

# ***Economic Changes in China during 1800-Present : Ideology and Institution***

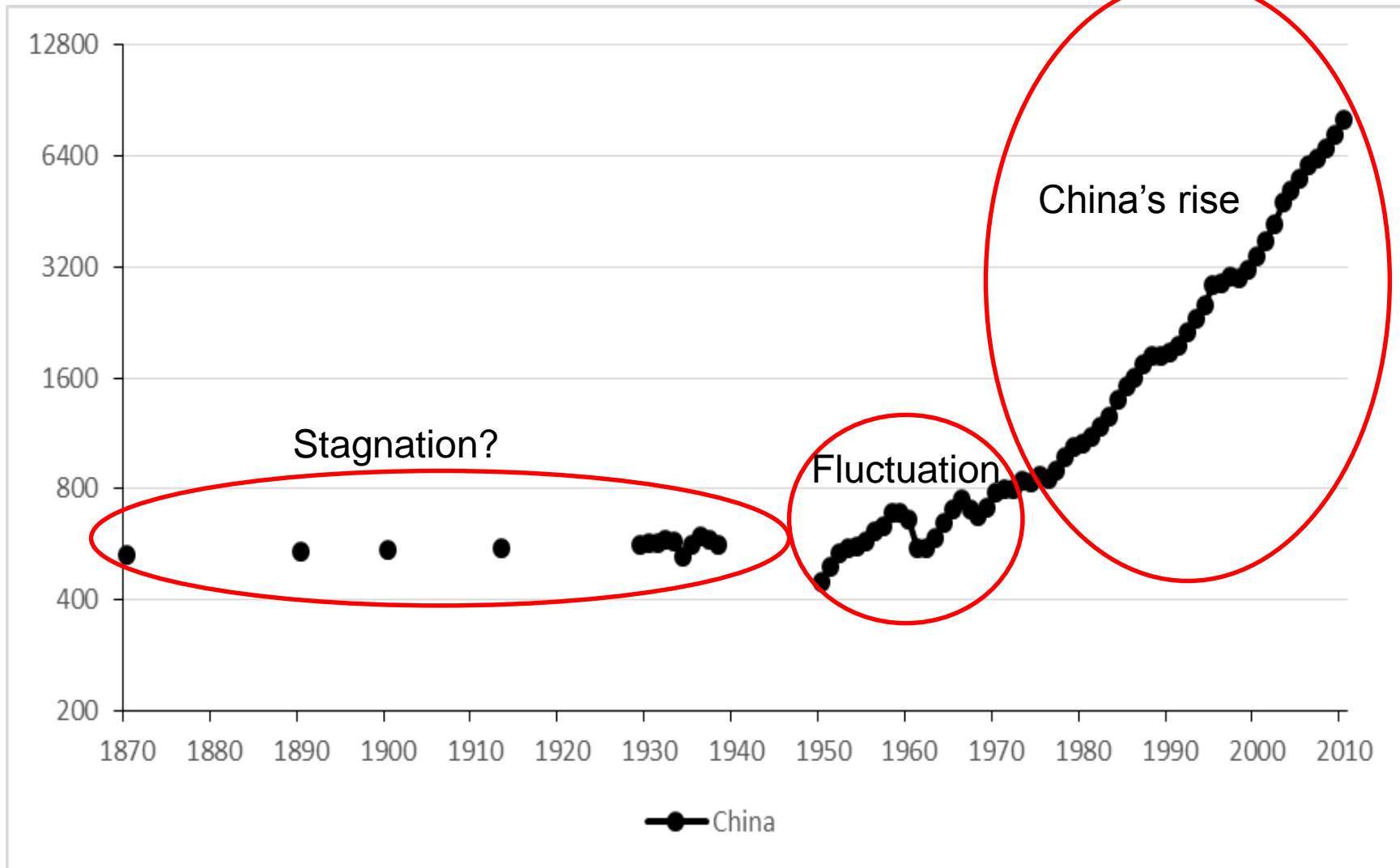
Figuerola Lecture  
Fundación Ramón Areces

Debin Ma  
(Hitotsubashi University and LSE)

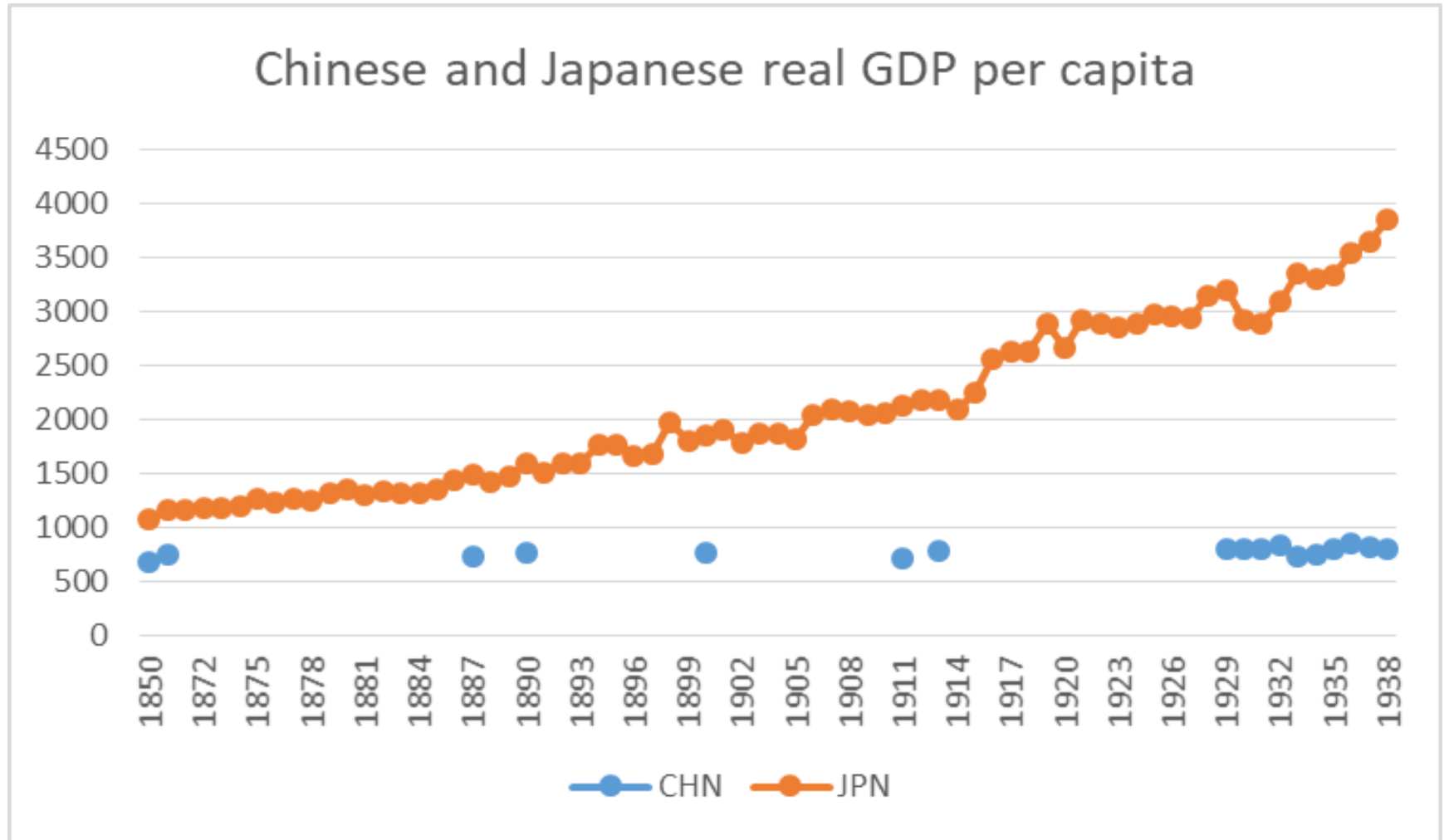
Madrid, Spain

Nov. 2019

# GDP per capita: phases of stagnation or growth



Chinese stagnation relative to Japanese advance (but early Japanese lead maybe exaggerated)  
(Maddison Project)



# Real Wages

Comparison of real wages shows Japan only leading China from the beginning of the 20<sup>th</sup> century

But Chinese income in 18<sup>th</sup> century China a third of UK.

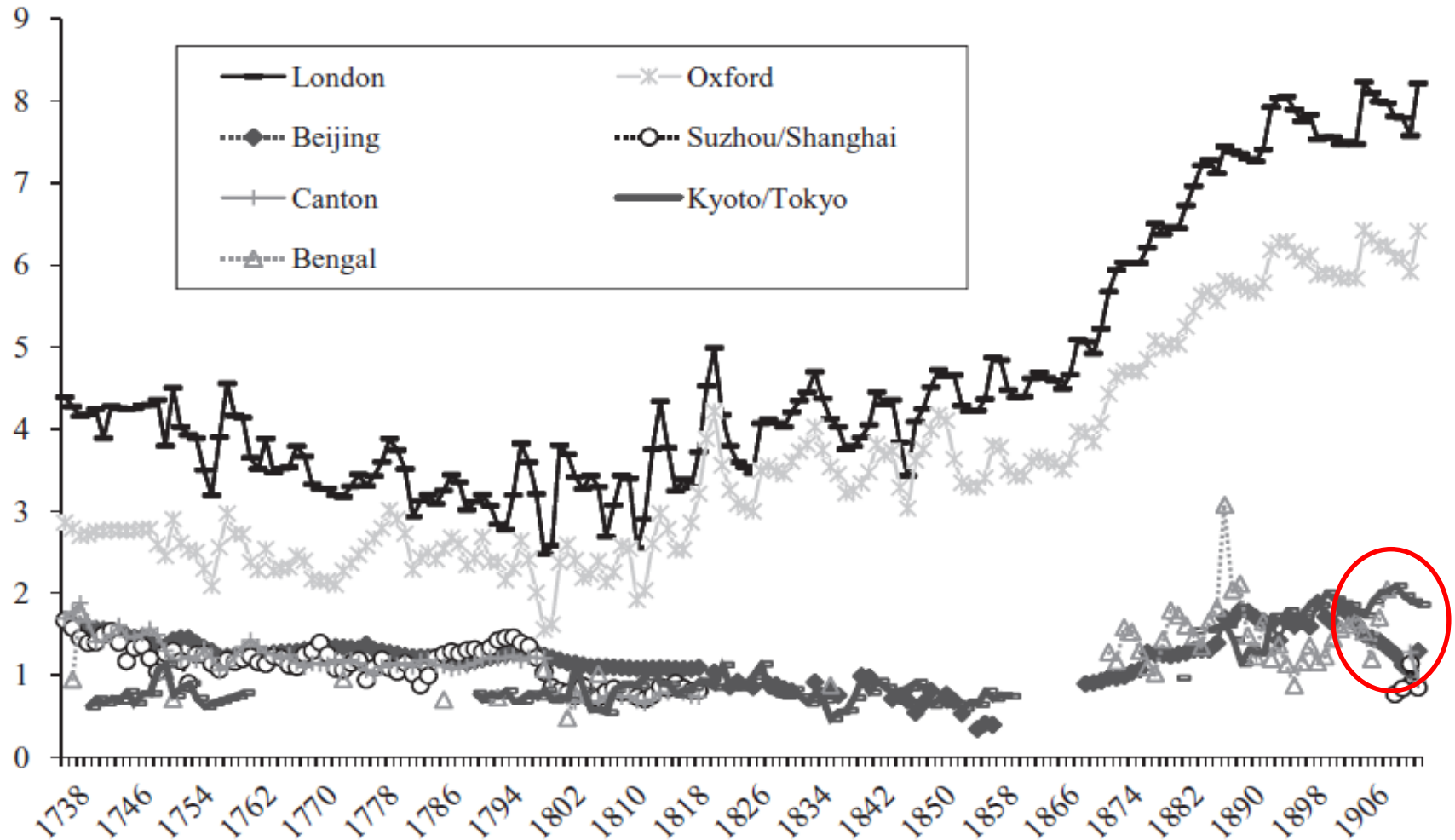


Figure 6. *Welfare ratios in Asia*

# Is stagnation the Chinese norm?

(Other indicators: heights, human capital and etc.)

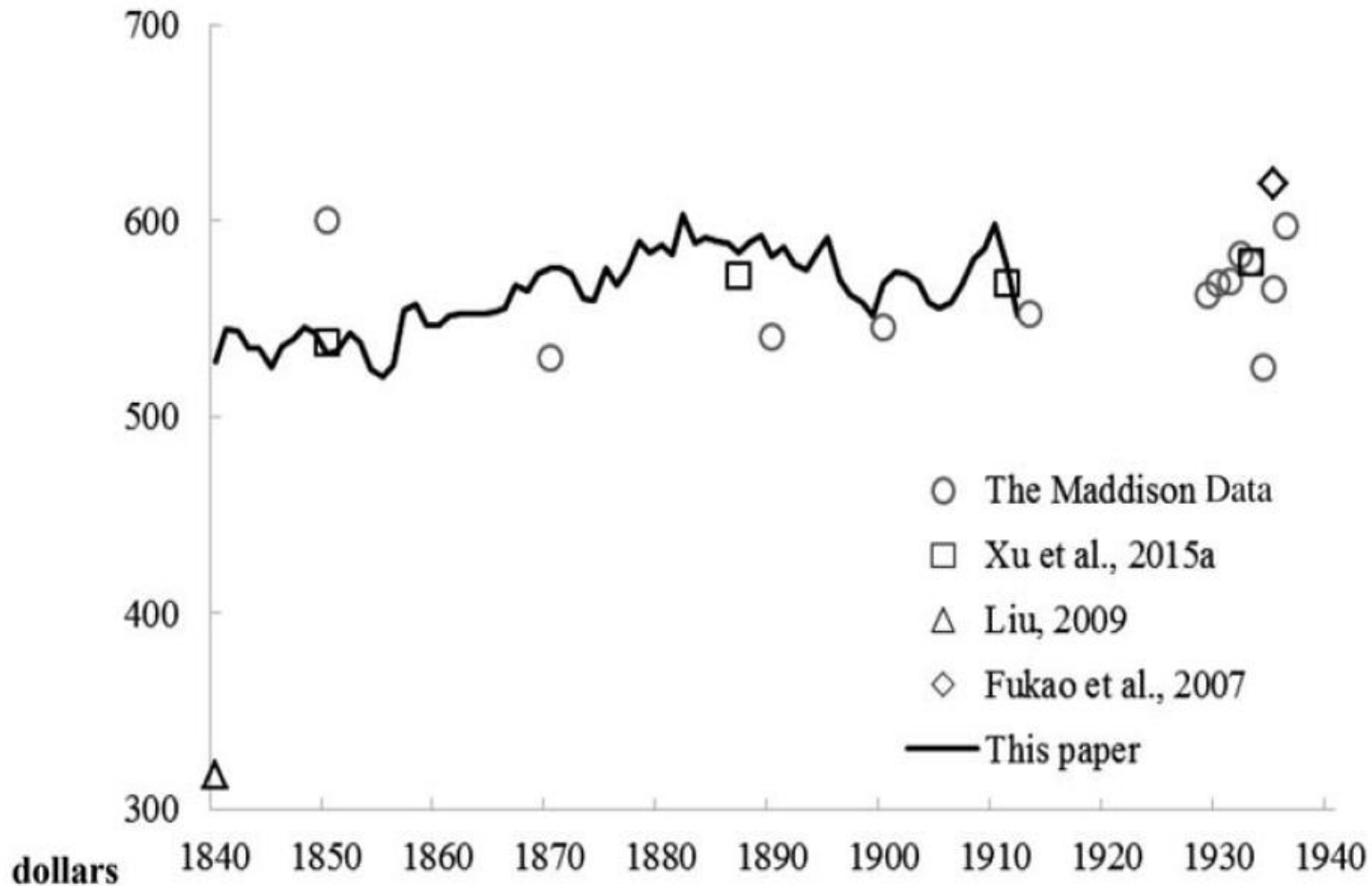


Figure 1. Estimations of per capita GDP in China, 1840-1940, in 1990 international dollars

# GDP Structure: an Agrarian Economy

**Table 1. Sectoral contributions to gross domestic product 1880s–1936 (%)**

	1880s	1914/18	1931/6	1933
<i>Agriculture</i>	<b>67.1</b>	<b>66.0</b>	<b>62.9</b>	<b>65.0 (64.0)</b>
<i>Industry</i>	7.1	16.1	18.9	17.2 (17.8)
Mining, manufacturing, utilities	5.3	9.4	11.6	10.4
Construction	0.9	1.1	1.6	1.2
Transport	0.9	5.6	5.7	5.6
<i>Services</i>	26.0	17.9	18.2	17.7 (18.2)
Trade	6.6	9.2	9.3	9.4
Finance	2.2	0.7	1.0	0.7
Rent	4.9	3.7	3.6	3.6
Government services	4.9	3.1	3.1	2.8
Other services	7.2	1.2	1.2	1.2
<i>Depreciation</i>				1.0
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
	Million taels	Billion 1933 yuan	Billion 1933 yuan	Billion 1933 yuan
GDP	3,327	24.26	29.13	29.88

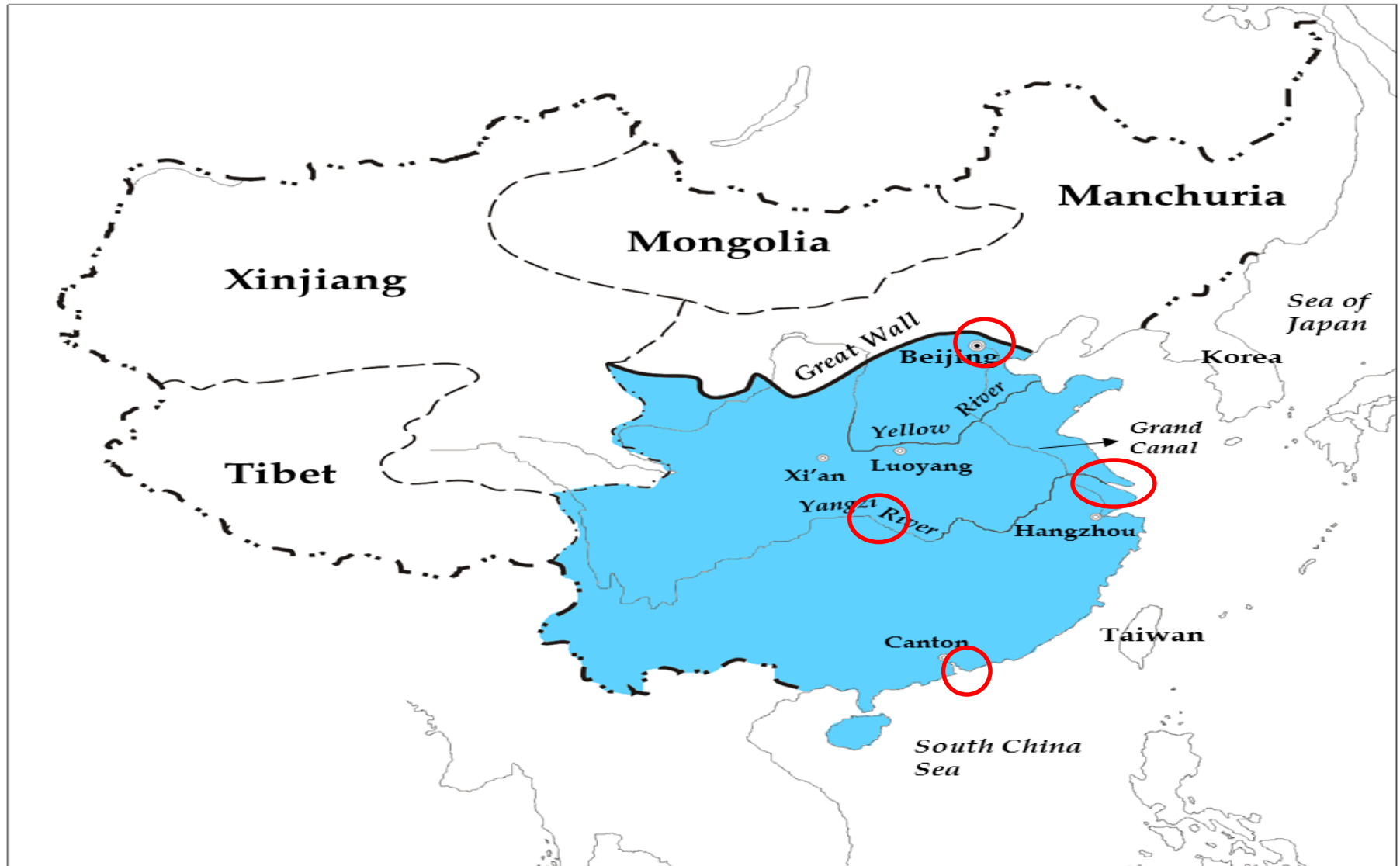
Sources: 1880s [41: 296; 43: 2]; 1914/18 [94: 126]; 1931/6 [94: 126]; 1933 [90: 66; 91: 139].

# Central questions?

- When did changes occur in modern Chinese economy?
- Why did they occur and why not
- And how?
- Also, given the post-1978 boom, we no longer ask “why did China fail to modernize?” but rather “why did Chinese success come so late?”
- And more importantly, will it continue, stagnate or reverse.

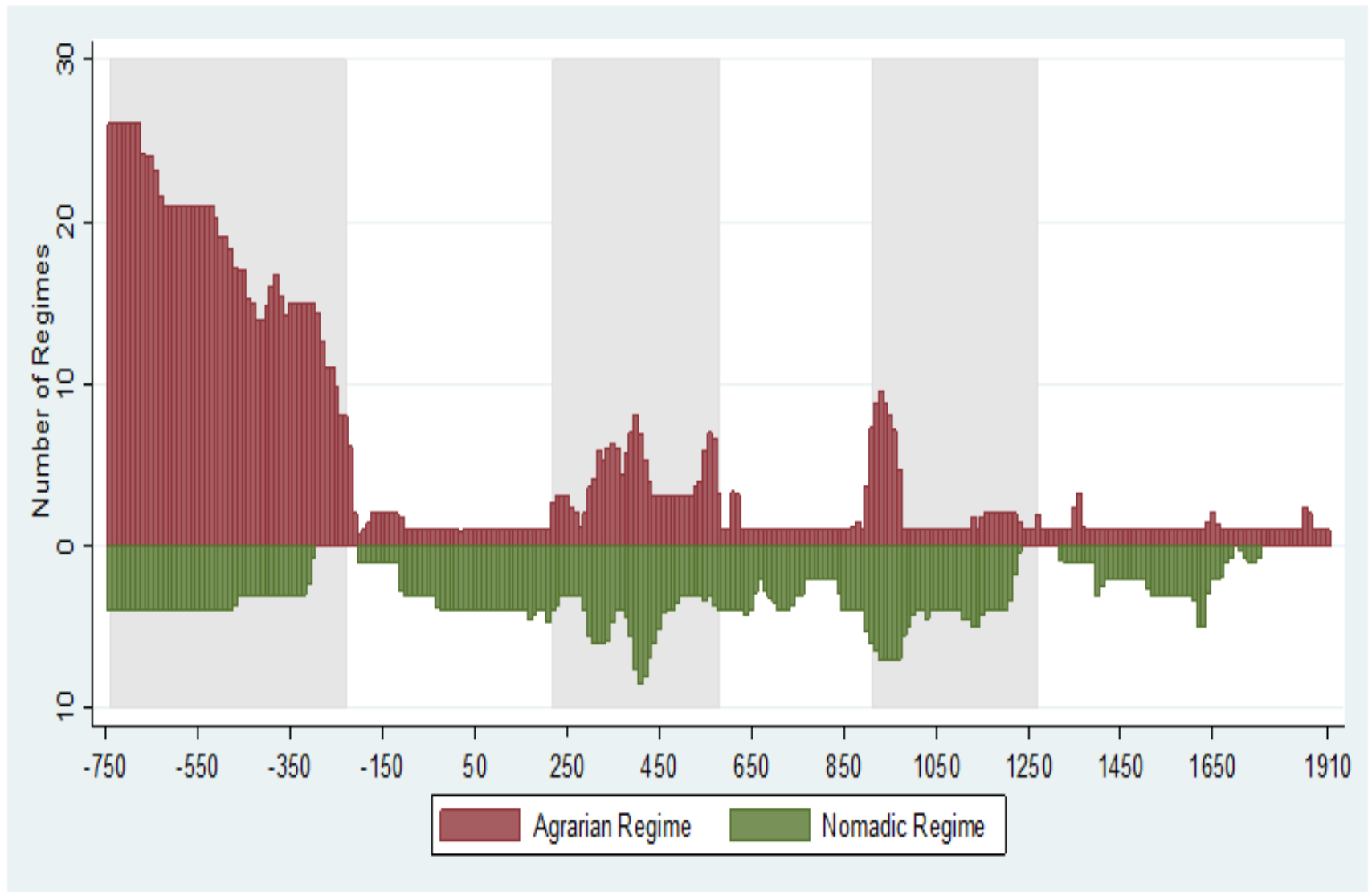
# The Confrontation between Agrarian and Nomadic regimes (mirror empires)

China in a regional perspective: China's traditional nomadic threat





# The dominance of a single Chinese empire



# Key features of Imperial Chinese political institutions

- The Rise of a Giant, Single and Unitary China (大一统); One Family under the Heaven (天下一家)
- The Pillar of the Empire:
  - **The Emperor, the Bureaucrat/Gentry and the Civil Service Examination.**
- Internal integration:
  - Hierarchical dominance over local autonomy or power sharing;
  - The legitimacy of Nomenklatura (personnel appointment from the top)
- International order: a tributary system and the elimination of inter-state competition.
- Unity and Stability as the overriding goal and ideology.

# Secular Decline in per capita Tax Revenue

	Per capita land tax	Per capita indirect taxes	Total taxes	Per capita tax burden	Index (1085=100)
Song (1085)	0.26	0.54	72,102,000	0.80	100
Ming (1407)	0.54-0.76	0.02-0.03	47,657,000	0.56-0.79	70-98
Ming (1577)	0.21	0.03	42,185,000	0.24	30
Qing (1685)	0.18	0.04	38,044,444	0.22	28
Qing (1776)	0.09	0.03	36,620,000	0.12	15

# Why Do Absolutist Rulers Extract Less Than Constitutionally Constrained Regimes?

**Panel B. International comparison of per capita tax revenue (grams of silver)**

	<u>Absolutist Regimes</u>					<u>Constrained Regimes</u>	
	China	Ottoman	Russia	France	Spain	England	Dutch
<b>1650-99</b>	7.0	11.8		46.0	35.8	45.1	
<b>1700-49</b>	7.2	15.5	6.4	46.6	41.6	93.5	161.1
<b>1750-99</b>	4.2	12.9	21.0	66.4	63.1	158.4	170.7
<b>1800-49</b>	3.4					303.8	
<b>1850-99</b>	7.0					344.1	

**Panel C. Per capita revenue expressed in days' wages for unskilled workers**

	China	Ottoman	Russia	France	Spain	England	Dutch
<b>1650-99</b>		1.7		8.0	7.7	4.2	13.6
<b>1700-49</b>	2.3	2.6	6.4	6.7	4.6	8.9	24.1
<b>1750-99</b>	1.3	2.0	8.3	11.4	10.0	12.6	22.8
<b>1800-49</b>	1.2					17.2	
<b>1850-99</b>	2.0					19.4	

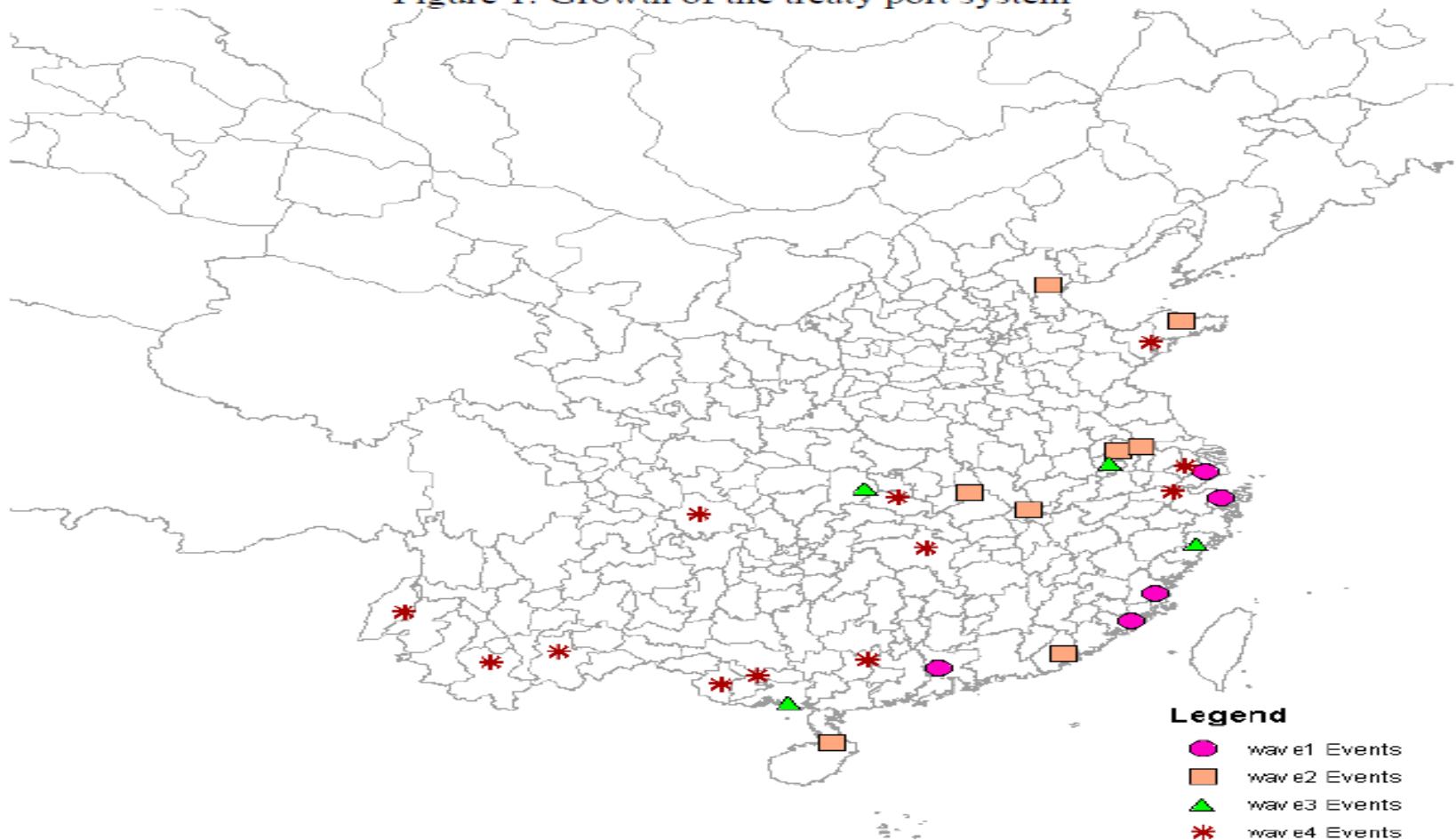
# A New Interpretive Framework: Institutions and Ideology

- Traditional Chinese regime: absolutism, monopoly of power.
- Top down system: the importance of ideology and political elites;
- Challenges from within and without;
- Perceptions and Reality;
- Cognitive Dissonance;
- Feedback loop between ideology, political events, and institutional changes.

# Opium War (1842) as a shock and external threat from China's coastal frontier

## Treaty ports in China

Figure 1: Growth of the treaty port system



Note: Wave 1 was opened in the 1840s; Wave 2 was opened in the 1860s; Wave 3 was opened during the 1870s and the 1880s; Wave 4 was opened in the 1880s and later.

# Western Penetration and Chinese Adaptation

- Western impact:
  - Treaty ports, Maritime Customs;
  - and most importantly, the rise and influence of modern Japan as part of Western impact;
- The role of Chinese agency: Intellectual and Political elites and Chinese entrepreneurs from bottom up;
- A feedback loop in changes in ideology, institutions and economic changes.

# Feedback between Ideology, Institution and Changes

- Thomas Kuhn's Paradigmatic shift;
- Timur Kuran's Sudden change;
- The Case of Opium Wars (1840s-1850s) and Sino-Japanese War of (1894-96).
- Challenges to the simple institution model (North, Acemoglu et al).
- Ideology play an independent role.



### III. Economic changes in Modern China: Paradigmatic Shift

China's foremost intellectual and reformer, Liang Qichao, delineates three stages of reform in modern China:



- 器物： The first stage of reform is to attempt to introduce Western technology (particularly military technology).
- 制度： When the first stage failed, the second stage of institutional reforms began which included the introduction of Western style government, law, and modern enterprise such as banking and corporation.
- 文化： The introduction of constitutional reform led to the collapse of imperial regime. The third stage became cultural reform which eventually led to the negation of Confucius ideology.

# And three phases of Economic Change in Modern China

- The first phase of 1850s-1890s: a brewing but stagnant phase of limited reform that focused on introducing Western technology.
- The second phase of 1890s-1910s: transitions towards an institutional change.
- The third phase of 1910s-1940s: major transformations in institutions, ideology and culture that also brought warfare and retreat.

# Three Regional Schools of Intellectual Confucianism and Political Elites

- Middle Yangzi School: the bastion of Neo-Confucianism
  - Hunan based political elites (Self-strengthening movement): Zheng Guofan, Li Hongzhang and Zuo Zhongtang.
- The Guangdong mysticism
  - The constitutionalists and revolutionaries: Kang Youwei, Liang Qichao and Sun Zhongshan.
- The Lower Yangzi Empiricist
  - The Shanghai connection (professionalization and absorption of Western influence): The Song brother and sisters, Jiang jieshi.

# Hong Xiuquan: The Taiping Rebel



- The man who dreamed of being a brother of Jesus
- But his childhood dream was to complete the Civil Service Examinations.
- In the end, he turned himself into a Chinese style emperor in Nanjing before the Taiping rebellion was crushed.

The Confucian elites who suppressed the Taiping:  
Zheng Guofan, Li Hongzhang and Zhuo Zhongtang:  
China's last Confucius bureaucrats from Hunan and  
Anhui (1850-1



# The Tongzhi Restoration (1860 – 1874)

- The Tongzhi restoration represented a remarkable revival of the traditional Chinese regime led by the capable bureaucrats of Zeng Guofan, Li Hongzhang, Zuo Zhongtang and so on.
- It brought life back to the Qing imperial regime completely devastated by the Taiping Rebellion, restored political stability and brought economic recovery largely through restoring traditional order (such as reinstating the orthodox Confucius ideology and the restoration of the National Civil Service Exam).
- Although overall conservative, it also experimented with limited reform, which came to be known as the Self-strengthening movement.



China's Navy defeat to Japan and the signing of Treaty of Shimonoseki, April 1895  
(Note the contrast in dress)

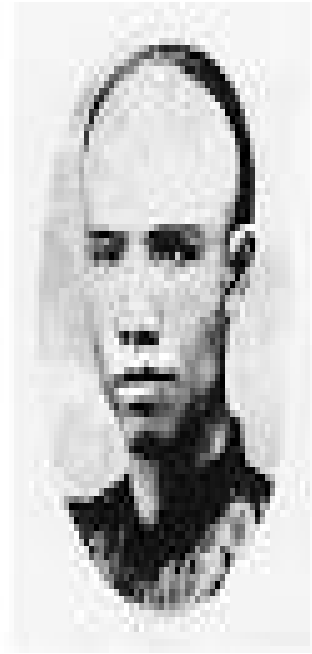


# Japanese modernization as a model

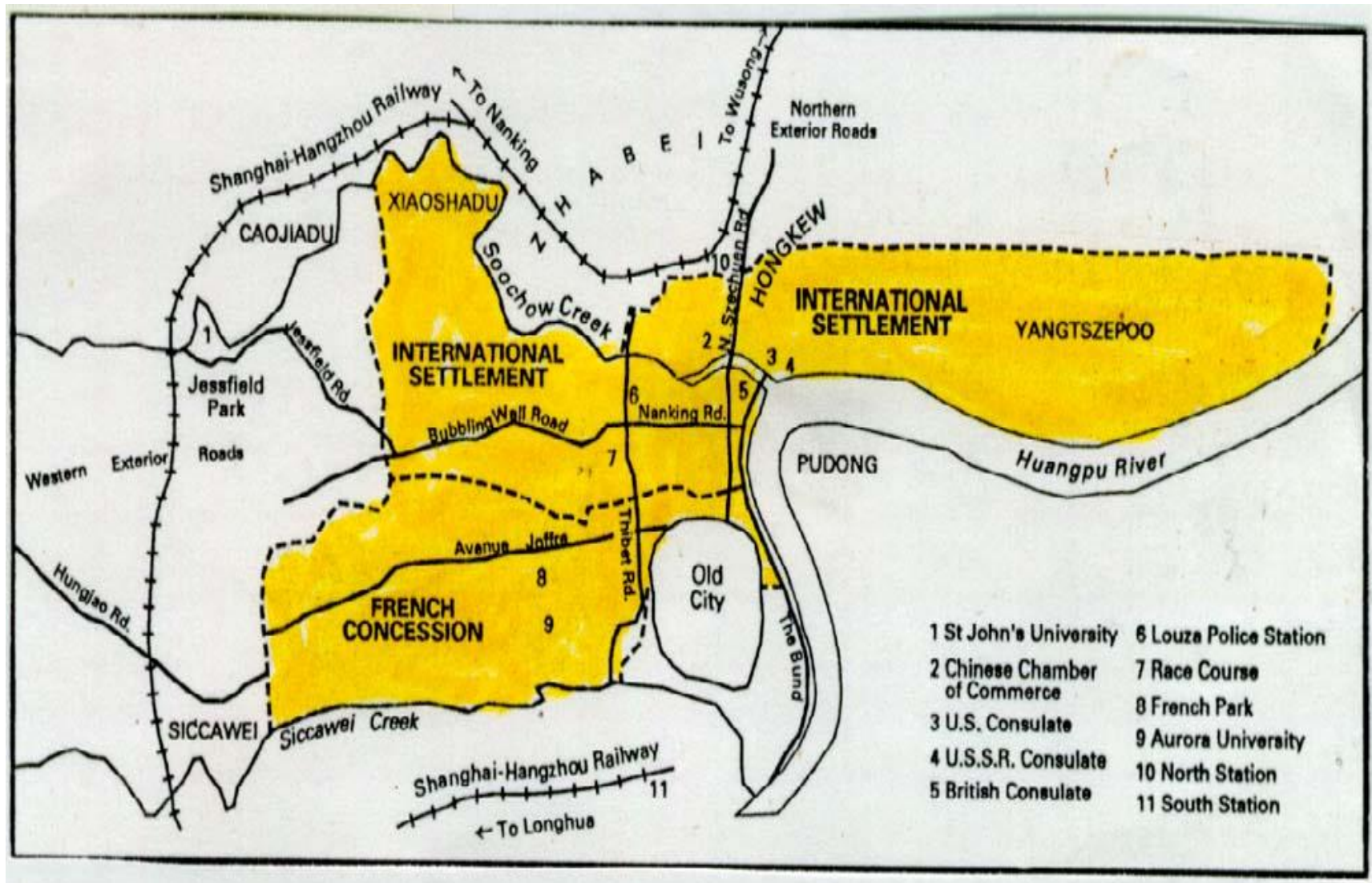
- Japanese military victory against China in 1894-6 and later against Russia in 1904 turned Japanese modernization into a model and inspiration for China (but also to many other non-Western countries).
- The Hundred days' reform in 1898 was one example of indirect “Japanese learning”.
- The Late-Qing Constitutional reform from 1904 drew directly from Japanese experience and expertise.
- It also marked the beginning of the arrival of Chinese students in Japan.
- Learning about the West through Japan.



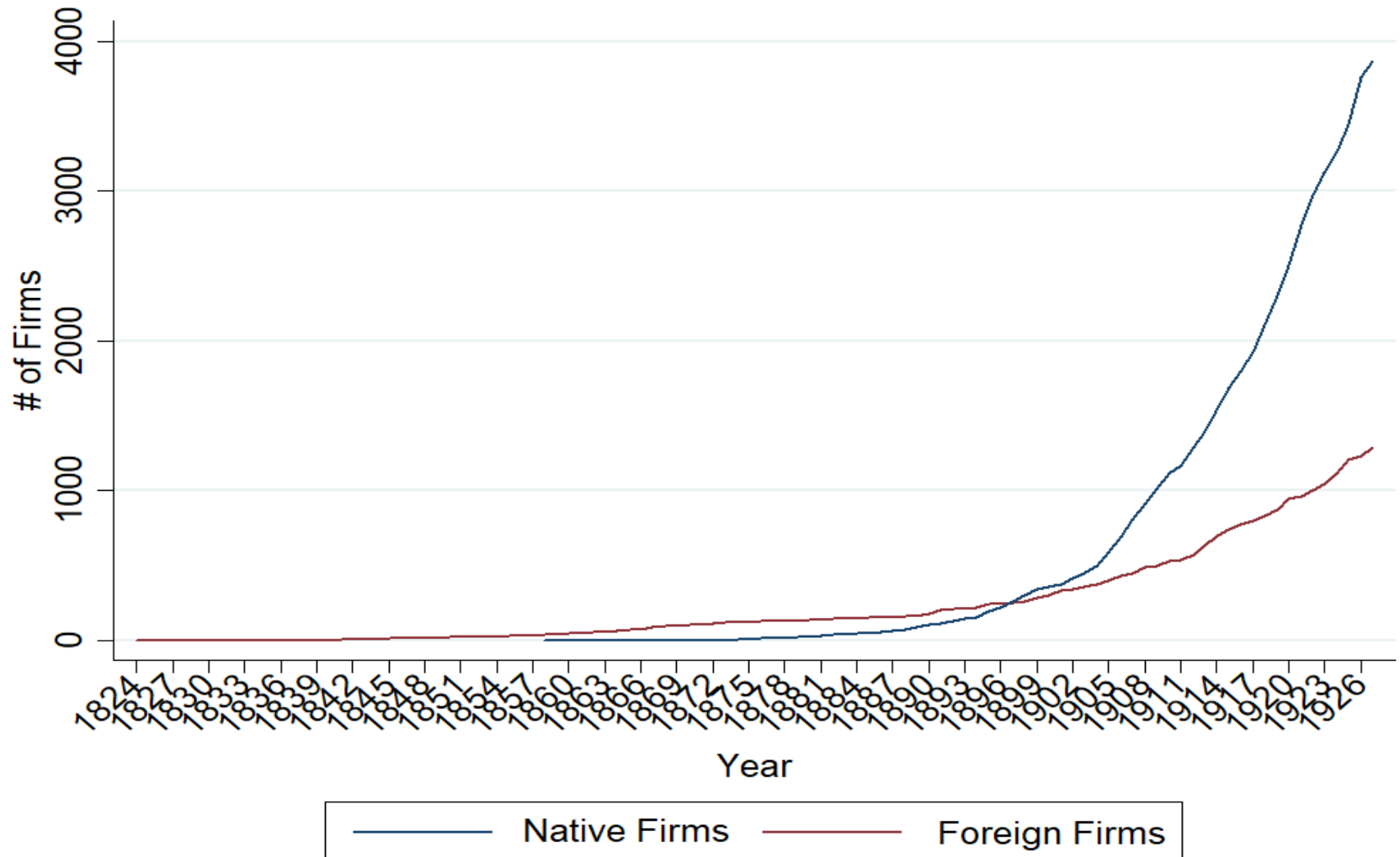
制度层: (1898-1920s) Guangdong based intellectuals:  
Kang Youwei, Liang Qichao and Tan Sitong (Hunan): China's constitutional  
reformers in the Hundred Days' reform (launched in Hunan)  
But the elites who tried reform the empire only saw empire collapse in 1911.



Now the third phase of Chinese reform:  
Treaty Port of Shanghai and the Lower Yangzi Elites.  
Shanghai in 1920s: one city, three governments

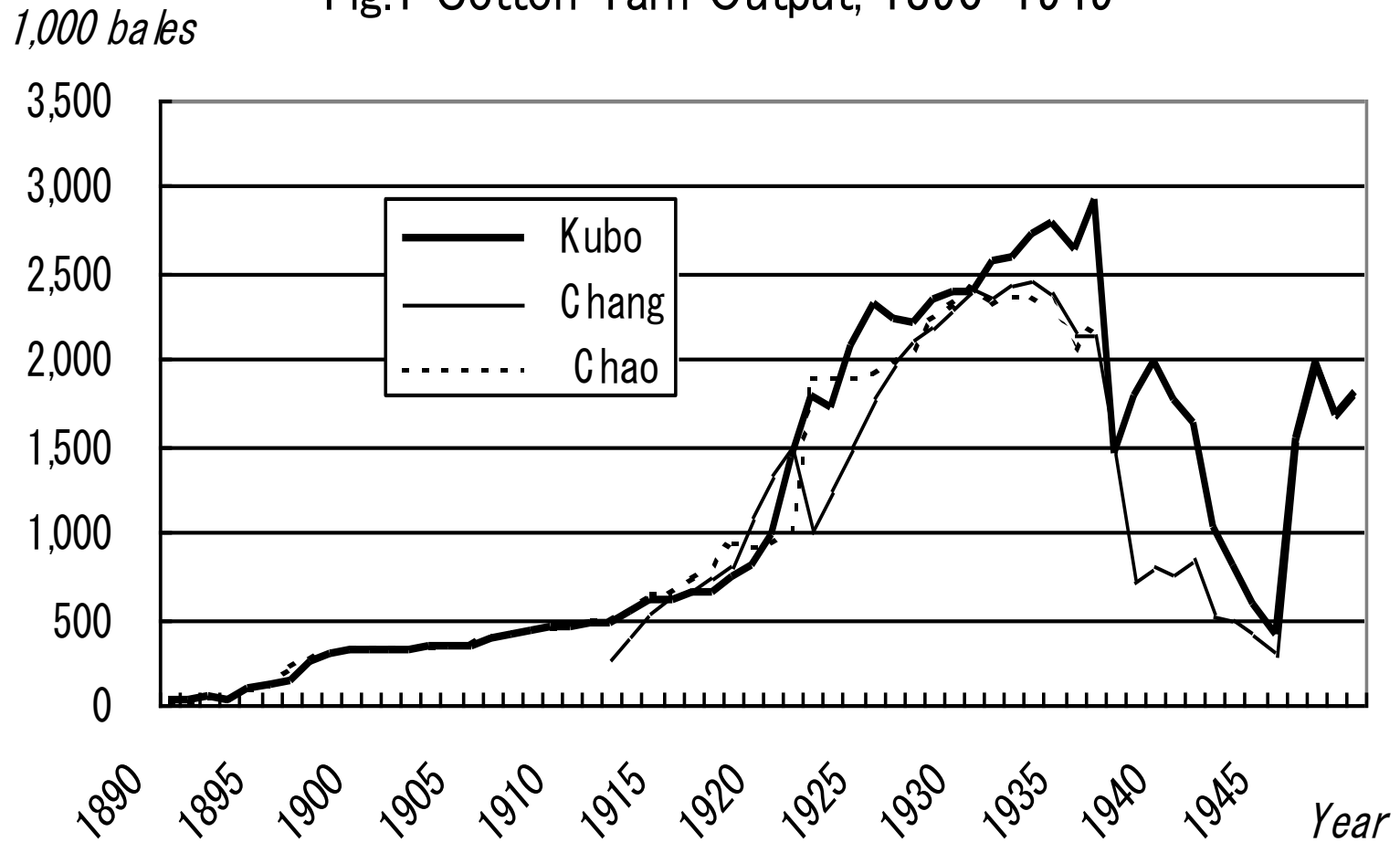


# Western Impact and Chinese response: note the timing and magnitude

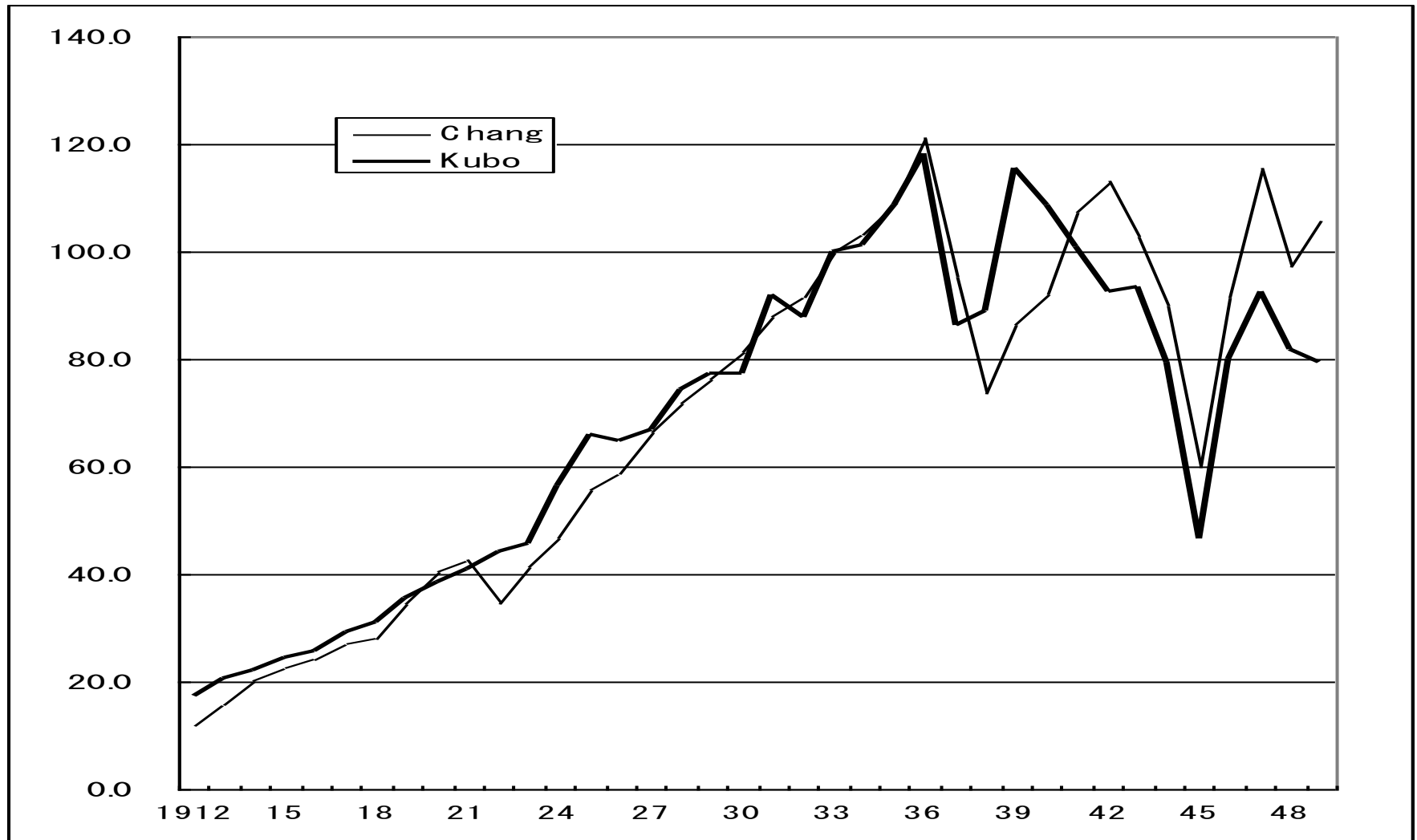


# The production of cotton yarn

Fig.1 Cotton Yarn Output, 1890–1949

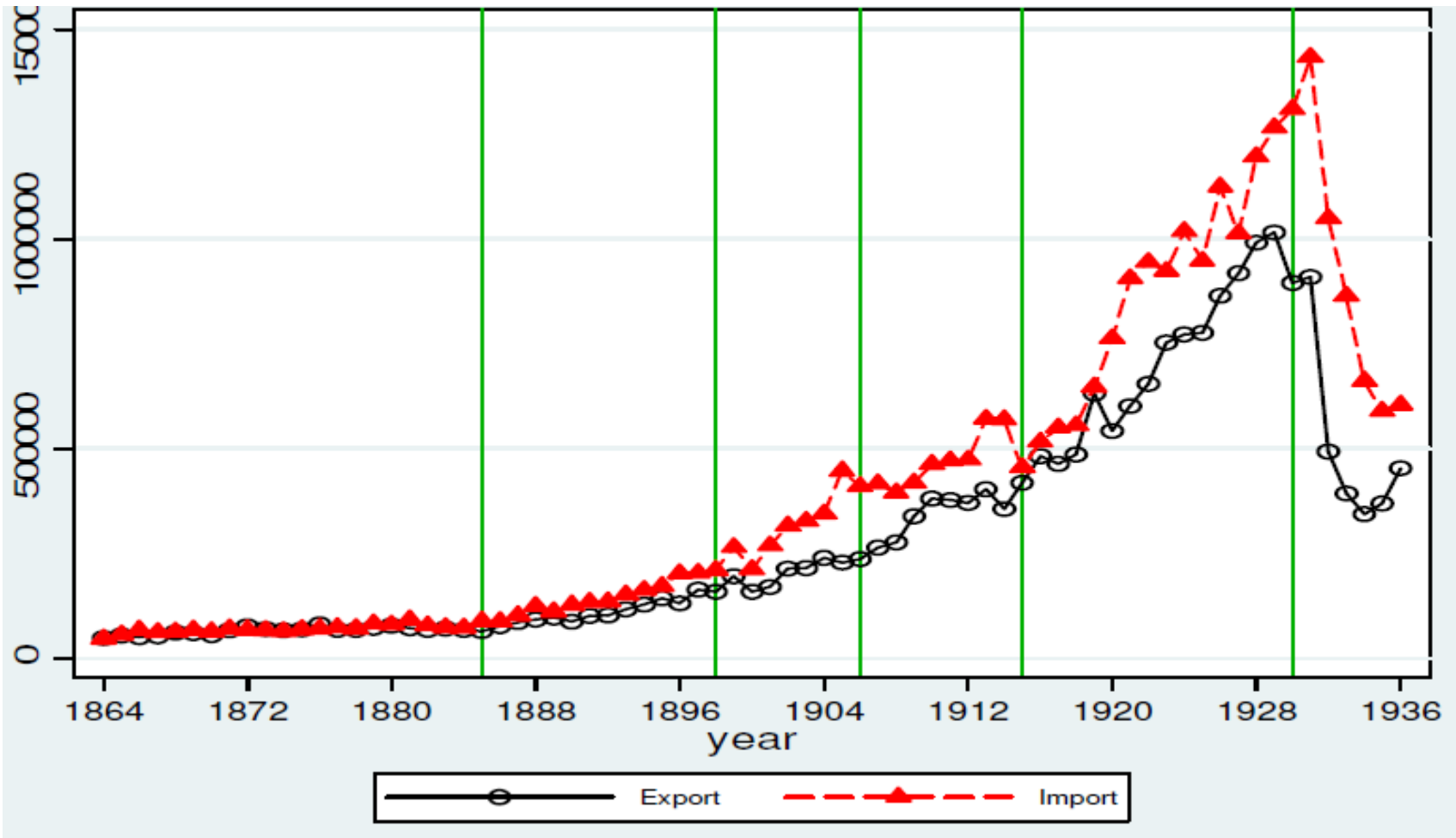


# Output indices of modern industry by John Chang and Kubo (growth rate between 1912-36 ranged between 8 and 10%)

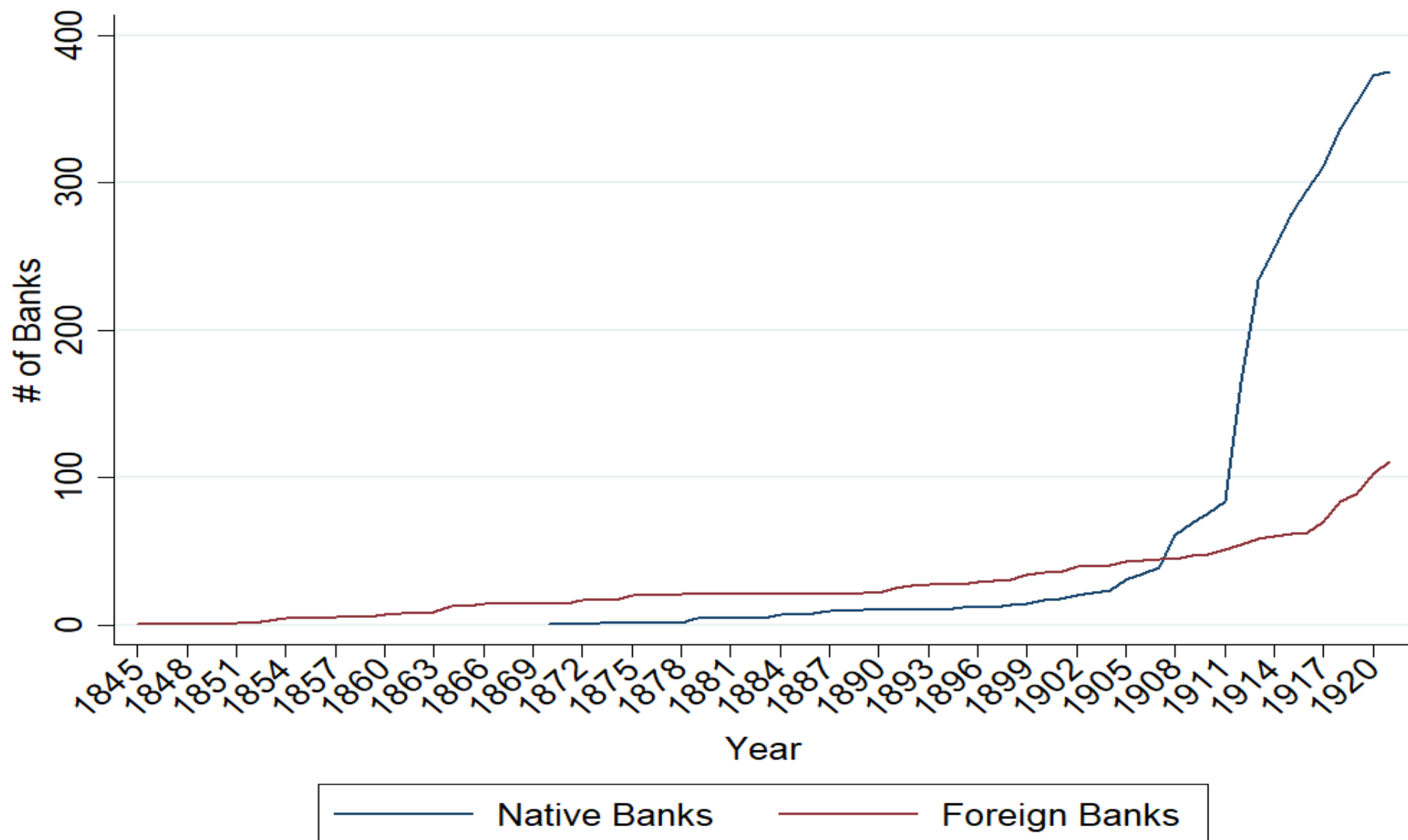


## Trade and Finance

A surge of total trade as well from the turn of the century (in nominal HKT values). One could say the same for foreign direct investment



# Three phases of economic changes as in the case of money and finance (Figure from James Kung)



# Locations of Chinese Banks

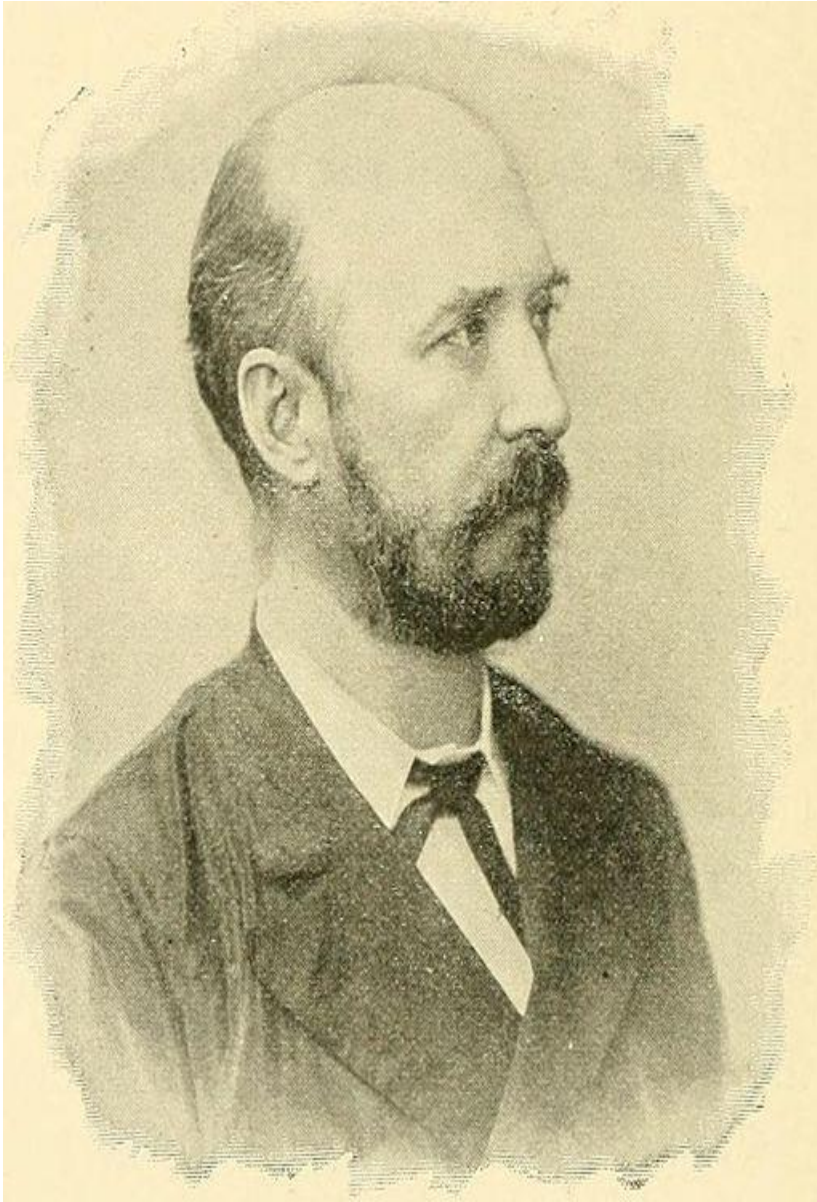
Year	Chinese Banks - Headquarter					Foreign Banks - Branch/Headquarter			
	Shanghai	Hong Kong	Beijing	Tianjin	The rest <sup>b</sup>	Shanghai	Hong Kong	Beijing	Tianjin
1890	0	0	0	0	0	3	2	0	0
1900	1	0	0	0	0	4	2	0	1
1910	4	0	1	0	1	6	2	1	2
1920	18	2	1	3	9	15	2	3	6
1930	36	4	1	5	44	23	5	4	8
1937 <sup>c</sup>	54	7	3	7	93	29	15	9	16



# China Maritime Customs in Shanghai

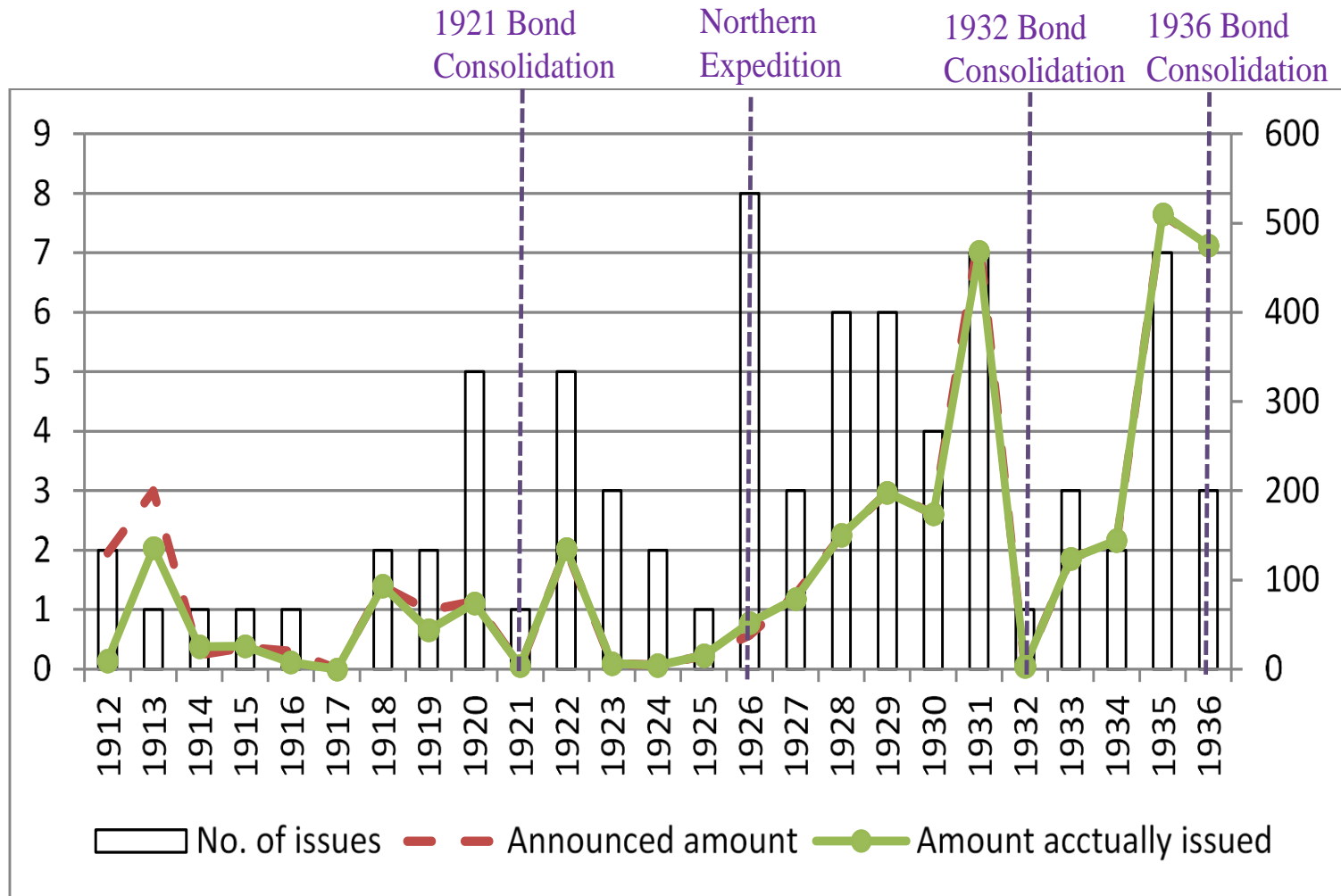
- China's first modern civil and tax bureaucracy:
  - A centralized and uniform structure;
  - Independence from the Central government;
  - Direct remittance of earmarked tax revenue to HSBC or Bank of China for debt repayment;
- The political power representing the interests of the creditors: Bondholder association, national loan bureau, sinking fund to ensure repayment;
- Secondary market for public debt;
- Real Bills doctrine: governmental bonds as capital reserves for bank notes.

# Sir Robert Hart, Inspector General of China Maritime Customs (1861-1911)



# China Maritime Customs and Domestic Public Debt

Figure 3. The yearly number and corresponding size of new government bond issues in Pre-war China (1912-1936, Million Yuan)

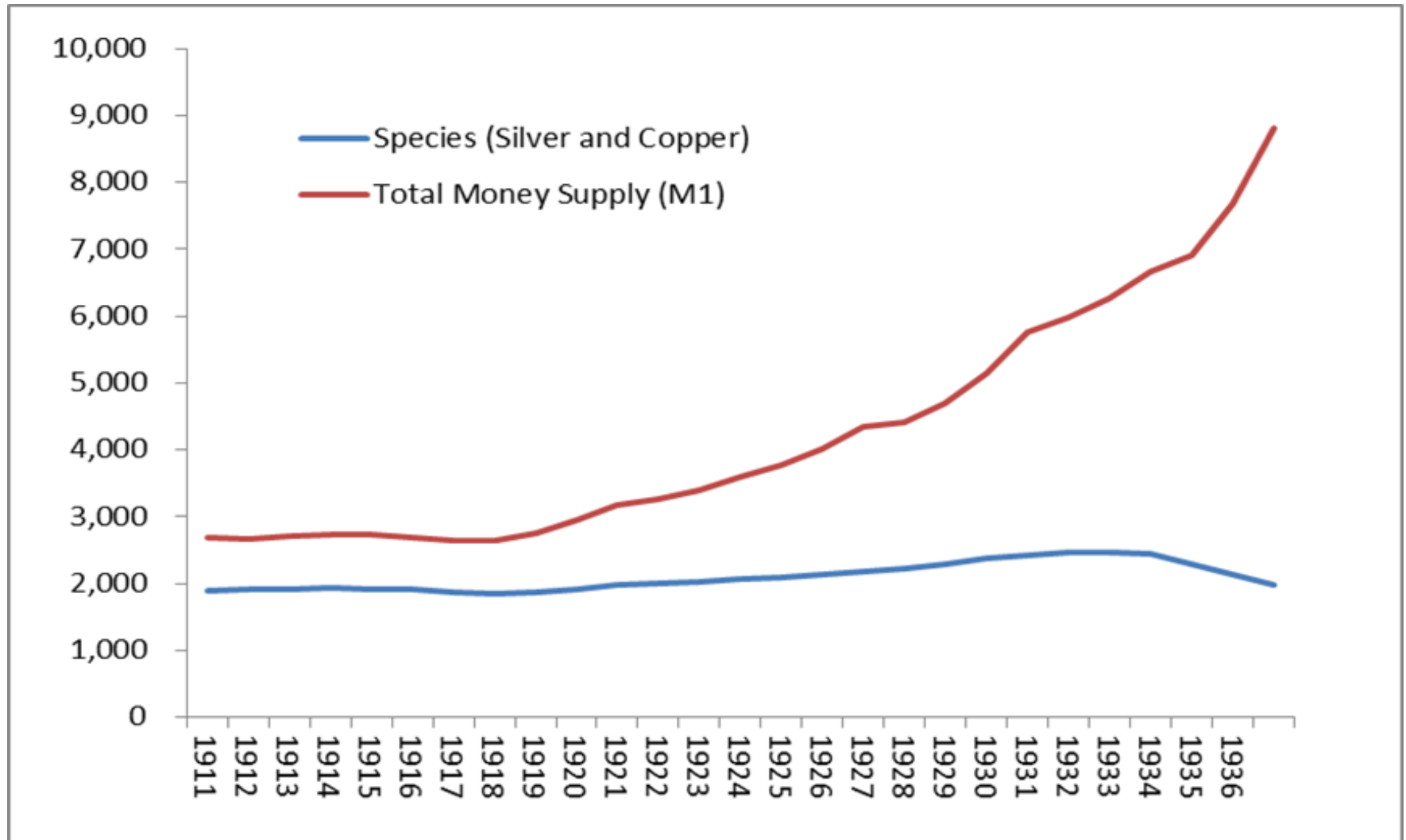


# Size and liquidity in the government bond market in Republican China

## (Million Silver Yuan, 1920-1936)

Year	Outstanding quantity for all bonds	Outstanding quantity for bonds floated in the market	Percentage	Trading volume	Turnover ratio
1920	359.84	338.46	94%	21.23 <sup>a</sup>	0.06
<b>1921<sup>b</sup></b>	<b>325.56</b>	<b>201.89</b>	62%	118.98 <sup>c</sup>	0.59
1922	382.41	225.41	59%	N/A	N/A
1923	364.89	210.89	58%	72.00 <sup>d</sup>	0.34
1924	346.93	196.43	57%	688.93	3.51
1925	340.28	179.48	53%	637.57 <sup>e</sup>	3.55
1926	370.26	162.16	44%	402.27	2.48
1927	423.58	214.78	51%	238.48	1.11
1928	532.47	288.06	54%	412.34	1.43
1929	665.04	420.12	63%	1,307.95	3.11
1930	747.72	522.70	70%	2,298.06	4.40
1931	1,101.91	827.11	75%	3,245.91	3.92
<b>1932<sup>f</sup></b>	<b>1,039.50</b>	<b>769.58</b>	74%	853.43 <sup>g</sup>	1.11
1933	1,096.42	816.39	74%	2,888.27	3.54
1934	1,145.52	842.49	74%	2,923.34	3.47
1935	1,539.89	873.62	57%	3,575.04	4.09
<b>1936<sup>h</sup></b>	<b>1,996.06</b>	<b>1,645.09</b>	82%	1,578.78 <sup>i</sup>	0.96

## A Financial Revolution in Republican China



## The Nanjing regime: Jiang Jieshi and the Nationalist government in Nanjing





The Lower Yangzi based elites: (1920s -1950)

Jiang Jieshi and the Song family

Main features: proximity to Shanghai treaty port and overseas experiences (living, studying and working)



# The Founding of New China

- Mao, the famous Hunanese: is he a modern Communist or a traditional Chinese emperor;
- The importance of Stalinism as a ***borrowed ideology*** but with some elements perhaps consistent with traditional institution;
- Great Leap Forward and famine;
- Cultural Revolution;
- Regionally decentralized totalitarianism.



“Chinese people have stood up”  
Mao declared on Oct. 1<sup>st</sup> of 1949 on Tiananmen  
Square



# The age of Deng Xiaoping

- 1994,  
September  
Beloved  
comrade  
Xiaoping - The  
general  
architect



# Economic Reform and Opening.

- The importance of Mao and Stalinist legacies and ideologies:
  - The East European model or early even Marxist ideas;
  - The problems with private sector; Dual track system; Gradualist reform.
  - The Tiananmen Square in 1989
- The 1992 switch towards Reform;
- The Rise of **Zhu Rongji**, another Hunanese, as the mayor of Shanghai and then China's economic czar.

# A frail Deng's final political activity: Southern tour (in Shenzhen)



# How does China get here: history matters

- Institutional Continuities (Brand, Ma and Rawski, 2013):
  - Authoritarian system
  - Personnel, political hierarchy and agency relationship.
  - Economic decentralization
  - Education, human capital and entrepreneurship
  - Alignment of incentives
  - Experimentation



# But China's rise is never just a repeat of history...

- Institutional departures under the PRC (Brandt-Ma-Rawski):
  - Vision/Objective: economic growth as the marker of legitimacy.
  - Elite recruitment and absorption of newly emerging interests
  - State capacity: the massive expansion of state structure and party organ.
  - Globalization: the end of Western imperialism, the rise of Japan and East Asian tigers.

# Summary

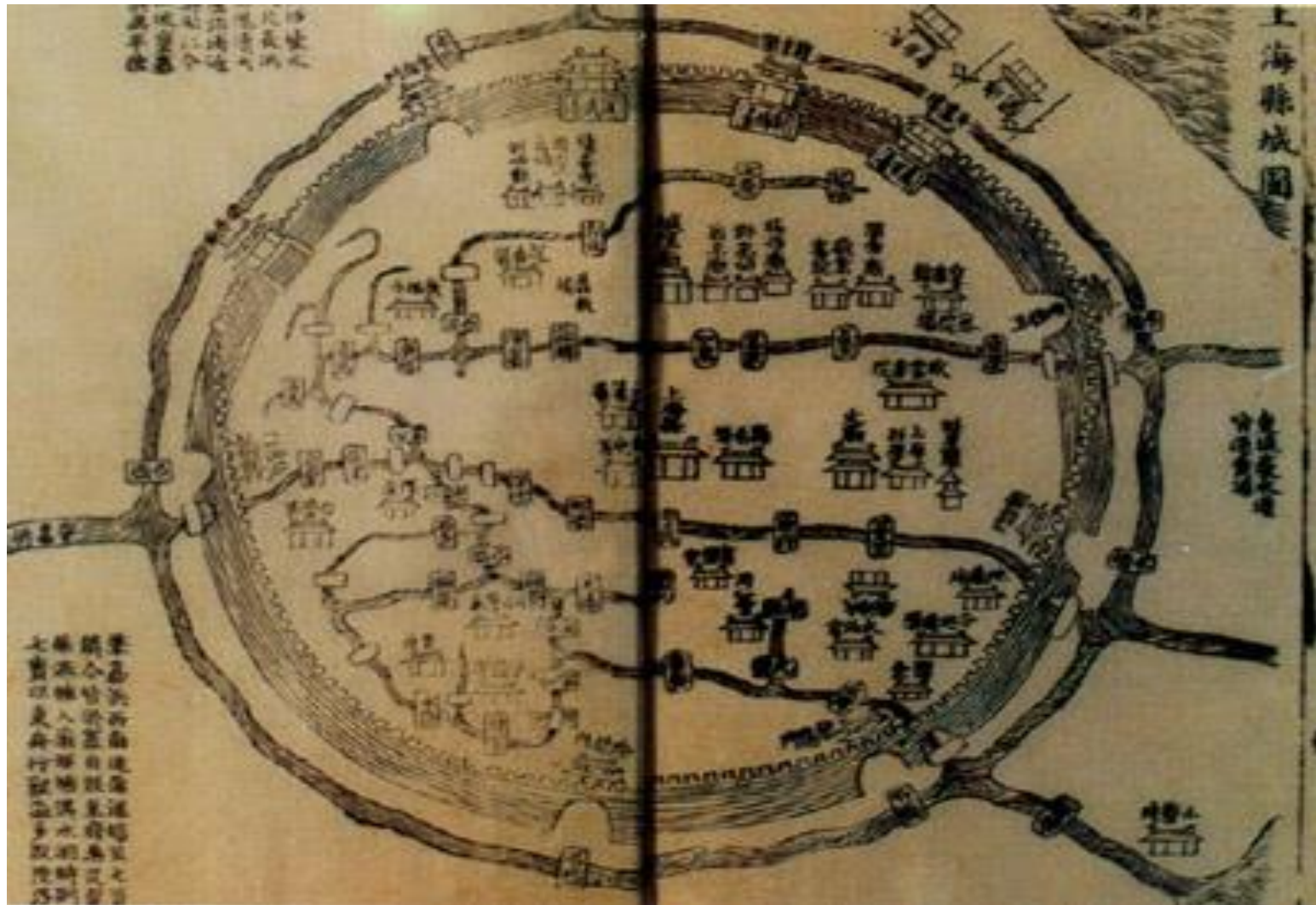
- An interpretive framework and outline of modern Chinese economy;
- Reframing the Western Impact and Chinese Response.
- Understanding the regional and periodic dimensions of China's political economy and economic changes.
- The importance of political elites and access to political power.
- The independent role of Ideologies (challenging the Acemoglu et al view).

# Ideology and Legitimacy of Rule in China today

- Understanding the Rise of Xi Jinping the role of ideology.
- Is Stalinism coming back through Maoism?
- What is the Chinese dream or vision?



# Shanghai in 1817

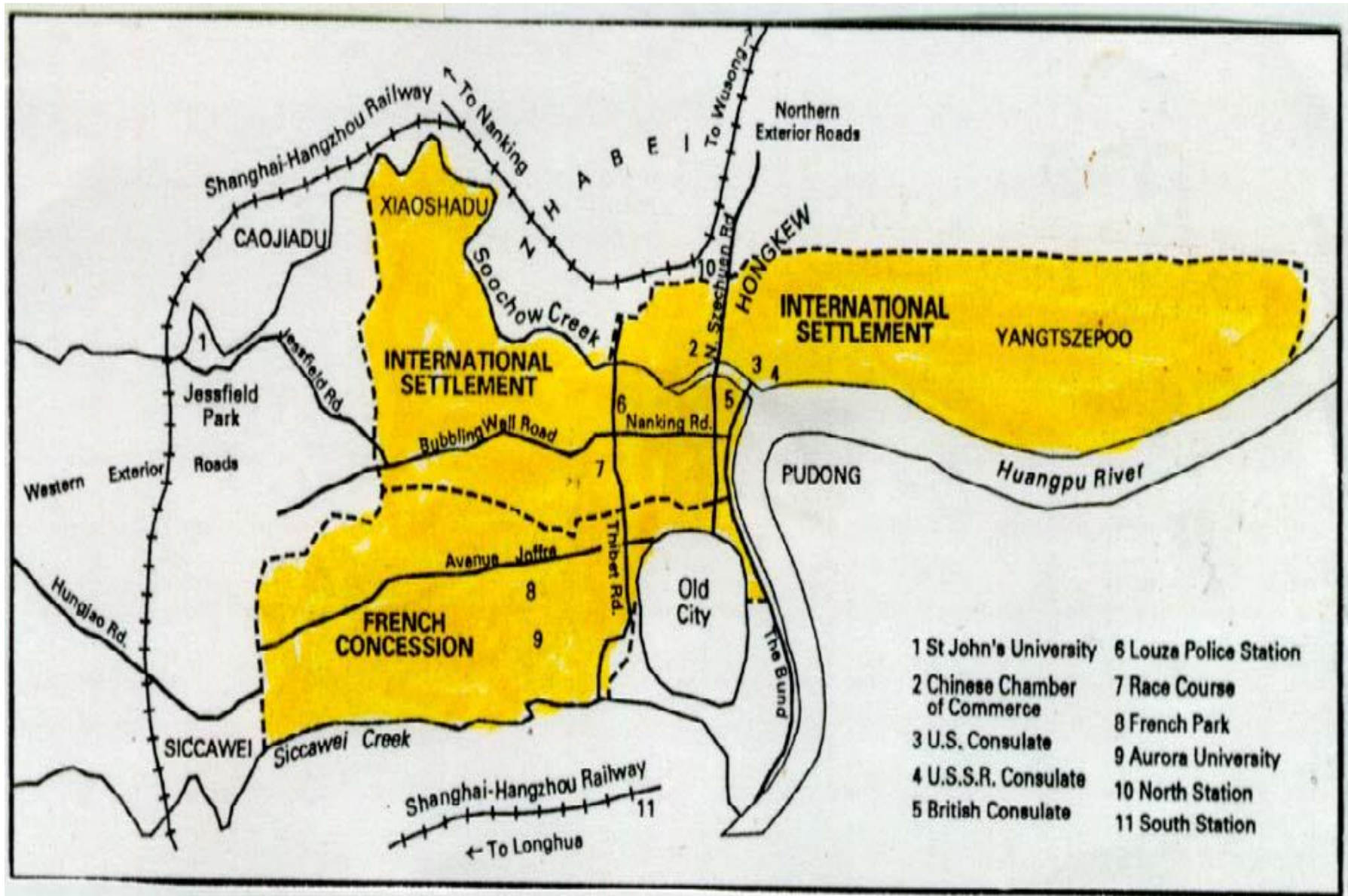


# Reconstructed “old Shanghai”





# Shanghai in 1920s: one city, three governments



# The Bund in about 1932:





# Shanghai 1990 vs. 2010 as the show piece of the Reform era

