

# The death of China's "red capitalist" and the 1949 revolution

By John Chan  
29 November 2005

On October 26, Rong Yiren, a prominent member of the pre-1949 Chinese capitalist elite who supported the Communist Party government established by Mao Zedong, died in Beijing at the age of 89. Better known as the "red capitalist", Rong's life epitomised the close relations that existed from the outset between the Stalinist regime and sections of the Chinese bourgeoisie.

The official obituary by the Xinhua news agency hailed Rong as a "leading representative of modern Chinese national industrialists, an outstanding national leader, a great patriot and a communist champion". His farewell ceremony was held at Beijing's Babao Hill, the burial site of senior leaders. Dozens of prominent Chinese figures, headed by Premier Wen Jiabao, attended the event.

By the time he died, the so-called "communist champion" was one of China's richest individuals. In the years following the introduction of market reforms in 1979, Rong used his connections to amass a fortune far in excess of what his family possessed before the Chinese Revolution.

Rong was selected in 1979 to head the China International Trust and Investment Corporation. From 1993 to 1998, he was a vice president of China and occupied an executive position in the National People's Congress. In 2000, the US-based *Forbes* magazine estimated his personal wealth at \$US1.9 billion.

Rong Yiren was born in 1916 in eastern Jiangsu province and graduated from St John's University in Shanghai. The son of a wealthy bourgeois family, he had a privileged upbringing, living in a luxury mansion and driving a British-made sports car.

On the eve of the 1949 Revolution, Rong took over control of the family business, which by then consisted of more than 20 textile factories and flour mills, with some 80,000 employees. He was also the president of a bank in Shanghai. How the wealthy Rong came to back the Maoist regime is bound up with the Stalinist perspective on which that regime was based.

The development of capitalism in China confronted the same contradictions as in all other colonial countries. The Chinese bourgeoisie was incapable of playing a historically progressive role. It was economically dependent on the imperialist powers, tied to semi-feudal landed interests in the countryside and continually threatened from below by the struggles of the rapidly expanding working class.

The 1911 revolution against the imperial system produced years of rule by a series of warlords and immense class tensions that erupted during the second Chinese Revolution from 1925-1927. The crushing of the working class was followed by the establishment of a corrupt dictatorship under Chiang Kai-shek's Kuomintang (KMT). Japanese imperialism invaded Manchuria in 1931 and then the entire country in 1937, wreaking devastation.

In the aftermath of World War II, the KMT dictatorship could barely hold the country together, let alone create the political conditions for economic recovery. In the late 1940s, hyperinflation, official corruption and the bankruptcy of the credit system rocked China's industries. The incapacity of the KMT government to resolve the economic crisis turned

sections of the Chinese bourgeoisie, such as Rong, toward the Chinese Communist Party (CCP) under Mao Zedong.

Based on the rural peasantry, the CCP had long before abandoned its founding principle of socialist internationalism. Instead, Mao upheld the "two-stage theory" advanced by the Stalinist bureaucracy in the Soviet Union, which was directly responsible for the tragic defeats of the Chinese working class in 1927. Repudiating the lessons of the 1917 Russian Revolution, the Stalinists maintained that China had to pass through a prolonged period of capitalism before there could be any possibility of the working class taking power.

After Japan's surrender in 1945, Mao advanced the same pro-capitalist perspective, calling for a bourgeois coalition government with the KMT. This was promoted under the mantra of a "bloc of four classes"—an alliance between the working class, the peasantry, the petty-bourgeoisie and a so-called "progressive" layer of national capitalists.

The KMT rejected the offer and civil war ensued, under conditions where the Soviet Union had weakened the US-backed KMT by occupying the industrially developed provinces of Manchuria and turning over large amounts of captured Japanese weaponry to the CCP. Mao's guerrilla forces were transformed into field armies capable of capturing cities. By 1949, the CCP had won a decisive military victory and the KMT collapsed. Chiang Kai-shek and the capitalist elite connected to his regime fled to the island of Taiwan.

Some capitalists, however, such as Rong Yiren, welcomed the coming to power of the CCP after the chaos of KMT rule. When Mao's peasant "red" armies entered the major cities, they suppressed any signs of independent organisation among the working class and protected private property. In Shanghai, the new regime provided funds, raw materials and contracts to Rong's business, saving it from collapse.

Rong later recalled that his few concerns over the victory of the "communists" quickly dissipated. "I only raised one hand in approval of the Communist Party. If I raised two hands, that would be surrender. I was wrong to raise only one hand. Now I hold up both in support of the party," he declared.

Rong was not the only one. Sections of the former KMT regime joined the new government. Song Qingling, the widow of the KMT's founder Sun Yat-sen, stood alongside Mao in Tiananmen Square in October 1949 as he declared the establishment of the People's Republic of China (PRC). A dozen bourgeois parties that were opposed to Chiang's dictatorship accepted the patronage of the CCP, including the so-called "Left KMT". They formed the Chinese People's Political Consultative Conference (CPPCC), which drafted the constitution of the PRC.

The subsequent expropriation of private capital did not represent a turn toward socialist policies. The regime was compelled to take over entire sectors of the economy. The seizure and redistribution of land belonging to the rural landlord class had destroyed the link between the countryside and urban capital, which had previously benefited from the plunder of the peasantry through rent and usury. Significant amounts of capital had been

taken to Taiwan and Hong Kong during the fall of the KMT. Foreign investors had also fled, while the blockade of US imperialism and the outbreak of the Korean War disrupted China's connection with the world capitalist market.

At the same time, Beijing's alliance with the Soviet Union necessitated new forms of economic organisation. State planning was adopted to coordinate the transfer of Soviet technology and industry into China. These developments culminated in the general nationalisation of industry in 1956, which was hailed as the "transition to socialism". The actual content of this program was not socialism but national autarky, based on state control of industry in a largely agrarian country and the political suppression of the working class.

In 1956, Rong handed over his businesses to the state. He was hailed as the "red capitalist" for doing so, and paid 30 million yuan or \$US12 million in compensation—a considerable sum at the time. He also received dividends until the onset of the "Cultural Revolution" in 1966. He was made vice mayor of Shanghai in 1957 and, two years later, vice minister for the textile industry.

Rong's elevation coincided with the predominance in the CCP of the so-called "capitalist roaders", of whom Liu Shaoqi and Deng Xiaoping were the most prominent. Mao's economic policies, based on a futile attempt to create "socialism" in the countryside, had produced one disaster after another. Liu and Deng used the Stalinist "two stage" theory to argue that the economic crisis demonstrated that there was no material basis for socialism in China. They insisted that the country had to pass through decades or even centuries of capitalist development.

The Cultural Revolution of the 1960s—in essence a factional struggle between Mao and the "capitalist roaders"—saw Rong temporarily sidelined. In 1966, Mao's Red Guards stormed into his mansion and beat his wife. The premier Zhou Enlai intervened, however, to prevent any further attacks. Zhou declared: "He [Rong] is a representative of the Chinese national capitalists and influential at home and abroad. He must be protected."

Despite the purge of figures such as Liu and Deng, Mao had no answers to the country's economic stagnation and largely adopted their pro-market perspective of opening up the Chinese economy. In 1971, he struck a deal with US imperialism, setting the conditions for foreign investment into China and the opening up of economic relations with the advanced capitalist countries.

After Mao's death in 1976, Deng Xiaoping rose to the head of the regime and unveiled a free market agenda. In 1979, Rong Yiren was selected by Deng to establish the China International Trust and Investment Corporation (CITIC)—an arm of the government tasked with attracting foreign investors to China.

In CITIC's first year of operations, Rong met with more than 4,000 foreign businessmen. He also enlisted Henry Kissinger, the former US secretary of state who established diplomatic relations with Beijing in 1971, as one of the company's main international advisors.

Rong facilitated investment by building infrastructure in the free trade zones and helping foreign firms set up operations. Philip Wong, a Hong Kong delegate to China's National People's Congress, told the *China Daily* on October 28: "If not for his [Rong's] ability and vision in setting up CITIC, the pace of economic development in China would not have been so fast."

By 1992, Rong's CITIC had become a business empire, involved in shipping, power generation and construction. Today, CITIC has 200 enterprises around the world and total assets of \$US6.3 billion. As CITIC developed, so did Rong's private businesses. In 1979, he sent his son, Larry Rong, to Hong Kong to manage his investments there. In 2005, Larry Rong was named by *Forbes* magazine as China's richest man, with a fortune of \$1.64 billion.

Rong senior also played a key role in the further opening up of the

Chinese economy after the suppression of the anti-government protests in May-June 1989. Deng Xiaoping justified the massacre of workers and students in Tiananmen Square on the grounds that it was necessary to defend the "socialist system". In reality, it was aimed at crushing the opposition of the working class to the impact of the regime's free market policies.

In 1993, Rong was promoted to Vice President of China, as a symbol of Beijing's determination to accelerate "market reform". As the obituary to Rong in the British *Financial Times* noted: "The post was mainly ceremonial, but it sent a clear message: China's new blend of communist politics and market economics was here to stay. And it was the 'red capitalist' who had shown the way." The same year, China received \$111 billion of contracted foreign direct investment—nearly four times the amount that had been invested in the entire 10-year period from 1979 to 1989.

The result of the massive flows of investment was the rapid growth of the Chinese capitalist class. Alongside old bourgeois families such as Rong's and capitalists returning from Taiwan and Hong Kong, a substantial layer of the Communist Party hierarchy established itself as businessmen. According to a report published in September by CLSA, the Asian brokerage arm of French bank Credit Agricole, "China's Capitalists", more than 70 percent of China's GDP is now generated by privately-owned companies. The report noted that most of the enterprises that are formally registered as "state-owned" or "collectives" are actually privately operated.

Today, Mao's China is one of the key props of the world capitalist order. Much of world manufacturing relies on the ruthless exploitation of the Chinese working class. China's foreign trade reached \$1.148 trillion in the first 10 months of this year and the country has been the second largest buyer of US treasury bonds after Japan, helping to finance the huge US deficits. It is also one of the top importers of oil and raw materials, shoring up a number of capitalist economies such as Australia's.

It is evident to many people today that China is not communist. But the life of Rong Yiren—the capitalist who occupied key positions and amassed enormous wealth in "communist" China—demonstrates that the claims of the Beijing regime to be socialist were bogus from the very start.

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