CHAPTER THREE

ESCALATION AND THE CCP’S FINANCIAL FRAMEWORK

Luo Ronghuan defined the outstanding feature of the war in Shandong as the three-way struggle between the CCP, the Nationalists and the Japanese.¹ The CCP was the weakest point in this triangle until the summer of 1942. The Japanese EFNC was focused on the GMD, and ignored the CCP’s presence until the CCP’s large-scale raids against the Japanese-controlled railway system in the provinces of Shanxi and Hebei in the late summer of 1940. The Japanese strikes against the NRA forces in Shandong in the summer of 1939 coincided with Joseph Stalin’s warning of an international anti-Communist conspiracy and provided the Shandong Bureau with excellent opportunities to expand. The CCP’s expansion naturally escalated their frictions with the Nationalists to a mini-civil war in the province and elsewhere in northern China. The escalation of GMD-CCP conflicts, together with the West’s dramatic reduction in aid to China because of Germany’s military victory in the summer of 1940, reinforced Mao’s suspicion that a GMD-Japanese deal at the CCP’s expense was around the corner. In order to improve the CCP’s position as much as possible in anticipation of a GMD-Japanese deal, Mao launched offensives to approach the Yangzi Valley while establishing a highly centralized and compartmentalized financial system in each CCP base area, which turned out to be the institutional framework of the CCP military-fiscal state.

When the Comintern confirmed in late May 1939 that the escalation was a part of a global bourgeois appeasement policy and a prelude to a GMD-Japanese compromise at the expense of the CCP, Mao decided to take a confrontational policy. He outlined this policy in a directive to the Shandong Bureau on May 19.² Mao predicted that frictions between CCP and GMD hardliners would become more intense, stating that the CCP would adopt a strategy of “offensive defence” in

² See also Chapter Two, 45.
dealing with the conflict. He warned that the CCP had to fight for their base areas and could not surrender those under its control. 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 justification that the 8RA and the guerrilla soldiers cannot fight without food.”

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.”

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. It was also a component of the Japanese strategic adjustment after the Battle of Wuhan. In order to access the resources in occupied China for the protracted war in China, the Japanese increased their efforts to pacify Shandong, focusing on the GMD-led guerrillas. 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, the EFNC established the 12th Army as responsible for Shandong, northern Jiangsu and Anhui, with headquarters in the Shandong provincial capital at Jinan. Within a month the 12th Army had under its command another two divisions, which were redeployed from the Wuhan

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3 “中央关于山东工作方针的指示 (Central directive on the work in Shandong), May 19, 1939,” ZZWX 12.74.
4 Ibid.