
Economic Change in China, c. 1800–1950

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Analytical frameworks

The analysis of the emergence of modern economic development in China has centred on four issues: the categorisation of the overall experience within the spectrum from decline through stagnation to growth and development; the extent of the foreign involvement and the nature of its relationship to the domestic economy; the complex interaction of forces which determined the dynamics of change in the increasingly labour-abundant land-scarce rural economy; and the role of the state.

The debate has progressed through a symbiotic interplay between the formulation of a series of theoretical constructs and the presentation of a widening body of empirical data. As methodological weaknesses in the constructs have been revealed, as the empirical perspective has changed and as the ideological and political parameters have fluctuated, new approaches have opened up, new priorities have emerged and the enquiry has moved on.

Analytical development, however, has not altogether brought resolution. There is still no firm consensus on how the overall historical growth trajectory should be characterised, on the significance of the foreign influence, or on the explanations for change in the rural sector. Moreover, there are doubts about whether the various individual conceptual frameworks can adequately explain the main features of China's economic history as they are perceived and, perhaps most seriously, there are question marks over the validity of some of the assumptions which underwrite those frameworks. For one leading writer in the late 1980s, the existing constructs had not provided, and could not provide, a persuasive explanation. The whole field was portrayed as having

reached 'a paradigmatic crisis' where it was necessary to 'rethink assumptions and address the fundamental issues in new ways' [9: 299].

For at least two decades after 1949 most economic historians employed one of two very different approaches in their analysis of Chinese history, concentrating on either the effects of feudalism and imperialism or the relationship between tradition and modernity [33]. Chinese scholars preferred the former, Western scholars the latter. Chinese writers, inevitably, built their analysis around a Marxist framework. The economy was seen as pre-capitalist and feudal – or rather as 'semi-feudal' – to signify a partly colonial society undergoing the transition from feudalism to capitalism. The analysis centred on the extraction of surplus value from peasant producers by an exploitative ruling landlord class and on the fate of a 'natural' subsistence economy where farming and handicraft production were tightly integrated. In this picture Western imperialism served both to reinforce the feudal institutions (and thereby heighten the potential for exploitation) and to undermine the handicraft basis of the 'natural' economy.

The identification of 'incipient capitalism' in the form of certain elements of commercialisation and capitalist production offered a corrective variant to this diagnosis with its implied acceptance of a Western 'invention' of capitalism. But, even if no longer viewed as unchanging, the economy continued to be seen as backward and unable to advance into industrial capitalism not simply because the imperialist presence perpetuated feudal exploitation and destroyed the handicraft sector but also because Western capitalist enterprises pre-empted or 'oppressed' the indigenous 'capitalist sprouts' and drained resources from the economy [9].

Within the alternative paradigm the West was initially seen as representing, and offering to China, the superior and beneficial forces of modernisation. That China did not respond to this Western impact was accounted for in a Weberian manner by emphasising the inhibiting traditional conservatism of the Chinese culture and of its social, political and economic institutions [5]. Prevailing cultural values prevented the state from promoting, and the economy from taking advantage of, the forces of modernisation offered by the West. Change within tradition was the most that could be achieved [2: 57–78; 26: 9–10, 300]. Modernised

enclaves were established in the Treaty Ports but the vast rural hinterland remained unaffected.

Some historians, perhaps instinctively, were cautious about accepting this exclusively, or even predominantly, socio-cultural interpretation and it began to be countered and revealed as unconvincing. The mutually exclusive dichotomy between tradition and modernity was challenged and there has been a growing recognition that, at the very least, the values and beliefs of the traditional society were not all incompatible with change or even development in a Western sense [2: 80–2]. Indeed, further research began to suggest that ‘late-traditional Chinese values and ideas were in most respects already suitable for modern economic growth’ [106: 380].

From an economic perspective two variants emerged. On one side there were those who resisted any idea of a self-evidently positive gift of Western modernisation and came to see imperialism as damaging to its host – a line which culminated in the application of the ‘development of underdevelopment’ thesis and veered more towards the Chinese viewpoint [24]. On the other came a more aggressive defence of the positive features of Western contact. Western intervention, it was argued, did not lead to the destruction of Chinese handicrafts or to the systematic ‘oppression’ of indigenous producers or to a net drain of resources from the economy. Rather the outcome was positive, if limited modernisation. For Hou, whatever development there was emanated from contact with the West [120] and more recently Rawski has re-emphasised the stimulus given to the Chinese economy by foreign trade and investment [92]. Paradoxically, a similar line was taken in the 1980s by some Chinese writers reflecting the changed perceptions of the Deng Xiaoping reform era [118].

In a sense Western and Chinese approaches were similar, for both assigned the dominant role in the shaping of China’s modern economic history to the influence of the West. They also shared a common belief in the emergence of a dual economic structure with an advancing Western-inspired (or dominated) urban Treaty Port economy set against an unchanging and probably deteriorating traditional pre-modern rural economy. Both fostered a stagnationist view of the economy.

More recently, these approaches have come to be seen as

excessively Western-centric and empirically unsound. As Cohen has pointed out they rest on the application of paradigms derived largely from the Western European experience which cast the West in the role of catalyst to an otherwise static Chinese economic environment and assigned to the West the decisive influence on Chinese policy-making [2: 6]. The identification of this conceptual shortcoming was reinforced by the findings of a number of important empirical studies. There was, for example, a growing recognition that China's pre-modern economy already functioned as a sophisticated and integrated market system. In addition, it began to be argued that quantitatively the economic impact of the West was not as great, and could not have been as great, as had been thought or implied. The physical presence of the West was geographically modest (at least until the 1930s), the volume and value of flows of goods and financial services through the Treaty Ports were found to be small in relation to the economy as a whole and the composition of those flows was such that they were seldom competitive with indigenous suppliers [91; 108]. The Western impact, in short, could not have influenced the overall economic performance significantly one way or the other. It seemed that the major Western influence on China was on its psyche rather than in its pocket and that China's responses remained overwhelmingly directed towards solving problems in Chinese ways [53: 33, 92–107; 117: 30, 39]. As a result, neither the feudalism/imperialism nor the tradition/modernity dyads in their original formulations appeared capable of providing a satisfactory analysis of the process of change, particularly as far as the rural economy was concerned. New, and rather different, constructs were required.

The way forward proved to be the application of a broadly Smithian classical approach which sought to encapsulate the Chinese experience within a framework which assigned the crucial dynamic role to the market against a background of population pressure on resources. The seminal work in what was to be a sequence of initiatives focusing on internal economic mechanisms was provided by Mark Elvin [4: 298–316].

Elvin's concern was to explain China's longer-term inability to maintain an earlier (twelfth-century) technological leadership and he sought to do so through what he defined as a 'high-level

equilibrium trap' model. This Malthusian extrapolation postulates an economy in which technology (in this case pre-modern technology) determines the upper limit on the output generated by the available inputs of land and labour. Over time, as the technological frontier is reached, as best practice technology is generalised and as population presses on land the rate of output growth slows and eventually, with the onset of diminishing returns, becomes negative. An equilibrium position occurs when the potential output boundary is reached and intersects with the subsistence requirements of the population. Progress depends on raising the technological frontier and this can only be achieved by a breakthrough into modern technology. As the trap approaches closure, however, the surplus available for investment in that technology and the consumer demand base necessary to stimulate the breakthrough are both squeezed. The economy has neither the ability nor the incentive to advance.

In Elvin's view, this was precisely what was happening in China. Agricultural and industrial technologies were approaching, or had reached, their pre-modern frontiers. Crop yields were high even by modern standards and the existence of extensive commercial and transportation networks precluded a productivity boost from market integration. With the population rising more rapidly than land under cultivation, only a breakthrough into large-scale (and therefore expensive) modern technology could have held out the prospect of raising productivity levels significantly and so the creation of an income margin above subsistence. In these circumstances, the dominant agrarian economy could not finance, or stimulate the demand for, the industrial revolution in the non-agricultural sector necessary to facilitate the required breakthrough. China was caught in a high-level equilibrium trap. For Elvin, the impasse had been reached by the end of the eighteenth century. Others pushed the blockage forward. Dernberger argues for a closure by the end of the nineteenth century whilst Perkins selects the middle of the twentieth when the Manchurian safety valve had been exhausted [117: 26; 82: 32–5].

This approach proved highly influential, indeed some writers accepted the trap as the Chinese reality rather than as a device for analysing that reality. There are, however, a number of weaknesses with the model and its application, particularly for the period after

1800. In the first place it underestimates the capacity for low-level but cumulatively significant adjustment within a peasant economy. To postulate, even as a theoretical possibility, an economy which could operate at the full potential permitted by any technological frontier where all producers had adopted best-practice techniques would be to propose something remarkable – indeed unobtainable – about that economy. Secondly, even if the model is more persuasive in its analysis of the consequences of a convergence towards a trap closure its application has been undermined by calculations which suggest that there was still a substantial surplus over and above subsistence in the 1930s [93]. Furthermore, it is self-evident that after 1800, as modern technology and foreign capital became available, the trap could be raised.

Elvin, in fact, has abandoned the equilibrium trap as a means of analysing the post-eighteenth-century economy and now argues that the combination of low labour costs and the absorption of low-level modern technology served to reinforce the competitiveness of the pre-modern economic system and strengthen its hold. The problem was no longer one of ‘paying for progress’ but of ‘making progress pay’ and the result was a state of ‘pre-modern over-development’ in the hinterland [4].

A similar, although in important respects different, line of analysis was advanced by Kang Chao. Here the crucial theoretical intersect is not where total output equals subsistence requirements but the point at which the marginal product of labour in agricultural production equals its subsistence cost. Beyond this point, additional labour inputs cannot cover their subsistence requirements and a ‘surplus’ population arises. According to Chao China could, and did, not only reach this point but move much further beyond it than the European economies because population growth was determined more by cultural and social than by economic factors and because of the greater sophistication of the mechanisms for income distribution, both state and familial [1: 8–9]. This surplus labour force and the sub-subsistence wage that it commanded was the means by which household handicraft production could continue to compete with factory production and preserve the ‘natural’ economy. Non-transformative but limited advance was now seen as a function of the peculiarities of China’s labour-surplus land-scarce economy.

Running parallel to these studies other, more quantitative, enquiries further undermined the picture of stagnation and some indicated the onset of growth and development in the twentieth century. There are virtually no quantitative data for the nineteenth century and even for the twentieth century the coverage is insufficient to allow a definitive picture to emerge. Nevertheless, John Chang's time series has established a growth rate in excess of 5 per cent for modern industrial production over the period 1912 to 1949 (9.4 per cent 1912 to 1936) [96: 71] and Perkins' early estimates identified a rise in national income and cautiously ruled out any fall in average per capita incomes [91: 122–3]. More recently Rawski has argued forcefully that the agricultural sector as well as the modern economy was characterised by output gains and, more significantly, advances in per capita incomes [92]. If confirmed, this will be crucial. In an agrarian economy welfare gains for the majority of the population were only possible if agricultural output (and incomes) rose more rapidly than population.

Explanations for these more optimistic findings were sought, in an extension of the modernisation thesis, through the logic of the market [12; 67; 79; 92]. The openness of the market structures which characterised the traditional economy, with large numbers of suppliers facing large numbers of consumers, indicates highly competitive product and factor markets. The more firmly this could be established, the more persuasively it could be argued that the rural economy approximated to perfectly competitive market conditions where producers took rational profit-maximising decisions and adjusted output and production techniques in response to changes in marginal costs and revenues. Rising output and increased labour productivity became the inevitable outcome of open, competitive and widening market conditions as China became more fully integrated into world markets from the late nineteenth century. The stagnation thesis had been turned on its head. Commercialisation, far from being the means by which the 'natural' economy and incipient capitalism were undermined, became the means by which growth was generated.

This new position, however, has not gained universal acceptance. There are reservations about Rawski's growth calculations and doubts have been expressed about the reality and the logic of

perfectly competitive market commercialisation. For Huang, markets continued to be weighted against peasant producers and, whilst the rural economy was characterised by growth, it was growth without development [75; 76]. Output and family incomes may have risen, but labour productivity expressed in terms of output per unit of labour did not. Peasant producers were driven by a subsistence imperative rather than by the pursuit of profit maximisation. Peasant families ‘involuted’: they sought to protect incomes as they came under pressure from decreasing farm size by increasing labour inputs beyond the point where marginal revenue fell below subsistence needs.

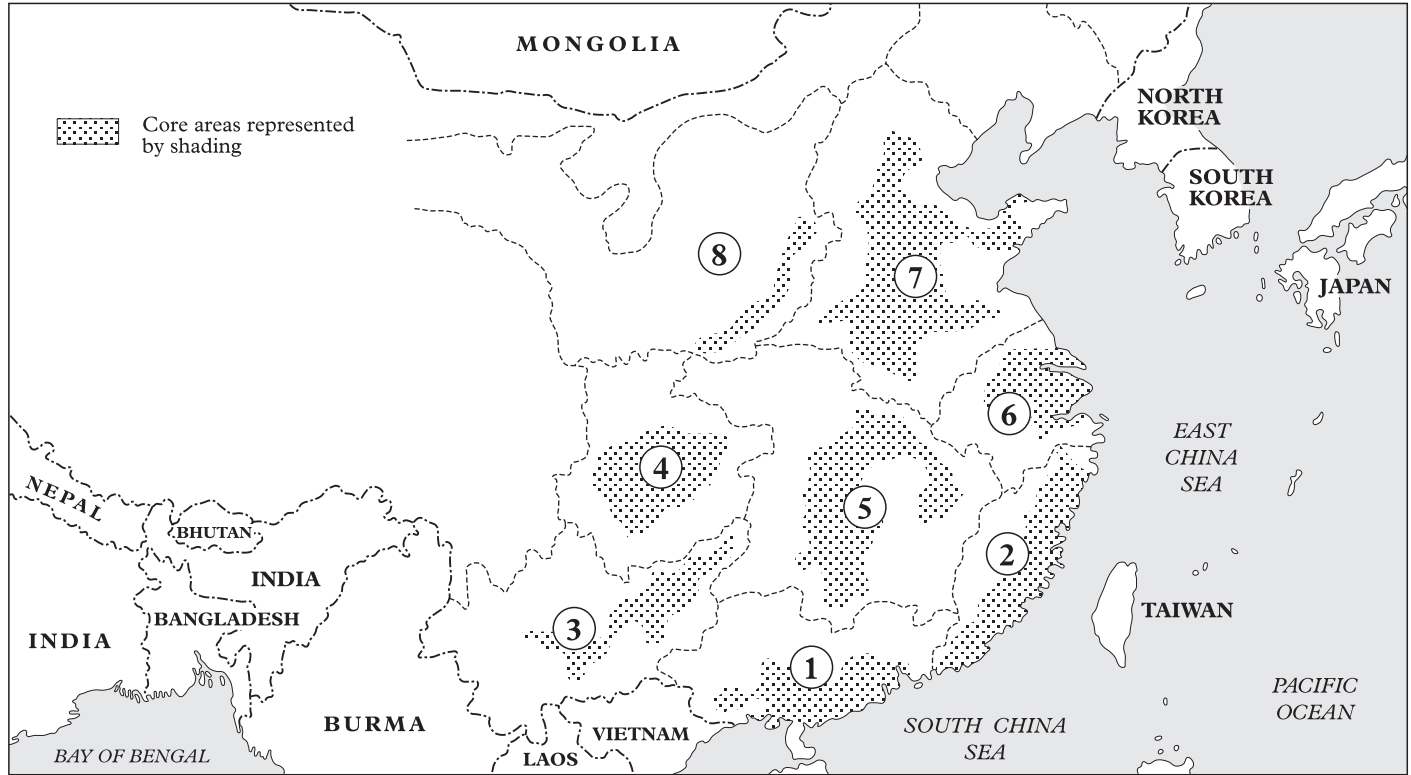
In Huang’s view, not only did the rural market structure fall far short of the perfectly competitive ideal, but peasants behaved irrationally in a classical Smithian sense. It was the paradox between vibrant commercialisation and falling labour productivity which, for Huang, lay at the heart of the paradigmatic crisis. Growth without development (defined as rising labour productivity) calls into question the universality of the classical (and indeed the Marxist) assumption that market-driven commercialisation inevitably induces a sequence of specialisation of function, efficiency gain, innovation, capital accumulation and development.

Most recently, R. Bin Wong has extended and deepened the application of Smithian dynamics by placing the analysis more firmly in a comparative Eurasian framework. Wong stresses the similarities between the European and Chinese experience prior to the nineteenth century in terms of population growth, agrarian development and proto-industrialisation, and reinforces the view that the subsequent transformation into rapid urban industrialisation represents a qualitative leap which was not inevitable and which was not predicted by contemporaries, even Adam Smith himself. For Wong, the dynamics of proto-industrialisation are analytically different from those of urban industrialisation and whereas Europe escaped from the limitations of the former China did not. What separated the two was the lack of agrarian class differentiation in China and Europe’s historically specific ability to capture additional resources through overseas discoveries, to harness mineral sources of energy in an unprecedented manner and to enhance the momentum created by technical change through institutional innovation. This line of analysis only rein-

forces the danger of applying Eurocentric assumptions about the process of economic change and places stress on the viability and durability of the Smithian path of commercial expansion and specialisation and its relationship with the largely independent emergence of industrial capitalism which, in the case of China, did not take place until the first third of the twentieth century [15: 38–52].

Underpinning all of these approaches lies the need to recognise and accommodate China's physical heterogeneity. A variety of strategies has been suggested. There is the straightforward littoral (coastal)–hinterland (interior) dichotomy. There is Cohen's almost metaphysical distinction between the outermost, intermediate and innermost zones [2: 53–5], and Elvin's division between the Treaty Ports, the rural hinterland, the areas of adequate national resources (Manchuria and Taiwan) and Outer China (Inner Mongolia, Xinjiang and Tibet) [6]. And, within the agricultural economy, recognition needs to be made of both the major climatically determined crop variations and the high degree of local ecological variation [68; 74; 75]. Perhaps most influential is Skinner's 'macro-region' approach [30]. Here China (excluding Manchuria and Outer China) is divided into eight macro-regions most of which are the size of France (see map 2). The divisions are essentially topographical, in that each region possesses a geographical and technological distinctiveness encompassing within it a riverine core and a relatively less advanced periphery. These disaggregations can accommodate both spatial and temporal variation in the form and pace of change, but China's size and diversity determine that the experience of any one area, however defined, may well have little relevance for any other or for the economy as a whole.

The conclusion which follows from this historiographical survey of the various analytical approaches to China's economic history is that whilst none can provide all of the answers to the exclusion of the others, all are capable of providing insight into the complex and varied experience of the process of economic change. Indeed, all may be required if that complexity is to be encompassed. It should also be recognised that whilst there is no alternative but to generalise, almost all general characterisations of the Chinese experience are liable to be misleading.



Map 2. China: physiographic macro-regions. Core areas represented by shading: 1. Lingnan; 2. Yun-gui; 3. Southeast coast; 4. Upper Yangzi; 5. Middle Yangzi; 6. Lower Yangzi; 7. North China; 8. Northwest China. Source: adapted from [3: 121–2; 30: 214–15].