Historical Perspectives on States, Markets and Capitalism, East and West

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Giovanni Arrighi, an authority on the political economy and geopolitics of world social change, here reflects comparatively on states and markets East and West at the dawn of capitalism. Ranging widely across Smith, Marx, Weber and Braudel, he assesses the logic and interplay of China's tribute trade system and Europe's emerging capitalism. This article draws on and extends a chapter from his new book, Adam Smith in Beijing. Lineages of the Twenty-First Century (http://www.versobooks.com/books/ab/a-titles/arrighi_g_adam_smith_beijing.shtml), which looks across the last five hundred years to consider the emerging position of East Asia in an epoch that marks the end of US hegemony.

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The Five-Hundred Years' Peace

One of the great myths of Western social science is that national states and their organization in an interstate system are European inventions. In reality, except for a few states that were the creation of European colonial powers (most notably, Indonesia, Malaysia and the Philippines), the most important states of East Asia—from Japan, Korea, and China to Vietnam, Laos, Thailand and Kampuchea—were national states long before any of their European counterparts. What’s more, they had all been linked to one another, directly or through the Chinese center, by trade and diplomatic relations and held together by a shared understanding of the principles, norms, and rules that regulated their mutual interactions as a world among other worlds. As Japanese scholars specializing in the China-centered tribute trade system have shown, this system presented sufficient similarities with the European interstate system to make their comparison analytically meaningful. [1]

Both systems consisted of a multiplicity of political jurisdictions that appealed to a common cultural heritage and traded extensively within their region. Although cross-border trade was more publicly regulated in East Asia than in Europe, since Song times (960-1276) private overseas trade had flourished and transformed the nature of tribute trade, the main purpose of which, in Takeshi Hamashita’s words, “came to be the pursuit of profits through the unofficial trade that was ancillary to the official system.” Analogies can also be detected in the interstate competition that characterized the two systems. The separate domains that were held together by the tribute trade system centered on China were “close enough to influence one another, but... too far apart to assimilate and be assimilated”. The tribute trade system provided them with a symbolic framework of mutual political-economic interaction that nonetheless was loose enough to endow its peripheral components with considerable autonomy vis-a-vis the Chinese center. Thus, Japan and Vietnam were peripheral members of the system but also competitors with China in the exercise of the imperial title awarding function, Japan establishing a tributary type
relationship with the Ryukyu Kingdom, and Vietnam with Laos. [2] Sugihara explicitly maintains that the diffusion of the best technology and organizational know-how within East Asia makes it “possible to think of the presence of an East Asian multi-centered political system... with many features analogous to the interstate system in Europe.” [3]

These similarities make a comparison of the two systems analytically meaningful. But once we compare their dynamics, two fundamental differences become immediately evident. First, as argued elsewhere, the dynamic of the European system was characterized by an incessant military competition among its national components and by a tendency toward the geographical expansion both of the system and of its shifting center. [4] Long periods of peace among European powers were the exception rather than the rule. Thus, the “hundred years’ peace” (1815-1914) that followed the Napoleonic Wars was “a phenomenon unheard of in the annals of Western civilization.” [5] Moreover, even during this hundred years’ peace European states were involved in countless wars of conquest in the non-European world and in the escalating armament race that culminated in the industrialization of war. While the initial result of these involvements was a new wave of geographical expansion which dampened conflicts within the European system, their eventual result was a new round of wars among European powers (1914-1945) of unprecedented destructiveness. [6]

In sharp contrast to this dynamic, the East Asian system of national states stood out for the near absence of intra-systemic military competition and extra-systemic geographical expansion. Thus, with the exception of China’s frontier wars to be discussed presently, prior to their subordinate incorporation in the European system the national states of the East Asian system were almost uninterruptedly at peace with one another, not for one-hundred, but for three-hundred years. This three-hundred years’ peace was bracketed by two Japanese invasions of Korea, both of which precipitated a war with China—the Sino-Japanese wars of 1592-98 and 1894-5. Between 1598 and 1894 there were only three brief wars that involved China—the 1659-60 and the 1767-71 wars with Burma, and the 1788-89 war with Vietnam, and two wars that did not involve China—the Siamese-Burmese Wars of 1607-18 and of 1660-2. Indeed, in so far as China is concerned, we should speak of a five-hundred years’ peace, since in the two-hundred years preceding the 1592 Japanese invasion of Korea China was at war against other East Asian states only during the invasion of Vietnam in 1406-28 to restore the Tran dynasty. [7]

The infrequency of wars among East Asian states was associated with a second crucial difference between the East Asian and European systems: the absence of any tendency among East Asian states to build overseas empires in competition with one another and to engage in an armament race in any way comparable to the European. East Asian states did compete with one another. Sugihara, for example, detects a competitive relation in two complementary tendencies typical of Tokugawa Japan (1600-1868): its attempt to create a tribute trade system centered on Japan instead of China, and its absorption of technological and organizational know-how in agriculture, mining and manufacturing from Korea and China. Through these tendencies, as Heita Kawakatsu put it, “Japan was trying to become a mini-China both ideologically and materially.” [8] This kind of competition, however, drove the East Asian developmental path toward state-and-national-economy-making rather than war-making and territorial expansion—that is in the opposite direction of the European path.

This contention may seem to be at odds with the long series of wars that China fought on its frontiers during the closing years of Ming rule.
and in the first 150 years of Qing rule. As Peter Perdue has noted, the history of the China-centered system appears in a different light when seen from a “frontier perspective.” The presence of nomadic horsemen who raided the borders and sometimes conquered the Chinese capital made military activity particularly prominent in the history of China’s north and northwest frontier. Military activity became more prominent when northern conquerors in 1644 established the Qing dynasty and set out to ensure that other northern invaders would not do to them what they had done to the Ming. Military activity became more prominent when northern conquerors in 1644 established the Qing dynasty and set out to ensure that other northern invaders would not do to them what they had done to the Ming.

In the north and northwest, China faced much more powerful and more sharply distinctive peoples than on other frontiers. Here it was very clear that the threat of force undergirded the trading-ritual order. The Qing could only seriously claim to be the uncontested central pole of a tribute system focused on Beijing after they had created military alliances with the Eastern Mongols, exterminated the rival Western Mongols, conquered Xinjiang, and secured formal suzerainty over Tibet. [9]

The territorial expansion that ensued, and the military activities that sustained it, fixed the boundaries that all subsequent Chinese regimes would struggle to preserve. Their main purpose was the transformation of a hard-to-defend frontier into a pacified periphery and a buffer against raiders and conquerors from Inner Asia. Once the objective had been attained, as it was by the 1760s, territorial expansion ceased and military activities turned into police activities aimed at consolidating the monopoly of the Chinese state over the use of violence within the newly established boundaries. Although quite substantial, this territorial expansion paled in comparison with the successive waves of European expansion—the earlier Iberian expansion in the Americas and southeast Asia; the contemporary Russian expansion in north Asia and Dutch expansion in southeast Asia; not to speak of the later expansion of Britain in South Asia and Africa and of its offspring in North America and Australia. Unlike these successive waves, the Qing expansion was strictly limited in space and time by its boundary-drawing objectives, rather than a link in an “endless” chain of connected expansions.

The difference was not just quantitative but qualitative as well. China’s territorial expansion under the Qing was not embedded in the kind of “self-reinforcing cycle,” whereby the competing military apparatuses of European states sustained, and were sustained by, expansion at the expense of other peoples and polities of the earth. [10] No self-reinforcing cycle of this kind could be observed in East Asia. Qing China’s territorial expansion was neither driven by, nor did it result in, competition with other states in extracting resources from overseas peripheries. The logic of political economy associated with this latter kind of competition had little in common with China’s practices. “Rather than extract resources from peripheries, the Chinese state was more likely to invest in them. Political expansion to incorporate new frontiers committed the government to a shift of resources to the peripheries, not extraction from them.” [11]

These different dynamics of the European and East Asian systems were closely related to, and in key respects determined by, two other differences—a difference in the distribution of power among the systems’ units, and a difference in the degree to which the primary source of power was internal or external to the system. Even before the “extended” sixteenth century in European history (1350-1650) and the Ming era in East Asian history (1368-1643),
political, economic, and cultural power in East Asia was far more concentrated in its center (China) than in Europe, where a center proper was much harder to identify. But the difference became sharper with the defeat in 1592-98 of Japan’s attempt to challenge militarily Chinese centrality by conquest in Korea and the institutionalization of the European balance of power by the Treaties of Westphalia in 1648.

The balanced power structure of the European system in itself contributed to the disposition of European states to wage war on one another. As Polanyi has underscored, balance-of-power mechanisms—the mechanisms, that is, whereby “three or more units capable of exerting power... behave in such a way as to combine the power of the weaker units against any increase in power of the strongest”—were a key ingredient in the organization of the nineteenth century hundred years’ peace. Historically, however, balance-of-power mechanisms had always attained the objective of maintaining the independence of the participating units “only by continuous war between changing partners.” [12] The main reason why in the nineteenth century those same mechanisms resulted in peace rather than war is that political and economic power came to be so concentrated in the hands of Britain as to enable it to transform the balance of power, from a mechanism that no individual state controlled and functioned through wars, into an instrument of informal British rule that promoted peace. [13]

The nineteenth century association between an increase in the imbalance of power and a decrease in the frequency of war within the European system suggests that the imbalance of power typical of the East Asian system was a reason for the infrequency of wars among East Asian states. However, the fact that the nineteenth century concentration of power in British hands was accompanied by an escalation of interstate competition both in the production of ever more destructive means of war and in the use of these means to gain access to extra-systemic resources, suggests that a greater imbalance of power cannot in itself explain the virtual absence of these two kinds of competition in the East Asian system. Some other ingredient had to be present in the European and absent in the East Asian “mix” to produce this divergent pattern of interstate competition. The most plausible candidate is the greater extroversion of the European developmental path in comparison with, and in relation to, the East Asian path.

Although trade within, between, and across political jurisdictions was essential to the operations of both systems, the economic and political weight of long-distance trade relative to short-distance trade was far greater in the European than in the East Asian system. International trade in general, East-West trade in particular, was a far more important source of wealth and power for European than for East Asian states, especially China. It was this fundamental asymmetry that had made the fortunes of Venice and induced the Iberian states, instigated and assisted by Venice’s Genoese rivals, to seek a direct link with Venice’s markets of the East. [14] It was this same asymmetry, as we shall see, that underlay the low returns, relative to costs, of Zheng He’s fifteenth-century expeditions in the Indian Ocean. Were it not for this asymmetry, Zheng He might very well have sailed “around Africa and ‘discover[ed]’ Portugal several decades before Henry the Navigator’s expeditions began earnestly to push south of Ceuta.” [15] Columbus’ accidental ‘discovery’ of the Americas, while seeking a shorter route to the wealth of Asia, changed the terms of the asymmetry by providing European states with new means to seek entry in Asian markets, as well as with a new source of wealth and power in the Atlantic. But even two centuries after the discovery, Charles Davenant still claimed that whoever controlled the Asian trade was in a position to “give law to all the commercial world.” [16]
This extroversion of the European power struggle was a major determinant of the peculiar combination of capitalism, militarism and territorialism that propelled the globalization of the European system. The opposite dynamic of the East Asian system—in which a growing introversion of the power struggle generated a combination of political and economic forces that had no tendency towards “endless” territorial expansion—can be taken as counterfactual evidence in support of that contention. But just as the emergence of the extroverted European path could only be understood in light of the diffusion of the strategies of power pioneered by the Italian city-states, so the emergence of the introverted East Asian path can only be understood in light of the success of Ming and Qing policies in developing by far the largest market economy of their times.

**Market Economy and China’s “Natural” Path to Opulence**

National markets are no more a Western invention than national states and interstate systems. As Adam Smith knew very well but Western social science later forgot, through the eighteenth century by far the largest national market was to be found not in Europe but in China. This national market had been long in the making, but its eighteenth-century configuration originated in the state-making activities of the Ming and early Qing.

**Adam Smith**

During the Southern Song period (1127-1276), the heavy military expenditures and reparations involved in the wars with Mongol and Tungusic peoples on China’s northern frontiers, along with the loss of control over the silk route, and the weakening of such profitable government monopolies as salt, iron and wine production, induced the Song court to encourage private sea trade as a source of revenue. Particularly significant was the encouragement of navigation technology through the provision of financial and technical support to shipbuilders. Having pioneered the use of the compass in navigation, the sharp-head, flat-rear and sharp-base design of Chinese junks enabled them to navigate at high speed in turbulent seas like no other vessel in the world. Military pressure and territorial losses in the north provoked also massive migrations toward southern regions, which
were especially suitable for high-yielding wet-rice cultivation. Since under this kind of cultivation additional inputs of labor could increase significantly the productivity of land, the population of these regions grew rapidly, achieving densities far higher than in Europe. Moreover, the efficiency of wet-rice cultivation in guaranteeing surpluses of food above subsistence enabled farmers to increase the quantity and variety of products cultivated and marketed and to engage in non-agricultural activities. [19]

Under the joint impact of maritime trade and the development of wet-rice cultivation, the coastal regions experienced a long economic upswing based on advances in navigation technology, the consolidation of the “sea silk route,” and the flourishing of Guangzhou, Quanzhou, and smaller port cities on the southeastern coast as centers of tributary trade. At the same time, Chinese settlements throughout insular Southeast Asia boosted private sea trade, which surpassed official tributary trade as the main form of economic exchange between China and maritime Asia. [20] Continuing state support for private sea trade and migration to southeast Asia under the Yuan (1277-1368) led to the formation of overseas Chinese trading networks across the Southern Seas and the Indian Ocean as extensive as any contemporaneous European network. Under the Song and the Yuan, tendencies which would later become typical of the European developmental path were thus already present in East Asia. [21]

In East Asia, however, these tendencies did not lead to interstate competition in building overseas commercial and territorial empires as they did in Europe. On the contrary, under the Ming they were brought under control through policies that prioritized domestic trade and, at times, proscribed foreign trade. The shift of the capital from Nanjing to Beijing by the Ming in 1403, to protect more effectively the northern frontier from Mongolian invasions, extended to the north the circuits of market exchange that had formed in the south. Moreover, in order to guarantee the supply of food to the capital and surrounding region, the Ming repaired and extended the canal system that connected the rice growing southern regions to the northern political center, thereby promoting the further growth of the market economy and “canal cities” in the lower Yangzi region. Also important was the early Ming’s promotion of cotton growing in the north. The ensuing specialization of the north in the production of raw cotton and of the lower Yangzi in the manufacturing of cotton textiles further expanded the national market by fostering north-south trade along the grand canal. [22]

While promoting the formation and expansion of a national market, the Ming sought to centralize control over revenues, by imposing administrative restrictions on sea trade and on Chinese migration to southeast Asia. Admiral Zheng He’s seven great voyages to southeast Asia and across the Indian Ocean between 1405 and 1433 were also meant to extend state control over foreign trade. The expeditions, however, turned out to be exceedingly expensive; and as the Ming became more preoccupied with immediate military threats on the northern frontiers, they were discontinued. For more than a century after that the Ming regime turned inward: it continued to promote internal trade but circumscribed private maritime commerce, cracked down on unauthorized external trade with maritime Asia, restricted the number of tributary missions, and even banned the building of seagoing ships. [23]
Janet Abu-Lughod claims that Ming China’s withdrawal from the Indian Ocean has perplexed—and indeed caused despair among—serious scholars for at least the past one hundred years.” More specifically,

Close to exercising domination over a significant portion of the globe and enjoying a technological advantage not only in peaceful production but in naval and military might as well... why did [China] turn her back, withdraw her fleet, and thus leave an enormous vacuum of power that Muslim merchantmen, unbacked by state sea power, were totally unprepared to fill, but which their European counterparts would be more than willing and able to—after a hiatus of some 70 years? [24]

The previously noted asymmetry between the pursuit of wealth and power in the East Asian and European contexts provides a simple answer to this question. European states fought endless wars to establish an exclusive control over sea lanes linking West to East, because control over trade with the East was a critical resource in their pursuit of wealth and power.

For the rulers of China, in contrast, control over these trade routes was far less important than peaceful relations with neighboring states and the integration of their populous domains into an agriculturally based national economy. It was therefore eminently reasonable for the Ming not to waste resources in trying to control East-West sea lanes and concentrate instead on developing the national market, opening up what Smith later took as the exemplar of his “natural” path to opulence. [25]

Indeed, even China’s “tribute trade”—the scope of which Zheng He’s expeditions sought to expand and which the Ming subsequently curtailed—had greater economic costs than benefits. Ever since the establishment of a unified taxation system under the Qin and Han dynasties more than a thousand years earlier, tributary relations between the Chinese imperial court and vassal states did not involve the collection of a tax. On the contrary, especially after the Tang dynasty, and with the sole exception of the Yuan dynasty, vassal states offered the Chinese imperial court only symbolic gifts and received in return much more valuable gifts. Thus, what was nominally “tribute” was in fact a two-way transaction which enabled the Middle Kingdom to “buy” the allegiance of vassal states, and at the same time to control flows of people and commodities across its far flung frontiers. [26]
The sustainability and efficacy of this practice—which, world-historically, provides the most important illustration of the validity of Hobbes dictum that "Riches joined with liberality is Power, because it procureth friends, and servants" [27]-depended on several conditions. The Chinese economy had to generate the resources necessary to buy the allegiance of the vassal states; the Chinese state had to be in a position to command these resources; and surrounding states had to be persuaded that attempts to seize resources from the Chinese state and economy by means that challenged the authority of the Chinese government (such as raids, conquest, war, or just illegal trade) would not pay off. Despite, or possibly because of, their success in consolidating and expanding the national economy, by the early sixteenth century the inward-looking policies of the Ming faced increasing difficulties in reproducing these conditions. Widespread corruption, mounting inflation, and increasing fiscal shortfalls on the domestic front, were accompanied by growing external pressures, from the expansion of the Jurchens in the north, and from the expansion of illegal trade that bypassed Ming tax collectors along the southeastern coast. Carried out by armed Chinese and Japanese traders, the illegal trade was actively encouraged by Japanese warlords, who sought to use the profitable trade in Chinese products to finance their mutual struggles. With the financially strapped Ming cutting back on the costly tributary trade, and unable to exercise effective military control over southern coastal areas, private trade became once again the main form of economic exchange in the region. [28]

Internal degradation and external pressures reinforced one another leading to explosive social disturbances. Faced with the growing ungovernability of the empire, the Ming sought to solve the crisis by easing peasant grievances through tax reforms and the exploitation of the flourishing private trade. Corvée labor and taxation in-kind –two of the main causes of peasant hardship and unrest–were largely replaced by a single tax payable in silver. The crippled paper currency was abandoned in favor of a silver standard, and in order to expand the silver influx from overseas, in the 1560s restrictions on trade with Southeast Asia were relaxed and licensed seafaring merchants were taxed. [29]

This shift in fiscal, monetary and trade policies was made possible and encouraged by the massive silver influx from overseas trade, initially with Japan (the major silver supplier in the region) and subsequently with Europe and the Americas. [30] Although Spanish shipments of much of their American silver to China via Manila eased the fiscal and social crisis, Ming financial difficulties skyrocketed owing to the costly war with Japan in the 1590s, the outbreak of full-fledged warfare with the Manchus in the 1610s, and mounting corruption at court and throughout the administration. Japan’s imposition of restrictive trade policies in the 1630s, combined with a sharp decline in European silver supplies in the 1630s and 1640s, was the straw that broke the camel’s back: by driving up the price of silver, it increased the burden of taxation on the peasantry and led to the resurgence of empire-wide unrest that culminated in the collapse of the Ming in 1644. [31]

With the consolidation of Qing rule, the early Ming’s policy privileging domestic over foreign trade resumed with greater vigor. Between 1661 and 1683, the Qing re-imposed the ban on private sea traffic and pursued a scorched earth policy that transformed China’s southeast coast from a crucial link connecting the Chinese and the world markets into a no-man’s-land that kept the two apart. The sea ban was lifted in 1683, but strict regulations were imposed on the shipbuilding industry, restricting the size and weight of all trading junks, and firearms on board were outlawed. A new era was thus inaugurated in which trade
was legal, but maritime China lost its fragile autonomy. Moreover, in 1717 Chinese subjects were once again forbidden to go privately overseas, and in 1757 the designation of Guangzhou as the sole legal port for foreign trade sealed the fate of the whole southeast coast region for nearly a century. [32]

While foreign trade was discouraged, the incorporation of borderlands on all sides did not just increase the scale of the national market; it also reduced protection costs throughout the empire—a reduction that Qing rulers passed on to their subjects in the form of low and stable taxes. Low and stable taxation was accompanied by vigorous state action aimed at stamping out bureaucratic corruption and tax evasion, through empire-wide land surveys, fiscal reforms, and more effective information-gathering systems. Equally important was the promotion of land redistribution and reclamation. In order to consolidate their power vis-a-vis Han landlords, the early Qing encouraged the ongoing partition of large estates into small plots and the conversion of indentured labor into tenants. At the same time they launched land reclamation programs aimed at reestablishing the fiscal base without raising taxes. [33]

The double “democratization” of land tenure—through the breakup of large estates and through land reclamation—called for massive state action to maintain and expand the hydraulic infrastructure. As the influential official Chen Hongmou put it,

> When poor people bring new land under cultivation, it is up to the administration to provide timely assistance in development of local irrigation systems. If the cost is too high for the local society to bear, funds should be provided out of official accounts. [34]

Government involvement in agricultural improvement, irrigation and waterborne transportation was integral to Qing action in countering the spatial and temporal unevenness of economic development. As previously noted, spatial unevenness was countered through policies that encouraged market tendencies toward the economic uplifting of internal peripheries. These included the encouragement of migration toward less populated areas through the provision of information, infrastructure and loans; efforts to spread new crop varieties and craft skills; heavy infrastructural investments to secure subsistence in ecologically marginal areas; and land tax policies that favored poorer areas. [35]

The centerpiece of Qing action to overcome periodic famine was a major expansion and unprecedented coordination of the “ever-normal granaries” system. The Qing government relied on market mechanisms to feed China’s huge and expanding population no less, and probably more, than any of its predecessors. It nonetheless surpassed them all in protecting the population from the vicissitudes of the grain market through a system of granaries that enabled it to buy and store grain at times of abundance and low prices, and to sell the grain back at sub-market prices at times of scarcity and unusually high prices. High-level officials coordinated flows of grain among local granaries to ensure that each could promptly counter excessive cyclical fluctuations in prices. [36]

The joint outcome of these policies was the remarkable peace, prosperity, and demographic growth which made eighteenth-century China the exemplar of Smith’s “natural” path to opulence, as well as a source of inspiration for European advocates of benevolent absolutism, meritocracy, and an agriculturally based national economy. Although no eighteenth-century Chinese thinker theorized the contribution of self-interested enterprise to the national economy,
notes Rowe, the previously quoted Chen Hongmou esteemed the market as an instrument of rule no less than Smith, Hobbes, Locke or Montesquieu.

Chen has no hesitation whatsoever in appealing to the profit motive to get local populations to fall in line with his various development projects such as building new roads, introducing new commodities for regional export, founding community granaries, and so on. In a formulation not too distant from Adam Smith’s “invisible hand” Chen contends that such projects will bring profit to all... precisely to the extent they bring profit to oneself. [37]

Neither Chen, nor any of his Chinese contemporaries, however, “rejected the Confucian ideal of social harmony in favor of a view of unfettered struggle in the market place... and a blanket policy of laissez-faire.” [38] Although Smith was no Confucian, the developmental priority that the Qing government assigned to agricultural improvement, land redistribution and reclamation, and the consolidation and expansion of the domestic market, is precisely what Smith advocated in *The Wealth of Nations*. [39]

The problem with Chen’s and the Qing’s conception of development is not the rejection of a blanket policy of laissez-faire but its blindness to the gathering storm that was about to hit the Chinese shores. Like Smith, they failed to see that the seemingly “unnatural” European path to opulence was re-making the world through a process of creative destruction that had no precedent in world history. “European ships”—in McNeill’s words—“had in effect turned Eurasia inside out. The sea frontier had superseded the steppe frontier as the critical meeting point with strangers, and the autonomy of Asian states and peoples began to crumble.” [40] If Smith—who was sitting at the epicenter of the storm—did not see it coming, we may excuse Chen and the Qing for not seeing it either. What they all missed, as many of our contemporaries still do, is the fundamental difference between capitalist and non-capitalist market-based development.

### Capitalists in a Non-Capitalist Market Economy

In concluding his classic study of the formation of “the world’s largest enduring state,” Elvin suggests that China’s entrapment in a high-level equilibrium was a result of its very success in developing a huge national market. Rapid growth of production and population made all resources except labor scarce and this, in turn, made profitable innovations increasingly problematic.

With falling surplus in agriculture, and so falling per capita income and per capita demand, with cheapening labor but increasingly expensive resources and capital, with farming and transport technologies so good that no simple improvements could be made, rational strategy for peasant and merchant alike tended in the direction not so much of labor saving machinery as of economizing on resources and fixed capital. Huge but nearly static markets created no bottlenecks in the production system that might have prompted creativity. When temporary shortages arose, mercantile versatility, based on cheap transport, was a faster and surer remedy than the contrivance of machines. This situation may be described as a “high-level equilibrium trap.” [41]
There is some ambiguity in this account on when, exactly, China was caught in this high-level equilibrium trap. Elvin nonetheless makes two claims that help, not just in resolving the ambiguity, but in identifying the nature of market-based development under the Ming and early Qing. The first claim is that the disappearance of serfdom and serf-like tenancy under the Qing led to “the rise of an essentially new type of rural society.” And the second is that “technological innovations and inventions during the period 800 to 1300 produced changes so great that the result can only reasonably be described as a ‘revolution,’ and that Chinese growth thereafter slowed down not only relative to an accelerating Europe but also to its own earlier performance.” [42]

Chinese development before 1300 falls beyond the scope of our investigation. For our purposes suffice to say that available evidence, including Elvin’s, gives credibility to Christopher Chase-Dunn’s and Thomas Hall’s contention that capitalism “nearly occurred first” in Song China. [43] As previously noted, tendencies that became typical of the European capitalist path in the “extended” sixteenth century were already present in China under the Song and the Yuan. Be that as it may, the slowdown in Chinese growth after 1300 can be interpreted as a first entrapment in a high level equilibrium—as Smith himself appears to do when he claims that China “had perhaps, even long before [Marco Polo’s] time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire.” [44]

This interpretation, however, clashes with the remarkable economic growth that Sugihara calls the “Chinese miracle” of the eighteenth century. Major differences in the man-land ratio between the core regions of East Asia and those of Western Europe before 1800—claims Sugihara—were both cause and effect of an unprecedented and unparalleled East Asian Industrious Revolution. By developing labor-absorbing institutions and labor-intensive technologies in response to natural resource constraints (especially scarcity of land), East Asian states experienced a major increase in population accompanied, not by a deterioration, but by a modest improvement in the standard of living. This escape from Malthusian checks was especially remarkable in China, whose population had previously risen several times to a ceiling of 100-150 million only to fall, whereas by 1800 it rose to nearly 400 million. “This was clearly a world demographic landmark and its impact on world GDP far outweighed that of post-industrial revolution Britain, whose share of world GDP in 1820 was less than 6 percent.” The “Chinese miracle” was replicated on a smaller territorial scale in Japan, where population growth was less explosive than in China but the improvement in standard of living more significant. [45]

As figure 1 shows, the East Asian share of world GDP did in fact increase further for almost half a century after the beginning of the British Industrial Revolution. If China had entered a stationary state ca. 1300 or earlier, what accounts for this new upswing of economic growth? Did the state-and-national-economy-making activities of the Ming and early Qing, and the rise under the latter of “an essentially new type of rural society,” not help at all in freeing China from the high-level equilibrium trap?

**Figure 1: Combined GDP as a Percentage of World GDP: US + UK vs China + Japan**
Three considerations help in answering these questions. First, the tendency of labor-intensive economic growth to get stuck in a high-level equilibrium trap does not rule out the existence of even higher equilibria, attainable through suitable changes in the geographical and institutional environment in which the economy is embedded. Second, the eighteenth-century Chinese economic “miracle” can best be interpreted as a shift of the economy from a high to an even higher equilibrium, due primarily to changes in the institutional and geographical environment brought about by Ming and Qing policies. Third, despite this upward shift, market-based development in China moved in a different direction than in Europe, becoming less, rather than more, capitalist in orientation.

The capitalist character of market-based development is not determined by the presence of capitalist institutions and dispositions but by the relation of state power to capital. Add as many capitalists as you like to a market economy, but unless the state has been subordinated to their class interest, the market economy remains non-capitalist. [46] Fernand Braudel himself takes imperial China as the example that “most opportunely supports [his] insistence on separating the market economy and capitalism.” Not only did China “have a solidly-established market economy... with its chains of local markets, its swarming population of small artisans and itinerant merchants, its busy shopping streets and urban centers.” In addition, the merchants and bankers of Shanxi province and the overseas Chinese originating from Fujian and other southern coastal provinces closely resembled the business communities that constituted the preeminent capitalist organizations of sixteenth century Europe. And yet, the state’s “unmistakable hostility to any individual making himself ‘abnormally’ rich” meant that “there could be no capitalism, except within certain clearly-defined groups, backed by the state, supervised by the state and always more or less at its mercy.” [47]

Braudel exaggerates the extent to which under the Ming and the Qing—not to speak of earlier dynasties—capitalists were at the mercy of a hostile state. It remains nonetheless true that there is no parallel in East Asia for the sequence of ever more powerful states that identified themselves with capitalism as in Europe—from the Italian city-states, through the Dutch proto-nation-state, to a national state, Britain, in the process of becoming the center of a world-encircling maritime and territorial empire. It is this sequence more than anything else marks the European developmental path as capitalist. And conversely, the absence of anything comparable to this sequence is the clearest sign that in the Ming and early Qing eras market-based development in China and throughout East Asia remained non-capitalist. Closely related to this was the absence of anything remotely resembling the incessant armament race and overseas territorial expansion typical of European states. As R. Bin Wong put it,
expenses of war.... Both European merchants and their governments benefited from their complex relationship, the former gaining fabulous profits, the latter securing much-needed revenues. The late imperial Chinese state did not develop the same kind of mutual dependence on rich merchants. Lacking the scale of financial difficulties encountered in Europe between the sixteenth and eighteenth centuries, Chinese officials had less reason to imagine new forms of finance, huge merchant loans, and the concept of public as well as private debt. [48]

Within China, large business organizations controlling extensive networks of commercial intermediaries and subcontractors developed as integral components of the national economy. But entry even in trade over long distances was far more open and accessible to people from all over the country than in Europe. [49] As a result, Chinese capitalists remained a subordinate social group with little capacity to subject the general interest to their own class interest. Indeed, the best chances for capitalism to develop in East Asia were not close to the centers, but interstitially, on the outer rims of the system’s states. The most prominent embodiment of this development was the overseas Chinese diaspora, whose resilience and enduring economic importance has few parallels in world history. Despite Ming restrictions, periodic reverses and challenges from Muslims and other competitors, the overseas Chinese diaspora made extraordinary profits and provided a steady flow of revenue for local governments and of remittances to China’s coastal regions. [50]

The seventeenth-century transition from Ming to Qing rule even created the conditions for a development that resembled what was going on in Europe: the establishment by the Zheng family of a commercial empire comparable to the Dutch. By deploying European-style warships and firearms, the Zhengs eliminated Portuguese competition, successfully defied Ming tax collectors and naval forces, monopolized the silk and ceramics trade, and built a sphere of influence that stretched from Guangdong and Fujian to Japan, Taiwan, and southeast Asia. By 1650, they had also created a rebel state on the southeast coast of China. Having failed to defeat the Manchus on the mainland, in 1662 they retreated to Taiwan, expelled the Dutch, and founded their own kingdom. As Chumei Ho concludes, “[t]he Zheng networks of commercial and political intelligence must have been at least as effective as those of either of its main enemies, the Manchus and the Dutch... Arguably, the Zheng organization had some of the same traits as the VOC.” [51]

Equally important, the Zhengs were not insignificant players in the dynastic transition. A respected ally of the Ming in the early stages of the struggle—when many members of the Zheng family became officers and generals of the Ming army—after the Qing army entered Fujian in 1647, Zheng Zhilong attempted to switch sides. The attempt failed and the Qing jailed and eventually executed him. And yet, under Zheng Chenggong the power of the Zhengs reached new heights. Through the 1660s and 1670s their regime in Taiwan remained a de facto independent kingdom, exacting tribute and conducting trade with the Spanish Philippines, the Ryukyus, and various kingdoms of Southeast Asia. Zheng Chenggong’s successor Zheng Jing repeatedly rejected Qing offers of a semi-autonomous status, proposing instead recognition as a tribute vassal of the Qing based on Korean and Ryukyu precedents. The Kangxi Emperor, however, insisted that “the thieves in Taiwan are Fujianese, Taiwan is not comparable to Korea and Ryukyu.” The Zheng regime was terminated by military defeat in 1683. [52]
The very comparability of the Zheng and the Dutch commercial empires makes their opposite fates especially instructive. In the European context, the Dutch became the leaders of the institutionalization of the balance of power among European states; of the empowerment of capitalist strata within these states; and of the intensification of interstate competition in building overseas empires. In East Asia, in contrast, the downfall of the Zheng empire cleared the way for the demilitarization of the Chinese merchants, the consolidation of national-economy-making, both in Qing China and Tokugawa Japan, and the precipitous decline of the power of the overseas Chinese vis-a-vis the region’s territorial states. As Kenneth Pomeranz notes, the Zheng empire “stands as an illuminating example of a kind of activity that successfully paralleled European armed trading and colonization but was not a normal part of the Chinese state system.” [53]

Despite their success in promoting the East Asian Industrious Revolution and the further increase in the East Asian share of world production mentioned above, the inward-looking policies of Qing China and Tokugawa Japan—acknowledges—resulted in a sharp contraction of trade among Asian countries from the early eighteenth century. [54] Worse still, they left a political void in maritime East Asia, which the demilitarized Chinese merchants were ill-equipped to fill. Gradually, the void was filled by European states, companies and merchants whose capacity to dominate maritime East Asia increased rapidly at the turn of the eighteenth and nineteenth centuries. Critical in this respect was the internal disintegration of the Qing and the decline of Chinese shipbuilding industries and navigation technologies at a time of rapid European advances in both. [55]

In this respect, Smith’s assessment that a more extensive foreign trade would have been in China’s national interest (“especially if any considerable part of [it] was carried on in Chinese ships”) [56] had some validity, above all on grounds of national security—that is, of China’s capacity to monitor and meet the growing naval challenge posed by the Europeans. For at least a century, however, the chief security problem for the Qing was on the northwestern frontier and within Han China, where the legitimacy of Manchu rule as foreign conquerors remained precarious. Under these circumstances, pouring resources into shipbuilding, navigation, and the carrying trade necessarily appeared as a luxury at best, and the surest road to imperial overstretch at worst. Moreover, why risk such an overstretch when Europeans fiercely competed with one another to pour silver into China in exchange for Chinese commodities? As a result of China’s highly competitive exports of silk, porcelain and tea, and a Chinese demand for silver that drove silver prices to levels twice those prevailing in other parts of the world, from the sixteenth until well into the eighteenth century, fully three-fourths of “new world” silver found its way to China. [57] It is indeed hard to imagine how the success of China’s self-centered development—which so much impressed even Europeans—could not blind the Qing to the new power that the aggressive seaborne “barbarians” were bringing to the region.

In short, the synergy typical of the European developmental path between militarism, industrialism and capitalism, which propelled, and was in turn sustained by, ceaseless overseas territorial expansion, was absent in East Asia. As a result, East Asian states experienced much longer periods of peace than European states, and China could consolidate its position as the world’s largest market economy. And yet, lack of involvement in overseas expansion and in an armament race, European-style, eventually made China and the entire East Asian system vulnerable to the military onslaught and subordinate incorporation of the expanding European powers.
Incorporation and Hybridization

The subordinate incorporation of East Asia within the European system, and the eclipse of the region in world production shown in figure 1, were not due primarily to the competitive edge of Western vis-a-vis East Asian, especially Chinese, economic enterprise. Contrary to Marx’s and Engels’ claim that cheap commodities were the “heavy artillery” with which the European bourgeoisie “batter[ed] down all Chinese Walls,” [58] even after British gunboats had battered down the wall of governmental regulations that enclosed the Chinese domestic economy, British merchants and producers had a hard time competing with their Chinese counterparts. From the 1830s, imports of British cotton textiles did devastate some sectors and regions of the Chinese economy. Yet, British cotton cloth was never able to compete in rural markets with stronger Chinese cloth. Moreover, as foreign imports displaced handicraft spinning of cotton yarn, the use of cheaper, machine-produced yarn gave new impetus to the domestic weaving industry, which not only held its own but even expand. [59] Western firms that set up production facilities in China could never penetrate effectively the vast interior of the country, and had to rely on Chinese traders in the procurement of raw materials and the marketing of their products. Western products and businesses did triumph in a few industries. But outside of railways and mines, the China market generally spelled frustration for foreign merchants. [60]

Far from destroying indigenous forms of capitalism, the incorporation of China within the structures of the UK-centered capitalist economy led to a renewed expansion of the Chinese merchant communities which had developed in the interstices of the China-centered tribute trade system. As the Opium Wars and domestic rebellions shattered the capacity of the Qing court to regulate flows of goods and people across China’s borders, profitable opportunities for these communities proliferated. The opium trade was a major source of such opportunities; but the greatest opportunities arose in the “coolie trade”—in the procurement and transshipment overseas of indentured labor and in the financial transactions associated with remittances back to China. The coolie trade made the fortunes, not just of individual merchants, but of the port-cities of Singapore, Hong Kong, Penang and Macao, which became privileged “containers” of the wealth of the Chinese business diaspora. It also increased Chinese settlement throughout Southeast Asia, thereby strengthening the capacity of overseas Chinese capital to profit from commercial and financial intermediation within and across jurisdictions in the region. [61]

The fiscal and financial pressures engendered by wars, rebellions, worsening trade conditions, and natural disasters forced the Qing court, not only to relax controls on the activities of the overseas Chinese, but to seek their financial assistance. In exchange for the assistance, the Qing court granted them offices, titles, protection for their properties and connections in China, as well as access to the highly profitable arms trade and government loan business. This “political exchange” did not save the Qing. But, up to their collapse in 1911, it was a major source of enrichment for overseas Chinese capitalists. [62]

Throughout the first half of the nineteenth century—notes Joseph Esherick—opium was “the West’s only feasible entree into the China market.” [63] In Britain’s case it was much more than that, because British sales of Indian opium to China were crucial in the transfer of tribute from India to London. As the head of the statistical department at the East India House explained,

India, by exporting opium, assists in supplying England with tea.
China by consuming opium, facilitates the revenue operations between India and England. England by consuming tea contributes to increase the demand for the opium of India. [64]

The need to expand the India-China trade in order to facilitate the “revenue operations” between India and England had been from the start the main stimulus behind the expansion of the opium trade. As early as 1786, Lord Cornwallis, then Governor General of India, pointed out that the expansion of the India-China trade was essential to paying at least in part for Chinese exports of tea and silk to Britain and other European countries and, above all, to transfer the vast tribute of Bengal to England without heavy losses through exchange depreciation. [65] After the India trade monopoly of the East India Company was abrogated in 1813, the Company redoubled its efforts in promoting opium smuggling into China. Shipments expanded rapidly–more than threefold between 1803-13 and 1823-33–and the soundness of Cornwallis’ argument was vindicated. In the words of a contemporary account, from the opium trade

The Honourable Company has derived for years an immense revenue and through them the British Government and nation have also reaped an incalculable amount of political and financial advantage. The turn of the balance of trade between Great Britain and China in favour of the former has enabled India to increase tenfold her consumption of British manufacture; contributed directly to support the vast fabric of British dominion in the East, to defray the expenses of His Majesty’s establishment in India, and by the operation of exchanges and remittances in teas, to pour an abundant revenue into the British Exchequer and benefit the nation to an extent of £6 million yearly. [66]

The abrogation of the East India Company’s China monopoly in 1833 intensified competition in this lucrative branch of British commerce and emboldened British merchants to agitate for “the strong arm of England” to bring down the restrictions that the Chinese government imposed on the opium trade. Far from yielding to British pressures, the Chinese government moved to suppress a trade which was as baneful for China and disruptive for its political economy as it was beneficial for Britain. The proceeds of opium smuggling trickled down to Chinese officials, whose corruption impaired the execution of official policy in all spheres and, directly and indirectly, fed social unrest. At the same time, the trade caused a massive drain of silver from China to India, which grew from 1.6 million taels a year in 1814-24 to 5.6 million taels a year in the two years preceding the first Opium War. [67] As the imperial edict of 1838 emphasized in announcing the decision to destroy the trade, “the useful wealth of China will be poured into the fathomless abyss of transmarine regions.” [68]

In putting the vigorous and incorruptible Lin Zexu in charge of the suppression of opium smuggling, the Chinese government had no intention of thwarting commercial opportunities in other branches of foreign trade, such as silk, tea and cotton goods, which it continued to promote. Lin himself was careful in drawing a distinction between the illegal opium trade—which he was determined to suppress with or without the cooperation of the British government—and legal forms of trade, which he asked the British government to encourage as a substitute for the illegal trade. [69] Having failed to persuade Britain to
cooperate in the suppression of the traffic in the name of international law and common morality, he proceeded to confiscate and destroy smuggled opium and to incarcerate some smugglers. This police operation on Chinese territory was denounced in the British Parliament as "a grievous sin—a wicked offence—an atrocious violation of justice, for which England had the right, a strict and undeniable right," by "the law of God and man," "to demand reparation by force if refused peaceable applications." [70]

Evidently, two quite different views of international law and common morality held sway in Britain and China. But while the Chinese claimed a right to lay down and enforce the law only at home, the British claimed a right to lay down and enforce the law not just at home but in China as well. To paraphrase Marx, between equal rights force decides. China had no answer to the steam-powered warship that in a single day in February 1841 destroyed nine war junks, five forts, two military stations, and one shore battery. [71] After a disastrous war, an explosion of major rebellions, and a second, equally disastrous war with Britain (now joined by France), China became a subordinate, and increasingly peripheral, member of the global capitalist system. This peripherality was not merely the result of the subordinate incorporation of East Asia within the European system. Equally important was the radical change in interstate relations within East Asia precipitated by Chinese and Japanese attempts to follow in the footsteps of the European developmental path.

As Kawakatsu and Hamashita have underscored, Japan’s modernization and territorial expansion of the late nineteenth and early twentieth centuries were a continuation by new means of centuries-long Japanese endeavors to re-center upon itself the East Asian tribute trade system. [72] Nevertheless, the change in systemic context transformed radically the nature of the interstate competition that had characterized the East Asian system since the consolidation of the Tokugawa and Qing regimes. In the new context, interstate competition within East Asia became inseparable from attempts to catch up with Western proficiency in the capital goods industries, whose modernization (in East Asia no less than in Europe) was intimately associated with the enhancement of military capabilities. The armament race which had long been a feature of the European system was thus “internalized” by the East Asian system. [73]

For about twenty-five years after they were launched, industrialization efforts yielded similar economic results in China and Japan. On the eve of the Sino-Japanese War of 1894, “the disparity between the degree of modern economic development in the two countries was not yet flagrant.” [74] Nevertheless, Japan’s victory in the war was symptomatic of a fundamental difference between the industrialization drive of the two countries. In China, the main agency of the drive were provincial authorities, whose power vis-a-vis the central government had increased considerably during the repression of the rebellions of the 1850s, and who used industrialization to consolidate their autonomy. In Japan, in contrast, the industrialization drive was integral to the Meiji Restoration, which centralized power in the hands of the national government at the expense of provincial authorities. [75]

The outcome of the Sino-Japanese war, in turn, deepened the underlying divergence in the trajectories of Japanese and Chinese industrialization. China’s defeat further weakened an already fragile national cohesion, resulting in deepening political chaos, marked by further restrictions on sovereignty, crushing war indemnities, the final collapse of the Qing regime and the growing autonomy of semi-sovereign warlords, followed by Japanese
invasion, and recurrent civil wars between the forces of nationalism and communism. This catastrophic state breakdown is probably the single most important explanation for why it took such a long time for China to regain the economic rank and status it held globally in the mid eighteenth century.

Victory over China in 1894, followed by victory over Russia in the war of 1904-5, in contrast, established Japan—to paraphrase Akira Iriye—as “a respectable participant in the game of imperialist politics.” [76] The acquisition of Chinese territory—most notably, Taiwan in 1895, followed by the Liaodong peninsula and the securing of all Russian rights and privileges in South Manchuria in 1905, and culminating in China’s recognition of Japanese suzerainty over Korea, annexed as a colony in 1910—provided Japan with valuable outposts from which to launch future attacks on China, as well as with secure overseas supplies of cheap food, raw materials and markets. At the same time, Chinese indemnities amounting to more than one-third of Japan’s national income helped Japan to finance the expansion of heavy industry and to put its currency on the gold standard. This, in turn, improved Japan’s credit rating in London and its capacity to tap additional funds for industrial expansion at home and imperialist expansion overseas. [77]

This bifurcation of the Japanese and Chinese developmental paths culminated in the 1930s in the eclipsing of Britain by Japan as the dominant power in the region. With the Japanese seizure of Manchuria in 1931, followed by the occupation of North China in 1935, full-scale invasion of China from 1937, and the subsequent conquest of parts of Inner Asia and much of Southeast Asia, Japan seemed to be finally succeeding in re-centering upon itself the East Asian region. The Japanese bid for regional supremacy, however, could not be sustained. Stalemated in a fifteen year war with China (1931-45) and facing the US-led juggernaut unleashed in response to Pearl Harbor, Japan succumbed in a classic example of imperial overreach. Once Japan had been defeated, the formation of the People’s Republic of China would contest Western hegemonic drives in a struggle for centrality in East Asia that has shaped trends and events in the region ever since.

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Notes
[1] See Ikeda (1996) for an overview of the contribution of these scholars. The Japanese school builds upon, and critically departs from, the earlier conceptualization of the China-centered system by Fairbank and his students (Fairbank 1968). On the relationship between the two conceptualizations, see Perdue (2003).
[5] While between 1815 and 1914 there were wars among the European powers for a mere three and a half years (including the Crimean War), in each of the two centuries preceding 1815 European powers were at war with one another for an average of sixty to seventy years. Polanyi (1957: 5).
sailed into San Francisco Bay several decades before Columbus blundered into the Caribbean islands.” McNeill (1998: 229). With ships that probably displaced 1,500 tons, compared to the 300 ton flagship of Vasco Da Gama, China’s seaborne capacity at this time had no peer. See McNeill (1982:44).


[25] Smith distinguished between what he called a “natural” and an “unnatural” or “retrograde” path to opulence. In the “natural” path, which he attributed to China, “the greater part of capital... is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce.” In the “unnatural” or “retrograde” path, typical of Holland and European states in general, development proceeds in reverse order, from foreign commerce, to manufacture, and last to agriculture. See Smith (1961: I, 403-6) and Arrighi (2007: 57-63).


As Qing policies resulted in explosive demographic growth, the purpose of land reclamation shifted from the reestablishment of the central government’s fiscal base to the search for new sources of food to maintain the rapidly expanding population. Rowe (2001: 56-7).

Quoted in Rowe (2001: 223).


Rowe (2001: 201-2).

Rowe (2001: 204).

Arrighi (2007: chapter 2)


Elvin (1973: 318).


Smith immediately qualifies this statement with another, which entails an ambiguity similar to Elvin’s in dating China’s entrapment in a stationary state: “China, however, though it may perhaps stand still, does not seem to go backward.” Smith (1961: I, 80-1).

Sugihara (2003: 79, 82, 89-90; 94, 117 fn 2)

Arrighi (2007: chapters 3 and 8).

Braudel (1982: 153; 588-9; emphasis in the original).


Wills (1979, 1998); Wong (1983); Coyett ([1675] 1903); Ho (1994: 44).


Casaba (1993); Chen (1984: 58-61); So (1986: 103-116); Nathan (1972: 5).


Esherick (1972: 10).

Thornton (1835: 89).

Bagchi (1982: 96); Greenberg (1951: chapter 2).

Quoted in Greenberg (1951: 106-7).


Quoted in Greenberg (1951: 143)


Quoted in Semmel (1970: 153); see also Owen (1934).


By revealing brutally the full implications of Western military superiority, the Opium Wars awoke the ruling groups of China and Japan to the imperatives of accelerated military modernization. See Tsiang (1967: 144); Fairbank (1983: 197-8); So and Chiu (1995: 49-50).


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