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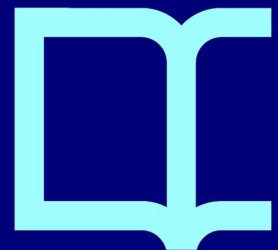
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## Planning China's future. The contributions of Liu Guojun to China's post-war economic recovery

### Abstract

Liu Guojun was a Chinese capitalist who owned textile mills in Republican China. During the war against Japan, he wrote essays about the prospects of China's economic recovery. He developed a fine sense of the postwar world economy and participated in discussions about China's economic development. In 1949 he decided to stay in the People's Republic of China, continuing with his work in the textile business and entering the political administration of Jiangsu and the All-China Federation of Industry and Commerce. During this transitional period, he wrote an economic plan for the development of China's textile industry, specifying how this industry should nurture other economic sectors and help to improve both the standards of living and the education of the Chinese people. This article aims to discuss China's late economic development through Liu Guojun's publications and writings that have recently been available to scholars. The article suggests that Liu Guojun anticipated some key factors that drove China's economic reform to succeed in 1978, such as the importance of light industries, given the resource endowments of the country, and the necessity of administering an industrial policy able to lead China's opening to foreign markets.

**Keywords:** China's late industrialization, textile industry, planned economic system

### Introduction

This article aims to analyse the contributions of a textile entrepreneur to China's economic recovery during the 1940s and 1950s. Liu Guojun (1887-1978) was an industrial owner but also an intellectual, despite not having a formal education. He wrote essays, articles and conferences about China's economy, using a pragmatic approach and relying in his long experience in the textile business.<sup>1</sup> This article aims to look at the intellectual production of Liu Guojun during these two decades, especially considering issues of political economy. The article shows how he developed an original theory on industrialization under a planned economic system. In November 1950, his visions were introduced to the Chinese government through reformist and

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2  
3 educator Huang Yanpei (1878-1965), member of the first government of the People's Republic  
4 of China (Li 2001b: 161). However, his plans were not implemented even though some of his  
5 ideas are recognizable later, in the period of reform and opening up. Indeed, the reforms of  
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10 Deng Xiaoping retrieved some projects that were discussed in the 1950s (Howe & Walker 1989:  
11  
12 xii).

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15 Previous historical research on private companies and entrepreneurs during this first years of  
16 the PRC tend to focus on two aspects: first, the business history of companies in the 1950s and  
17 their evolution from private concerns to their socialist transformation (Lu 1994; So 2002; Feng  
18 2009; Henriot 2014); and, second, the political role and connotations of businessmen that  
19 decided to stay in Communist China or leave, and the consequences of their decisions (Brown &  
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Pickowitz 2007; Wu and Wu 2012; Cochran 2016). Besides, another trend of research highlighted  
the implementation of a planned economy system, under the leadership of the Chinese  
Communist Party (Howe & Walker 1987; Yang 2009; Bernstein & Li 2011). While relevant  
investigations have found precedents of the planned economic system in China's experiences  
during the 1930s and the war against Japan (Kirby 1990; Bian 2005), fewer studies have looked  
into the contributions of private entrepreneurs in the creation and implementation of a planned  
economy system in China.

This is a research article offering results based on the following sources of Liu Guojun: First,  
published articles and conferences written by him. While the companies of Liu Guojun  
(especially Dacheng) and his life as an entrepreneur have been investigated (Gao 1994; Xu 1996;  
Ge 2011; Wang 2016), his writings and his visions on issues of political economy have not  
attracted academic attention. This article uses them to underline the vision of Liu Guojun  
regarding the possibility of industrialization in China with an economy that mixed planification  
with elements of liberalism and free trade. Second, the article uses the personal diary of Liu  
Guojun of 1945 and other non-published primary sources, like travel reports. These materials

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3 show how the community of textile entrepreneurs of China was highly internationalized and  
4  
5 open to learn from the experiences and technologies of other countries. Finally, the article also  
6  
7 contains information about the way Liu Guojun envisaged vocational training for enhancing  
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9 education and expert management. In short, this article tries to argue that Liu Guojun had a  
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11 sophisticated vision of China's economic development which bears resemblance with some  
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13 ideas of the reform and opening up period.  
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### 20 **Liu Guojun and China's regional development**

21

22  
23 In the two decades before the Japanese occupation of 1937, Shanghai and the surrounding area  
24  
25 of Jiangnan (south of the Yangzi River Delta) became one of the most industrialized spots of Asia,  
26  
27 even though the rest of China continued to be predominantly agrarian and poor. The textile  
28  
29 industry was the most important sector and its development was linked to the treaty port  
30  
31 economy of Shanghai and its dependency on foreign trade. Liu Guojun was an entrepreneur  
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33 from Jiangsu province who managed to build a textile empire before 1937. In contrast to other  
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35 industrialists from the same period and region (such as the Rong family), Liu Guojun was a self-  
36  
37 made man. He was born in the suburbs of Changzhou in a well-educated family. However, the  
38  
39 decline of Confucian schooling at the end of the Qing dynasty and the early death of this father  
40  
41 made him suffer economic hardships, forcing him to work from a young age in unstable jobs as  
42  
43 street peddler and cotton spinner. He later settled down working in cloth shops that offered all  
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45 kinds of garments to the market, from traditional to modern and from Chinese to Western styles.  
46  
47  
48 Liu Guojun learnt the business of clothing and soon started to experiment with selling cloths and  
49  
50 clothes and with the manufacturing of the last parts of the textile production chain: dyeing,  
51  
52 printing, calendaring and tailoring (Liu 1962: 1-12).  
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56  
57 In 1915, Liu Guojun and some partners set up the first textile industrial mill of Changzhou  
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59 registering the company in 1919 with the name of Dalun Spinning and Weaving Company  
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3 Limited, and a capital of 10,000 spindles. It was not successful, but Liu Guojun kept  
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5 experimenting and participating in different companies until finally creating Dacheng in 1930.  
6  
7 Dacheng became a big industrial group that has been studied as one of the most fortunate  
8  
9 business cases of Republican China (Xu 1996). It was a vertically integrated company that could  
10  
11 spin, weave, dye and finish cotton goods, running high profits between 1930 and 1936, thanks  
12  
13 to a constant machinery upgrading. Between 1924 and 1935, Liu Guojun made four trips to  
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15 Japan to acquire modern sets of textile manufacturing (spinning, weaving and finishing) and  
16  
17 succeeded in producing high-end products that competed in the markets of China with imported  
18  
19 goods. Just before the Japanese occupation, Dacheng had 40,000 spindles, around 1,000 looms  
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21 and a complete finishing equipment and was planning to increase its capacity (Brasó-Broggi 2016:  
22  
23 77). However, Liu Guojun was not optimistic regarding the future of China because the products  
24  
25 of Dacheng could only be consumed by a minority of Chinese urbanites, while most of the  
26  
27 Chinese population was stuck in poverty.<sup>2</sup>  
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33 In November 1931, Liu Guojun published an article titled “A plan for saving the country through  
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35 hand spinning” (Liu 1931). He claimed that hand spinning should be enhanced by the  
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37 government to face China’s problem of mass poverty. Being a textile industrialist, this plan  
38  
39 seemed contradictory with his business. According to the standard theory of economic  
40  
41 development, the path of modernization consists on evolving from traditional and domestic  
42  
43 forms of manufacturing to modern industrial methods of mass production and consumption.  
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45 Backwardness came from the common idea that traditional production was less efficient than  
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47 industrial production. However, Liu Guojun advocated hand spinning in the countryside for self-  
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49 consumption to improve the conditions of the rural population, and he was supportive of Indian  
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51 Nationalist Mahatma Gandhi, when he praised hand spinning in India. Liu Guojun was a  
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53 successful textile entrepreneur but also an intellectual concerned about the problems of  
54  
55 development and poverty. In his words:  
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3 Hand spinning is a light work, it can be done by man and women, elder and young. China's  
4 traditional handicraft production has been wiped out by foreign industrial goods. As we  
5 have not enough capital to build a huge industrial base to resist them, we can only rely on  
6 the Chinese masses and make them understand the difficulties facing our country. We  
7 should thus stop worshipping the modern and loathing the old. We need to imitate the  
8 Indian leader Gandhi's rule of saving the country by allowing the poorer population to  
9 make a living through hand-spinning (Liu 1931: 2).  
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13 This article was written in the peak of the Great Depression, the invasion of China's Northeast  
14 regions by the Japanese troops and the further formation of the puppet state of Manchuria,  
15 early in 1932. At that time, the cotton sector was the largest industry of China, with 4.2 million  
16 spindles of which 1.6 million was owned by Japanese companies while China owned 2.4, the rest  
17 being in the hands of British firms.<sup>3</sup> Due to strikes and boycotts the Japanese mills were left idle,  
18 creating urban unemployment, social unrest and a lack of supply of cloth. Liu Guojun calculated  
19 that there was only one industrial spindle available for every 200 Chinese persons. He was a  
20 nationalist who believed that China was being humiliated by imperialist forces from Europe,  
21 United States and Japan. But he was also aware that the closure of foreign companies in China  
22 would worsen the already weak socio-economic situation of the country and the scarcity of  
23 consumption goods.  
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39 Meanwhile, the Japanese administration had started to implement industrial policies of  
40 rationalization of production and state planification: in 1936, a First-Five Year Plan was  
41 implemented in the puppet state of Manchukuo (Johnson 1982: 104-05, 130-31). It is possible  
42 that Liu Guojun was influenced from these early economic planning experimentations, even  
43 though this is never made explicit. The Japanese occupation of the Jiangnan area in the summer  
44 of 1937 drew a heavy blow to China's most important industrial base, that had been built by the  
45 Chinese entrepreneurs (Coble 2001). For Dacheng it meant the destruction of its capital, and the  
46 further division and dispersion of mills between Changzhou, Shanghai, Chongqing and Hong  
47 Kong. In 1938, Liu Guojun moved from Changzhou to Chongqing but kept travelling within China  
48 during the war, sometimes at a high personal risk (he was kidnapped in Changzhou in October  
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3 1942). China's emergent textile industry was consciously destroyed during the war against Japan.  
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5 In 1945, the country's production was around 10 per cent of pre-war production levels (Wang  
6  
7 2004: 10-13).  
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10 In July 1944, Liu Guojun wrote "My humble opinions on planning China's expansion of industrial  
11  
12 spinning" (Liu 1944).<sup>4</sup> This is a remarkable essay about China's possibilities and potentials of  
13  
14 post-war recovery. He envisaged a plan for China's future based on promoting the textile sector  
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16 for exporting industrial goods while importing machineries and gradually improving the  
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18 industrial capacity as well as the standards of living of the population.  
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### 25 **Planning China's economic recovery**

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27  
28 Liu Guojun developed a blueprint for China's economic recovery where he matured some of his  
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30 ideas of pre-war writings. The intellectual formation of this plan started in the context of war –  
31  
32 first the war against Japan and, afterwards, China's civil war— and consolidated in the period of  
33  
34 transition to socialism in the first years of the People's Republic of China. However, his further  
35  
36 writings and conferences did not change the basic pillars of 1944.  
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40 His first point focused on import substitution and export promotion of textile goods. He thought  
41  
42 that China not only had to gain self-sufficiency in cloth production but also ambition the South  
43  
44 East Asian markets. Therefore, China would have to double its pre-war industrial capacity and  
45  
46 reach 10 million cotton spindles. Liu Guojun suggested to set an objective of 10 million cotton  
47  
48 spindles in 15 years divided in three five-year plans: during the first years, China would increase  
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50 the spinning capacity at a rate of 400 thousand each year; the next five years, at an increase of  
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52 600 thousand rate and finally at a rate of one million per year. This increase would help China  
53  
54 attain auto sufficiency and also start exporting to South East Asia. The reasons for this strategy  
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3 was that Chinese industrialists and the government could obtain foreign currencies from cloth  
4 exports with which to import technological advanced machineries.  
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8 Besides the textile industry, modernizing and revitalizing agriculture were essential measures to  
9 be implemented. Raw cotton had to be secured for industrial development and grain had to be  
10 delivered to cities for urban consumption. From the 1930s, Liu Guojun advocated for a  
11 comprehensive modernization of agricultural production in China, focusing on grain and cotton  
12 as staple products (Liu 1933). Trade between rural and urban regions would not only provide  
13 with agricultural edible products to the city but also industrial goods to the countryside, in  
14 substitution to domestic made goods. In contrast to his previous writings, Liu Guojun believed  
15 that traditional methods of production had to decline. During the war, the destruction of  
16 factories and the standstill of trade highlighted China's dependency in old pedal looms to fulfil  
17 the demand of clothing of the common people. After the war, however, China could not open  
18 to international markets with these outdated forms of production.  
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33 The second pillar claimed for protectionist policies to help developing China's textile industry.  
34 He advocated for a close link between politics and industry, where the political authorities  
35 restricted importation of textile goods in order to promote domestic industrial growth. His  
36 argument was the typical of East Asian Listian protectionist policymakers: "China's industry is in  
37 its infancy. This is no secret, since the industry of every country cannot but evolve from infancy  
38 to maturity. When industry is immature, it needs the support of the government, but when it is  
39 developed, the industry can repay the governments kindness. There are many evidences of this  
40 in advanced countries that are being supported by industry" (Liu 1933: 9-10). The government  
41 should put restrictions to foreign direct investment entering China to avoid that foreign  
42 companies gain access to staple products such as raw materials and technology. However,  
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56 China's trade should be open to import machineries and raw materials.  
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3 The third pillar of Liu Guojun's program was to organize professional and economic institutions  
4 to supervise and lead industrial development. The liaison between government policies and  
5 industrial interests and the coordination of the economic planning with private company's  
6 interests had to be managed by professional institutions led by industrial experts. Because Liu  
7 Guojun was aware of the complexities of the collaboration between the state and private  
8 companies, he advocated for creating pilot plants, where cadres and entrepreneurs could  
9 experiment with different types of management. The important thing, according to Liu Guojun,  
10 was that factories were managed by experts that could teach the youngest and less experienced.  
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14 The fourth pillar consisted on introducing machinery know-how and enhancing R+D in the  
15 industrial plants. In a meeting at the Chamber of Commerce in Wujin (a district of Changzhou),  
16 Liu Guojun had stated that "machinery revolution was more important than material revolution"  
17 (Liu 1929: 14). Liu Guojun believed that the use of machinery and technology innovation were  
18 essential to development and held that China should first try to import old and cheap machines  
19 for renovation, reverse engineering and research. In this way, the textile industry would create  
20 spillover effects to other sectors such as machinery repair and mechanical workshops, at  
21 least until the know-how of manufacturing highly sophisticated machines was acquired. The  
22 growth of industrial spindles would also create positive effects in other textile sectors such as  
23 weaving, dyeing and garment design and manufacturing.  
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27 The fifth and last pillar consisted on developing a vocational education and implementing a  
28 social stratification according to industrial talent and skills. In the pre-war period, Liu Guojun  
29 had put especial attention to education in the cotton mills, developing a theory according to  
30 which those who know management and technology are first class talents, those who know  
31 management but not technology are second class talents, and those who know technology but  
32 not management are third class talents (Ge 2011). Liu Guojun's three-class theory for vocational  
33 education and industrial stratification indicates how he managed his company, with the  
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3 positions of senior technical management, young management talent and the cultivation of new  
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5 technicians. Departing from this theory and his 30 years of experience in the textile business, Liu  
6  
7 Guojun developed a plan for setting up vocational training schools attached to factories.  
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### 10 11 12 13 **International market prospects, 1944-48** 14

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16 After writing "My humble opinions", Liu Guojun left Chongqing and spent one year travelling  
17  
18 around the world with his partner Miao Jiasan and other members of Dacheng. In November  
19  
20 1944, he flew from Chongqing to Hong Kong; then to the liberated zones of Burma and India;  
21  
22 finally, he travelled to the United States and Canada, where he received the news of Japan's  
23  
24 rendition. He was back in China in the beginning of 1946, arriving in Shanghai with a cargo of  
25  
26 wool and cotton machineries made in the United States.  
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29  
30 In India he visited cotton mills that produced coarser products for Vietnam and other South-East  
31  
32 Asian markets. In his opinion, the productivity of workers and the quality of Indian goods were  
33  
34 far below international standards. That was caused by the lack of collaboration of the British in  
35  
36 transferring technology to India (Liu 1946a: 17). In contrast, the Japanese textile industry had  
37  
38 dominated the Asian markets, but it had no future because Japan was losing the war and its  
39  
40 predominance would soon come to an end. Therefore, Liu Guojun concluded that the Chinese  
41  
42 textile industry had an enormous potential of growth, having the opportunity to supplant both  
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44 India and Japan in the post-war Asian markets (Liu 1944: 33-34). But he believed that the success  
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46 of the Chinese textile business in Asia depended not only on its competitiveness but also on the  
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48 way companies established relationship with the Chinese government.  
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53 He was optimistic about the collaboration between the governments of Washington and  
54  
55 Chongqing, especially regarding the transfer of technology. Between his arrival in Memphis,  
56  
57 Tennessee, in February 1945 until his departure to Canada in July, Liu Guojun paid around 50  
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3 institutional visits in the United States: textile factories (cotton and woollen), vertically  
4 integrated mills, machinery producers, agricultural farms, financial companies and embassies  
5 and consulates (see Liu Guojun's diary of 1945 in Ge & Zhong 2017). His curiosity reached almost  
6 every aspect of the country. He was accompanied by his son Liu Handong, who was studying  
7 textile engineering and spoke fluent English. Liu Guojun was impressed by the modernity of  
8 machinery, especially in computer devices that were used for automatization of production and  
9 the vertical integration of American textile companies (Liu 1946b: 20). The banker and  
10 counsellor of the Chongqing government in the United States, Chen Guangfu (K. P. Chen) told  
11 him that after the war the Chinese government would acquire 500,000 cotton spindles in both  
12 the United States and Britain.<sup>5</sup>

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26 Back in China, Liu Guojun made an exhortation to all Chinese textile entrepreneurs to adopt a  
27 strategy of continuous innovation and modernization of their products through technology  
28 updating. He advised against any position of complacency or conservatism. He emphasized that  
29 the capacity of automatization and the speed of production in the United States would put an  
30 end to the pre-war scenario, that was dominated by the competition between Great Britain and  
31 Japan. Japan's leadership in Asia was due to the cheapness of its labour and the support of its  
32 government, but this advantage would soon be overcome, and China could then profit from this  
33 exceptional market prospect and its alliance with the United States (Liu 1946a: 17).

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Liu Guojun made a thorough analysis on the production process in the United States, stating its  
superiority compared to the British industry (Liu 1946b: 24-25). The technical reports of Miao  
Jiasan explained how in the US textile mills stood near the cotton producing regions: raw cotton  
was purchased by stock brokers, who had a close relationship with factory owners, knowing the  
price fluctuations of the raw materials and its impact upon factory margins (Miao 1987: 52-53).  
Like in the Northern states of the US and in Canada, raw wools were abundant in Northern China,  
but the woollen industry was still weak compared to cotton or silk. Factories should thus develop

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3 near the primary source and a network of brokers should control, under the state supervision,  
4  
5 the quality and price of raw materials.  
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8 In the Second World War, the so-called rich countries have all driven their population into  
9 a blood bath. Their losses are enormous and cannot be counted until the end of the  
10 conflict. But its only when there is war than peace is so necessary; and its only after  
11 destruction when reconstruction is needed. Therefore, let me share an idea for my  
12 country: because the war against Japan will soon come to an end, we can't ignore our  
13 duty in the reconstruction process. In this climate of wartime emergency, every country  
14 is discussing with enthusiasm the plans for peace. How will industry and commerce that  
15 has been paralyzed for so long resume production and activity? How will new industries  
16 and countries emerge in this reconstruction process? Those who have already prepared  
17 themselves and have actively resumed industrial production show an admirable ambition,  
18 courage and a forward-looking vision. We should follow their example (Liu 1944: 20).  
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23 Liu Guojun advocated for a fast move towards purchasing equipment in Japan, as well as in the  
24 United States, just after the rendition, to avoid the comeback of the Japanese firms (Liu, 1946a:  
25 17). In a speech in his hometown in 1946, he stated that China's textile industry should start  
26 immediately competing in the international markets (Liu 1946a: 17). This statement did not  
27 mean that Liu Guojun embraced liberalism: he also said that the experiences of the Second  
28 World War had shown that a strong government guidance was essential for securing regular  
29 provisions of raw materials.<sup>6</sup>  
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39 Between 1946 and 1949, Liu Guojun managed textile mills in Shanghai, Changzhou, Taiwan and  
40 Hong Kong. His industrial group increased production with the new machineries bought in the  
41 United States and Canada. In 1948, Dacheng group made a market research that confirmed the  
42 potentialities of the consumer markets of South East Asia (Zhu 1948: 134-60). However, the  
43 government of Chiang Kai-shek took over the Japanese factories that stood in China in 1945,  
44 creating a big public corporation that competed against the private firms, and put impediments  
45 to private companies to conduct foreign trade. As a result, Dacheng was not allowed to export  
46 on a large scale and part the modern machineries purchased between 1945 and 1948 ended up  
47 in Hong Kong, (Brasó-Broggi 2016: 93-97). Hyperinflation, social unrest and the Civil War  
48 between the nationalists and the communists foiled the post-war economic recovery and the  
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3 collaboration between the textile industry and the government (Bergère 1989). Indeed, there  
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5 was a hot race for recovering the Asian markets after the Second World War, but Japan finally  
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7 managed to restore its market share, becoming the first world exporter of cotton textiles by  
8  
9 1951 (Sugihara 2004: 521-22). However, Liu Guojun kept believing that the Chinese textile  
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11 industry, once open to international markets with innovative strategies and products could  
12  
13 become a leading player.  
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### 16 17 18 19 20 **Liu Guojun and Huang Yanpei in Beijing** 21

22  
23 Liu Guojun was in Hong Kong when Mao Zedong proclaimed the People's Republic of China in  
24  
25 October 1949. Chinese intellectual Huang Yanpei (who was affiliated in the China Democratic  
26  
27 League) and some delegates of the Chinese Communist Party in Hong Kong persuaded him to  
28  
29 return to China in September 1950 (Liu 1962: 72-73). Huang Yanpei was a Chinese scholar that  
30  
31 pioneered in vocational education. In 1917, he created one of the first vocational schools  
32  
33 specialized in training for industry and commerce in Shanghai: The Association of Vocational  
34  
35 Education of China. He was in touch with industrial entrepreneurs and became a good friend of  
36  
37 Liu Guojun. During the war against Japan, Huang Yanpei read "My humble opinions" and shared  
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39 his views with other intellectuals, like the writer Pan Yangyao and economist Ma Yinchu. An  
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41 extended version of Liu Guojun's plan was published in March 1949 (Sun 1999: 164-65).  
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47 In November 1950, Liu Guojun visited Beijing invited by Huang Yanpei, who had been nominated  
48  
49 Vice Premier of the State Council and Vice Minister of Light Industries, under the auspices of the  
50  
51 politics of New Democracy and the United Front. Huang was one of the few noncommunist  
52  
53 members of the Chinese government. He introduced Liu Guojun to a meeting with experts of  
54  
55 the Ministry of Light Industries lead by Chen Shaomei.<sup>7</sup> Then, Liu Guojun met the Central  
56  
57 Committee on Finance and Economics under the leadership of Bo Yibo and Chen Yun. Chen Yun  
58  
59 praised Dacheng as an important player in the textile industry and promised to pay a visit to its  
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2  
3 factories in Changzhou (Liu 1951: 28-29; Wang 2016: 287). Liu Guojun also attended a meeting  
4  
5 at the Ministry of Trade, where he demanded for an increase of trading facilities to allow textile  
6  
7 mills to purchase standardized raw cotton and machineries in the international markets (Liu  
8  
9 1951: 29). Then, Liu Guojun was received by Li Weihang, in charge of the United Front, an  
10  
11 important liaison institution between the party and the industrial owners. Finally, he met Zhou  
12  
13 Enlai, who was favorable of attracting capitalists to the PRC and profit from their industrial  
14  
15 experience (Cochran 2007: 369).

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18  
19 In these meetings, Liu Guojun explained his plan and increased its ambition, suggesting that  
20  
21 China could reach 15 million new spindles in 15 years (and not the 10 million originally planned),  
22  
23 as the country was engaged in a fast path of industrialization. China was an underdeveloped  
24  
25 country devastated by more than a decade of war. The population of China was overwhelmingly  
26  
27 rural and poor and industrial production did not reach 10 per cent of aggregate output (Lardy,  
28  
29 1987: 145). But the prospects of peace provoked a sharp and fast increase of economic  
30  
31 production in the first years of the Mao regime.

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34  
35 One of the first measures taken by the government in 1949 was to control cotton and grain  
36  
37 provision to cities and ensure that urban factories could resume production. Early in 1950, more  
38  
39 than 80 per cent of the cotton provision was already controlled by the state, taking over the  
40  
41 business from the middlemen and cotton traders (Chao 1977: 241). Chen Yun alerted that it was  
42  
43 essential to ensure a stable provision of raw cotton and machineries to keep up industrial growth,  
44  
45 especially in the poorer regions of the interior, where the new investment projects would be  
46  
47 allocated (Chen 1949).

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51 According to the plan of Liu Guojun, textile industrial growth would come from the spindles  
52  
53 dedicated to the domestic market, as the Chinese government was committed in increasing the  
54  
55 standards of living of the population, while keeping 5 million for exporting to the Southeast Asian  
56  
57 markets (Sun 1999: 169). However, the hopes to keep China open to foreign trade were quickly  
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3 frustrated by the trade embargo that was imposed after the clash of the war in Korea in June  
4  
5 1950. Even though growth rates prospects in cotton yarn production were kept high during  
6  
7 these years, a significant change occurred in the original plan of Liu Guojun: this growth would  
8  
9 have to be supplied with machineries and raw cotton coming from China.  
10

11  
12 Liu Guojun had elaborated a comprehensive economic post-war recovery plan that was adapted  
13  
14 to the economic policies of socialist countries, based on five-year plans, but also considering  
15  
16 China's specificities such as the historical importance of textile industries and the resource  
17  
18 endowments of the Country: its labour-intensive character and its traditional lack of capital.  
19  
20 During the first years of Maoism, the soviet style industrialization program was still under  
21  
22 discussion. Besides the orthodox model of growth inspired by Stalin, Zhou Enlai suggested to  
23  
24 learn from the socialist system of Yugoslavia, Liu Shaoqi from the earlier soviet growth plans  
25  
26 during the New Economic Policy (NEP), while Chen Yun was in favour of a mix between Stalin's  
27  
28 bureaucratic socialism and the NEPs more liberal orientation (Lüthi 2010: 41-42). At the end,  
29  
30 however, the Stalinist industrialization model, with a strong emphasis on heavy industries while  
31  
32 marginalizing light industries and other consumption goods, was imposed in the first five-year  
33  
34 plan to be implemented in 1953. According to Liu Guojun:  
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40  
41 China has started a first five-year plan to develop its economy on a large scale. It will be  
42  
43 focused on the heavy industry: this is totally convenient and necessary. However, under  
44  
45 the premise of accepting the heavy industry as a key sector, I have a contribution to make.  
46  
47 In the process of building a heavy industrial base, light industries should also have a  
48  
49 positive and appropriate development. In the process of developing light industries,  
50  
51 cotton spinning, and weaving should be strengthened, because this sector not only helps  
52  
53 improving the standards of living of the people (like the food industry) but also contributes  
54  
55 to both the national finance and the local economies (Liu 1953a: 50).  
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61  
62 Liu Guojun had to put his opinion in a politically correct way. Besides, optimism was dominant  
63  
64 in the first years of Maoism before the implementation of the first five-year. A member from  
65  
66 the government of Inner Mongolia assured Liu Guojun that, no matter if the priority were heavy  
67  
68 industries or light industries, his plan to increase China's textile industrial capacity could be  
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2  
3 achieved in only six years (Liu 1951: 31). Even Mao Zedong questioned the official target of  
4  
5 increasing 2,5 million spindles in the first five-year plan and said that industrial capacity could  
6  
7 grow 3 million or more (Dangdai zhongguo de fangzhi gongye 1984: 41).  
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### 10 11 12 13 **Liu Guojun and the First Five-Year Plan** 14

15  
16 In 1953, China's industrial capacity in cotton spinning was still stuck in 5 million spindles, while  
17  
18 the population of the country had reached 600 million. To reach auto sufficiency, China needed  
19  
20 at least to double this capacity, but Liu Guojun still believed that it could reach 15 million in only  
21  
22 10 years, given the speed of China's industrialization and the needs deriving from the trade  
23  
24 blockade and the decline of traditional domestic manufacturing. In the first five-year plan, light  
25  
26 industries received between 5 and 7 per cent of China's total industrial investment (Chao 1977:  
27  
28 250). An important share of this investment was allocated to the production of industrial  
29  
30 spindles and, thus, the target to increase China's textile industrial capacity in 2.5 million spindles  
31  
32 was accomplished around 1956 (Dangdai zhongguo de fangzhi gongye 1984: 181). Liu Guojun's  
33  
34 plan was achieved in quantitative terms. Besides, the textile sector was lucrative, as low  
35  
36 investment was needed but high returns were to be expected, given the needs of the population  
37  
38 of China. State-owned textile industries stated profits amounting 2.4 billion yuan between 1952-  
39  
40 56, doubling the total investment that was placed in this industry in this period (1.6 billion) (Chao  
41  
42 1977: 250).  
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48 But these spindles were produced in China and came from the newly created machinery industry,  
49  
50 that was able to produce 800.000 cotton spindles in 1956, while cotton yarn and cloth  
51  
52 production doubled the pre-war peaks (Han 1957: 158). However, textile experts like Liu Guojun  
53  
54 were cautious regarding this impressive growth. One of the most common criticisms, besides  
55  
56 the lack of investment in comparative terms, was the progressive standardization and the focus  
57  
58 on quantitative production, neglecting qualitative factors such as the quality of goods, the taste  
59  
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3 of the consumer and the competitiveness against international competitors (Han 1957: 164).  
4  
5 Besides, China's growing ambition in increasing production and productivity led to an overuse  
6  
7 of the machineries and a lack of updates and proper maintenance.  
8  
9

10 The First Five-Year plan created a massive technological transfer from the URSS and other  
11  
12 socialist countries to China, but the textile industry was neglected in favor of other sectors.  
13  
14 Besides, neither China nor the USSR were leaders in the manufacture of textile machineries and  
15  
16 the technological gap between China and the rest of the world widened. Continuous  
17  
18 modernization and technology update were key points in the strategy of Liu Guojun that justified  
19  
20 keeping the textile sector open to foreign trade.  
21  
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23  
24 In Liu Guojun's plan the textile industry would finance itself internationally with sales of cloth in  
25  
26 exchange of modern equipment and raw cotton. In 1955, Chen Yun coincided with Liu Guojun:  
27  
28 it was in the interest of China to obtain foreign currencies by exporting textile goods and to solve  
29  
30 scarcities of capital and raw cotton in the foreign markets (Chen 1955: 660). Liu argued that  
31  
32 China could play a leading role internationally if only the country could gain access to the  
33  
34 markets of South-East Asia. In this regard, he believed that the Chinese diaspora could be  
35  
36 attracted to invest in China with the guidance of the Chinese government and even believed  
37  
38 that the textile industry could be led by private entrepreneurs, under the leadership of the  
39  
40 Communist Party, while the heavy industry was entirely put under the control of the state (Liu  
41  
42 1953a: 57).  
43  
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47 However, between 1953 and 1957, all private entrepreneurs like Liu Guojun had to give up  
48  
49 profits and share them with the public side, that came to control every private company in the  
50  
51 process of socialist transformation and joint public private ownership (Feng 2009). Profits were  
52  
53 collected by the state and private capitalists were given a fixed dividend, losing effective control  
54  
55 over firms. In the general meeting of the National Federation of Industry and Commerce that  
56  
57 took place in Beijing in 1953, Liu Guojun stated that he was willing to adapt to socialism and to  
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1  
2  
3 transfer his property rights from the private to the public (Liu 1953c: 66-67). From 1953 to 1960,  
4  
5 Liu Guojun became the only private entrepreneur member of the Standing Committee of the  
6  
7 Jiangsu Federation of Industry and Commerce.<sup>8</sup>  
8  
9

10 Being aware that all the control of production was in the hands of political cadres, Liu Guojun  
11  
12 emphasized the role of technical personnel and experts that should be “constantly improving  
13  
14 the technological level and the mechanical equipment of China’s textile industry”.<sup>9</sup> Industrial  
15  
16 actors should stick together to build a powerful national textile federation (Liu 1944: 32). This  
17  
18 federation would assign production quotas to every factory, according to its industrial capacity  
19  
20 and the balance between heavy and light industrial production set by the government (Liu 1956:  
21  
22 186-88). In the Third Session of the National People Congress, Liu Guojun addressed the issue of  
23  
24 balance between textile industrial growth and the provision of raw cotton. Provisions of raw  
25  
26 cotton, not to mention its quality, had become highly volatile creating supply problems to the  
27  
28 textile industry that could not meet production targets.  
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33 Planners like Chen Yun discovered that the expansion of cotton crops to keep up with industrial  
34  
35 growth was at the expense of grain crops, and that grain had to be procured to cotton growers  
36  
37 in exchange of cotton (Chen 1962: 128). Without foreign trade, the problems of balance  
38  
39 between light and heavy industries and between cotton and grain production became an  
40  
41 important issue. Mao placed them on the top of the list when writing about the ten problems  
42  
43 that China faced, in his famous publication “On ten major relationships” (Mao 1956). Therefore,  
44  
45 even though Liu Guojun’s targets to increase cotton spinning capacity in China were reached in  
46  
47 quantitative terms, the outcome was far different, as it would be evident in the second five year-  
48  
49 plan, when the Great Leap Forward was implemented.  
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## 57 **Conclusions**

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3 In 1934, Liu Guojun bought one of the first multi-colour printing machine for textiles in Japan.  
4  
5 The installation and running of this new equipment was time consuming and costly, but he finally  
6  
7 succeeded in producing one of the best corduroy and velvet fabrics in China. In 1936, he carried  
8  
9 out trial experimentation of velveteen and corduroy successfully, which blazed a trail nationwide  
10  
11 (Liu 1958: 154). Fifty years later, the corduroy of Changzhou was still being produced after the  
12  
13 passing away of Liu Guojun, allegedly with the same machinery. In the 1980s, the mayor of  
14  
15 Changzhou, Chen Hongchang, former director of Dacheng, acknowledged the contributions of  
16  
17 deceased Liu Guojun to China's development and modernization.<sup>10</sup> At that time, his views of  
18  
19 openness and technological modernization fit perfectly in the discourse of the Four  
20  
21 Modernizations of Deng Xiaoping in the beginning of the reform period.  
22  
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26  
27 In the 1930s, Liu Guojun was convinced that China's economic growth depended on an export-  
28  
29 oriented kind of industrialization. After investigating the textile industries of Japan, Britain, the  
30  
31 United States, Canada and India he adopted an international perspective that took into  
32  
33 consideration international competitiveness, the specificities of each country and the need of  
34  
35 state support. He believed that the Chinese textile industry could find niche markets in South-  
36  
37 East Asia, especially among the Chinese diaspora communities. Therefore, the government  
38  
39 should ensure the provision of basic products for the textile industry, including capital, raw  
40  
41 cotton, plant area facilities and personnel, and protect it from other the foreign competition  
42  
43 during the early stages. Meanwhile, these companies should have facilities to export to third  
44  
45 markets and import machinery and technology. This theory of industrialization lead by private  
46  
47 companies but under a strong supervision of the state, is similar to the industrial policies that  
48  
49 were common in post-war Asia, among countries that sought to substitute imports and, at the  
50  
51 same time, expand exports to third countries. It has been studied extensively in the successful  
52  
53 post-war experiences of Japan and other Asian countries (Akamatsu 1962). However, the fact  
54  
55 that there were Chinese industrialists ready to implement this policy in the first years of the  
56  
57 People's Republic of China is less well known.  
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3 Furthermore, Liu Guojun thought that the development of the textile industry in China was  
4 compatible with the socialist economic planning of the Five-Year plan. As early as in 1944, he  
5 adapted his wills to expand the Chinese cotton industry to this new tool of socialist governments  
6 that were nevertheless also adopted by other governments like in the Japanese empire. In his  
7 writings, he accepted the subordination of his assets to the interests of the state, but he always  
8 claimed for keeping China open to foreign markets to keep pace with the technological progress.  
9  
10 According to the theory of Liu Guojun, the closure of foreign trade and the choice of emphasising  
11 heavy industries in detriment of light industries were the essential factors that had hindered  
12 China's economic development. By contrast, the participation of the government in the business  
13 affairs, which was the core of the socialist transition, was more a question of organization and  
14 management that had to be addressed by industrial experts and a strong emphasis on education.  
15  
16 The plan of Liu Guojun was never implemented even though industrial growth rates of the First  
17 Five-Year plan coincided in quantitative terms. However, the contributions of Liu Guojun to the  
18 post-war economic recovery went beyond production targets and integrated a complex set of  
19 priorities and methods. Liu Guojun died in 1978, just before the beginning of the policies of  
20 reform and opening up, so we can only speculate on what would have been his opinions on this  
21 process.  
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<sup>1</sup> Most of his writings and conferences are available in 6 volumes in *Liu Guojun wenji* 刘国钧文集 (hereafter LGWJ) edited by Li Wenrui (2001a). All quoted articles and conferences also appear in the bibliography. This biographical sketch comes from his autobiography written in 1962 (see Liu 1962).

<sup>2</sup> Sixth Shareholder meeting of Dacheng Group, 1935, Changzhou Municipal Archives, E9-1-1935-3: 1-6. 大成公司第六届股东会营业报告书 (今 1935 年度资产负债等, 章程), 常州市档案馆, 档号: E9-1-1935-3: 1-6.

<sup>3</sup> Liu 1931: 1. Liu Guojun uses data of 1930, but when this text was published industrial spindles reached 4.9 million (2.7 Chinese, 2.0 Japanese and 0.2 other foreign ownership), see Chao 1977, 301-04.

<sup>4</sup> The following chapter will be based on this article (Liu 1944) unless explicit reference is given.

<sup>5</sup> Liu Guojun Diary, “陈光甫先生谈话” (Speaking with Chen Guangfu), 22 March 1945, LGRJ, 12.

<sup>6</sup> Liu Guojun Diary, “政治应上轨道” (Politics should stay on track), 24 March 1945, LGRJ, 16.

<sup>7</sup> Huang Yanpei Diary, 20 November to 4 December 1950, Huang Yanpei’s diaries (黄炎培日记), see Huang 2012.

<sup>8</sup> Jiangsu Federation of Industry and Commerce. List of members. Archives of the Jiangsu Federation of Industry and Commerce, Jiangsu Provincial Archives, No. 6002-001-0006. 江苏省工商业联合会筹备委员名单, 江苏省工商联档案, 江苏省档案馆, 档案号: 6002-001-0006.

<sup>9</sup> Liu Guojun’s speech at the Conference of Cotton Textile Technology, The China Democratic National Construction Association, Jiangsu Provincial Archives, 1957, File No. 3173-1-0048. 刘国钧副省长在 1957 年棉纺织技术工作会议上的讲话, 1957, 民建江苏省委卷宗, 江苏省档案馆, 档号: 3173-1-0048.

<sup>10</sup> Interview to Chen Hongchang, in Zhong, 2017, 134.