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State-Building, The Original Push For Institutional Changes In Modern China, 1840-1950

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Abstract

The period of 1840 (when the Opium War broken out) till now is commonly regarded as China's modern era, 'modern' in terms of China's departure from its original growth and developmental path. In this context, the term modern has been intimately associated with something alien to the Chinese indigenous culture and pattern.

There are several distinctive features for this period of 150 years (1840–1990). First, China did not begin with zero or primitivism. Up to *c*. 1800, China also produced roughly a third of the world total manufacturing output, ahead of the West (about 20 percent of the world total) by a significant 10 percent in the world total. In around 1830, China still matched the West reasonably comfortably. However, there was a dramatic change after 1840. In 1900, China's share of manufacturing output declined to 6 per cent while the share of the West shot up to 77 per cent. Second, unmistakably changes during this period began with external shocks in the form of *force majeure* from the newly industrialised/industrialising modern powers. Table 1 contains main events marked by treaties between those powers and Qing China. Just about all such powers were actively involved.

Third, changes in China during this period were both frequent and often extreme with the direction shifting from time to time. It all began with the Nanking Treaty Reform (1842) which opened the floodgate for foreign powers to move in China and dismantle institutional barriers for China's domestic market in the strict classical and neo-classic sense.

Fourth, the results of these changes were mixed and messy.

With these features in mind, it presents a challenging task to investigate why and how the changes occurred and what were the

consequences. It is equally challenging as for how to evaluate these changes and their consequences. So, despite the amount of efforts made in what is broadly called ‘Chinese studies’, a critical point with which our comprehension of the nature and magnitude of the Chinese economic growth/development seems to have yet been passed. It is no exaggeration therefore that the Chinese economy during the modern era is one of the least understood in the world.

But why does state-building matter? Empirically, at least in China’s past, state-building was always associated with a cluster of major changes, marking the beginning of an array of new developments in terms of (1) changing the ‘game’ and its rules at all levels, (2) altering growth trajectory of the economy, and hence (3) breaking away from the old historic continuity. But, these new institutions were not necessarily beneficial and inductive to growth and development as time went on. They led to a deadlock for the premodern Chinese economy. Thus, state-building gives us some very promising hints in tackling modern Chinese economic history in general and in investigating and explaining, in a coherent way, all the main features of China’s modern economic history in particular. To introduce state-building into a model will thus not only fill in the vacuum but also ensure a factual and dynamic thrust in the study. This new dimension will transcend the narrow approach of the ‘state-market’ paradigm which leans too much towards the Western European experiences. This is essential in analysing Maoist planned economy.

1. Main features of the modern economic history of China

The period of 1840 (when the Opium War broken out) till now is commonly regarded as China’s modern era, ‘modern’ in terms of China’s departure from its original growth and developmental path. In this context, the term modern has been intimately associated with something alien to the Chinese indigenous culture and pattern.

There are several distinctive features for this period of 150 years (1840–1990). First, China did not begin with zero or primitivism. In the Song (960–1279 A.D.) and post-Song periods (till *c*. 1800), China seems to have had nearly all the important ingredients for further development and even possessed at times major characteristics of an incipient industrial (Elvin 1973), and perhaps reached within a hair's breadth of industrialising later in the fourteenth century (Jones 1981: 160). From 1550 to 1700, China was the single largest silver importer in the world, taking in roughly a third of the metal output of the New World.[1] This in itself necessarily qualifies China as a major exporter of goods and services as the imported silver was only one side of the equation of trade. Up to *c*. 1800, China also produced roughly a third of the world total manufacturing output, ahead of the West (about 20 percent of the world total) by a significant 10 percent in the world total. In around 1830, China still matched the West reasonably comfortably. However, there was a dramatic change after 1840. In 1900, China's share of manufacturing output declined to 6 per cent while the share of the West shot up to 77 per cent (Kennedy 1987: 149; also Huntington 1996: 86). China's decline was thus 80 percent from its 1830 level with an annual rate of 8.9 percent. In contrast, the growth achieved by the West was 385 percent with annual rate of 8.4 percent. Here, the rate of China's loss and that of West's gain moved like a seesaw.[2] The same symmetrical pattern occurred in the world GDP: in around 1820, the

[1] It has been estimated that a total of some 7,000 metric tons of the metal was imported by China (von Glahn 1996: 140, 232; Deng 1997: 120–1). This matches the general hypothesis that China was once rich. Given the existence of an equalitarian structure, ordinary Chinese were well off (see Deng 1999a and 2003).

[2] It is known that during 1830 to 1899 the industrial output in Britain, the leader of the West of the time, merely increased on average 2.2–3.4 percent per annum (for the more optimistic estimates, see Sylla and Toniolo 1991:110). This suggests that the growth in the Western industrial output was only a part of the explanation of a global reshuffle in manufacturing shares. Using Britain as a proxy, some 5.5 to 6.7 percent of growth in the Western share was likely to be achieved due to the retreat of non-Western economies from the industrial arena in the absolute sense. China was undoubtedly experienced such retreat. In other words, there was to a great extent a zero-sum game.

West commanded about 25 percent of the world total which increased by 1913 to 55 percent while during the same period the share for Asia (mainly China and India) dropped from 56 percent to 22 percent (Maddison 2001: 127). On the whole, China was a rare case in the world history that an economy fell from the top to the bottom in the developmental pyramid in a space of just 60 years, and that a developing country struggles to recover from its lost ground in the world economy in the last 160 years and still has not got it quite right.[3]

Second, unmistakably changes during this period began with external shocks in the form of *force majeure* from the newly industrialised/industrialising modern powers. Table 1 contains main events marked by treaties between those powers and Qing China. Just about all such powers were actively involved. The gains for the foreign powers included (1) cuts in customs duties (2) right of consular jurisdiction on China's soil, (3) free access to China's interior, (4) free trade of goods, (5) permanent residency for foreigners, (6) free access to trading ports, (7) right to deploy foreign armed forces, (8) right to build factories, (9) right to recruit Chinese labourers for overseas markets, (10) war reparations, (11) right to build railways, (12) territorial cessions and concessions, (13) unilateral most-favoured-nation treatment for trade.

[3] If one follows Gerschenkron's hypothesis of the advantage of relative backwardness in a catching-up growth and development (Gerschenkron 1962), China's slow motion in growth and development implies the opposite: i.e. China did not have the Gerschekronian advantage because the economy was once rather advanced.

Table 1. Treaties between China and Foreign Powers, 1842–1901

Date:	Name:	Beneficiary:	Main Benefit:
1842	Nanjing (Nanking) Treaty	UK	Pt, Rp, Tr, PR
1843	Humen Treaty	UK	UF, CJ, CC, PR
1844	Wangxia Treaty	USA	Pt, UF, CJ, RD
1844	Huangpu Treaty	Fr	Pt, UF, CJ, CC
1845	Shanghai Concession Agreement (I)	UK	Tr, PR
1854	Shanghai Concession Agreement (II)	Fr, UK, USA	Tr
1858	Tianjin Treaty	Rs	Pt, UF, CJ, RD
1858	Tianjin Treaty	UK	Pt, Rp, UF, CJ, CC
1860	Beijing (Peking) Treaty	UK	Pt, Rp, Tr, RL
1860	Beijing (Peking) Treaty	Rs	Tr, Pt, CJ, FA
1868	Tianjin Treaty Attachment	USA	RR
1868	Camphor Treat	UK	FT
1876	Yantai Treaty	UK	Pt, UF, CJ, FA
1880	Beijing (Peking) Treaty	USA	RL
1886	Vietnam Border Trade Agreement	Fr	CC
1887	Beijing Business Agreement	Fr	CC, Pt, UF
1887	Beijing (Peking) Treaty	Prt	Pt, CJ, Tr, PR, UF
1895	Maguan Treaty	Jp	Tr, Rp, Pt, CC, RF
1896	Beijing (Peking) Treaty	Jp	UF
1898	Jiaozhou Bay Concession Treaty	Gm	Tr, UF, RR

1898	Lü-Da Concession Treaty	Rs	Tr, RD, RR
1898	Fuzhou Concession Agreement	Jp	Tr, UF
1898	Hong Kong Expansion Agreement	UK	Tr
1898	Weihaiwei Concession Agreement	UK	Tr
1898	Guangzhou Concession Agreement	Fr	Tr, RD, RR
1901	1901 Peace Treaty	Ast, Bl, Fr, Gm, Hl, Itl, Jp, Rs, Sp, UK, USA	Rp, RD
Total:	26	12	73

Source: Based on Zhang D. 1990: 874–80.

Note: Ast–Austria, Bl–Belgium, Fr–France, Gm–Germany, Hl–Holland, Itl–Italy, Jp–Japan, Prt–Portugal, Rs–Russia, Sp–Spain.
CC–Cuts in Customs Duties; CJ–Consular jurisdiction; FA–Free access to the interior; FT–Free trade of goods; PR–Permanent residency for foreigners; Pt–Free access to trading ports; RD–Right to deploy foreign armed forces; RF–Right to build factories; RL–Right to recruit Chinese labourers for overseas markets; Rp–War reparations; RR–Right to build railways; Tr–Territorial cession and concession; UF–Unilateral most-favoured-nation treatment for trade.

This part of the Chinese history is commonly known as ‘opening up China’s door for trade’. But if one puts all the clauses of the treaties under scrutiny, this is an understatement. ‘Disarming China from any trade protection’ is far more accurate. To open up China for more trade, the foreign powers only needed at most four of the above thirteen

concessions, namely (1), (3), (4) and (6). The rest nine areas clearly represent an over-kill. Such an over-kill was not a solution but a problem for the years to come.

On the other hand, it is questionable whether free trade was what the Chinese really needed. With the downfall of the Qing monopoly known as the '*co-hong* system', China's economic rent from foreign trade was removed, too. So, it was not a sheer accident that the respectable Chinese standards of living began to crumble in the wake of the Opium War (see Deng 1999b: ch. 5; Pomeranz 2000).

Third, changes in China during this period were both frequent and often extreme with the direction shifting from time to time. It all began with the Nanking Treaty Reform (1842) which opened the floodgate for foreign powers to move in China and dismantle institutional barriers for China's domestic market in the strict classical and neo-classic sense. The Chinese response at the grassroots to such a market change was to reset the clock back in history with the abortive regime of the pro-Christian Taipings (1850–64, Taiping Heavenly Kingdom). The leadership on the other hand, made a desperate bid of the Meiji top-down type to rebuild China's national defence (1861–95, 'Self-strengthening Movement' and 'Westernisation Movement'). The direction of change then deviated to the French 1789 Revolution type to dismantle the empire system under the ideal of republic with the pro-developmental 'Three Humanity Principles (*sanmin zhuyi*)' ('1911 Nationalist Revolution'). This was followed by the pro-democratic movement with '(western) science and (western) democracy' as the saviour of the frail and failing civilisation (1919, 'Fourth of May Movement'). Meanwhile, there were the emergence of de facto feudalism (1911/7–27, 'Warlordism') and a brief period of peace, tranquillity and market prosperity (1927–37, the 'Nanjing Decade'). After

1949, China adopted Soviet centrally planned economy (1949–77,[4] Mao's despotism).[5] With near-complete international isolation together with internal regional ISI,[6] the economy plumaged into chronic mismanagement with repeated political shocks to the economy. Apart from these changes, there were more minor turns and twists for each decade during this 150-year period. The scale and scope of changes in modern China are indeed phenomenal by any standard.[7]

Fourth, the results of these changes were mixed and messy. One may insist that China gradually moved towards a better world, a world of modernity, as an industrial growth became the obsession of the Chinese policy-makers in most periods. One may also cite some events as evidence, typically China's membership in the nuclear club and performance in world sports. These may all be true. However, from China's own track record for 1840–1990 by and large the general conditions for sustainable economic growth and development were poor, just to mention the fact that China's fragile peace and unity was brutally ended by Fascist Japan (1931–45, counting Japan's colonisation of Manchuria) and civil war (1945–9), and that the economy was nearly self-destroyed at least twice during the notorious Great Leap Foreword (1958) and Cultural Revolution (1966–76).[8] Large proportions

[4] About 36% of this period, 1966–76, is known as the 'Cultural Revolution'. Less known is that this period is also called 'Red Terror' (*hongse kongbu*).

[5] Many scholars have used Mao's regime as a living model for premodern China, unaware that the Chinese own culture did not automatically produce despots in the past (while the Soviet system does always) (see Will 1990; Will and Wong 1991; Leonard and Watt 1991; Deng 1999a: chs 2–4). So, Mao was not another Chinese emperor in a Mao's suit but another Stalin with a Chinese face.

[6] ISI stands for 'import substitution industrialisation'. In the hands of Mao, it corrupted to something very narrow, called *xiao er quan*, meaning 'small but self-sufficient'. This is the worst possible type of ISI as it denies any regional economic advantage and benefit from even internal trade.

[7] Factually speaking, modern China depended much on outside world for inspirations and models to operate. Even most narrow-minded leaders like Mao had to read Marx and learn English. Therefore, it is hard to justify the allegation that China was xenophobic during the post-Opium War era.

[8] These only represented probably the tip of the iceberg according to Mao's own infamous 'perpetual revolution' (*buduan geming*) which was justified by nothing but being proletarian (*qiong ze si bian*, literally 'poverty always drives for changes'). Such

of the ordinary people were systematically improvised and perished, often completely unnecessarily. The basic fact is that overall the tangible material life of the ordinary people was hardly improved in large part of Mainland China until the end of the 1980s regardless of what have been claimed by Chinese leaders in Sahhaf's fashion.[9]

Last but not the least, despite the what achievement that China had allegedly made for this period, the quantity and quality of data for the economy remained rather non-modern, not to mention official manipulation and distortion. The fragmentation in data for even the most basic factors has been subject to a lasting debate among scholars both inside and outside China.[10] It is thus very hard to piece together a picture to accommodate coherently all the main aspects of the economic life in China.

With these features in mind, it presents a challenging task to investigate why and how the changes occurred and what were the consequences. It is equally challenging as for how to evaluate these changes and their consequences. So, despite the amount of efforts made in what is broadly called 'Chinese studies', a critical point with which our comprehension of the nature and magnitude of the Chinese economic growth/development seems to have yet been passed. It is no exaggeration therefore that the Chinese economy during the modern era is one of the least understood in the world (Lee and Wang 1999: 29).

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a revolution only came to an abrupt stop at Mao's death. With hindsight, Mao's behavior can be summed up in just one sentence: 'After me the Deluge!'

[9] Mohammad Al Sahhaf, Iraqi Information Minister (2001–March 2003), a notoriously thick-skinned facile liar who, during the 2003 war to disarm Iraq, insisted on an Iraqi military victory even when the coalition forces practically put a gun at back his head.

[10] One of the symptoms of such problem is the wide use of estimates when coming to measure China's performance (see for example, Maddison 1998 and 2001).

2. Key issues and approaches for this study

Several key issues need to be addressed first to set the tone for this study. The key aspect of China's modern history is the frequency, degree, scale and scope of changes in society. China has changed beyond recognition since 1840, especially in its socio-economic structure.

One main objective of this study is to decode the rationale, nature, and mechanisms behind these changes and to piece together the effects of these changes. The overall approach adopted is a factual one, i.e. all the claims must be judged by facts instead of intentions of the leaders and organisations.

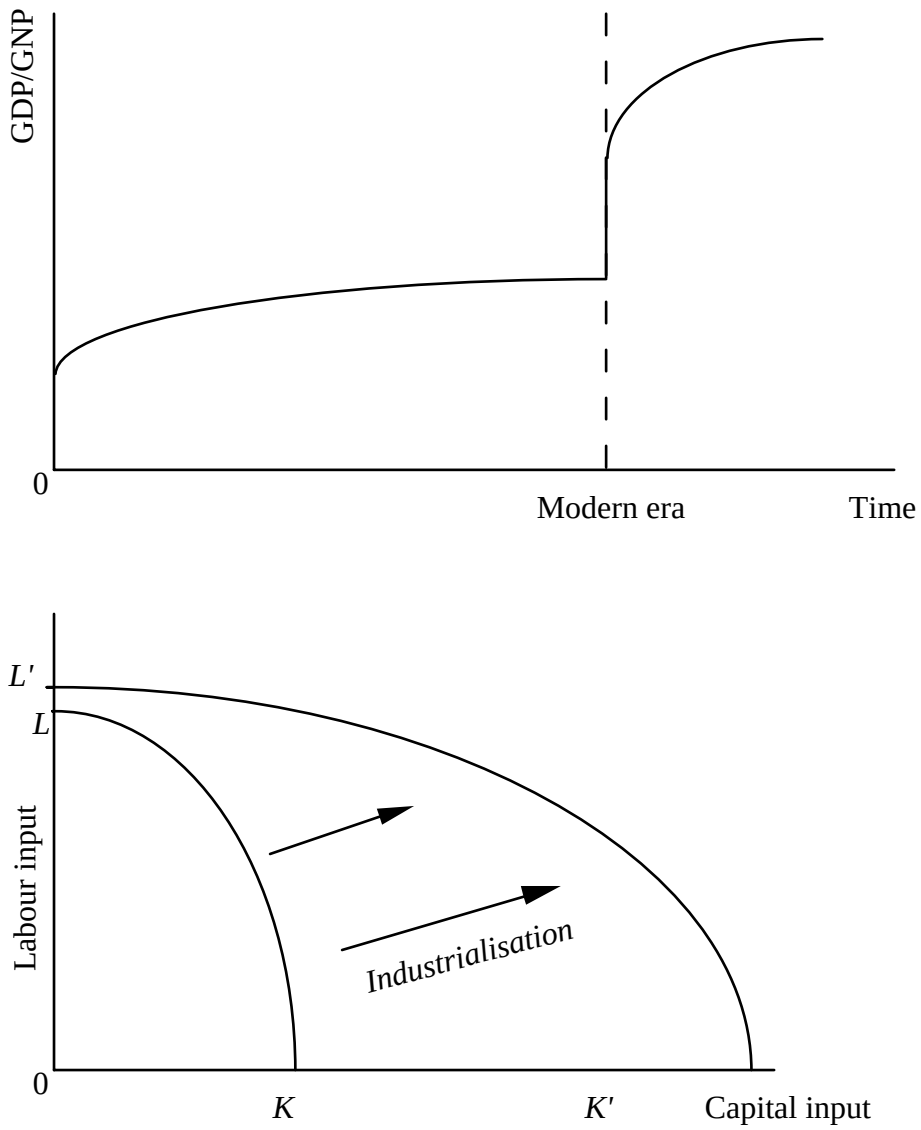
a. Nature of changes: transition, transformation or transmutation?

Most scholars under the neo-classical influence believe in an economic transition which is universally applicable as patented by Arthur Lewis (1983a and 1983b). Lewis also suggests that the market alone is capable of moving the economy towards modernisation worldwide.[11] For the transitionists, despite the notion of dualism, changes in a modernising economy are mainly quantitative despite a quantum leap in the magnitude of the total GDP/GNP during and after the transition. In terms of inputs, on the other hand, transitionists see a change in the production function in a smooth fashion with which a new and modern capital-intensive pattern can simply melt the old labour-intensive pattern in the making of a new economy. There is no tension between the old and new modes. After the transition, with the new

[11] Lewis was not alone in his generation (e.g. Hicks 1969). But, this view has been under fire from Chinese history, just to mention the perpetuation of the market in premodern China (Hill 1996). The market is no doubt able to move an economy towards its production probability frontier and then helps the economy reaching equilibrium. At the equilibrium, the market clears itself and reaches its full potential. But the market itself is not designed to create a new production probability frontier. This is characterised as 'Smithian growth'. By definition, industrialisation and modernisation mean a new production probability frontier. Therefore the market will not necessarily have the power to drive the economy towards it. That includes the Lewisian transition (see Deng 1999a: 16–20).

output and new production function, developments such as urbanisation, commercialisation, a higher living standard and, the rise of the middle class and so forth will fall in their own places. There is no pain in the transition and every one gains (hence a Pareto optimum). If one skips Lewis's micro-economic analysis, such a transition can be highlighted in Figure 1 where the upper diagram portrays the output aspect of the economy while the lower diagram, the input aspect.

Figure 1. Economic Transition Model



Note: (1) Upper diagram: a quantum leap in output suggests that a new mode of production is added on to form a modern one. (2) Lower diagram: arrows indicate the direction of the expansion in the scale/scope of the economy with a change in labour-to-capital ratio.

However, from factual point of view, there is a pattern of transmutation side by side with transition. The new term shows that the ‘genes’ of a traditional society cannot automatically and naturally give

the birth to industrialisation and modernisation. Changes therefore must take place at the genes' level. If so, it is the equivalent of transmutation in biology instead of transition in the spirit of physics.

Here, the term of 'transformation' is deliberately avoided despite the fact that it implies less easiness in the process of industrialisation and modernisation than 'transition' suggests. But transformation is based the assumption that a traditional society has some, but not all, building blocks for a modern one. In particular, it maintains that the end result is highly predictable.[12] No double, 'transformation' is heavily influenced by chemistry. In contrast, randomness and unpredictability are the properties of transmutation. The new concept of transmutation is thus far more dynamic and accurate in capturing the nature of changes in some societies.[13]

From the viewpoint of transmutation, a country's move towards industrialisation and modernisation may well be slow, bumpy and full of pain. It may produce losers, a lot of them, too. This is demonstrated in Figure 2. In the upper diagram, there are two output curves: *t–t* for the traditional sector and *m–m* for the modern sector. Once these two

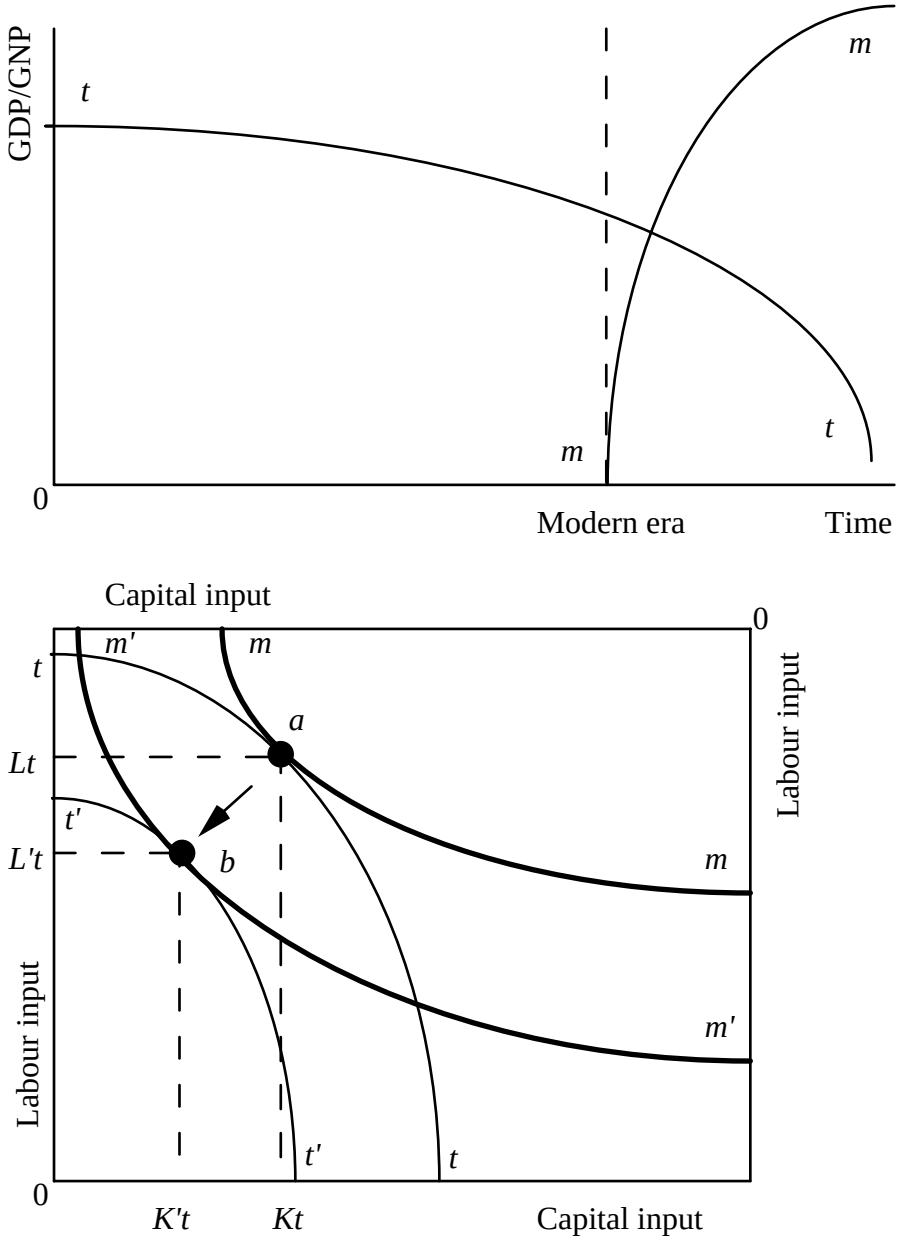
[12] The transformationists have Alexander Gerschenkron as their guru who had the vision that all societies are basically interchangeable parts and industrialisation is the timelessly ultimate goal for development (Gerschenkron 1962). So, to industrialise involves (1) a deficient accounting to see what are missing locally (called 'missing prerequisites'); and (2) a surgical implantation of the missing bits (called 'substitution of the missing prerequisites'). *Voilà*. Obviously, economic development is not Michael Jackson's face. 'Plastic surgery' and 'organ transplantation' in the Gerschenkronian fashion may work only in some societies. In other societies, a 'gene therapy' is more likely to be the solution, and hence transmutation.

[13] Indeed, development economics has been struggling with the fact that some societies are more capable of industrialising than others and that some societies may never get it. Clearly, more sayings and more investment cannot guarantee sustainable industrialisation and modernisation, not to mention the dander of 'investment chauvinism'. Nowadays, very few economists will still use for example the Rowstow and Harrod-Domar types of argument to advise a developing economy. Increasingly, scholars talk about differences in institution, social capability and culture (North and Thomas 1973; North 1981 and 1990; Eggertsson 1990; Harriss et al. 1995; Sen 1994; Koo and Perkins 1995; Morishima 1982; Braibanti and Spengler 1961; Harrison 1985 and 1992; Lal 1989). This may lead to another kind of chauvinism, 'cultural chauvinism'. Still, two chauvinisms are better than one, presenting more possibilities.

sectors are examined separately, it becomes clear that they may be negatively related in GDP/GNP performances. Due to a degree of incompatibility between the two sectors, the country's total GDP/GNP may experience a decline during a change in mode of the economy. In terms of inputs, there is a tug-of-war between the two sectors fighting for resources (here labour and capital). With industrialisation and modernisation, as the economy shifts from Point *a* to Point *b*, the traditional production function *t*–*t* shrinks to *t'*–*t'*, losing both labour (marked by *Lt*–*L't*) and capital (marked by *Kt*–*K't*) to the modern sector. This is accompanied by the proportional expansion by the alien, modern sector from *m*–*m* to *m'*–*m'*.[14]

[14] No doubt, the modern sector of the Western type can and will tap new resources both domestically and overseas with or without the traditional sector, typically in the form of foreign direct investment. But, this is beyond the current scope.

Figure 2. Economic Transmutation



Note: Upper diagram: the indigenous sector dives with a smaller and smaller share in the GDP/GNP while the alien, modern sector gains a larger and larger share. Lower diagram: *t–t* and *t'–t'* locus of the traditional production function; *m–m* and *m'–m'* locus of the alien, modern production function.

More importantly, this transmutation model indicates that the 'modern sector' may not be the Western type associated with a functional market but the Soviet type marked by ISI under central control.[15] The Soviet type is thus even more alien than the Western type to China's indigenous economy which was well-established and overwhelmingly private.

So, in contrast to the transition pattern (see Figure 1) which warrants a smooth and more or less assured development from an old mode to a new one, the transmutation pattern addresses the inconvertibility between the old and the new modes. It requires abandonment at least partly of the old sector in order to accommodate the new sector. Thus, the process is inevitably jagged with kinks, full of stops and starts, moving forwards and backwards, and so forth. The outcome is often unpredictable: it may revitalise the economy, but it may stagnate, devitalise and wreck it, as well.

Judging from China's own track record, the transmutation pattern is more realistic than the transition pattern on at least two accounts. First, China's traditional production function survived long after 1840 until the 1990s. With it came the strong resistance to a modern production function. Given that China's world-class GDP/GNP and standards of living by 1800, such resistance can be expected. Second, industrialisation and modernisation during much of the period from 1840 to 1990 did not come about smoothly.

b. Evaluation of changes: public goods or public liabilities?

There is a tacit consensus that China needed changes and that changes led to something better (see for example, Fairbank and

[15] More often scholars use the term of 'central planning' which is correct in reflecting the process but inaccurate in capturing the very nature of the Soviet economy. The Soviet planning is a tool to facilitate a total control over all economic resources, minerals, land, capital and labour, and so forth. This is completely different from economic planning in the West under which the private sector is respected and protected.

Reischauer 1979; Fairbank 1980; Spence 1990). From the factual approach, such a view is questionable to say the least. Excessive changes often mean a loss of control and hence chaos. Chaos is not the synonym of progress. Quite the opposite. So, there is a balance between 'necessary changes' and 'excessive changes'. Such a balance matters as much as changes themselves.

Considering the messiness in China's modern growth performance and the unreliability of data, the task of evaluation of changes in the economy looms large. If one rejects the teleological approach of the Soviet type, a philosophy to justifies the process and costs associated with changes by a gaol set up by the state.[16] The Soviet approach simply makes any evaluation of changes redundant. For this reason, the present study will avoid the 'means–end paradigm' which often runs into a circular and objective argument. Instead, an 'end-result approach' is adopted to evaluate whether people gained or loses economically.[17]

Back to changes themselves, one has to decide how to evaluate them. A simplified way to go about it is to look at growth in GDP/GNP. There can be no doubt that there has been in the world history a direct link and a positive relationship between industrial/modern growth and advancement in ordinary people's material life since the British Industrial Revolution. This is represented by Curve *a–a* in Figure 3 in a convergent process of the Pareto nature where the growth in the

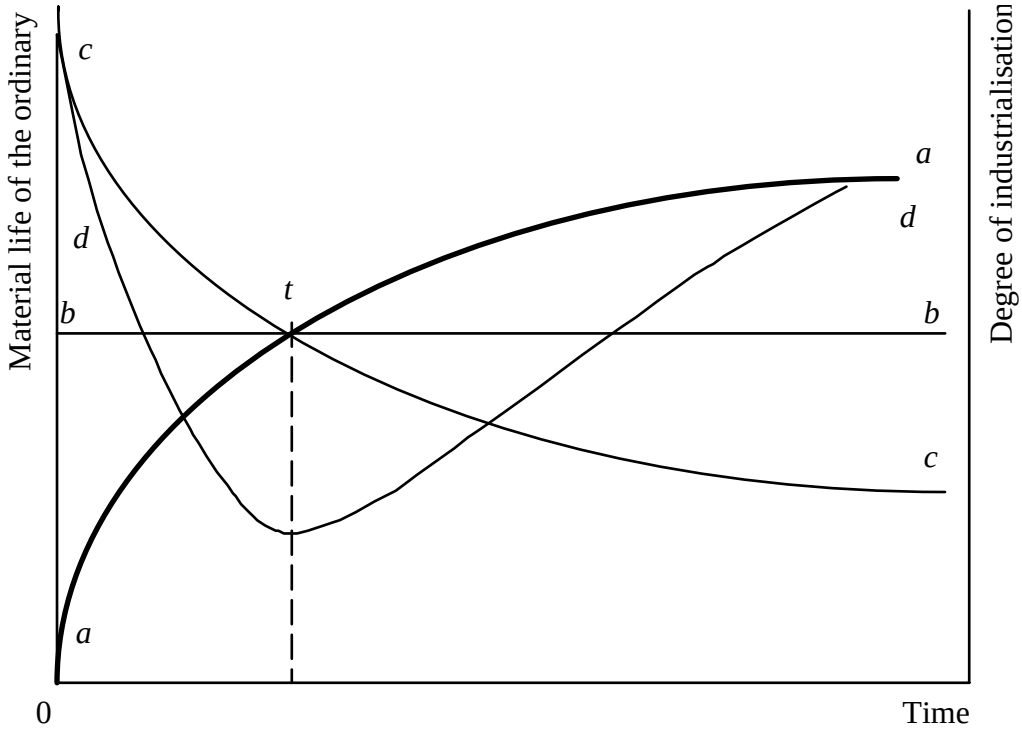
[16] Much of this teleology was established by Lenin who infamously declared repeatedly that 'communism equals the Soviet state plus electrification'. There is no room for any improvement in ordinary people's material life in Lenin's model. Under the name of industrialisation, the Soviets were virtually allowed to get away from murder. And they did. For example, Nikolai Ivanovich Bukharin (1888–1938), one of the most senior leaders of the CCCP, opposed the ideology of industrialization for the sake of industrialization. He was shot by Stalin's firing squad.

[17] Methodologically, the 'means–end paradigm' tends to be narrow. It does not allow unintended consequences or 'externalities' to exist. It is also prone to be subjectively biased in interpreting what should have been the 'means' and the 'end' in the mind of a leader. It is worth noting that pro-communists overwhelmingly prefer to apply the 'means–end paradigm' which allows a lot of leeway for 'forgivable mistakes' so long as the 'end' or intention was/is sound. The actual fulfillment (or the end result) bears less weight. From economic history point of view, the end result is absolutely crucial.

industrial output overlaps with the improvement in the material life enjoyed by the ordinary citizens. To put aside the episode of the Enclosure Movement and Poor Laws (in Britain) and modern slavery (in the United States) which are often associated with early development of capitalism, such a convergence was real in the West (and post-war Japan as well) during its endeavours for modernity (see Sylla and Toniolo 1991: 110, 118, 134, 154, 155, 157, 177, 186, 199, 228, 230; Kenwood and Lougheed 1992: 13, 20, 128, 174; Maddison 2001: 126). Indeed, the rise of the middle class in the West, an undeniable beneficiary of industrialisation (and modernisation), is a rough but the most reliable proof of this convergent pattern.[18]

[18] One should also include to some extent the welfare state-dependent lower classes in the West. This middle class, an increasingly enriched proportion in society, is the single most important factor that has wrecked Marxian theory on capitalism.

Figure 3. Normative versus Positive Patterns of Modern Growth/Development



Note: The situation of negative growth in the economy is excluded. Curve *a*–*a*, a 'Pareto pattern' where industrial growth overlaps with improvement in people's material life. It is hence a 'normative growth curve'. Curves *b*–*b* and *d*–*d*, a 'non-Pareto pattern' where changes in people's material life do not march with the growth in industrialisation. Curve *c*–*c*, an 'anti-Pareto pattern' where industrialisation makes the general population worse off.

Indeed, GDP/GNP accounting can reflect the consequence of changes, but only conditionally. In light of the history of the developing world, industrialisation, or transmutation from a traditional pattern to a modern one, is not automatically qualified as a public good with a Pareto optimum. Such an outcome is highly expected from the classical and neo-classical thinking (e.g. Lewis 1983a and 1983b) with a tacit

consensus that industrialisation/modernisation is generally good for a society.[19] Based on this view, industrialisation, or a degree of it, has become the greatest normative and dominant benchmark to date in judging a country's economic performance.

Unfortunately, this normative pattern has been responsible for giving a rogue state who plays a different game the Trojan horse in the form of an industrial programme to achieve anything but an improved living standards for its ordinary people. Such cases are numerous in the developing world.[20] Therefore, in reality, the view that changes including those associated with industrialisation/modernisation are the 'right steps to take' or the 'right things to have' becomes problematic.[21] One has to be careful as the growth in industrialisation (typically in terms of a structural change in the economy) and GDP/GNP accounting is only two of many elements whereby to measure the performance of an economy under change. The trouble is that these two elements can be easily detached from people's material life and hence conceal public liability. As in reality a Pareto optimum is not always guaranteed, it is imperative for the current purposes to judge a country's industrial endeavour in light of welfare economics.

So, despite the warm advocates of this industrialisation–high living standards convergence by people like Rostow (with his uni-linear growth/development paradigm), a Pareto convergence has not been the universal case. There are at least three other patterns with a dichotomy under which an industrial growth de-links from people's material well-being (see Figure 3). Ordinary people's material life (marked by Curve

[19] The basic neo-classical assumption is that a technological advancement which is closely associated with industrialisation will lead to a higher marginal product of labour; and a higher marginal product of labour will in turn lead to a high wage rate; and a high wage rate to a higher real income, and hence a better material life.

[20] The 'School of Human Development Index' has been trying to address and tackle this problem with rather limited impact so far (see Murray 1991; Anand and Sen 1994; Noorbakhsh 1996a and 1996b; Crafts 1997; Qizilbash 1997; Ito 2001).

[21] This view has a lot to do with Marxian historical fatalism (called 'historical materialism') which asserts that all societies will enter industrialisation/modernisation sooner or later in history.

b–b in Figure 3) may experience little improvement with the rise of industrialisation (marked by Curve *a–a*). Curve *d–d* shows only nominal improvement in living standards after Point *t*, while in real terms people's living standards merely recover a lost ground. The worse pattern is marked by Curve *c–c* where the standards of living decline absolutely with industrialisation/modernisation (or more precisely the excessive costs of industrialisation as a result of systematic rip-off and effective mismanagement by the state). In the end, in all the three patterns (*b–b*, *c–c*, and *d–d*), there is no formation of the middle class despite a rise in industrial output.[22] In nutshell, Curves *b–b* and *d–d* are non-Pareto as some one becomes worse off. Curve *c–c* is anti-Pareto because it impoverishes the whole population.

A non-Pareto or anti-Pareto pattern of industrialisation/modernisation can be confirmed by the history of centrally controlled Stalinist economies where the convergence of the Western type was an exception rather a rule. In those Stalinists societies, a seemingly highly industrialised economy almost always coexisted with a low and lagging living standard among the ordinary people even with officially-promised 'entitlements'. In the Soviet camp, there was no secret that industrial drives, often labelled as of 'super-industrialisation', were ruthlessly carried out at the further expense of the material life of the ordinary people as the economic planners always

[22] The absence of the middle class in the communist society undermines the *raison d'être* of the Marxian utopia: without the possibility of the middle class, egalitarianism alone will automatically legitimise the communist state as the population becomes equally proletarian: equally poor, equally voiceless and equally helpless. The pauperism of the working class under communism thus seems better off compared with their counterpart under capitalism. But once the middle class is added to the equation (which is not allowed by the Marxist dialectical logic) becomes a historical factor, communist egalitarian poverty loses its appeal. The reason is simple, without the middle class, the opportunity cost for a society to depart from capitalism for communism is low, as what Marx hoped for. The rise of the middle class ends the Marxian dream as it makes the switch to communism too costly. On the other face of the same coin, the west-wide middle-class phenomenon automatically lowers the opportunity cost for a society to abandon communism. It will be just a matter of time. This was the reason why the Soviet Bloc collapsed so completely in the 1990s.

made sure that the maximum surplus of the economy was extracted by the state for re-investment in the expansion of the industrial sector which was customarily geared towards non-consumer goods production. Such an expansion was to be translated into the political power of the party leadership to rule the population. In this context, the material life of the ordinary people would either be kept constant as in the situation portrayed by Curve *b–b*, or simply declined as portrayed by Curve *c–c.* A fundamental change was only possible after the majority of ordinary citizens became totally fed up with the communist regime.

Table 2 is particularly relevant at this point. The heavy losses of human lives, the ultimate form of human suffering and worsening off, also testify this point. What is most interesting here is that the higher death tolls in Stalin's Russia and Mao's China appeared not during the Second World War but during the push for industrialisation (see the A:B and C:D ratios). What is also intriguing is that, compared with the Soviets, the Chinese seemed more capable of avoiding war deaths (the B:D ratio) but were less able to spare more lives from the industrial growth period (the A:C ratio). Such data shed new light on the understanding of the very essence of China's most recent change under Maoism.

Table 2. Death tolls in modern era, USSR and China compared

	Nature	Deaths (in millions)
I. USSR		
A. 1924-53 (excl WWII)	Mismanagement and human rights abuses*	30.0-40.0 (1.4-1.9)
B. WWII, 1937-45	Fighting for sovereignty and resources†	20.0 (2.5)
II. China		
C. 1949-76	Mismanagement and human rights abuses*	72.3 (2.7)
D. WWII, 1937-45	Fighting for sovereignty and resources†	7.8-10.5 (1.0-1.3)
III. Ratios		
A:B = 1.5-2		
C:D = 6.8-9.3		
A:C = 0.4-0.6		
B:D = 1.9-2.6		

Source: Based on data of Entries 'China' and 'USSR' in *Twentieth Century Atlas – Death Tolls* (Web-site: http://users.erols.com/mwhite28/warstat1.htm).

Note: Figures in parentheses are the yearly averages to show the density of losses of lives.

*Including massive purges, persecutions, executions, and large-scale famines, and so forth.

†Resources include political power and economic means.

On the other hand, the finding of the 'California School' strongly suggest that the Chinese reached a reasonably high living standard

without any input of modern industry. This removes all the alleged acute poverty from the Chinese population, a stigma in the modern world history associated with China.[23] This basically says that the threshold for China to pursue industrialisation was once (till *c*. 1840) too high to ignore. So, if China departed as it did from its own economic platform, it would face the risk of becoming worse off, as it was during this period of 150 years.

Clearly, industrialisation is a necessary but not the sufficient condition for a society to enrich its own citizens. If so, industrialisation/modernisation is never value-free or neutral in reality. The terms of industrialisation and modernisation are thus too vague and deceptive, as much is depended on the purpose, direction and type of industrialisation/modernisation.[24] Although helping little, the Chinese Communist Part always takes a great care in reminding the general public of what kind of industrialisation and modernisation the party should be seen to pursue. So, the adjective of 'socialist' is always used. Following this line of argument, we can at least have a 'capitalist market-based industrialisation/modernisation' and a 'communist centrally controlled industrialisation/modernisation'. These two types mutually excluded each other in history with distinctively different end results.

c. . Incentives for changes, for whom?

China in its modern era was not merely changeable; it was almost 'change-holic'. Considering that under the normal circumstances changes in society are cost-sensitive and cost-elastic, and that incentives for changes are heavily dependent on accounting costs (for

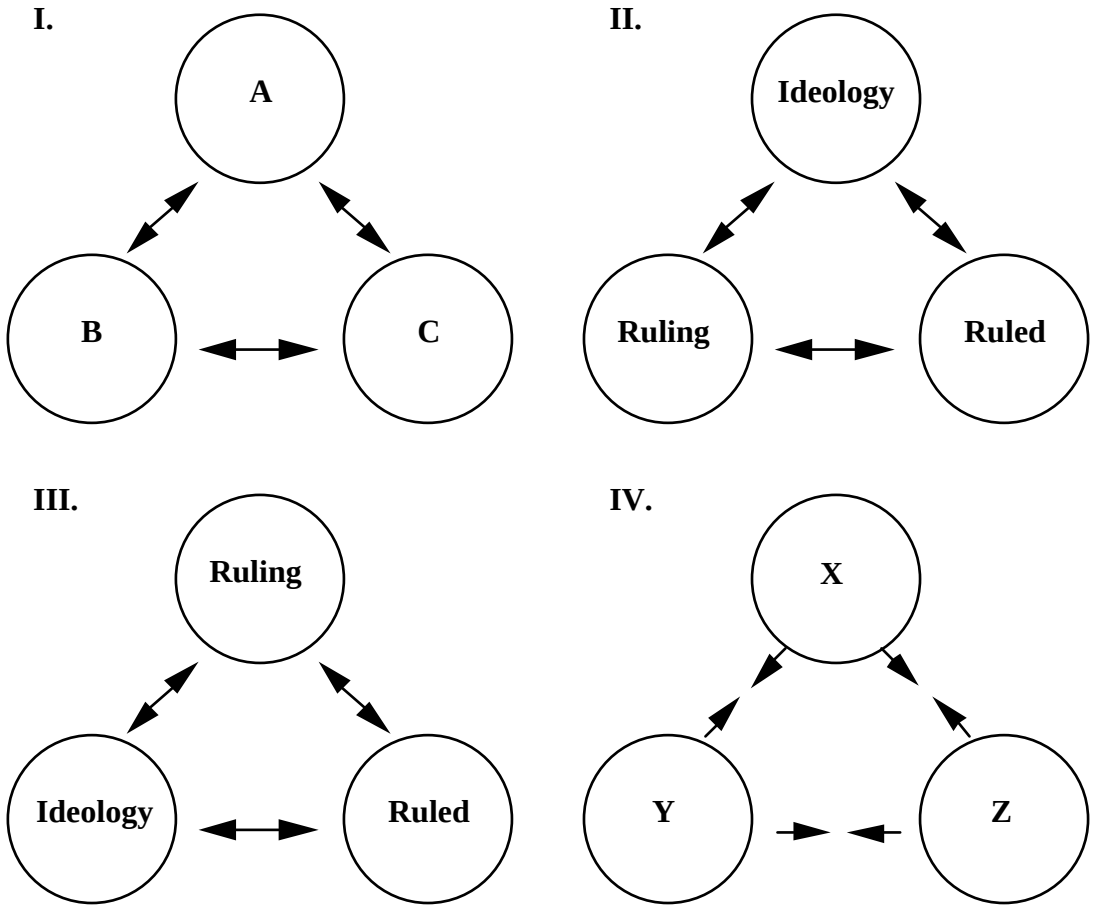
[23] The term of the 'California School' has been used often at international conferences to reflect a group of historians and social scientists, all based in California, who work on a systematic rethinking of the global history (see Goldstone 1991; Wong 1997, Frank 1998, Pomeranz 2000; Bender 2002).

[24] One such a type leads to a self-destruction as in the case of Germany and Japan during the 1930s–40s.

changes to take place) plus opportunity costs (for changes not to occur), one asks ultimately why and how changes became so ‘cheap’ in modern China: it seems that in modern China such costs were not only lower than the world average in the 1840–1990 period but much lower than those in China’s own premodern past (e.g. Maverick 1946; Elvin 1973; Deng 1999a; Pomeranz 2000). The question is what caused China’s cost structure for changes to decline. This in turn leads to the point that how such a cost structure is determined.

In the real world, the accounting and opportunity costs for changes can be determined by multiple exchanging and bargaining agents in a market economy. This is shown in Pattern I, Figure 4 where A, B and C are interest groups which constantly interact with one another for compromises to accommodate their own interests. This is a functional market place for politics under democracy. In theory, industrialisation/modernisation under Pattern I will benefit every interest group.

Figure 4. Determinants of Costs for Changes



Note: I – A society under democracy with interest groups A, B and C. II – A society under a Confucian state or a developmental state with a set of universal rules to follow. III – A society under the totalitarian state. IV – A society in anarchy with warring groups X, Y and Z. Arrows at both ends: exchange relationships. Arrows facing each other: conflict/hostile relationships.

Alternatively, the costs for changes to take place can be determined by the state in conjunction with the private sector. A ‘soft-authoritarian’ regime may cancel to a certain extent the function of the market. But as long as the interfering state follows certain universally agreed rules of the game for both the ruling clique and the general

public, negotiations and compromises between the state sector and the private sector are still feasible.[25] This is Pattern II where the universally shared ideology and code of conduct is critical in regulating the behaviour of both parties. This ideology gives the general public much needed voice and bargaining power. As the state is ideologically dependent, its behaviour becomes highly predictable. So, changes, be it industrialisation, will not benefit fat cats only. The ordinary people will get some from the growth and development, too.

The accounting and opportunity costs for changes can be determined by the state alone without the market or a universal rule of the game (Pattern III). As it unilaterally imposes the dominant ideology on the population, not only does the sate set the rules for the general public but it also changes the rules after the game is played. Compatible with this, an iron-fist totalitarian regime is able to abolish the market, nationalise the private sector and determine the costs for changes unilaterally. Under such a system, ideology is merely a tool to suppress any bargaining attempt from any group in society. The behaviour of the state is predictably unpredictable. The general public lives under the mercy of the will of the ruler. The state can thus make sure that no benefit from growth trickles down in society. This pattern applies well to all Stalinist economies. If an economy under Patterns I and II still faces a managerial 'agency problem' because of the asymmetrical information, it will encounter a far worse scenario of an agency crisis with information blackout under Pattern III.

In Pattern IV, law and order give way to anarchy. The social fabric disintegrates. With it, groups begin to fight for resources with all possible means at their disposal. Under such circumstances, accounting

[25] For premodern China see Deng 1999a; Deng 2003. For and post-war Asia tigers with a developmental state, see e.g. Cole and Lynam 1971; Youngson 1982; Chou 1985; Amsden 1989; and Alam 1989; Wade 1990; Ito and Krueger 1995; Rowen 1998.

and opportunity costs cease functioning. This is typically a situation when the state and the market collapse during the war.

Understandably, under Pattern I the accounting and opportunity costs for changes are often clearly labelled. Although changes are often slow and gradual, moves are routinely made to avoid producing losers (hence to achieve a Pareto optimum). So, there is a very good chance for changes to be rational and beneficial at least in the short run. Costs for changes can be lower under Pattern II than Pattern I as the state is able to take a short-cut by 'getting the price wrong' with a visible hand for manipulation (as long as such manipulation can be tolerated by the ideology). Changes under this pattern are often rational and beneficial to the general public, too.

Pattern III has the lowest accounting and opportunity costs for the agent in charge: if wishing the state is capable of launching changes in any area and in any direction, ignoring the interest of the general public. Economic growth may take place but economic development may not. Changes under Pattern III can thus be irrational, harmful and meaningless. Under Pattern IV, the accounting and opportunity costs for changes collapse and changes become volatile and fluid. Economic growth (including industrial growth) becomes extremely difficult if not entirely impossible or irrelevant, as individual, communal and even national survival itself is on the line.

This is not all. There is a fundamental question as for whether a pattern can be replace by another. According to what is widely known as "Olson's Thesis", shocks such as wars can disable the old, well entrenched interest groups and push an economy out of stagnation on condition that the wars are lost (Olson 1982). In the case of Nazi Germany and fascist Japan, their total defeats in World War Two pushed West Germany and Japan from Pattern III to Patterns I (Germany) and II (Japan under FDP). Such a change ushered in miracle growth in both countries in the post-war era (along Curve *a*–*a* in

Figure 3). Naturally, one would ask that given China was thoroughly defeated so many times, why and how the country still managed to stay away from Patterns I and II most of the time. This presents a huge paradox. The answer may lie in problems associated with economic transmutation which cancelled the Olson's effect (see Figure 2).

3. Propositions and the missing link for modern Chinese economic history

a. Propositions: why and how China differed from a normative model

We can now link these three issues – nature of changes, impact of changes and incentives for changes – together and form a coherent thesis. In a society with Pattern I or Pattern II (see Figure 4), a rise in GDP/GNP may be a result of some socio-economic changes that are attributed to intra-group bargaining or a 'fair play' under the rule of the game. If so, ordinary people's life will have a good chance to improve with a rise in GDP/GNP. But a rise in GDP/GNP, even in the per capita term, will not automatically be beneficial to the general public under Pattern III as the gains can end completely in the coffers of the ruling. This removes the halo of GDP/GNP accounting for all the communist economies. It also challenges the idea of economic transition. After all, changes can be excessive and harmful. So can industrialisation and modernisation. All theses shed new light on the understanding of China's modern economic history.

It is worth noting that in the case of Curve *d–d,* ordinary people's material life begins to recover after Point *t* but not fully in the very end in either absolute or relative terms, as what Pomeranz implies and Maddison explicates for China (see Pomeranz 1999: pts 1–2; Maddison 2001: 43).[26] Put it bluntly, premodern Chinese may well have enjoyed higher standards of living than their modern counterparts during much of

[26] Maddison's growth curves for British and American can be taken as proxies for Curve *a–a.*

the 1840–1990 period (either in terms of their material possessions or in terms of their rank in the league table of opulence in the world, or both). Now, logically, if the material life of the ordinary Chinese failed to improve significantly from its premodern past, it becomes questionable whether all those revolutions and reforms were economically sensible. Thus, the reason must be found in the political and ideological areas. This is the first proposition.

Moreover, if the Chinese enjoyed a reasonable living as late as 1800, the ultimate reason for China to depart from its premodern past was neither internally determined nor voluntary. This is the second proposition.

Furthermore, as ordinary people's livelihood can be purposely de-prioritised or deliberatively forgotten, changes, regardless of what the labels they carry, can be non-Pareto or simply anti-Pareto, i.e. to make a large number of citizens' life worse off. In this context, industrialisation and modernisation are not necessarily public goods. In the Stalin–Mao case (back to Table 1), they were to a great extent of 'private goods and assets' for the ranked party comrades and 'public bads and liabilities' for the general population.[27] An anti-Pareto growth is both economically wasteful and meaningless. It thus has to be discounted. This is the third proposition.

Finally, given the non-Pareto nature of China's industrialisation and modernisation under Mao, for example, the engine of economic growth for much of the period of 1840–1990 was not the pursuit after a high personal income among the majority via the market. Rather, the growth was pushed by small, often excusive, interest groups with political desire/agenda.[28] This is the fourth proposition.

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[27] Marshall Lin Biao (1907–71), once Mao's most trusted comrade and appointed successor, was reported to have venomously sullied Mao's general policy as 'to enrich the state by impoverishing the ordinary people' (*guofu minqiong*). It discloses a great deal of truth about Mao's regime.

[28] I will avoid the much abused term of 'elite' all through because the term, meaning *crème de la crème*, carries a particular weight of desirable qualities of humanity

b. The missing link: state-building

To accommodate logically all these propositions in a coherent fashion to form a thesis necessities a departure from the field of economics in general and the classical and neo-classical model in particular, and an entry into the political economy where the market is customarily interfered and tampered by non-markets forces and concerns. Even worse, the market can become an endangered species ruthlessly hunted by the communist state. Similarly, the conventional tools such as total and per capita GDP/GNP lose much of its utility if the actual physical substance which makes up the GDP/GNP contributes little to ordinary people's material life.[29]

The state and its role matter severely in the political economy. What one realises in reading modern Chinese history are the ever-ending changes in the state. To investigate changes in the state in China's modern era, it is crucial not to view the state in China as a stable entity. Instead, the state in China's modern era was a process which can be defined as 'state-building'. This is historically factual: after the Opium War the state in China was highly fluid, and the society was often anarchical. This process began from the 1842 Nanking Treaty and continued on till Deng Xiaoping's reform of 1978–93. In other words, China's problem was not one of mere 'teething' or of 'a steep learning curve' to reform for modernity. Rather, it was a problem of how to remould the Chinese civilisation (hence 'transmutation', see Figures 2). To remould it, it had to be pulled apart first, even in the benign,

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including good citizenship, descent education, marked professionalism, high moral standards and, after all, savvy and sanity. Interest groups may produce elite. They may produce strongman thugs, as well (Hitler, Stalin, Pol Pot, Slobodan Milosevic and Saddam Hussein, just to name a few). By definition, thugs are not elite no matter how hard they try.

[29] Such as palaces and transports exclusively for party leaders, arsenals for the military, and aimless inventories of intermediate outputs for no body. The list can go on and on. Because of this, much effort on calculating and estimating China's GDP/GNP becomes far less relevant than one might imagine to China's factual, tangible growth and development.

Schumperian sense of ‘creative destruction’. The end result is a new and stable state.

Surprisingly, although scholars have sensed such a role of state-building, they in most cases only touch the area (e.g. Tanzi 1997; Chan et al. 1998; Meredith 1999). Others either talk about one-off stat change to a republic after 1840 (e.g. Bedeski 1981; Strauss 1998) or speak of China’s reforms without reference to state-building at all, taking a rather static view on the state (as most works on post-1949 China; typically, White 1991; Selden 1993; Shih 1995). A quantitative survey of literature on the Chinese modern economy reveals this situation even clearer with a noticeable deficiency in dealing with the phenomenon of state-building in China’s modern history. It is no exaggeration that so far state-building has not been recognised as a major factor, or a factor at all, in China’s modern economic history (see Table 3). This is where the present study starts.

Table 3. Basic statistics for works on modern China related subjects *

Library	BL	Cmb	LSE†	Oxf	SOAS	Hrv	USC
I							
Economy	**324**	**116**	**126**	**231**	**436**	952	**937**
Economic reform	109	59	52	108	229	422	84
Economic development	91	89	91	168	531	**1,145**	385
Economic growth	40	18	21	45	74	171	46
II							
Modernisation	71	47	28	94	130	241	193
Transition	62	58	61	115	142	315	277
Transformation	62	30	25	73	96	177	135
Industrialisation	16	12	20	28	41	88	88
Reconstruction	25	5	15	35	0	56	2
III							
State/Nation-building	2	3	1	6	12	15	4
Total	802	437	440	903	1,691	3,582	2,151
% III in total	0.25	0.69	0.23	0.66	0.71	0.42	0.19

Note: (1) *As at April 2003. †Collections in the English language only. Figure in bold – the highest entry number in the selected categories. (2) BL – The British Library; Cmb – Cambridge University Library; LSE – British Library of Political & Economic Sciences (LSE); Oxf – Oxford University Library; SOAS – Library of School of Oriental and African Studies; Hrv – Harvard University Library; USC – The Library of Congress, US.

But why does state-building matter? Empirically, at least in China's past, state-building was always associated with a cluster of major

changes, marking the beginning of an array of new developments in terms of (1) changing the ‘game’ and its rules at all levels, (2) altering growth trajectory of the economy, and hence (3) breaking away from the old historic continuity (Deng 1999a and 2003). But, these new institutions were not necessarily beneficial and inductive to growth and development as time went on. They led to a deadlock for the premodern Chinese economy (Deng 2003). Thus, state-building gives us some very promising hints in tackling modern Chinese economic history in general and in investigating and explaining, in a coherent way, all the main features of China’s modern economic history in particular. To introduce state-building into a model will thus not only fill in the vacuum but also ensure a factual and dynamic thrust in the study.

In addition, this new dimension will transcend the narrow approach of the ‘state-market’ paradigm which leans too much towards the Western European experiences (e.g. Lane 1985; Buchanan 1986; Miller 1989; Nolan 1993; Gamble 1994; Boyer 1996; Joerges 1996; Rowley 1996). This is essential in analysing Maoist planned economy.

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