

Chapter 2

Economic Decline and External Humiliation, 1820–1949

The Ch'ing dynasty performed extremely well in terms of its own objectives from the end of the seventeenth to the beginning of the nineteenth century. From 1700 to 1820 population rose from 138 to 381 million — nearly eight times as fast as in Japan, and nearly twice as fast as in Europe. This population growth was accommodated without a fall in living standards. Chinese GDP grew faster than that of Europe in the eighteenth century even though European per capita income rose by a quarter.

The second achievement was the feeling of security derived from the huge expansion in the area of imperial control. In 1820, China's national territory was 12 million square kilometres, about twice what it had been in 1680. The expansion was in very sparsely populated regions which in 1820 accounted for only 2 per cent of total population. They were not then intended for ethnic Chinese settlement, but to secure the Inner Asian frontiers in great depth to prevent barbarian intrusions of the type China had experienced in the past. Mongolia was conquered in 1696–97. Its tribal structure was modified to make it more docile. The boundary of the Manchu dynasty's own homelands was fixed deep into Siberia in the 1689 Treaty of Nerchinsk with Russia. Taiwan was conquered in 1683, Tibet in 1720 and a huge area of central Asia (Chinese Turkestan, later Sinkiang) in 1756–57. There was an outer perimeter of docile tributaries, in Burma, Nepal, Siam, Annam, Korea and the Ryukus which were felt to provide an extra layer of security.

China's nineteenth century was a dismal contrast. There were a whole series of internal rebellions which were difficult and costly to suppress. The biggest, the Taiping rebellion, lasted 14 years and involved enormous damage to China's central provinces. The traditional military forces failed to suppress it and fiscal resources were under great strain in developing a new military response. The authorities ceased to be able to maintain major hydraulic works. The Yellow River dikes were not maintained. There was a disastrous change in the course of the river in 1852–55, and a silting up of the Grand Canal. By the end of the century it could no longer be used to provide grain supplies to Peking. As a result of these disasters, China's population was no higher in 1890 than in 1820, and its per capita income was almost certainly lower. China had been the world's biggest economy for nearly two millennia, but in the 1890s this position was taken by the United States. The record under the various Republican regimes (1912–49) was also dismal. Chinese GDP per capita was lower in 1952 than in 1820, in stark contrast with experience elsewhere in the world economy. China's share of world GDP fell from a third to one twentieth. Its real per capita income fell from parity to a quarter of the world average.

The Disintegration of the Imperial Regime

Domestic difficulties were worsened by a whole series of foreign challenges to Chinese sovereignty from the 1840s onwards. China was totally unprepared to meet intrusions from the sea. Her coastal defenses had been completely neglected. There were virtually no naval forces or modern artillery to stand up to foreign intruders. For a century China made humiliating concessions frittering away her sovereignty and losing large territories.

Psychologically and intellectually China was unable to respond or even to comprehend these new challenges. There was no foreign office and the capital city was far inland. The authorities had little interest in foreign trade. The only places where it was permitted were Macao (open only to Portuguese), Canton (for other Westerners), Amoy (for trade with the Philippines), Ningpo (for trade with Japan and Korea) and Kiakhta (for trade with Russia). There was almost no knowledge of Western geography and technology, even less knowledge of Western languages, an education system that concentrated its full attention on the Chinese classics and a power elite of gentry–bureaucrats who had no notion of changing the system of governance.

The First Foreign Intrusion 1840–42 and the Opening of Treaty Ports

Canton was the port the British had used for a century to buy tea. By the 1840s, they were buying 14 000 tons a year. Over several decades they built up a Chinese market for opium to pay for tea and other imports. By the 1840s the Chinese had to export silver to meet a deficit, whereas they had earlier had a silver inflow. Between 1820 and 1839 the annual opium shipments rose from 4 000 to 40 000 chests (Greenberg, 1961, p. 221). These imports were illegal and occurred only because of the laxity of local officials. However, Chinese concern about the currency outflow, and the arrival of a new and vigorous commissioner, led to official seizure and destruction of 20 000 cases of British opium in 1839. The British trading lobby succeeded in provoking a war over the issue.

The result was a major surrender by China. British naval forces seized Hong Kong Island, which was ceded in perpetuity by the Treaty of Nanking in 1842. Canton, Amoy, Foochow, Ningpo and Shanghai were opened as “treaty ports” where extraterritorial rights were given to British traders and residents and consular jurisdiction prevailed. China agreed to end its previous import restrictions and to impose only moderate tariffs. It paid the British 6 million silver dollars to compensate for destruction of their opium and a further war “indemnity” of \$21 million. In 1843, a supplementary agreement granted most–favoured–nation treatment, which meant that future Chinese concessions of rights to one foreign nation could then be claimed by other foreigners.

These treaties set the pattern for foreign commercial penetration of China. Within two years the French and Americans obtained similar concessions. Eventually 19 foreign nations acquired extraterritorial rights and privileges. By 1917, there were 92 treaty ports¹. Some of them went deep into the heart of China, from Shanghai 1 400 kilometres up the Yangtse to Chungking.

The Taiping Rebellion 1850–64

The Taiping uprising lasted from 1850 to 1864, affected 16 provinces, and involved occupation of China’s most prosperous areas. It was a major ideological challenge to Ch’ing imperial authority and to the Confucian gentry–bureaucrats.

The rebellion originated in the deep south in Kwangsi province. The imperial authority was weakened there by defeat in the opium war, and there was very long standing hostility between Hakka immigrants and local natives who had different dialects and habits.

The ideology of the rebellion originated with Hung Hsiu-Ch'üan, a Hakka from near Canton, who had studied for and failed the civil service examinations. After an encounter with Protestant missionaries, he had millenarian visions of a new social order, a kingdom of Heavenly Peace (Tai-p'ing). He thought he was the son of God, a younger brother of Jesus, destined to be the emperor of the new heavenly kingdom. Over a period of a decade he built up a large following of Hakkas, nominating leading associates as junior sons of God, or kings. As a demonstration of anti-Manchu fervour they gave up shaved foreheads and pigtaails. They attacked official corruption, were against opium, alcohol, prostitution and polygamy. They also favoured abolition of private land ownership, with government land allocations varying according to family size and land fertility, though they did not in fact implement this idea. They integrated their military and civil administration, abolished the Confucian educational curriculum, desecrated temples and shrines. They built up a disciplined army of zealots, considerate to the ordinary populace, but hostile to the old bureaucrats and gentry.

The new movement had extraordinary success. In 1851 the Taipings started to move North, captured a huge arsenal of munitions and more than 5 000 vessels at Yochow in Hunan in 1852, then captured and looted the triple cities (Wuchang, Hankow, and Hangyang) at the junction of the Yangtse and Han rivers in Hupei province. With their newly acquired grain, ammunition and ships, they took Nanking in Kiangsu province in 1853 where they established their Heavenly Capital, and maintained their occupation for eleven years. The regular Imperial troops (the Manchu banner forces and green standard garrisons) had been swept aside in their Northward path, and the major camps which they established on either side of Nanking were destroyed by the Taiping forces in 1856. In the same year there were major quarrels within the leadership, which ended with large scale slaughter of those who challenged the Heavenly King. In spite of this, the Taipings had renewed success in 1860, enlarging their domain eastwards by capturing Soochow, as well as Ningpo and Hangchow in Chekiang province.

The Taiping movement was not anti-foreign, and the Western occupants of the treaty ports were initially neutral towards the movement. They regarded its version of Christianity as blasphemous and found the Taipings condescending, but were not convinced that the rebellion was against their own interests until the rebels started harassing their trade. In 1861-62, the merchant and business interest in Shanghai hired a foreign legion to keep them at bay.

However, the defeat of the rebellion was primarily the work of new professional armies created to defend the interests of the Ch'ing dynasty and the gentry. As the traditional military force was undisciplined, incompetent and badly generalised, the government called on a scholar-official, Tseng Kuo-fan, to raise a new kind of professional force, with better training, discipline and tactics. Tseng created a new Hunan army and navy of 120 000 men, and attracted other brilliant Chinese officials who became successful generals. Tseng's associate, Li Hung-chang, organised another new army. These forces took some time to develop their fighting strength but eventually surrounded and destroyed the Taiping in Nanking in 1864.

The emergence of a new kind of military force made a lasting change in the nature of the Ch'ing regime. It meant a significant devolution of central power to the provincial authorities, and it ended the previous strict separation of bureaucrats and the military. There was increasing reliance on Chinese rather than Manchu officials as governors and governors general of provinces. The Ch'ing regime would have liked to disband the new forces and indeed started to do so, but they were needed to liquidate the Nien rebellion in North China, and the Muslim revolts in Shensi and Kansu. During the Taiping rebellion Tseng had been in charge of four major provinces. Li became governor general of the province of Chihli and virtual prime minister from 1870-95, Tso T'sung-t'ang was governor

general of Chekiang and Fukien, and later of Shensi and Kansu where he put down the Muslim rebellion, and later reconquered Sinkiang. The new generals remained an important pressure group for the post Taiping programme of self-strengthening but their bureaucratic-gentry interests kept them loyal to the dynasty. Their moves for modernisation were to a substantial degree frustrated, limited by shortage of fiscal resources and the conservative policies of the Imperial house, dominated between 1861 and 1908 by the dowager Empress Tz'u-hsi.

British, French and Russian Aggression

There were two major foreign actions against China during the Taiping rebellion — a joint attack by the British and French to expand their shipping and trading privileges, and Russian seizure of Eastern Siberia.

The war of 1858–60 was a joint undertaking by the British and French. A provisional Tientsin settlement of 1858 created eleven new treaty ports, added Kowloon to the territory of Hong Kong, opened coastal traffic and the Yangtse river network to foreign shipping, allowed foreigners to travel and trade in the interior and explicitly legalised the opium trade. To monitor the Chinese commitment to low tariffs, a Maritime Customs Inspectorate was created (with Sir Robert Hart as Inspector General from 1861 to 1908) to collect tariff revenue for the Chinese government. Part of this was earmarked to pay a 16 million silver dollar “indemnity” to defray the costs of the invaders. When the Chinese resisted ratification of the treaty in 1860, a Franco-British force destroyed the naval defences of Tientsin, occupied Peking and destroyed the Imperial Summer Palace. The Emperor fled to Jehol. As part of the peace settlement, China agreed to have foreign representatives in Peking and in 1861 opened a small foreign office. However, it did not establish legations abroad until 1877–79 (when they were opened in London, Paris, Washington, Tokyo and St. Petersburg), and the Ch'ing dynasty never developed the semblance of a foreign policy.

In 1858–60, Muraviev, the governor of Siberia took the opportunity to infiltrate Chinese territory North of the Amur river, and East of the Issuri river down to the Korean border. China ceded this virtually uninhabited area in the Treaty of Peking, 1860, and thus lost the whole Pacific coast of Manchuria. Russia added more than 82 million hectares to Eastern Siberia where the new port of Vladivostok was created. In the 1860s, Russia also expanded its central Asian empire by taking over the Khanates of Tashkent, Bokhara, Samarkand, Khiva and Khokand, and later occupied Chinese territory on the Ili river, south of Lake Balkash. The Chinese eventually got part of this back in 1881 after paying a \$5 million indemnity.

In the decade 1885–95 there were other blows which made a mockery of Chinese attempts at self strengthening. France had been gradually taking over Chinese tributary territory in Vietnam since 1859. In 1884–85 there was open war in Tongking. In 1885 the French destroyed the new naval yard at Foochow and blockaded Taiwan, leading to Chinese cession of suzerainty over Indo-China in 1885. Following the French lead, the British took Burma, where Chinese suzerainty was surrendered in 1886.

The War with Japan 1894–95 and Its Aftermath

There was a gradual build-up of Japanese pressure from the 1870s, when they asserted their suzerainty over the Ryuku Islands (now Okinawa), and sent a punitive expedition to Taiwan to chastise aborigines for killing shipwrecked sailors. In 1876 they sent a military and naval force to Korea and opened the ports of Pusan, Inchon and Wonsan to Japanese consular jurisdiction. In 1894 Japan intervened militarily in Korea and sparked off a war. The Chinese navy was defeated off the Yalu river. The Japanese crossed the Yalu into China and took Port Arthur (Lushun) and Dairen

(Talien) in the Liaotung peninsula. In the Treaty of Shimonoseki, 1895, China was forced to recognise that its suzerainty over Korea had lapsed. Taiwan, the Pescadores and the Liaotung peninsula were ceded to Japan. Chungking, Soochow, Hangchow and Shasi were opened to Japan with treaty port status. Japanese citizens (and hence other foreigners) were now permitted to open factories and manufacture in China. Japan received an indemnity of 200 million taels, raised to 230 million when it agreed (under French, German and Russian pressure) to withdraw from Liaotung. This was the biggest indemnity China had ever paid. It amounted to a third of Japanese GDP and China had to finance it by foreign borrowing.

The Chinese defeat led to an avalanche of other foreign claims. In 1896, Russia got a wide strip of land in Manchuria to build a new “Chinese Eastern Railway” from Chita to Vladivostok, in 1897 it occupied Port Arthur and Dairen and obtained the right to build a Southern Manchurian railway. In 1897 Germany seized a naval base at Kiachow and railway concessions in Shantung. In 1898 the British extorted a lease on the port of Weihaiwei in Shantung, obtained a 99 year lease on the “new territories” to provide a bigger base in Hong Kong, and demanded Chinese acknowledgement of their sphere of influence in the Yangtse area. The French got a long lease on the Southern port of Kwangchow (opposite Hainan island) and acknowledgement of a sphere of influence in the Southern provinces of Kwangtung, Kwangsi and Yunnan. The Japanese were granted a sphere of influence in Fukien opposite Taiwan. The only demand which China rejected was Italy’s attempt to secure a base at Sanmen bay in Chekiang province.

The defeat by an Asian country so much smaller than China, and the subsequent dismemberment of Chinese sovereignty entailed major loss of face and political eclipse for the bureaucrats behind the self-strengthening movement. A younger generation of scholars started to press the regime for more fundamental institutional reform, and persuaded the Kuang-hsü emperor to issue a stream of decrees in the 100 days reform of 1898 — to change the educational curriculum, examination and school system, to simplify and modernise the administration and to promote railway and industrial development. These propositions were overturned by the coup d’état of the Dowager Empress in 1898, supported by the vested interest of bureaucratic office holders who did not want change in the system of governance and Confucian education. The Emperor became her prisoner, and she reinforced the role of Manchus in the administration.

The Boxer War and the Collapse of the Ch’ing Dynasty

In 1900, the Empress organised her own atavistic response to foreign intervention by patronage of the “Boxers”, a popular movement which began to attack Chinese Christians and foreign missionaries. She prevented retribution for such actions, which made the Boxers more aggressive. They cut the telegraph lines, burned the British Summer Legation, killed the Chancellor of the Japanese Legation and the German Minister, burned churches and foreign residences in Peking, and were allowed to take over in Tientsin. On 21 June 1900 the Empress declared war on the foreign powers, put the Boxers under Imperial command and encouraged them to attack the legations, which were grouped in the centre of Peking.

The provincial authorities at Canton, Wuhan and Shantung refused to accept the orders of the Empress, urged her to suppress the Boxers and protect the foreigners. Her generals were not eager for combat. An international force of 18 000 took Tientsin and relieved the Peking legations on 14 August. The Dowager’s war had lasted less than two months and was an ignominious defeat. The court retreated to Sian in the North West province of Shensi. The allied powers were afraid of a complete Chinese collapse and war between themselves, so they were fairly lenient to the Empress. The peace settlement required execution and exile of guilty ministers, permanent strengthening of the

legation guards in Peking, destruction of forts between Peking and the sea, the right to station foreign troops in this region, and an indemnity of 450 million taels. During the crisis, the Russians had occupied the whole of Manchuria. They agreed to leave, but dragged their feet and were forced out in the Russo–Japanese war of 1905, when Japan took over Southern Manchuria, and half of the island of Sakhalin (Karafuto). Korea became a Japanese protectorate and in 1910 a Japanese colony.

The Dowager Empress returned to Peking in 1902, and reluctantly introduced reforms on lines similar to the 100 days programme which she had overturned in 1898. They included restructuring the military, winding down the Green Standard forces and modernised training for the Manchu Banner forces. The predominant role in the military was allotted to General Yuan Shih–k'ai who had earlier helped her 1898 coup d'état. A Foreign Ministry was created and there were also educational reforms. The Confucian style civil service examinations were abandoned after 1905 with profound adverse repercussions for the status of the gentry. The dowager empress procrastinated over constitutional reform and died in 1908, the day after the death (probably by poison) of her nephew, the Emperor. Imperial responsibility fell on the regent for the new child emperor. The regent put Yuan Shih–k'ai into retirement, ordered the creation of provincial assemblies in 1909, but rejected demands for early convening of a parliament.

This refusal plus a clumsy government proposal to nationalise private railway companies sparked revolutionary action in Wuchang followed by secession of 15 provincial assemblies from the Ch'ing dynasty in October–November 1911. Since the 1880s, Sun Yat–sen had been the main activist promoting a nationalist republican movement. This he did largely outside China, appealing to Chinese students in Japan, the United States and Europe to join the revolutionary alliance he set up in Tokyo in 1905. On 25 December 1911 the provincial delegates in Shanghai elected Sun to be provisional president of the Republic of China, scheduled to emerge on 1 January 1912.

Meanwhile the Regent withdrew and recalled Yuan as premier. Instead of defending the Manchu dynasty, he persuaded the new dowager empress to abdicate (though the Imperial family and their retainers were allowed to live in the Forbidden City until 1924). Sun Yat–sen had always thought the revolution would start with military rule so he voluntarily stepped down as provisional president on 13 February, in favour of Yuan who was then elected by the same group which less than two months earlier had elected Sun.

The Republican Regimes

Military and Warlord Government 1911–28

Thus the dynasty was overthrown by the military; which had been increasing its power within the old system for the previous half century. Power was to remain in their hands and those of provincial warlords until 1928. The new republican president had no intention of implementing Sun's principles of democracy and people's livelihood. He had the leader of the KMT parliamentary party assassinated, dissolved the new parliament and created a lifetime position for himself as President with the right to name his successor. In fact he contemplated making himself emperor. Yuan continued to make concessions to foreigners. In 1915 he recognised Russian suzerainty over Outer Mongolia, British suzerainty in Tibet, and accepted new demands from Japan for expanded power in Shantung, Manchuria, Inner Mongolia and the Yangtse valley.

In 1916 Yuan died in a situation in which several provinces were already in revolt against his rule. This was followed by 12 years of civil war in which central government disappeared and the country was run by regional warlords.

The Rise of the Kuomintang

The period of decentralised warlord government was brought to an end in 1928 when Ch'iang Kai-shek set up a KMT (Kuomintang) government in Nanking.

The new republican government stemmed from the nationalist activism of Sun Yat-sen. He had fled to Japan in 1913, returned in 1916 and shuttled between Shanghai and Canton from then until his death in 1925, trying to build up a regional power base, and rather opportunistically trying to get foreign finance for his movement. In 1923 he began to get financial and organisational support from the USSR which urged him to ally with the new Chinese Communist Party (created in 1921). Sun managed to set up a regional military government in Canton. He received Soviet financial support and organisational help from his Soviet political advisor, Michael Borodin. He also got rifles, machine guns, artillery, ammunition and a Soviet military advisor, Vasili Blyukher. The KMT party organisation was strengthened, and Sun's disciple Chiang Kai-shek became head of the Whampoa military academy near Canton, after several months of training in Moscow. Following Sun's death in 1925, Chiang consolidated his leading role in the KMT and moved north with a new National Revolutionary Army of 85 000. By the end of 1926 he had captured Wuhan and Foochow and controlled seven provinces. In 1927 Chiang entered Shanghai where communist activists had organised a general strike in support of his approach. Chiang provided some temporary reassurance to the business and foreign interests in Shanghai by betraying his communist allies and arranging to have union activists murdered. Soon after he used blackmail and terror to raise substantial funds from the Shanghai capitalists. In 1928, after a serious clash with Japanese troops in Shantung, he managed to make deals with the remaining warlord interests in support of a new KMT government in Nanking. He maintained his position as effective head of this government until 1949.

The important warlords were allowed to operate in semi-independent regional territories in return for recognition of the new central government. However, it did not manage to liquidate the communist movement. The pro-Soviet elements in the CP were unsuccessful in establishing city Soviets, but Mao built up peasant support in rural areas outside the official party jurisdiction. He achieved broad rural support by redistribution of land to poor peasants, small landlords and richer peasants, and fighting the KMT troops with guerilla tactics. He consolidated his leadership in the party by successfully leading the Long March from his South China base in Kiangsi in 1934 to a new, much more secure, base in Yen-an in northwest Shensi in 1936.

The Japanese initiated hostilities in Manchuria in September 1931 and overran the whole of it within five months. Chiang's government offered little substantive resistance, and appealed ineffectively to the League of Nations. In 1932, the Japanese opened a second front by attacking Shanghai, and the KMT government had to retreat temporarily from Nanking. In 1933 Japan created a new state of Manchukuo which incorporated China's three Manchurian provinces and Jehol (which included parts of Inner Mongolia, Hopei and Liaoning). China was obliged to turn the area around Peking and Tientsin into a demilitarised zone, which left the North defenceless.

War and Civil War 1937-49

In July 1937, the Japanese attacked again in North China, near Peking. It is not altogether clear what their war aims were, but they presumably wanted to take over the whole of North China after a short campaign, and thereafter to dominate a compliant KMT government in the South as part of their new order in East Asia. This time the KMT reacted strongly, inflicted heavy casualties on Japanese forces in their second front near Shanghai. They also rejected German attempts to arrange a peace settlement, and the war lasted for eight years.

The war went badly for the Nanking government. Peking and Tientsin were lost in July. The Japanese took Nanking in December 1937 and massacred about 100 000 civilians. The KMT government moved to the deep southwest in Chungking. They transferred equipment from factories in zones likely to be occupied by Japan, and destroyed what was left in areas they had to evacuate. In 1938, the Japanese took Canton and the key junction of Wuhan on the Yangtse. Thus, after 18 months they had occupied most of East China with the biggest cities and the most advanced parts of the economy. In 1937–38 they set up three puppet Chinese administrations. In 1940 these were consolidated in Nanking under Wang Ching-wei, a prominent KMT politician who had broken away from the government in Chungking.

After 1938 Chiang avoided major engagements with the Japanese. The communists in Yanan also managed to survive, successfully resisting Japanese pressure by guerilla tactics. There was an uneasy truce between the KMT and the Chinese communist forces during the war, but nothing that resembled reconciliation. Both sides expected conflict once the war with Japan was over. After 1941, when the war between Japan and the United States started, the Japanese took over the treaty ports and diverted their main energies to other theatres of war. Eventually, Japan was defeated by US action, Japanese forces left China in 1945 and the civil war between the KMT and the communists started in 1946.

At the end of the war, the communists were much stronger than they had been in 1937. They had a million well disciplined regular forces and a substantial militia. However, the KMT had nearly three times as many troops, and diplomatic recognition from both the United States and the Soviet Union. The United States ordered the Japanese army to surrender only to KMT forces, which acquired large stocks of weapons. The corrupt and autocratic KMT government created a bad impression in reoccupied areas where its officers and officials enriched themselves at the expense of the populace, which was suffering from hyperinflation. In the communist areas, the troops were more austere and better disciplined, and made successful attempts to win peasant support by action to impose land reform.

The Soviet Union declared war on Japan in the last week of the war, and occupied Manchuria, as had been agreed at the Yalta Conference. However, they stayed for almost a year, and Stalin started to back the Chinese communists rather than the KMT. Under Soviet protection, the Communist forces took over Japanese arms and equipment in Manchuria. By the time the Soviets left in mid-1946, they had effective military and political control of that area.

After three years of fierce fighting, the communist forces eventually defeated the KMT. Mao proclaimed the establishment of the People's Republic on 1 October, 1949, and the KMT government fled to Taiwan in December 1949.

Economic Decline, 1820–1949

In the five provinces most affected by the Taiping rebellion, population in the early 1890s was 50 million lower than it had been 70 years earlier (see Table 2.3). The Taiping war is generally considered to have led directly to 20 million deaths, but it obviously had important indirect effects in reducing birth rates and increasing death rates. Parts of the same area bore the main brunt of the Yellow River floods in 1855. Due to governmental neglect of irrigation works it burst its banks and caused widespread devastation in Anhwei and Kiangsu. It had previously flowed to the sea through the lower course of the Huai River, but after 1855 it flowed from Kaifeng to the North of the Shantung peninsula, reaching the sea more than 400 kilometres North of its previous channel.

Population also fell by more than 14 million in the three Northern provinces (Kansu, Shensi and Shansi) which were affected by the Northern Muslim rebellions and their brutal repression in the 1860s and 1870s, and by very severe drought and famine in 1877–78.

In the rest of China, population grew by 74 million from 1819 to 1893 — a growth rate of 0.46 per cent a year. This was a good deal slower than in the eighteenth century, but big enough to offset the population loss in the provinces worst hit by the nineteenth century rebellions.

It seems clear that the large scale nineteenth century rebellions caused a serious fall in living standards in the areas affected whilst they were under way. I have assumed that full recovery had not been attained by 1890. It is highly probable that there was a fall in per capita income from 1820 to 1890.

In 1890, modern manufacturing and transport represented only one half a per cent of GDP (see Table 2.5). China had virtually no railways, the main innovation in transport was the arrival of foreign steamers operating on the Yangtse and coastal routes. A telegraphy network was started in the 1880s. The modest self-strengthening programme involved creation of some government industrial undertakings — arsenals at Shanghai and Nanking and a dockyard in Foochow in the 1860s, inauguration of the China Merchants' Steam Navigation Company which bought out an American shipping company in Shanghai in 1877, creation of the Kaiping coal mines in Tientsin and a couple of textile mills in the 1870s, a few more factories in the 1880s and the Hanyang ironworks in 1890. The governmental effort at modernisation might have been bigger if the Dowager Empress had not diverted substantial funds to rebuilding the Imperial Summer Palace.

The urban proportion of the total population of China was probably not much bigger at the end of the nineteenth century than it had been in 1820 (see Perkins, 1969, pp. 292–95 for 1900–10 and Table 1.7 above for 1820). The character of most Chinese cities had not changed much except for those which had suffered extensive damage in the Taiping era (such as Nanking and the Wuhan cities). However, the Treaty ports, particularly Shanghai, and Hong Kong, were islands of modernity. Foreigners were the main beneficiaries of the extraterritorial privileges, but they interacted with Chinese intermediaries (compradores) who were gradually becoming familiar with Western banking, shipping and technology. By 1890, Chinese entrepreneurs were still a small group in the Treaty ports, but they were later to be the nucleus of Chinese capitalism.

In 1890 Chinese exports were about 0.6 per cent of GDP (see Table 3.26). There were virtually no imports of machinery or other modern inputs. Opium still represented more than a quarter of the total; cotton goods 41 per cent; food items about 15 per cent; and woollen goods about 3 per cent. The biggest export item was tea, with 27 per cent of the total; raw silk represented about a quarter; silk products 6 per cent; and raw cotton 3 per cent (see Hsiao, 1974, for the composition of trade).

From 1890 to 1933 per capita GDP rose by about 7 per cent (an average of about 0.16 per cent a year). This was a very poor performance by the standards of Western countries, but there were some changes in the structure of the economy (see Table 2.5). By 1933, the modern sector (manufacturing, mining, electricity production, transport and communications) had risen to 5.3 per cent of GDP, compared with 0.7 per cent in 1890. From 1937 to 1949 China endured eight years of war with Japan and three and a half years of civil war. As a result, per capita GDP in 1952 had fallen back to the 1890 level. Nevertheless, the share of the modern sector rose and by 1952 reached 10.4 per cent of GDP.

Ch'ing economic policy was hardly a prime mover in Chinese modernisation. Because of the huge indemnities associated with the Japanese war and the Boxer rebellion, it faced great financial strains. These together with the decline in world silver prices led to substantial inflation. Between 1890 and 1911, the value of the silver tael against the dollar fell by half.

The continued expansion in treaty port facilities, the freedom which foreigners obtained in 1895 to open production facilities in China, the Russian and Japanese interest in developing Manchuria contributed substantially to the growth of the modern sector, including railways, banking, commerce, industrial production and mining. There was also an associated growth of Chinese capitalist activity, which had its origins mainly in the *compradore* middlemen in the Treaty ports. There was an inflow of capital from overseas Chinese who had emigrated in substantial numbers to other parts of Asia. They maintained their cultural links with southeast China, and those who became prosperous invested in their homeland².

The warlord governments which ran China from 1911 to 1928 did very little to stimulate industry, and the continuance of local warfare and arbitrary levies on business were not particularly propitious to capitalist development. However, the ending of the civil service examinations, and the switch of power from bureaucrats to the military, led to a crumbling of the social structure and mental attitudes of the old regime. Capitalists became a more respectable and less fettered part of the social order. For young educated people, it became more attractive to emulate their behaviour.

The advent of the First World War weakened the competitive strength of Western capitalists in the Treaty ports, but provided opportunities for Chinese capitalists to expand their role in industrial, mining, shipping, banking and railway ventures.

The KMT government made some institutional changes in economic policy from 1928 to 1937. Tariff autonomy was recovered in 1929. This permitted a large rise in duties on foreign goods which augmented government revenue and gave some protection to Chinese industry. In 1931, the *likin*, the internal tax on goods in transit, was abolished. This had been introduced as a desperate remedy for fiscal needs in the 1860s but it had hindered Chinese development in a discriminatory way, as foreigners had been able to purchase exemption from it. There was no attempt to reform land taxes, which had once been the mainstay of imperial finance, but had fallen into the hands of provincial governments in the 1920s. The government managed to increase revenues in the early 1930s, but Young (1971), p. 146, suggests that the ratio of revenue at all levels of government to GNP was only 5.4 per cent at its peak in 1936. There was always a sizeable budget deficit because of the large military expenditure. The government reduced its foreign debt burden in a prolonged cat-and-mouse game with creditors which involved writing down and rollovers of debt, sweetened by occasional repayments of principal and interest. A substantial part of the debt arose from the "indemnities" following the war with Japan and the Boxer rebellion. The Western powers were more acquiescent on debt default than they might have been if the original loans had been raised for commercial purposes.

A central bank was created in 1928 in Shanghai with the Finance Minister as governor. The government was in effective control of the other big banks, and one observer said "it would be difficult to know where the government ends and the banks begin" (Young, 1971, p. 264). There was a large expansion of branches of modern-style banks which led to a sharp decline in native banks, but the new banks did not engage significantly in rural lending or finance of new industrial enterprises. The monetary reform of 1935 created a new paper currency to replace silver. Thereafter, the government was much better placed to follow the inflationary policy which in the end drained its political credibility. The KMT had little success in reducing the treaty port privileges³ of foreign powers or their control of some of the organs of government. The Western powers had refused to end extraterritoriality at the 1919 Peace Conference in Paris, and although most of them professed a willingness to surrender these at some time in the future, the system was only terminated by treaties with Britain and the United States in 1943. Foreign control of the customs service suffered only gradual attrition. In 1937 only one-third of the commissioners were Chinese, and the Sino-foreign salt administration did not disintegrate until after 1938.

The government did nothing effective to help the peasantry with land reform or rural credit. It enacted a land law in 1930 intended to promote owner occupation and to put limits on rents. Young, the government's economic advisor commented as follows: "Unhappily the law of 1930 remained largely a dead letter. The government was too preoccupied with internal and external emergencies to promote large-scale progress in basic reform and improvement of rural conditions. Furthermore, most of the leaders had an urban background and were not oriented toward rural affairs, and they had an empathy with landowning and financial interests" (Young, 1971, p. 302). Landlords probably became more predatory after they had lost their privileged gentry status, and the rural population was still exposed to warlord depredations.

The successive finance ministers, Soong from 1928 to 1933 and Kung thereafter, were both brothers-in-law of Chiang Kai-shek and enjoyed a cosy relationship with the banking community. The government tried to promote industrial development through the activity of government corporations. In this respect it was as paternalistic as the "self-strengthening" Ch'ing reformers in the 1870s and 1880s. Transport was one of the few areas where progress was made, with significant extensions of the road and railway network.

For 1933, Liu and Yeh (1965, pp. 143 and 428) estimated that 67 per cent of gross value added in factories was produced in Chinese-owned firms, 18.8 per cent in foreign firms in China proper, and 14.2 per cent in Manchuria, most of which was Japanese-owned. In cotton textiles, 48 per cent of spindles and 56 per cent of looms were foreign-owned in 1936. The great bulk of these were Japanese (Chao, 1977, pp. 301-7). Traditional manufacturing in the handicraft sector was entirely in Chinese hands, and gross value added there was three times as big as in modern manufacturing. In shipping, 1936 foreign-owned tonnage was about 55 per cent of the total (Hou, 1965, p. 60); in 1937, foreign-owned railway mileage was about a third of the total (Hou, 1965, pp. 65 and 244). In 1937 about half of coal output was produced in foreign-owned or Sino-foreign companies (Hou, 1965, p. 231). In 1933, foreign banks seem to have accounted for less than one-third of value added in the financial sector (Liu and Yeh, 1965, p. 604). In agriculture, foreign participation was virtually nil. Altogether, it seems likely that in 1933, about 2.5 per cent of Chinese GDP was produced by foreign-owned firms.

Table 2.7 presents estimates of the stock of foreign direct investment in China for 1902-36. It is clear that there was a substantial increase. Nevertheless in the 1930s, it represented only about \$5 per head of population, i.e. half the level in India, a seventh of the level in Taiwan and one hundredth of that in Australia (see Maddison, 1989, p. 61). In the 1930s, about 46 per cent of foreign direct investment was in Shanghai, 36 per cent in Manchuria, and 18 per cent in the rest of China. In 1936, 37 per cent of the investment was in foreign trade and banking, 30 per cent in transport and communications; 21 per cent in industry. The rest was mainly in real estate.

Chinese exports reached a peak of about 1.5 per cent of GDP at the end of the 1920s. They fell in the world depression of the early 1930s, and then recovered somewhat, but by 1937, when the war with Japan started, they were still about 10 per cent below the 1929 volume. In 1937 about 38 per cent of exports came from the Japanese puppet state of Manchukuo. About 46 per cent of those from China proper left from Shanghai, 15 per cent from Tientsin and 7 per cent from Canton (see Hsiao, 1974).

The commodity composition of trade in 1937 was much more varied than it had been in 1890. Tea exports had fallen to only 3.5 per cent of the total, due to competition from the plantations developed in India and Ceylon by British investors. The biggest export items in 1937 were wood oil, raw silk, eggs, wolfram, tin, embroidered articles, raw cotton, tea, bristles, wool (see Table 2.8). Import structure had also changed drastically. Opium imports had petered out after World War I. 1937 textile imports had dropped to less than 6 per cent of the total, there were some food imports, a significant share for industrial inputs and capital equipment.

In the twentieth century, China ran a significant trade deficit, quite unlike the situation in India and Indonesia which had large surpluses. For the 1930s, Remer (1933) estimated that there were about 9 million overseas Chinese. About 3 or 4 million of these were making remittances to their families in China. For 1929 he estimated the total flow to be 281 million Chinese dollars (\$180 million). Ninety per cent of these flows came via Hong Kong, about 44 per cent originated in the United States and most of the rest came from Asian countries. Remer also suggested that customs returns understated Chinese exports, particularly those to Russia and Hong Kong, so the overall trade deficit may have been smaller than it appeared.

In the 1930s, China was a major exporter of silver. This situation was unusual, as China over the long run had been a silver importer. Net silver imports were \$74 million in 1928 and \$68 million in 1929. In 1934 under pressure from domestic silver producers, the US government instituted an official silver purchase programme whose purpose was to help raise the general price level and to benefit US silver producers. Between 1932 and 1935, silver prices more than doubled in New York, and this sparked off a large outflow from China. The Chinese authorities took advantage of this situation to effectively demonetise silver and shift to a paper currency in 1935, which became a floating peg unattached to sterling, the dollar or gold. The character of the currency reform had to be cosmeticised for diplomatic reasons. Overt abandonment of silver would have underlined the absurd consequences of US policy in pushing the world's biggest silver user off the silver standard (see Maddison, 1985). Paper money greatly increased the potential for deficit finance.

Prices rose by about a fifth from 1926 to the first half of 1937, but a situation of hyperinflation developed during the war years. From 1937 to 1941 retail prices rose fifteenfold in Shanghai and 37 fold in Chungking. At the end of the war prices were 2 500 times as high as in 1937 in Chungking (see Young, 1965, p. 139).

From the 1860s onwards, the most dynamic areas in the Chinese economy were Shanghai and Manchuria.

Shanghai rose to prominence because of its location at the mouth of a huge system of waterways. "The total of inland waterways navigable by junks in nearly all seasons is nearly 30 000 miles. To this must be added an estimated half million miles of canalised or artificial waterways in the delta area. It is not surprising therefore that between 1865 and 1936, Shanghai handled 45 to 65 per cent of China's foreign trade" (Eckstein, Galenson and Liu (1968), pp. 60–61). It was already an important coastal port in the Ch'ing dynasty with a population of 230 000 in the 1840s. By 1938 this had risen to 3.6 million and Shanghai was the biggest city in China (see Cooke Johnson, 1993, p. 180 and Perkins, 1969, p. 293).

Manchuria had been closed to Chinese settlement by the Manchu dynasty until the 1860s. The population rose from about 4.5 million in 1872–73 to 38.4 million in 1940; in the Japanese puppet state of Manchukuo there were 48.8 million in 1941 (including Jehol as well as the three Manchurian provinces). The Manchurian cultivated area rose from 1.7 million hectares in 1872 to 15.3 in 1940, i.e. from about 2 per cent to 15 per cent of the Chinese total. However, agriculture, forestry and fishery represented only about a third of Manchurian GDP in 1941. There was very substantial railway development, initially by Russia, then by Japan. Japan made major investments in Manchurian coal and metalliferous mining, and in manufacturing in the 1930s. Value added in modern manufacturing more than quadrupled between 1929 and 1941: in mining it trebled. For 1933, Liu and Yeh (1965, p. 428), estimated that Manchukuo produced about 14 per cent of Chinese factory output. By 1941 this was likely to have risen to a third, and by 1945 may well have been a half of modern manufacturing. GDP growth averaged 3.9 per cent a year from 1929 to 1941 and per capita GDP about 1.8 per cent (see Chao, 1982).

In 1940 there were 820 000 Japanese civilians in Manchukuo. By 1945 there were more than a million. This group consisted mainly of bureaucrats, technicians and administrative, managerial, and supervisory personnel. Only 10 per cent were in agriculture, about 45 per cent in industry, commerce and transport, and 26 per cent in public service. They were a privileged elite in a total population which was 85 per cent Chinese, 6 per cent Manchu, 3 per cent Korean, 2.5 per cent Mongol (Taeuber, 1958).

In 1945–46, during the Soviet occupation, the USSR dismantled most of the moveable equipment in Manchurian factories and shipped it back to Russia. Nevertheless, Manchuria remained an important industrial base in the communist period.



The Ch'ing regime collapsed in 1911, after seven decades of major internal rebellion, and humiliating foreign intrusions. The bureaucratic gentry elite were incapable of achieving serious reform or modernisation, because of a deeply conservative attachment to a thousand year old polity on which their privileges and status depended. After its collapse there were nearly four decades in which political power was taken over by the military. They too were preoccupied with major civil wars, and faced more serious foreign aggression than the Ch'ing. They did little to provide a new impetus for economic change and the five-tier political structure of the KMT government was far from democratic. The limited modernisation of the economy came mainly in the treaty ports and in Manchuria, where foreign capitalist enterprise penetrated and the sprouts of Chinese capitalism burgeoned. The foreigners forced China to open its ports to international trade, but the size of the trade opportunities disappointed them.

Notes

1. Feuerwerker in the Cambridge History of China, vol. 12, pp. 128–29, explains that there was some dispute about the meaning of treaty port. The Chinese text of the Treaty of Nanking referred to “harbours” or “anchorages”, whereas the English text referred to “cities” and towns. The five towns in the 1842 treaty were clearly sea ports. “By 1893, 28 additional places had been opened to foreign trade, and during 1894–1917, 59 more, making a total of 92 by the latter date. Some were inland cities or places on China’s land frontiers; others were coastal ports or railway junctions in Manchuria; many were river ports on the Yangtze or West Rivers. Collectively they were commonly called in Chinese shang–pu or shang–fou, ‘trading ports’. Juridically, the ports that were open to foreign trade fell into three categories: ‘treaty ports’ proper, that is, ports opened as a consequence of an international treaty or agreement; open ports voluntarily opened by the government of China though not obliged to by treaty and ‘ports of call’ at which foreign steamers were permitted to land or take on board passengers and under certain restrictions goods, but at which foreign residence was prohibited. Maritime customs stations were maintained at only 48 of these various places as of 1915”. A list of 90 places can be found in Allen and Donnithorne (1954), pp. 265–68.

2. The overseas Chinese originally came almost exclusively from the southeastern provinces. There had been some migration during the Ming, and a big wave at the beginning of the Manchu dynasty. The anti-Manchu pirate Koxinga occupied Taiwan and made incursions on the southeast coast. To cut off his supplies and “intimidate the population of these regions whose sympathies were anti-dynastic, the Manchus made the latter forsake a zone of country from about eight to thirty miles deep on the coasts of Kwangtung, Fukien and Chekiang. This region was denuded of its crops and its villages were burnt down” (Purcell, 1965, p. 24). As a result many emigrated. There was another wave after 1870 when the Ch’ing government recognised the right of Chinese to emigrate, under US pressure, in the Burlingame Treaty.
3. The *China Handbook 1937–1943*, Chinese Ministry of Information, 1943, pp. 178–79, gives details of the winding up of foreign concessions. Before the First World War, “19 countries enjoyed extraterritoriality and consular jurisdiction in China under the terms of unequal treaties”. They were Austro-Hungary, Belgium, Brazil, Denmark, France, Germany, Great Britain, Italy, Japan, Mexico, the Netherlands, Norway, Peru, Portugal, Russia, Spain, Sweden, Switzerland and the United States. Austro-Hungary and Germany lost their rights in the First World War, Russian rights were suspended by the Chinese in 1920, and the USSR accepted this in 1924. The 1919 Versailles Peace Conference refused to consider abolition of extraterritoriality, and when the Chinese tried to terminate the system in 1921 and 1929, most of the treaty powers dragged their feet. By the end of 1930 Mexican, Finnish, Persian, Greek, Bolivian, Czech and Polish nationals became amenable to Chinese jurisdiction. After the outbreak of war in 1937 China ended extraterritorial privileges for Italians, Japanese, Rumanian, Danish and Spanish nationals. In 1943, the United Kingdom and the United States gave up their extraterritorial privileges in a treaty with China, and the system was thus ended. Specific ports were retroceded between 1927 and 1943.