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STATE OF THE FIELD

THE PENDULUM SWINGS AGAIN: RECENT DEBATES ON CHINA'S PREWAR ECONOMY

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INTRODUCTION

The aim of this brief survey is to provide a critical review of studies of China's economic history recently published by prominent Western scholars. It will explore two veins of scholarly debates that underlie Western perceptions of both China's past and its trajectory of future development, and also consider the historic significance of joint-stock enterprise in China as opposed to Britain and Japan.

A fairly recent vein of debate concerns the performance of the Chinese economy under the late-Qing and KMT rule. Another more "ancient" debate branched off Max Weber's seminal work – published almost a century ago – on the factors that had positioned Europe politically and economically ahead of China from the sixteenth century onward.[1] The more recent debate began in late 1989 when Thomas Rawski and Loren Brandt published markedly positive estimates of per capita Chinese agricultural productivity growth in the century preceding the second Sino-Japanese War (1937). Rawski and Brandt systematically revised what had been until then a dismal portrayal of living standards in the Chinese hinterland, winning over in the process respected veterans of the discipline such as Ramon Myers. Based on elaborate econometric analyses of land surveys and price data, they concluded that total agricultural output between 1850 and 1937 overtook population gains by up to one percent annually.[2]

Despite Myers's endorsement, these revisionist views have since been contested by numerous other scholars, who point to the failings in Republican agrarian reforms (1912–1949), and who challenge the assumptions that underlie Rawski and Brandt's findings.[3] In particular, Rawski and Brandt's premise of efficient factor markets at work

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1 Weber's influential treatise *The Religion of China* was first published in German in 1922.

2 Rawski 1989, pp. 329–37; Brandt 1989, pp. 133–34, 179–180; Myers 1991; for a quintessential "pessimist" work, see Ash 1976.

3 See, e.g., Esherick 1991; Little 1992; Rozelle 1992.

in early twentieth-century China remains at odds with a fairly large number of recent studies.[4]

Put simply, interpretations of economic realities in prewar China still oscillate between the pessimistic and optimistic. "Pessimists" tend to underscore problems in production relations – lack of land-tenure security, peasant immiserization, and hostage markets.[5] On the other hand, "optimists" such as Rawski and Brandt identify consistent growth in agricultural productivity fuelled by what they see as the ameliorative effects of China's integration with world factor markets.

"OPTIMISTS" VS. "PESSIMISTS": THE DETAILS

The problem facing economists and economic historians of both persuasions is that, even after questionable macroeconomic data are "husked", demographic trends in the prewar era prove elusive. For example, it conventionally had been believed that during the period 1850 to 1873 China witnessed a dramatic hike in mortality rates, mainly due to the afflictions of the Taiping Rebellion (1851–1864). But in an influential article published in 1978, Peter Schran showed that census figures from the mid-nineteenth century should be revised upward by approximately 50 million. This revised statistic, in turn, translates into lower population growth rates in the early twentieth century and – by implication – may well dampen the notion of improving living standards during the Republican era.[6]

At any rate, Schran's article still provides a stern caveat for anybody wishing to make sweeping macro-level generalizations about the Chinese economy. More specifically, his findings suggest that spotty aggregations based on late and post-Imperial observations could easily be misinterpreted when they are applied indiscriminately to a land as regionally diverse as China. Regional variance during the period under review reflected not just different factor endowments, but also the parcelling up of large swathes of China by foreign powers – with Manchuria under Russian and then firmer Japanese control, and Shanghai under British rule, both experiencing rapid industrialization.

A neat convergence of opinion in the complex debate between "optimists" and "pessimists" still seems a long way away. Nonetheless, recognition of primary source shortfalls has recently induced Loren Brandt – arguably the most pronounced "optimist" – to tone down slightly some of his earlier observations:

4 Fox 1994, e.g, explicitly argues against the notion of fast-equilibrating inter-provincial labour and commodity markets that Brandt and Rawski propose for early twentieth-century China. Though broadly in the same church as Rawski, Wright too observed that Chinese factor markets did not function well in the hinterland (Wright 2000). In her newly published monumental work, Lillian Li (2007, pp. 196–220) clearly observes a considerable *decline* in intra-provincial market integration across North China from the eighteenth to the nineteenth century.

5 See Perkins 1969; Lippit 1978; Huang 1990; Wiens 1992. For middle-ground assessments – see Riskin 1978; So 1986; Perdue 1987.

6 For a comprehensive discussion – see Schran 1978, p. 642. Schran gives a set of four alternative estimates for 1850–1953. These range between 430 and 435 million people for 1850, and between 574.2 and 582.6 million for 1953. Accordingly, Schran infers that there had been a population rise of about 50 million people between 1913–1953, or an annual population growth rate of 0.3%. Notwithstanding war fatalities, this figure is still lower than the 0.7% inferred by previous estimates.

> Despite the marked increase in growth, it is obvious that *not* all the potential of the Chinese [prewar] economy was tapped, and that a variety of constraints continued to prevent more rapid growth from being achieved . . . [T]rends are much more difficult to assess [than in the 1990s], but data do not appear to support the view of a long-term deterioration in the distribution of income over the late nineteenth and early twentieth century.[7]

More scholars now recognize that, in order to understand China's prewar economy, it is necessary to disassemble the jigsaw-puzzle image into which it is often lumped. Notably, Mark Elvin advanced the proposition that the Chinese economy in the first half of the twentieth century should be divided into four distinct macro-systems with substantive income disparities – the poor rural hinterland, the bustling treaty-ports, Japanese-managed Manchuria and Taiwan, and the separate pastureland economy of the Northwest.[8]

What is more, newly published work by younger scholars contends with one of the two main arguments underpinning the "optimist" view, calling into question the notion that China's prewar economy enjoyed a higher degree of *financial integration* than previously thought. Debin Ma, in particular, alludes to the fact that much of Rawski's upbeat assessment of China's overall economic performance derives from the misapplication of Shanghai's urban growth dynamic and cosmopolitan flair to the rest of the country.[9]

The variance of opinion between "optimists" and "pessimists" about the degree of market integration in prewar China echoes, in a sense, a more profound debate over the root cause of European pre-eminence in the early modern era. Why did China's technological, monetary and institutional head start over the West during the tenth through thirteenth centuries dissipate?

THE DEBATE ON THE "GREAT DIVERGENCE"

Until the mid-twentieth century, Western thinkers assumed that economic progress in China had been forestalled owing to supra-structural impediments like the autocratic nature of China's Confucian body politics, the self-professed "amateurism" of its officialdom or the "passivity" of its countrymen.[10] Ironically, such sweeping cultural judgements seem to be creeping back into the academic discourse through the back door – this time not to explain underdevelopment in the prewar era but to foreshadow the rise of East Asia in the twenty-first century.[11] PRC historians, on the other hand, have consistently

7 Brandt 2000, p. 29. On the malleability of quantitative data sources – see also Rozelle 1992.

8 Elvin 1981, pp. 254–55; based on extensive fieldwork in Sichuan, Skinner (1993, p. 40) pointed to another facet of micro-variation in prewar China: some local markets in the same marketing area used different weights and measurements right until the 1950s.

9 See Ma 2008.

10 For representative arguments see Weber 1951; Wittfogel 1957, pp. 101–03; Balazs 1964, pp. 28–32; Balazs and Wittfogel, in particular, view the rapacity of state organs as the main brake on urban regeneration and mechanization.

11 Since Mao's legacy has lost much of its appeal on the Mainland, Chinese and other social scientists have

adhered to an inverted Marxian theory, alleging that China's "sprouts of capitalism" had been maliciously trampled by Western imperialist incursions.[12]

Socio-cultural impediments to modernization, such as the low status of merchants, certainly could be found in traditional China. However, more recent scholarship has substantially reshaped our views of the merchant class in the late Qing, pointing to vertical linkages with the gentry and officialdom that were manifest, for example, in the sale of Qing Imperial degrees and in absentee land ownership.[13] While "Confucianism" often connotes familial prejudice, cronyism and autarkism, these are not necessarily insurmountable obstacles on the road toward economic modernization. This is perhaps why the thrust of most "pessimistic" interpretations of China's early modern economy has shifted, since the 1970s, from the socio-cultural dimension to demographic ones, advancing influential theoretical tropes such as "involution" and "equilibrium trap" to explain underdevelopment.[14]

Nonetheless, a well-rounded account of China's economic performance over the course of the prewar era cannot be produced while ignoring the critical role played by institutions. More research is needed to explain the institutional variance between China and the West; the different vehicles of body politics; the respective balance of power between the private and the public domain; the composition of bureaucracy and its indoctrination; the nature of law enforcement; and the pervasiveness of financial intermediaries.

Research is needed still more to construe late-Imperial China's (1368–1911) relinquishment of monetary and fiscal reins. Here, Akinobu Kuroda has recently carved out a space for scholarly discussion by suggesting that despite proverbial similarities between the two countries, Tokugawa Japan (1603–1868) had already been a much more financially-integrated and better-regulated polity than Qing China (1644–1911). Nowhere was this more evident than in the realm of currency, where by 1835 Japan already had an extensive and fairly stable exchange of subsidiary coinage and high-denomination government-backed fiduciary notes (*hansatsu*) in circulation, while Chinese commerce was still largely reliant on full-bodied metallic currency or privately issued scrip (*qianpiao*). Similarly, the establishment of the Bank of Japan in 1871 meant that Japan had a single legal tender (the Yen) over half a century before China did.[15]

If both the Qing dynasty's lack of interest in market regulation and its miscomprehension of Western business practices have been discussed at length in the pertinent literature, its emaciated tax base and minimalist bureaucratic apparatus have not received the

mobilized Confucius onto the CCP reformist bandwagon to explain China's pursuit of economic prominence in the twenty-first century, see De Bary 1991, pp. 103–09.

12 For an overview of PRC theoretical trends in economic history see Zelin 1998.

13 Cf. Chang 1962, pp. 149–95; Chan 1977, pp. 187–95.

14 See Elvin 1973, pp. 285–316; Huang 1990, *passim*. See also Perkins 1969.

15 See Kuroda 2006; on the rapidly growing degree of integration in prewar Japan's financial markets, see also Tsurumi 2002; Ishii 2007; Mitchener and Ohnuki 2008; cf. Sugihara 2007, p. 128. It should be noted that Sugihara's main thesis is not entirely institutional in nature; he sees more similarity in the long run between the Chinese and Japanese experiences than between Japan and the West.

attention they deserve.[16] In the late-Imperial era, for example, local bailiffs reported only about half of all tax revenue to their superiors. By and large, tax revenues dwindled from about 10 percent of total agrarian production during the Ming dynasty (1368–1643) to only about 2 percent in the late-Qing.[17] The famous nineteenth-century Likin transit duty constituted the sole fiscal innovation throughout the Qing reign, but even this measure resulted from provincial initiative rather than from central government resolve.

In his recent work, Peer Vries emphasized that by the nineteenth century China and Britain possessed qualitatively different government bureaucracies. Although China's population was thirty times bigger, the absolute number of government officials there was no higher than in Britain.[18] Such global comparisons suggest that population pressures and agrarian production relations alone cannot adequately explain China's technological falling-behind, if only because they did not obstruct the economic take-off of densely inhabited Meiji Japan (1868–1912).

More generally, the British experience indicates that, as of the late sixteenth century, government bureaucracy and a sophisticated credit economy evolved as a means of affirming the concession of property rights by the monarch. Notably, British monarchs tolerated the rise of joint-stock companies because the latter paid the treasury hard currency in return for their Charters, and helped raise tax revenue.

The historic significance of joint-stock enterprise in the East Asian context will be further explored below. Suffice it to say here that through the extensive capital they had raised, the founders of European joint-stock companies achieved as of the sixteenth century a degree of investment security and economies of scale that were quite unparalleled elsewhere in the early modern world. Being the progeny of these early joint-stock companies, privately-owned but publicly-listed British firms continued, as of the mid-nineteenth century, to utilize economies of scale acquired in London's emerging securities market to tap into China's foreign trade and into its fragmented financial services sector.

By then, Parliament had clearly displaced the Crown as the *locus* of political power in Britain. Representing a broader spectrum of commercial interests, Parliament was not only tolerating joint-stock enterprise but also actively engaged in regulating it, and laying down the legal wherewithal for its exponential growth in the twentieth century. In his recent work, James Taylor has ably flagged the dialectical junctures British joint-stock enterprise had to traverse before it became universally accepted in the twentieth century. The Bubble Act of 1720 curtailed, for example, the growth of joint-stock ventures that were seen as overly speculative, particularly country banks. Later, as British public opinion grew less mistrustful of impersonal corporate entities, entrepreneurial pressure was building bottom-up for the government to permit and regulate share capital in a number of industries. Then, in 1844, the famous Peel Act formally recognized smaller joint-stock banks, but sought to eliminate private bank note issuance in return. Finally, the British corporate law

16 Low taxation and self-sufficiency were implicit in Ming and Qing neo-Confucian indoctrination. See Wong 1997, p. 102; cf. Skinner 1993, p. 11.

17 Kiser and Tong 1992, p. 311; cf. Wagel 1980, pp. 329–25.

18 Vries 2003, pp. 27–28.

reforms of 1856 allowed all joint-stock companies to apply for limited-liability status irrespective of Royal Charter bestowal.[19]

FROM DEMOGRAPHIC TO INSTITUTIONAL FOCUS

Both "optimists" and "pessimists" seem to agree that Shanghai, with its semicolonial setting and its advantageous location as a gateway to the fertile Yangzi Delta, served as an important catalyst for the modernization of the Chinese economy as from 1842. Yet more work is needed to explain operative differences between expatriate firms in that city and Chinese businesses in other cities that were only nominally (or not at all) subsumed under the British treaty-port boilerplate, and where extra-territorial privileges did not clearly obtain. Needless to say, diverse climates, production relations, geography and factor endowment all significantly account for the division between centre and periphery in Chinese economic historiography. What seems to be lacking in much of the pertinent literature, however, is institutional epistemology.

As a rule of thumb, it would probably make sense to stylize cities like littoral Tianjin or riverside Guangzhou as an extension of Shanghai's treaty-port modern economy despite obvious differences in climate and factor endowment with the Yangzi Delta. With its large British-administered concession area and foreign financial institutions, Hankou was perhaps integrated into the very same economic system despite being situated much further inland. But nominal and fairly remote treaty-ports like Mengzi (Yunnan), or Chongqing (Sichuan) may provide instructive contrasts to the Yangzi Delta economy. In other words, the demarcation between the Chinese "hinterland" and "littoral" economies should be understood not purely in terms of rural backwardness versus urban sophistication, or in terms of distance from the coast, but also as the degree to which local peasants produced agricultural commodities for world markets (the Yangzi Delta being a case in point), and the degree to which factor agents had recourse to treaty-port finance and extra-territorial protection.

Inevitably, such research agenda would be less informed by demographics than by recognition of the significance of evolutionary economic change and path dependency along the lines identified by Douglass North. Drawing heavily on the European and North American experience, North and his co-authors have shown persuasively how government espousal of property rights – through the dissemination of a civil code, patent laws, insurance premia and Royal Charters – is one of the definitive factors behind economic modernization.[20] Once the private rate of return on research and development was propped up to match the public one in the sixteenth century, Britain could embark on a course whereby imported foodstuffs gradually freed up resources imperative for the Industrial Revolution.

The "institutional formula", which allowed Britain to escape many of the demographic checks that all other premodern polities had grappled with, was not unique. Much the same dynamics had first occurred in the United Provinces of the Netherlands between the fifteenth and seventeenth centuries, and held out roughly until the Batavian Republic succumbed to mercantilism in the late eighteenth century. In the late nineteenth

19 Taylor 2006; on joint-stock banks, see also Cameron 1967, pp. 27–29.

20 North and Thomas 1973, pp. 154–57.

century, the same dynamics lent the American economy sufficient impetus to succeed Britain.[21]

North captured the essence of European economic "exceptionalism" for what it is worth, but the theoretical construct that he laid down has since been finessed by scholars steeped in Asian and Mediterranean history.[22] Working largely within the latter category but borrowing extensively from game theory and diverse geo-generic scenarios, Avner Greif, for example, has made a consistent contribution to an emerging model of institutional fluidity and optimal growth.[23] Though the empiric underpinnings of this model are still fairly raw, some of the key concepts it is advancing have been employed to explain why Shanghai's economic dynamism could not have emerged in the Chinese hinterland before 1842.[24]

A major challenge to this institutional approach is mounted by "California School" historians, who see much the same free market dynamism at work in seventeenth-century East Asia without any industrial turnaround.[25] They therefore conclude that other factors better explain Europe's economic performance, for example colonial extraction, denser coal deposits, or the competitive nation-state system. Kenneth Pomeranz's pathbreaking book, *The Great Divergence*, is perhaps the most forceful iteration of "California School" views. Admirably conversant with the economic histories of both continents, Pomeranz marshalled a vast array of secondary-source data to argue that England's ascendancy in the early nineteenth century should be ascribed to "shadow acres" in far-flung colonies, and the proximity of its domestic coal deposits to arterial waterways.[26] A comprehensive riposte to Pomeranz's main thesis is yet to emerge. Nonetheless, discerning readers of Pomeranz's work are left with one niggling Northian question unanswered: if coal and colonial possessions, as opposed to market dynamics, were the key to England's "freak" departure from Malthusian constraints, why didn't the Iberian economy evolve in quite the same way? After all, it did possess colonies worldwide, was rich in mineral resources, and was not entirely bereft of coal.[27]

The abundance and accessibility of British coal deposits should not deflect scholars' attention from the large-scale exploitation of other sources of energy, which had set Britain apart from the Continental economy long before the nineteenth century: husbandry and chemicals in agriculture, and water-milling in garment manufacturing. In his influential study, David Landes cast these two factors as productivity gainers that paved the way for the Industrial Revolution. Landes then alluded to the ubiquity of financial

21 On the Netherlands see North and Thomas 1973, pp. 132–42; see also De Vries 1976, pp. 116–28, 251–52; Mokyr 1976, pp. 83–132, 221–30; on the US see Davis and North 1971, pp. 105–34.

22 For a survey of current trends in Asian economic history see Van der Eng 2004.

23 Greif 2005.

24 See Ma 2004; Horesh 2007.

25 For work broadly associated with the "California School" see Wong 1997; Li 1998; Frank 1998; Pomeranz 2000; Hobson 2004.

26 Pomeranz 2000, pp. 66–68, 281–83.

27 On retarded industrialization in Spain despite the inflow of colonial bullion see, e.g., Tortella 2000, pp. 73–114; see also Broadberry and Gupta 2006.

"paper instruments" and joint-stock companies in Britain as even earlier, and equally significant, portents of rupture with the Continental mould.[28]

Landes's account ought to have been complemented with a more coherent institutional dimension. In that sense, Pomeranz's de-emphasis of divergent institutions between England and China is perhaps disappointing. It is also somewhat surprising since his early work on late-Imperial Shandong had ably highlighted the degree of market disintegration plaguing much of the Chinese hinterland. That interest and currency exchange rates fluctuated wildly from one county to another, but were lower and more stable in foreign-controlled Qingdao, is one resounding symptom of this failure.[29]

Pomeranz's perception of a late eighteenth-century English departure from either European or Chinese growth patterns is filliped, to some extent, by econometric analysis of secular price data presented by Shiue and Keller.[30] Theirs is a comparative research whose rigour would be truly compelling if it were not for the devil lying in the small detail, as is often the case with Chinese archival sources. In contrast to Northian theory, Shiue and Keller argue that there is no strong evidence to support the existence of a unique European "institutional formula" for economic growth, since markets in China appear no less efficient than in continental Europe right up to the nineteenth century. Yet their regressions do not seem to factor in exchange-rate fluctuations across different European currencies or regional variations in the value of the Chinese tael, and are otherwise characterized by low levels of significance.[31]

A rather different iteration of California School arguments has recently been advanced by Jack Goldstone, as if to address an aspect of the Eurasian divide that Pomeranz's analysis has "written out of the scenario", that is, science.[32] *Pace* Goldstone, readily available coal was a necessary but not sufficient factor in the makeup of Britain's Industrial Revolution. He identifies cycles of "crises" and "efflorescence" – implying a per-capita GDP growth rate of up to 1 percent annually – as an attribute common to many Eurasian economies before the nineteenth century, from Golden Age Netherlands in the West to Tokugawa Japan in the East.[33] He then concludes that what set the British economy apart from the Eurasian norm in the mid-nineteenth century was not merely new sources of energy, but an ardent pursuit of applicable scientific know-how to harness latent resources. Goldstone concedes, however, that the sustainability of what he terms as Britain's peculiar "engine science" and its spread into popular culture was greatly facilitated by commercial law and distinct political institutions.[34]

28 Landes 2003, pp. 41–42, 74–77, 98–99.

29 Pomeranz 1993, pp. 30–40; on exorbitant interest rates in late-Imperial China see also Isett 2007, pp. 266–73. Interestingly, Isett posits "California School" scholars as *over-emphasizing* the importance of institutions in modern economic development (pp. 299–304) whereas Northian scholars would probably argue the opposite.

30 Shiue and Keller 2004; cf. Shiue 2002.

31 See Shiue and Keller 2004, Data Appendix pp. 32–37, Table 3.

32 For this critique of Pomeranz's *Great Divergence* see Elvin 2001.

33 Goldstone 2002, pp. 339–53.

34 Goldstone 2002, p. 374; the "engine science" is a concept that radically departs from Goldstone's earlier analytical framework which was essentially culturalist. See, e.g., Goldstone 1996; on the diverging trajectories of scientific exploration between Europe and China see also Elvin 2004.

THE SIGNIFICANCE OF JOINT-STOCK ENTERPRISE

An important tenet propounded by all California School adherents is the notion that the formation of joint-stock companies in Europe cannot be seen as unique.[35] But while Japanese scholars, for example, have traced the first Chinese joint-stock partnerships as far back as the tenth century, these partnerships often survived *in the face* of government policy, rather than as a result of it.[36] Furthermore, as William Scott's early work, for example, might indicate, the sources which point to the occurrence of joint-stock enterprise in late-Imperial China do not come near the degree of legal detail and stakeholding transparency that characterize documents surrounding the establishment of British joint-stock firms from their very inception in the early sixteenth century.[37] Scott's pioneering work is suggestive of a long continuum of institutional evolution that links publicly-funded trade expeditions to the Baltic and Africa under Elizabethan patronage with the subsequent emergence of the London stock exchange, as well as with the establishment of domestic joint-stock banks and overseas chartered banks later in the Victorian era.[38]

This is not to say that when operating overseas British companies upheld transparency as a value in itself. British banks in Shanghai, for example, took advantage of the amorphous legal setting there to withhold information on banknote circulation volumes whereas, in Hong Kong, they were obliged to disclose this type of information in the colonial government's Blue Book. Put simply, stakeholding transparency allowed British joint-stock companies to mobilize economies of scale. It was practised in London and other places where companies raised capital, but did not necessarily extend beyond where the British legal system obtained.

As indicated above, the British experience seems to suggest that an advanced credit economy is contingent on a mature institutional, corporate and regulatory framework. But it was not until the mid-1910s that *homegrown* modern financial institutions and a corporate sector germinated in Shanghai, by which time latecomer economies like that of Germany and Japan had already become ascendant industrial powers. Japan's experience can probably shed more light on China's predicament than Britain's because it tells us something about the dynamic of catch-up.

Alexander Gerschenkron's famous thesis suggested that in nineteenth-century latecomer economies like Germany's, where securities markets had lagged far behind London, state-backed banks were crucial to industrialization because only they could mobilize savings on a mass scale and channel them to investment in machinery and railroads. In less urbanized countries like Russia, where bank branch networks were thin on the ground, the

35 This notion is largely based on William Rowe's magisterial study of Hankou and Madeleine Zelin's work on the Furong Salt Yard in Sichuan. These two scholars have pointed to the occurrence of joint-stock enterprise in early modern China, but whether their respective case studies truly substantiated non-kin participation in stock-holding is open to question. See Rowe 1984, pp. 72–73; Zelin 1988; on kinship networks in Chinese enterprise see also Faure 2006, pp. 42–43, 53.

36 See, e.g., Shiba 1968, pp. 117–20, 458–61.

37 William Scott's monumental work *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720* (3 vols.) was first published in 1912.

38 On chartered overseas trading companies as precursors of the Western corporate model, see Carlos and Nicholas 1988. On the evolution of the London stock exchange, see Michie 1999, pp. 15–36.

central government was thought of as the only one capable of mobilizing funds on similar scale.[39]

Perhaps under the influence of Gerschenkronian theory, most scholars have until recently attributed Japan's prewar industrial miracle precisely to the fact that, unlike Russia, it quickly turned into a bank-centred economy. In other words, the Japanese economy during the first half of the last century was cast as the fief of powerful state-backed pyramidal groups (*zaibatsu*), each financing its manufacturing firms through preferential access to affiliate bank loans.[40] However, in their newly published work Miwa and Ramseyer have persuasively shown that industrial firms in prewar Japan grew, in the first instance, through *stock* offering on the Tokyo and Osaka stock exchanges, not through bank credit. Based on an impressive compilation of panel data, Miwa and Ramseyer contend that between 1919 and 1936 Japanese manufacturing firms rarely exhibited a ratio of bank debt to liabilities of over 10 percent. Moreover, they present evidence suggesting that much of the stock in Japanese industrial firms was held diffusely by unrelated investors, rather than by *zaibatsu* banks or family circles.[41]

Miwa and Ramseyer's work places joint-stock companies right at the heart of economic growth epistemology, and their findings about Japan can by no means be lost on China specialists – not least because of the cultural, demographic, technological (but not institutional) proximity between the two countries in the late nineteenth century. A detailed analysis is beyond the scope of this survey but it is nevertheless instructive to consider that by 1900 the value of Japanese stocks traded in Osaka and Tokyo had been roughly four times that of the Shanghai stock exchange at the time, even though the Shanghai stock exchange listed Western-run companies almost exclusively, and was suffused with the aura of extraterritorial protection.[42]

The other striking difference between the Japanese and Chinese securities markets before the turn of the last century lies in the fact that Japan's market helped finance the buildup of Japan's extensive railway networks and seminal industry, whereas China's was weighted heavily toward foreign banking and insurance companies. In the 1870s, railways were being built in both China and Japan, but within three decades Japan achieved a commanding lead in absolute railway mileage and, of course, in terms of the ratio of mileage to population and land size. Until 1890, two systems of railways operated in Japan side by side: a government-owned one and, equally importantly, one operated by joint-stock companies able to mobilize funds on domestic securities markets. For the impoverished early-Meiji government to defray the construction of the whole railway network would

39 See Gerschenkron 1966.

40 See for example Mosk 2001, pp. 90–93, 199–201.

41 Miwa and and Ramseyer 2002. There is a fairly large (yet regrettably mutually exclusive) body of work supporting the view that Japanese stock ownership was fairly diffuse before the First World War: see e.g. Chakepaichayon 1982, particularly pp. 77–78; Rajan and Zingales 2003, pp. 12–14, 38–41; Suzuki *et al.* 2005; Ishii 2007, pp. 250–52. For the more conventional view of family-based control of the Meiji-era corporate economy, see e.g., Morck and Nakamura 2005. However, even Morck and Nakamura concede (pp. 394–98) that key *zaibatsu* like Nissan, which had pioneered industrial ventures in early twentieth-century Japan, relied heavily on diffuse stock-exchange finance.

42 Comparative data gleaned from Miwa and Ramseyer 2002; on the Shanghai stock exchange, see Thomas 2001, p. 72, Table 4.1. Yen-Tael currency conversion was based on the 1903 figure in Hsiao 1974, p. 191.

have been fiscally ruinous. In that sense, joint-stock finance was crucial to Japan's early modernization effort. The late-imperial Chinese court preferred, on balance, to borrow overseas at a higher cost, and contract railway construction out to foreigners if only to avert the onset of autonomous domestic enterprise.[43]

The relatively small size of China's domestic securities market through the later part of the nineteenth century has much wider implications. This issue is clearly relevant to the nature of China's modernization effort in the long term, as Bowen and Rose have argued.[44] After almost three decades of reform in the PRC, private enterprise and private property rights are still lamely framed within the legal system. Established with much fanfare in 1990, the Shanghai and Shenzhen domestic bourses rarely float private firms. PRC taxation policy similarly disadvantages SMEs without intimate political connections in favour of state-owned conglomerates and foreign ventures. Yet, the PRC's double-digit growth figures over these three decades of reform cannot but raise the question whether a strong securities market would still be vital to economic growth in a twenty-first-century context. It remains to be seen whether we are witnessing a new and uniquely Chinese development model in the making – one where historical observations are not of great value – or whether the China boom is about to run out of steam unless meaningful reform of the financial sector is initiated soon.

CONCLUSIONS

This survey suggests that recent studies of China's prewar economy have made the pendulum swing again. The "optimist" literature of the late 1980s nearly displaced conventional wisdom. This literature portrayed China's prewar economy as fairly vibrant and well integrated with world markets. But it is now being increasingly called into question by scholars more attuned to the yawning gap between commercialized Shanghai and the smaller treaty-ports, on the one hand, and China's rural hinterland on the other; and, furthermore, the gap between the steady growth of joint-stock enterprise and the sweeping economic reforms of Meiji Japan and the fiscal stagnancy and lack of investor confidence in late-Qing and early-Republican China.

In pointing to new groundbreaking work, this survey has also identified a shift from a demographical to an institutional focus in recent studies of the economic divergence between late-imperial China and early modern Britain (and Japan). Viewed from a purely temporal perspective, the differences between British and Chinese business organization may not seem compelling. Even if joint-stock enterprise was finally enshrined in Britain through limited-liability laws in the 1860s, the first Chinese limited firms were in existence in Shanghai already by the 1890s.

The crucial point to remember, however, is that what may seem like a fairly thin difference begot, in fact, one of the fundamental causes for European economic supremacy in the early modern age. This insight should become eminently clear once "California School" scholars have recognized the long continuum linking the establishment of Europe's early joint-stock trading companies (sixteenth to seventeenth centuries) with the

43 Cf. Minami 1994; Nobutaka 1954; Noda 1980.

44 Bowen and Rose 1998. Cf. volume edited by Oi and Waldre 1999.

emergence of non-chartered joint-stock companies (eighteenth century) and the consummation of limited liability and equity finance concepts by state regulators late in the nineteenth century.[45]

Put baldly, this survey suggests that the occurrence (or absence) of joint-stock formations in China's long history is of secondary importance. What does matter is the unwillingness (or inability) of China's late-Imperial bureaucracy to enforce such arrangements as those, which underpinned non-kin equity ownership in Europe and later in Japan. Overwhelmed by the efficacy of Western technology in the treaty-ports, the Qing Court was convinced that drawing private capital to a government-led industrialization effort was the only way to catch up with the West. But the resultant mixed enterprise (*guandu-shangban)* failed precisely because the Qing embraced the veneer rather than the substance of private property rights. The point was made eminently clear by Feuerwerker well before the advent of "optimist" literature, and since then has been revalidated by extensive studies such as that of Kirby or Faure.[46] In retrospect, the considerable contribution Rawski and Brandt's work made to our understanding of China's prewar economy derives from their introduction of elaborate quantitative methodology into the debate and from foregrounding the significance of market integration to China's economic modernization.

The implications of the debates surveyed above are quite clearly relevant to scholars of contemporary China too. This is not least because favourably revising Chinese economic performance before 1949 derogates from the legitimacy that Mainland historians bestow on CCP rule. Similarly, favourable reassessment of Chinese standards of living in the seventeenth century may deflect scholars' attention from the great institutional divergence between China and West leading up to the twentieth century. Ultimately, a better understanding of the historic linkages between private property rights, securities markets, joint-stock enterprise and sustainable economic growth (or the lack thereof) may help scholars assess China's chances of maintaining its breakneck development pace into the next decade of the twenty-first century in the face of what appears to be an ominous global financial crisis.

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45 This institutional continuum has been explained cogently by Rosenberg and Birdzell 1985, pp. 189–210, and Alborn 1998, pp. 257–60. It stretched from Western Europe to its former colonies, coalescing into "managerial capitalism" in the US by the early twentieth century. Alfred Chandler has shown, in turn, that the formation of salaried corporate management in the US during the early twentieth century had been closely linked to the consistent inflow of British and Scottish accounting skills as from the 1880s. See Chandler 1977, pp. 464–65.

46 Feuerwerker 1958, pp. 16–28; Kirby 1995; Faure 2006; see also Goetzmann and Köll 2004, pp. 13–19. Studies documenting closely-related attributes of the Chinese early modern economy are wide ranging and on the rise. These include articles on deliberate opaqueness in Chinese accounting practices to avoid State interference see, e.g., Gardella 1992; or on the massive flight of Chinese private capital to safe havens in the treaty-ports see, e.g., Ma 2004.

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