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**State-Building, The Original Push For
Institutional Changes
In Modern China, 1840-1950**

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Abstract

The period of 1840 (when the Opium War broken out) till now is commonly regarded as China's modern era, 'modern' in terms of China's departure from its original growth and developmental path. In this context, the term modern has been intimately associated with something alien to the Chinese indigenous culture and pattern.

There are several distinctive features for this period of 150 years (1840–1990). First, China did not begin with zero or primitivism. Up to c. 1800, China also produced roughly a third of the world total manufacturing output, ahead of the West (about 20 percent of the world total) by a significant 10 percent in the world total. In around 1830, China still matched the West reasonably comfortably. However, there was a dramatic change after 1840. In 1900, China's share of manufacturing output declined to 6 per cent while the share of the West shot up to 77 per cent. Second, unmistakably changes during this period began with external shocks in the form of *force majeure* from the newly industrialised/industrialising modern powers. Table 1 contains main events marked by treaties between those powers and Qing China. Just about all such powers were actively involved.

Third, changes in China during this period were both frequent and often extreme with the direction shifting from time to time. It all began

consequences. It is equally challenging as for how to evaluate these changes and their consequences. So, despite the amount of efforts made in what is broadly called 'Chinese studies', a critical point with which our comprehension of the nature and magnitude of the Chinese economic growth/development seems to have yet been passed. It is no exaggeration therefore that the Chinese economy during the modern era is one of the least understood in the world.

But why does state-building matter? Empirically, at least in China's past, state-building was always associated with a cluster of major changes, marking the beginning of an array of new developments in terms of (1) changing the 'game' and its rules at all levels, (2) altering growth trajectory of the economy, and hence (3) breaking away from the old historic continuity. But, these new institutions were not necessarily beneficial and inductive to growth and development as time went on. They led to a deadlock for the premodern Chinese economy. Thus, state-building gives us some very promising hints in tackling modern Chinese economic history in general and in investigating and explaining, in a coherent way, all the main features of China's modern economic history in particular. To introduce state-building into a model will thus not only fill in the vacuum but also ensure a factual and dynamic thrust in the study. This new dimension will transcend the narrow approach of the 'state-market' paradigm which leans too much towards the Western European experiences. This is essential in analysing Maoist planned economy.

1. st planned

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West commanded about 25 percent of the world total which increased by 1913 to 55 percent while during the same period the share for Asia (mainly China and India) dropped from 56 percent to 22 percent (Maddison 2001: 127). On the whole, China was a rare case in the world history that an economy fell from the top to the bottom in the developmental pyramid in a space of just 60 years, and that a developing country struggles to recover from its lost ground in the world economy in the last 160 years and still has not got it quite right.³

Second, unmistakably changes

Table 1. Treaties between China and Foreign Powers, 1842–1901

<u>Date:</u>	<u>Name:</u>	<u>Beneficiary:</u>	<u>Main Benefit:</u>
1842	Nanjing (Nanking) Treaty	UK	Pt, Rp, Tr, PR
1843	Humen Treaty	UK	UF, CJ, CC, PR
1844	Wangxia Treaty	USA	Pt, UF, CJ, RD
1844	Huangpu Treaty	Fr	Pt, UF, CJ, CC
1845	Shanghai Concession Agreement (I)	UK	Tr, PR
1854	Shanghai Concession Agreement (II)	Fr, UK, USA	Tr
1858	Tianjin Treaty	Rs	Pt, UF, CJ, RD
1858	Tianjin Treaty	UK	Pt, Rp, UF, CJ, CC
1860	Beijing (Peking) Treaty	UK	Pt, Rp, Tr, RL
1860	Beijing (Peking) Treaty	Rs	Tr, Pt, CJ, FA
1868	Tianjin Treaty Attachment	USA	RR
1868	Camphor Treat	UK	FT
1876	Yantai Treaty	UK	Pt, UF, CJ, FA
1880	Beijing (Peking) Treaty	USA	RL
1886			

1898	Lü-Da Concession Treaty	Rs	Tr, RD, RR
1898	Fuzhou Concession Agreement	Jp	Tr, UF
1898	Hong Kong Expansion Agreement	UK	Tr
1898	Weihaiwei Concession Agreement	UK	Tr
1898	Guangzhou Concession Agreement	Fr	Tr, RD, RR
1901	1901 Peace Treaty	Ast, Bl, Fr, Gm, HI, Itl, Jp, Rs, Sp, UK, USA	Rp, RD
Total: 26		12	73

Source: Based on Zhang D. 1990: 874–80.

Note: Ast–Austria, Bl–Belgium, Fr–France, Gm–Germany, HI–Holland, Itl–Italy, Jp–Japan, Prt–Portugal, Rs–Russia, Sp–Spain.

CC–Cuts in Customs Duties; CJ–Consular jurisdiction; FA–Free access to the interior; FT–Free trade of goods; PR–Permanent residency for foreigners; Pt–Free access to trading ports; RD–Right to deploy foreign armed forces; RF–Right to build factories; RL–Right to recruit Chinese labourers for overseas markets; Rp–War reparations; RR–Right to build railways; Tr–Territorial cession and concession; UF–Unilateral most-favoured-nation treatment for trade.

This part of the Chinese hi

concessions, namely (1), (3), (4)

1949, China adopted Soviet centrally planned economy (1949–77,⁴ Mao's despotism).⁵ With near-complete international isolation together with internal regional ISI,⁶ the economy plummeted into chronic mismanagement with repeated political shocks to the economy. Apart from these changes, there were more minor turns and twists for each decade during this 150-year period. The scale and scope of changes in modern China are indeed phenomenal by any standard.⁷

Fourth, the results of these changes were mixed and messy. One may insist that China gradually moved towards a better world, a world of modernity, as an industrial growth became the obsession of the Chinese policy-makers in most periods. One may also cite some events as evidence, typically China's membership in the nuclear club and performance in world sports. These may all be true. However, from China's own track record for 1840–1990 by and large the general conditions for sustainable economic growth and development were poor, just to mention the fact that China's fragile peace and unity was brutally ended by Fascist Japan (1931–45, counting Japan's colonisation of Manchuria) and civil war (1945–9), and that the economy was nearly self-destroyed at least twice during the notorious Great Leap Forward (1958) and Cultural Revolution (1966–76).⁸ Large proportions

⁴ About 36% of this period, 1966–76, is known as the 'Cultural Revolution'. Less known is that this period is also called 'Red Terror' (*hongse kongbu*).

⁵ Many scholars have used Mao's regime as a living model for premodern China, unaware that the Chinese own culture did not automatically produce despots in the past (while the Soviet system does always) (see Will 1990; Will and Wong 1991; Leonard and Watt 1991; Deng 1999a: chs 2–4). So, Mao was not another Chinese emperor in a Mao's suit but another Stalin with a Chinese face.

⁶ ISI stands for 'import substitution industrialisation'. In the hands of Mao, it corrupted to something very narrow, called *xiao er quan*, meaning 'small but self-sufficient'. This is the worst possible type of ISI as it denies any regional economic advantage and benefit from even internal trade.

⁷ Factually speaking, modern China depended much on outside world for inspirations and models to operate. Even most narrow-minded leaders like Mao had to read Marx and learn English. Therefore, it is hard to justify the allegation that China was xenophobic during the post-Opium War era.

⁸ These only represented probably the tip of the iceberg according to Mao's own infamous 'perpetual revolution' (*buduan geming*) which was justified by nothing but being proletarian (*qiong ze si bian*)

of the ordinary people were systematically improvised and perished, often completely unnecessarily. The basic fact is that overall the tangible material life of the ordinary people was hardly improved in large part of Mainland China until the end of the 1980s regardless of what have been claimed by Chinese leaders in Sahhaf's fashihav

2. Key issues and approaches for this study

Several key issues need to be addressed first to set the tone for this study. The key aspect of China's modern history is the frequency, degree, scale and scope of changes in society. China has changed beyond recognition since 1840, especially in its socio-economic structure.

One main objective of this study is to decode the rationale, nature, and mechanisms behind these changes and to piece together the effects of these changes. The overall approach adopted is a factual one, i.e. all the claims must be judged by facts instead of intentions of the leaders and organisations.

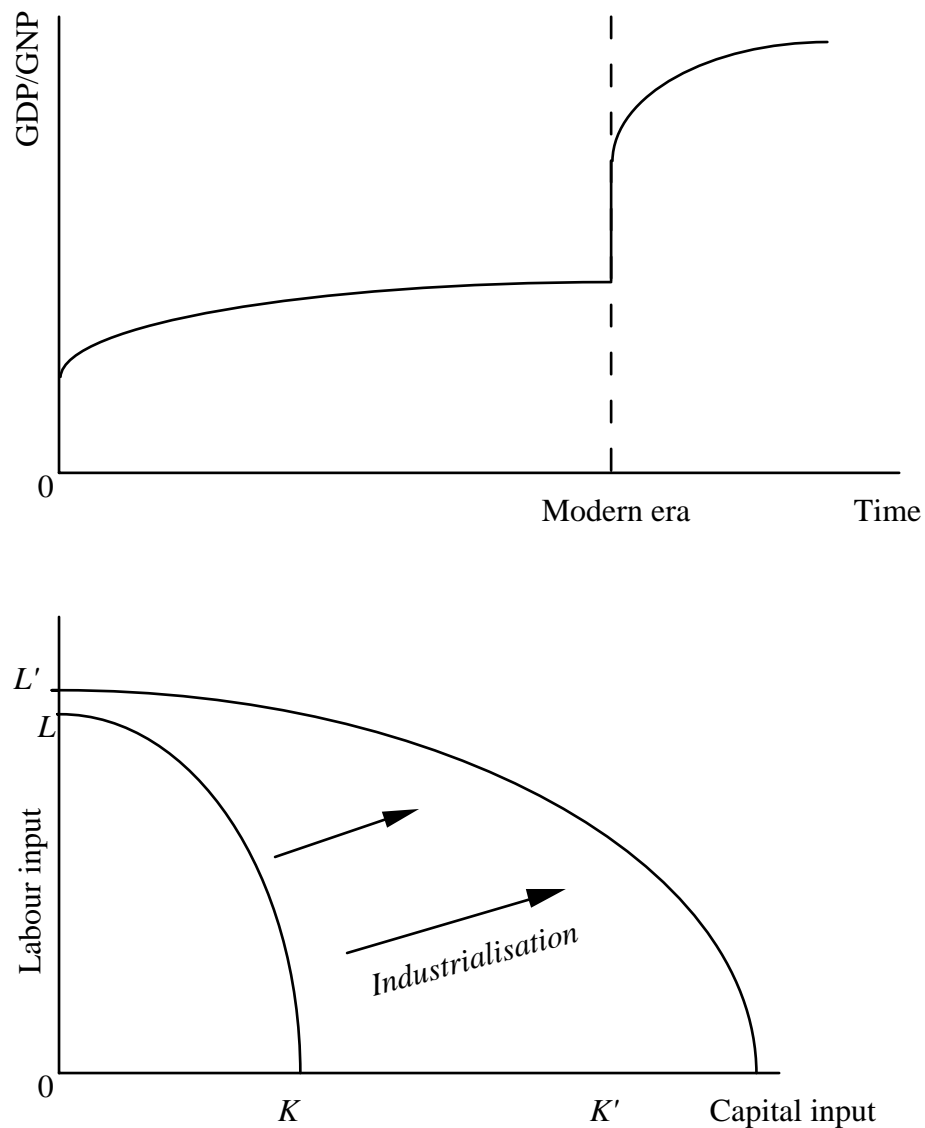
a. Nature of changes: transition, transformation or transmutation?

Most scholars under the neo-classical influence believe in an economic transition which is universally applicable as patented by Arthur Lewis (1983a and 1983b). Lewis also suggests that the market alone is capable of moving the economy towards modernisation worldwide.¹¹ For the transitionists, despite the notion of dualism, changes in a modernising economy are mainly quantitative despite a quantum leap in the magnitude of the total GDP/GNP during and after the transition. In terms of inputs, on the other hand, transitionists see a change in the production function in a smooth fashion with which a new and modern capital-intensive pattern can simply melt the old labour-intensive pattern in the making of a new economy. There is no tension between the old and new modes. After the transition, with the new

¹¹ Lewis was not alone in his generation (e.g. Hicks 1969). But, this view has been under fire from Chinese history, just to mention the perpetuation of the market in premodern China (Hill 1996). The market is no doubt able to move an economy towards its production probability frontier and then helps the economy reaching equilibrium. At the equilibrium, the market clears itself and reaches its full potential. But the market itself is not designed to create a new production probability frontier. This is characterised as 'Smithian growth'. By definition, industrialisation and modernisation mean a new production probability frontier. Therefore the market will not necessarily have the power to drive the economy towards it. That includes the Lewisian transition (see Deng 1999a: 16–20).

output and new production function, developments such as urbanisation, commercialisation, a higher living standard and, the rise of the middle class and so forth will fall in their own places. There is no pain in the transition and every one gai

Figure 1. Economic Transition Model



Note: (1) Upper diagram: a quantum leap in output suggests that a new mode of production is added on to form a modern one. (2) Lower diagram: arrows indicate the direction of the expansion in the scale/scope of the economy with a change in labour-to-capital ratio.

However, from factual point of view, there is a pattern of transmutation side by side with transition. The new term shows that the 'genes' of a traditional society cannot automatically and naturally give

the birth to industrialisation and modernisation. Changes therefore must take place at the genes' level. If so, it is the equivalent of transmutation in biology instead of transition in the spirit of physics.

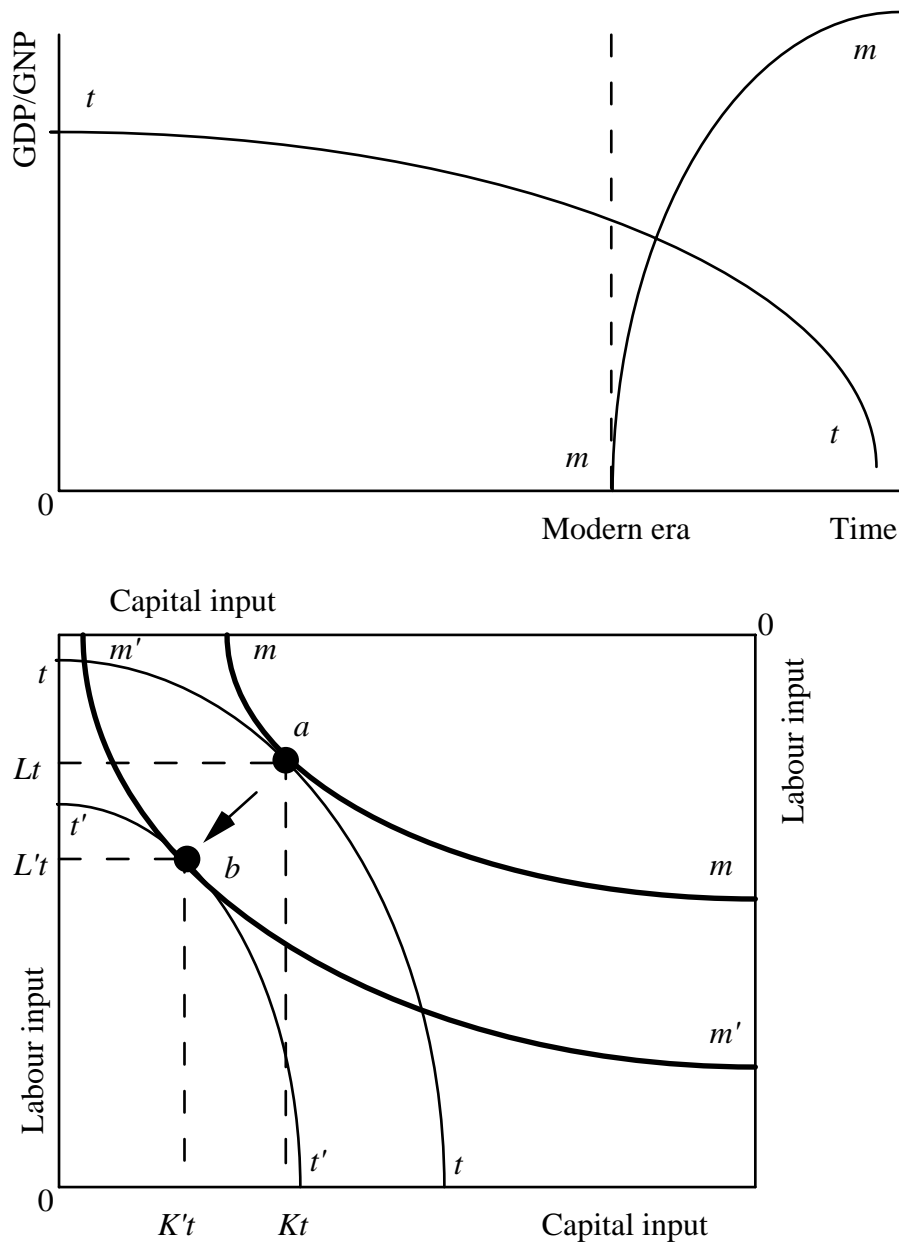
Here, the term of 'transformation' is deliberately avoided despite the fact that it implies less easiness in the process of industrialisation and modernisation than 'transition' suggests. But transformation is based the assumption that a traditional society has some, but not all, building blocks for a modern one. In particular, it maintains that the end result is highly predictable.¹² No double, 'transformation' is heavily influenced by chemistry. In contrast, randomness and unpredictability are the properties of transmutation. The new concept of transmutation is thus far more dynamic and accurate in capturing the nature of changes in some societies.¹³

From the viewpoint of transmutation, a country's move towards industrialisation and modernisation may well be slow, bumpy and full of pain. It may produce losers, a lot of them, too. This is demonstrated in Figure 2. In the upper diagram, there are two output curves: $t-t$ for the traditional sector and $m-m$ for the modern sector. Once these two

¹² The transf m

sectors are examined separately, it becomes clear that they may be negatively related in GDP/GNP performances. Due to a degree of incompatibility between the two sectors, the country's total GDP/GNP may experience a decline during a change in mode of the economy. In terms of inputs, there is a tug-of-war between the two sectors fighting for resources (here labour and capital). With industrialisation and modernisation, as the economy shifts from Point *a* to Point *b*, the traditional production function $t-t$ shrinks to $t'-t'$, losing both labour (marked by $Lt-L't$) and capital (marked by $Kt-K't$) to the modern sector. This is accompanied by the proportional expansion by the alien, modern sector from $m-m$ to $m'-m'$

Figure 2. Economic Transmutation



Note: Upper diagram: the indigenous sector dives with a smaller and smaller share in the GDP/GNP while the alien, modern sector gains a larger and larger share. Lower diagram: $t-t$ and $t'-t'$ locus of the traditional production function; $m-m$ and $m'-m'$ locus of the alien, modern production function.

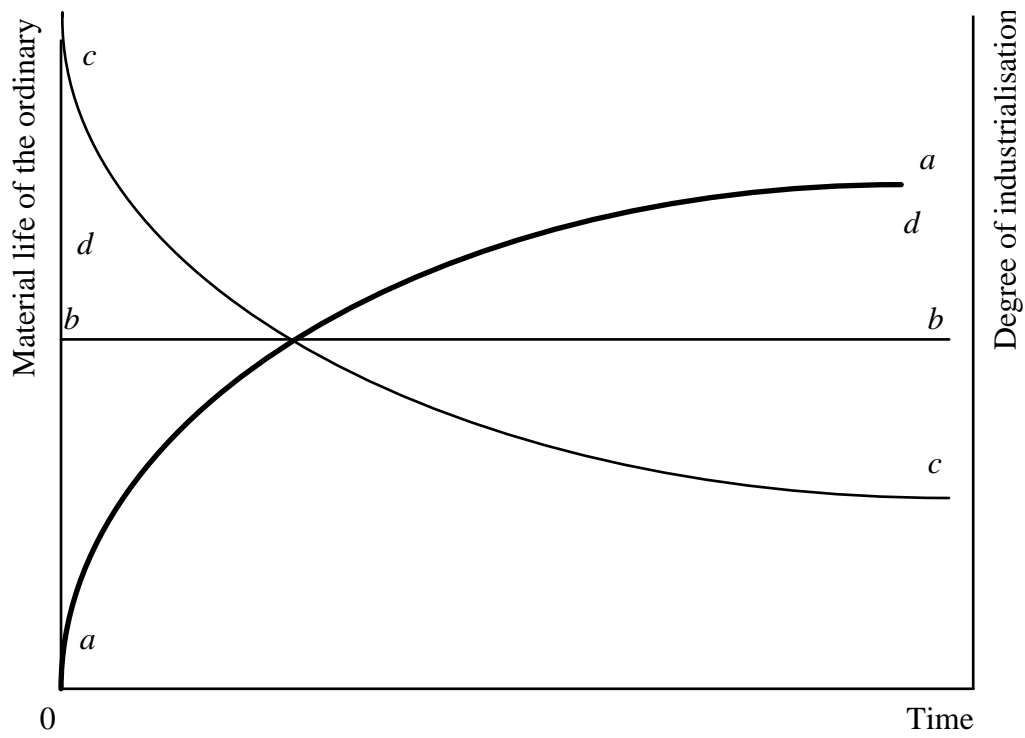
More importantly, this transmutation model indicates that the 'modern sector' may not be the Western type associated with a functional market but the Soviet type marked by ISI under central control.¹⁵ The Soviet type is thus even more alien than the Western type to China's indigenous economy which was well-established and overwhelmingly private.

So, in contrast to the 02 11fii

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industrial output overlaps with the improvement in the material life enjoyed by the ordinary citizens. To put aside the episode of the Enclosure Movement and Poor Laws (in Britain) and modern slavery (in the United States) which are often associated with early development of capitalism, such a convergence was real in the West (and post-war Japan as well) during its endeavours for modernity (see Sylla and Toniolo 1991: 110, 118, 134, 154, 155, 157, 177, 186, 199, 228, 230; Kenwood and Loughheed 1992: 13, 20, 128, 174; Maddison 2001: 126). Indeed, the rise of the middle class in the West, an undeniable beneficiary of industrialisation (and modernisation), is a rough but mmme2027 Tm((i)To

Figure 3. Normative versus Positive Patterns of Modern Growth/Development



consensus that industrialisation/modernisation is generally good for a society.

$b-b$ in Figure 3) may experience little improvement with the rise of

made sure that the maximum surplus of the economy was extracted by the state for re-investment in the expansion of the industrial sector which was customarily geared towards non-consumer goods production. Such an expansion was to be translated into the political power of the party leadership to rule the population. In this context, the material life of the ordinary people woul

Table 2. Death tolls in modern era, USSR and China compared

	<u>Nature</u>	<u>Deaths (in millions)</u>
<u>I. USSR</u>		
A. 1924-53 (excl WWII)	Mismanagement and human rights abuses*	30.0-40.0 (1.4-1.9)
B. WWII, 1937-45	Fighting for sovereignty and resources†	20.0 (2.5)

without any input of modern industry. This removes all the alleged acute poverty from the Chinese population, a stigma in the modern world history associated with China.²³ This basically says that the threshold for China to pursue industrialisation was once (till c. 1840) too high to ignore. So, if China departed as it did from its own economic platform, it would face the risk of becoming worse off, as it was during this period of 150 years.

Clearly, industrialisation is a necessary but not the sufficient condition for a society to enrich its own citizens. If so, industrialisation/modernisation is never value-free or neutral in reality. The terms of industrialisation and modernisation are thus too vague and deceptive, as much is depended on the purpose, direction and type of industrialisation/modernisation.²⁴ Although helping little, the Chinese Communist Part always takes a great care in reminding the general public of what kind of industrialisation and modernisation the party should be seen to pursue. So, the adjective of 'socialist' is always used. Following this line of argument, we can at least have a 'capitalist market-based industrialisation/modernisation' and a 'communist centrally controlled industrialisation/modernisation'. These two types mutually excluded each other in history with distinctively different end results.

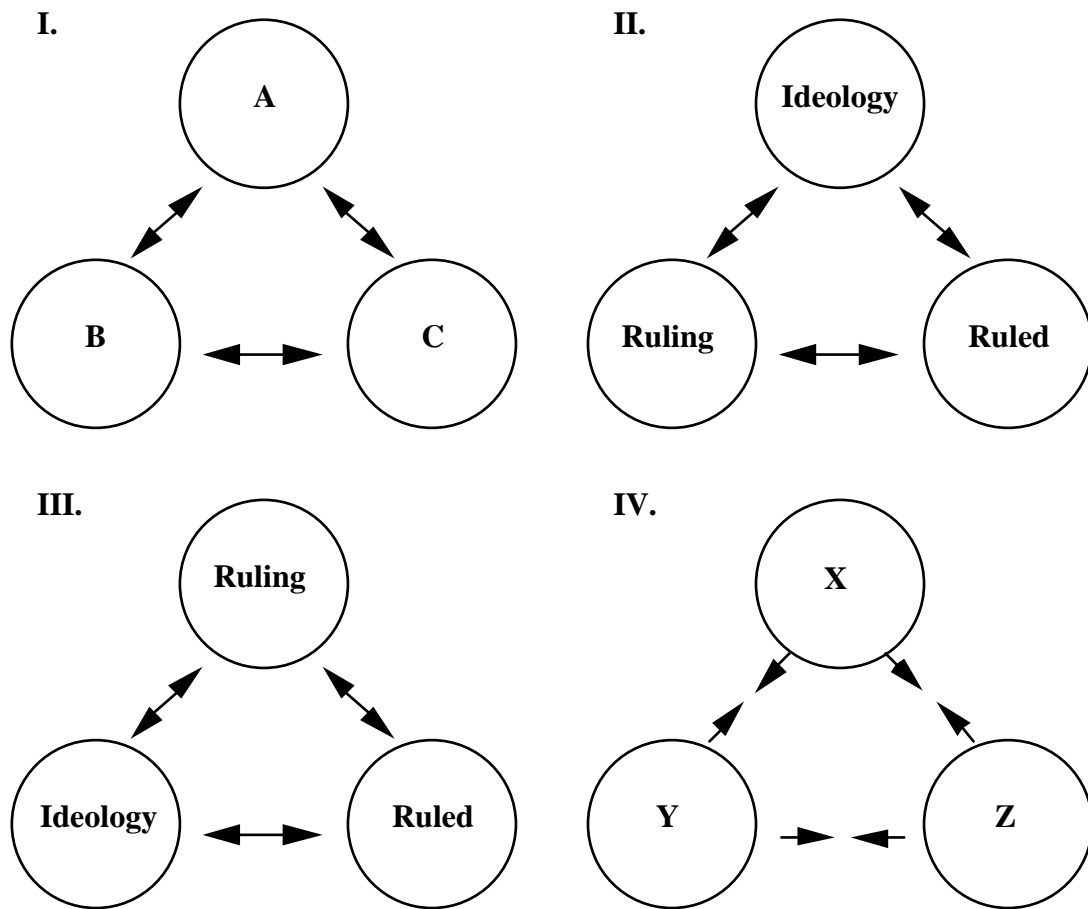
c. . Incentives for changes, for whom?

China in its modern era was not merely changeable; it was almost 'change-holic'. Considering that under the normal circumstances changes in society are cost-sensitive and cost-elastic, and that incentives for changes are heavily dependent on accounting costs (for

²³ The term of the 'California School' has been used often at international conferences to reflect a group of historians and social scientists, all based in California, who work on a systematic rethinking of the global history (see Goldstone ng cost

changes to take place) plus opportunity costs (for changes not to occur),
one asks ultimately why and ho

Figure 4. Determinants of Costs for Changes



Note: I – A society under democracy with interest groups A, B and C. II
– A society under a Confucian state or a developmental state with

public, negotiations and compromises between the state sector and the

and opportunity costs cease functioning. This is typically a situation when the state and the market collapse during the war.

Understandably, under Pattern I the accounting and opportunity costs for changes are often clearly labelled. Although changes are often slow and gradual, moves are routinely made to avoid producing losers (hence to achieve a Pareto optimum). So, there is a very good chance for changes to be rational and beneficial at least in the short run. Costs for changes can be lower under Pattern II than Pattern I as the state is able to take a short-cut by 'getting the price wrong' with a visible hand for manipulation (as long as such manipulation can be tolerated by the ideology). Changes under this pattern are often rational and beneficial to the general public, too.

Pattern III has the lowest accounting and opportunity costs for the agent in charge: if wishing the state is capable of launching changes in any area and in any direction, ignoring the interest of the general public. Economic growth may take place but economic development may not. Changes under Pattern III can thus be irrational, harmful and meaningless. Under Pattern IV, the accounting and opportunity costs for changes collapse and changes become volatile and fluid. Economic growth (including industrial growth) becomes extremely difficult if not entirely impossible or irrelevant, as individual, communal and even national survival itself is on the line.

This is not all. There is a fundamental question as for whether a pattern can be replaced by another. According to what is widely known as "Olson's Thesis", shocks such as wars can disable the old, well entrenched interest groups and push an economy out of stagnation on condition that the wars are lost (Olson 1982). In the case of Nazi Germany and fascist Japan, their total defeats in World War Two pushed West Germany and Japan from Pattern III to Patterns I (Germany) and II (Japan under FDP). Such a change ushered in miracle growth in both countries in the post-war era (along Curve *a*–*a* in

Figure 3). Naturally, one would ask that given China was thoroughly defeated so many times, why and how the country still managed to stay away from Patterns I and II most of the time. This presents a huge paradox. The answer may lie in problems associated with economic transmutation which cancelled the Olson's effect (see Figure 2).

3. Propositions and the missing link for modern Chinese economic history

a. Propositions: why and how China differed from a normative model

We can now link these three issues – nature of changes, impact of changes and incentives for changes – together and form a coherent thesis. In a society with Pattern I or Pattern II (see Figure 4), a rise in GDP/GNP may be a result of some socio-economic changes that are attributed to intra-group bargaining or a 'fair play' under the rule of the game. If so, ordinary people's life will have a good chance to improve with a rise in GDP/GNP. But a rise in GDP/GNP, even in the per capita term, will not automatically be beneficial to the general public under Pattern III as the gains can end completely in the coffers of the ruling. This removes the halo of GDP/GNP accounting for all the communist economies. It also challenges the idea of economic transition. After all, changes can be excessive and harmful. So can industrialisation and modernisation. All theses shed new light on the understanding of China's modern economic history.

It is worth noting that in the case of Curve $d-d$, ordinary people's material life begins to recover after Point t but not fully in the very end in either absolute or relative terms, as what Pomeranz implies and Maddison explicates for China (see Pomeranz 1999: pts 1–2; Maddison 2001: 43).²⁶ Put it bluntly, premodern Chinese may well have enjoyed higher standards of living than their modern counterparts during much of

the 1840–1990 period (either in terms of their material possessions or in terms of their rank in the league table of opulence in the world, or both). Now, logically, if the material life of the ordinary Chinese failed to improve significantly from its premodern past, it becomes questionable whether all those revolutions and reforms were economically sensible. Thus, the reason must be found in the political and ideological areas. This is the first proposition.

Moreover, if the Chinese enjoyed a reasonable living as late as 1800, the ultimate reason for China to depart from its premodern past was neither internally determined nor voluntary. This is the second proposition.

Furthermore, as ordinary people's livelihood can be purposely de-prioritised or deliberately forgotten, changes, regardless of what the labels they carry, can be non-Pareto or simply anti-Pareto, i.e. to make a large number of citizens' life worse off. In this context, industrialisation and modernisation are not necessarily public goods. In the Stalin–Mao case (back to Table 1), they were to a great extent of 'private goods and assets' for the ranked party comrades and 'public bads and liabilities' for the general population.²⁷ An anti-Pareto growth is both economically wasteful and meaningless. It thus has to be discounted. This is the third proposition.

Finally, given the non-Pareto nature of China's industrialisation and modernisation under Mao, for example, the engine of economic growth for much of the period of 1840–1990 was not the pursuit after a high personal income among the majority via the market. Rather, the growth was pushed by small, often exclusive, interest groups with political desire/agenda.²⁸ This is the fourth proposition.

²⁷ Marshall Lin Biao (1907–71), once Mao's most trusted comrade and appointed successor, was reported to have venomously sullied Mao's general policy as 'to enrich the state by impoverishing the ordinary people' (*guofu minqiong*). It discloses a great deal of truth about Mao's regime.

²⁸ I will avoid the much abused term of 'elite' all through because the term, meaning *crème de la crème*, carries a particular weight of desirable qualities of humanity

b. The missing link: state-building

To accommodate logically all these propositions in a coherent fashion to form a thesis necessitates a departure from the field of economics in general and the classical and neo-classical model in particular, and an entry into the political economy where the market is customarily interfered and tampered by non-markets forces and concerns. Even worse, the market

Schumperian sense of 'creative destruction'. The end result is a new and stable state.

Surprisingly, although scholars have sensed such a role of state-building, they in most cases only touch the area (e.g. Tanzi 1997; Chan et al. 1998; Meredith 1999). Others either talk about one-off state change to a republic after 1840 (e.g. Bedeski 1981; Strauss 1998) or speak of China's reforms without reference to state-building at all, taking a rather static view on the state (as most works on post-1949 China; typically, White 1991; Selden 1993; Shih 1995). A quantitative survey of literature on the Chinese modern economy reveals this situation even clearer with a noticeable deficiency in dealing with the phenomenon of state-building in China's modern history. It is no exaggeration that so far state-building has not been recognised as a major factor, or a factor at all, in China's modern economic history (see Table 3). This is where the present study starts.

Table 3. Basic statistics for works on modern China related subjects *

Library	BL	Cmb	LSE†	Oxf	SOAS	Hrv	USC
I							
Economy	324	116	126	231	436	952	937
Economic reform	109	59	52	108	229	422	84
Economic development	91	89	91	168	531	1,145	385
Economic growth	40	18	21	45	74	171	46
II							
Modernisation	71	47	28	94	130	241	193

changes, marking the beginning of an array of new developments in terms of (1) changing the 'game' and its rules at all levels, (2) altering growth trajectory of the economy, and hence (3) breaking away from the old historic continuity (Deng 1999a and 2003). But, these new institutions were not necessarily beneficial and inductive to growth and development as time went on.

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