

Chinese Economy

Graduate School of Economics,
University of Tokyo

1st day

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Plan of the course

- Day 1 (25th Sep) China's Economic History (Marukawa)
- Day 2 (2nd Oct) The System of Planned Economy (Marukawa)
- Day 3 (9th Oct) Transition to Market Economy (Marukawa)
- Day 4 (16th Oct) China and Asian Experiences: NIEs, catch-up, and beyond (Ito)
- Day 5 (23rd Oct) Demographic Transition and Ageing Society (Ito)
- Day 6 (6th Nov) Urban Labor Market and Unemployment (Marukawa)
- Day 7 (20th Nov) State Budget and Financial System: From the Planned Economy to the Reform Period (Marukawa)
- Day 8 (27th Nov) Digital China: Capability, opportunities, and risks (Ito)
- Day 9 (4th Dec) Technological Catch-up and Appropriate Technology (Marukawa)
- Day 10 (11th Dec) Made in China 2025, High-Tech Industry, and the Revival of Industrial Policy (Marukawa)
- Day 11 (18th Dec) State-owned Enterprise Reform, Private Enterprises, and Industrial Clusters (Marukawa)
- Day 12 (8th Jan) Trade and Investment: Before and after the Belt and Road Initiative (Ito)
- Day 13 (15th Jan) The Future of Chinese Economy and The World Economy (Marukawa and Ito)

Textbook & grades

Textbook, if you can read Japanese

- 丸川知雄『現代中国経済』有斐閣、2013年

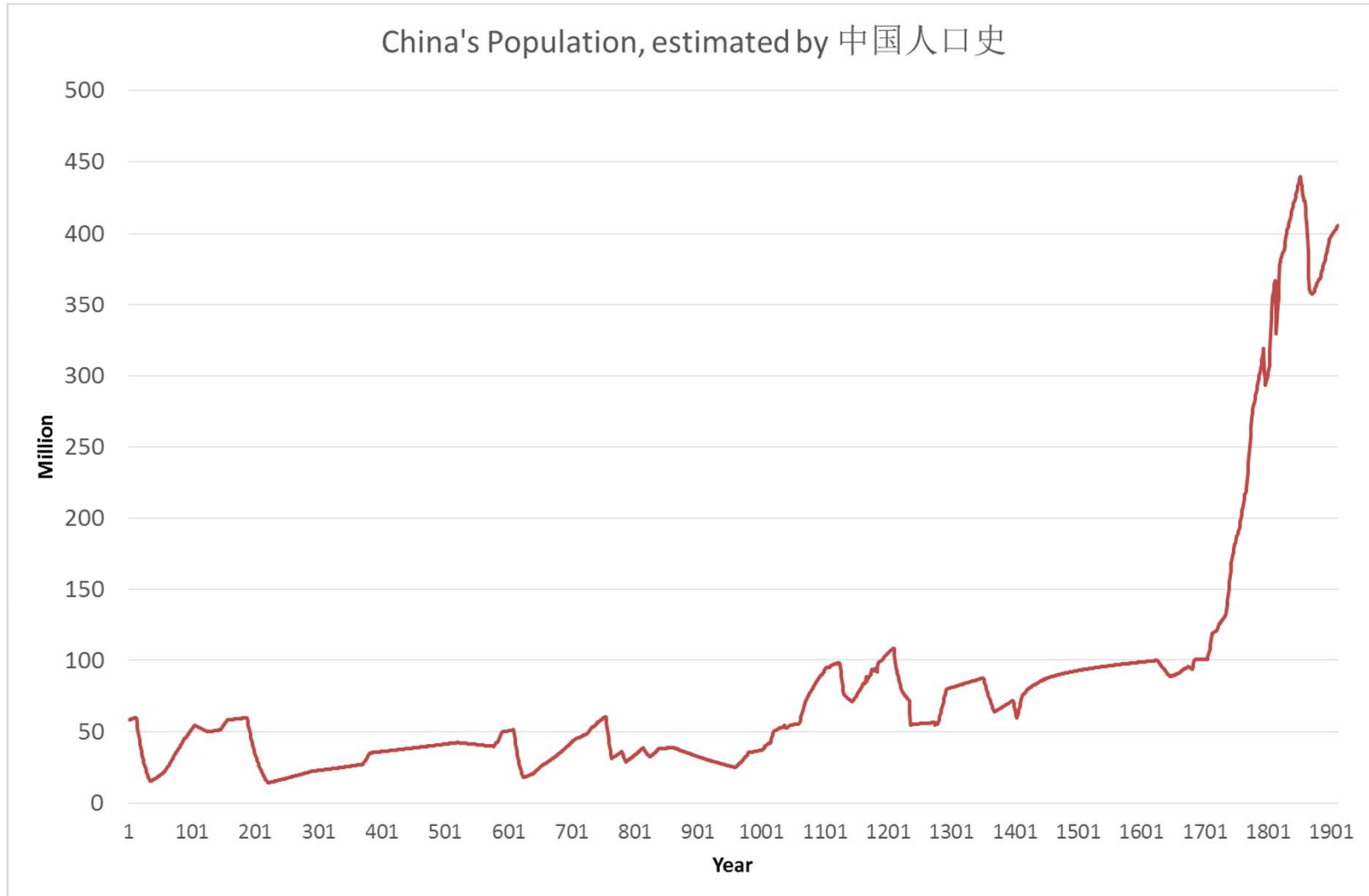
Grade evaluation

- Reaction papers at the end of each class. Essay submitted at the end of the semester.

Some notices

- Power-point slides will be uploaded on Marukawa's website *after* being used in class (<https://web.iss.u-tokyo.ac.jp/~marukawa/>)
- Please don't use smartphones during class

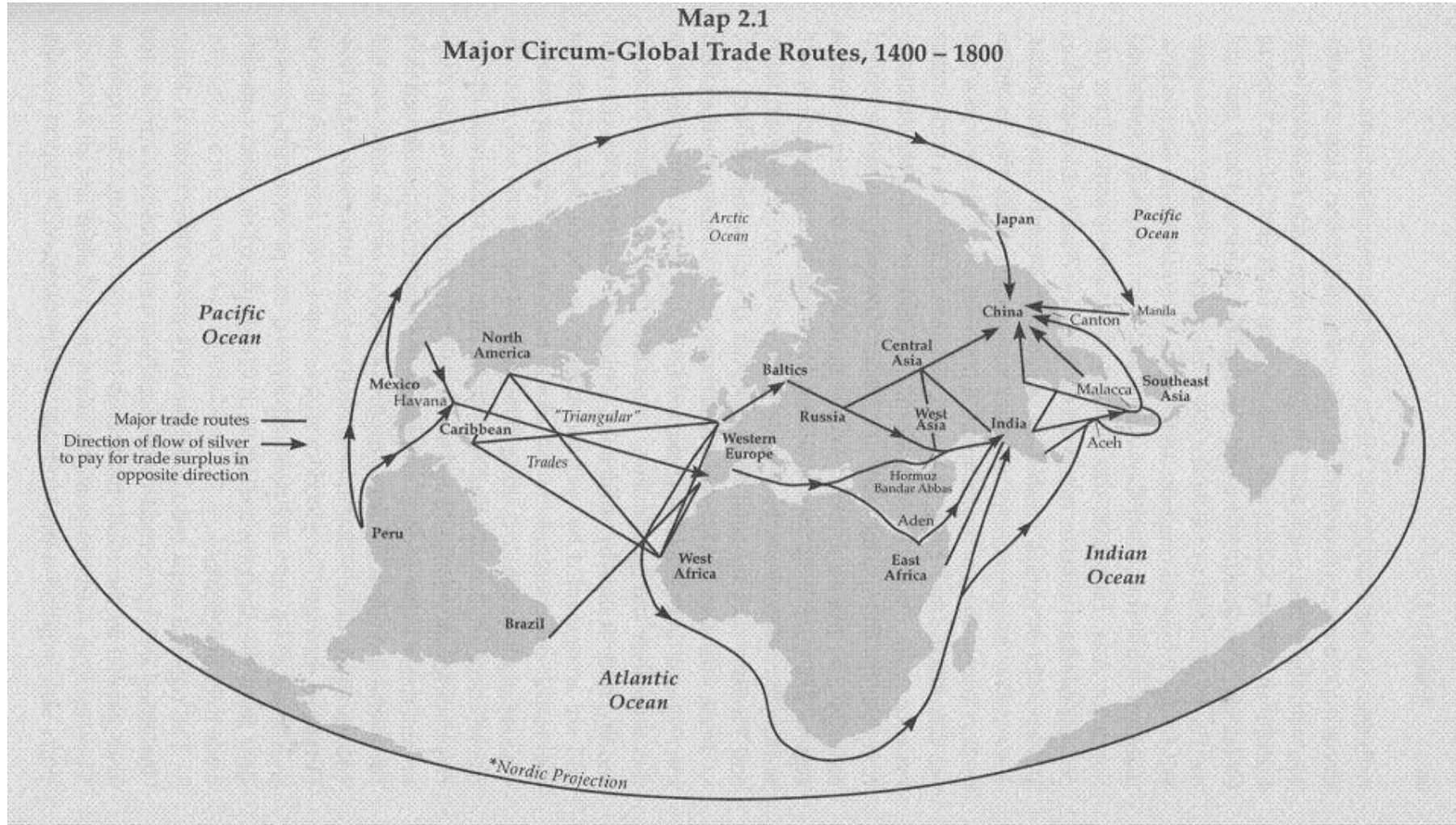
Chinese Economic History



ReORIENT by Andre Gunder Frank (1998)

- Immanuel Wallerstein “The Modern World System”: Europe created the modern world system through commerce, invasion, and colonization.
- Frank’s rebuttal. “Europe belatedly joined, or at least cemented its previously looser ties with, an already existing world economy and system.” “Europe used its American money to muscle in on and benefit from Asian production, markets, trade—in a word, to profit from the predominant position of Asia in the world economy. Europe climbed up on the back of Asia, then stood on Asian shoulders—temporarily.”

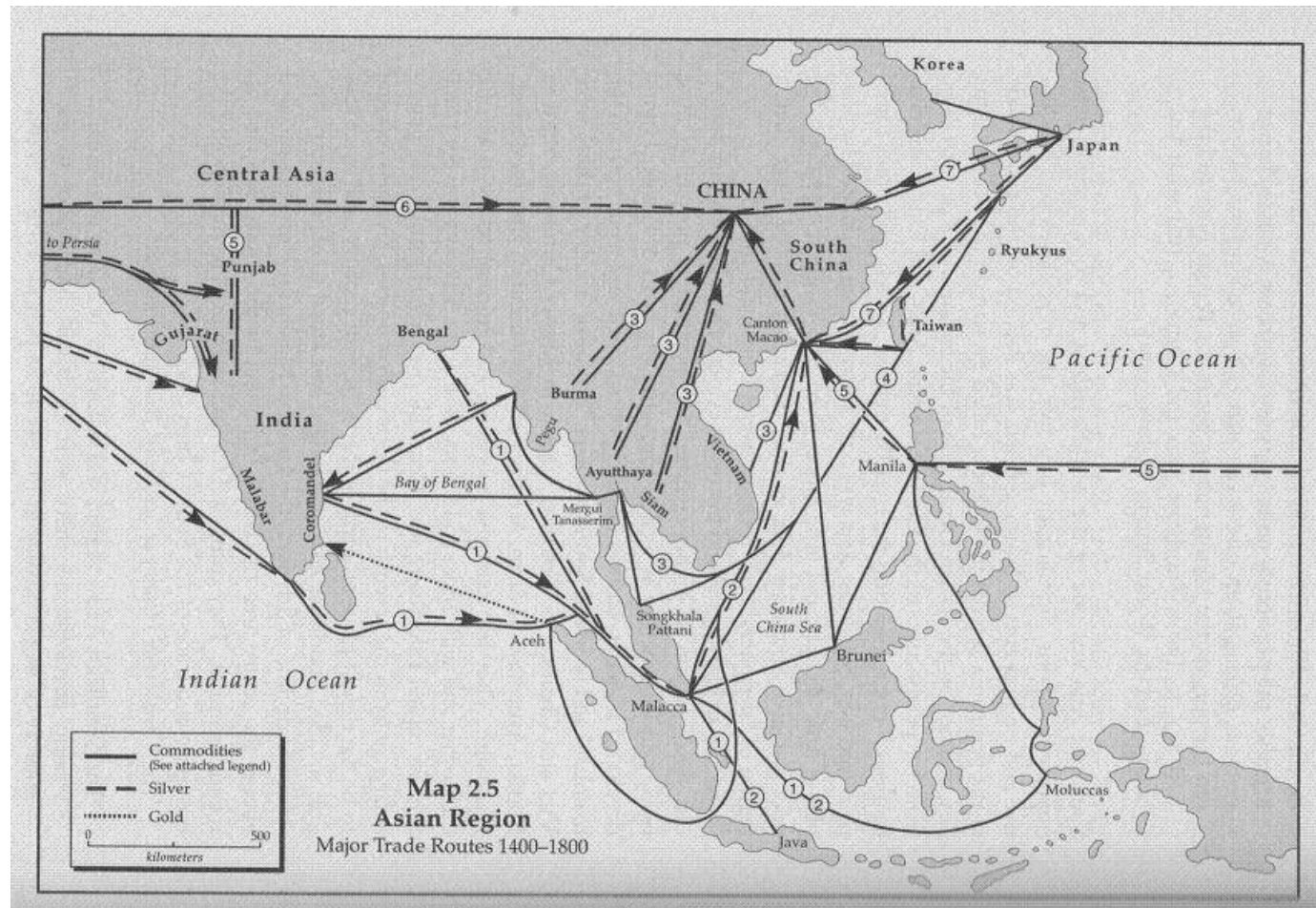
Global trade during 1400-1800



Cowries. The price of a slave was
100-136 pounds (45-61kg) of
cowries



Silver and commodities flow in Asia



An evidence that China and Japan had advanced industrial technology in the 17th and 18th century: the Elector of Saxony, and many other kings and queens in Europe collected Chinese and Japanese ceramics.



The Elector even ordered scientists to copy Chinese and Japanese ceramic technology. The scientists (alchemists) created a workshop in Meissen and even copied a statute of Guanyin.



After several years of trial and error, in 1730, Meissen craftsmen could make perfect copies like these.



A strange
mixture of
European
and
Chinese?
characters
within a
single jar.



After 1740, the pictures became localized. European figures and scenery dominated.



The Great Divergence: China, Europe, and the Making of the Modern World Economy

By Kenneth Pomeranz

- ReOrient provides us with few insights about the rise of Europe and the decline of China in the 19th century. Having access to silver and gold in Latin America cannot really explain the rise of Europe.
- Eric Jones' *The European Miracle* (1981) emphasizes the importance of the pre-industrial period. It insists that Europe could put a check on births during this period, allowing the people to have more livestock, durable housing and infrastructure made of brick and stones, and therefore Europe could accumulate more physical and human capital than Asia.

The Great Divergence

- Chinese agriculture achieved high productivity by placing higher-quality fertilizers on the soil. Pomeranz says that rice paddies in the Yangtze River delta had the highest productivity in the world then.
- Longer life expectancy in Japan and China in the 18th and 19th century than in Europe.
- With advanced irrigation technology, China had higher land productivity and achieved higher population density than Europe.
- He argues that per capita income at the end of 18th century was not so different between China, Japan and western Europe.

Then why could Europe exceed China?

- Europe in the 18th century faced serious ecological constraints. Woods were consumed as fuel, leading to deforestation.
- The use of coal made it possible to remove the ecological constraint. Land could be allocated for producing other things than wood.
- Another commodity that made it possible to remove the ecological constraint was crops originating in the New World, such as potatoes. Potatoes yielded more calories than conventional crops per acreage.

How about institutions?

- Pomeranz dismisses the arguments by Douglass North that western Europe owes its economic development to efficient markets for goods and for factors of production as “quite unconvincing.” He insists that China in the 18th century had more efficient institutions of market economy than western Europe.
- In China, various kinds of bound labor, such as slavery and serfdom, which forced laborers to work in unproductive ways, had almost disappeared in the 17th century, replaced by peasant freeholders and contractual tenants.

Economic developments during each dynasty

- Song Dynasty (AD960~1279) Creeks were built in the Yangtze River delta, which prevented the inflow of sea water. Paddy fields were created by constructing banks. In 1080A.D., the population living in southern China (Jiangnan) was 65%, those living in the Central Plain (Zhongyuan) were 35%.
- With the capital's movement to Hangzhou, the Chinese population moved southward to Fujian, Guangdong. Water transportation development using creeks, rivers, and the sea. Residential areas of Muslim merchants, who brought spices, ivory, Chinese medicine ingredients from Southeast Asia, were created in Guangzhou and Quanzhou.

Yuan

- Yuan Dynasty (AD1271~1368) To recover agricultural production in the Central Plain, the dynasty tried to disseminate agricultural technology, including the usage of fertilizers and watering, by publishing books and creating rural organizations.
- Paper money was issued on the basis of silver standard.
- Cotton, which originated in India, was widely grown during this period in southern China.

Ming

- Ming Dynasty (AD1368~1644) The people lost confidence in paper money after rampant inflation in the late Yuan period. The dynasty suppressed market economy by adopting a rationing system. It also put a ban on foreign trade and only allowed tributes.
- Since 15th century, smuggling by Japanese pirate-merchants (*Wokou*) flourished, which brought Mexican and Japanese silver to China. They bought silk, cotton, porcelain and tea from China, which stimulated commercialized agriculture.

Qing

- During the Qing Dynasty (AD1644-1911), China's population increased from less than 100 million to 420 million in 1840.
- The introduction of corn, potato, yam, and peanuts, which originated in the Americas, made it possible to produce food at hilly areas. Soy bean production developed in the Northeastern district.
- Dutch and Portuguese merchants bought silk, porcelain, tea in exchange of silver. Inflow of silver provided currency to the economy, which led to the development of market economy.
- With the surge of opium imports, silver was exported in the 1830s due to trade deficit. However, with the increase of domestic opium production, trade balanced turned to surplus in the 1850s.

The Demise of Imperial China (1840~1949)

- The Opium War (1839~1842)
- Taiping Rebellion (1851~1864) Total population decreased from 440 million in 1852 to 358 million in 1870.
- Foreign trading houses operated in China, cooperating with compradors (Maiban).
- Western Affairs Movement (Yangwu yundong) by high-ranking bureaucrats in the Qing Dynasty. Li Hongzhang established the Shanghai Machine Cotton Weaving Works, Zhang Zhidong established the Hanyang Ironworks

Cannons that Qing army used to attack the British warships



Imported



Made in China
(Foshan)

The Republican Period: war with Japan and civil wars

- Xinhai Revolution in 1911, Republic of China established.
- Beijing government (1912-28) : Warlords, such as Zhang Zuolin in the Northeast, Yan Xishan in Shanxi, took responsibility of education and medicine, industrial development, and currency. Lijin (internal tariffs) was imposed to finance the warlords' government.
- The Northern Expedition (1926~28): China was united under Kuomintang (KMT) headed by Chiang Kai-shek (Jiang Jieshi).
- Nanjing government (1928-49): Recovery of autonomy in setting tariff rates. Unification of domestic currency. Abolishment of Lijin.
- Development of silk reeling, cotton textile industry, tobacco, flour milling and other industries in Shanghai, Tianjin, Guangzhou. Import substitution of cotton yarn was achieved during 1914-1920s. Japanese-invested cotton mills also contributed to this development.
- Chinese entrepreneurs led the development in chemicals.
- The Southern Manchuria Railway Company established the Anshan Steel Works, and Japan's Okura group established the Benxihu Steel Works in northeastern China.

Sino-Japanese War and civil war

- Mukden Incident (1931), the establishment of Manchukuo (1932): the northeastern part was split off from China
- Sino-Japanese War (1937~45): Japanese army invaded China beyond Manchukuo.
- The KMT government fled to Chongqing and tried to strengthen its industrial base by exporting tungsten and antimony and investing in steel, chemical, electricity, and munition industries.
- Civil war between KMT and CCP (1946-49)