China's Economic Development from 1860 to the Present: The Roles of Sovereignty and the Global Economy

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Abstract:
Radically different consequences flowed from China's interaction with the global economy during two periods, from 1860 to 1949, and from 1949 to the present. From 1860 to 1949, China's economy stagnated. From 1949 to the present, China's economy grew annually from 4 to 10 percent. 'These different rates resulted from a combination of the levels of Chinese sovereignty and the nature of the global economic environment during each period. From 1860 until 1949, foreign military-imposed unequal treaties reduced China's sovereignty levels and the international economic environment was characterized by predatory trade practices of the European imperialist powers. Together, these two factors reduced the opportunities for China to economically develop through interaction with the global environment from 1860 to 1949, and lead to Chinese economic stagnation.

After 1949, Chinese communists regained full national sovereignty and used this control to take over ownership of China's domestic economy from both foreign and Chinese investors. The global economic environment also became less militarily interventionist (imperialist) and more conducive to non-Western economic development. These two new factors combined to lead to successful Chinese economic development from 1949 to 1978, and even faster economic development from 1978 to the present.

In sum, low Chinese sovereignty levels before 1949, combined with predatory global economic practices, meant that China was less able to gain potential economic benefits from interacting with the global economic environment. China's economy therefore stagnated from 1860 to 1949. Conversely, higher sovereignty levels gained by China after 1949, combined with a less imperialist global environment, permitted post-1949 China to make major economic development gains from interaction with the global economic environment from 1949 to 1978, and even larger gains after 1978.

A. Introduction

In 1949, the newly established People's Republic of China designed and carried out economic development policies that led to an annual average economic growth rate of about 4 percent from 1953 to 1978, among the highest in the developing world at the time (Hu, pp. 103-131, World Bank, 1978, Wang, 2000). In 1978, China began post-Mao economic reforms that have since achieved per capital economic growth of 8 to 10 percent annually, among the highest rates in economic development history(Hu, pp. 103-131, World Bank, 1997, Wang. 2000). Studies of China's respectable 1949-1978 economic growth, as well as its dramatic post-1978 economic expansion, have pointed both to domestic and to global factors to explain China's post-1949 economic growth. Domestic factors include the People's Republic of China's (PRC) economic development policies, high savings rates, government control of investment capital, Chinese

Confucian culture, and the lessons from Chinese experiences with the pre-1949 global economy. Good social capital in the form of a huge pool of healthy, basically literate, and motivated low-wage workers has also been cited as an important factor in China's post-1978 economic development.

Global economic factors, crucial for China's post-1978 growth, include global economy trade opportunities, foreign investment, foreign advice, foreign loans, export-lead development opportunities, export processing zones, investment and assistance by Chinese from Hong Kong and other parts of "greater China," and the examples of successful export-led economic development by Japan and by the four Asian "tigers" (Hong Kong, South Korea, Singapore, and Taiwan) (World Bank, 1997).

When we examine China's economic development performance before 1949, however, we see a very negative picture, one of prolonged stagnation rather than of successful economic growth. Before 1800, Imperial China under the Qing Dynasty was a major world economic power, accounting for roughly 32 percent of the world's economy (Maddison, 1998). From 1800 on, however, and particularly after 1860, China's economy grew began to stagnate and then from 1860 on, grew at less than 1 percent annually until 1949, and may even have declined (Maddison, 1998, p. 39). By 1949, China's share of an expanding world economy had shrunk to about 5 percent, and China was seen as one of the poor countries of the world, the "sick man of Asia," with a per capita annual income of about US$50 (Naughton, p. 50).

China's economic stagnation from 1800 to 1949, and its economic success thereafter, raise two interesting questions. First: what factors prevented a major economic power in 1800 from maintaining its important economic position in the world economy from 1800 to 1949? Second: what factors explain how the impoverished China of 1949 could achieve sufficient levels of economic growth, particularly after 1978, to make China once again a major world economic power, becoming the third largest world economy by 2004, after the United States and Germany (Naughton, p3)? Although responses to these questions have been offered in a number of previous Chinese economic history works, many explanations of China's disappointing pre-1949 economic development efforts have given the global environment little or no role of importance. In this paper I will propose a research framework that includes both the positive contributions that the global environment has made to Chinese economic development from 1949 until today, as well as the significant costs, (and benefits) that the global environment offered to Chinese economic development efforts from 1800 to 1949.

In addressing the causes of China's economically stagnant pre-1949 period, I will examine the roles that both domestic Chinese and global factors played in China's loss of economic importance in the world from 1800 to 1949. One obvious domestic limitation was that China was not successfully industrializing during the 19th century, while many Western countries were. Also, pre-1949 Chinese economic growth was partially constrained by various aspects of China's domestic culture and traditions, such as Chinese government and other domestic factor (see Richardson, 1999, for a review of these views).

I will offer a perspective that places more emphasis on global economic environment factors, specifically Western colonization activities in the nineteenth century, and argues that they played a very important role in restraining successful pre-1949 Chinese economic development. While many historians and economist give some role to the pre-1949 limitations from the global environment, I will develop that argument further by comparing the dual factors of Chinese sovereignty and global environment opportunities and constraints during the pre and post-1949 periods to show how major differences in these these two factors during the two periods can explain much of the dramatic differences in Chinese economic development before and after 1949.

How were foreign factors, both positive and negative, important in explaining China's pre-1949 stagnation? First, let us briefly describe two of major positive foreign factors. First, China probably would not have been able to industrialize without the challenges of and the industrial technology from the 19th century global system. The global system also provided a major for Chinese exports of tea and silk, and the resulting exports could be used to purchase foreign industrial technology, similar to what Meiji Japan did. At the same time, the global system with its military-backed Western colonization activities, forced on Qing China a series of "unequal treaties" that deprived China of much of its sovereignty and funds to pay for foreign-technology based industrialization.

The lack of Chinese sovereignty over a number of other important political and economic areas also contributed to preventing China from successfully pursuing economic development. The European (particularly British) military-imposed "unequal treaties" of 1842 and 1860 reduced

China from a fully sovereign world power in 1839 to a semi-sovereign country by 1860. The treaties, resulting from China's defeats in the two Opium Wars of 1839-42 and 1856-60, and were "unequal" in that they forced China to legalize the sale of foreign opium within China, to accept an artificially low foreign trade tariff of 5 percent, and to grant foreigners the benefit of "extraterritorial" rights (e.g. freedom from all Chinese taxes and from any accountability to the Chinese legal system) while living in "treaty ports" in China. These treaty-imposed foreign rights and privileges gave foreign businessmen an institutionalized set of economic advantages in China, from the forced importation of opium to foreign freedom from both Chinese taxes and legal accountability while doing business in China.

Another provision of the unequal treaties, the "most-favored nation" clause, required China to gain unanimous consent from all the foreign imperialist powers in order to recover any sovereign right lost in the treaties, a provision that made treaty-imposed Chinese sovereignty losses virtually irreversible. China's economy therefore had to suffer most of the negative economic consequences of the unequal treaties from 1860 until 1943, when China was finally able to win back its full sovereignty through US-UK-Chinese negotiations at WWII Cairo Conference.

Despite costly post-1860 Chinese losses of important areas of sovereignty, Chinese officials nevertheless tried to carry out industrialization plans in order to increase China's wealth and power, and thereby save China from full colonization. The unequal treaties, however, deprived Qing China (and then Republican China) of most of the tools used by European countries to carry out successful industrialization. These tools included: import tariffs to protect Chinese industries and to pay for Chinese government expenses related to economic development;

Chinese laws to protect its people from dangers such as opium addiction and from massive financial losses due to opium consumption by millions of Chinese addicts; and Chinese government power to tax and regulate its economy, and particularly the economic activities of foreign investors. These sovereignty losses largely prevented China from carrying out successful Chinese-owned industrialization as part of its defensive modernization efforts from 1860 to 1949

Also, Qing China was forced to pay huge war indemnities in 1842, 1860, 1896 and 1900, that saddled the Chinese government of economy with immense unproductive expenses and after the huge 1896 indemnity that Japan imposed on China, the Chinese government suffered large deficits of about than 18 percent of its central government income (Feuerwerker, 1995, pp. 76, 83). Because the existing unequal treaties prevented China from raising tariffs on foreign trade to pay off these deficits, the Chinese government beginning in 1895 had to seek huge foreign loans. Between 1895 and 1911, the Qing government payed out 476 million taels in principal and interest to foreign creditors for the foreign loans to pay the Japanese indemnity and the 1900 Boxer indemnity, which was more than twice as much as the total investment in all foreign, joint, and Chinese-owned modern manufacturing established in China between 1895 and 1913. "This represented a large net drain on China's available resources....which preempted the fiscal resources with which (national economic development) might have got started." (Feuerwerker, 1995, p. 84). Because of the unequal treaties, these loans could only be paid for by increases in domestic taxes. "This enormous outflow of funds from the Chinese economy came ultimately from increased taxes on the (Chinese) population levied by local collectors and remitted to the central government for payment to national creditors" (Feuerwerker, 1995, p. 84).

In addition post-1895 foreign lenders usually advanced loans only on the condition that China grant economic concessions (the 1897-1899 "battle for concessions", see Thomas, p. 22, Feuerwerker, 1995, p. 68) that deprived China of control over important sectors of its modern economy, particularly ownership of its railways and its new domestically-owned modern industries. Foreigners were also permitted to carry out business within China without paying Chinese taxes or obeying Chinese laws. The cumulative effects of China's huge foreign debt (with annual payments rising to about 40% of China's government income after 1900), its loss of potential tax revenues legal control over foreign enterprises in China, and of the staggering economic and social costs from resulting from widespread opium addiction, combined to create the economic stagnation that slowed Chinese economic growth to nearly zero between 1860 and 1949.

To attribute substantial responsibility for China's failure to industrialize and for her economic stagnation to global factors, such as the foreign-imposed unequal treaties, seems a plausible explanation. In fact, virtually every Chinese leader after 1860, including Qing China emperors and officials, Republican China's first President Dr. Sun Yatsen, its second President Jiang Kaishek, and the People's Republic of China leader Mao Zedong, believed that political and economic burdens imposed on China by foreign powers were to blame for much of China's pre-1949 economic development problems and failures. Even some foreigners writing at the time saw the causal linkages between foreign imperialism and China's financial and economic development problems. Mr. J. Howard Swythe, of the Chartered Bank of China and India, in 1902 wrote:

> How different the position (of China) would be now if the European powers had prevented, as suggested by Lord Roseberry, the Japanese from forcing war upon

> China...The Western nations would not have demanded territory, the Boxer trouble would probably not have arisen, and the so-called indemnities would probably not have been required (Thomas, p. 109).
> Sir Robert Hart, the British-appointed head of the Imperial Chinese Customs service, also believed that foreign demands were largely to blame for China's post-1900 economic problems. In 1899, he said, "It is not China that is falling to pieces; it is the power that are pulling her to pieces!" (Thomas, p. 112)

Yet explanations of pre-1949 Chinese economic stagnation that assign major responsibility to foreign-imposed obstacles have usually not been put forward by American economists and economic historians. For example, one of America's most well-known and often-cited Chinese economic historians wrote:

> The large foreign role in the modern sector of the (pre-1949 Chinese) economy...based on an artificially low tariff and the privileges of extraterritoriality,...(and) supported by the siphoning off of capital in indemnity and loan payments to foreign creditors...cannot be made to bear more than a part of the obloquy for China's economic stagnation (Feuerwerker, 1995, p. 183).

And:

> When new (post-1949 PRC Chinese) political forces turned consciously to the task of economic development, they perhaps overconfidently assumed that the traditional economy...had been substantially undermined in the revolutionary century before 1949. They thought there was nothing inherent in the basic values and structure of the Chinese economy which would prevent rapid economic growth once the onerous fetters on the people's strength had been removed. **That hope continues to haunt Peking.** (emphasis added, Feuerwerker, 1995, p. 85).

According to these explanations of China's pre-1949 economic development failures, Chinese economic development efforts suffered from a host of domestic limitations emanating from traditional Chinese culture and economic practices. In these blame-the-victim explanations, China was said to have been prevented from economically developing because: (1) Chinese officials, and/or the Empress Dowager, were so corrupt and/or self-serving; (2) Chinese business structures were too family oriented; (3) Chinese economic development efforts could not be successful because of China's Confucian ideology and its lack of Western science-oriented schools, and (4) many conservative Qing Chinese officials opposed defensive modernization simply because they opposed Western things. Interestingly, until recently, some post-1949 Chinese communist theorists have offered somewhat similar explanations. They have also argued that the global economy did not present significant real opportunities for Chinese economic development.

Why have many foreign researchers underestimated the costs to Chinese economic development of pre-1949 foreign-imposed Chinese losses of sovereignty? One possible explanation is that the immense costs of pre-1949 China's lost sovereignty and foreign privileges in China have so far not been fully estimated. A second possibility is that some Western historians of China have taken cues for their research frameworks from many of the foreign observers who lived and wrote about China in the nineteenth century. At that time many Europeans assumed that Western culture and religion were superior to Chinese traditions, that Chinese political and economic practices were fundamentally corrupt, and that the Chinese were racially inferior and therefore incapable of developing the business practices and engineering skills needed to manage modern economic enterprises and institutions.

In the next section of the paper, part B, I will present an alternate explanation for China's pre-1949 economic stagnation, one that focuses primarily on foreign rather than domestic limiting factors. I will describe some Chinese pre-1949 efforts to regain the areas of sovereignty taken by foreigners in the 1842 and 1860 unequal treaties. I will then describe and evaluate pre-1949 Chinese government efforts to use its available financial resources and sovereignty to try to build China's wealth and power and to industrialize China using opportunities for trade and technology importation from the global economic environment. Specifically, beginning from 1870, Chinese officials pursued a policy of defensive industrialization, called "self-strengthening," to try to save China from full colonization and from the loss of its 2000-year old imperial political system. I will also estimate the costs to China resulting from the unequal treaties and show how these costs, which grew over time until 1949, seriously interfered with Chinese economic development efforts.

In part C, I will describe how China regained its full sovereignty during WWII and in 1949 began to use its recently regained sovereignty to develop and to carry out strategies for economic development that made use of Soviet financial and technical assistance. In part D, I will show how, beginning in 1978, Chinese post-Mao leaders pursued economic development strategies that combined Chinese sovereignty with policies designed to take full advantage of the trade and foreign investment opportunities of a global economic system, one that had permitted countries such as Japan, Germany, and the Four Tigers, to economically develop using the benefits of global trade. In part E, I will offer my conclusions.

B. China's Pre-1949 Economic Development Efforts

I. The Global Economic Environment from 1800 to 1949

From 1800 until 1949, the global economic environment was characterized by European-led industrialization, as well as intensive European colonization activities. Many European countries made great strides in industrialization and also carried out the colonization of much of Asia, the

Middle East, and Africa. Consequently, these non-Western countries and regions lost their sovereignty as well as the opportunity to carry out economic development under their own ownership and control and for their domestic benefit. Only China, Thailand, and Japan in Asia, Ethiopia in Africa, and Afghanistan, Iran and Turkey (as part of the Ottoman Empire) in the Middle East were able to keep at least nominal independence.

The pre-1949 global economic environment, in theory, presented opportunities for non-Western countries that remained independent to economically develop. There were international markets for many non-Western commodities and products, such as tea and silk, and Western industrial and military technology was available to independent non-Western countries that had the desire and the financial resources to purchase industrial technology. But, to be successful at economic development, a country needed to have enough sovereignty to keep control of its economy and foreign trade, and the leadership to design a plan for economic development.

When there was a plan for economic development in a non-colonized non-Western country, it often was part of an overall effort at "defensive modernization," designed to keep the threatened country from becoming a colony. "Defensive Modernization" was, however, very difficult to achieve. Of the few non-European countries that did manage to keep their independence from the 1880s until World War II, only Meiji Japan and (to some extent) Ottoman Turkey were able to also carry out successful economic development. Qing China tried to carry out economic development, but as discussed below, the results were mixed, in large part because the unequal treaties militarily forced on Qing China made China semi-sovereign, thereby depriving it of important areas of sovereignty and placing obstacles in the path of Chinese economic development efforts.

II. Chinese Sovereignty and Economic Development Efforts from 1800 to 1949

Imperial China had for many years permitted international trade to be carried out in the city of Canton (Guangzhou), allowing foreigners to buy tea, silk, ceramics, and other Chinese products that enjoyed high international and European demand. Chinese authorities did little more than regulate and lightly tax the foreign trade in Chinese goods. Until the 1800s, foreign products commanded little market demand in China. With the relatively low Chinese demand for foreign goods, foreign merchants often had to pay in silver specie for their purchases of Chinese tea and silk.

Beginning in the early 1800s, however, British East India Company merchants found that opium, mostly grown in British-controlled India, had a high demand in China. For Great Britain the opium trade had the fortunate outcomes both of creating high levels of tax revenue_ for the British colonial government in India and of balancing the large and growing British and European demand for Chinese tea and silk.

Qing Chinese authorities became increasingly alarmed at the tremendous human cost of hundreds of thousands (and later millions) of Chinese opium addicts, at the corruption of Chinese officials and merchants involved in the opium trade, and at the loss of Chinese silver specie as the terms of trade moved against China in the early 1820s. In 1839, The Chinese emperor, as head of a sovereign state responsible for the welfare of its people, sent Chinese

Commissioner Lin Zexu to Canton to stop the opium trade. Commissioner Lin asked foreign opium merchants to turn over their opium for destruction. British opium merchants complied but then successfully lobbied the British Parliament to start a war against China in 1839, the first "Opium War," to extract compensation from the Chinese government for the destruction of the opium, and to protect the future sale of a commodity that would eventually provide about 15% of the British colonial government income in India (Owen, p. vi.)

British merchant arguments for war were legally weak, but the financial rewards of the opium trade for Great Britain and for British India were great, and the Chinese victims were non-European and lived far away, so the British Parliament approved the war to promote the British opium trade. Great Britain won the first "Opium War" from 1839 to 1842, then fought and again defeated China in the second "Opium War" from 1856 to 1860. British justifications for waging war included the then-popular Social Darwinist view that if a people were militarily weak, they deserved to be dominated by a militarily more powerful Western country. The Opium Wars were also justified on the basis that Chinese were not Christian or European, and were an inferior race.

III. The Costs of the Unequal Treaties and Qing Chinese Efforts to Economically Develop

Qing China was never fully colonized and, therefore, even after having lost the two Opium Wars of 1839-42 and 1856-60, it still had enough sovereignty and financial resources to attempt modest modern economic development. Chinese officials and entrepreneurs initiated Chinese-owned steam shipping, a modern coal mine, a steam railway, a telegraph company, and modern mechanized cotton mills. The Qing government also approved the setting up of a modern iron and steel mill and a Western-style bank. But China's losses from opium, from the limits placed on China's sovereignty, and the financial burden of indemnities in the wake of the two Opium Wars, combined to limit the funds available to support Chinese economic development. The additional 1895 indemnity to Japan and the 1901 Boxer Indemnity to the Western powers, combined with the limitations on Chinese financial resources created by the Opium War unequal treaties, combined to bankrupt the Chinese government from 1896 on, thereby preventing it from being able to continue to support Chinese economic development efforts. What was the scale of Qing China's economic losses due to the unequal treaties and how did these losses affect the chances for China's successful industrialization before 1949?

The first direct loss suffered by China was about 28 million silver taels per year from 1870 to 1897 wasted on the purchase of opium, or a total of about 800 million Chinese silver taels over 27 years (Liang, p. 52). The 28 million tael yearly loss represented more than 30 percent of the annual Chinese national government budget of about 90 million taels per year. There were also huge indirect losses resulting from the opium trade. Opium created untold suffering for millions of addicts. Each addict had his life disrupted, his ability to support his family hurt or destroyed, and his health impaired. In addition the opium trade contributed to the corruption of Chinese officials and Chinese merchants.

A second major direct cost of the unequal treaties was the Chinese government's lost taxes on opium because China was deprived of the right to raise tariffs on opium imports. In fully sovereign countries, luxury taxes on dangerous or costly luxury items, such as tobacco or alcohol products, often provide a major source of income, and sometimes are also used to reduce consumption of these potentially dangerous substances. For example, in most societies today tobacco taxes are high and rising, partly to pay for the health costs resulting from tobacco addiction, and partly to provide a major source of domestic government revenue. Alcohol taxes similarly both offset some of the costs of alcoholism and provide government income. China, however, was deprived by the unequal treaties of control over both the sale of opium and on the level of taxes that could be collected from opium sales.

Third, the unequal treaties also deprived China of general control over tariff levels, setting them by treaty at a very low 5 percent. Because foreigners were able to operate banks in China (such as the current-day Hong Kong and Shanghai Bank) and do so free of Chinese taxes and of Chinese government controls and regulations, foreign banks were able to make a substantial percentage of their income through manipulation of the exchange rate of China's currency (Thomas, pp. 41, 68). Foreign control of much of China's tariff administration also permitted the Chinese tariff rate to decrease from 5 percent to about 3 percent between 1860 and 1900. China was only permitted by treaty to collect its tariffs in fixed silver amounts, even though foreign trade and China's loans were in gold-denominated currencies. Therefore, following the drop in the world price of silver, actual tariff revenues collected fell about 40 percent between 1860 and 1900.

Had China been permitted to increase tariff rates, even back up to the treaty mandated rate of 5 percent, the Qing government would have received greatly needed additional revenue to pay increasing government expenses, to provide funds for economic development, and to help pay the indemnities that the foreign powers imposed on China in 1842, 1860, 1885, 1896, and 1901.

Fourth, British sales of opium to China more than balanced out European purchases of Chinese tea and silk, and that led to an outflow of Chinese silver specie after about 1830 (Naughton, p. 30). This loss of Chinese silver disrupted China's traditional economy by making silver coinage more expensive in relation to copper coinage.

All four of these direct losses resulting from the unequal treaties made it more difficult for Chinese governments from 1860 on to provide the financial resources necessary to initiate, to support, and to expand Chinese-owned modern industrial enterprises as part of an economic development program.

In 1897, new foreign loans needed to pay the 1895 Japanese indemnity created an annual central government deficit of about 20 million taels, or about 20 percent of the Qing government budget. Tariff increases up to 10 or 15 percent, well within the range of tariffs set in fully-sovereign European countries, would probably have raised more than needed revenue without hurting foreign trade. Tariffs provided one of the most important sources of government revenue in Europe and the United States in the nineteenth century, before the advent of income taxes. For example, high British tariffs on opium exported to China from India came to provide about 15 percent of British India's government revenue. But Qing China was prevented from raising tariffs by the unequal treaties.

Instead, the Chinese government had to take out large foreign loans for the first time to pay the 1896 and 1900 indemnities. China's foreign loans were conditioned on China granting "concessions" to foreign lenders, specifically the granting of foreign "rights" to build railways and other modern enterprises in China (See above discussion of the battle for concessions). Foreign railway developers thereby gained the promotional profits associated with railway building in China. This post-1896 "battle for concessions" by foreign promoters ignited a foreign scramble for concessions that almost led to China's dismemberment. These concession also led to losses for existing Chinese-owned Western-style enterprises, particularly Chinese railways. Chinese nationals reacted with an unsuccessful "rights recovery movement," one of China's first nationalistic movements.

This "battle for concessions" continued from 1897 until 1911, when the HuGuang (the proposed railway from Wuhan to Guangzhou) Railway loan contributed to the 1911 Chinese revolution. The 1911 Chinese revolution, however, did not improve China's financial condition because China still did not have sufficient sovereignty to repudiate the costly unequal treaties. Therefore, after 1911, the newly established Republic of China government took out still more foreign loans, often just to make payments on its existing loans and to finance on-going deficits, and these new loans often came with additional economic concessions. The 1911 Sun Yatsen government, then the Yuan Shihkai government, and then all Nationalist governments until 1949, kept taking out new foreign loans, often just to pay for the new foreign loans. From 1900 to 1949, Chinese government paid out about 40 or more of their yearly income on foreign loan interest payments.

The Qing Chinese was also prevented from providing tariff protection for Chinese-owned infant industries. The usefulness of protectionism is open to debate, but most countries that have carried out successful economic development, including the United Kingdom, the United States, France, Germany, and Japan, have practiced some level of protectionism during their early industrialization. (Thomas, pp. 43, 68) The costs of China's lack of tariff autonomy for Chinese-owned infant industries are hard to quantify, but they were probably significant.

Because foreign businesses operating in China were able to avoid paying most Chinese taxes except for the nominal 5% tariff on foreign trade, Chinese government business taxes could only be collected from Chinese-owned companies. Chinese companies were therefore placed in a position of comparative tax disadvantage in their competition with foreign companies. This disadvantage played a negative role in the competition between Chinese and many foreign enterprises operating in China. One example was the competition between the British-American Tobacco Company and the Nanyang Brothers Tobacco Company (Thomas, 46). A second was between Chinese- and foreign-owned cotton spinning and weaving factories.

The Chinese government also lost the tax income that could have been collected from foreign enterprises that, from 1897 on, owned or controlled a substantial share of China's railways, cotton mills, modern mines, inland and coastal shipping, modern manufacturing sector, modern financial service enterprises, and treaty-port real estate. Also, as the foreigners' share of China's modern enterprises increased from 1900 to 1949, China's loss of potential tax income increased still more. Even though Chinese set up enterprises in the 1930s, they were mostly small-scale and foreigners still owned much of China's modern enterprise sector (97 percent of China's pig-iron production, 83 percent of its steel, 66 percent of its machine-operated coal mining, 90 percent of its rail transportion, an estimated 70 percent of its banking industry, 70 percent of the kerosene market, and 60 percent of the industrial capital of China, (Lu, pp. 185, fn 3 and 186, fn 5).

Another cost of China's loss of sovereignty, though also one hard to quantify, was the unequal treaty stipulation that prevented China from holding foreign businesses legally accountable. "Extraterritoriality" took away China's normal sovereign right to enforce Chinese laws against foreigners for theft, embezzlement, contract violation, and commercial fraud. Chinese businesses could be cheated by foreigners without legal recourse. For example, the Chinese government had to sue (mining engineer and later US president) Herbert Hoover and his employer the British Mining Company Bewick Moreing in a British court in London legal redress regarding Hoover's questionable takeover of the Chinese-owned Kaiping Coal Mines during the 1900 Boxer Rebellion. Although the Chinese government won the case against Bewick Moreing in British courts in 1907, the British Embassy back in Peking refused to enforce the judgment, saying that it would hurt British interests in China (fn). The British company kept control of the mine until 1949.

Another loss of Chinese sovereignty was that foreigners took control of the administration of China's foreign trade tariff collections, and then China's major domestic trade tax, the "likin." Foreign administrators of China's trade taxes and tariffs, such as Sir Robert Hart, justifiably prided themselves on administering the tariffs "fairly," but the income from the Chinese tariffs largely went mostly to pay off foreign indemnities and foreign loans, rather than to assist the Chinese government in its economic development efforts. If China had had the revenue-generating options normally held by a fully sovereign country, it would have had more funds available to pay off its indemnity obligations and to promote economic development.

The cost of indemnities and loss of Chinese government control over the ability to tax and regulate foreign-owned modern enterprises in China, added up to major losses of Chinese capital and economic development potential during the 1860 to 1949 period. We can not be certain whether the lost rights and funds would have been used productively by the various Chinese governments, or whether they would have been less corrupt if they had received the additional income. But we do know that in the case of the Qing Government the unequal-treaty-induced Chinese losses in trade tax revenues, combined with foreign indemnity demands and resulting foreign loans, forced the Qing government to take domestically unwise and unpopular actions, such as raising taxes on Chinese-owned enterprises, that seriously weakened and even reversed Qing government policies of political and economic support for Chinese-owned modern economic enterprises. We also know that the unequal-treaties-induced problems continued for Chinese governments until 1949.

If China had had the revenue-generating options normally enjoyed by a fully sovereign country, it would have had sufficient funds to pay off its war indemnity obligations and still promote economic development. Instead, the 1911 Sun Yatsen government, then the Yuan Shihkai government, and then the Nationalist governments until 1949, kept taking out new loans to pay off old foreign loans.

From 1900 to 1949, the Chinese central government annually spent about 40 percent of its budget on loan and indemnity payments. Another 40% was used for its military development leaving 20% or less for all government expenses and economic development efforts. This meant that little revenue was available for government-supported economic development projects after 1900. Although China finally unilaterally took back tariff autonomy in 1930, after unsuccessfully trying to negotiate it back from the foreign powers, the new income went mostly to pay interest on past foreign loans and on still more foreign loans taken out by the new Nationalist government. Little government-supported economic development took place from 1900 to 1949.

One short period during the 89 years from 1860 to 1949 is suggestive of what might have been possible if China had had full sovereignty. During WWI, when the European powers were occupied in a war with each other in Europe, China had a period of about 5 years of greatly lessened foreign control and economic competition. During this period, Chinese economic development efforts greatly accelerated. Chinese historian Mary Wright and others have referred to this period as a "golden age" of Chinese industrialization, when Chinese-owned businesses flourished (Thomas, p. 165). But this period ended soon after WWI with the return of the full force and power of the European colonial governments.

There were also some positive aspects to Western inroads on China's sovereignty and independence during the period of intense Western colonization from 1860 to WWII. First, the Western military invasion and occupation of Chinese "Treaty Ports" caused the Qing Chinese government after 1870 to move toward "defensive modernization." This was a policy of trying to import foreign military and industrial technology to give China wealth and power, under the banner of "self-strengthening." My earlier published research suggests that until China lost the Sino-Japanese War in 1895, and had to pay indemnities that economically bankrupted the Qing government, Chinese-designed economic development enterprises were modestly successful, though on a much smaller scale than those in Meiji Japan. These Chinese enterprises enjoyed forward and backward economic linkages with other Chinese-owned modern enterprises, and provided a blueprint for the economic development that Qing China would have continued to support if it had had full sovereignty and resulting substantial government income from taxes on foreign trade and foreign-owned businesses (Thomas, all).

The second positive aspect of the global economic system was that it did provide a market for China's exports as well as access to advanced Western military and industrial technology. But China needed to have sufficient sovereignty to collect the tax funds needed for making the purchases. A third positive aspect of Western military coercion of China was that Chinese reformers, particularly after 1895, began to look abroad for political and social models to help strengthen China and save its civilization from destruction through colonization. Slowly, beginning in the 1870s, many Chinese leaders reluctantly concluded that China needed to adopt selected aspects of European culture, such as militarism, in order to strengthen China to save it from destruction by Western (and later Japanese) imperialism.

China had to wait until World War II to regain its full sovereignty and consequent Chinese legal controls over its domestic economy and over foreign enterprises in China. During WWII at the 1943 Cairo Conference, Nationalist Chinese President Jiang Kaishek negotiated the regaining of

China's full sovereignty in exchange for China's willingness to continue fighting Japan in the Pacific War. Unfortunately the Nationalists and the Communists began a civil war soon after World War II ended, from 1946 to 1949, thus preventing the Nationalists from making full use of their newly gained full sovereignty to develop China's economy. Instead, China suffered from major inflation and the huge costs of civil war. In 1949, the Chinese Communists won the civil war, and then took over governing China. For the first time in 89 years, Chinese authorities had the opportunity to try to economically develop their country with the benefit of full political and economic sovereignty.

C. Chinese Economic Development from 1949 to 1978

In marked contrast to the pre-1949 period described above, from 1949 on the new Chinese communist government, using its full sovereignty, took complete control of China, including the economy. The new government carried out a series of economic restructurings that included land reform in the countryside and the gradual takeover of ownership of almost all sectors of China's modern economy, including railways, shipping companies, the energy sector, the communications sector, agriculture processing, light and heavy industry, and the financial sector. The government also took control of China's foreign trade and tariff administration. The government eradicated opium production, gradually eliminated opium addiction, and addressed many other social problems such as homelessness and rampant disease left over from the poverty and corruption of the previous Chinese governments.

Foreign merchants, real estate investors, bondholders, missionaries, and residents in China lost their privileged lives in the treaty ports, their tax-free investments in China, and their homes (some foreigners had lived in China for several generations). Many foreigners, particularly those involved in missionary work and in the building of schools and hospitals in China, felt bewildered and betrayed. But for many Chinese, the regaining of full sovereignty meant a new beginning for Chinese economic development efforts.

The post-1949 Chinese authorities established a new commodity-based currency and stopped paying on foreign loans. They implemented a successful plan for halting the rampant inflation of 1946-49 that had been so hurtful to the Chinese middle class. Chinese authorities established new laws and regulations to restore Chinese confidence in a society and political system run for Chinese benefit rather than in the service of foreign political and economic interests. They also carried out land reform in the countryside and economic reconstruction in the cities, using a state-planning economic system based on the Soviet model. The Chinese government took control of most large economic enterprises and industries, as well as the financial sector, and began to channel investment into economic development. Economic development was also carried out with modest but crucial assistance from the Soviet Union, and with little interaction with the rest of the global economy, except through Hong Kong.

The result was an economic growth rate in the Chinese economy of about 4 percent per capita from 1949 to 1978, starting from a per capita base of about US$50. There were costly and massive failures, especially the tragic loss of about 30 million Chinese lives during the policy-created famine of the "Great Leap Forward" during 1958-60, and the social destruction, chaos, and persecution of intellectuals and party members during the Cultural Revolution of 1966-76. Yet, despite all of China's developmental problems, by 1978 the World Bank reported that

China's economic growth rate was faster than that of India and of most other similarly poor countries, and the government's social and economic policies had vastly improved the education and health levels, and life expectancy of most Chinese (World Bank, unpublished, 1978).

Economic development with the benefit of full Chinese sovereignty and complete control of China's economy had been a goal of Chinese leaders and Chinese governments since the 1860s. China's post-1949 economic development, while impressive compared with other large poor countries, was about half that of post-war Japan, and of the so-called "four tigers," South Korea, Taiwan, Singapore, and Hong Kong. These more economically successful countries had been taking advantage of a post-WWII global economic environment where fully sovereign countries, unfettered by the costs of colonization (except for the British Crown Colony of Hong Kong), had been able to economically develop using a combination (except in Hong Kong and in Singapore) of currency controls, protective tariffs, comprehensive domestic rules and regulations, and export-led development, to grow their economies at annual rates of about 6 to 10 percent per capita.

D. China's Post-1978 Economic Development

In 1978, after a policy struggle in the wake of the death of Chinese leader Mao Zedong, Deng Xiaoping and other pragmatic Chinese reform leaders began to gradually reform China's planned economy into a market economy and to open China to foreign trade, foreign investment, foreign technology, and export-led development, all under tight Chinese government regulation and oversight. China's goal was to develop a carefully planned, closely regulated but marketized economy that could gain the benefits of participation in the fast-growing global economy.

China's post-1978 goal was rapid economic development similar to that of the four tigers, focused on domestic rather than foreign benefit.

After 1978, the Chinese government would continue to own and to control most major Chinese industrial and economic sectors, including transportation, communication, energy, mining, manufacturing, and financial services. Private control of agricultural land was made possible through long-term leases for farmers, and a free market was opened up to small business people and those providing consumer goods and services. Foreigners would also be permitted to participate in joint ventures with Chinese companies and eventually to be able to open wholly-owned companies under Chinese regulations in selected areas of the Chinese economy.

In almost all years since 1978, the Chinese domestic economy has grown dramatically while a progressively higher percentage of the economy has moved to the ownership of Chinese and foreign joint venture investors, and to individual Chinese owners, and even foreign private enterprises. But control over most of the largest Chinese economic sectors, such as communications, transportation, energy, manufacturing, and financial services, has still remained mostly in the hands of the Chinese government.

China's economy has grown at an average annual rate of 8-10 percent annually since 1978. That growth rate is virtually unprecedented for a poor, large agricultural country and leads to a doubling of the economy about every 7 years. If that high rate of economic growth continues, China is estimated to become the largest economy in the world by about 2020 in terms of purchasing power parity.

So far, China has been able to achieve its economic successes without giving up significant areas of sovereignty. China has kept its major industries and its financial sector largely under its ownership and control, and continues to make its currency relatively nonconvertible. At the same time, China has become the largest recipient of direct foreign investment in the world, holds the second largest foreign exchange reserves in the world after Japan (about $1 trillion by the end of 2006), and is now considered to be the manufacturing "workshop" for the world.

There are many problems associated with China's current economic development policies, including heavy-handed government controls, abuse of the environment, and a growing competition with the global economy for scarce energy and other resources. Most foreign analysts, however, believe that China will be able to continue to grow at about 8 to 10 percent until at least 2020.

E. Conclusion

In some ways, China's 1978 to 2006 economic development goals are similar to those of the 1870 to 1949 period. The major differences are in the levels of Chinese sovereignty and Chinese regulation and control, and in the nature of the global economic system. Before 1949, China had only limited sovereignty, but since 1949 Chinese officials have been in total control of their country's economy. Prior to 1949 foreigners owned and controlled large parts of the Chinese economy without economic and legal accountability to the Chinese government; since 1949, China's economy has been tightly controlled, regulated, and taxed by the Chinese government. Before 1949, foreign participants in the global economy made costly military and economic interventions in China, particularly in the form of the "unequal treaties." Even though China was never fully colonized, the requirements for China of the treaties lead to obstacles to successful Chinese economic development.

Since 1949, colonization and other forms of gunboat diplomacy have gradually become less acceptable in international relations and examples of successful non-Western economic development through intensive interaction with the global economic environment, while not world-wide, are in existence and on the rise. A major criteria of pre-1949 Chinese policies, "Will a policy benefit China and the Chinese people?", is the same in post-1949 China. But in the post-1949 period, China has had sufficient sovereignty to successfully pursue this policy criteria.

What have been some of the benefits for the Chinese people of full Chinese sovereignty since 1949? Chinese income rose modestly but impressively from 1949 to 1978, and rapidly since 1978 (from about US$ 50 per capita to over $1,000 by 2005) . Opium addiction was wiped out, starvation was largely eliminated, health conditions have improved, education levels have increased, and since 1978, a 200 plus million person middle class has emerged, mostly in the coastal cities. Although there has been growing relative inequality, there also has been absolute economic growth for most, and the post-1978 economic successes have pulled 200-300 million poor Chinese peasants out of poverty.

On the national level, post-1949 and particularly post-1978 China has achieved the 1870s goal of "wealth and power." China has developed an approach to foreign trade that has gained most of the benefits of global trade but avoided the East Asian crisis of 1998-2000. China has also so far been able to pay most of the costs of its economic development problems, such as bankrupt banks and overstaffed state owned enterprises, from the economic benefits of its more successful economic development policies, such as its large foreign exchange reserves, low inflation rates, relatively high employment levels, very high savings rates, and a relatively high real wage rate.

China has adopted policies that in many ways violate the principles of neo-classical economics. There is an on-going debate among Western analysts about whether China can continue its record of success, and even some discussion as to whether China's economy has actually grown (see Rawski). World Bank analysts and most others, however, believe that China will continue its current successful path to development at impressive economic rates of at least 7% annually for another 20 years. China has also created an example of success for India, which has begun to grow at about 7% per year.

In addition to having full sovereignty, China has also had the benefit of more a more constructive global economic environment. Unlike the dangerous global economic environment of pre-WWII, where non-Western countries were often militarily occupied and colonized, and where successful Western economic development was seen by many Western countries as dependent on colonization of the non-European world and militarily-imposed unequal trade relations, the post-WWII global economic system has rewarded international trade, export-led development, and the offering of quality products at competitive market prices. Chinese sovereignty, and Chinese economic planning, combined with a more sovereignty-respecting global economic environment, has, since 1949, permitted China to achieve its goal of Chinese-owned economic development for Chinese benefit that had been largely unattainable since 1860. In the next 15 years, China may regain its place as a world economic power with about becoming, perhaps along with India, one of the 2 or 3 largest and most important economic powers in the world, where it had been in 1800.

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