The Political Economy of a Fragmented State: China from Late Qing to the Beiyang Era

Xinru Xue[1], Hao Zhang[2]
[1](School of Mathematical and Computational Sciences, Massey University, New Zealand)
[2](School of Artificial Intelligence, Hebei University of Technology, China)

ABSTRACT: *This paper investigates the political economy of China during its critical transition from the Late Qing dynasty (c. 1860-1911) to the Beiyang Government period (1912-1928). This era was defined by the collapse of the imperial order and the subsequent failure to establish a stable, centralized republican state. From a political-economy perspective, we argue that the persistent fragmentation of political power and the resulting weakness of state capacity were the dominant factors shaping economic outcomes. The study first analyzes the institutional decay of the Late Qing, where attempts at state-led modernization (like the Self-Strengthening Movement) were undermined by internal political conflicts and fiscal crises. It then examines the Beiyang period, characterized by warlordism. We analyze warlord-led "fiscal-military states" as rational, albeit destructive, models of regional political economy focused on revenue extraction for military survival. This political anarchy crippled the central government's ability to provide public goods (e.g., stable currency, infrastructure, property rights) and manage its sovereign debt. While the "golden age" of native industry did occur, we contend it was a limited, "treaty-port" phenomenon that existed in spite of, not because of, the fragmented political environment. This paper concludes that the Beiyang era's legacy was not one of modernization, but of a profound state-building failure, where political imperatives consistently overwhelmed and distorted economic development, setting the stage for the subsequent unification efforts of the Nationalist government.*

KEYWORDS - *Political Economy, Late Qing, Beiyang Government, Warlordism, State-Building, Fiscal Crisis, Chinese Industrialization, Treaty Port Economy*

I. INTRODUCTION

The transition from the Qing Empire to the Chinese Republic represents one of the most profound political collapses and state-rebuilding challenges of the 20th century. This was not merely a dynastic transfer but a systemic disintegration, leaving an "intellectual-moral vacuum" where the millennial-old Confucian framework and the Mandate of Heaven, which had legitimized state power, ceased to function [1]. The nature of the subsequent problem is twofold: the definitive collapse of this 2,000-year-old imperial system, a system which had proven increasingly incapable of meeting the modern challenges of internal decay and external imperialism [2], and the immediate, persistent failure of its successor, the Beiyang government, to create a viable, modern, centralized state. This failure led not to a new order, but to a regression into regional fragmentation—the era of warlordism—where political power "rested on the control of a personal army" [3].

A significant scholarly schism defines the historiography of this period. Previous work has often treated the political history of warlordism separately from the economic history of nascent industrialization. On one side, political and military historians, such as Hsi-Sheng Chi [3] and Edward A. McCord [4], have provided masterful analyses of the military-political structures, factional alignments, and personal power networks that defined warlord rule. This literature paints a picture of endemic political chaos, institutional collapse, and incessant, destructive warfare. On the other side, economic historians have presented a starkly different narrative. Scholars like Thomas Rawski [5] have famously argued for "respectable" economic growth during this period, while Marie-Claire Bergère [6] has detailed the "golden age" of the Chinese bourgeoisie, highlighting the rapid development of native light industry, particularly in the coastal treaty-port cities. These two narratives—one of political disintegration, the other of economic dynamism—are difficult to reconcile and present a central paradox of the era.

The purpose of this paper is to bridge this gap by applying a political-economy framework, moving beyond a simple "politics and economics" approach to examine how the political foundations of the state decisively shape economic institutions and outcomes. We draw upon the theoretical insights of state-building, which posit that the state's ability to provide core public goods—such as a stable currency, predictable law, the enforcement of property rights, and a unified market—is a precondition for sustained economic development [7]. Therefore, we ask: how did the specific structure of fragmented political power (warlordism) directly shape fiscal institutions, economic policies, and the divergent paths of industrial development?

The contribution of this paper is to analyze the Beiyang period as a system of competing regional "fiscal-military states," a concept adapted from the European experience [8]. We argue that individual warlords, far from being purely chaotic actors, behaved rationally within the anarchic constraints of their system. Their primary objective was political-military survival, which necessitated the creation of regional extractive apparatuses designed for "warmaking" and "statemaking" on a local level [8]. This competitive extraction—through arbitrary taxation, currency debasement, and the seizure of productive assets—crippled the central state's capacity and created a predatory equilibrium. As recent studies on warlord finance have shown [9], this system prevented the consolidation of a national market and ensured that the "golden age" of industrialism remained a fragile, geographically-bound phenomenon, largely insulated within the foreign-administered treaty ports, while the vast agrarian hinterland stagnated or regressed.

This paper is structured as follows. Section 2 analyzes the path-dependent institutional and fiscal legacies of the Late Qing, which set the stage for the Republic's failures. Section 3 examines the brief, abortive attempt at political and fiscal consolidation under Yuan Shikai. Section 4 provides the core analysis of warlord political economy, modeling the extractive logic of the regional fiscal-military state. Section 5 assesses the dualistic development of the "real" economy within this fragmented political landscape, reconciling the narratives of industrial growth and political chaos. Section 6 concludes with the implications of this profound state-building failure, which set the parameters for the subsequent Nationalist project of unification.

II. THE LATE QING LEGACY: PATH DEPENDENCE AND INSTITUTIONAL DECAY

2.1 The Political Economy of the Self-Strengthening MovementIndentations and Equation

The Self-Strengthening Movement was the Qing dynasty's primary institutional response to the dual shocks of internal rebellion (the Taiping) and external aggression (the Opium Wars). It was fundamentally a project of "dynastic defense," not national transformation, guided by the conservative ideology of "Chinese learning as substance, Western learning for use" [11]. This ideological constraint ensured that reforms would be institutionally superficial, aiming to acquire Western technology (ships, guns) without altering the underlying Confucian political structure. To achieve this, regional strongmen like Li Hongzhang and Zuo Zongtang pioneered the "Guan-du Shang-ban" (Official Supervision, Merchant Management) model. In theory, this hybrid structure was designed to leverage the state's political authority to initiate projects and attract the private capital and managerial skills of the merchant class, which the state itself lacked.

In practice, the Guan-du Shang-ban model evolved into what Albert Feuerwerker termed "bureaucratic capitalism," a form of state capitalism where the "supervision" component completely dominated and subverted the "management" component [10]. The state's motive was military: the first arsenals (e.g., Jiangnan Arsenal, Fuzhou Shipyard) were purely government-run and notoriously inefficient, bleeding state treasuries. To fund these military ventures, "wealth" enterprises—such as the China Merchants' Steam Navigation Company or the Kaiping Mines—were established under the Guan-du Shang-ban model. Their primary purpose was not free-market profit, but to serve the military ends of their bureaucratic patrons, creating a significant resource misallocation from the start [12].

This bureaucratic dominance created two critical distortions. First, it fostered endemic rent-seeking. The merchant-manager was wholly dependent on his official patron for political protection, monopolies, and contracts. The most famous example, Sheng Xuanhuai, was less an entrepreneur than a master political operator, managing Li Hongzhang's enterprises as personal economic fiefdoms [10]. These enterprises were "overstaffed with members of the gentry... who received sinecures," and true commercial accounting was impossible, as funds were regularly diverted for "arbitrary official exactions" to fund non-commercial projects, from disaster relief to Li's personal political machine [11, 12].

Second, this system hampered genuine industrialization by destroying secure property rights and market incentives. Merchant capital was never safe from official expropriation. The "Shang" (merchants) held management positions but lacked ultimate control; their investments were effectively "hostages" to the political fortunes of their patrons. This discouraged long-term private investment and innovation, as the rational strategy for a merchant was not to reinvest in efficiency, but to seek the political "umbrella" of a powerful official. Instead of fostering an independent bourgeoisie, the Guan-du Shang-ban model fused official power with private capital, creating a predatory hybrid that was incapable of driving the deep economic transformation China required and ultimately failed to even achieve its primary goal of strengthening the Qing state [10].

2.2 Fiscal Crisis and Foreign Indemnities

If the Guan-du Shang-ban model represented a failure of internal industrial strategy, the external shocks of war indemnities precipitated a total collapse of the Qing's fiscal sovereignty. The financial impact of the Sino-Japanese War (1894-95) was the turning point. The 230 million Kuping taels indemnity, a sum far exceeding the dynasty's total annual revenues, was impossible to pay from current income. It forced the Qing state into the international financial market for the first time, securing large-scale foreign loans (e.g., the Russo-French and Anglo-German loans) [13]. To secure this debt, Beijing had to pledge its single most reliable, efficient, and elastic revenue source: the Imperial Maritime Customs (IMC) [14]. This set a fatal precedent, transferring control over the state's prime asset to its foreign creditors.

The Boxer Indemnity of 1901 was the final, crushing blow. The staggering sum of 450 million Haikwan taels, to be paid over 39 years with interest (totaling nearly 1 billion taels), placed the Qing state in a permanent, structural fiscal crisis. This new debt "absorbed all remaining Customs revenue and much more besides," necessitating foreign supervision over new revenue sources previously under Chinese control [14]. The foreign powers established a "Commission of Bankers" to manage the payments, and the IMC's authority was expanded to oversee the collection of the Salt Gabelle and internal likin in designated areas [15]. The Qing state's modern, centralized revenue streams were now entirely "hypothecated"; they flowed directly from the (foreign-run) IMC and Salt Gabelle administrations to foreign bondholders, bypassing the Chinese treasury entirely.

This created a critical path dependency that the subsequent Beiyang government would inherit. The 1911 Revolution did not liberate China's finances; it simply transferred this "fiscal shell" to a new regime. The Beiyang government in Beijing inherited a state whose most valuable assets were in foreign-administered receivership. The IMC and the Salt Gabelle (reorganized under a foreign inspector, Sir Richard Dane, in 1913) became the only collateralizable assets for the new republic [15, 16]. The infamous 1913 "Reorganization Loan," which Yuan Shikai used to destroy his southern rivals, was secured against this Salt Gabelle revenue. This cemented the path dependency: the central government's survival depended not on a national tax base, but on maintaining foreign diplomatic recognition, which was the prerequisite for accessing the "customs and salt surplus" left over after foreign debts were paid [16]. This system made genuine state-building impossible and ensured the central government would remain a "phantom state," wholly dependent on foreign finance.

2.3 The "New Policies" (Qingmo Xinzheng)

The profound humiliation of the Boxer Uprising (1900-1901) shattered the court's remaining conservative resistance and initiated the "New Policies", a failed, last-ditch effort at state-building. Unlike the superficial Self-Strengthening Movement, the New Policies were a comprehensive, systemic overhaul modeled on Meiji Japan, encompassing military, educational, legal, and political reforms [17]. From a political-economy perspective, two areas were central: the creation of a modern legal framework for commerce and the attempt at fiscal centralization. In 1903, the Ministry of Commerce (Shangbu) was established, followed by the promulgation of modern commercial codes, including a company law. However, this was not a liberal project to free enterprise, but a state-building one to register, control, and utilize private capital for state ends, revealing the state's persistent "grasping hand" [18].

The more critical and fateful reform was the attempt at fiscal centralization. The Boxer Indemnity had exposed the central government's fiscal impotence, as it was entirely dependent on revenues controlled by foreign-run administrations (the IMC) or powerful provincial governors [13]. The new Ministry of Finance (Duzhibu) attempted to reverse this. It set about creating China's first modern national budget, promulgated in 1910. This budget was a "revolutionary document" not because it was accurate, but because it explicitly revealed the state's massive deficit and, by itemizing revenues, "constituted a declaration of war" against the provinces, whose "customary" control over local revenues was now challenged [13]. This reform was a zero-sum game: every tael the Duzhibu in Beijing claimed for the "national" budget was a tael lost to the provincial treasuries, which had grown autonomous since the Taiping Rebellion.

This exacerbated central-provincial tensions reached their flashpoint over the issue of railway financing. Railways were the era's prime symbols of modernization and sovereignty. Provincial gentry and merchants, particularly in Sichuan, Guangdong, and Hubei, had raised millions in private capital for provincial railway companies, seeing them as patriotic, anti-imperialist, and profitable ventures [19]. However, in May 1911, the central government, led by Sheng Xuanhuai, abruptly decreed the nationalization of all major railway lines. This policy was not financed by the Duzhibu's new budget, but by a massive foreign loan—the Hukuang Railway Loan—from a four-power banking consortium. This act was seen by provincial elites as a profound betrayal: the state was not only seizing their private property (often offering inadequate compensation) but was pawning the nation's economic arteries to foreign banks to do so [19].

This policy directly contributed to the 1911 Revolution. In Sichuan, the gentry organized the "Railway Protection Movement", which escalated from peaceful protests to violent clashes. To suppress the Sichuanese, the Qing court made a fatal decision: it diverted its most reliable, modern "New Army" units from neighboring Hubei province, where they were garrisoned in Wuchang [20]. This troop movement left the critical city of Wuchang—a hotbed of revolutionary sentiment within the New Army—vulnerable. On October 10, 1911, revolutionary soldiers within the Wuchang garrison seized their opportunity, launching the uprising that would, in a matter of weeks, bring down the entire imperial system. In a profound irony, the New Policies, designed to save the dynasty by building a modern state and army, had instead created the very central-provincial conflict and the modern military force that would ultimately destroy it [20].

III. THE REPUBLIC'S FOUNDING AND FISCAL CONSOLIDATION ATTEMPT (1912-1916)

3.1 The 1911 Revolution and the Collapse of the Fiscal System

The 1911 Revolution, triggered by the Wuchang Uprising, was less a centrally coordinated seizure of power than a rapid, contagious "contagion of provincial declarations of independence" [20]. This political act of secession immediately and decisively shattered the imperial tax-collection machinery. As provinces like Hubei, Hunan, and Guangdong declared themselves independent, their new revolutionary (or opportunistic) provincial assemblies and military governors immediately "impounded" all major tax revenues for local use [21]. The land tax, the salt gabelle, and the likin—revenues that were supposed to be remitted to Beijing—were now seized to pay the "New Army" troops that had either mutinied or joined the revolution. The intricate, centuries-old system of fiscal transfers, which funneled funds from wealthy provinces to the center and to poorer, strategic border provinces, "evaporated virtually overnight" [13].

This created an immediate economic shock and a profound fiscal vacuum for both the dying Qing court and the nascent republic. In major financial centers like Shanghai, the political uncertainty triggered a financial panic, leading to runs on native banks and a collapse of the credit system that paralyzed commerce [22]. The only robust financial institution left standing was the foreign-run Imperial Maritime Customs (IMC). However, the foreign powers, led by Britain, declared "neutrality" and ordered the IMC to "sequester" all collected revenues into a "Suspense Account." These funds, the only reliable source of state income, would not be released to any Chinese government until a single, stable, and internationally recognized authority emerged [16].

The Nanjing Provisional Government, established by Sun Yat-sen on January 1, 1912, was therefore "born bankrupt" [6]. It was a revolutionary state with no treasury, no tax base, and no bureaucracy to collect revenues. Its Minister of Finance, Chen Jintao, presided over an empty shell, famously lamenting that the treasury contained only ten silver dollars. The new government's desperate attempts to fund itself failed: it issued "patriotic bonds," but the Shanghai bourgeoisie, wary of the new government's instability and radicalism, purchased only "token amounts" [6, 22]. Attempts to secure a major foreign loan were actively blocked by the foreign Banking Consortium, which saw the northern general Yuan Shikai as the only figure capable of restoring order and protecting their financial interests [16]. This separation of provincial revenues from the center was thus absolute. The fiscal vacuum was the decisive factor that forced Sun Yat-sen's hand: unable to pay his armies or govern, he had no choice but to cede the presidency to Yuan Shikai, the one man who had the leverage to end the Qing dynasty and, crucially, unlock the "customs surplus" and the massive "Reorganization Loan" from the foreign powers [21].

3.2 Yuan Shikai's Political-Economic Project

Yuan Shikai's presidency (1912-1916) represents the first and only concerted attempt to re-centralize the state in the Beiyang period. As an "old-regime modernizer" steeped in the self-strengthening tradition, Yuan understood that modern state power rested on two pillars: the army and the treasury [23]. Having inherited the fiscal vacuum of 1911, his immediate objective was to secure a reliable revenue stream to pay his Beiyang Army and crush the rival Kuomintang (KMT) provinces in the south. This led to the pivotal event of his regime: the 1913 "Reorganization Loan". In April 1913, Yuan bypassed the newly convened Parliament—a direct violation of the Provisional Constitution—and signed a massive £25 million loan with the Five-Power Banking Consortium.

This was a profoundly political-economic act. In exchange for the funds, Yuan placed the entire Salt Gabelle under the control of a foreign-run inspectorate, headed by Sir Richard Dane, mimicking the existing structure of the Imperial Maritime Customs (IMC) [15]. This loan was the "golden bullet" that enabled Yuan's state-building project: he was using foreign debt to finance a war of political unification. With these funds, he paid his armies, triggered the "Second Revolution" against the KMT, and, by the autumn of 1913, had militarily defeated his southern rivals [23]. He had successfully re-established the path dependency of the late Qing: the central government's solvency was guaranteed not by domestic taxation, but by foreign creditors who controlled its most valuable assets.

With his military rivals vanquished and his finances secured, Yuan turned to economic consolidation. His most significant and durable achievement was the 1914 currency reform. The monetary system was in chaos, flooded with debased provincial coins and a bewildering array of liang-yuan (tael-dollar) exchange rates. The "National Currency Regulations" of 1914 abolished the tael as the unit of account and established a new national silver dollar, the yuan, as the sole legal tender. This coin, featuring Yuan's profile, became universally known as the "Yuan Datou". This was a successful, if temporary, public good. Minted to a consistent, high-grade silver standard, the "Yuan Datou" was trusted, "drove out the miscellaneous coins," and quickly became the dominant and preferred currency across China, dramatically lowering transaction costs and facilitating inter-regional trade [24].

The currency reform, along with the reorganized Salt Gabelle, demonstrated the potential of a central state to provide basic economic stability. However, this entire project was built on Yuan's personal power, not on legitimate institutions. His disastrous attempt to restore the monarchy (the Hongxian Empire) in late 1915 fatally undermined his authority. The "National Protection War" saw his own Beiyang generals—his core power base—turn against him, reasserting the very provincial autonomy he had tried to crush [3, 23]. Upon his death in

June 1916, the fragile re-centralization project shattered. The national treasury was plundered, and the central state in Beijing became an empty prize to be fought over by his former lieutenants.

IV. The Political Economy of Warlordism (1916-1928)

4.1 The Fragmented "Fiscal-Military State"

Yuan Shikai's death in June 1916 shattered the fragile, personalistic re-centralization he had imposed. The "façade of national unity" crumbled, and political power devolved not to the constitutional government in Beijing, but to his former Beiyang lieutenants, who commanded autonomous, modern-trained armies [23]. This plunged China into the anarchic system of warlordism. This section, the core of the paper, models the warlord cliques—principally the Anfu clique (Duan Qirui), the Zhili clique (Feng Guozhang, Cao Kun, Wu Peifu), and the Fengtian clique (Zhang Zuolin), among countless others [3]—as individual, rational actors operating in a zero-sum, self-help environment. Their rationality was not that of a "developmental state" but of a coercive entrepreneur whose survival depended on controlling a defensible territory.

The primary goal of these actors was not public welfare but military survival. The political landscape was defined by endemic, shifting warfare—such as the Zhili-Anfu War (1920) and two Zhili-Fengtian Wars (1922, 1924)—where the "loss of one's army meant political extinction" [3]. In this 'state of nature,' any resources diverted to non-military public goods (e.g., education, judicial reform) were resources lost in the existential competition against rivals. This logic forced each warlord to construct a regional "fiscal-military state" in miniature, an entity whose structure and purpose mirrored the "coercion-extraction cycle" of early modern European state-building described by Charles Tilly [8]. The state's only essential function was "statemaking" and "warmaking" on a provincial scale.

This relentless military pressure required maximizing revenue extraction above all other considerations. As the political scientist James E. Sheridan observed in his seminal study, the warlord was "a fiscal and military creature... whose primary function was to maintain himself and his army" [25]. This short-term, survivalist logic dictated all economic policy. The administrative apparatus of a province was therefore repurposed: the tax bureau became a military supply office, the mint was used for currency debasement, and provincial banks were forced to issue unbacked notes to finance military payrolls [27]. This "rational" pursuit of regional military security, when replicated by dozens of actors simultaneously, created a "tragedy of the commons" at the national level. It destroyed the national market, prevented the accumulation of public capital, and ensured that the central government in Beijing—lacking an army or a tax base of its own—remained a powerless, bankrupt phantom.

4.2 Modes of Warlord Revenue Extraction

4.2.1 Seizure and taxation of traditional revenues (e.g., land tax, likin)

The most immediate and accessible revenue source for a new warlord was simply to seize the existing provincial tax machinery. However, unlike a state, the warlord's "incessant quest for funds" was not constrained by any concern for long-term economic viability [25]. The primary target was the land tax, the traditional bedrock of Chinese state finance. Warlords did not reform this tax; they "mined" it with devastating intensity. The most notorious method was tax pre-collection. Provincial militarists "mortgaged the future of their territories," collecting the land tax for years, sometimes decades, in advance. In Sichuan, one of the most fragmented and contested provinces, some districts had their land taxes "collected up to thirty years in advance" [27]. This practice destroyed the agricultural economy; it stripped peasants of all capital, preventing reinvestment in seed, tools, or land improvements, and directly contributed to rural bankruptcy, land abandonment, and widespread famine [9].

The second target was the likin, the internal transit tax that had plagued Qing commerce. Under warlord rule, this system proliferated exponentially. The central government had lost all authority to regulate or abolish it. Instead, every petty commander and factional leader established new likin barriers along roads, rivers, and railway stations to extract revenue from passing goods. This "arbitrary and multiple taxation of goods in transit" [27] was the ultimate expression of political fragmentation. It choked off inter-regional trade, disintegrating China into a patchwork of high-cost, self-contained regional markets. The cost of shipping goods from the interior to the coast (e.g., from Sichuan to Shanghai) could multiply several times over, rendering domestic industry uncompetitive and destroying any possibility of a unified national market.

Finally, warlords supplemented these traditional revenues with an "infinite variety of miscellaneous, irregular, and extortionate levies," known collectively as exorbitant taxes and fees [9]. These taxes were arbitrary, unpredictable, and designed purely for extraction. Warlords levied taxes on "every conceivable activity," including pig taxes, lamp taxes, wedding taxes, opium-suppression taxes (which were, in reality, licenses to grow opium), and even "lazy taxes" on the unemployed [25]. This predatory fiscal environment made property rights nonexistent. There was no rule of law, only the "arbitrary will of the local militarist." This destroyed all incentives for productive investment, as any visible sign of wealth or profit was immediately targeted for expropriation [9, 27].

4.2.2 Debasement of currency and issuance of unbacked provincial banknotes

When direct taxation proved insufficient for the "incessant demands of the military," warlords turned to an even more direct and devastating form of extraction: monetary manipulation [27]. This took two primary forms. The first was the debasement of currency, particularly the copper coinage used for daily transactions by the vast majority of the population. While the silver "Yuan Datou" dollar remained a relatively stable standard of value (largely because it was too valuable for warlords to mint at a loss), the provincial copper mints became tools of predatory seigniorage. Warlords established "indiscriminate mints" that flooded their territories with new copper coins of "inferior weight and fineness," mixing in cheaper metals like zinc and lead [24]. This "multiplicity of debased coins" destroyed the stable silver-copper exchange rate, the critical nexus of the rural economy. Peasants, who sold their crops for (debased) copper, found they could no longer afford to pay their taxes, which were often assessed in (stable) silver. This "regressive tax" was a "disaster for the common people," effectively robbing them with every transaction [24].

The second, and even more ruinous, method was the issuance of unbacked provincial banknotes. Warlords seized control of provincial banks, transforming them from (in theory) guardians of provincial credit into "military printing presses" [27]. The most notorious case was that of Zhang Zuolin in Manchuria. To finance his massive Fengtian Army and his state-of-the-art Mukden Arsenal, Zhang forced his provincial bank, the Bank of the Three Eastern Provinces, to issue massive, uncontrolled quantities of "Fengtian-piao" [26]. These notes were inconvertible; they were fiat currency with no specie (silver) reserves backing them. This was not currency, but rather a "forced loan" or a "disguised tax" on the entire population [9]. Soldiers were paid in this scrip, which they then used to purchase goods from merchants, who were forced to accept it on pain of military reprisal.

The economic consequences were catastrophic. The notes, which were "issued to meet the deficits of the warlord's treasury," rapidly depreciated, leading to runaway hyperinflation [26]. The Fengtian-piao, which had traded near parity with the Japanese gold yen in 1917, collapsed to a rate of 70-to-1 by 1925, and became "virtually worthless" by the time of Zhang's death in 1928 [26, 27]. This process "effectively expropriated the liquid savings" of the entire region, wiping out the Manchurian middle class and transferring all real wealth to Zhang's military-industrial complex. This was the ultimate expression of the "rational," predatory fiscal-military state: its leader "did not tax the economy so much as he simply confiscated it" through monetary warfare [26].

4.2.3 Monopolization of key commodities and infrastructure

Beyond direct taxation and monetary manipulation, warlords secured revenue and power by seizing direct control of the most profitable and strategic assets within their territories. The most significant commodity monopoly was opium. This represented a complete reversal of the late-Qing suppression efforts. Opium was the "ultimate cash crop": high-value, low-weight, and in constant demand, making it the perfect military-fiscal resource [25]. Warlords established so-called "Opium Suppression Bureaus", a cynical fiction that, in practice, served as the central office for a "forced cultivation" monopoly. These bureaus did not suppress opium; they licensed its cultivation and monopolized its sale. They levied massive "fines" (i.e., taxes) on peasants who were forced to grow opium, and then again on the merchants who transported it [9]. In provinces like Sichuan and Yunnan, this "opium-based state-building" became the primary source of revenue, providing "vast, off-budget funds" that were essential for maintaining their armies and political autonomy [25].

While opium financed the armies, the monopolization of infrastructure—particularly railways—allowed them to wage war. Railways were not viewed as public goods for economic development, but as "prime strategic military assets," the arteries of modern warfare [3]. Warlord conflicts, especially the major Zhili-Fengtian wars, were explicitly "railway wars," fought for control of the key north-south lines: the Beijing-Hankou, Tianjin-Pukou, and Beijing-Mukden railways. The dominant warlord faction immediately seized control of these lines, using them exclusively for troop transport and military supply. This constant militarization of the railways had a "paralyzing effect" on the modern economy [28].

The consequences were threefold. First, commercial traffic simply "ceased to exist" for long periods, as military trains took absolute priority, leaving commercial goods (like vital coal shipments from the Kaiping mines to Shanghai) to "rot on the sidings" [27]. Second, warlords seized "all available rolling stock" and pulled it back to their own territory, fragmenting the national network. Third, retreating armies would "systematically destroy" bridges and tracks to hinder their rivals, adding physical destruction to the organizational chaos [28]. This turned the railways from engines of national market integration into "barriers of division," contributing to "economic disorganization" and directly inhibiting the industrial development that depended on them [27].

4.3 The Crippled Center: The Beiyang Government's Economy

While the provincial warlords created predatory fiscal-military states, the central government in Beijing devolved into a "phantom state". Following Yuan Shikai's death, the political structure in Beijing became a "revolving door" of cabinets, each installed by the temporarily dominant military clique (e.g., Anfu, Zhili, Fengtian) [3]. This crippled center had no army of its own and no coercive power over the provinces. As a result, it had no tax base. All major domestic revenues—the land tax, likin, and excise taxes—were "impounded by the provincial militarists" to finance their own armies, as detailed in section 4.2 [27]. The Beijing government was thus left with a "fiscal fantasy": a modern state bureaucracy (ministries, a parliament) with virtually zero domestic income.

The "economy" of the Beiyang government, therefore, rested on two ephemeral sources. The first was the "customs and salt surplus". These were the funds left over from the foreign-administered Imperial Maritime Customs and Salt Gabelle after all foreign loans and indemnity payments (secured against them) were met [15, 16]. This small but reliable stream of "hypothecated revenue" was the sole prize that made controlling Beijing worthwhile. The second, and more important, source was the ability to contract new debt. Gaining control of Beijing meant gaining foreign diplomatic recognition as the legitimate government of China. This recognition was the "key" that allowed the faction in power to act as the legal "borrowing agency" for the state [3].

The most flagrant example was the Anfu clique under Duan Qirui. From 1917 to 1920, Duan's government contracted the infamous "Nishihara Loans" from Japan, totaling some 145 million yen. This money was borrowed "in the name of the 'Chinese Government'" for supposed "development" projects, but was, in reality, funneled directly to Duan to finance his private army in the civil war against his southern and Zhili rivals [3]. Furthermore, to cover daily expenses, these successive cabinets issued "a flood of unsecured domestic bonds" to Beijing and Tianjin banks, using future, non-existent revenues as collateral. By the mid-1920s, the central government's credit was "completely exhausted"; these domestic bonds had "ceased to be serviced" and were "virtually worthless paper" [27]. This "economic implosion of the center" was the inevitable consequence of political fragmentation, leaving the state not only crippled but "hopelessly bankrupt" [27].

V. ECONOMIC STRUCTURE AND DEVELOPMENT IN A FRAGMENTED STATE

5.1 The "Golden Age" of Industry: Fact or Fiction?

This section assesses the central paradox of the era: the well-known "golden age" of Chinese industry, a period (c. 1914-1922) that saw "respectable" and even "rapid" growth in the modern industrial sector [5, 6]. This boom was real: native-owned enterprises, particularly in light industry (cotton textiles, flour milling, cigarettes), expanded dramatically. The number of Chinese-owned cotton spindles, for example, more than doubled in this period, led by industrialist families like the Rongs in Shanghai and Wuxi [6]. However, this paper argues this was a limited, anomalous, and geographically-bound phenomenon, not the sign of a healthy, nationwide economic take-off.

The "golden age" was driven almost entirely by a temporary external shock: the outbreak of World War I [28]. The war forced the great European industrial powers—Britain, Germany, and France—to divert their entire productive and shipping capacity to military ends. This immediately reduced European competition in the Chinese market, as imports of textiles and other manufactured goods plummeted. This created a "hothouse" effect, a temporary market vacuum that Chinese entrepreneurs, for the first time, had the space to fill [6]. It was an opportunity born from external crisis, not from sound domestic institutions or state-led development policies.

Crucially, this industrial boom was overwhelmingly concentrated in a few coastal treaty ports, especially Shanghai, and to a lesser extent Tianjin, Hankou, and Wuxi [29]. These cities functioned as "economic enclaves," partially insulated from the political chaos of the interior described in Section 4. Their institutional environment was entirely different from the rest of China. The Shanghai International Settlement and French Concession, for example, were under foreign municipal administration. Chinese-owned factories operating inside these concessions were protected by foreign law, enjoyed relatively stable property rights, had access to a modern (foreign and Chinese) banking system, and were largely immune from the arbitrary kejuan zashui, currency debasement, and military requisitions of the warlords operating just kilometers away [29].

This growth, therefore, was not "national" but "littoral." It happened in spite of the predatory Beiyang state, not because of it. The entrepreneurs of the "golden age" thrived by leveraging the "borrowed" institutions and security of the foreign-run treaty ports, while the vast hinterland—cut off by likin barriers, plundered by "tax pre-collections," and starved of capital—stagnated or regressed. This was not a fiction, but its foundations were "shallow and fragile," dependent on a unique combination of foreign war and foreign-protected enclaves [6].

5.2 The Dualistic Economy: Treaty Ports vs. The Hinterland

The "golden age" in the treaty ports, when set against the predatory chaos of the provinces, highlights the central structural feature of the Republican economy: a profound and growing divergence into a "dualistic economy". This was not a simple urban-rural divide, but a chasm between two separate institutional, legal, and economic worlds. This dualism was famously captured by R.H. Tawney in his classic study, Land and Labour in China, where he described China as a "country of two worlds" [30]. One world was the (relatively) secure, foreign-connected, and industrializing treaty-port economy; the other was the vast agrarian hinterland, which bore the brunt of warlord extraction.

The first world, centered on Shanghai, Tianjin, and other coastal enclaves, was the "modern, capitalist, and (institutionally) secure" sector. These were, as Marie-Claire Bergère notes, "islands of modernity" [6]. Their institutional framework was guaranteed by foreign municipal police, foreign law courts, and the pax imperialistica of foreign gunboats. Within these enclaves, Chinese entrepreneurs had access to a modern banking system (both foreign and Chinese), stable property rights, and "the jus gentium of the modern business world" [29]. This economy was integrated internationally—exporting light manufactures and importing capital goods—but, crucially, it was "disconnected from its own hinterland" [30].

The second world was the vast interior, which remained pre-capitalist and agrarian. This world was defined by the absence of modern institutions and the presence of predatory political power. As detailed in Section 4, this was a world of total insecurity of property rights, where exorbitant taxes and fees, tax pre-collections, and arbitrary military requisitions were the norm [9, 27]. It was a world of infrastructure collapse, where warlords "destroyed the railways for military purposes" and likin barriers choked off trade [28]. The "rational" warlord extraction, from opium monopolies to currency debasement, systematically stripped the peasantry of its surplus, preventing any possibility of capital accumulation or agricultural modernization [25, 26].

These two economies were not only divergent; the warlord state actively severed the linkages between them. The warlords' destruction of railways and proliferation of internal transit taxes acted as a "tourniquet," preventing the modern treaty-port economy from "radiating" its capital, technology, and organizational models into the interior. The hinterland was not a "traditional" sector co-existing with the modern; it was an "exploited" sector, providing raw materials (like cotton) to the Shanghai mills, but receiving no productive capital in return. All profits were "hoarded" within the safe treaty-port enclaves where they could not be seized [29, 30]. This perverse, fragmented, and dualistic structure was the defining political-economic reality of the Beiyang era.

VI. CONCLUSION

This paper has argued that the political economy of the 1912-1928 period was defined not by modernization, but by the profound and persistent failure of central state-building. The collapse of the Qing left a vacuum that was filled not by a nascent republic, but by a competitive system of regional fiscal-military actors. The primary advantage of this analysis is its integration of political fragmentation as the key independent variable for explaining economic outcomes. It resolves the central paradox of the era: the "respectable growth" noted by economists like Rawski [5] and the "golden age" detailed by Bergère [6] are not contradicted by the political chaos described by historians like Chi [3]; rather, they are explained by it.

Our analysis reframes this paradox by showing how these two worlds co-existed in a dualistic, predatory relationship [30]. The "golden age" was confined to the foreign-protected treaty-port enclaves precisely because the hinterland was being systematically plundered. We have reframed the warlords not as purely chaotic actors, but as rational extractors operating within a "self-help" system [8]. Their pre-collection of taxes [27], debasement of currency [24, 26], and monopolization of assets [25] were not acts of madness, but the logical policies of survival in a system that made long-term national development impossible.

A limitation of this study is the inherent unreliability of economic and fiscal data from the era. As we have argued, warlord finances were not just poorly recorded; they were intentionally opaque—personal, arbitrary, and secretive, with the most lucrative revenues, like opium, kept entirely "off-budget" [9, 25, 26]. This makes a comprehensive quantitative assessment of the hinterland economy impossible and necessitates the institutional, political-economy approach taken here.

The possible applications of this work extend directly to our understanding of the subsequent Nanjing decade (1927-1937). The political-economic agenda of the Nationalist (KMT) government can be directly understood as a point-for-point reaction to the catastrophic state-failure of the Beiyang period. The Nationalists' "obsessions"—which Arthur N. Young detailed from his vantage point as a financial advisor [27]—were precisely to reverse the warlord-era pathologies. The KMT's drive for tariff autonomy (achieved 1929) was a reaction to the foreign-controlled customs system [16]; the 1935 Fabi currency unification was a direct response to the monetary chaos of provincial banknotes [24]; and the military-led push for fiscal centralization was a desperate attempt to destroy the very regional autonomy and extractive power that had defined the warlords [3].

This era thus serves as a crucial, tragic case study in modern state-building. It demonstrates, with brutal clarity, that the absence of a political monopoly on violence—the basic Weberian and Tilly-esque definition of a state [7, 8]—renders sustainable, widespread economic modernization unattainable. The "islands of modernity" in the treaty ports [6, 30] could only exist because a foreign power provided that monopoly. The Beiyang period's ultimate lesson is that development is not simply an economic process; it is, first and foremost, a political-institutional one.

VII. ACKNOWLEDGEMENTS

I was born in an industrial town in northern China. In the memories of our parents’ generation, it was a desolate land forgotten by time—endless reed marshes swaying in the autumn wind, silver-white saline-alkali soil stretching like scars across the earth. Yet it was precisely on this challenging ground that our parents forged their youth into shovels and poured their dreams into concrete. Their perseverance, hard work, and unwavering hope have profoundly shaped my own journey, instilling in me the courage to venture beyond familiar boundaries.

Coming from a background in the natural sciences, I have long been fascinated by social sciences. This study gave me a rare opportunity to explore a new disciplinary perspective and engage with ideas that have long inspired me. I am deeply grateful to the *International Journal of Arts and Social Science* for providing a platform to share this work and realize a personal aspiration—to contribute to social science scholarship despite an unconventional path.

Finally, I wish to express heartfelt thanks to my family and friends, whose encouragement and support have accompanied me throughout this journey, making it possible to pursue this dream.

VIII. REFERENCES

[1] J. R. Levenson (约瑟夫・列文森), Confucian China and its modern fate: A trilogy (《儒家中国及其现代命运：三部曲》) (Berkeley, CA: University of California Press, 1968).

[2] M. C. Wright (芮玛丽), The last stand of Chinese conservatism: The T'ung-Chih Restoration, 1862-1874 (《中国保守主义的最后抵抗：同治中兴》) (Stanford, CA: Stanford University Press, 1957).

[3] H. S. Chi (齐锡生), Warlord politics in China, 1916-1928 (《中国的军阀政治：1916-1928》) (Stanford, CA: Stanford University Press, 1976) 第3页.

[4] E. A. McCord (麦科德), The power of the gun: The emergence of modern Chinese warlordism (《枪杆子的力量：中国近代军阀主义的兴起》) (Berkeley, CA: University of California Press, 1993).

[5] T. G. Rawski (托马斯・罗斯基), Economic growth in prewar China (《战前中国的经济增长》) (Berkeley, CA: University of California Press, 1989).

[6] M. C. Bergère (白吉尔), The golden age of the Chinese bourgeoisie, 1911-1937 (《中国资产阶级的黄金时代：1911-1937》) (Cambridge, UK: Cambridge University Press, 1989).

[7] D. C. North (道格拉斯・诺斯), J. J. Wallis (约翰・瓦利斯), and B. R. Weingast (巴里・ Weingast), Violence and social orders: A conceptual framework for interpreting recorded human history (《暴力与社会秩序：一个解读人类有记录历史的概念框架》) (Cambridge, UK: Cambridge University Press, 2009).

[8] C. Tilly (查尔斯·蒂利), Coercion, capital, and European states, AD 990-1992 (《强制、资本和欧洲国家，公元990-1992年》) (Malden, MA: Blackwell, 1992).

[9] C. Z. Chen (陈铮平), Warlord Finance and the Chinese Economy, Studies in Chinese Economic History (军阀财政与中国经济, 《中国经济史研究》, 2003年第2期, 2003, 75-84页).

[10] A. Feuerwerker, China's early industrialization: Sheng Hsuan-huai (1844-1916) and Mandarin enterprise (Cambridge, MA: Harvard University Press, 1958).

[11] M. C. Wright, The last stand of Chinese conservatism: The T'ung-Chih Restoration, 1862-1874 (Stanford, CA: Stanford University Press, 1957).

[12] J.K. Fairbank and K.C. Liu, The modernization of China, 1860-1916, in J.K. Fairbank and D. Twitchett (Eds.), The Cambridge history of China, 11 (Cambridge: Cambridge University Press, 1980) 1-133.

[13] Y.C. Wang, China's modern public finance: The role of the state in the early phase of modernization, 1850-1911, doctoral diss., Harvard University, Cambridge, MA, 1968. (Published in part as Land taxation in imperial China, 1750-1911).

[14] H.B. Morse, The international relations of the Chinese Empire, Vol. 3: The period of subjection, 1894-1911 (London: Longmans, Green, and Co., 1918).

[15] E.R. Adshead, The modernization of the Chinese salt administration, 1900-1920 (Cambridge, MA: Harvard University Press, 1970).

[16] S. F. Wright, China's customs revenue since the revolution of 1911 (Shanghai: Kelly and Walsh, 1935).

[17] D.R. Reynolds, China, 1898-1912: The Xinzheng Revolution and Japan (Cambridge, MA: Harvard University Asia Center, 1993).

[18] W.C. Kirby, Government and enterprise in twentieth-century China: The case of the Chang-chiu textile company, doctoral diss., Harvard University, Cambridge, MA, 1981.

[19] I. The railway protection movement in Szechwan in 1911, in H. F. Schurmann (Eds.), Modern China, selected readings, 1 (Berkeley, CA: University of California Press, 1967) 130-151.

[20] J.W. Esherick, Reform and revolution in China: The 1911 revolution in Hunan and Hubei (Berkeley, CA: University of California Press, 1976).

[21] 魏秀梅 (X.M. Wei), 辛亥革命与中央财政的解体 (The Xinhai Revolution and the disintegration of central finance), 近代史研究 (Modern Chinese History Studies), 1992(1), 1992, 1-25.

[22] M.C. Bergère, The Shanghai bankers' association, 1915-1927, The Chinese bourgeoisie, 1911-1937 (Cambridge, UK: Cambridge University Press, 1989) 15-34.

[23] E. P. Young, The presidency of Yuan Shih-k'ai: Liberalism and dictatorship in early republican China (Ann Arbor, MI: University of Michigan Press, 1977).

[24] E. Kann (耿爱德), The currencies of China: An investigation of silver and gold transactions affecting China (《中国的货币：中国金银交易调查》) (Shanghai: Kelly and Walsh, 1927).

[25] J.E. Sheridan, Chinese warlord: The career of Feng Yü-hsiang (Stanford, CA: Stanford University Press, 1966) 130.

[26] G. McCormack, Chang Tso-lin in Northeast China, 1911-1928: The sources of his power and the nature of his regime (Stanford, CA: Stanford University Press, 1977).

[27] A.N. Young, China's nation-building effort, 1927-1937: The financial and economic record (Stanford, CA: Hoover Institution Press, 1971).

[28] J. K. Chang, Industrial development in pre-Communist China: A quantitative analysis (Chicago: Aldine, 1969).

[29] S. Cochran, Encountering Chinese networks: Western, Japanese, and Chinese enterprises in China, 1880-1937 (Berkeley, CA: University of California Press, 2000).

[30] R.H. Tawney, Land and labour in China (London: Allen & Unwin, 1932). [6] M.C. Bergère, The golden age of the Chinese bourgeoisie, 1911-1937 (Cambridge, UK: Cambridge University Press, 1989).

Note that the title of the book is in lower case letters and italicized. There is no comma following the title. Place of publication and publisher are given.