Lecture Notes: Asian Growth and Stagnation

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I. Lessons from Our Continent Tour?

A. What We Have Seen

We have toured the continents, trying to make sense of the "Great Divergence"—to find historically nuanced and locally appropriate ways of understanding why it is that the post-1800 era that sees human technology advance at a previously unimagined rate has seen so much of the world fail to share even semi-equally in this explosion in potential prosperity.

We have theories—or perhaps better guesses—as to why industrial-era prosperity spread to western Europe and to North America, and as to why Latin America failed to share proportionately. We have at least noted if not fully understood the sources of the Pacific rim of Asia's miracles. We have examined the puzzle of African retardation.

B. Coming Next

What is left is the MENA, and all of Asia except its Pacific coast: an enormous grab-bag of different experiences.

We just have time and space to look at a few places: the Ottoman Empire, its independent quasi-possession Egypt, Dutch colonalisim in Indonesia, and the non-coastal bulk of China under the Qing dynasty.

I do not think we have enough knowledge or brainpower to draw solid general conclusions: we are just at the stage of noting particular examples and experiences.

II. Ottoman Turkey

A. Successful Gunpowder Empire

In 1453 the armies of Sultan Mehmet II Osmanli, called "the conqueror" showed up outside the walls of Constantinople. Constantinople then was no longer the city of half a million it hahadve been in the 400s. Perhaps 50,000 people lived with in its walls, and much of it had become farming villages. Still, it was the seat of the Eastern Roman Empire, and Emperor Constantine was the heir to a regime that could claim to be continuous with the first Emperor Augustus Caesar's assumption of power as Princeps after his admirals had defeated Marcus Antonius at the Battle of Actium.

Constantinople had fallen to internal coups, and once to a surprise double-cross by Frankish crusaders let inside the walls as allies. But it had never been conquered by seige. But Mehmet II was at the head of the most successful gunpowder empire of its day. He had the biggest and most effective artillery park that the world had hitherto seen. He had the best-disciplined corps of infantry soldiers then existing in the world: the janissaries. He had highly-motivated professional, feudal, and conquistador cavalry—the timarli sipahilar, kapikulu sipahilar, & akincilar. The days when crusaders from the west could take the pressure off of Constantinople by fighting in Palestine or Egypt were long gone. The last two crusades had been disasters: the Ottomans had decisively defeated the Crusade of Nicopolis in 1396 and the Crusade of Varna in 1444. And so Constantinople fell, and became the Sultan's capital. Thereafter the Ottoman Sultans possessed the title Kaysar-i-Rum: Caesar of Rome, which they held until the deposition of the last Ottoman sultan in 1922.

B. A Predatory Superstructure State

But the empire was a military-bureaucratic superstructure on top of a peasant-mercantile economy. In the outer empire the state was both predatory & weak, extracting between 1/2 and 2/3 of peasant incomes through taxes almost all of which were then siphoned off by local notables and bureaucrats, with very little reaching the center. It was "not a situation which permitted any accumulation of capital in the agricultural sector nor any regular increase in production."

In the inner empire the state was predatory but strong—strong enough to keep a hereditary nobility and notable class from becoming organized and powerful enough to constrain the sultan. Fiefs and monopolies never became hereditary—thus property never became hereditary and secure—but was always in the gift of the sultan, who could give and take away at whim.

C. Comparative Urbanization

In the year 1400 the urban population of the Middle East was perhaps equal to the urban population of Europe. But the Middle East cities were few and very large: centers of elite consumption not of trade, rather than parts of a distributed productive network providing services and commodities to and paying for imports from the countryside. Instead, overwhelmingly the cities in the Ottoan Empire taxed the countryside and then did nothing to develop or support it. To become too rich and too successful as an urban merchant was to become a target without powerful political protectors of your own. And then one might as well enter the game of becoming a political protector, rather than continuing to expand mercantile or manufacturing activity.

By the year 1500, Europe recovering still from the Black Death sees perhaps half again as many cities as 1400. The Middle East sees fewer cities. And by 1800 the urban population of Europe is easily five times that of the Middle East.

The Ottoman Empire ought to have benefited from the Columbian exchange as much as other parts of the world. The Ottoman Empire, located next to the expanding commercial societies of Europe, ought to have been able to take advantage to share more fully in the benefits of the commercial revolution. Was it all the redirection of global trade from through the Middle East to around the Cape of Good Hope—the closing-off of the Silk Road and related routes—that caused the extremely rapid relative decline of commercial activity in the Middle East? This is a puzzle, or at least something to note, because India and China appear to share fully in the commercial revolution era expansion of trade.

II. Egypt in the 1800s

A. Khedive Muhammed Ali

Muhammed Ali (1769-1849), an Albanian orphan, son of a shipping merchant Ibrahim Agha and his wife Zeynep, was bored being a tax collector in the Ottoman-ruled Greek port of Kavala. In 1801 he enlisted as a mercenary in the Ottoman army sent to occupy Egypt. By 1803 he commanded a regiment of his ethnically Albanian fellow-countrymen.

The Ottoman governor of Egypt could not afford to pay. He dismissed his Albanian troops. They mutinied, took over the government, and collected their pay. But Albanian commander Tahir Pasha then had no money to pay the Turkish janissaries.

Somehow Muhammed Ali wound up on top.

He retained the loyalty of his Albanians and managing to suppress both Turkish janissaries and Egyptain Mamluks. He then received at least the temporary blessing of Ottoman Sultan Selim III the Reformer (before he was deposed, imprisoned, and murdered by his own janissaries).

B. Muhammed Ali's Dreams & Plans

Muhammed Ali, son of Agha, called "the fortunate", looked northwest at Europe and east to India. He noted Egypt's role as crossroads between Africa and Asia, and between the Atlantic-Mediterranean Sea and the Red Sea-Indian Ocean. He ruled a prosperous kingdom—but he saw that Europeans might do to his or his children's kingdom what Europeans had done to prosperous kingdoms in India.

So Muhammed Ali strove to make Egypt great: new crops, land reform, a modern military, a focus on cotton as an export, and the construction of state-owned textile factories to jump-start Egyptian industry. He understood that unless he could keep the machines working, his great-grandchildren would become the puppets of French bankers and British proconsuls.

The population of Egypt in 1840 was perhaps 5 million, so figure that 1.2 million was the size of the potential outside-the-home paid or self-employed labor force.

Of these people, by the late 1830s one in five was at work in manufacturing. By the late 1830s one in eleven was at work in mechanized manufacturing: 65,000 in textiles, 11,000 processing sugarcane and milling wheat and rice, 15,000 making weapons, plus more.

In an era in which British manufactured exports were deindustrializing every other peripheral country on the globe, impressive.

The products of the factories were sold to Egyptians—not exported. Egypt did not have the power to prohibit manufactured imports: it was still, as far as its external tariffs were concerned, a part of the Constantinople-centered Ottoman Empire, and the Ottoman sultan needed the forbearance of the British Empire, which he bought by being as agreeable as possible to Britain. Tariffs were low. But British goods landed on the docks of Alexandria could simply not be processed through the customs bureau. And within Egypt non-tariff barriers could prevent the movement and sale of goods.

C. Did They Succeed?

Mohammed Ali's industrial policies made Egypt ninth in the world in cotton spinning in the 1830s. It had as many spindles per capita as the United States or France or Spain. It had many more spindles per capita than Belgium, Germany, Austria-Hungary, Russia or Mexico.

Admittedly, the products of its factories had a captive market in Egypt: the military had to buy from Muhamed Ali's factories, as did other internal Egyptian customers cut off from product they did not carry the domestic manufacture internal transport stamp.

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Were the factories profitable? NO! Were subsidies and the policies continued? They were soft-pedaled in the 1840s, at the end of Muhammed Ali's reign, and then dismantled under his successor. Muhammed Ali was old and sick, his favorite son Ibrahim had tuberculosis and died before him, the next heir his grandson Abbas was called "bigoted and sensual". The factories were expensive. Change was a source of trouble. Money could be spent on racehorses and palaces and provide more pleasure to the ruler.

No self-sustaining communities of engineering practice or of industrial entrepreneurship emerged

And so Abbas shut it all down.

Laura Panza and Jeffey Williamson write somewhat defensively:

> We appreciate that Ali often supplied his "state industries" with incompetent (military) managers, with equipment that was poorly maintained, and so on, but our focus is on the impact of his main industrial policies: the size and impact of the "marketing board" food price wedge or virtual export tax on domestic food prices; the size and use of "marketing board" and land tax revenues on infrastructure investment; the size and impact of the "marketing board" price wedge in supplying cheap intermediates to manufacturing; offsetting impacts of rising nominal labor cost as the "marketing board" supplied more expensive foodstuffs to urban workers; and the effectiveness of his nontariff barriers in keeping out foreign competition. Whether these policies transformed the Egyptian economy is another matter entirely, and is not explored here.

They did not transform the Egyptian economy.

They were not self-sustaining after the subsidies were removed. No domestic entrepreneurs wanted to fill in the gap left by the exit of the state from mechanized textile production.

D. Long Turn Consequences

In Egypt in the first half of the 1800s, the machines could not be kept working.

The throne descended from Muhammed Ali (1805-48), to grandson Abbas (1848-54), to uncle Said (1854-63), and then to nephew Ismail (1863-79). In 1863, six years before the completion of the Suez Canal, the relatively young Khedive Ismail took the throne of Egypt. Ismail had been educated in France: he was open to European influences, eager to modernize his country, and eager to play the role of the open-handed Eastern ruler. He became ruler of Egypt in 1863, in the middle of the "cotton famine" created by the American Civil War and the consequent temporary disappearance of the U.S. South from the world's cotton supply. The consequence was a cotton boom everywhere else in the world: the factories of the industrial revolution needed cotton to run on, and they were willing to pay almost any price for it. Egypt grew cotton. And so for a few years it seemed as though Egypt's economic resources and wealth were growing rapidly and were inexhaustible.

The Suez Canal opened in 1869. That made Egypt truly strategic in the geopolitics of the 1800s.

But the cotton boom was followed by a bust. In 1876 the Egyptian government declared bankruptcy. The creditors of the Khedive became the rulers of the country. Ismail abdicated. Two financial controllers—one British, one French—were appointed with substantial control over taxes and expenditures. Their task was to make sure that Egypt was “governed” by Ismail's son to keep up revenue and pay off the debt. The Egyptians wondered why they were being highly-taxed to pay off debts run up by their extravagant ex-Khedive. British troops restored order in 1882. Thereafter the Khedive was a British puppet: the strategic importance of the Suez Canal for communications with India meant that British troops were to stay in Egypt on varying pretexts and for various reasons until 1956.

Muhammed Ali's great-grandchildren were indeed the puppets of French bankers and British proconsuls

III. Late Qing China

A. Trained Incapacity

Imperial China, poor and disorganized in 1870: a country where the government and the economy were in crisis. The ethnically Manchurian Qing Dynasty could not rally the country behind a slogan like "revere the emperor and resist the foreign barbarians" because the emperor and his relatives identified themselves as foreigners. Moreover, they were regarded by the Han elite as barbarians.

Over more than two centuries of rule the Qing government of China had trained its Confucian landlord-bureaucrat-scholar aristocracy to be incapable of taking effective action. Effective action might be directed against the Central Government Security Perimeter (which is, perhaps, how we ought to translate what was back then translated as "Forbidden City").

B. Was There a Reasonable Chance Things Could Have Been Otherwise?

Many western China specialists see and can almost touch an alternative history—one in which late-nineteenth century China stood up economically, politically, and organizationally. Japan, after all, won its short victorious war against Russia in 1905, negotiated as an equal with Britain and the U.S. over warship construction in 1921, and was perhaps the eighth industrial power in the world by 1929.

We economists are much more skeptical. We note that while things like the Qing Imperial Maritime Customs Service built up in the 1860s under Robert Hart, Hart allowed no Chinese officials in it primarily because he feared he would be unable to control their corruption, given the powerful protectors in the Qing imperial court such officials would acquire. We note the corrupt and incompetent bureaucracies that failed to manage the Yellow River dikes and the Grand Canal. We note that the Qing could not get their local officials to collect the salt tax. We note that when in the mid-1880s the Qing Dynasty, having bought foreign metal-working machinery and built a navy, arsenals, and docks, thought it was strong enough to oppose the French conquest of Vietnam. Its fleet was destroyed in an hour: the Chinese navy lost 572 dead, while the French lost five. In 1895 the Qing Dynasty thought it was strong enough to oppose the Japanese extension of their sphere of influence to Korea. It was wrong. The Treaty of Shimonoseki added Taiwan, Korea, and southern Manchuria to Japan's sphere of influence.

C. The Kaiping Coal Mine

Consider the story of the Kaiping coal mine. Li Hongzhang was the bureaucratic prime mover behind that and such other "self-strengthening efforts" as the 1878 cotton mills in Shanghai, the Tianjin arsenal, the telegraph between Tianjin and Peking, and more. Individual governors-general like Li Hongzhang who made economic development a top priority could make some things happen—elsewhere things did not happen, outside of the foreign concessions and treaty ports like Qingdao, Tientsin, Shanghai, Guangdong, and Hong Kong.

In 1877 he commissioned experienced, wealthy, Hong Kong treaty-port comprador-merchant Tang Tingshu to build a modern, industrial, large-scale coal mine in Kaiping. They faced unusual forms of opposition. A British telegraph cable of 1882 stating that mining work had been stopped because Chi Shihchang, a vice-president of the Board of Civil Offices, had declared that: "mining methods angered the earth dragon... [and so] the late empress could not rest quietly in her grave…" Li Hongzhang was this given the choice between abandoning his project for a modern coal mine to fuel steam engines or accepting blame for any death or disease that might strike the imperial family. Given the size of the imperial family and mortality in the late nineteenth century, it would be a brave bureaucrat indeed who certify that there was no geomantic danger to the grave of the late empress from the earth dragon.

Li Hongzhang was brave.

Production began in 1881. By 1889, 3000 workers in three shifts were producing 700 tons of coal a day using steam lifts, underground coal cars on rails, and pneumatic drills. By 1900, 9000 workers were producing 200 tons OF coal a day The miners were producing 1/4 of what was expected of miners in America or Australia.

The mine was both a public governmental project and a private capitalist enterprise. The mine director was both an employee of the company's Hong Kong shareholders and an official of the Qing administrative bureaucracy. Thus when mine director-general Tang Tingshu died in 1892 his replacement, Chang Yenmao, was neither a merchant nor an industrialist nor an engineer. Chang Yenmao was a political fixer for the Empress Dowager Cixi.

By 1900 Chang Yenmao was perhaps the wealthiest men in Tientsin.

D. Herbert Hoover

Herbert Hoover at the time was a 26 year-old expatriate mining engineer on the make. Herbert Hoover arrived in Tientsin in 1900 just in time to be besieged in the city by the Boxer—a better translation would be the "Fighters United for Justice"—Rebellion. Mine director-general Chang Yenmao had fled to inside Tientsin. He feared, rightly, that the Boxers would execute him as a corrupt puppet of the European. Inside Tientsin he found that the besieged Europeans wanted to execute him for passing intelligence to the Boxers.

Somehow Hoover got Chang released from prison. Somehow Chang gave Hoover a power of attorney to reincorporate the Kaiping mine as a British-flag enterprise in London controlled completely by Herbert Hoover as the representative on the spot of the London-based majority shareholders. The new company also had a Europeans-only club. The local British charge d'affaires on the spot was disgusted at how Hoover and company had: "made a pretty pile at the expense of the Chinese.... legally the Board of Directors were unassailable... but... morally they were in the wrong.... [Britain should not] give its countenance to a financial transaction which had fleeced Chinese shareholders... lined the pockets of an Anglo-Belgian gang…" And Chang Yenmao and his associates were "wild… [because] they thought themselves rather smarter... and got themselves fairly had by a Yankee man of straw…" named Herbert Hoover.

In 1901 Herbert Hoover took over the mine.

He found that the 9000-worker payroll had been padded by 6000 names, and that the director of personnel doing the padding and collecting the wages had paid Chang Yenmao £10000—50,000—for the post. Under

Chang Yenmao' the company paid £20000—100000 dollars—a year in dividends. Hoover was able to pay out £150,000—750,000 dollars—a year in dividends.

E. The Downward Spiral

The upshot was that what Li Hongzhang and his successor in the Qing government Yuan Shihkai had thought was a strategic imperial government enterprise was now the property of a British-Belgian investors' syndicate, with no interest in building China's engineering capacity or supporting its foreign policy strategy.

A social-economic structure that could not find and promote executives but instead replaced them with corrupt political fixers, a political-ritual culture that required that a modernizing governor focus his attention constantly on the enterprise and run interference to protect it from anti-modernizers, and an educational system that continued to turn out literati instead of engineers and thus required foreign technical personnel for everything—outside the charmed circles created by the extraterritorial foreign concessions, and to a slight degree the immediate span of control of the few modernizing governors, modern industries did not develop and modern technologies were simply not applied in late imperial China.

Visionary reforming politician Sun Yatsen had offered his services to Li Hongzhang in 1894, but Li sent him away. Sun Yatsen built up a financial and propaganda network among Chinese emigrants beyond the reach of the government. Military politicians like Yuan Shihkai came to the conclusion that working with the Manchu court was useless. At the beginning of 1912 Sun Yatsen launched his rebellion, and the Qing dynasty fell. Yuan Shihkai and his peers refused to suppress the rebellion, and thought their chances would be better without the Manchu Dynasty.

The six-year-old emperor abdicated. The new Chinese republic's president turned out to be not Sun Yatsen military politician Yuan Shihkai. But Yuan Shihkai's authority over his peers and near peers—army commanders, provincial governors, and other would-be warlords—was nil.

China descended into near-anarchy.

IV. Dutch Colonial Indonesia

Last, let us look at Dutch colonial Indonesia. In the 1500s century, Java (in modern Indonesia) and Malaysia were amongst the most urbanized places in the world. Then the Dutch show up, with ships and cannon and muskets and well-drilled infantry. And by 1900 Indonesia is very poor.

Consider Ambon and Banda.

In Ambon the V.O.C. took over the existing feudal structure, which they used to monopolize supply—pay the workers as little as possible, depose feudal princelings who do not do their will, turning them into "compradors", run the closest they can to maximally extractive institutions.

In Banda, the V.O.C. killed most of the population in 1621 (probably over 20,000 people), reorganized the production of nutmeg, and established lage scale slavery with ex-employees of the VOC as planter-intermediaries.

Melissa Dell quotes Reid (1993, Chapter 5):

> When a Dutch factor visited Magindanao in 1686 he was told "Nutmeg and cloves can be grown here, just as in Malaku. They are not there now because the old Raja had all of them ruined before his death. He

> was afraid the Dutch Company would come to fight with them about it…"

Up till 1800 or so land-based empires and powers could negotiate with Europeans and divide the surplus from growing world commerce. But anywhere where naval cannon could reach, European colonialists found that they could cheaply and easily impose the most extractive and predatory institutions possible.

Notes, etc.

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