanese demand for cotton, salt and peanut oil. By monopolizing these items and minimizing their rural economy’s dependency upon commodities from the occupied zones, they improved their economic strength vis-à-vis the Japanese. They not only persuaded the Japanese to abandon their blockade of the CCP zones, but achieved a surplus in the balance of trade between CCP-controlled territory and the occupied zones. Remarkably, its regulation of trade between the zones became the Shandong Bureau’s principal source of revenue. Xue and his colleagues eventually adopted an inflationary

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85. “山东省各区 1941 年上半年财政支出统计表 (The statistics of fiscal expenditures in the districts across Shandong during the first half of 1941),” ibid, 410.

86. “山东省各区 1942 年支出统计表 (The statistics of fiscal expenditures in the districts across Shandong during the first half of 1942),” ibid, 413.

87. “山东省 1943 年财政支出统计表 (The statistics of the Shandong provincial fiscal expenditures during 1943),” ibid, 415.

policy to facilitate the stockpile of materials in preparation for strategic redeployment when the anti-Japanese war ended. These were major achievements, out of proportion to the scale of the economy of the territory administered by the Shandong Bureau.
CHAPTER THIRTEEN

The Campaign to Reduce Rents and Interest Rates

When the victory of Shandong Bureau’s efforts to expel the fabi was around the corner in October 1943, the Politburo of the CCP issued to its regional subordinates, including the Shandong Bureau, instructions on the implementation of “Ten Great Policies.” The set of policies included a program of social reform, and a campaign to reduce land rentals and interest payments on loans to peasants (jianzu jianxi 减租减息; hereinafter RIR). In the instructions, Yan’an stated that “the purely narrow concentration on financial-economic affairs is incorrect” and ordered regional authorities to place social reform on their agendas as an integrated component of the CCP’s war efforts. The aim of this chapter is to illuminate the nature of the CCP’s agrarian revolution by reviewing the implementation of these Politburo instructions in wartime Shandong.

1. Yan’an’s policy shifts before Pearl Harbor

Unlike the clear-cut, specific and consistent instructions from Yan’an about institution-building, those about rents and interest reduction were general, inconsistent and fluctuating. Although the CCP never withdrew from its program of limited social reform centred on a campaign of rent and interest reduction (RIR) during the war, the tone of its statements on rural reforms was constantly changing. The position of the RIR

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1. “中共中央政治局关于进行减租减息生产拥政爱民及宣传十大政策的指示 (The CCP Politburo’s directive about the campaigns of reduction and rents and interest rates, production promotion, supporting local governments, fraternizing civilians, and advertizing the Ten Big Policies), October 1, 1943”, ZGZYWJXJ 14.99.
on the CCP’s agenda also shifted. Instructions concerning the RIR were at some times direct and demanding, and at other times they were indirect. The variation resulted from the shifting circumstances that the CCP faced.

The origin of the RIR lay in Marxist doctrine regarding private ownership and the CCP’s experience with radical reforms during the Jiangxi Soviet period. The CCP did not alter its land-confiscation policy during its first year in northern Shaanxi. In instructions about agrarian policy on July 22, 1936, the CCP leaders justified the radical agrarian policy by stating that the CCP acted in accordance with its basic populist and nationalistic nature and that it was conducting an agrarian revolution that would not only emancipate 80 percent of the rural population from feudal exploitation, but would also transform them into the core and driving force of national liberation and national revolution”.2 This statement also reiterated previous regulations on the confiscation of land.

When the GMD-CCP United Front took shape after the resolution of the Xi’an Incident on December 24, 1936, the CCP leadership began to alter its radical policy. It forbade its troops to confiscate land in the territories of friendly forces such as the Northeastern Army, while encouraging them to “persuade landowners to make donations.”3 From then until early August 1937, the CCP’s statements about its rural social and economic policies were ambiguous and included more references than


formerly to Dr Sun Yat-sen’s Three People’s Principles. On August 1, 1937, two days after Beiping fell and while the Battle of Nankou was continuing, the CCP leadership issued a directive explicitly prohibiting the confiscation of landlords’ property. The CCP instructed subordinate agencies to resort to whatever legal means possible to improve general living standards, such as by increasing the wages of workers and landless peasants, reducing rents and interest rates, and reducing taxes. On August 25, 1937, the RIR program was defined as the CCP’s wartime social-economic policy in its politburo’s resolution. [Later, when GMD writers drew attention to the shift in policy, Mao Zedong stated at the Sixth Plenum in October 1938 that the GMD’s assertion that the Communists had surrendered (投降) was incorrect, arguing that the CCP enjoyed equal status with the GMD, that the current United Front was the result of an agreement in which that the CCP had given up its land confiscation policy and its Soviet republican form of governance in exchange for recognition by the GMD.] Despite the proclamation of the RIR program, one month later, on September 25, 1937, Mao instructed the 8RA troops that when CCP forces infiltrated “into the enemy’s rear areas, they must carry out a policy of confiscating the property of large landowners. The Red Army will not be isolated if the masses are mobilized.” This radical policy was politically costly. It drove much of the rural elite

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5. “中央关于南方游击区域工作的指示 (Central directive on the work in the guerrilla war zones of South China), August 1, 1937,” ibid, 301.


into the arms of the Japanese. During the gloomy period when Taiyuan and Nanjing fell to the invaders in November and December 1937, Mao and his armed forces were under sharp criticism for assuming a passive, wait-and-see attitude during the national crisis. Mao withdrew his previous instructions about mass mobilization and toned down his emphasis on social reform, claiming a commitment to “helping the GMD improve.”  

When the international and domestic situations were going through dramatic changes as World War II began in Europe, and the confrontation between the CCP and Yan Xishan, Shanxi’s provincial leader, was escalated in the early winter of 1939, Mao’s tone on the RIR program altered. In the form of an official decision from the CCP centre, Mao claimed that there were “two incorrect tendencies within the Party.” The first was spending too much attention to the rural elite while neglecting the ordinary people. Mao was critical of the many party leaders who did not place the mass work (qunzhong gongzuo) in their agenda, along with the many members did not know how to carry out these responsibilities. Mao also declared that work among the masses had stagnated even in areas where it had been active earlier. He pointed out that the CCP’s survival depended on the success of its mass work. He ordered, “In the areas where the 8RA and N4A are operating, radical economic and political reforms that would benefit the anti-

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9. “中央关于深入群众工作的决定 (Central decisions on intensifying mass work), November 1, 1939,” ZGZYWJXJ 12. 189.
Japanese masses must be implemented.”10 Radical reform programs were key to the CCP’s identity and were centred on the RIR and the improvement of the workers’ standard of living.11 Three months later, after the CCP forces had defeated Yan and were about to advance eastward into central China, the CCP’s Central Secretariat sent an instruction to CCP-led administrations, which were now to be called Anti-Japanese Democratic Regimes. The Central Secretary claimed that this title was intended to “deceive the landlords and the bourgeoisie.”12 Therefore, the best strategy for CCP leaders was to present themselves as “authorities of the anti-Japanese united front.”13

On top of the turmoil created by the CCP’s “fair-sharing” taxation program, these instructions led to a financial and production crisis in 1940. Mao, however, did not tone down his radical instructions. He speculated then that Chiang Kaishek was coming to an agreement with the Japanese with encouragement from Britain and the United States. Such a deal would be at the expense the CCP, and Mao was determined to counter it with a confrontational strategy and expansion into Central China. The strategy led to a mini-civil war. As Mao considered radical social reforms to enable the CCP to survive in recently conquered areas, he did not issue instructions on policy changes until after the battle of Huangqiao in late October 1940. By then Mao and his colleagues had realized that Chiang would not make a deal with the Japanese and would retaliate against the

10. Ibid, 191.

11. Ibid.

12. “中央关于抗日民主政权的阶级实质问题的指示 (Central directive on the class nature of the Anti-Japanese authorities), February 1, 1940,” ibid, 268-269.

13. Ibid.
CCP’s confrontational position. Mao then made conciliatory efforts and softened his position on radical reforms. On October 18, the Central Secretariat telegraphed an instruction to the CCP leaders in Central China and Shandong, claiming that many regional authorities were committed to “serious ultra-leftist errors, principally in the areas of agrarian policy, labour policy, financial policy…” It declared that “these errors have eroded the Party’s social foundation, frightened the middle classes, and provided the Japanese, the Wang Jingwei regime, and GMD hardliners with opportunities to accumulate power…costing us heavily.” In instructions sent out on December 3, 1940, the Central Secretariat criticized the regional authorities for adopting “incorrect ways of struggling” that “have frightened away landlords and merchants, and obstructed the development of agriculture, industry and commerce in the base areas.” It stated that the implementation of an eight-hour working day was premature, and that “class relations must be adjusted in order to avoid sharp inter-class conflicts.” On December 13, the Central Secretariat further instructed that the CCP’s “labour policy must ensure that the capitalists are able to make money,” and that peasant tenants were obligated to make their rent and interest payments. These last-minute policy shifts did not prevent Chiang’s retaliation against the N4A in January 1941. Around the time that the besieged N4A troops were about to be wiped out, Mao sent instructions to Zhou Enlai to conduct a

14. “中央关于防止执行政策中左倾错误的指示 (Central directive on preventing right-leaning errors during policy implementation), October 18, 1940,” ibid, 518.
15. Ibid.
17. Ibid.
18. Ibid.
public relations campaign among the capitalists of the Yangzi Valley, persuading them to invest in the CCP’s newly controlled areas in northern Jiangsu.\(^\text{19}\) From then until the end of January 1942, Mao and his colleagues in Yan’an hardly mentioned social reforms.

2. *The Post-Pearl Harbor Swinging back of Radical Policy*

In striking contrast to his instructions about adopting a low-profile military strategy after the Pacific War began, Mao resumed an active rural social policy centred on the RIR program.\(^\text{20}\) On January 28, 1942, the Politburo passed a resolution on the RIR. It claimed that the CCP’s experience in the previous years showed that the inhabitants of areas where the RIR had been implemented became sincerely enthusiastic about the war effort. In contrast, in those areas where the program was not seriously implemented the people were not organized and did not participate in the war enthusiastically; the CCP base areas there were not consolidated and often collapsed when the Japanese launched pacifying campaigns.\(^\text{21}\)

According to the Politburo resolution of January 1942, the CCP was to regard “the peasants (including landless peasants) as its power base against the Japanese and its base of production. Therefore, the Party’s policy is to assist the peasants and to reduce the

\(^{19}\) “关于争取江浙民族资产阶级的指示 (Directive on winning over the national bourgeoisie in Jiangsu and Zhejiang provinces)” (1941年1月14日毛泽东致周恩来、叶剑英) (Mao Zedong’s Telegram to Zhou Enlai and Ye Jianying on January 14, 1941,” *ibid* 13. 6-7.


\(^{21}\) “中共中央关于土地改革政策决定 (CCP Centre’s decision about agrarian reform policies), January 28, 1942,” *ibid*, 280.
landlords’ “feudal exploitation” through the RIR, in order to ensure the personal rights, independence and property rights of the peasants, to improve their living standard and to stir up their enthusiasm counter the Japanese and to promote production.”22 As for the landlords, the CCP recognized “that most are in support of the anti-Japanese effort and a number of the enlightened gentry class support democratic reform. Therefore the Party’s policy is to reduce their feudal exploitation rather than eliminate it and never to support any action against any enlightened pro-reform gentry.”23 The Politburo criticized the regional-level cadres for their insufficient efforts in the RIR, saying “the RIR program has not been implemented sincerely in every base area. The reason for this is not landlords’ resistance, but neglect by the Party workers.”24 A new regulation obligated the CCP regional authorities to send investigators regularly to monitor the progress of the RIR program.25

Although the underlining messages of the resolution were clear, its authors initially sought to leave space for interpretation by using ambiguous wording. But one week later, on February 4, 1942, the CCP leaders did not try to be diplomatic when they issued instructions on how to execute the resolution. The Yan’an leaders pointed out that the resolution of January 28 came from “the experience in the previous five years,” and that its theme was to “ignite the peasant masses,” while “enabling the landlords to live on

22. Ibid, 281.
23. Ibid.
24. Ibid, 284.
25. Ibid.
after the masses were indeed ignited.”26  As the document explained, “Nothing can be done without igniting the masses,” but in the meantime, it was essential to “let the landlord and bourgeois classes reach the conclusion that the future remains hopeful, which was the raison d’etre of the 3-3 policy (san-san-zhi 三三制), in order to break up their alliance with the Japanese and the [GMD] hardliners, and persuade most members of the landlord and bourgeois classes to stand on the side of the anti-Japanese democratic regimes, lest they go over to the enemy and [GMD] hardliners. Even if they do so, they may be persuaded to return to our side in the future.”27

In order to achieve that goal, a well-developed strategy was necessary. That strategy was “to beat and then comfort (先打后拉),” “to beat once and to comfort once (一打一拉),” “to include comforting in the process of beating (打中有拉),” and “to include beating in the process of comforting (拉中有打).”28 The first phase of the campaign would focus on beating. The instruction predicted that the landlords would resist the RIR policy fiercely before the masses were ignited. Therefore the Party had to help the masses to beat the landlords, smash their dominance, establish “the dominance of the masses” and drive them to the conclusion that there was no other way but to depend upon the CCP. During that phase, “ultra-leftist behaviour will inevitably occur.” But the

26. “中央关于如何执行土地政策决定的指示(Central directive on how to implement the decision about agrarian policies), February 4, 1942. ” ibid, 295.
27. Ibid.
violence would not be severe: “instead, it will be helpful” The Party should not intervene to cool down the masses’ enthusiasm and restrain their constructive violence.29

After the masses were fully ignited, the campaign would move into the second phase, the phase of “comforting.” In that phase, the Party should be generous to the humbled landlords and soothe them, while cooling down the radical peasants through mediation. “But never pour cold water onto the ignited and enthusiastic masses,” the instruction warned, “It would disappoint our cadres and masses, and lead to counterattacks from the landlords.”30 If it did not intervene actively, the Party and its peasant following would be isolated and defeated, as the landlords were sophisticated and cunning, and could easily outmanoeuvre the peasants, and even manipulate village-level cadres who lacked education.31 The instruction hence asked that CCP cadres at the levels of county, district (qu) and villages must be trained to master the skills needed to conduct legal struggles against landlords and fend off offers of bribery.32

As for the RIR program, the instructions pointed out the rent reductions could not be made retroactively, while interest rate reductions could be made for existing loans. Loans taken out could have their interest rates reduced. It regulated a demarcation date of July 7, 1937. The interest rates of the loans taken out before July 7, 1937 were not reduced. It warned, however, that since the outbreak of the war, the problem for many

29 Ibid, 296.
30 Ibid, 297.
31 Ibid, 298-299.
32 Ibid.
peasants was whether or not they could obtain loans. Interest rate reductions were a lesser concern. The aim of encouraging peasants to review their outstanding loans was to ignite them, but it would be foolish and counterproductive for CCP cadres to attempt to cap interest rates. “From now on”, the instruction asked, “let the villagers have the freedom to negotiate [loans] without imposing limits on interest rates. In the rural areas now, any credit at all will help the peasants in need however high the interest rate may be, even if it is as high as thirty or forty percent, and as we know that it is usury.” Because these instructions were viewed as sensitive, they were issued with an order that they should be restricted to Party members only and never publicized.

3. Liu Shaoqi’s supervision and its effects

The above instructions issued by the CCP Politburo became the principal guidelines for the Shandong Bureau in its RIR campaign. Although the provincial Wartime Executive Committee had issued a few directives about the RIR, the Shandong Bureau had not dealt with the RIR issue earlier. The RIR program had not been on its agenda or linked with efforts to consolidate CCP authority. CCP efforts to establish a complete administrative system, including adaptation of the tianfu system and “patriotic grain” collections, had created conflict in rural society, often involving pressure on members of the elite to increase their contributions. The severity of those conflicts,

33. Ibid, 299.

34. Ibid.

however, did not attract close attention from the Shandong Bureau before Operation Rō took place. During the Japanese offensive, most of the CCP village-level administrative units collapsed and some of their cadres decided to help the Japanese. The Politburo’s instructions to implement the RIR program arrived less than two months later. In early March 1942, Liu Shaoqi arrived in Shandong with his mandate to help the Shandong Bureau learn lessons from the devastating Operation Rō and to mediate the disagreement between Zhu Rui and Luo Ronghuan. In a meeting with the cadres of the Shandong Bureau on April 16, Liu claimed that the Bureau’s insufficient attention to the RIR was an obvious deficiency in its work during the previous four years and was one of the reasons for heavy losses during Operation Rō. In a meeting of CCP district leaders on April 25, Liu stated that the RIR was the CCP’s basic social-economic policy during the period of the Anti-Japanese War, and the key to igniting massive peasant movements. “The core problem here”, he stated critically, “is that [you] do not take the masses into account and show concern for their plight. If you do not help the people handle their every-day problems, who will participate in your guerrilla war?”

Under Liu’s direction, the Shandong Bureau achieved a consensus on the RIR and wage increase policies, defining them as the “top priority” and “strategic mission” in its

36. “A review on the achievements by the anti-Japanese democratic authorities in Shandong during previous five years and blueprint of governance in the future: Director Li Yu’s working report in the second plenum of the first meeting of Shandong provincial provisional senate, August 20, 1943,” SDGMLSDAZLXB 10.226-334.

37. 李忠、李建丰 (Li Zhong and Li Jianfen), 刘少奇在山东 (Liu Shaoqi in Shandong) (Beijing: Zhonggong dangshi chubanshe, 2005): 49.

resolution of May 4, 1942. In a week, the Shandong Bureau passed a series of resolutions and regulations. In its supplementary instructions to the resolution on 4 May, the Shandong Bureau outlined a phased strategy for igniting the masses: \textit{xian dou kou} (first resort to argument, 先斗口), \textit{hou dou li} (then resort to power, 后斗力) and \textit{zai dou fa} (finally to laws, 再斗法).

It was not long before Shandong cadres discovered that these instructions were challenging, if not impossible, to carry out. As Zhu Rui reported in June 1942: “We have committed many errors through wishful thinking. Poor peasants complain about our recklessness. Landlords call us mad. Big tenants (大佃户) detest us, complaining that we like to poke our noses into other people’s business.”

According to Zhu Rui, many of the “enlightened” landowners and employers began to fear the CCP. The extremist violence, including beating, tying up, and insulting victims was frightening to bystanders.

As Zhu concluded, the people were alienated and nothing was achieved: “What a
Zhu attributed the failure to “some of our comrades’ inhumane behaviour and approaches”. He reported that some CCP cadres had failed to take into account the basic needs of petty property owners, including 8RA widows, when they were implementing the orders for RIR and wage increases. Public opinion was not on the CCP’s side, Zhu claimed. The upper classes including the rich peasants (funong) were frightened; the middle classes were alienated; the lower classes were not sympathetic to the CCP. The cause of the frustrating situation, Zhu stated, was the “badly-implemented Fair Sharing of Tax Burdens policy.” He suggested that the RIR program should be slowed down until the winter.

The RIR was marginalized rapidly and quietly in Shandong Bureau documents of the second half of 1942. A bleak description was included in the Bureau’s four-year review in October:

We failed to ignite and organize the masses…We did not take their interests into account when we were developing our policies. The radical policies brought about too much violence to personal rights, property rights and the

43. Ibid, 400.
44. Ibid, 402-403.
45. See: “中共山东分局关于目前山东形势与紧急任务的决议 (the CCP Shandong Bureau’s decision on the current situation and urgent tasks), September 17, 1942,” ibid, 9.38-44; “一九四二年敌我斗争形势的检讨及今后一年敌我斗争形势与对敌斗争的任务：1943年3月10日朱瑞在山东军政工作会议上的报告提纲 (The war situation review of 1942 and this year’s agenda: Zhu Rui’s speech outline in the conference of military and political works in Shandong on March 10, 1943),” ibid, 299-314; “分散游击战争与对敌政治攻势问题：1943年3月13日罗荣桓在山东军政会议上的报告 (On the scattered guerilla operations and political offensives against the enemy: Luo Ronghuan’s speech in the conference of military and political works in Shandong), March 13 1943,” ibid, 314-319.
political rights of the landlords and the middle classes. The resulting situation is not pleasant. Part of the rural gentry class has either turned against us or departed, and the rest is eyeing us suspiciously. The middle class members do not believe that we will fulfill our promises and have become reluctant to work with us. Even the basic masses (基本群众) do not trust us. They are neither enthused by our erroneous policies nor dedicated to what is to them on unpromising future. All this has pushed our party and army into serious and conspicuous isolation as we conduct our anti-Japanese guerrilla war.46

The Shandong Bureau’s research institute, which was established in February 1942, produced several research reports by December that year.47 In their report about land distribution in Binhai, researchers found that most of the rural residents were land-holding peasants, while the share of landless peasants and landowners who did not farm and who relied solely on rental income was small. Investigators collected the following information about land distribution based on 6,633 households in 66 villages (See Table 8.1).

46. “The Review of the CCP works after the outbreak of war of resistance four years ago and the tasks ahead’),”ibid, 9.60.

47. 陈超 (Chen Chao), “从敌伪顽我区人民负担的调查中看到的几个问题 (Several problems observed from the research on the residents’ revenue, material and service obligations in the occupied, GMD and our zones), December 7, 1942,” ibid, 9.175-184; 分局调研室材料股 (The Material Section, Department of Research and Investigation of the Shandong Bureau). “关于滨海六十个村子的土地人口问题之调查研究 (A research report about the land and demography in sixty villages in Binhai), originally published in the Material Section, Department of Research and Investigation of the Shandong Bureau, 材料汇报 (Material Report), no.2, (December 1942),” ibid, 187-193; 鼎夫整理 (Ding Fu) eds., “滨海区各阶层转化及其生活情形 (The social classes in transition and their lives in Binhai District), originally published in the Material Section, Department of Research and Investigation of the Shandong Bureau, ‘材料汇报 (Material Report), no.2, (December 1942),” ibid, 194-200
3.1). They found that “class differences could hardly be seen.” 48 They observed that the economy of those villages was highly commercialized, and the situation of the better-off households was declining because of the war and the CCP’s class-based tax policy. In consequence, a substantial portion of land had been transferred to local petty merchants.49

The researchers from the Shandong Bureau were relieved to discover that the Shandong Bureau’s taxation rates were lower than those imposed by the Japanese and the pro-GMD coalition forces. In a village within a zone of indeterminate jurisdiction, lying between the CCP, the pro-GMD coalition, and the Japanese, Shandong Bureau’s tax collection was 1,066.55 yuan between May and August 1942, while the Japanese collected 7,313.59 yuan between April and August and the pro-GMD forces collected 8,239 yuan during the same period.50 Shandong Bureau investigators discovered that residents in the Japanese-occupied zones were much more cooperative with the Bureau’s tax-collectors than those in the pro-GMD zones, even though control of the population in the former zones was tighter than in the latter. They reported that the population in the pro-GMD zones was so hostile that the CCP tax collectors could not stay long there. The best explanation for the difference, the researchers concluded, was that the residents in the occupied zones had nationalist consciousness, whilst those in the coalition zones

48. The Material Section, op.cit, ibid, 190.

49. Ibid, 191. In another report on a few villages and households in the heartland of the Binhai District, the investigators achieved a different conclusion, claiming that although the impacts of the war were disastrous and living standards fell dramatically, the situation of poor peasants had improved (Ding, op.cit, ibid, 194.)

50. Chen, op.cit, ibid, 177.
lacked “class consciousness” and accepted the “hardliners’ anti-Communist propaganda.”

The researchers were clearly pointing out that Yan’an’s principal argument for RIR that a small rural elite possessed most of China’s cultivated land was groundless, or at least did not fit the situation in the CCP areas in Shandong. Although the lot poor peasants was perhaps improved, they comprised a small proportion of the entire rural population. Rather than improving conditions, the RIR campaign had worsened wartime hardships. As those reports were published in the Shandong Bureau’s journals, Shandong Bureau leaders, such as Zhu Rui and Li Yu, must have read and approved them. The leaders, especially the outspoken Zhu Rui, seemed to be doing their best to minimize the damage caused by the RIR policy within the limits of CCP discipline.

Table 3.1 Rural Class Structure in Binhai

<table>
<thead>
<tr>
<th>Number of Households</th>
<th>Household Percentage</th>
<th>Land Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renting out all land</td>
<td>114</td>
<td>1.72</td>
</tr>
<tr>
<td>Renting out some land</td>
<td>171</td>
<td>1.82</td>
</tr>
<tr>
<td>Owner-operators</td>
<td>5,491</td>
<td>82.78</td>
</tr>
<tr>
<td>Owners-operators and also tenants</td>
<td>619</td>
<td>9.33</td>
</tr>
<tr>
<td>Tenants</td>
<td>45</td>
<td>0.68</td>
</tr>
<tr>
<td>Landless</td>
<td>193</td>
<td>2.91</td>
</tr>
<tr>
<td>Total</td>
<td>6,633</td>
<td>100</td>
</tr>
</tbody>
</table>

In his report in March 1943, Zhu Rui praised the development of the homemade cloth industry, saying that it had infused unprecedented dynamism into the CCP-led mass

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51. Ibid, 183.
52. The Material Section, op.cit, *ibid*, 190.
movement, and significantly improved the local economy and people’s quality of life.\textsuperscript{53} He also noted that the RIR had lost momentum and fallen into stagnation.\textsuperscript{54} With regard to the reduction of rents, he claimed that CCP cadres in charge had not done sufficient field research and tended to generalize the situation without supporting information. He pointed out that cadres had failed to distinguish large landowners from petty landlords and from landholding peasants who rented out land because their families were short of labour. Regarding wage increases, Zhu reported that the Shandong Bureau had made “fundamental errors in the understanding and implementation of policy,” and hardly considered employers’ circumstances. The result of the compulsory wage increase was increased unemployment.\textsuperscript{55} The situation worsened when the labourers joined CCP-led organizations: “They spent too much time in meetings…and became more radical and arrogant. Some of them treated their employers in ways that only criminals would resort to.”\textsuperscript{56} As for the interest-rate reduction policy, Zhu Rui echoed Yan’an’s warning about capital shortages since the beginning of the war, saying that the CCP’s top priority was how to help peasants obtain loans as quickly as possible. In order to make up the shortage of capital, Yan’an had instructed that poor peasants should be encouraged to borrow staple food from better-off farmers to get through the difficult spring season in 1942. Zhu

\textsuperscript{53} “滨海区十个月群众工作总结：朱瑞同志在滨海区第四次群众工作总结会议上的报告 (A review of ten month mass works in Binhai District: Zhu Duan conclusive speech in the fourth conference of mass works in Binhai District), March 1943,” \textit{ibid}, 9.352.

\textsuperscript{54} Ibid, 356.

\textsuperscript{55} Ibid, 356-357.

\textsuperscript{56} Ibid, 357.
Rui observed that this lending program had turned into robbery, and stated that the CCP had committed a fundamental error in its program of staple food loans.\textsuperscript{57}

Zhu Rui made a few of these observations again in the Shandong Bureau’s \textit{Five Year Review}, which he wrote in August 1943. Although the necessity of RIR was reiterated and its achievements were praised, the tone of his observation was critical. Zhu claimed that the radical agrarian and economic policies not only resulted in landlords and employers’ hatred of the CCP, but also brought complaints from CCP activists from members of the poor classes who had been dismissed from their jobs.\textsuperscript{58} The wage increase and RIR policies had disrupted production and decreased employee numbers.\textsuperscript{59} Nor had the goal of reforming administration at the village level been achieved. The old rural elites remained dominant in most villages. In Qinghe, CCP-sympathizers controlled only 17\% of the village-level administrations. Embezzlement was rampant. In a district in central Shandong, 80\% of the village heads were embezzlers. In a survey of a few thousand villages, only 9\% of village heads had clean records.\textsuperscript{60}

The principal reason for those problems, the \textit{Review} stated, was insufficient field research. The Shandong Bureau cadres did not step out of their offices to observe the specific situation in the villages. As a result, they did not adapt the instructions of RIR to

\textsuperscript{57} Ibid, 351, 358

\textsuperscript{58} “五年工作总结及今后任务 (A review of the works during the previous five years and missions in the future), \textit{ibid} 10.15.

\textsuperscript{59} Ibid, 31.

\textsuperscript{60} Ibid, 41.
the local situation. In the areas where the local cadres spent more time in villages and implemented the RIR program according to the local situation: “The masses have been re-ignited and become [the CCP’s] reliable supporters…Those in the middle and upper classes altered their attitudes and began trusting us…In the grey zones, landlords returned to their homes, and refugees [arrived in the CCP zones], seeking sanctuary. Young and healthy males no longer emigrate.”61 CCP cadres were then asked to become more familiar with their districts in order to do their jobs more effectively. As a measure of innovation, it was regulated that rural residents such as widows, CCP military veterans, the handicapped, and 8RA military families who were renting out their lands could not be defined and treated as landlords.62 As for the wage increase policy, the Review stated that employers must be allowed to earn profits, and that employees must respect work discipline.63

4. *Mao’s New Pressure and his Embryonic People’s Commune*

Soon after *Five Year Review* was published, Zhu Rui departed from Shandong for Yan’an, never to return. Although Zhu continued to be the Shandong Bureau’s secretary until his departure, Operation Rō had damaged his reputation. Real authority had shifted to Luo Ronghuan, the commander and commissar of Shandong Military Region since March 1943. When the Review was in process in May, Luo was hospitalized in northern Jiangsu and was then occupied in stopping Li Xianzhou’s arrival and facilitating Yu Xuezhong’s departure. He did not like the Review, but did not speak out until either June

62. Ibid, 78.
63. Ibid, 78-79.
1959 or December 1960. Luo claimed that the theme of the review was incorrect and that “it accomplished nothing.” 64 By that time, Zhu Rui had been dead for more than ten years. 65 But the review had hardly bothered Luo. Before Zhu’s modifications could be implemented, the CCP Politburo issued its instructions of October 1, 1943, mentioned as the beginning of this chapter, about intensifying the RIR campaign.

As mentioned previously, the RIR policy was central to the CCP’s identity during cooperative period with the GMD immediately after the outbreak of the war. It was a moderated version of the radical policy implemented during the period of the Jiangxi Soviet. Its justification was the claim that a tiny portion of China’s population owned most of the cultivated land and relentlessly exploited the landless peasants. But the Shandong Bureau’s researchers discovered that in their areas the opposite was true, and reported that the RIR program was disrupting the economic order upon which Shandong CCP depended for survival. Together with Zhu Rui’s Review, their conclusions raised questions about the ideological principles upheld by the CCP since its split from the GMD in 1927. It would be politically risky, however, for the CCP to acknowledge this when the prospects of successfully concluding a post-war political partnership with the GMD seemed dim. This was especially so after Chiang Kaishek published his well-known work China’s Destiny in March 1943, along with his lesser-known Chinese Economic Theory.


65. Zhu was killed by a landmine explosion during the Battle of Liaosheng in November, 1948.
In *China’s Destiny*, Chiang claimed that as China had signed new treaties with the United States and the United Kingdom, reclaiming all national sovereign rights after a century of enduring foreign privilege in China, the Nationalist Revolution was moving into a new phase. However, the source of China’s problems, the warlords and their foreign supporters, had not yet been eliminated, and China’s integrity and unity were thus still in danger. Although he did not name particular warlords, Chiang did mention the CCP and the Soviet Union as an example of an alliance between a militant domestic organization and a foreign power. Referring to the 260-year period of Manchu rule over Han Chinese and the stagnation of Chinese civilization that supposedly resulted, Chiang outlined the nature of the GMD-CCP conflict and China’s two potential destinies: either through the GMD a peace-loving China would be created and a unique Chinese culture revived, or through the rise of the CCP a China dominated by an alien ideology of hatred, destruction and aggression would emerge. In his *Chinese Economic Theory*, Chiang claimed that the Chinese literati had begun to pay attention to economics at the time of *The Book of Odes* over three thousand years earlier. He stated that Dr Sun Yat-sen had updated ancient economic thought by adapting western economic theories and had developed a blueprint for China’s industrialization. He thus concluded that Marxist economic theory was twisted, non-Chinese and did not fit Chinese culture and customs.\(^6^6\)

Mao worried about the impact of *China’s Destiny* and decided to launch a large-scale campaign of thought reform, purges and ideological indoctrination in order to offset its influence among the CCP members across the country. Chen Boda, Mao’s *aide-de-*

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camp, authored a pamphlet called *A Comment on ‘China’s Destiny’*. On July 21, the Department of Propaganda of the CCP centre ordered CCP printing houses everywhere to distribute copies of the pamphlet to all party members and CCP sympathizers in their localities.\(^{67}\) Mao and Liu Shaoqi made extraordinary efforts to emphasize the importance of educating CCP members with the help of Chen’s pamphlet. In his telegraph to Chen Yi and Rao Shushi in Central China on July 23, Liu claimed that the publication of *China’s Destiny* was a reflection of Chiang’s intention to “impose a forced peace” upon the CCP and that the hope of a postwar GMD-CCP coalition was dim. Therefore, it was necessary, Liu pointed out, to criticize the GMD sharply and ruthlessly without constraint so as to “remove the GMD and Chiang’s influence from the members of our party and army and to indoctrinate them with the truth that only the CCP can rescue the Chinese nation from disintegration.” As Liu continued, “Many people, even some Party members, continue to place their hopes in Chiang Kaishek. We must crush this…You must spread Chen’s work and others as widely as possible, starting a propaganda offensive while intensifying the campaign of indoctrinating class consciousness in the party.”\(^{68}\) In a telegram to Peng Dehuai about the war zone agenda on July 30, 1943, Mao claimed that he was hopeful of having another year of peace and then reiterated Liu’s instructions, adding “never underestimate the importance of this project. The GMD’s ideological influence in our

\(^{67}\) “中央宣传部关于广泛印发‘评‘中国之命运’’的通知 (Circular notice from the Central Department of Propaganda on printing and widely distributing the “Review of ‘China’s Destiny’,” July 23, 1943,” *ZGZYWJXB* 14. 79.

\(^{68}\) “关于打破对国民党幻想的指示 (The directive to giving up illusions for the GMD), Liu Shaoqi’s telegram to Chen Yi and Rao Shushi, July 23, 1943,” 14. 80-81.
party is powerful.” Mao then added a campaign of cadre security checks and class-consciousness indoctrination to his previous eight-point agenda of *yongzheng aiming* (拥政爱民, support the government and love the people). Within two months, that tentative agenda was reformulated as the so-called Ten Great Policies (十大政策) and issued on October 1, 1943. The Ten Great Policies were: 1) Struggles against the Japanese; 2) High-quality Troops and Small Government; 3) Unified Leadership; 4) Supporting the government and loving the people; 5) Promotion of production; 6) Improved efficiency; 7) Security Checks; 8) Education about the Situation; 9) The “3-3” System; and 10) the RIR program. Mao emphasised interdependence among all these policies.

Although the Yan’an-imposed RIR program had proved disruptive of fundamental interpersonal relationships, affecting the processes of production and commerce upon which the CCP depended for its survival, it was nonetheless an essential part of the CCP’s identity vis-à-vis the GMD and it would be a necessary element in the CCP’s struggle for national power. Mao’s prescription for overcoming the incompatibility between the goal of promoting production and maintaining the CCP’s ideological identity was to organize individual peasants into cooperatives, an idea inspired by Marx and Lenin. On 29 November 1943, Mao gave a speech called “Go out and organize!” He stated that

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69. “关于敌后工作方针、政策和任务的指示 (The directive about the missions, strategies and policies in the operations in the occupied zones), Mao Zedong’s telegram to Peng Dehuai, June 30, 1943,” *ibid*, 82-83; see also “中央总学委关于进行一次国民党的本质及对待国民党的正确政策的教育问题的通知 (The notice by the Centre’s General Committee of learning about an education campaign of identifying the GMD’s class nature and the correct policies towards the GMD), August 5, 1943,” *ibid*, 85-86; “中共中央关于审查干部的决定 (The CCP Centre’s decision to check officers’ security clearance), August 15, 1943,” *ibid*, 89-96.

70. Ibid.
collectivization was the key to surviving the wartime material shortages and overcoming China’s chronic poverty. As Mao declared:

The peasant economy is a kind of household-based economy. A household is a unit of production. The process of production into these separate and individual units is the economic foundation of feudal rule. Its price is everlasting poverty for the peasants. The only approach to overcome this is through gradual collectivization. The only way to achieve collectivization is through cooperatives, as Lenin has described. In the [Shaan-Gan-Ning] border area, we have organized many peasants’ cooperatives. Those cooperatives, however, are nascent. They will go through several stages before they take the form of Soviet-style collective farms….Our current cooperatives are team-work organizations based on private ownership. The cooperatives have several forms which are called biangongdui (变工队) and zhagongdui (扎工队), which are mutual-aid forms of labour organization. In the Red areas of Jiangxi, there were similar organizations called “land-tilling teams” (litiandui 犁田队). In a few of the current [CCP] areas, associations of a similar type are called “mutual assistance societies” (huzhushe 互助社).  

In the speech, Mao continued by listing three other cooperatives forms: consumers’, transportation, and credit cooperatives, predicting that with the help of these four forms of cooperatives, the CCP would be able to “organize the masses into an army of labour.” He went on to claim that cooperatives were the only way to liberate the people, lead them from poverty to affluence and achieve victory in the war of resistance against Japan. Therefore, he claimed that every CCP member was obligated to master the skill of

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organization, predicting that “As long as he has the resolution, a Communist can master this within six or twelve months.”

5. **The Shandong Bureau’s attempt at moderation**

The Shandong Bureau’s response to the new push from Yan’an was complicated. On the one hand, it was obligatory for the Shandong Bureau, a branch of the Central Committee of CCP, to implement the instructions from Yan’an. In addition, the Mao-led CCP centre had won credit for conducting the war during the previous years. On the other hand, from their experience, some members of the Shandong Bureau, especially Li Yu, recognized the complexity of the local rural society and the difficulties in implementing Yan’an’s instructions in social and economic affairs. As a result, their instructions to subordinate agencies were cautious and inconsistent. In their directive of October 1 regarding implementing Yan’an’s instructions on the Ten Great Policies, the Shandong Bureau claimed that the various instructions from the CCP centre and the North China Bureau had brought great progress in Shandong, but in implementing them their agency suffered from “serious deficiencies and exceptional shortcomings.” The Bureau ordered its subordinates to “pay extraordinary attention to promoting mass enthusiasm whilst intensifying explanatory efforts among the upper classes so that they would not again be fearful and misunderstand our Party and Army.” In the meantime, the Bureau emphasized the voluntary nature of the production promotion campaigns, and encouraged

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72. Ibid, 886.

73. “中共山东分局为贯彻中央十月一日指示的决定 (The Shandong Bureau’s decision on implementing the Central Directive on October 1), October 10, 1943,” SDGMLSDAZLXB 8.271, 274.

74. Ibid, 38.
discussions and brainstorming meetings to find solutions to the problems in the RIR program, along with difficulties regarding wage increases and other provisions for workers.  

In his report on the Shandong Bureau’s work among the masses during the previous years, in the same month of October 1943, Li Yu reviewed the lessons of neglecting the lower classes during the first four years from 1938 to 1941. He spent a significant amount of time reviewing radical behaviour, such as policies directed against the better-off classes and staple food “loans” that were more like seizures. He complained that it was common for CCP cadres who had recently been promoted from the level of common peasants to degenerate into a new class of merciless, exploiting, shameless bullying officials. Li noted with sarcasm that in many areas, investigation of allegations regarding adultery had become the main focus of the women’s movement, and condemned the brutality and compulsion that ran rampant in the Shandong Bureau’s mass movements by quoting the sayings that were then current among CCP cadres: “Three flattering phrases are less effective than to call someone ‘brother-in-law’; three calls to brother-in-law less effective than a whip.” He warned that it was hazardous without knowing the real situation or comprehending the peasants’ local language.

75. Ibid, 39.

76. “六年来的群众工作概况总结：黎玉同志1943年10月在分局群众会议上的总结报告 (A brief review of mass works during the previous six year: Comrade Li Yu’s conclusive speech in Shandong Bureau’s conference on mass works), October 1943,” ibid, 94-95, 101.

77. Ibid, 103.

Li Yu then gave an instance from a Communist female cadre’s experience. That cadre asked the women in a village to encourage their young men to become the village’s militiamen, saying, “Let the young men of your family be militiamen. How glorious it will be to fight against the Japanese devils!” No one responded. The cadre then altered the call, saying, “Why don’t we have village minutemen? When the Japanese come, they could help hide the materials in the hills such as winter cloths, quilts and cotton.” The women gave positive responses immediately: The Japanese sacked that village during Operation Rō.\textsuperscript{79}

With examples such as these, Li Yu emphasized the crucial role of strategy, the duplicitous nature of landlords and the best approach for exploiting their duplicitous nature. “We must adopt a revolutionary double strategy of striking while showing sympathy,” he declared. Li asked the CCP cadres to master the skills of offering rewards and imposing punishments, and to pay attention to the issue of “transformation of struggles” such as the transformation of economic struggles to political ones and vice versa.\textsuperscript{80} Li then warned that it was necessary to adapt to local situations and customs in implementing RIR policy, stating that when non-economic obligations upon tenants were removed, the landlords should be assured that they would not suffer “too many financial losses.” He warned that before any action was taken in a village, responsible cadres should prepare themselves with precise information about its land and ownership.\textsuperscript{81}

\textsuperscript{79} Ibid, 116-117.

\textsuperscript{80} Ibid, 120-123.

\textsuperscript{81} Ibid, 133-134.
It soon turned out that Li Yu’s warnings were too weak to forestall the imminent problems from the Ten Great Policies. And he could not influence the Shandong Bureau in the areas of agrarian reform. The Investigative Office of the Shandong Bureau began to producing reports to please Yan’an. In its report in late 1943, the Investigative Office rejected its conclusion of the previous year that the landholding peasants were dominant in the rural areas. It submitted its new survey of twenty-one villages in Andi (岸堤) to the Central Office of Investigation in Yan’an, claiming that the polarization of landownership truly existed.82 Although it acknowledged that the policy against the landlords and wealthy peasants was excessively radical, and that the poor peasants’ situation had deteriorated because of the shortage of credit, it stated that the situation for middle peasants had improved. At the end of December, around the time of the Shandong Bureau’s submission of this report, however, a significant number of CCP-led militia forces and local troops in the Binhai district, principally composed of middle peasants, launched a rebellion against the local cadres’ radical policies.83

Cases of violent resistance to the land reform policies also occurred elsewhere in the CCP zones of northern and central China. In instructions dated February 8, 1944, the CCP Centre asked the regional agencies to restrain the radicalism, stating: “In those areas where the masses have been ignited and the RIR program has been implemented, the landlords should be united. After the RIR is thoroughly implemented, [we] should not not

82. “山东省沂水县堤区二十一个村子土地变动阶层变化情形 (A survey of changes in landownership and social classes in twenty one villages in the Di subdistrict of Yi County), 1943,” ibid, 219.

83. “中共山东分局、山东军区关于反对敌人重点主义进攻的指示 (The CCP Shandong Bureau and Shandong Military Region’s directive on the countermeasures against the Japanese precise strikes), December 27, 1943,” ibid, 202-203.
struggle against the landlords. Instead, we should pay attention to unite them, stabilize them, make them unable to leave us and have to rely on us. In the process of the RIR struggle, radical behaviour should be prevented.” 84 In a telegram to the Central China Bureau on May 31, 1944, the CCP Centre asked that room be left for landlords to survive lest they turn into sworn enemies of the CCP.85

Beginning in the summer of 1944, after the Normandy campaign began and Japanese forces had been defeated in the battle of the Philippine Sea, Mao devoted increasing attention to preparations for postwar arrangements. He sought information about the implementation of his policies in political, military, social and economic affairs directly from regional leaders. On 28 July 1944, Mao telegraphed trusted regional leaders, including Luo Ronghuan and Deng Xiaoping, ten survey questions and asked them to send brief answers as soon as possible. Among Mao’s ten questions, the first two concerned the RIR program: were non-Communist party leaders in the CCP-controlled areas zone hostile to the RIR? Had the RIR actually been implemented? Should the RIR remain on the CCP agenda for the following year? 86

84. “中共中央关于转发西北局减租指示的通知 (Circular notice from the CCP Centre forwarding the Northwest Bureau’s directive about the reduction of rents and interest rates), February 8, 1944”, ZGZYWJXJ 14.173-174

85. “中央关于发动与争取基本群众的方针 (the Centre’s general policies about igniting and winning over grassroots supporters), May 31, 1944,” ibid 14.233.

86. “请各地扼要回答十项重大问题 (Request for brief answers to ten important questions from the localities), Mao Zedong’s telegram to Li Xiannian, Rao Shushi, Luo Ronghuan, Huang Jing, Deng Xiaoping, Cheng Zihua, and Lin Feng, July 28, 1944,” ibid, 299-301.
Despite growing resistance against the RIR in its zones, the Shandong Bureau under Luo Ronghuan’s leadership had become sophisticated and confident after strengthening itself materially and financially through the establishment of exclusive zones for the beipio. On August 10, 1944, two days before answering Mao’s questions, the provincial Wartime Executive Committee issued an order about intensifying the RIR campaign, criticizing the CCP governments of various levels. It claimed that the progress of RIR was far from satisfactory. Despite the RIR regulations issued in 1942, public support for the subordinate CCP was still partial. In many areas, the RIR policy remained nominal and was not actually implemented. It was even worse that a variety of peasant-led associations rather than the CCP’s official agencies had made the achievements. During the process, most of the CCP agencies were only observers.\(^{87}\) The Wartime Administrative Committee ordered that the governmental agencies must give financial allowances to the peasant associations during the phase of RIR igniting and could not waive that obligation with the excuse of financial and budget difficulties. When peasant associations above the sub-district level held congresses, the governments concerned must provide each attendee with an allowance of 2 jin and 4 liang in staple grain per day and 50 cents daily for supplementary foodstuffs.\(^{88}\) The order asked CCP cadres to liberate themselves from the constraints of old laws, stating that they must use “new concept laws” to deal with civil quarrels.\(^{89}\)

\(^{87}\) “山东省战时行政委员会关于查减工作的训令(Shandong provincial wartime administrative committee’s order about checking the works of reduction of rents and interest rates), August 10, 1944,” SDGMLSDAZLB 12.323.

\(^{88}\) Ibid, 327

\(^{89}\) Ibid, 328
In their joint answer to Mao’s questions, Luo Ronghuan and Li Yu stated that although examples of radical behaviour had occurred and that landowners had been antagonized as a result, they had been corrected and brought under control. With regard to the rent reduction policy, they reported that the real situation was much more complicated than had been imagined, but the CCP cadres had found ways to deal with the complexity and put the program on track.90 As for the reduction of interest rates, they stated that various forms of usury remained rampant, involving both cash and goods. Because of inflation, interest rates ran as high as 700 %. They reported to Mao that many of the usurers were local bullies and that the Shandong Bureau had exploited the opportunity to ignite the masses. As for CCP administration, they stated that the general performance of CCP leaders below the county-level was not satisfactory. Local CCP leaders were not politically sophisticated. They did not know how to use their mandated authority to manipulate county senates (参议会) through CCP alliances with other parties and elites. Instead, they tried to do others’ jobs and provoked complaints. Sometimes opposite problems occurred. In order to meet the quota of the “3-3” system, for instance, the CCP leaders recruited local bullies and usurers into their senates without checking their backgrounds.91

As for agricultural production and collectivization, Luo and Li reported to Mao that in areas where the RIR program was implemented, most peasants felt an incentive to increase production, especially by opening up uncultivated land, engaging in textile production, peanut-oil pressing, and the transportation of salt. They were, however,

90. “山东关于十个问题的答复 (1944年8月12日罗荣桓黎玉致毛泽东) (Shandong’s reply about the Ten Great Questions), Luo Ronghui and Li Yu’s message to Mao Zedong on August 12, 1944,”ibid, 333.

91. Ibid, 330-332.
accustomed to working on their own and never attempted to follow a cooperative plan. In a diplomatic manner, Luo and Li described certain technical difficulties in establishing accounting systems in the arrangements in the new collectives. Concerned with “face,” many peasants did not express their real feelings about the provisional collectives and became very depressed. They also told Mao that CCP cadres at the county and sub-district levels were generally uninterested in processes of production and were only concerned with reporting figures that would please their supervisors. Detailed information about actual conditions and difficulties encountered in the collectivization effort was consequently not being sent to higher levels.\(^\text{92}\)

After Luo and Li’s set of answers was sent to Yan’an on August 12, Mao Zedong did not send a response for more than four months. In the meantime, the Shandong Bureau sought to inject new energy into the RIR campaign by publishing an account of its experience in October 1944 in dissolving a large landed estate through a process of stirring its workforce to rise up against the landowners. The account was published as a pamphlet and distributed throughout Shandong the following month.\(^\text{93}\) In its annual review in November, the members of the Wartime Executive Committee’s work unit on land tried to justify the RIR program in a report by proving the existence of land ownership polarization: “The distribution of landownership in Shandong is not very even.

\(^{92}\) Ibid, 337-338.

\(^{93}\) “中共山东分局宣传部关于转发莒南县委‘大店查减斗争总结’的通知 (The propaganda department of the Shandong Bureau’s notice about forwarding Juxian County Committee’s ‘A review of the struggles in the campaign of checking the reduction of rents and interest rates in the village of Dadian’), November 5, 1944,” ibid, 13.96-97; 莒南县委 (Juxian county Committee), “大店查减斗争总结 (A review of the struggles in the campaign of checking the reduction of rents and interest rates in the village of Dadian), October, 1944年,” ibid, 97-167.
There are many large landholders. Currently we are residing in isolated mountainous areas where large landlords prefer not to live. Local land distribution is naturally quite equal, but this does not mean that feudal rule is weak. Although many petty landlords do not have much land, they are more brutally oppressive…. If we do not lead peasants to implement the RIR program and the anti-feudal struggle, how can we ignite them?”

On the issue of interest reduction, the report was honest and straightforward: “We have capped the interest rate at 15 %, and it has not worked out in such poor rural areas. The poor peasants are either deprived credit or compelled to resort to usurers covertly…. As the cap is unlikely to be effective in some areas, poor peasants seek loans of cash or staples from landlords or usurers at much higher interest rates. We can only tolerate these loans, never legalize them. If the peasants view such deals as unfair and ask for interest rate reductions, then the government can intervene in accordance with the regulations.”

Luo Ronghuan and Li Yu finally received a response from Mao on December 25, 1944. Mao affirmed that Shandong’s two top CCP leaders had implemented policy correctly and replied well. He did not mention collectivization or interest rate reduction in his telegram, however. Ten days before he telegraphed his response, Mao had

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94. “山东第二次行政会议土地组总结报告(草案)(The draft of conclusive report by the land unit of the second conference on in the provincial administration of Shandong), November 1944,” ibid 13.204.

95. Ibid, 218-220.

announced the CCP’s agenda for 1945, declaring that peasants would be encouraged to organize themselves voluntarily into various collective activities for the purpose of increasing agricultural production. The foundations were laid for the CCP’s long-lasting and continuous commitment to collectively organized agricultural production.

6. Conclusion

In August 1944, Shandong’s top CCP leaders cautiously pointed out to Mao Zedong that agricultural collectivization in the province had not succeeded in increasing production as he had expected. Mao had argued that collectivization was the only way to end the poverty that resulted from the so-called system of feudal rule based upon usury and the polarization of landownership. But as the CCP researchers in Shandong learned, this hypothetical polarization could not be found and high-interest loans were inevitably part of rural life. Because the RIR program disrupted the processes of production and trade while failing to bring about any financial or and economic benefits, the Shandong Bureau was unenthusiastic and reluctant in its implementation. But the CCP was a Leninist party and the Shandong Bureau could not refuse to comply with the policy. During the war, Mao initiated four major RIR drives, in 1939, 1940, 1942 and 1943 in preparation for territorial expansion. Mao’s approach remained tentative and cautious until the fall of 1943, however. Until then, the CCP lacked the political and financial resources required to absorb the costs of the RIR policy. Mao became daring only when the CCP obtained access to more resources after the beipiao exclusive zone was established in the fall of 1943, and after the Allied forces and the Soviet Red Army won a

97. “1945年的任务 (Agenda for 1945), Mao Zedong’s speech at the Consultative Congress of the Shaan Gan-Ning Border Area, December 15, 1944, ibid, 421.
series of strategic victories in Europe and the Pacific during the summer of 1943. The RIR was never a popular policy. Its significance was more political than economic: it gave the CCP access to reserves of hostility and violence at the rural grassroots.
CHAPTER FOURTEEN

Conclusion

Sixty years after the CCP Politburo issued its instructions called the “Ten Great Policies” in October 1943, the CCP leaders initiated a nation-wide program to explore the legitimacy of the CCP authority and their People’s Republic.¹ Most of the participants were graduate students and CCP cadres. They duly attributed the CCP’s political legitimacy to its agrarian revolution and the military triumph sixty years ago, while acknowledging that CCP authority faced new challenges. A few implicitly questioned the legitimacy in the CCP’s agrarian revolution. One scholar claimed that the CCP lacked “elective legitimacy” because it had come to power through illegal violence.² Another pointed out that the CCP’s rise to power was a result of the special historical background during the 1940s and was not fated to occur.³ To compensate for the CCP’s basic inadequacy in legitimacy, its leaders have sought to protect their authority using repressive means while also seeking to legitimize their authority through success in the economic sphere. Their apparent indifference to the scale of the social problems that have emerged during the sustained period of economic growth in China since 1978 leads


scholars to suspect that a strengthened economy is not an end in itself, but a means of strengthening party rule. Although insights such as these may be expressed cautiously as part of a lively current discourse on Marxism, Leninism, social-Darwinism and “new Confucianism,” they at times push the limits of official tolerance. Li Jizheng, for instance, a historian working in Shandong who discovered that the polarization of landownership in rural China during the Republican period did not exist, was later compelled to claim that he did not doubt the official explanation of the CCP’s agrarian revolution. His published book uses his research materials in support of the conventional dogma.

Because the CCP’s primary justification for its agrarian revolution lacks foundation, the nature of its revolutionary war against the Nationalist Government, China’s sole legal government as acknowledged by the CCP itself, must therefore be reassessed. The CCP’s revolution was a struggle for national power in the name of social justice. As Mao and his contemporary colleagues could not acknowledge the non-existence of their claimed justification at least in North China, their successors sixty years later have found that their authority lacks legitimacy. Nevertheless, they cannot sincerely review the CCP’s victory in China in 1949 lest they risk weakening the party’s authority.


5. 李金铮 (Li Jinzheng), 借贷关系与乡村变动: 民国时期华北乡村借贷之研究 (Borrowing-lending relations and rural changes: a study on rural loans in North China during the Republican period) (Baoding: Hebei University Press, 2000).
During the war against Japan, Mao and colleagues could not declare the independence of their CCP party-state and needed to mobilize popular support for their aims through nationalistic and ideological appeals within the framework of the Republic of China. Their ideological justification, however, was not found in North China. As a result, their economic policies were not fundamentally different from the GMD’s. The CCP pursued a mercantilist economic policy. There are similarities between classic mercantilism and the CCP’s current strategy of pursuing national economic growth to support its authority. According to Edward Earle, in mercantilist policy, “the power of the state becomes an end in itself, and all considerations of national economy and individual welfare are subordinated to the single purpose of developing the potentialities of the nation to prepare for war and to wage war.” Edward Mead Earle, “Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power,” in Makers of Modern Strategy: from Machiavelli to the Nuclear Age, eds., Peter Paret (Princeton, NJ: Princeton University Press, 1986): 217. Jean-Baptiste Colbert, the financial minister of the Louis XIV, observed that “trade is the source of finance and finance is the vital nerve of war.” This attitude helps to explain the Shandong Bureau’s situation after its self-sufficient regional economy was established. As though it was emulating the master of mercantilism, the Shandong Bureau successfully manipulated the wartime urban economy and turned the trade with the former as their principal source of revenue. There is no need to search for doctrinal foundations for the Shandong Bureau’s policies, however. Thanks to Charles Tilly’s insights about coercion, capital and state-making, the CCP party-state may be seen to have foundations similar to those of Europe’s early modern nation-states.

7. Ibid.
The Shandong Bureau’s successes resulted largely from the inattention of both Japanese occupiers and the GMD and inability to do anything about these programs in remote rural areas, along with the triangular political situation in Shandong, the Maoist strategy of guerrilla war and Mao’s overall direction of CCP military and political affairs. Throughout the war against Japan, neither the Japanese nor Chiang Kaishek regarded the CCP as a principal opponent. The Japanese attitude was one of arrogance. As they began their invasion, terming it a “China incident” for throughout the war, Japanese leaders failed to recognize the power of nationalistic sentiment in mobilizing China’s vast population. Ignoring Chiang Kaishek’s numerous warnings that war would be total and protracted, the Japanese were drawn into a disastrous quagmire as Chiang Kaishek led a planned withdrawal far to the interior.

Although the Japanese enjoyed overwhelming military and economic advantage over their Chinese opponent, they totally lacked legitimacy. They did not have the necessary resources to administrate their occupied zones, either. Although the Japanese altered their occupation policy and tried to legitimize their occupation under the banner of anti-Communism, anti-colonialism and pan-Asianism, and partially succeeded, their policy change was opportunistic and too late. Their tactical superiority brought them with military security and tactical successes such Operation as Rō. Nevertheless, the Japanese could not coordinate their efforts and were short of strategic vision. Their tactical successes often brought about more strategic damage than benefit, such as in their operations against Yu Xuezong.
Among the prominent problems in Shandong on the Nationalist side were Chiang Kaishek’s attitude towards guerrilla warfare, the absence of coordination and consequent internal strife. In Chiang’s national defensive strategy, Shandong was left far behind the frontline. Unlike Mao Zedong who took guerrilla warfare as an independent and strategic campaign, Chiang Kaishek regarded it as a kind of low-cost auxiliary operation for regular troops after the Battle of Wuhan in October 1938. Most anti-Japanese operations in Shandong were carried out by GMD-led guerrillas and were generally attacks on Japanese communication facilities. The GMD forces then faced the brunt of Japanese reprisals.

Worse still, the GMD did not coordinate their war efforts in Shandong. Internal conflicts often escalated to bloody internal strife such as the assassination attempt on Yu Xuezong. Chiang seemed to do little to mediate. Nor did he appear to be interested in establishing a unified command in Shandong. The absence of a unified command, similar to the Japanese internal weakness, deprived the pro-GMD coalition of a coherent strategy or operational plans to overcome increasing hardships as the war continued. The failed rotation plan between Yu’s North-eastern Army and Li Xianzhou’s 92nd Corps in 1943 is an example. This was a failure that would not only cost the National Government control of Shandong, but would also influence the post-war GMD-CCP showdown.

Mao Zedong shrewdly exploited the opportunities to expand the power of the CCP that were provided by the war. He obtained Chiang’s approval to conduct guerrilla warfare independently of the National Revolutionary Army. When it became apparent that the CCP was not concerned with supporting regular defences in Shanxi, one of the key areas to distract the Japanese from the crucial Pinghan Railway, Mao’s policy
provoked many criticisms both within the CCP and the Comintern. Nonetheless, he succeeded in maintaining his strategy for an independent guerrilla war.

In contrast to its Japanese and GMD rivals, the CCP had neither material advantage that the Japanese enjoyed, nor the legitimacy and the administrative agencies the pro-GMD coalition had. Its biggest asset was its organization. Its Leninist organization and discipline made it possible for the CCP to develop and implement a coherent general policy that covered all aspects of wartime social life, ranging from military affairs, intelligence operations and subversion to political initiatives and a socio-economic reform program. The CCP movement in Shandong was a result of this coherent general policy. Despite its mercilessness and cunning, its Leninist organization and discipline, along with ideological appeals and the heightened patriotic sentiment of anti-Japanese nationalism, enabled the CCP to be more adaptive and more aggressive than its Japanese and GMD rivals. Compared with its obvious advantages in adaptability, its deficiencies in equipment, tactics and training were less significant. Most of the CCP cadres then were in their early twenties, even teenagers. Parallel to adaptability was the development of leadership and training of cadres. Yan’an proved to be a source of essential talent for the CCP in Shandong. Not only did it provide senior cadres for the establishment of the party hierarchy in Shandong, but also offered strategic guidance. Luo Ronghuan proved to be the right man in the right place at the right time. But the man who spotted and appointed Ruo was Mao. Despite blunders such as the Hundred Regiments Campaign and the N4A Incident, Mao did not make fatal errors. His indirect intervention in the quarrels between Zhu Rui and Luo was timely and appropriate. It helped to establish a unified command under Luo, while avoiding devastating losses for Zhu Rui.
and other CCP leaders in Shandong. Interventions of this sort did not occur on the pro-GMD side of the competition in Shandong.

Another prominent contribution by Mao to the CCP victory in Shandong was the establishment of the compartmentalized finance and supply institution. He recognized the coming financial difficulties even when the CCP had good relations with the GMD, CCP’s principal financer, in the early days of war. When Mao recognized the potential value of the North Sea Bank established by the Shandong Bureau, he ordered its restoration and dispatched capable administrators such as Ai Chunan to Shandong. With the assistance of experienced cadres, the Shandong Bureau rapidly established a rudimentary but comprehensive administrative system centred on its Finance Committee. The establishment of the exclusive beipiao zone in the fall of 1943 was one of the most outstanding achievements of Shandong Bureau’s unified command of party, army and finance. This system enabled the Bureau to coordinate its efforts in various aspects, particularly between military and financial affairs. Although there is no mention in Chinese literature of a direct link between the CCP’s campaign of stopping Li while facilitating Yu and its decision to expel the fabi at the end of June 1943, contemporary CCP leaders such as Xue and later writers emphasized the impact of that military campaign on the success of the campaign against the fabi. In his review in 1944, Xue attributed the success of the currency campaign primarily to the CCP military victory, stating that “the failure of the anti-CCP army’s attempt to enter Shandong caused the weichao to stagger and drove the fabi to the verge of collapse. The beipiao thus became
the only reliable means of exchange and storage.”⁸ Xue’s observation was echoed forty-four years later when a team of Chinese specialists on the beipiao claimed that confidence in the currency of the North Sea Bank “depended principally upon whether we could win political and military victories.”⁹

Military power must be the foundation of CCP’s victory in Shandong. Although it was nascent in 1938, the Leninist party organization provided a strong platform for the coordination of military operations and various social and economic programs that enabled the CCP’s military power in Shandong to advance step by step. For example, in Jiaodong, the CCP gained control of Yexian by coordinating the operations of three CCP guerrilla units in the region during the summer of 1938. On this foundation, the North Sea Bank was established in Yexian. In the spring of 1941, similarly, the Shandong Bureau moved CCP troops from Qinghe into Jiaodong. This decision led to CCP control of a productive part of the peninsula, an area which became a major source of revenue for the Shandong Bureau. In contrast, the GMD-led forces in Shandong conducted no cross-district military offensives. Although a few pro-GMD armies, such as the force commanded by Zhang Tianzuo in Changyi, were too formidable for CCP forces to attack, their operations were not coordinated and had little strategic value. Those forces would be later be overwhelmed by the CCP.

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⁸ Xue, “A review of the monetary struggle in Binhai District since six months ago), March 1944,” SDGMLSDAZLXB 11. 326.

The leadership platform based on the CCP network and Leninist discipline also enabled the Shandong Bureau to concentrate its resources through cross-district military manoeuvres. This was an advantage that the GMD-led forces lacked. Parallel to its effective command structure, the Shandong Bureau’s “patriotic” grain requisition system facilitated such manoeuvres. Therefore, CCP forces enjoyed a significant advantage in manoeuvrability over their GMD-led rivals. Their manoeuvrability enabled the CCP forces to avoid Japanese military strikes and maintain their military presence at much lower cost. Because they could not move as fast or as far as the CCP troops, GMD-led forces had to take the brunt of Japanese attacks. In addition, the AGGL system minimized the impact of the devaluation of the *fabi* after Pearl Harbor and enabled the CCP in Shandong to avoid the difficulties endured by NRA forces dependent on the Nationalist currency.

The GMD-led forces in Shandong thus declined much faster than the CCP forces after 1941. After Yu’s NRA troops withdrew during the summer of 1943, the CCP achieved military superiority in the rural areas of the province. This military superiority was not achieved through military victory. It came from the NRA troop’s decline which was partially because of the Japanese military strikes. The Shandong Bureau then grasped the opportunity to establish an exclusive zone for the currency issued by its North Sea Bank (the *beipiao*). As the war went from bad to worse for the Axis, the Japanese were unable to control rural Shandong. But they came to buy cotton, salt and peanut oil produced in the CCP-controlled areas. A few months after the *beipiao* exclusive zone was established, the Shandong Bureau was able to turn its external trade with the Japanese-occupied zones into its principal source of revenue through the manipulation of exchange.
rates. The Bureau also discovered that they could improve the terms of trade and increase revenue through inflation. As the Shandong bureau secured a solid foundation in its control of material resources and financial affairs, Japan’s surrender was imminent and expected. At this point, Mao Zedong calculated that to wage a campaign of “rent and interest rates reductions” (RIR) throughout the CCP-controlled areas of North China would be feasible. He decided on a full implementation of the RIR for political reasons. It would improve the CCP’s position vis-à-vis the GMD either in peace or in war.
<table>
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<tr>
<th>English</th>
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<tr>
<td>aiguo gongliang 爱国公粮</td>
<td>gongping fudan 公平负担</td>
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<tr>
<td>ai chu’nan 艾楚南</td>
<td>gongshangju 工商局</td>
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<tr>
<td>balujun 八路军</td>
<td>guo hongtao 郭洪涛</td>
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<td>beipiao 北票</td>
<td>guomindang 国民党</td>
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<td>beihai yinhang 北海银行</td>
<td>guoming gemingjun 国民革命军</td>
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<td>beifangju 北方局</td>
<td>guo Weicheng 郭维城</td>
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<td>binhai:滨海</td>
<td>hanguo hu John覆</td>
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<td>bo yipo 薄一波</td>
<td>hongjun 红军</td>
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<td>linboqu 林伯渠</td>
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<td>liuguitang 刘桂棠</td>
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<td>fabi 法币</td>
<td>liushaoqi 刘少奇</td>
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<td>maozedong 毛泽东</td>
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<td>pengdehuai 彭德怀</td>
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<td>pinghanlu 平汉路</td>
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粟裕
特委:
田赋
同蒲路
皖南事变
万毅
王稼祥
王明
王志信
吴化文
伪钞
伪军
徐向前
许世友
薛暮桥
阎锡山
杨虎成
杨尚昆
于学忠
Abbreviations and terms

AGGL: “Patriotic Grain Requisitioning” (Aiguo gongliang)

8RA: Eighth Route Army

beipiao (“Northern notes”). Currency issued by the North Sea Bank.

BIC. Bureau of Industry and Commerce.

BHYHWSZNJNWJ: Beihai yinhang wushi zhounian jinian wenji (Collected writings for the 50th anniversary of North Sea Bank)

BSZD: Balujun Shandong zhongdui: huiyi shiliao (The Shandong Column of the Eighth Route Army: collected memoirs)

CCP: Chinese Communist Party

CMC: Central Military Commission

EFCC: Expeditionary Forces of Central China

EFNC: Expeditionary Forces of North China

fabi (“legal currency”). Standard currency issued by the Nationalist government.

GMD. Guomindang (KMT, Kuomindang). Nationalist Party.

JDJZ: Jiaodong junshi zhi (Military History of Eastern Shandong)

LYJ. Lianyinjuan (Joint bank scrip). Currency issued by the Japanese sponsored administrative authority in Beiping

MGSDTZ: Minguo Shandong tongzhi (Shandong Annals of the Republican Period)

MZDJSWJ: Mao Zedong Junshi Wenji (Collected writings of Mao Zedon on military affairs)
NFA: New Fourth Army

NRA: National Revolutionary Army (led by Chiang Kaishek).

PRC: People’s Republic of China

RIR: Reduction of rents and interest rates

SDGMGJDCZSLXB: Shandong Geming genjudi caizheng shiliao xuanbian
(Selected Historical Financial Materials on the Shandong Revolutionary Base Area)

SDGMLSDAZLXB: Shandong geming lishi dang’an ziliao xuanbian (Selected Archival Materials on the Revolution in Shandong)

SDWX: Shandong Wenxian (Shandong Memorabilia)

SDZYLSSJ: Shandong zhongyao lishi shijian (Important Events in Shandong History)

Tewei: Tebie weiyuanhui (Special Committee)

weichao. (“illegitimate currency”). Currency issued by Japanese-sponsored Chinese administrative authorities

WSZLXJ: Wenshi ziliao xuanji (Selected Historical Materials)

ZGGMGJDBHYHSL: Zhongguo geming genjudi Beihaiyinhang shiliao (Historical Materials on the North Sea Bank in the Chinese Revolutionary Base Areas)

ZGZYWJXJ: Zhonggong Zhongyang Wenjian Xuanji (Selected Documents of the Chinese Communist Party Centre)

ZJSBK: Zhongguo junshi baikequanshu (The Chinese Military Encyclopaedia)

ZRJZS: Zhongguo renmin jiefangjun zhanshi (Combat History of the Chinese People’s Liberation Army)
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“中央关于时局趋向的指示 (Central directive on situation trends), September 10, 1940,” 479-485.

“中央关于发展文化运动的指示 (Central directive on the development of a cultural movement), September 10, 1940”, 486-487

“中央关于‘击敌和友’的军事行动总方针的指示 (Central directive on the general
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“中央关于开展敌后大城市工作的通知 (第一号) (Central Notification on work in large cities in the occupied zones (No. 1)), September 18, 1940,” 490-493.

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“毛泽东、朱德、王稼祥关于新四军行动方针的指示 (Directive from Mao Zedong, Zhu De and Wang Jiaxiang on the N4A’s movements), October 12, 1940,” 504-505.

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“中央关于防止执行政策中左倾错误的指示 (Central directive on preventing right- leaning errors during policy implementation), October 18, 1940,” 518-519.

“中央关于对待反共派俘虏问题的指示 (Central directive on the questions regarding the treatment of anti-Communist prisoners), October 18, 1940,” 520

“中央关于建立与巩固华中根据地的指示 (Central directive on establishing and consolidating base areas in central China), November 1, 1940,” 543-547.

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“毛泽东关于动员党内一切力量制止剿共降日的指示 (Mao Zedong’s directive on preventing annihilation of the Chinese Communist Party and surrender to Japan by mobilizing maximum CCP strength), November 6, 1940”, 552

“中央关于反对投降挽救时局的指示 (Central directive on opposing surrender and saving the situation), November 7, 1940,” 553-557.

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“中央关于各抗日根据地劳动政策的初步指示 (Preliminary central directive on labour policies in all anti-Japanese base areas), December 3, 1940,” 575-576.

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“中央关于粉碎蒋介石进攻华中的战略部署的指示 (Central directive on the strategic deployment for destroying Chiang Kaishek’s offensives in Central China), December 31, 1940,” 599-618.


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“中央关于皖南事变的指示 (Central directive on the N4A Incident), January 18, 1941,” 8-10.

“中央军委总政治部关于皖南事变后我八路军新四军的紧急工作指示 (Directive of the General Political Department of the Central Military Commission on the emergency work of the 8RA and N4A after the N4A Incident), January 20, 1941,” 16-19.

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“中央关于统一各根据地对外宣传的指示 (Central directive on coordinating external propaganda in the base areas), May 25, 1941,” 111-112.

“中央宣传部关于国民党统治区内党的支部教育的指示 (The Central Propaganda Department’s directive on branch units’ education work in the unoccupied zones), May 29, 1941,” 113-114.

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“中央关于增加党性的决定 (Decision on strengthening party spirit),” passed by the Politburo on the 20th anniversary of CCP, July 1, 1941,” 144-147.

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“中央关于调查研究的决定 (Central decision on investigation and research), August 1, 1941,” 173-176.

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“中央政治局关于陕甘宁边区工作方针的决定 (Politburo decision on work in the Shaan-Gan-Ning border regions), August 13, 1941,” 188.


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“中央对晋察冀边区第一届参议会发表宣言的指示”(Central directive on the proclamation by the First Consultative Congress of the Jinchaji Border Area), January 11, 1943,” 9-11.

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“中共中央政治局关于进行减租减息生产拥政爱民及宣传十大政策的指示 (The CCP Politburo’s directive about the campaigns of reduction and rents and interest rates, production promotion, supporting local governments, fraternizing civilians, and advertizing the Ten Big Policies), October 1, 1943”, 97-101.

“中央宣传部关于进行阶级教育问题的通知 (The Central Department of Propaganda’s notice about the campaign of promoting class-consciousness) October 21, 1943,” 103-106.

“中央总学委关于学习‘反对统一战线中的机会主义’的通知 (The Centre General Committee of Learning’s the notice about studying ‘Opposing the opportunism in the United Front’), December 1, 1943,” 111-135.

“中央书记处对贯彻毛泽东关于组织起来的方针的指示 (The Central Secretariat’s directive about implementing Mao Zedong’s calling for organizing peasants), December 5, 1943,”136-137.

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“中央关于学习‘反对统一战线中的机会主义’一文的指示 (Central directive on studying ‘Opposition to opportunism in the United Front’), December 28, 1943,” 142-144.

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“中央关于发动与争取基本群众的方针 (the Centre’s general policies about igniting and winning over grassroots supporters), May 31, 1944,” 233-234.

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“中央关于整训军队的指示 (Central directive on military reorganization and training), July 1, 1944,” 261-267.

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“中央关于收集研究全国经济情况的通知 (Circular notice from the Centre about collecting and analyzing economic intelligence nationwide), July 22, 1944,” 285-287.

“中央关于发展河南敌后工作的指示 (Central directive on expanding into occupied zones in Henan), July 25, 1944,” 289-292.

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“中央关于建立城市工作部门的指示 (Central directive on establishing agencies for urban programs), September 4, 1944,” 319-320.

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“中央关于华中军事部署的指示 (Central directive on military deployments in Central China), November 26, 1944,” 404.

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“中央关于目前形势的分析与任务的指示 (Central situation assessment and agenda directive), December 25, 1944,” 431-434.


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“中央关于加强冀鲁豫根据地工作给北方局的指示 (Central directive to the North China Bureau on intensifying efforts in the Shanxi-Shandong-Henan Base Areas), January 23, 1945,” 9-10.

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“须尽全力歼灭府城西进之敌 (Do your best to destroy the enemy moving westward moving from Fucheng), February 25, 1938,” 162-165.

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