Introduction

The fall and rise of the Chinese economy over the last 200 years is nothing short of spectacular. In the time from the tenth to the fourteenth century the traditional Chinese economy outperformed its counterparts in the world, including European economies, for in that period it had the world’s highest gross domestic product (GDP) per capita (Maddison 2001, 2007). But its lead began to decrease at the onset of the fourteenth century when Europe’s GDP rose due to the medieval industrial revolution. From that time onward, up to the eighteenth century, its per capita income remained stagnant even though its population and GDP continued to grow and remained the largest in the world. By 1950 the relative decline was so great that China’s income per capita amounted to only 10 per cent of that of its European counterparts. Thus China was among the poorest countries in the world with its economy ranking even behind that of India.

However, its powerful performance with consistently high economic growth over the last 30 years (1979–2009) has allowed China to work its way back into the international community and to become a dominant economy if not as yet a corresponding political power. In 2008 it replaced Germany as the world’s largest exporter. In terms of GDP at conventional exchange rate, in 2010 it overtook Japan as the world’s second-largest economy, and is set to overtake the US as the world’s largest economy in the near future. It has already overtaken the US as the engine of world economic growth. China also has the world’s largest foreign exchange reserves and is the second-largest recipient of FDI (foreign direct investment) after the USA.

The rise of China has attracted worldwide attention as evidenced by a wide range of voluminous books published on all aspects of modern China in recent years. Yet so far none has comprehensively dealt with China’s economic history. The last English language text of this kind was published by Frank King some 40 years ago (King 1969), before China’s modern economic growth gained momentum. The present volume is filling this gap and also provides the context of China’s modern economic development. For, as the renowned economic historian Douglass North noted (North 2003), a country’s development path is dependent on its past since it is shaped by its existing value system and institutions, without which the
country’s current and future economic performance cannot be properly understood.

This book focuses on China’s modern economic growth and comprehensively surveys the patterns of China’s growth experience in the last 200 years. Its more important elements are traced back to their foundations in history in order to explain their impact on China’s modern economic growth. The book is divided into four parts. Part I looks at China’s pre-modern growth economy.

One of the great mysteries of China’s pre-modern experience is that fourteenth-century China was well ahead of Europe in terms of scientific and technological development as well as in other areas, and that it apparently had all necessary conditions for an industrial revolution. Yet the industrial revolution started in eighteenth-century England instead of fourteenth-century China. The objective of Part I is to solve this mystery. Chapter 1 begins with an examination of the population dynamic of traditional China. The core sector of its economy, agriculture, is examined in Chapter 2, and the development of the non-agricultural sectors is discussed subsequently. Thus Chapter 3 discusses China’s traditional handicraft industry and urbanization, and Chapter 4 deals with trade. China’s unique traditional social structure which shapes all economic actions is discussed in Chapter 5, and Chapter 6 finally brings it all together in an analysis of why China failed to industrialize earlier despite its relatively advanced economic and technological development and its sophisticated social and political institutions.

Part II examines China’s transition to modern economic growth after its forced opening for trade by the West in the middle of the nineteenth century. Another mystery in economic history is why it was Japan rather than China which became the first non-European country to industrialize successfully, for traditional China and Japan were very similar in many respects. Both had experienced the shock of being forced to open for trade with Western nations, and had been subjected to unequal treaties which restricted their tariff autonomy. In addition, both had to cede treaty ports where Westerners were given special rights to conduct their own business.

China and Japan both had a very low initial per capita income which was well below that of their European counterparts at their start of industrialization. Both were basically agrarian economies characterized by a high man–land ratio and intensive farming methods. Both used the same irrigation technology which had spread from China to Japan. And culturally the latter considered the former as a role model. Thus Japan had adopted many Chinese patterns and methods, including writing, paper making and many parts of Chinese tradition, including the Confucian value system.
However, Chinese society was relatively more advanced in that it was essentially a capitalist society with a free peasantry and private property rights and also a relatively high inter- and intraclass mobility with an incentive system based on achievement and individual merit. In contrast, traditional Japan was basically a feudal society with a rigid class system where farmers were essentially slaves of their feudal lords and were not allowed to leave the land or abandon agriculture. Neither were they allowed to sell or grow crops of their choice.

Given that China already had many of the building blocks of capitalism, one would expect that China would embrace industrialization more readily than Japan. However, it was Japan which experienced a swift and smooth transition to modern economic growth, which lasted for only about 20 years from 1868 to 1885. In contrast, China’s transition to modern economic growth (MEG) was slow and painful. It started after the Opium War in 1842 but it was not until 1949 when the Communists took over control of China that the Chinese economy started to take off. Hence China’s transition lasted for more than 100 years.

The aim of Part II is to unravel the mystery of why China’s transition was so slow. It first examines changes in China’s traditional economy after the European intrusion and discusses the growth in foreign trade and investment and their effects in Chapter 7. Chapter 8 considers the ensuing changes in agriculture and industry and the reasons why these significant changes in China’s economic structure did not bring about MEG. Finally, Chapter 9 tries to identify the crucial factors responsible for the relatively slower progress of China to MEG than Japan.

The third part of the book scrutinizes the economic growth pattern in the Maoist period from 1949 to 1978. In this period China under the leadership of Mao Zedong pursued the twin goals of rapid industrialization and socialization. Initially it followed closely the Soviet model but the Great Leap Forward (GLF) from 1958 to 1960 and the Cultural Revolution (CR), 1966–76, were significant departures from that strategy.

In spite of these two significant departures, many China experts hold the view that China’s development strategy was essentially a radical variant of the Soviet model in that it aimed at maximal speed of industrialization and the creation of a socialist state and society. However, Maoist economists and others in the West argue that Mao established a unique and different model of socialist development. They regard the GLF and the CR as genuine Maoist strategies aimed at rooting out a new bourgeois class which had consolidated its power in the bureaucracy and the economy. And they argue that this was an attempt to establish a more egalitarian, non-elitist and participatory type of socialism.

However, in the light of empirical data published in recent years, and
flooding out of China in the form of memoirs of China’s party elite members and monographs based on meticulously researched county records and party documents as well as interviews, this view has largely been discredited. These new data show convincingly that the Maoist model is just a figment of their imagination which was never realized. The objective of Part III is to identify the salient features of Mao’s strategy and analyse their impact on China’s MEG in this period. Chapter 10 highlights the Soviet approach to MEG that China initially adopted and Chapter 11 discusses its Maoist variant. Chapter 12 examines the causes of the failure of the Maoist strategy in the light of the Great Famine. Chapter 13 considers its culmination in the CR and Chapter 14 provides an assessment of China’s achievements under Mao.

Part IV of the book focuses on the remarkable high speed of economic growth in China under the open door policy and the reforms since 1979. China was the first communist country initiating a transition from a planned to a market economy. It took the step in 1979, almost ten years earlier than the communist East European countries. And compared to the performance of these, China is the star insofar as it managed the transitions relatively smoothly. And in the early phase of transition it did not incur many of the high short-term transition costs that its European counterparts experienced in the form of dips in output, real wages and employment accompanied by increased political, social and economic instability. Some countries like the former Soviet Union, Yugoslavia and Czechoslovakia even disintegrated politically under reform pressure.

In contrast, China did relatively well: the level of real wages not only did not dip in the transition period, but actually rose, and the rate of inflation and unemployment were relatively modest. With the exception of the Tiananmen Square tragedy in 1989 and pockets of sporadic ethnic unrest in Tibet and Xinjiang in 2008–09, China has not experienced large-scale political and/or social upheaval in its transition. Not only did China manage to avoid the more drastic short-term costs of transition, but it actually managed to achieve and sustain a relatively high economic growth rate in that period.

Why was China able to avoid the short-run costs and what enabled it to achieve and sustain such a spectacular economic growth rate? The purpose of Part IV is to attempt to answer that question. Chapter 15 traces the evolution of China’s reform strategy and evaluates its results. Chapter 16 examines the new growth strategy introduced since the reforms, and Chapter 17 provides a comprehensive assessment of its outcomes. The final chapter presents a summary of the conclusions derived from the analyses of the preceding chapters, and discusses the future growth prospect of the Chinese economy.