

Some Facets of China's History

Knowing China requires some knowledge of its history. Since Chinese history is a broad and difficult subject, I can only provide some facets of it that seem to me most relevant and interesting. In particular, I will emphasize those aspects of China's historical heritage that affect the present-day China. China is an important country because it has 1.3 billion people and the Chinese can draw on the historical heritage to enrich their lives. It was relatively a very rich country in 1700. It produced many highly valued products that were exported to the West, first through the Silk Route and later across the oceans. It had more books than the rest of the world combined. After more than one hundred years of relative decline since 1840, it has recovered much of its previous position in the world community. I will elaborate on this story below.

Shang, 1766–1121 BC — Advanced Culture and Rich Human Resources

China has a recorded history of over 4,000 years, beginning with or before the Shang dynasty. The Chinese culture was advanced during the Shang dynasty. There was a written language as seen in the engravings on turtle shells. Some historians define history narrowly to include only what has been recorded, but even by this narrow



A large, bold calligraphic character in black ink, representing the Chinese character for 'smile' (笑). The character is written in a traditional style with thick, expressive strokes. It is set against a light gray background that features a faint, larger-scale version of the same character.

(Smile)

A large, bold calligraphic character in black ink, representing the Chinese character for 'cry' (哭). The character is written in a traditional style with thick, expressive strokes. It is set against a light gray background that features a faint, larger-scale version of the same character.

(Cry)

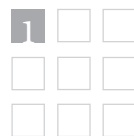
(Characters by Gregory Chow)

definition the events recorded on turtle shells qualify Shang as a historical period. People told fortunes by first writing on the shells and then seeing where the cracks appeared after they burned the shells. This “oracle” language was in the form of symbols. It later evolved into characters used in the Chinese written language. The symbols or characters representing the sun, the moon, people and other objects simple to draw are obvious and understandable to anyone. The present-day characters for smile and crying are still distinguishable even by people not knowing the language. One looks like a smiling face, and the other a crying face (please see facing page). Bronze vessels from the Shang dynasty exhibited in museums show how advanced technology and art were at the time.

Zhou, 1122–211 BC — Golden Period of Development of Chinese Thoughts

Mathematics was already fairly advanced in the Zhou dynasty in 1100 BC as imbedded in *Yiching, The Book of Changes*. This book can be found in most American bookstores. Besides *Yiching*, other books of the Zhou period were impressive, including the *Book of Poems*, the *Book of Learning*, the *Book of Li (Rules of Social Conduct)*, and *Spring and Autumn (History of the Late Zhou Period)*. There were many great thinkers during this period. Among them Confucius (551–479 BC) was the most celebrated. He is considered the originator of Chinese humanism. He established moral codes to guide human conduct, and a set of proper relations among different members of a society, between emperor and subjects, parents and children, older and younger brothers, and husband and wife. We will have more to say about Confucianism in Chapter 2 dealing with Chinese culture and in Chapter 3 dealing with the Chinese economy.

Besides Confucius, there were many other prominent philosophers. There was Lao Tse who was the founder of Daoism, advocating the return to nature and “doing nothing in following the course of nature.” Lao Tse suggested that if there are no laws,



there will be no laws to break and there will be no criminals. There was Han Fei-tze who taught almost the opposite by emphasizing the importance of the legal system. There was Guan Zhong who understood much economics including the incentives of different forms of government taxation. There were a hundred schools of thought contending, like a hundred flowers blooming and a hundred birds singing. It was a golden period of China's cultural development. The writings of that period are available today for us to read and enjoy.

Qin, 200 BC — National Unification and Strong Government

At the end of Zhou dynasty, many states rivaled for power. This is known as the Period of Warring States. Among them were seven strong ones. These states came about because the emperors of Zhou annexed territories to relatives and imperial officials for them to govern. These people gradually declared themselves kings of independent states. After much fighting and diplomatic maneuvering, the emperor of the state of Qin became the victor in 200 BC. Not only was his state strong, his army powerful and his ability as a leader truly exceptional, he also knew how to play one of the other six states off against another and broke the alliance once formed by them. Historians have blamed some of the other six states for appeasing Qin, but the military power and skillful diplomacy of the latter also contributed to its success. The victorious Qin emperor declared himself the First Emperor as he was anticipating many more emperors to come in his dynasty.

The performance of the First Emperor of Qin was impressive, though not necessarily moral. He was a very strong and able leader, skillful both in administration and in military and diplomatic affairs. He used highly developed armaments as now displayed in the Museum of Xi'an. Xi'an is the city where the world famous models of the Qin terracotta soldiers were buried in the tomb of the First Emperor. The tomb is about 1.5 kilometers in diameter. The several thousand soldiers are only guards of its entrance, a small part of the

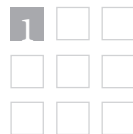


tomb. Since afterlife was considered more important than this life, much effort was made to construct the tomb for the emperor to enjoy his afterlife. Its construction was so complicated and intricate that with modern technology and much resource at its disposal, the current Chinese government has not found itself capable of excavating the main parts of the tomb. It is believed that the interior of the tomb is protected in such a way as to make it very difficult for intruders to get in without getting hurt or destroying the treasures inside.

The Qin Emperor succeeded in unifying the country as one political entity and unifying the written language and the system of weights and measures. Realizing the danger of decentralization by allowing too much power to the regional aristocrats, he centralized the administration by placing the regional and local governors under the control of the central government. One of the main criticisms of his rule was that he ordered the burning of many books and the burial of many dissenting scholars alive. The freedom of expression was curtailed. To his credit he also built, or connected, large sections of the Great Wall to protect China from invasion. The name China originates from the word “Qin” as pronounced much like “chin.”

Han, 206 BC–220 AD — Large Empire and Adoption of Confucianism; a Great Historian

The empire of Qin did not last long. A well-known Chinese classical essay examining the fault of Qin attributes its downfall to its authoritarian rule and failure to treat the people with kindness. After the death of the First Emperor, his son, the second emperor to be, was unable to rule. There came two powerful leaders of the states of Chu and Han. Their contention for the throne was so well remembered in China that the two sides of a Chinese chessboard are named after them. Chu started out as the much stronger of the two but finally lost to Han, which became the Han dynasty (206 BC–220 AD). The Chu leader was in a position to eliminate



the leader of Han. In fact one evening he invited the Han leader for dinner with a plan to kill him. Dancing was staged at the dinner. Once the Chu host gave the signal, the dancer with a sword would kill the Han leader. There were only four persons at the dinner, with one advisor or assistant for each leader. When the dance advanced to the point for the Chu leader to give the signal, he made no movement. His advisor who helped stage the dinner was greatly disappointed, sighing that the kingdom was lost!

How did this happen? The story was written up in a few short sentences in the *Records of the Historian*, perhaps the greatest history book of China, written by the historian Sima Qian of the Han dynasty. Professor of History Yu Ying-shi of Princeton University wrote an article interpreting the few sentences of Sima. The article (Yu, 1981, pp. 184–195, in Chinese) is entitled “Explicating the Seating Arrangement of the Hongmen Banquet.” I was much impressed by this article, for its recognition that the seating arrangement of the four persons present determined Chinese history as described in a few simple sentences of Sima. The passage has only 60 Chinese characters in total to describe the entire event, including all four major actors and what happened. Every word was properly chosen. Every sentence is simple and precise. Without stealing from the perceptive and interesting discussion of the article, let me just relate the gist of the story. The advisor of the Han leader was wise enough to ask him to take the seat befit of a servant, to the point that the Chu leader considered the position as a sign of surrender and saw no need to kill him. In China, then and now, the position of a seat at a dining table in terms of the direction it faces is important to distinguish the position of its occupant. Professor Yu has explicated this passage and illustrated the simplicity, clarity and depth of Sima’s writing.

To give the reader a taste of the wisdom and the literary skill of Sima, let me cite one passage. This passage came to my attention from Young (1996, p. 138) who quoted from the chapter entitled “The Biographies of the Money Markets” in Sima’s *Records of the Historian*.

“There must be farmers to produce food, men to extract the wealth of mountains and marshes, artisans to produce these things and merchants to circulate them. There is no need to wait for government orders: each man will play his part, doing his best to get what he desires. So cheap goods will go where they will fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trade, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked. For clearly this accords with the Way and is in keeping with nature.”

This remarkable passage shows that Sima understood the working of a free market economy some 1,800 years before the publication of Adam Smith’s *Wealth of Nations* in 1776. He understood the economic law of supply and demand based on people trying to do the best for themselves, and economic coordination achieved by an “invisible hand” without government planning. One wishes that the Chinese economic planners in the 1950s to the 1970s had read and understood this passage. It also shows that China had a well functioning market economy at the time.

Han’s economy was quite developed. There was trade not only with the people in the North but also people in the West through the Silk Route and thus trade indirectly with people in Europe. Han emperors tried to achieve a stable government by adopting the teaching of Confucius to rule. Confucianism assigns roles to different members of society. Children should respect and obey their parents. Friendship should be based on honesty, trust and mutual respect. Ministers should serve the emperor, and lower-level administrators should yield to higher-level ones. The emperor has the right to rule over the entire population but only if he treats them properly and follows certain basic principles of good government. By misconduct an emperor can lose his right to rule or the mandate of Heaven. To aspire to move upward socially, a person first disciplines himself, then learns how to act as the head of his family, then to rule his country and finally to govern the entire



world in peace. This particular teaching was mainly aimed at men, although there were woman emperors in Chinese history. The positions of men and women were not equal, but the assigned roles provided social stability for many years. In a family, the wife should follow or sing to the tune of the husband, but the husband should love and respect his wife. Not all of Confucius' teaching is applicable to the Chinese society today, but in my opinion its basic ideas for individual conduct and social harmony still are.

In order to remain influential, Confucianism needs to be adapted to the conditions of present day life in China. All surviving religions in the world have to be adapted to changing circumstances. The same applies to Confucianism even though Confucianism is not a religion in the sense of believing in God. Confucius proclaimed that he did not have much to say about God. Confucian ethics still has a strong influence on the life of the Chinese today. Some people think that its influence is mostly a hindrance to economic progress. I tend to believe that its positive influence outweighs its negative influence. Through Confucian ethics, the Chinese people have learned to be honest, to work hard, to be loyal to their friends and to work for the good of the society. There are two important points that I will discuss further in Chapter 3 dealing with the Chinese economy and in Chapter 6 dealing with the Chinese government. The first is that although China does not have a well-functioning modern (Western) legal system, business can be conducted in an orderly manner on the basis of the ethical and moral principles of Confucius. The Chinese are taught that good moral behavior is more important than simply obeying laws that may not be ethical. This has enabled the Chinese market economy to function all through the history, especially during the Song period in about 1100 when China had a flourishing market economy. The second is that the Chinese consider responsibility more important than freedom (at least relatively more important, as compared with the view of most Americans) and the common good of the society as a whole more important than an individual's self interests when the two are in conflict. It is good to sacrifice oneself to serve the

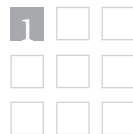


society. As President John F Kennedy once appealed to fellow Americans, “Ask not what your country can do for you, but what you can do for your country.”

Three Kingdoms, 220–80; Jin, 265–420; and Succession of Dynasties, 304–589

At the end of Han was the period of Three Kingdoms. As the name suggests, there were then three kingdoms contending to succeed Han to form a new dynasty. The history of this period was written in the *Record of Three Kingdoms*. A novel *The Romance of Three Kingdoms*, written by Luo Guanzhong, was based partly on the historical record. The novel is a very popular and exciting book for children and adults alike. It is a book of strategies, in war and in love affairs. A contemporary Chinese politician or diplomat can benefit from studying the strategies in the book, provided that she maintains her moral character. There are strategies for both offense and defense. Since there are three parties, any one can play the second against the third. This happened many times in the novel, and in actual history. The available strategies in a competition involving three parties are much more interesting and complicated than in a competition between only two. Perhaps there is something in the novel for the game theorists of today to study, although I have not thought much about the stories from the perspective of game theory.

One of the kingdoms finally won, after many interesting turns of events. The Jin dynasty was established, lasting from 265–420 AD. Because of the invasions of the nomadic people from the north, the country became fragmented. A succession of dynasties lasted from 304–589 AD. In spite of the political disunity, or perhaps because of the wars, there was progress in technology, including the invention of the gunpowder and the wheelbarrow and the improvement of Chinese medicine during the later part of this period.



Tang, 618–901 — Trade, Buddhism and Poetry

Unification was achieved by the short-lived Sui dynasty (581–617). The rule of Sui was known to be harsh, with many laborers drafted to reconstruct the Great Wall and to build the Grand Canal going from south to north. A system of civil service examinations was introduced to select scholars well versed in Confucian classics to become government officials. Sui was succeeded by the glorious Tang dynasty (618–901). Tang was known for many great achievements. The Chinese people were also called the Tang people. Chinatowns in America today are still called the “Streets of the Tang People” in Chinese. The tri-colored Tang Horses made of clay are exhibited in art museums and admired by many.

Buddhism from India began to gain popularity in China during the Tang period. When trade with the West was flourishing, worshipers commissioned colorful religious paintings on the walls inside the caves along the Silk Route. These are among the art treasures of the world. For the Chinese, Tang poetry was the most appreciated achievement of this period. A book of 300 best known poems written by Tang poets can be found in every Chinese home, even if there is a collection of only a small number of books. The best-loved poems are simple, conveying an interesting or emotionally moving message. They are easy to memorize and rhyme beautifully. There are so many good poems for an ordinary educated Chinese to recite that even those who cannot read can recite a few popular ones.

One long poem tells the love story of a Tang emperor and his concubine. He spent so much time with her as to ignore the affairs of the state. A rebellion occurred and had to be suppressed, but the army did not want to fight unless he got rid of the concubine. He was forced to order the termination of her life, only to regret deeply after the rebellion was suppressed. The name of the poem is “Forever Sorrow” or “Everlasting Regret.” On the one hand, a historian might point out the incompetence of the emperor and his negligence of the affairs of the state for the love of a woman, and

consider his love affair improper. On the other , the poem arouses so much emotion, tenderness and sympathy on the part of the reader that only the enduring love on the part of a noble emperor is recognized without any thought of possible misconduct on his part. One can keep on reciting such a beautiful Tang poem and repeat it many times, each time with more understanding and deeper emotions.

Song, 960–1126 — A Flourishing Capitalist Economy

Song dynasty also had its beautiful poems, although of different forms from Tang's. They are not made up of sentences of equal length, but have to fit into particular forms. They tend to be more romantic, dealing with the tragedy of love lost. Song suffered from invasions by people from the north, leading to the move of its capital city to the Southern city of Hangzhou along the Yangtze River. Song has its share of poets, scholars, calligraphers, painters, and statesmen. Song is also known for its highly developed market economy.

When I teach a course on the Chinese economy at Princeton I sometimes show how developed the Song economy was by showing a well-known painting “Along the River during the Qingming Festival.” There are different versions of this painting, or similar paintings of this title. All show economic activities along the river. In the painting one can find restaurants, shops, and transportation by carts and boats, as well as people working, having leisure activities and trading. One can call the economy of Song a capitalist economy, although it differs from a modern capitalist economy as it lacks modern technology. An interesting question is why science and technology did not develop during the Song period. China had much scientific knowledge during that period, including mathematics and astronomy in particular. The state of scientific developments is documented by Joseph Needham (1956).

A plausible explanation can be found in China's social and economic structure. Scholars well versed in Chinese classics and



government officials were accorded the highest position and commanded the highest respect in ancient Chinese society. Official positions were obtained by passing examinations on Chinese classics. Merchants and businessmen were not accorded a high social status in a Confucian society while money and wealth often came with government official positions. This social structure did not provide much incentive to study science, which was not taught to the children. Knowledge of Confucian classics and elegant calligraphy were more important. Furthermore, the economic advantage of technological innovation was limited because of the abundance of low-cost and high-quality labor. For an innovation to be economically viable it had to be capable of producing the same product at a lower cost than using labor. When an innovation was introduced the initial cost was high. It was only after much improvement and when the economy of large-scale production set in that the economic use of technology could replace China's cheap labor. The above two sets of considerations may explain partially why science and technology did not develop in China during the Song dynasty and later periods. They may not provide an entirely satisfactory explanation to some readers and even to me. The subject remains an interesting one for further study.

Yuan, 1279–1368 — Rule by Mongols but Han Culture Survived

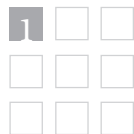
Before the Yuan dynasty, Han people ruled China. Han refers to the majority ethnic group in China. At least from the Han dynasty onward, Mongols from the north tried to invade China repeatedly. They finally succeeded and established the Yuan dynasty in 1279. The founder was Hubilie, the grandson of Genghis Khan. Yuan was very strong militarily. Genghis Khan built a Mongolian empire, which extended all the way to Europe. In occupying and ruling China, the Mongolians absorbed the culture of the Han Chinese. In studying Chinese history, Chinese children in later periods were told that the Han Chinese culture was so resilient that although

invaders could conquer and rule China, they had to learn the Han culture and rule by adopting the Han way of life. This happened again later in the Qing dynasty. The resilience of the Chinese culture enabled China to survive the Western impact of the 19th century.

To anticipate later discussions, the last survival test was much more difficult to pass because the Western impact in the 19th and 20th century was much stronger and occurred during a period when the Chinese government was extremely incompetent and weak. The Western and Japanese imperial powers invading China with modern technology were much stronger militarily than any other invaders, including the Mongols and the Manchus who founded the Qing dynasty. They also had advanced forms of social and political structure and administrative skill that could replace China's. The impact occurred during a period when the Qing dynasty was on the decline and the ruling emperors were incompetent. Furthermore the attempt to modernize China through orthodox Communism was a mistaken course to take. In spite of these three very negative factors, China has managed not only to survive but also regain its strong position. This can be attributed to the resiliency of the Chinese culture and civilization, as I shall explain more fully in the remainder of this book.

Ming, 1368–1644 — Overseas Explorations

Han people resumed their rule during the Ming dynasty. One distinction is the overseas expeditions during the period 1405–1433 led by Zheng He, a eunuch and confidante of the emperor of the Ming dynasty. According to Gavin (2003), on March 8, 1421 Zheng He sailed the largest fleet the world had ever seen from China. The fleet reached America 70 years before Columbus and circumnavigated the globe a century before Magellan. One of the areas explored was Taiwan, leading to an exodus of Chinese immigrants to this island. During the early period of the Qing dynasty that followed Ming, the Han Chinese in Taiwan assisted in



a rebellion in the mainland to overthrow the rulers of the Qing dynasty. This was a part of Chinese history used by the current People's Republic of China's (PRC) government to base its claim that Taiwan is a part of China.

Qing, 1644–1911 — Impact of Western and Japanese Imperialism

During the later part of the Ming period, the government was weak and the throne was in danger. Not only was there an uprising by Han people, there were also invasions of the Mongolians from the North and the Manchus from the Northeast. After much struggle, the dynasty collapsed and the Manchus succeeded in ruling China and founded the Qing dynasty. The Qing emperors accepted the Han Chinese language as the official language and used the Han people to govern the country, although there was some mistrust of them as compared with the Manchu ministers. The early Qing emperors were very able and intelligent. Emperor Kangxi was a capable leader and administrator. Using Han people to serve in his government he established a strong government and expanded China's spheres of influence to neighboring countries. He was responsible for the compilation of a comprehensive dictionary which the Chinese still use today.

By passing the glorious years of Qing, I turn quickly to the 19th century when the Qing emperors were incompetent and the government was weak. It happened to be a high point of the British Empire. The Empire covered large areas in the continents of Africa, Europe, America, Asia and Australia. It included India, where economic power was exercised through the East India Company. Through this company, the British wanted to trade with China, as they desired Chinese goods such as porcelain, silk and especially tea. The British were consuming a large amount of tea at that time. To pay for the Chinese products they needed to export to China. The Chinese did not care much about the products that the British had to offer, except for opium. The Qing government wanted to stop

the import of opium. The conflict of the two countries resulted in the Opium War of 1840. China was defeated. In the Treaty of Nanking signed in 1842, China not only gave up its right to prevent the import of opium, but was forced to give Hong Kong to the British and open its rivers for British shipping. China's government became even weaker following the defeat. The Chinese people were humiliated and angry at the British and the Qing government.

After the Opium War, other foreign powers obtained concessions from China through wars followed by a succession of unequal treaties. Controversies arose from attempts to open up Canton (now Guangzhou) to trade, resulting in a joint Anglo-French expedition against Peking in 1858. One consequence of this episode was the burning of the famous Yuan Ming Yuan, (the Summer Palace) a few miles west of the capital by the British and French troops. The Manchu government was compelled to sign the Treaty of Peking in 1860 and to give up further rights to both countries. A war with France ended with the signing of the treaty of Tientsin in 1885, conceding Vietnam as a French protectorate. Burma was seceded to the British in 1886. In 1897, Germany occupied Tsingtao, and obtained a lease of Kiaochow for 99 years. Similar leasing agreements were reached with Russia (for Dalian), Britain (Weihaiwei) and France (Kwangchowwan).

China's concessions included war indemnities, opening of city ports, surrendering of rights to inland water navigation and to railroad building, leasing of territories to foreign powers, and loss of territories formerly within China's sphere of influence as stated above. Areas in parts of Shanghai were leased to the British, the French and other foreign governments. Two of the most tragic events were the Sino-Japanese War of 1894-5 and the foreign invasion of 1900 after the Boxer Rebellion. Defeated in the Sino-Japanese War, China gave up Korea, a country formerly paying tribute to China, and Taiwan, a part of its territory. In reaction to the rebellion of the Boxers who had harmed foreigners, armies from eight countries (Britain, Russia, Germany, France, America, Italy, Austria and Japan, names that Chinese school children were told



to memorize in history classes) invaded China and extracted indemnities from China after she was defeated. The American government later used a part of the war indemnity to support Chinese students to study in the United States. By the early 20th century many parts of China became semi-colonies of foreign powers.

Modernization became the dream of China's government and its people, and nationalism was aroused. Some government officials initiated what was known as the Hundred Days' Reform of the Qing government in 1898. It was supported by a weak and young emperor Guangxu but opposed by the strong Empress Dowager. The reformers were quite idealistic, but the reform movement was able to last only for 103 days. Other officials in the Qing government did not support the Hundred Days' Reform and preferred a more gradual reform, perhaps to establish a constitutional monarchy. A third group, outside the government, advocated a revolution to overthrow the Qing dynasty for its failure in dealing with the foreign invasions and in modernizing China. The fact that the rulers of Qing belonged to a minority ethnic group also weakened their support by the Han majority.

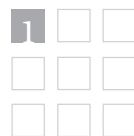
The Republic of China, 1911 — Political Disunity, Wars and Economic Progress

A revolution succeeded in 1911 when the Qing government was overthrown and the Republic of China was established. The revolution succeeded because the Qing government no longer received the support of the Chinese people, or even of its own army which yielded to the revolutionaries. The revolutionaries were not well organized. They attempted to overthrow the Qing government several times without success. Many of them were surprised when one attempt in Wuhan succeeded in 1911. Sun Yat-sen, the leader of the Guomindang, known as the Nationalist Party in the West, hurriedly returned from abroad to become its Temporary President. He had no command over the military and was not able to rule. Several months later Yuan Shikai, the prime minister in the Qing

government, became the first President of China. He ruled for about four years and wanted to return the government to a monarchy and to assume the position of an emperor. This move did not receive the support of other government and military leaders and his attempt failed. He died soon after.

In the early years of the Republic of China the country was politically unstable. A few years after Yuan's death, the presidency changed hands several times. Changes in the premiership and in the composition of the cabinet members were more frequent, often due to the loss of support for the president who used his prime minister as the scapegoat. By support I do not mean popular support, but the support of the powerful military leaders. China was a republic only in name but not in substance. There was a parliament composed of members selected by provincial governments. The president was supposed to be elected by the members of parliament. If a president could not get sufficient votes from the parliament but had strong support of the military leaders or governors of important provinces, he could dissolve the parliament by claiming that it was illegitimately composed. With the support of enough provincial governors or military leaders he could organize and legitimize a new parliament to acquire sufficient votes. An important lesson to learn from studying the history of this period is that a democratic government cannot be established to function simply by setting up institutions in form. Democratic institutions can be established in name and in form but they may not function properly. This statement applies to political, legal, economic and other social institutions, as will be discussed later in this book.

In the years after Yuan's death in 1916, China was politically divided, between the north and the south and even among provinces in each region. There was a government in Beijing in the north, headed by a President. This presidency changed hands often as has been just described. There was no political unity even in northern China. Provincial governors and military leaders controlled their own territory. They yielded allegiance to the President in Beijing as they pleased. Only with sufficient support



from them, a president in Beijing could actually rule northern China. In the South, provincial governors had even more independence. Sometimes they actually declared independence from any national government. Most of the time they were willing to be a part of the government of the north, or of the South. If there was a southern government at all, it would move from location to location. Guangzhou was one favorite location. After failing to be the President in Beijing, Sun Yat-sen tried to assume leadership in the South as President of a government located in Guangzhou. His leadership was often challenged by strong military leaders including members of his own Nationalist Party. Several times the northern and southern governments attempted to negotiate a settlement but never succeeded to form a union. China was a politically divided country.

In an attempt to assume leadership in China, Sun Yat-sen decided to cooperate with the Communist Party in the early 1920s. The Chinese Communist Party was founded in Shanghai in 1921 by a group of people who saw the formation of this party as providing the best solution to China's problem of modernization — the same goal with which the Chinese Nationalist Party had been founded. The establishment of the Soviet Union in 1921 provided many people feeling oppressed and deprived with hopes. Even many Americans experiencing or observing the Great Depression of the early 1930s accepted communism as a solution to the economic problems of the United States. Sun Yat-sen received little support from the western countries. By cooperating with the Chinese Communists, the Nationalist Party could be strengthened and obtain support from the Soviet Union. With support from the Soviet government and cooperation from members of the Communist Party Sun founded the Huangpu Military Academy along the Pearl River south of Guangzhou. Chiang Kai-shek was the head of the Academy, and Zhou Enlai served as director of the political department. After Sun's death in 1924, Chiang led a northern expedition in order to unify China.

Before we move on to the Northern Expedition, it is worth pointing out the role of intellectuals in political movements in China. In the historical tradition, Chinese scholars and intellectuals aspired to become government officials. They tried to compete in imperial examinations in order to be selected. By Confucian teachings, they were responsible for the prosperity and demise of the nation. Motivated further by the sense of nationalism and the desire to modernize China after the Opium War, the intellectuals became involved in political affairs. They formed the Nationalist Party and the Communist Party. When China was humiliated by the decisions of the Paris Peace Conference at the end of World War I, students in Beijing organized demonstrations to protest. One decision unfavorable to China, a country having fought on the winning side of the War, was the transfer of the city of Qingdao (Tsingtao) previously occupied by the defeated Germany to Japan instead of China. Recognizing the need for modernization, the students led the May 4 Movement in 1919 not only to protest against the policies of their weak government but to change the culture of the country for the purpose of modernization. Science and technology was championed. Democracy was embraced. Confucianism was under attack. Old traditions had to be reexamined. Some advocated a change in writing style from the literary style that had been practiced for over two thousand years to a modern style which corresponds more closely to the spoken language. Some intellectuals became active politically in the activities of the Nationalist Party or the Communist Party, while others asserted their influence by writing or teaching at universities. In spite of the political division and instability in the 1920s the intellectuals managed to generate new styles of literature and poetry and conduct original research in natural sciences, social sciences and humanities in an open and free academic environment.

Chiang Kai-shek led the Northern Expedition in 1926 with cooperation of the Communists. Soon after the armies reached Wuhan and Shanghai, two major cities along the Yangtze River, he



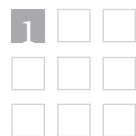
parted with the Communists and staged the killing of many of them in Shanghai. In 1928, the Nationalist army trained in Huangpu reached Beijing, having defeated the armies of many provincial military leaders, called warlords in the language of the Nationalist press. Chiang proclaimed the unification of China, but the unification was partially nominal. The governors of several provinces, including those in the Northeast, declared allegiance to Chiang's national government, but they retained control of their own provinces and extracted concessions from Chiang. Under the circumstances, Chiang's effort was a remarkable achievement towards China's unification, but the degree of unification achieved was much lower than what Mao Zedong was to achieve later in 1949 when the People's Republic of China was founded.

From 1928 to 1949, China's history was characterized by three major wars. First was the war with Japan. Japan started invading the Northeastern provinces of China in 1930 and established a puppet government known as Manchuguo, with the deposed young Qing emperor as king. In 1937, Japan formally declared war against China and soon occupied much of China's coastal areas. Then came the Second World War for China when Japan attacked Pearl Harbor on December 8 (early morning China time, and early afternoon Eastern standard time on December 7) 1941. China joined the Allies and claimed victory over Japan on August 14, 1945. I have counted the Second World War separately as the second war for China during this period. The third was the civil war between the National government and the Communists.

Ever since the breaking up with the Communists in 1926, Chiang wanted to destroy the Communists. In 1933, the Nationalist army began chasing the Communists for several thousand miles without being able to destroy them. This was known as the Long March. The Communists, perhaps with only ten percent surviving, finally settled in the interior city of Yan'an. Chiang understood the danger of the Communists as a threat to his leadership and government. He said perceptively that

the Japanese were a cancer of the skin but the Communists were a cancer of the heart. He wanted to defeat the Communists first before waging a war against the Japanese in spite of Japan's repeated aggressions in the 1930s. He was detained in the City of Xi'an by one of his generals who was in favor of cooperating with the Communists to fight the Japanese. The general forced him to commit to this policy before releasing him from Xi'an. This Xi'an Incident was considered an important turning point in the struggle between the Nationalists and the Communists.

The struggle resumed after the end of World War II. The Communists were better organized and they had the support of many Chinese people. They had done an effective job in governing Yan'an too. In the mean time, the Chiang government officials were corrupt. Many officials extracted money from citizens before returning to them their properties that were taken over by the Japanese. Some officials used state properties for their own benefits, such as diverting money and goods belonging to state-owned factories to their own pockets or for sale as their own. China experienced a run-away inflation as the government kept printing money to finance its large payroll and the war against the Communists. Millions of Chinese dollars only had the value of one American dollar. When the government instituted a currency reform early in 1949, it exchanged the new currency for the old at the rate of one to one million and forced the people to surrender their gold and foreign currency in exchange for the new currency. People were executed openly on the streets of Shanghai when they kept their gold and foreign currency. The new currency soon lost much of its value. In effect the government confiscated the wealth of Chinese citizens. The unpopularity of the government and the lack of will power on the part of Nationalist soldiers to fight the Communists resulted in the victory of the latter. It also led to the establishment of the People's Republic of China on October 1 1949, as proclaimed by Chairman Mao facing a great mass of people celebrating in Tiananmen Square in Beijing. Chiang moved



his government to Taiwan. One and a half million people consisting of the military, government officials and their families, and other Chinese citizens went with him.

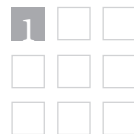
The People's Republic of China, 1949– Present — From a Planned to a Market Economy

The new government was able to take over and administer a very large country. Besides providing law and order, there were numerous tasks to perform. One was to stabilize the price level. In the Spring of 1950, as a student, I wrote a paper for a course at Cornell on Chinese inflation. I found that the new government was able to stop the very serious inflation within several months, and expressed much admiration. At that time I did not understand the quantity theory of money in economics sufficiently to realize that inflation can be stopped by controlling the supply of money. The government introduced a new currency, the Renminbi *yuan* (RMB), meaning People's currency. People could acquire the new currency by surrendering the old currency at a reasonable exchange rate to preserve the purchasing power of their money holdings. Inflation was soon put under control because there was no excessive printing of the RMB.

A land reform was carried out. Most farmers were happy when they obtained land ownership after land reform. Some landowners were very poorly treated when they were accused of wrongdoings by tenant farmers in mass meetings staged by the Communists. Many of them were convicted of crimes and were executed brutally. The capitalists were first promised the ownership and control of their factories and enterprises, only to be told later that the enterprises were to be state-owned and they could serve as managers under the direction of the state planning authority. The farmers owning their land at one time were soon organized into collectives with the pretext that such organizations would increase productivity. Later the collectives became collectives of a more advanced

form and finally a part of the Communes in 1958. Under the Commune system, farming was done collectively, with a team of farmers working as a group. Each received work points for their work, according to the number of days they worked. After the team delivered a required amount of output to the government procurement agency, it distributed the rest to the team members according to the work points accrued. Under such a system, the hard work of one team member could lead to an increase in team output but the output would be divided among all team members. Thus individual farmers could not derive much benefit from hard work and had little incentive to produce. In the mean time, in 1957, China started the First Five-Year Plan. Central economic planning was adopted and modeled after the planning system of the Soviet Union. The state enterprises were assigned output quotas and provided with approved amounts of inputs to produce them. China's economy became a planned economy.

The planned economy did not function well. The farmers lost economic incentives to work hard under the Commune system of collective farming. State-owned enterprises were not provided with profit incentives to operate efficiently. The commercial banking system was abolished. The People's Bank and its branch banks accepted deposits from the Chinese citizens but did not extend loans on the basis of the credit worthiness of the borrowers. These banks had to extend loans to state-owned enterprises as directed by the central planning authorities that approved the loans. China's economy was operating inefficiently, as the economic reformers in the late 1970s recognized.



Two Disastrous Political Movements

Besides the shortcomings of the system of central economic planning, the Chinese population suffered a great deal from two political movements initiated and orchestrated by the Communist Party Chairman Mao Zedong. The first was the Great Leap

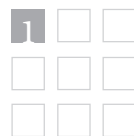
Forward Movement of 1958. Mao converted the farm collectives into Communes in only a few months from April to September 1958. The Great Leap was launched by Mao to enable China to catch up very rapidly with the more advanced countries in one great leap. Unreasonably high production targets were assigned. To increase the output of steel, the people used furnaces in their backyards to convert finished steel products back to raw steel to satisfy the large output quota for steel. Under the Commune system, collective farming affected adversely efficiency in production while collective dining in mass dining halls generated waste in consumption. Economic incentive was destroyed and agriculture output was greatly reduced. What was produced was wasted when people ate together in mass dining halls, as compared with eating separately as farm families. The greatest famine in Chinese history occurred in the early 1960s with over 20 million lives lost as a result. The government attributed the famine to bad weather conditions.

For those readers interested in estimating the number of lives lost from the Great Leap, the following arithmetical exercise may be revealing. According to government official statistics published in *Statistical Yearbook of China* by the Chinese State Statistics Bureau, from 1958 to 1961, the birth rates per thousand persons in the population were 29.22, 24.78, 20.86 and 18.02, and the death rates were 11.98, 14.59, 25.43 and 14.24 respectively. The more normal birth rate in 1957 was 34.03 and the death rate was 10.80. Hence the deficit birth rates per thousand persons from 1958 to 1961 were 4.81, 9.25, 13.17, 16.01 and the extra death rates were 1.18, 3.79, 14.63, and 3.44 respectively. Multiplying the extra death rates by the corresponding population figures of 0.660, 0.672, 0.662, and 0.658 billion and summing the products for the four years give 15.274 million extra deaths in the four years attributable to the failure of the Great Leap. In addition, if we allow for most of the deficit births as resulting from miscarriages and failures to conceive due to malnutrition of the mothers, we could

come up with estimates of the total loss of the Chinese population in the order of 27 million persons. The economic harm of the Great Leap was enormous.

The second movement was the Cultural Revolution. It was started by Mao after he had lost his political power as a result of the failure of the Great Leap. More moderate leaders of the Communist Party assumed power in the early 1960s. To regain political power Mao appealed directly to the Chinese youth at the expense of the Party and government establishment which he had created and led for two decades. He exhorted the youths and the teenagers to become Red Guards and through a Cultural Revolution to remove the remnants of a decadent culture that included Confucianism and capitalism. Old books and art treasures were destroyed in museums and homes. People accused of living by the old cultural tradition or practicing the capitalist way of life were paraded on the streets. Children participated in such activities against their parents, and students against their professors or teachers. Any person having a relative living in a capitalist country could be a suspect. Many intellectuals died. China was in chaos during this period from 1966 to 1976. Any person could be accused of being a “rightist” and suffered the consequences accordingly. One group of the Red Guards could claim to be the true followers of Mao in fighting against another group who pursued a different course. To show their loyalty to Mao, the young Red Guards were asked to raise a red book containing quotations from the Chairman, and to recite the sayings therein. Economic planning was disrupted. Universities were closed. Urban intellectuals and residents were sent to the countryside to live with and learn from the peasants. It was perhaps the darkest period of China’s history. Yet foreign journalists and visitors were shown the best of China artificially staged for their visits in the early 1970s. Many were deceived and reported that China was a utopia.

During the Cultural Revolution, Mao had already decided to open a dialogue with the United States. He welcomed the visit of



President Richard Nixon in 1972. Mao passed away in September 1976. His four followers who had led the Cultural Revolution, called the Gang of Four, were arrested, put to trial and convicted. The more pragmatic leaders of the Party assumed control.

Economic Reform Initiated in 1978

The Cultural Revolution made the Chinese Communist Party very unpopular. Many moderate members of the Party including Deng Xiaoping also suffered during the Cultural Revolution. When Deng succeeded as the leader of the Party in 1978, he initiated economic reforms in the 11th Party Congress. This was to be a 180-degree turn from the previous economic system that practiced central planning. A major reform was needed to dissociate the new leadership from the previous one responsible for the Cultural Revolution. The reform took place also because the more enlightened Party members and government officials had learned the shortcomings of central planning. In the meantime they witnessed the economic success of neighboring economies, including those of Hong Kong, Singapore, Taiwan and South Korea, called the Four Little Dragons. The first three were the accomplishments of fellow Chinese. The contrasting economic performance of South and North Korea, and of West and East Germany reinforced the belief that central planning did not work well. The reform towards a market-oriented economy also had the support of the Chinese people who disliked the system as they had suffered through the planning period with the shortage of consumer goods.

Collective farming was soon abandoned in favor of private farming. Each farm family was assigned a piece of land so that they could farm for their own benefits, after they were required to deliver a fixed quota of their output to the team leader. The team leader could use these outputs to satisfy the quota of total output that he needed to deliver to the government procurement agency.

Previously, the team leader directed the farmers in his team to farm as a group on a large piece of land. As a result of this change, farm output increased dramatically in 1979 and the early 1980s. This success served as the foundation for other reforms.

To reform the urban economy, production and distribution under the direction of central planning were changed step by step. State enterprises were first given some autonomy in their output decisions. After paying taxes to the government they could retain the remainder of their profits for their own use, whereas previously all of their revenues were treated as government revenues. The forces of market supply and demand, beginning in the middle 1980s, were gradually allowed to set commodity prices. A dual price system was in operation. Under this system, the government-regulated prices remained in force for specified quantities of inputs used by state-owned enterprises and specified quantities of the outputs that they produced. At the same time additional amounts of these inputs and outputs were allowed to be sold at (usually higher) prices determined by market forces. A state enterprise being allocated given amounts of inputs at regulated prices could go to the market to purchase more inputs at market prices. It had to sell a certain amount of its output at the lower regulated price but could sell the remaining output at a higher market price. Elementary economics tells us that the lower cost for acquiring the given amounts of inputs at regulated prices is equivalent to a fixed subsidy, and the lower revenue due to selling a given amount of output at a lower price is equivalent to a fixed tax. Neither affects the economic calculations of the enterprise that would lead to an efficient operation, because the calculations are based on the market prices of the extra inputs required and of the extra output to be sold. Hence the dual price system was an effective system in the allocation of resources before all prices were set by market forces.

Besides relaxing control over state-owned enterprises, the government allowed and even encouraged the establishment of private and collective enterprises. The slogans condemning the evil of



capitalism were changed to “getting rich is glorious.” Township and village enterprises, established by local governments that had economic resources and political standing, behaved like private enterprises in a western capitalist economy with similar economic incentives. They were the most dynamic sector of the economy, surpassing the state-owned enterprises in total output in the 1990s. Most important of all, the open door policy was a drastic change, opening China’s door to foreign trade and investment. Foreign investment provided China with capital, managerial skill and modern technology, as well as competition for domestic enterprises to improve their performance. Much of foreign investment came from Hong Kong, Taiwan, and overseas Chinese in other parts of the world. The rapid growth and development of China’s economy in the two decades (1978–1998) after economic reform was phenomenal. On average the rate of growth of total output was at a rate of 9.6 percent per year according to official statistics, and the remarkable growth was for foreign visitors to see.

What accounted for the success of China’s economic reform? The government deserved credit in guiding the reform in a gradual process. The process was gradual because government economic officials did not know a particular system to follow. They needed to learn step by step through experimentation. As Deng wisely advised, “Seek truth from facts.” This means, in terms of economic reform, “find a right system by observing the results.” The gradual process through experimentation was necessary in order to convince the Party members and government officials who had been indoctrinated previously with an orthodox Communist ideology for years to change their thinking and support the new policies. The government maintained the existing political and administrative structure to provide stability in carrying out economic reform. (Political stability was maintained with one interruption by student demonstration in Tiananmen Square. The demonstration began in April 1989 in the form of mourning the death of Communist Party Secretary Hu Yaobang while protesting against government

corruption and serious inflation and urging rapid change towards a more democratic government. The demonstration ended in the tragic Tiananmen Square Incident of June 4, 1989.) Once market institutions were established, economic incentives began to operate under the market system. However imperfect, the market institutions provided opportunities for the Chinese to make money by hard work and ingenuity.

Once sufficient opportunities under a set of market institutions are available, the second most important factor contributing to China's economic success is the quality of the Chinese human capital. Like other talented people in the world, the Chinese owe their talents to their social and cultural history. They seem to perform very well in other parts of South-East Asia even when the rules were stacked against them. They have demonstrated their talents in Hong Kong, Singapore and Taiwan. The Chinese workers have good working habits and skills and the Chinese entrepreneurs are resourceful and striving. These traits are inherited from their historical and cultural heritage, which is the main subject of this chapter.

People wonder why China has done so well in the last two and a half decades after the economic reforms started in 1978. From the viewpoint of economic development, China's record is not a miracle. Given political stability and law and order, the three major factors contributing to economic development that China possesses are market economic institutions, high-quality human capital and the advantage of a latecomer in employing the modern technology invented by the first-developed countries, as I will further elaborate in Chapter 3. China should naturally do well as compared with other economies lacking in any of these three important factors. From a historical perspective, China was doing well for a long time. It took a sick leave and has resumed its former path. It has recovered because of its historical heritage that is resilient and because its problem was temporary, only a disorder for one hundred some years in the course of over 4,000 years.

