

**THE STATE IN CHINESE ECONOMIC
HISTORY: A SURVEY**

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STATE IN CHINESE ECONOMIC HISTORY: A SURVEY

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Abstract

We survey recent economics and history literature on the Chinese state to investigate its role in China's long-term socioeconomic development. We highlight three insights. First, unlike in Europe where interstate competition helped give rise to capitalist states with high capacity, the Chinese state emerged from a different historical context. Second, the 18th- and 19th-century Chinese state did not fit into the mould of a strong and extractive Oriental despotic state as once commonly believed. By conventional measures, early modern China had a weak state. Third, state building and centre-local relations are two useful dimensions to understand development and change in China's recent history and political economy. For China to adapt to a changing world, Chinese state builders embarked on a long process of state building from the late-19th century through the Republican and Communist eras. Facilitated partly by regional decentralisation, the process now sees the Chinese state as playing a substantially larger role in the economy and everyday life than any previous period in history.

Key words: Institutions and Growth; State Capacity.

JEL Codes: H11, H77, N45, O53, P52.

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Introduction

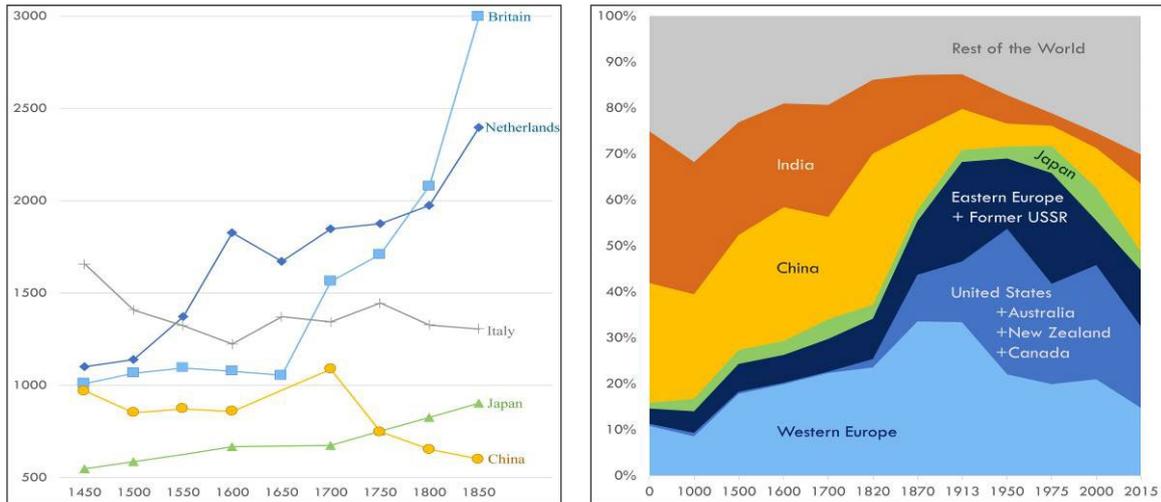


Figure 1: (Left) GDP Per Capita, 1990 International Dollar (Broadberry et al., 2018); **(Right)** Share of World Output (Maddison, 2001 and Bolt et al., 2018).

A key theme in recent economic history research is the Great Divergence between the East and the West, which saw Western Europe and its offshoots in Northern America and Australasia surge ahead of China, India and other parts of the world to become the wealthiest and most powerful economies (Figure 1). Europe sits front and centre in this literature, for it is where the Industrial Revolution first took place. Another region that has captured substantial attention is China, which, given its size and history, is viewed as a natural counterfactual of Europe by many scholars seeking to understand the deep roots of development (Elvin, 1973; Jones, 1981; Mokyr, 1990, 2016; Pomeranz, 2000; Shiue and Keller, 2007; Morris, 2010; Rosenthal and Wong, 2011; Hoffman, 2015; Andrade, 2016; Scheidel, 2019).

The practice of studying China and Europe comparatively is not new and can be traced to at least Voltaire (1759, c. 1) and Montesquieu (1989). In traditional comparative accounts, China was often regarded as an epitomisation of everything that Europe did not represent. In the words of Étienne Balazs (1964, p. 9), one of the most prominent sinologists in Europe in the mid-20th century, ‘everything convex on one side is concave on the other. One is almost tempted to speak of a European Yang and a corresponding Chinese Yin’.

These accounts generally took a negative view of imperial China.¹ They emphasised that unlike the West, there was no political and economic freedom in China (Wittfogel, 1957). Chinese cities were administrative centres rather than effervescent self-governing communities teemed with entrepreneurship and dynamism (Weber, 1964). Cultural conservatism and an unwillingness to learn from others led the country to a technological standstill (Landes, 1998). The absence of preventive checks further made it a classic case of overpopulation (Malthus, 1983).

By comparison, expert views in recent decades have been more varied and multifaceted. The revisionism has to do, in part, with China’s economic takeoff since

¹ Some notable exceptions include Enlightenment thinkers such as Voltaire, Leibniz and Quesnay (Perdue, 2004 and Perkins, 2004).

1978, which casts doubts on the view that China's indigenous political, cultural and social institutions are fundamentally at odds with economic development. Of note is new research that positively evaluates China's economic standing during the Song dynasty (960–1279) (Morris, 2010; Liu, 2015; Xu et al., 2018). It is now accepted by many scholars that China was economically ahead of Europe before the Mongol conquest, which further suggests that the puzzle of China's relative backwardness in recent centuries is more complex than what traditional arguments have conceived.

In this paper, we focus on the Chinese state, and its role in accounting for the Great Divergence between the East and the West. Our study is motivated by the recent economics scholarship on state capacity, which stresses the importance of a strong and stable state for economic development (Bockstette et al., 2002; Acemoglu, 2005; Acemoglu et al., 2016; Besley and Persson, 2009, 2013; Dincecco and Prado, 2012; Dincecco and Katz, 2014; Michalopoulos and Papaioannou, 2013). As Bardhan (2016) points out, a major shortcoming of this literature to date is its (over-)emphasis on the experience of European countries and their former colonies. Relatively less attention has been given to East and South Asia, which are home to some of the world's fastest growing economies today. We help address this deficiency by studying the history and evolution of the state in China, a major East Asian economy. In doing so, we seek to connect the burgeoning economics literature on state capacity with a longstanding scholarship in political science and sociology that investigates the role of the state in East Asia's recent history (Johnson, 1982; White, 1988; Wade, 1990; Evans, 1995).

Our survey paper builds on two relatively recent literature reviews on China: Brandt et al. (2014) and Deng (2014). Brandt et al. (2014) offers an ambitious and extensive survey of China's recent economic history and covers a scope that is much broader than our attempt here. Deng (2014) provides a succinct review placing particular emphasis on China's growth performance before and after the 19th century. By contrast, we focus singularly on the Chinese state. For a general overview of Chinese economy history, we direct readers to these papers, and also to von Glahn (2015), which offers a sweeping examination of the institutional foundations of China's economic development from the Bronze Age to the early 20th century.

Lengthy considerations prevent us from providing a comprehensive review of the political economic history of China. Instead, we select several important and interrelated themes for discussion. Spatially, we largely restrict our attention to China proper, the traditionally agrarian area south of the Great Wall. This area was home to more than 90% of the population in the Chinese empire in 1800 (Figure 2). Our period of study stretches from the imperial age, with a general focus on the early modern period or the Ming and Qing dynasties (Table 1), to the early 1980s, when the Chinese economy began to take off. There exists a rich and exciting literature on the political economy of China's development in the 1980s and beyond. We recommend Naughton (2008) and Xu (2011) as starting points.²

² For an outline of China's economic development in recent decades, see Naughton (2018) and Morgan (2021).



Figure 2: China Proper. The area is defined by the Eurasian steppe to its north, the Tibetan Plateau to its west, the South China Sea to its south and the Pacific Ocean to its east.

| Major Political Eras | Year |
|---------------------------------|-------------|
| Eastern Zhou | 771–256 BCE |
| Warring States | 403–221 BCE |
| Qin | 221–206 BCE |
| Former Han | 202 BCE–8CE |
| Later Han | 25–220 |
| Three Kingdoms | 220–280 |
| Jin | 280–316 |
| Period of North-South disunion | 316–589 |
| Northern Wei | 386–535 |
| Sui | 589–618 |
| Tang | 618–907 |
| Five Dynasties and Ten Kingdoms | 907–979 |
| Northern Song-Khitan Liao | 960–1125 |
| Southern Song-Jurchen Jin | 1127–1279 |
| Yuan (Mongol) | 1279–1368 |
| Ming | 1368–1644 |
| Qing (Manchus) | 1644–1912 |

Table 1: Major Political Eras in Imperial China (based on Fairbank, 1992). The text in bold depicts eras when China proper was ruled by a unified dynasty.

Our study begins with two salient and related facts about the Chinese state. First, China has the world’s longest continuous history of statehood. Second, the Chinese state was unusually centralised by historical and international standards. The Chinese first built a centrally administered state—one that fulfils Weber’s conception of the modern state—in 221 BCE, almost 200 years before Augustus established the Roman Empire (Fukuyama, 2011).³ In the two millennia that followed, the country was ruled by a unified state with the emperor as a figure of political and moral authority helming the administrative pyramid more than half of the time. As Figure 3 illustrates, China’s historical tendency towards political unification contrasts sharply with Europe’s enduring political fragmentation after the collapse of Rome.

It is also remarkable that political centralisation in China seemed to have strengthened over time (Figure 4). If we go by Chinese historiography and consider Northern Song (960–1125) as a unified dynasty, years of political unification in China in percentage reflects a clear upward trend, from 46% (1–500CE) to 58% (501–1000) to 65% (1001–1500) and finally to 95% (1501–1800).⁴ By the early modern period, political unification had become entrenched.

³ An indication of the precocity of the Chinese state is the early development of bureaucracy in China. See Chen (2021) for a theoretical analysis.

⁴ The Northern Song empire did not rule the whole of China proper. Sixteen prefectures in North China, which made up roughly three per cent of the land area of China proper, were controlled by the Khitans, a semi-nomadic federation based in Manchuria.

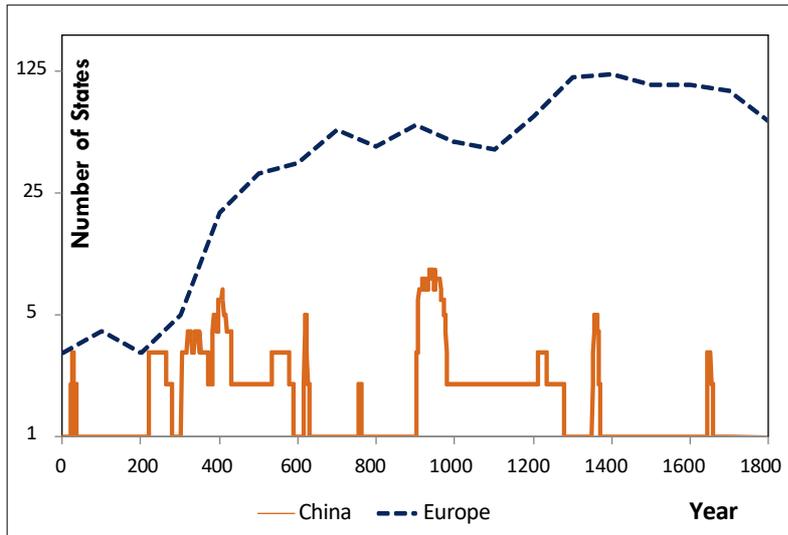


Figure 3: Number of States in China and Europe, 0–1800 CE (adapted from Ko et al. 2018)

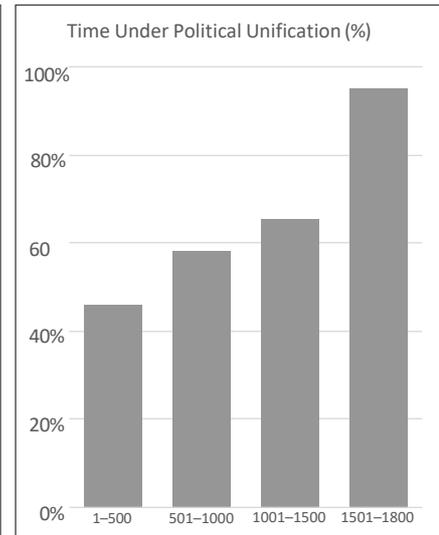


Figure 4: Increasing Political Unification in China

In Section 2 of the paper, we trace the origins of the Chinese state and the causes of China’s recurring unification to lay the foundation for discussing the nature of the early modern Chinese state in Section 3. Whether political centralisation was a boon or bane for China is an ongoing topic of intense debate. Insights from the political economy literature are decidedly mixed. On the one hand, the history of early modern Europe suggests that state centralisation contributed positively—perhaps critically—to economic development (Dincecco, 2011; Dincecco and Katz, 2014). Empirical studies on Africa also show that underdevelopment is often associated with the absence of a history of stable, centralised government (Gennaioli and Rainer, 2007; Michalopoulos and Papaioannou, 2013). On the other hand, a large scholarship in economics and economic history has emphasised the need to protect private property rights against the whims of the state—especially one unconstrained by formal checks and balances (North and Weingast, 1989; Acemoglu and Robinson, 2012; Cox, 2017).

What is surprising—given the absolutist nature of the early modern Chinese state—is that by international standards, taxation was extremely light in early modern China (Wang, 1973). As Table 2 illustrates, per capita tax in China was significantly lower than that in Western Europe in the 18th century; the conclusion is similar when we compare China with another *ancien régime* in East Asia, the Tokugawa shogunate in Japan (Figure 5).

As the fiscal trends in Figure 5 suggest, there were signs that the Chinese state had become too weak by the 19th century. It could no longer effectively protect private property rights from natural disasters, external enemies and domestic banditry (Mann and Kuhn, 1978; Dodgen, 2001; Sng, 2014; and Wang, 2014). When facing an industrialising West that sought to dismantle the traditional order in East Asia, China tried but was ultimately unsuccessful in implementing a programme of modernisation. If the state had a new responsibility in the modern age—to resolve coordination failures that cause economic underdevelopment (Epstein, 2000; Bogart and Richardson, 2012; Bardhan, 2016)—the state of imperial China failed the test, and collapsed. The task to modernise Chinese society and economy fell on its successors: the Beiyang government, warlords, Nationalist state, and, finally, the Communists.

| | Tax Per Head (silver, gram) | |
|----------------|-----------------------------|-------|
| | 1750 | 1780 |
| England | 109.1 | 172.3 |
| France | 48.7 | 77.6 |
| Dutch Republic | 189.4 | 228.2 |
| Spain | 46.2 | 59.0 |
| Euro-4 average | 58.0 (27%) | 77.3 |
| China | 11.8 (6%) | 9.2 |

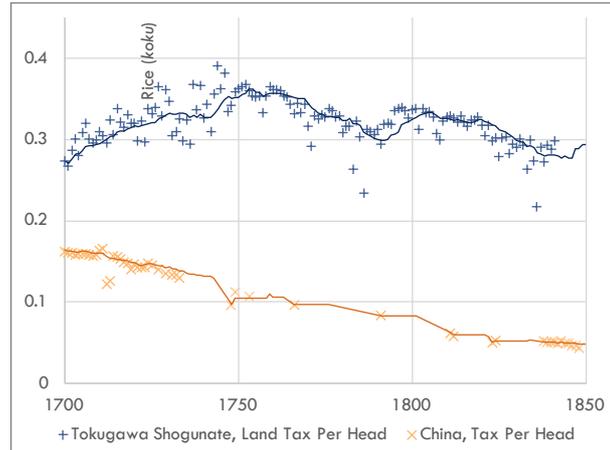


Table 2: Comparison of Tax Per Head in China and Europe in the 18th Century (adapted from Ko et al. 2018, Table 5). The numbers in parentheses represent per capita tax revenue as a percentage of 'bare-bone' subsistence in 1750 as measured by Allen et al. (2011).

Figure 5: Comparison of Tax Per Head in China and Japan (Tokugawa Shogunate) from 1700 to 1850 (adapted from Sng and Moriguchi 2014, Figure 1). One *koku* (180.4 litres) represented the amount of rice required to feed an adult male for a year in historical Japan.

In Sections 4, 5 and 6, we trace the evolution of the Chinese state from the late Qing dynasty, through the Republican period, to the first three decades of Communist rule. Two observations stand out in our discussion. First, state presence and control were substantially higher in 1980 than in 1800. In 1820, less than 1,400 counties formed the lowest level of government in China (Figure 6). Despite the appearance of a unified empire, the reach of the state was limited. Most people had never seen an official in their lives (Watt, 1972). In the early 1980s, over 56,000 communes (townships) constituted the basic unit of rural government. The state loomed large in the economy and everyday life, from education and employment to birth control. Second, the process of state building was aided by episodes of political devolution, which enabled local experimentation with new institutions and policies. These episodes include the decentralisation movement of the late 19th century, the political fragmentation of the early 20th century and the regionally decentralised strategy of Maoist China (Kuhn, 1980; Remick, 2004; Xu, 2011).

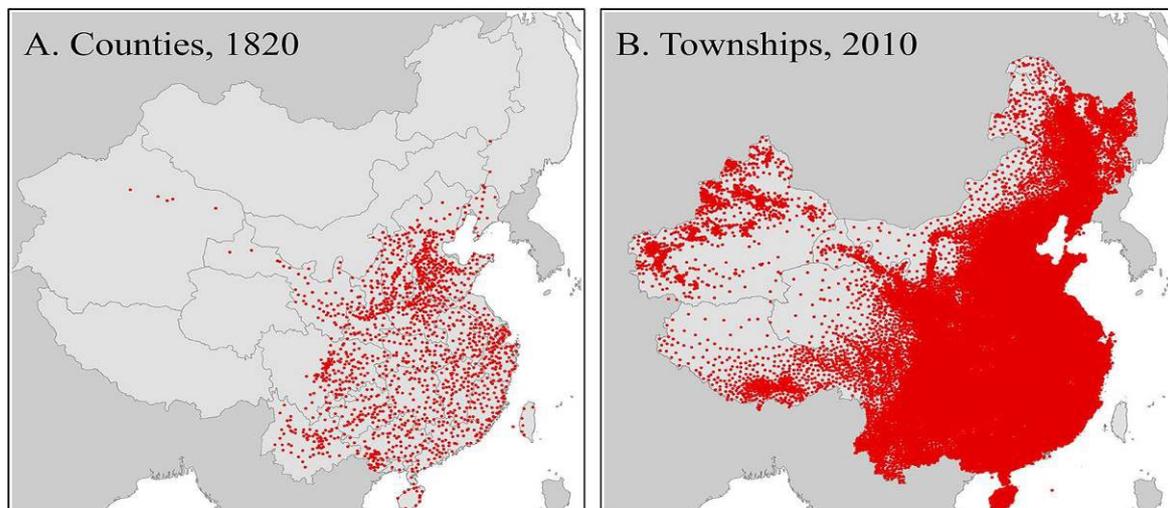


Figure 6: Growth of the Chinese State: In 1820, about 1,400 counties formed the lowest level of government in China. In the early 1980s, 56,000 communes (townships) constituted the basic unit of rural governments. In 2010, the number of townships stood above 30,000.

These developments did not occur in a vacuum and could be seen as responses to perceived inadequacies of the imperial state. Given the spotlight placed on the extended reach and power of the modern Chinese state in recent years, it is timely to investigate China's past, to understand its present. With this in mind, we turn to the origins and nature of the imperial state for the next two sections.

Origins of the Chinese State

How did imperial China grow so big, considering the high communications and transportation costs in the premodern world? Given that the Chinese state ruled 24% of the world population at the onset of World War I and remains the most populous country in the world today, the question is important in its own right. It is also particularly relevant in our context because, as Elvin (1973) highlights in his survey of Chinese history, the historical consequences of political unification were immense for China. In the next section, we discuss how the size of the Chinese polity influenced its characteristics.

Explanations on the recurring unification of imperial China can be broadly classified into three categories: cultural, institutional, and geographical.

Culture. A prominent cultural-based explanation is the iconographic Chinese script, which helped promote a shared ideology and identity within the educated class in China (Miyazaki, 1983; Bodde, 1986). It is important to remember that China has always been a land with many dialects. According to the *Language Atlas of China*, at least 10 major dialect groups exist in China today.⁵ Many more must have existed in history. As Chinese dialects differed substantially in their phonology, the Chinese script effectively acted as a translation device that allowed literate Chinese from different parts of the country, separated by high mountains and large rivers, to communicate with one another through the written character, without which it would have been virtually impossible for them to forge a common cultural and political identity.

Another factor that promoted a shared value system among the cultural elite of China was the imperial civil service examination. The system was first implemented during the Sui (581–618) and Tang (618–907) dynasties, expanded during the Song dynasty (960–1279), changed during the Yuan dynasty with the adoption of the Neo-Confucian orthodoxy as the curriculum, and finally stabilised during the Ming (1368–1644) and Qing (1644–1912) dynasties (Elman, 2000).⁶ By reducing the reliance of the imperial state on the medieval aristocratic families, who traditionally supplied administrative expertise to the imperial state but competed with the state for influence outside the capital city through their control of provincial estates, the civil service examination played a critical role in weakening the influence of the regional elites (Twitchett, 1979; Fairbank, 1992).⁷ Elman (2013) points out that the civil service

⁵ They are Mandarin, Jin, Wu, Hui, Xiang, Min, Gan, Hakka, Yue and Pinghua (Lavelly and Berman, 2012).

⁶ For a dated but excellent general introduction to the Chinese civil service examination for nonspecialists, see Miyazaki (1976).

⁷ A recent historical study uses geographic information system (GIS) methods and social network analysis to argue that the aristocratic families of the Sui-Tang dynasties were far more adept at adjusting to changing times than previously assumed; it was a chance event—the pillage of Tang capital cities of Chang'an and Luoyang in 880 by the rebel Huang Chao—that wiped out these families physically and politically (Tackett, 2014).

examination also allowed the imperial state, through its role as the protector of educational merit, to build an organic institutional and ideological bond with the literati, thereby strengthening centripetal tendencies.⁸

Pines (2000, 2012) offers another cultural explanation that stresses the role of ideology. He observes that during the Eastern Zhou and Warring States period (771–221 BCE), Confucianism, Mohism, Legalism and other competing philosophies shared in common the belief that political unification would bring peace and order to ‘All under Heaven’.⁹ This belief predated the first unification of China in 221 BCE and, according to Pines, directly contributed to it.

Institutions. Some scholars have argued that the nature of China’s institutions determined its territorial size. Wittfogel (1957), for example, claims that state-centred societies like China could easily amass huge armies for territorial aggression and expansion. Ma and Rubin (2019) argue that as an absolutist state, China was especially vulnerable to external invasions and was therefore particularly incentivised to expand into hostile territories through co-opting its potential foes.

A drawback of the cultural and institutional explanations is that language, ideology and political institutions are endogenous and causation may run in the opposite direction. For example, during the Warring States period, a diverse set of scripts was evolving in the midst of political fragmentation (Lewis, 2007). Standardisation took place when Li Si, a high official of the Qin dynasty, carried out reforms after the first unification in 221 BCE. Likewise, it took several unified Chinese dynasties many iterations to tweak the imperial examination system into an effective tool for inculcating loyalty in the literati (Fairbank, 1992). The achievement might not have been possible without recurring political unification in the first place. Attributing the size of China to its autocratic state, too, raises the chicken-and-egg question. What then explains China’s tendency towards autocracy?

Pines’ finding that philosophies as diverse as Confucianism, Mohism, Taoism and Legalism, which disagreed fiercely on major issues such as human nature, the appropriate form of government and state-society relations, unanimously rejected a multi-state system is intriguing. However, it also raises the possibility that the world views of Warring States philosophers were shaped by shared experiences that led them to conclude that unified rule was desirable. One possible experience is the recurring conflicts between the states in the North China Plain and the ‘barbarians’ surrounding it, which, according to Di Cosmo (2002), helped forge a common cultural identity and a sense of ‘Chineseness’ among the early competing states in ancient China.

Geography. Compared to cultural and institutional explanations, geographical explanations are less prone to criticisms of endogeneity. There is a variety of arguments attributing China’s recurring unification to its geography. One strand highlights China’s

⁸ Perry (2020) offers an insightful account that compares how the Chinese state, past and present, sponsored higher education and provided incentives to induce allegiance and cooperation from the educated class.

⁹ Pines (2000) shows that Confucius, Mozi, Laozi and Shangyang, who represented different schools of thoughts, all favoured unified rule in their writings. The belief is also reflected in *Lü shi chungiu*, compiled around 239 BCE: ‘There is no turmoil greater than the absence of the Son of Heaven; without the Son of Heaven, the strong overcome the weak, the many lord it over the few, they incessantly use arms to harm each other (p. 316)’.

precocious development of cereal agriculture (Kung et al., 2020). The most well-known of these studies is made by Karl Wittfogel, who conjectured that climate and the need to organise large-scale irrigation projects caused China and other riverine civilisations to precociously develop large states and despotic rule (Wittfogel, 1957). While Wittfogel's argument has been criticised for resting on weak empirical grounds—irrigation projects in China were largely small-scale, private initiatives—it has influenced others who continue to emphasise the importance of water control in Chinese history. Huang (1988), for example, argues that the silt-ridden Yellow River's proclivity to flooding caused regular conflicts among principalities in North China, which eventually resulted in annexation and unification.

Another geographical argument, which has attracted much ongoing debate, is the Fractured-Land hypothesis. Traceable to Montesquieu and David Hume, it is made famous in recent years by Jared Diamond (1997, 1998), who argues that unlike Europe, which is 'fractured' by mountain ranges, large islands off the mainland, and an indented coastline with sizeable peninsulas, China's topography was conducive to political unification due to the absence of these features.

The claim has drawn heavy criticism. Hui (2005, p. 90), citing Fairbank (1974), notes that 'the North China plain and its extension toward the Yangtze delta are no easier to traverse...than the North European plain'. Hoffman (2015, p. 101) shows that China's terrain is, in fact, more rugged than Europe's. In a recent paper, Fernández-Villaverde et al. (2020) build a simulation model to test the hypothesis. They find that while China was indeed more rugged than Europe, the European mountain ranges and coastlines cut the continent into several distinct geographical cores of comparable size, whereas in China, the mountains were concentrated in the south and the west, allowing the North China Plain, a large region of high land productivity, to dominate over the other smaller Chinese regions.

The role of the Eurasian steppe, which stretches from Mongolia to the mouth of the Danube, is yet another popular geographical explanation to China's unification. The idea can be traced to Lattimore (1940), who argues that Eurasian ecology created a line of cleavage, approximated by the Great Wall, between agriculturalists based in the river basins of China and pastoral nomads of the steppe (see also Grousset, 1970; Barfield, 1989; Turchin, 2009). Three observations on the historical conflicts between China and the Eurasian steppe are worth discussing here. First, climate played a salient role in these conflicts. Empirically, Bai and Kung (2011), Chen (2014) and Zhang et al. (2015) show that due to the steppe's arid environment, the nomads displayed a proclivity to invade their agrarian neighbours during cold and dry spells when there was less fodder for livestock. Second, the steppe nomads' expertise on horseback gave them a distinctive advantage in war. Their cavalry units could easily outflank infantry armies in open battles. When defeated in battle, they could swiftly retreat to safety (Barfield, 1989; Graff, 2002). Third, because their property consisted primarily of movable livestock, the nomads could easily retreat deep into the steppe in the face of a Chinese invasion, and be safe in the knowledge that supply considerations and the risk of being outflanked in the open steppe would persuade their pursuers to give up their chase. For these reasons, the steppe posed a severe and unresolvable threat to the Chinese throughout history. The threat was overcome only in the 18th century, when the expansion of Russia and Qing China into Central Asia trapped the steppe confederacy of Dzungaria in the middle and left it with no escape route (Perdue, 2005).

Building on these observations, Ko et al. (2018) build a theoretical model to argue that a severe, recurring external threat from the steppe provided a powerful impetus that nudged China towards unification by rendering political fragmentation unsustainable. By contrast, because the historical challenges that confronted states in Europe were more local in nature, empires were less likely to arise at the western end of Eurasia, which was farther from the steppe (Figure 7). As evidence, they employ time series analysis to show that nomadic attacks were positively associated with increased political unification in imperial China.¹⁰ Chen and Ma (2020) recently confirmed their empirical results using similar data and methods.

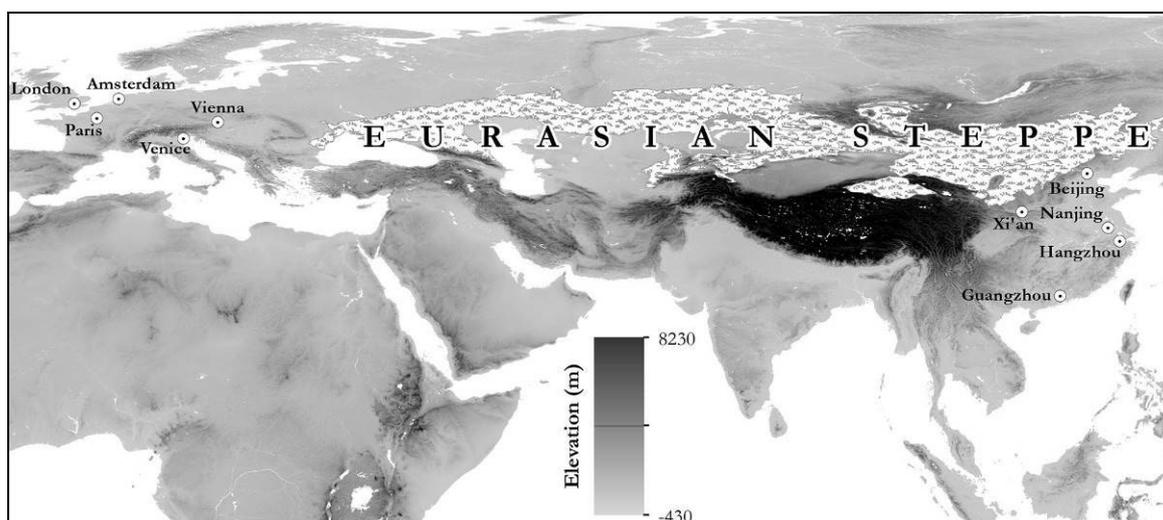


Figure 7: Historically, the Eurasian steppe posed a stronger military threat to China than to western Europe (Ko et al., 2018). Guangzhou, at the southern end of China, is as close to the steppe as Vienna at the eastern end of western Europe.

The steppe argument is also borne out by the locations of Chinese capital cities (Turchin, 2009). With the exception of the first five decades of the Ming dynasty, all unified dynasties of China located their capital cities in the north. For every seven out of 10 years when China was under unified rule, its capital city was either in Changan (Xi'an) or Beijing, close to the steppe and relatively distant from the population centres of China.

We end this section with two comments. First, while the fact that language, culture and political institutions shaped by many forces makes it hard to assess the extent of their influence, it does not invalidate these explanations. Likewise, just because geography is exogenous does not make geographical arguments right. As discussed earlier, the Oriental-Despotism and Fractured-Land hypotheses have received much criticisms. How well the Fractured-Land hypothesis holds up in other parts of the world remains to be addressed. The role of the steppe has also been questioned. Pines (2000), for example, takes the view that steppe nomads were marginal players in Chinese politics prior to the first unification in 221 BCE.

Second, and relatedly, one should discard the idea that there is a holy grail, a one-and-only answer that explains it all. If one conjecture exhibits some explanatory power, it does not follow that other conjectures are necessarily wrong. Some of the conjectures discussed in this section are, very plausibly, complementary. For example, if Eurasian

¹⁰ See also Ko and Sng (2013), who offer a complementary theoretical framework that applies the concept of externalities to explain China's historical tendency towards unification.

geography did indeed nudge China towards political unification, it would give unified states that emerged the time and opportunity to tweak political institutions and promote ideologies that favoured unified rule.¹¹ If so, we should observe shortening periods of fragmentation. And this is indeed what Figure 4 shows.

Four Views on the Early Modern State

The imperial Chinese state was not a static and unchanging entity. As Figure 4 shows, on the dimension of political centralisation alone, China was more centralised in the second millennium than the first. An influential hypothesis, proposed by Japanese historian Naito Konan in 1914, argues that the Chinese state, society and economy underwent a major transformation between the Tang and Song dynasties. Before the Song dynasty (960–1279), the Chinese ruler shared power with the aristocracy and ruled in their mutual interest. The respect for pedigree disappeared after the An Lushan Rebellion in 755, which ushered in a warlord era that saw many warlords coming from the ranks of commoners. The imperial examinations also gained importance from the Song dynasty and further eroded the influence of the aristocracy, leading to the rise of absolute monarchy and an improvement in the status of the commoners (Miyakawa, 1955; Fogel, 1984). Other works have shown that there were also considerable institutional differences between the Song and the Ming-Qing (1368–1912) dynasties (Liu, 2015; Deng and Zheng, 2015; von Glahn, 2019).

These findings are at odds with the traditional perception of the imperial Chinese state as a static and despotic entity. As a result, views of the imperial state have become more varied in recent years. Due to page limitations, in this section we restrict our attention to the early modern period and examine the imperial state during the Ming-Qing dynasties. For ease of conceptualisation, we classify the theses in this literature along two dimensions: state capacity (Strong/Weak) and impact of state actions on economic development (Inhibitive/Noninhibitive). By state capacity, we refer to the ability of the state to achieve its policy goals (Dincecco, 2017). By the impact of state actions, we mean whether the state’s deliberations and actions inhibited economic development. This generates a 2 × 2 classification, as Table 3 illustrates.

| | | <i>(Impact of state actions on development)</i> | |
|-------------------------|--------|---|--------------------------|
| | | Inhibitive | Noninhibitive |
| <i>(State capacity)</i> | Strong | Traditional School | California School |
| | Weak | Unchecked-State View | Weak-State View |

Table 3: Four views on the nature of the early modern Chinese state

The first school of thought is the traditional view (top-left quadrant of Table 3). The standard bearers of this view, Wittfogel (1957) and Balazs (1964) saw China as a civilisation that had developed and perfected a totalitarian state system that stifled its culture and development. While new research and China’s economic takeoff in recent decades have weakened its appeal, this thinking remains influential among non-China specialists (see, for instance, Landes, 1998).

¹¹ A case in point is the system of provincial boundaries in early modern China. Sng et al. (2018) provide empirical evidence using GIS methods to show that by the early modern period, the Chinese state had learned to strategically manipulate provincial boundaries to reduce the autonomy of the provinces and strengthen the centre.

The second school of thought is represented by scholars who take a more favourable view of the early modern Chinese state and see it as benign by the standards of its international contemporaries. Known collectively as the California School (top-right quadrant of Table 3)—some, but not all, were based in universities in California when their theses were published—these scholars argue that contrary to the traditional view of a stagnant China, the Chinese economy did well by premodern standards (Frank, 1998; Li, 1998; Pomeranz, 2000). There was technological progress, masked by the fact that China took a path that was distinct from Europe’s (Elman, 2005). Likewise, the Chinese political economy pursued a different set of objectives, with more emphasis on internal stability and less on expansionism, that was not morally inferior to what the Europeans sought to achieve (Wong, 1997; Rosenthal and Wong, 2011).¹²

A key highlight of this body of research is the early modern Chinese state’s involvement in activities that would be considered developmental today. In famine administration, in particular, the imperial state built and maintained a national network of ever-normal granaries. Will (1990) and Will and Wong (1991) examine how the system operated at its peak in the mid-18th century. They portray an innovative and effective state that dealt with natural disasters by shipping grains to the affected regions, combating price spikes, helping victims to return home, and offering tax relief, seed grains and tools to aid recovery. Dunstan (2006, 2020) shows that despite the imperial state’s emphasis on building a strategic grain reserve, it demonstrated flexibility and was willing to utilise the market to help fight famines. Peter Perdue’s study of the Qing conquest of Turkestan in the 18th century, too, shows that the imperial state was capable of implementing administrative innovations that improved its capacity to mobilise resources to satisfy its security needs and promote popular welfare (Perdue, 2005).

A third cluster of work, which we dubbed as the Weak-State view (bottom-right quadrant of Table 3), is a relatively amorphous body of work that agrees with the California School that the ruling Chinese dynasties had the incentive to maintain good governance for the sake of staying in power. However, scholars of the Weak-State view are more pessimistic in their evaluation of the imperial state’s administrative capacity. Instead of seeing the early modern Chinese state as an activist regime with modern tendencies, they portray it as one that was under-resourced and constrained by a limited reach.

Perkins (1967), for example, rejects the notion that the imperial state was inherently hostile to commerce and industry by pointing to evidence that rich merchants in early modern China often came from the gentry class. In his view, ‘[i]f the imperial government of China was an obstacle to industrialization, it was more because of what it did not do than because of harmful efforts which it did undertake’. Feuerwerker (1984), too, dismisses claims that commerce was subjected to excessive and arbitrary taxation and merchants were widely disdained. He argues that ‘[o]n balance, the actions of the state probably helped rather than hindered the long-term growth of population and total output’ and in any case, the imperial state’s limited influence over the economy restricted the harm that it could do (Feuerwerker, 1984, p. 322).

By conventional measures, early modern China had a very small government. The county was the lowest level of government in imperial China. In 1820, there were less than 1,400 counties governing a population of 380 million (Skinner, 1977; Cao, 2000).

¹² Using estimates based on historical archives, Chen et al. (2017) show that homicide rates were low in Qing China relative to Western Europe.

The difficulties that understaffed county *yamen* and overworked magistrates faced in collecting taxes, arresting criminals, hearing court cases and enforcing judgements, and the consequent neglect of many government tasks are recurring themes in many historical studies (see, for example, Ch'u, 1962; Watt, 1977; Macauley, 1998; Buoye, 2004).

As Table 2 and Figure 5 illustrate, even at the height of the high-Qing period, the Chinese state was fiscally weak. According to Vries (2015, p. 188), per capita state spending in China in 1800 was only about one-30th the level in Britain. As in the case of Europe, most was spent on military. While the scale of the 18th-century grain storage system was impressive in absolute terms, in per capita terms it was smaller than similar operations in Prussia-Brandenburg (Vries, 2015) or Japan (Sng and Moriguchi, 2014). This inhibited the Chinese state's ability to deal with socioeconomic changes and ecological challenges. For example, studies looking at flood control in 19th-century North China generally conclude that the Chinese monarchs did not lack the will to stabilise the fragile Yellow River system and provide relief when floods occurred, but they were thwarted by rising costs and a shrinking state budget (Leonard, 1996; Dodgen, 2001; Li, 2007).

Zelin (1984) provides a classic study highlighting the difficulties that the imperial state faced in expanding its fiscal capacity. Her account investigates the fiscal reform carried out by the Qing Emperor Yongzheng (r. 1722–35) to rationalise state finances and secure a reliable source of funding for local authorities to provide public goods. She shows that while Yongzheng's reform might have temporarily improved state finances, it failed to deliver long-lasting results as the local gentry and local state functionaries, whose interest was hurt, were able to undermine the reform efforts from below.¹³

In this regard, fiscal problems were inextricably linked with the challenges of administrative control, which also thwarted the campaign of the Ming founder Zhu Yuanzhang (1368–98), another Chinese monarch famed for his administrative energy, to promote public elementary schools known as 'community schools' (Schneewind, 2006, c. 2). In 1375, Zhu ordered the setting up of community schools in every village, but he rescinded the order after only five years on suspicion that local state functionaries were using the community schools for corruption and self-aggrandisement.

Carol Shiue's analysis of the Chinese granary system provides systematic evidence that the imperial state did not behave like a unitary entity. Shiue (2004, 2005) shows that the central government's efforts to provide disaster relief had the unintended consequence of encouraging provincial officials to store less grain, which weakened the effectiveness of famine relief.

Sng (2011, 2014) offers a theoretical framework that highlights the size of the Chinese empire as key to the Chinese state's fiscal and administrative weaknesses. He conjectures that in an age of premodern communication technology, political centralisation, combined with the vast size of the Chinese empire, generated a severe principal-agent problem in government. Due to the monarch's weak oversight of the bureaucrats and other state agents, taxes had to be kept low and the bureaucracy kept small to prevent the state from turning unwieldy and rapacious at the local level. A similar framework is also presented in Brandt et al. (2014). Sng and Moriguchi (2014) extend the model to a dynamic setting and use the Tokugawa shogunate (1600–1868) in Japan as a counterfactual. Empirically, they show that the geographically compact Tokugawa shogunate taxed more and provided more public goods (including coins, roads and urban

¹³ See Hao and Liu (2020) for a formal empirical study.

services) on a per capita basis. Furthermore, it encountered less corruption and demonstrated more fiscal resilience in the face of demographic change than its counterpart in Qing China.

The prevalence of corruption implies that light taxation did not translate into a light tax burden on the ordinary people. Although the Ming-Qing statutes imposed harsh punishment on corruption (Park, 1997), collection of illegal surcharges and fees by local state actors, sometimes in collaboration with rich landowners, appears to be pervasive (Kiser and Tong, 1992; Reed, 2000; Ni and Van, 2006). Zhang (1962, p. 32) estimates that a 19th-century county magistrate would fetch about 30,000 silver taels a year in extralegal income, an amount more than 12–65 times his official income.

From the perspective of economic development, one may argue that a weak state did not matter, since there was little scope for government to actively promote growth in premodern times. Where the Chinese state could not govern effectively, it could, and did, mobilise local elites to help maintain order (Ch’u, 1962; Esherick and Rankin, 1993). In a recent study, Liu and Yan (2020) show how the 18th-century Chinese state skilfully overcame its financial shortcomings to provide public goods nationwide by focusing on direct provision only in the frontier regions, and leaving local elites to look after the more developed provinces.

Greif and Tabellini (2017) see China’s reliance on local elites and clans as having a decisive impact on its course of development. They contrast the importance of the clan in imperial China with Europe’s embracing of the corporation as a basic unit of social organisation, and argue that the costs of enforcing intra-group cooperation were lower for clans. However, by emphasising personal relations and deemphasising generalised morality, the dominance of clans could have contributed to weaker legal institutions and lower urbanisation.

The fourth cluster of work, dubbed as the Unchecked-State view in Table 3 (bottom-left quadrant), comprises two separate threads of research. Both threads acknowledge the institutional weaknesses of the Chinese state, but they argue, from different angles, how its unchecked nature still cost China’s long-run development dearly.

The first thread, put forth most forcefully by Mokyr (1990, 2016), sees the absence of political polycentrism as a critical obstacle to China’s indigenous scientific development. Mokyr (1990, c. 9) argues that contrary to Europe, where innovation was driven by private individuals, the task of producing and disseminating useful knowledge was usually carried out by bureaucrats in China. Hence, the imperial state had the ability to put innovation to a standstill should it turn conservative, which it did during the Ming and Qing dynasties. By choosing stability over change, the Ming-Qing state stifled intellectual development and prevented any chance of a culture of innovation and growth from emerging in China (Mokyr, 2016).¹⁴ Xue (2020) empirically examines the impact of literary inquisitions during the early Qing dynasty and finds that exposure to political repression reduced social capital. Ma (2021) shows that the expulsion of Jesuits by the Chinese emperor in 1723 had a negative impact on the study of science in China. Intriguingly, these studies offer a potential explanation as to why the Warring States period and the warlord era of the early 20th century constituted some of the most intellectually vibrant times in Chinese history.

¹⁴ Rubin’s (2017) detailed account on how religious conservatism stifled long-run development in the Middle East offers some potentially interesting parallels.

The second thread emphasises the whimsical nature of absolutist monarchs or the narrow interest of the political elites. North (1995) argues that while Wittfogel (1957) was wrong about the driving force behind China's political centralisation, he was right that centralised controls were detrimental to development and 'Chinese history is replete with arbitrary alterations in policies that fundamentally influence opportunities.' In a similar vein, Ma (2011) and Ma and Rubin (2019) argue that an unchecked monarch was the root cause of imperial China's fiscal weaknesses and high corruption. Ma and Rubin (2019) show theoretically that an unchecked monarch is unable to reduce corruption by promising to pay his bureaucrats high (efficiency) wages, because he cannot credibly commit to refrain from confiscating from his bureaucrats in the future. Therefore, they argue, the Chinese monarch refrained from investing in his monitoring capacity as a commitment device to not predate on his bureaucrats. Wang (2019) argues that the civil service examination ironically transformed the Chinese literati into a narrow-interest group that sought to influence national affairs for the benefit of one's hometown and clan.

North's remark on China has been criticised by Perdue (2004) on the basis of weak empirical evidence. Likewise, while Ma and Rubin (2019) shed an insightful theoretical light on the question of credible commitment in absolutist regimes, their argument that the imperial Chinese state was uninterested to improve its monitoring capacity is debatable. A case in point is the presence of the Censorate, an imperial inspectorate tasked with monitoring and impeaching shirkers and wrongdoers in the executive branch. To avoid unnecessary interference to its work, the Censorate was set up as a separate branch of government parallel to and functionally independent of the Six Ministries, and directly responsible to the emperor. The design was praised by the 19th-century American diplomat Chester Holcombe, who despite observing endemic corruption in the Chinese officialdom remarked that '...few nations have such a complete civil service as China, or one in which the checks and guards against injustice, oppression, and every form of maladministration have been so carefully, and with such apparent wisdom, wrought out' (Holcombe, 1895, p. 223). The monarchy's strong desire to strengthen its monitoring capacity and exert more effective control was also reflected in the establishment of the secret memorial (*zouzhe*) system by Emperor Kangxi (1661–1722). Through the initiative, Kangxi encouraged officials to bypass the bureaucratic channel and send confidential memorials, including reports on the actions of other officials, to him directly (Bartlett, 1991).

We end the section with a caveat: the structure in Table 3 is a very simple one and does not fully reflect the nuanced nature of many of the work discussed. We use it nonetheless because it offers a useful framework to organise a complex body of literature on the nature of the imperial state, which is not only an important historical question in itself, but also sheds light on China's post-1800 struggles and responses.

Upheaval and Reform in 19th-Century China

According to traditional Chinese historiography, the reigns of Emperors Kangxi, Yongzheng and Qianlong (1661–1796) represented the last golden era of China's imperial age, the High Qing. Decline set in during the Qianlong reign, gathered momentum during the reigns of Jiaqing (1796–1820) and Daoguang (1821–1850), and finally culminated in two watershed events: the Opium War (1839–42), which ushered in a century of aggressive foreign encroachment in China, and the Taiping Rebellion (1850–1864), which represented a disastrous breakdown of domestic order.

Volumes 10 and 11 of the *Cambridge History of China* provides a mainstream historical view of the turbulent 19th century, portraying China as a weak and increasingly divided imperial state that made intermittent attempts at reform and modernisation, but was hamstrung by longstanding problems of underadministration, cultural conservatism, and concerns over Western imperialism and domestic centrifugal forces.¹⁵ Countering traditional arguments attributing the decline of Qing dynasty to the moral decline of its monarchs,¹⁶ Mann and Kuhn (1978) highlight the role of the steady demographic expansion in the stable 18th century, overproduction of educated men in search of public office, and increased administrative demands on the county-level authorities in sowing the seeds of China's mid-19th century political and economic crises (Figure 8). Naquin and Rawski (1987), too, argue that China's 19th-century decline originated from the century before. They argue that population pressure and government policies encouraging land reclamation and seed improvements led to significant population expansion in southwestern China, Taiwan and other peripheral areas of the empire where state control was the weakest. Plagued by financial and managerial limitations, the Qing state was unable to adjust to the new realities and this resulted in a gradual process of administrative breakdown in the peripheries, which became increasingly unmanageable. Lin (2006) emphasises China's inability to exercise monetary sovereignty and its reliance on foreign silver, describing how decreased silver production in the New World caused a monetary contraction and a protracted downturn in the Chinese economy during the reign of Daoguang. This downturn, in turn, led to the Taiping Rebellion.

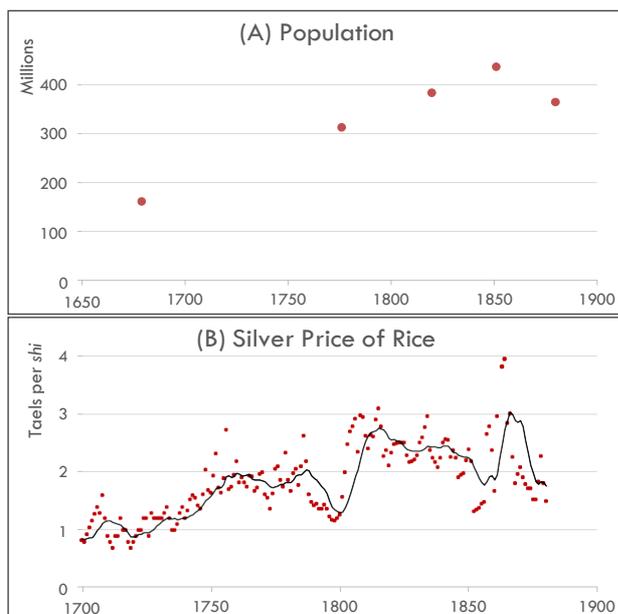


Figure 8: Population Growth (Cao, 2000) and Inflation (Wang, 1992)

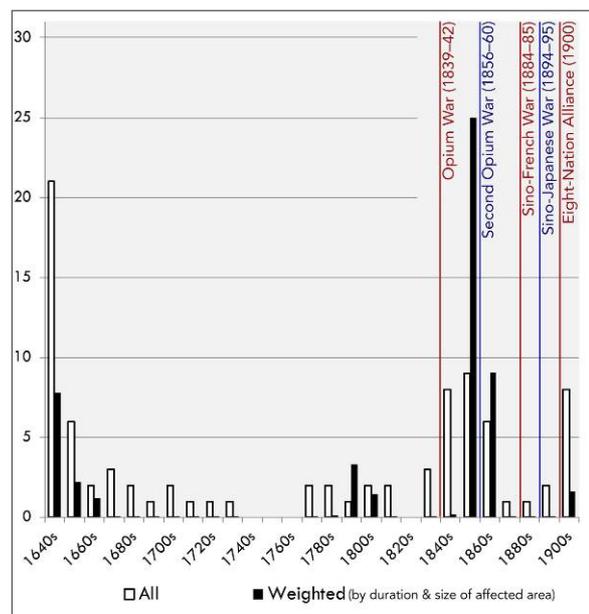


Figure 9: Domestic Rebellions and Foreign Invasions (Sng, 2014)

While it is widely accepted that China's modern history began with the Opium War, which forced China to open its markets to the West, it was the Taiping Rebellion that triggered political decentralisation, the first significant response from the imperial state to the new realities. To make itself nimbler in suppressing the rebels and restoring order in the aftermath of the rebellion, the imperial court allowed the affected provinces—

¹⁵ Cohen (2017) offers a succinct discussion of the evolution of the historian's view of 19th-century China.

¹⁶ See, for example, Qian (1940) and Hsiao (1986).

led by scholar-generals such as Zeng Guofan, Hu Linyi, Zuo Zongtang and Li Hongzhang—to raise their own armies and grant them greater fiscal and administrative autonomy, including the permission to collect *lijin*, a new transit tax (Kuhn, 1980; Rowe, 1983). With the help of allies in the central government, the provinces played a leading role in implementing the Self-Strengthening Movement (1861–95), a series of interventions designed to modernise China. These interventions included establishing foreign language schools in the big cities to translate Western publications and build foreign expertise; establishing modern navy fleets (the Beiyang, Nanyang, Guangdong and Fujian navies) and naval academies; setting up iron and steel mills, machine and weapon factories, and shipyards; and promoting industrialisation, including building railways and telegraph lines, cotton-spinning and weaving companies, and steam navigation companies.

However, compared with the Meiji Restoration in Japan, the Self-Strengthening Movement in China is often viewed as a half-hearted reform programme. Fairbank (1992) discusses how state and societal conservativeness handicapped China's early modernisation. Ma (2004) compares the sericulture industries in Japan and in Lower Yangzi, China's richest region, and attributes China's relatively lacklustre performance to the Self-Strengthening Movement's indifferent or even hostile attitude towards private initiatives and the state's unwillingness to provide modern public goods. More recently, some historians have argued that mainstream perceptions of the Self-Strengthening Movement has been clouded by hindsight bias (Fung, 1996; Meng, 1999). Elman (2004) emphasises that contemporary Europeans and Japanese generally believed that China was ahead of Japan in manufacturing modern arms and gunboats until the 1880s. Citing business historians, Rowe (2009) sees 'several impressive areas of success' in the provincial-led modernisation efforts of late Qing, which laid the groundwork for China's industrialisation in the 20th century. He (2013) offers an ambitious analysis of the attempts to build a modern fiscal state in England, Japan and China and concludes that chance played a critical role in the comparative failure of China's nineteenth-century state modernisation project. Halsey (2015) argues that the Self-Strengthening Movement and subsequent modernisation efforts of the late Qing were a considerable success, without which China would not have been one of very few non-Western countries to retain its independence in the age of imperialism.

Yet it remains a fact that as a whole, the late Qing state and society displayed a strong conservatism and resistance to change at least up to the Sino-Japanese War in 1894–95 (Wright, 1957; Kuhn, 2002). The contemporary British diplomat Robert Hart observed that the imperial court's policy 'was not to guide but to follow events' and 'what the people wish for [...] the Government in the end sanctions' (Hart, 1975, p. 118). For example, the state ordered the Wusong Railway, China's first operational railroad, to be dismantled in 1877 amid strong local protests. Likewise, the construction of overland telegraph lines in China was repeatedly hampered by fengshui concerns of rural residents. Until 1905, imperial examinations, which emphasised the learning of the Confucian Classics, remained the main channel to recruit bureaucrats (Yuchtman, 2017; Bai and Jia, 2016; Bai, 2019). A system of modern education only began to emerge after 1905 (Chaudhary et al., 2012).

Through a comparative study of 19th-century China and Japan, Koyama et al. (2018) offer an analytical framework that highlights the role of geopolitics and territorial size in explaining the post-1850 'Little Divergence' between China and Japan. They argue that the ambivalent attitude of the Chinese state and elites towards reform can be

understood from the perspectives of benefits and costs. Unlike Meiji Japan, which was an island state with limited resources, China's size and relative resource abundance meant that it was under less pressure to seek resource augmentation for survival. Hence, it was only after the Sino-Japanese War, when the very existence of China was under threat, that the elites reacted to the changed reality and embraced reform in flocks. In contrast with the Japanese state, which maintained strong control of society even before the Meiji Restoration, the late Qing state's limited reach handicapped its ability to control events. As a result, it appeared reactive, sometimes promoting reform but often choosing to back down when confronted with public objections against new policies that were deemed incompatible with the traditional way of life.¹⁷

Kuhn (1980), Rowe (1983) and others suggest that China's gravitation towards political decentralisation after the mid-19th century represents an attempt to move the state closer to society. The ensuing activities of state building would lay the groundwork for similar efforts during the Republican and Communist eras. However, the late Qing political devolution was a limited one as the imperial court remained watchful of the provinces' centrifugal tendencies and for good reasons. During the Sino-Japanese War, only Manchuria and Zhili province took part in fending off the Japanese. When the Eight-Nation Alliance invaded North China in 1900, provinces in southern China declared neutrality in the war and refused to support the central government (Hsu, 1980; Bai and Kung, 2015).

When the imperial court finally made up its mind to embrace Meiji-style reforms after the 1900 debacle, the decision ironically proved its earlier conservatism right. The abolition of the imperial examinations in 1905 alienated the literati and undermined their support of the imperial regime (Bai and Jia, 2016). In 1911–12, when a mutiny broke out in Wuchang, the provincial assemblies recently established as part of the new reform programme took the side of the revolutionaries. The event spelt the end of China's imperial era.¹⁸

Internationally, the collapse of Qing China was followed closely by the demise of Tsarist Russia in 1917 and the disintegration of Ottoman Turkey in 1922. The contrasting fate of these large empires and the successful medium-sized states in Europe and Japan highlight the challenges that territorial size posed to managing socioeconomic challenges and possibilities in the age of modern economic growth.

The Republican Era (1912–49)

The Republican Era, from the collapse of the Qing dynasty in 1912 and the Communist takeover in 1949, can be divided into three subperiods: the Beiyang period (1912–27), when China was carved out among increasingly fractious warlords but remained unified in name under the Beiyang government in Beijing; the Nanjing decade

¹⁷ There was also popular resentment towards the new policies on land taxation, public education and conscription in Japan. In the 1870s, when rumours that the government was building telegraph lines to transmit blood of the local people to blood-drinking foreigners led to several large scale popular uprisings, the Meiji state swiftly pacified the uprisings and restored order through a combination of force and persuasion.

¹⁸ Aoki (2017) highlights a major distinction between China and Japan that influenced the outcomes of their political upheavals: the participants of the 1911 Chinese Revolution had diverse backgrounds and intentions, whereas the antagonists who fought the Japanese civil war in the 1860s all came from the samurai class.

(1928–37), when the Nationalist Party in Nanjing, led by Chiang Kai-shek, controlled the central government after it defeated the warlords in central and northern China; and during World War Two and the Civil War period (1937–49). Few studies have directly investigated the effect of warlordism on China's economic development. Most accounts assume that warlord rule, which saw the ascendancy of military strongmen scrambling for resources to finance petty wars, represented chaos and confusion. However, some studies recognise that warlord rule had a silver lining. According to Waldron (1995), the Beiyang period saw robust socioeconomic and intellectual developments that facilitated the structural changes later. Lary (1980), too, argues that by shaking up the existing order, warlordism created an unrestrained dynamism unseen in China before or thereafter.¹⁹

Remick (2004) sees political decentralisation as a catalyst that facilitated state-building experimentation and demonstrates an intensification of local state building during the warlord period. She offers a comparative analysis of Guangdong province, led by the warlord Chen Jitang, and the centrally controlled Hebei province. Guangdong's breakaway status gave the province more flexibility and incentives to rationalise its tax bureaucracy and use the increased revenues to provide roads, schools and other public goods for the population at large. In a later work, Remick (2014) studies the regulation of prostitution in three provincial cities—Guangzhou, Kunming and Hangzhou—in the early 20th century and investigates how fiscal incentives led different local governments to develop their regulatory policies differently. In Guangzhou and Kunming, the municipal governments relied heavily on taxing brothels to fund their expenses and therefore resisted public pressure to rein in prostitution, while Hangzhou taxed prostitution lightly and showed little interest in implementing a strict regulatory regime.

When Olson (1993) proposes his famous 'stationary bandit' metaphor, he poses the question of why the Chinese in the 1920s seemed to prefer warlords like Feng Yu-Hsiang, who taxed the population regularly and heavily, to roving bandits, who only plundered sporadically. The answer, according to Olson, is that besides a grasping hand, the stationary bandit also has a helping hand. The two hands are akin to the dualism of *yin* and *yang*. The stationary bandit has the incentive to provide domestic order and other public goods so that he could grasp more in the future, '[t]hus he is not like the wolf that preys on the elk, but more like the rancher who makes sure that his cattle are protected and given water' (Olson, 1993, p. 569).

The rise of the Nationalists as the dominant political force in China and the relocation of the capital city to Nanjing in 1927 shifted the locus of reform from the provinces to the centre and brought fresh impetus of change in the central government. On the monetary front, the Central Bank of China (Zhongyang Yinhang) became the central bank in 1928. While its role was initially limited, its influence grew over time as the new government stabilised (Brandt and Sargent, 1989; Lan, 2015). In 1935, the Nationalist government reformed the currency system and replaced the bimetallic monetary standard with fiat money (*fabì*) that was tied to a basket of foreign currencies (Friedman, 1992). The reform strengthened fiscal resilience by shielding the economy and the state from the full-blown effects of excessive fluctuations in the price of silver. Recent studies also highlight the role of modern bureaucracies, in particular the Chinese Maritime Customs Service and the Sino-Foreign Salt Inspectorate, in promoting fiscal revenue growth

¹⁹ In her own words, '[t]his was a great period for writers, for artists, for entrepreneurs, for eccentrics, and above all, for radicals. Traditional career structures melted away, and individuals were forced to carve out new niches for themselves, unimpeded by established patterns or by concern for security, in a world where that concept was redundant' (Lary, 1980, p. 440).

(Strauss, 2008; Van de Ven, 2014; Keller and Shiue, 2020). However, the Nationalist state's tax capacity remained small, partly because many inland provinces remained under warlord rule. Fiscal revenue as a percentage of GDP, while rising, never exceeded four per cent (Liu, 1949), as compared with 2.4 per cent in 1908 (Wang, 1973). The Nationalist government's reliance on the eastern seaboard, which it directly controlled, is reflected by the fact that almost half of its revenue came from import tariffs in 1935, even though foreign trade accounted for only six per cent of China's gross national product at the time (Boecking, 2017).

Bond issuance provided another channel for the Nationalist government to raise funds for its expenditure. Unlike the Beiyang government, which had difficulties borrowing from the domestic financial market and relied heavily on foreign borrowing, the Nationalist government was able to borrow domestically by issuing government bonds until the outbreak of the Second Sino-Japanese War in 1937 (Yan, 2012). Ma (2019) argues that property rights protection offered by the treaty ports, in particular the Shanghai international settlement, was critical in creating a viable bond market for the Nationalist government.²⁰ However, the growth of China's capital markets during the Nanjing decade did not leave a lasting impact on subsequent development. Bond financing plummeted after the outbreak of war and the loss of Shanghai to Japan in 1937. The end of World War Two brought no relief to the capital markets as it was followed by the civil war, which the Communists eventually won.

Where the Nationalist government did leave a lasting economic legacy, for better or worse, is in economic planning and, relatedly, state ownership of enterprises (Kirby, 1989). In 1932, the Nationalist government set up the National Resources Commission (NRC) and made it responsible for industrial planning and managing state-owned enterprises (SOEs). Staffed by technocrats instead of political appointees, the NRC reported directly to the supreme leader Chiang Kai-shek and enjoyed a high political standing (Kirby, 2000; Bian, 2015). Among the plans it had drawn up but came into fruition only during the Communist era include the Three Gorges Dam and development of heavy industries in the inland provinces.

The need to manage China's wartime economy after 1937 had increased the management role of the NRC. Consequently, it expanded from an agency with just several dozens of technical experts before the war to one that employed tens of thousands of employees and controlled almost 70% of Chinese industry in 1947 (Kirby, 1990). The NRC's spectacular growth eased the way for the nationalisation of the economy after the Communist takeover.

It was once widely accepted by Chinese historians that the Nationalist government had caused its own downfall. Its shortcomings include factionalism, political oppression and a lack of social support (Eastman, 1974), overspending on the military (Paauw, 1957) and ineffectual administration (Eastman, 1986). Recent publications have cast a more positive light on its performance (Kirby, 1984; Strauss, 1998; Van de Ven, 2014; Boecking, 2017). Economic historians have also shown that until 1937, China under the

²⁰ Recent studies suggest that the Chinese bond market of this period was reasonably efficient. Ho and Li (2014) show that monthly government bond prices were responsive to political events such as Japan's invasion of Manchuria and the outbreak of the Second Sino-Japanese War. However, Boecking and Scholz (2015) find evidence that members of the Nationalist elite might have issued domestic government bonds at artificially low prices to enrich themselves. See Goetzmann et al. (2007) for an overview of the development of Chinese capital markets from 1870 to 1939.

Nationalists showed promise of growing into a modern, capitalist economy. Industrialisation appeared to be taking off. Fixed capital formation was growing in double digits between 1931 and 1936 (Rawski, 1989, p. 345). The industrial sector was dominated by consumer goods production rather than heavy industry (Riskin, 1987). In 1933, two-thirds of the value-added were generated from the production of food, beverages, tobacco, textiles, clothing and footwear (Rawski, 1989, p. 84). Excluding Manchuria, which was occupied by Japan, the SOEs only accounted for a very small share of the economy and the geographical distribution of industries was skewed heavily towards the eastern seaboard (Rawski, 1989; Naughton, 2017). The Second Sino-Japanese War, the oriental theatre of World War Two, changed the course of history. Recent research has shown that the war played a critical role in the national rise of the Communists (Koss, 2018; Xu et al., 2018; Chen and Kung, 2020). The Nationalists lost the coastal regions, which formed its political and economic power base, in the early stages of the war. This proved to be a fatal blow.

The People's Republic Until the Early 1980s

After Japan's surrender in 1945, the Chinese Civil War between the Nationalists and the Communists broke out. The rural-oriented Communists, led by Mao Zedong, emerged victorious and established the People's Republic of China (PRC) in 1949, while Chiang and his supporters retreated to Taiwan.

Inspired by the Soviet model, the Communists built a strong, interventionist state on a scale unprecedented in Chinese history (Zheng, 1997). As Figure 10 illustrates, compared with the late Qing dynasty, when the state's tax revenue was around two per cent of GDP, fiscal revenue/expenditure as a ratio of GDP was well above 20% throughout the Maoist period (1949–78). Public finance was highly centralised under a system of 'unified collection and unified spending' (*tongshou tongzhi*). The state drew most of its income from SOEs, which delivered their profits in full to the state (Lou, 2000; Wong and Bird, 2008). The SOEs did not have to actively compete among themselves as the state set the prices of their products. Farmers were taxed through two channels: the agricultural tax and the artificial suppression of agricultural prices by the state. In the late 1950s, when central planning was especially dominant, state budgetary revenue as a share of GDP was as high as 38%.

Mao's top economic priority was rapid industrialisation (Pantsov and Levine, 2012). He embarked China on a state-led modernisation programme that, like the Soviet economy under Stalin, prioritised the development of heavy industries. China's first 'five-year plan' (1953–1957) set ambitious targets for infrastructure development and industrial output (Perkins, 1988, 2014). It achieved double-digit annual growth in coal, steel and petrochemical production, and was generally considered a success (Fairbank, 1992; Perkins, 2014). As Figure 11 illustrates, the expansion of China's railway network accelerated in the 1950s (Hsieh, 1976).

The state controlled the urban economy via the SOEs, which were expected to achieve targets set by the central ministries on output, number of employees, consumption of raw materials and so on (Riskin, 1987; Perkins, 2014). A salient tool of central control was personnel appointment. Under the nomenklatura system, the key administrative positions in the SOEs were filled by appointees of the Communist Party (Naughton, 2018).

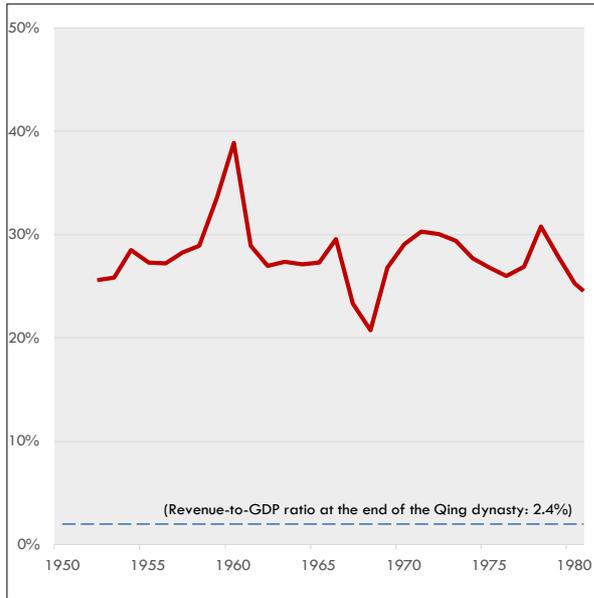


Figure 10: Tax Revenue as a Percentage of GDP during the Maoist Period (CEIC)

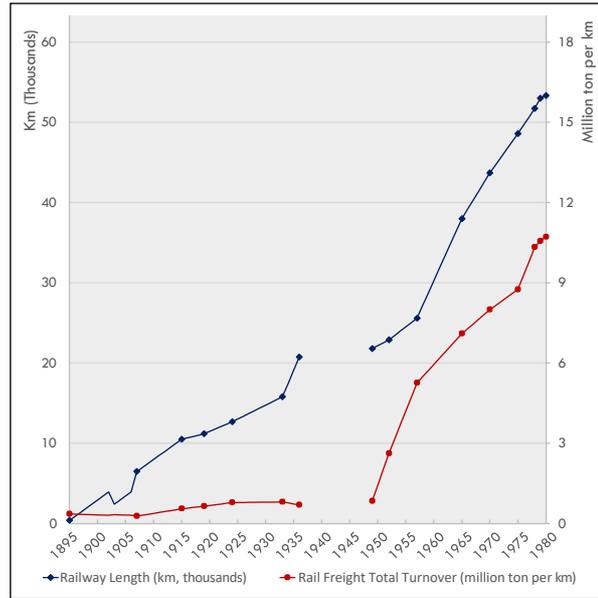


Figure 11: Growth of Railway system in the 20th Century (Rawski 1989; CEIC)

While some studies have argued that the economic performance of SOEs was not significantly different from non-SOEs before the early 1990s (Lo, 2020), most scholars see the SOEs as economically wasteful. The productivity of SOEs was stagnant during the Maoist period. Average real wages in 1982 (RMB521) were lower than in 1956 (RMB546), though this took place against a backdrop of strong employment growth, from 24 million to 86 million employees over the same period (Walder, 1986) and with higher female labour force participation in the cities. Besides the lack of competition (Bramall, 2008), another contributing factor of SOE inefficiency was the soft budget constraint, which gave managers little incentive to improve quality and reduce cost (Perkins, 2014; Song, 2018).

However, the degree of central planning in China was lower than that in the Soviet Union. The decision makers in Beijing were quick to realise that central planning did not suit agricultural production, relying instead on setting procurement quotas to ensure that the state received an adequate supply of grains and other agricultural products from the rural cooperatives and communes (Perkins, 2014). Most agricultural products were not subject to planning and could be sold by the producers in the local markets.

Even in the domain of industrial production, central planning was underdeveloped. In 1957, the last year of the first Five-Year Plan (FYP), the State Planning Commission only managed to systematically coordinate the input-output plan of about 235 out of the 729 products originally targeted, due to difficulties in meeting the large data collection and processing requirements of central planning (Perkins, 2014, p. 43). The Great Leap Forward in 1958–61, the Sino-Soviet split in 1960 and the Cultural Revolution in 1966–1976 created chaos and disruptions that made centralised planning even harder to carry out. Chinese leaders were also aware that in such a large country, they needed to delegate some decision making to lower levels. During the Great Leap Forward, Beijing granted provincial and local governments the autonomy to initiate and coordinate economic campaigns that replaced central planning (Walder, 2015). When the Cultural Revolution left the central government semi-paralysed, local governments were given discretion to coordinate and mobilise local economies (Riskin, 1987; Naughton, 1991).

Some scholars have argued that weak central planning and the regional development strategy of the Maoist period were important enablers of China's post-1978 growth (Chan et al., 2008). Xu (2011) describes China as a regionally decentralised authoritarian (RDA) system: instead of having a unitary system as in the case of the Soviet Union (U-form), in China regions have comparable industrial structures and they compete with one another (M-form).²¹ During the post-1978 reform period, not only did the RDA regime foster market-supporting institutions, it also encouraged competition among local officials to promote economic growth (Li and Zhou, 2005) and permitted experimentation of reform policies in selected cities or regions before nationwide implementation (Xu, 2011; Zhu and Zhao, 2018; Qian, 2020). Heilmann (2008) views 'experiments under hierarchy', or decentralised experiments with *ad hoc* central intervention, as key to understanding the policymaking process in post-1978 China. The spectacular growth of the Special Economic Zones since the 1980s, in particular, bears witness to the efficacy of this arrangement (Alder et al., 2016; Lu et al., 2019).

Another development with long term implications is the extension of the reach of the state to the countryside, where over 80% of the population resided. The rank-and-file of the Communist Party played a critical role in enabling the party-state to penetrate the local communities (Koss, 2018). In the 1950s, the PRC state mobilised its local party activists to launch a programme of rural collectivisation that, by the late 1950s, organised the countryside into 26,000 communes, each administering some 5,000 households (Perkins 1998). A commune typically comprised a dozen or so brigades, which in turn comprised a dozen or so production teams that directly administered the rural households (Figure 12). This organisation structure allowed the state to account for every individual living in China for the first time in history (Lu et al., 2020).²²



Figure 12: The Extension of the Reach of the Chinese State Under the Communists (Lu et al., 2020)

The commune was not an orthodox territorial administrative unit but a large collective farm. Besides facilitating state control of the countryside, it also served as an institutional mechanism for public goods previously available only to urban dwellers to be delivered to rural residents (Lippit, 1977). Its responsibilities included employment, farm production, agribusiness enterprise, basic education, basic healthcare, agricultural modernisation, construction of infrastructure and maintenance of local militias. It was expected to fulfil these responsibilities on its own, but it was also given a substantial amount of operational and financial autonomy to do so. After fulfilling state procurement quotas, the commune had, at its disposal, the residual communal income to cover its overhead and to run primary and middle schools, brigade clinics, commune hospitals and other communal enterprises (Li, 2009). By providing basic education in the countryside and organising periodic literacy campaigns that targeted adult farmers, the communes helped reduce China's illiteracy rate from about 80% in 1950 to 23% in 1982 (Zhang, 2000).

²¹ See also Maskin et al. (2000) and Landry (2008).

²² After 1978, following the decollectivisation of agriculture, the communes were restructured into townships and served as a formal layer of government below the county.

Given the stagnation of Chinese living standards until Mao's death in 1976, the loss of tens of millions of lives as a consequence of the ill-conceived Great Leap Forward campaign (1958–62) and the violent excesses of the Cultural Revolution (1966–76), it is difficult to avoid the conclusion that the short-run welfare effect of Mao's rule was likely negative (Walder, 2015, 2019). However, the longer-term legacy of the Maoist period is a subject of debate. Some scholars argue that China's transformational change after 1978 took place not because of, but in spite of, the Maoist legacy, which they associate with excessive state interference in the economy (Huang, 2012; Nee and Oppen, 2012). Others, however, credit the organisational framework laid down during the Maoist period for China's post-Mao takeoff (Fairbank, 1992; Oi, 1999; Bramall, 2007; Rawski, 2011). Based on a micro-historical study of socioeconomic life in a village in coastal China from 1948 to 2008, Li (2009, p. 289) claims that agricultural collectivisation facilitated the introduction of agricultural machines and new seeds, and the development of irrigation and flood-control systems, without which 'the rapid increase in agricultural output in recent decades would have been impossible'. Bramall (2007, 2019) sees rural industrialisation as a critical legacy of the Maoist period, arguing that the development of rural enterprises, in the form of collectively owned firms run by communes and brigades, set off a process of learning-by-doing that allowed the rural workforce to gradually acquire skills and attributes that made possible the explosive growth of Township and Village Enterprises (TVEs) after 1978.²³ Che and Qian (1998) provide a theoretical analysis using local government ownership to explain the success of the TVEs.

Conclusion

We draw three conclusions from this short review. First, as the discussion in Section 2 suggests, regardless of whether one takes the view that geography, culture, institutions, contingency, or a combination of these and other factors gave rise to a precocious and increasingly durable centralised state in China, it is clear that the rise of the state in China took place under a very different set of circumstances than what we see in European history. In Europe, interstate competition and capitalism gave rise to nation states with high capacity that competed fiercely in trade and for colonies (Tilly, 1975; Brewer, 1988; Findlay and O'Rourke, 2007; Johnson and Koyama, 2017); in early modern China, the state was preoccupied with maintaining internal stability and preserving its large agrarian empire. For these and other reasons, the Chinese state and its Western counterparts differed in a variety of dimensions—from internal structure to the priorities they pursued (Wong, 1997).²⁴ On the dimension of size, for example, nine of the 18 provinces in China proper were more populous than the United States in 1850. It should perhaps not come as a surprise that adapting to Western institutions and organisational practices had been a greater challenge to China than, say, Japan.²⁵ Likewise, the product of these adaptations, be it Chinese communism or Chinese capitalism, would inevitably exhibit a strong indigenous flavour.

²³ Bramall (2019) reports that the gross industrial output of the commune and brigade firms (the predecessors of TVEs) in Jiangsu province grew by an annualised 34% between 1971 and 1978. Nationally, by 1978, the value-added of TVEs already accounted for six per cent of China's GDP (Naughton, 2018, p. 274).

²⁴ Jia et al. (2021) highlight that political power was distributed differently in medieval Europe and imperial China: the Chinese ruler enjoyed more absolute power than his counterparts in Europe, but rights between the elites and commoners were more evenly distributed in China.

²⁵ Sociologists including Anderson (1974) and Umesao (2003) have argued that similarities between Japanese and European feudalism expedited Japan's adoption of Western institutions.

Second, the nature of the state in imperial China is complex and nuanced. The traditional concept of imperial China as an oppressive and omnipresent autocracy is intuitive, but it is inconsistent with the low taxation and other observed empirical facts. The imperial state's promotion of Confucianism imposed significant constraints on how political power could be exercised. The same Confucian values that helped promote social order and lighten the workload of the ruling class (Kung and Ma, 2014) also compelled the monarch and other members of his class to conform to their Confucian-defined roles and responsibilities. Historical research in recent decades has also shown that Chinese monarchs—the most competent ones included—consistently run into bureaucratic and social resistance that undercut their wishes or ambitions (Huang, 1981; Zelin, 1984; Kuhn, 1990; Schneewind, 2001).

Notably, Chinese intellectuals and political leaders who advocated modernisation—from Feng Guifen, Zeng Guofan, Li Hongzhang and Kang Youwei of the 19th century, to Yuan Shikai, Sun Yat-sen and Chiang Kai-shek of the Republican period, and to Mao and his followers after 1949—all sought to build a strong state despite their different backgrounds and political beliefs. The Chinese state today is substantially larger, in size and in the functions that it is undertaking, than any time in the 18th or 19th century, apparently without more checks on state power. These observations do not square with the view that an unchecked state was the Achilles' heel that hindered economic development in imperial China. This is not to say that an unchecked state is innocuous and indeed, there are grounds to be concerned about the dangers posed by a *strengthened* Chinese state with weak internal checks and balances, as the madness of the Great Leap Forward (1958–62) attests (Li and Yang, 2005; Kung and Chen, 2011; Meng et al., 2015; Chen and Lan, 2016).

Third, and lastly, state strengthening is not the only recurring theme in the evolution of the Chinese state since the Opium War. Another theme is political decentralisation-centralisation. Economic historians have stressed the importance of having political institutions with the will and ability to deliver critical public goods such as mass education and infrastructure (Bogart, 2020). To an extent, the long Chinese Revolution, which arguably began with the Taiping Rebellion and ended with Deng's reforms, can be viewed as a societal quest to build a state with the incentive and ability to deliver public goods. It is intriguing that the late Qing modernisation and state building programme began with a devolution of power to the provincial and local leaders, who were closer to the ground and better placed to respond to the socioeconomic contingencies of reform. Likewise, China's economic takeoff in the 1980s involved letting the market and lower levels of government assume greater roles and keep a bigger share of the pie (Qian and Xu, 1993; Qian and Roland, 1998; Xu, 2011; Brandt and Rawski, 2020).²⁶

It ought to be clear—from Hayek (1945)—that for a country as large and populous as China, effective governance cannot be achieved when every decision, big or small, is made in Beijing. However, decentralisation also creates coordination issues (Kahn et al., 2015; Jia and Nie, 2017) and undermines the ability of the centre to hold the parts together. For this reason, in Chinese history, a decentralisation attempt would often be followed by a recentralisation drive. Judging by the trend towards political recentralisation in China since 2012, we are still witnessing that cycle at work today.

²⁶ This view is contested by Cai and Treisman (2006), who argue that it was in fact China's authoritarian centralisation that allowed policies that worked well in some places to be quickly implemented elsewhere. See also Che et al. (2017) and Che et al. (2021) for two insightful takes on how the success of China's merit-based promotion system in recent decades might have hinged upon an intermediate level of decentralisation, which, if true, implies that the Chinese model could be somewhat fragile.

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