

The Economics of China

A little bit of History Part 1



Fall 2020

The Chinese Economy Before 1949



1

¹ *The Kangxi Emperor*, n.d. photograph, viewed 11 September 2020,
< <https://i.pinimg.com/originals/2f/3d/1b/2f3d1ba0396b441732803c43ec7bbfb8.jpg> >.

The Chinese Economy Before 1949

- More than a 1000 years ago:
 - "[W]ith the establishment of the Sung Dynasty in A.D. 960 a relatively successful bureaucratic system spread throughout most of China..., and a remarkably rational pattern for training and selecting high officials became normal".²
 - "The massive expansion of population into the South proves that traditional rents and taxes were set at a level that allowed the peasantry to thrive on hard work in the fields...".³

² William McNeill. 1976. "Plagues and People". NY: Anchor Books. page 151

³ Same source. <https://books.google.ca/books?id=QnyPDQAAQBAJ&lpg=PP1&pg=PA151v=onepage&q&f=false>

The Chinese Economy Before 1949

- The Chinese Economy before 1911: Pre-dominantly agricultural. The textbook mention the following characteristics.
 - A complex and highly productive agricultural technology developed.
 - Three key elements: selected seed varieties, organic fertilizer, and irrigation
 - Farmers had high crop yields per unit of land cultivated.
 - These yields depended on the massive application of human labor to small plots of farmland, so high productivity per unit of land coexisted with low productivity per worker.

The Chinese Economy Before 1949

- The Chinese Economy before 1911: Markets and Institutions.
 - Thick network of markets.
 - Grand Canal linked the food- surplus Lower Yangtze with the food-deficit North China Plain.
 - Institutions:
 - Widespread use of money.
 - Familiarity with large formal organizations.
 - Written contracts commonly used.
 - Supportive legal and customary institutions.
 - Few socially imposed barriers to mobility.
 - Small-Scale, “Bottom-Heavy” Economy in both agricultural and non-agricultural sectors.

The Chinese Economy Before 1949

- The Chinese Economy before 1911: Relative stability, and growing population.
 - China has been (more or less) unified politically over the past 1400 years.
 - The efficient farm economy was able to support a growing population between the 14th and 18th centuries.
 - "Population grew from 72 million in 1400 to around 310 million in 1794, faster than the rest of the world at this time."
 - "Thus throughout all of 'late imperial China' (1368–1911), 'massive population growth with stable long-run living standards [was] the defining feature of the Ming- Qing economy' (Brandt, Ma, and Rawski 2014, 52)."
 - "With its productive economy and about one-third of the global population, China was unquestionably the world's largest economy."

The Chinese Economy Before 1949

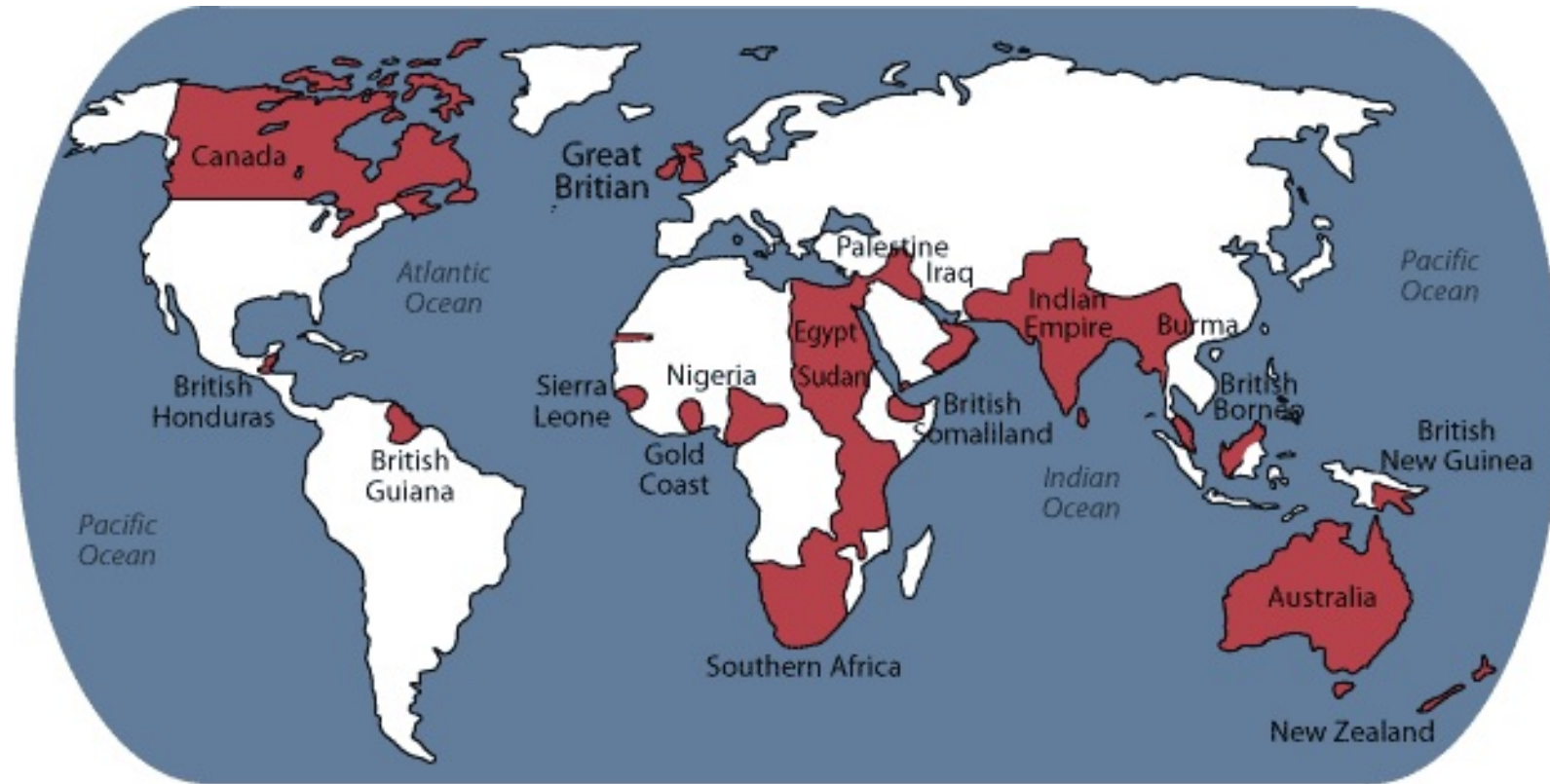
- The Chinese Economy before 1911: The Role of Government.
 - Imperial examination system: A system designed to choose government officials (bureaucracy) based on merit/ability. Started before but became common during and after the Song dynasty (960–1279).⁴
 - Provision of Public Goods: During the Qing Dynasty (1644–1911) the government provided the following services:
 - Internal and external security.
 - Operated granaries.
 - Repaired hydraulic works.
 - Operated a justice system and a national courier network.
 - Still, it was a relatively "small" government.

⁴ <https://www.britannica.com/topic/Chinese-examination-system>

The Chinese Economy Before 1949

- The Chinese Economy before 1911: The Opium Wars and the decline in the 19th century (i.e. the 1800s).
 - By the 19th century, the Chinese state was having internal weakness.
 - However, it still maintained a "trade surplus" with Britain, which was the dominant imperial power of that century.
 - "Traditional Chinese exports of silk, tea, and porcelain produced an inflow of silver that increased the money supply and contributed to economic expansion until the 1820s."
 - "British merchants were unhappy with the steady drain of silver into China and searched for a commodity that would appeal to Chinese consumers and could be imported into China and redress the trade imbalance."

The Chinese Economy Before 1949



5

⁵ *Regions controlled by The British Empire*, n.d. photograph, viewed 12 September 2020, < chnm.gmu.edu/wwh/modules/lesson8/images/sources/world.gif >.

The Chinese Economy Before 1949

- The Chinese Economy before 1911: The Opium Wars and the decline in the 19th century (i.e. the 1800s).
 - The British found an addictive product: Opium.
 - Opium imports caused a social problem: addiction.
 - In addition, the increase in volume of Opium imports shifted the trade balance in the opposite direction.
 - As a result, China attempted to stop importing Opium (which was illegal). ... ?
 - The British responded by starting a war in 1839, which became known as The Opium War.
 - With a weakened state, China had to fight five wars throughout the 19th century.

The Chinese Economy Before 1949



6

⁶ Hayes, JP 2019, *Opium War Imports into China, 1650-1880.*, n.d. photograph, viewed 12 September 2020, < <https://asiapacificcurriculum.ca/sites/default/files/inline-images/opium-imports-web-remove-figure-title.png> >.

The Chinese Economy Before 1949

- The Chinese Economy before 1911: The results and aftermath of The Opium Wars
 - "China was forced to pay reparations to the victors and open more Chinese cities to foreign residence and control."
 - Growing foreign influence and control with foreign exemption from domestic law and foreign control of Treaty Ports (through more than 80 Treaty Ports) and customs revenues.
 - The government became almost bankrupt and unable to properly fulfill its roles.
 - With growing discontent internally, this led to the 1911 revolution and the formation of the Republic of China.

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- Global historical context around the 1911 revolution.
 - New technologies and ideas.
 - British empire reaching its peak.
 - Japanese empire rising (starting from 1868 with Meiji).
 - The United States rising but still focused on the Western Hemisphere (The Monroe Doctrine).
 - World War I (1914-1918).
 - The fall of empires/kingdoms in the aftermath of World War I.
 - Austro-Hungarian Empire and Imperial State of Germany in 1918.
 - Ottoman Empire in 1923-1924.
 - The end of Russian Monarchy (Bolshevik Revolution 1917), and the formation of the Soviet Union in 1923.

The Chinese Economy Before 1949

- The Chinese Economy after 1911:
 - The adoption of new technologies at the time resulted in improved modes of transportation and power generation.
 - "modern factory production grew at 8% to 9% annually between 1912 and 1936", with mostly light industry in and around Treaty Ports and heavy industry in Manchuria (Northeast).
 - Rural areas away from industrial centres suffered:
 - "Many farmers were in debt...40%–55% of households were in debt, paying annual interest rates of 20%–40%."
 - Famines (1920-21, 1928-30, 1936-37, 1942-43).
 - Poverty problem:
 - "The poorest farmers were unable to marry or sustain households..."

The Chinese Economy Before 1949

- The 1937-1949 period: Japanese Occupation and Civil War. (some political context)
 - Japanese occupation of Taiwan and large parts of east and northeast China.
 - The Nationalist government controlled most of unoccupied China.
 - The Nationalist government and the Communists (who did not get along), fought against the Japanese occupation "together" (The United Front).
 - After the Japanese defeat, the Civil War between the Nationalists (Guómíndǎng) and the Communists intensified in 1945-1949.
 - On October 1 1949, the People's Republic of China (PRC) was formed while (some of) the Guómíndǎng fled to Taiwan where they ruled as a one-party system - "much of it under martial law"⁷ - until the year 2000.

⁷ <https://www.nytimes.com/2000/05/20/world/taiwan-s-new-leader-ends-decades-of-nationalist-rule.html>

The Chinese Economy Before 1949

- The 1937-1949 period: Japanese Occupation and Civil War (the economy).
 - In unoccupied China, the Nationalist government controlled firms that owned 70% of the capital and employed 32% of the labor.
 - These numbers increased further as the government "inherited" Japanese controlled firms after Japan's defeat.
 - China's per capita GDP as a percentage of world per capita GDP continued to decline.
 - Corruption and spiraling inflation (hyperinflation) that destroyed the value of the currency and savings.
- The PRC inherited some infrastructure and an industrial base along with economic chaos and poverty (especially in rural regions).

Suggested Videos and Readings

- The Silk Road.
<https://www.youtube.com/watch?v=vn3e37VWc0k>
- Chinese Traditional Education: Imperial examination system.
<https://www.youtube.com/watch?v=rWcAlUzVocw>
- The Opium Wars in China.
<https://asiapacificcurriculum.ca/learning-module/opium-wars-china>
- The Chinese Civil War.
<https://www.britannica.com/event/Chinese-Civil-War>