

*Coping with the World Depression: The
Nationalist Government's Relations with
Chinese Industry and Commerce, 1932–1936*

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Introduction

The relationship between state and society has recently attracted increasing interest (Skocpol 1985). In many cases, particularly in Asia and the 'third world', the question has been posed in terms of how far the state's economic policies reflect the (real or perceived) interests of the capitalist class, or whether the state and its personnel act as an autonomous force above society pursuing policies irrelevant or even inimical to capitalist interests.

Historians of Asia see the Nationalist regime in China as one of the most important cases through which to approach this question. This paper addresses the issue by analysing the Nationalist government's responses to capitalist pressure to help industry and commerce overcome the effects of the world depression in the mid 1930s. Specifically it will examine capitalist demands and the constraints on government action in four key areas: China's relationship to the world economy; government taxes and charges; financial aid to struggling industries; and the establishment of economic control to tackle excessive competition and possible mismanagement by Chinese enterprises. The paper argues that the lessons of this case study can most profitably be seen in a broader context, and uses examples from several countries, including pre-war Japan and contemporary Indonesia, to show ways

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in which the Chinese experience was not unique but in important ways paralleled that of other countries.

The Nature of the Nationalist State

Attempts to conceptualize the relationship between Jiang Jieshi's (Chiang Kai-shek's) state and Chinese society range from the basically instrumentalist position of the French Marxist historian Jean Chesneaux (1977:198) to the Eastman-Coble thesis that the state was autonomous in relation to social forces, acting in a rapacious manner towards the capitalists (Eastman 1974:239-43; Coble 1980:32-5, 268-9). While most accept that the work of Eastman and Coble makes the simple instrumentalist position untenable, many remain dissatisfied with their alternative of complete autonomy. Most importantly, Bradley Geisert (1982) has put forward a pluralist model, while Joseph Fewsmith (1985:163-5) has seen the relationship between state and society mainly in terms of corporatism. More detailed studies by the Japanese scholar Kubo Tōru (1980 and 1981) and Richard Bush (1982) also suggest that the capitalists were able to influence government policy in important ways.

Most of this debate has been confined within the limits of Chinese history, but a comparative perspective can also provide many insights. Fewsmith makes a start by citing the corporatist fascist states of Europe, but are they really the most illuminating comparisons? It is rather states whose level of development was closer to that of China, such as the postwar decolonized states of south and southeast Asia, which faced many of the same problems and whose attempted solutions were in many ways similar.

Ian Roxborough (1979:118-24) has argued that in most 'third world' countries the state enjoys a high degree of autonomy from its social background. Before the second world war, both the revolutionary regime in Mexico and Ataturk's government in Ankara had obscure relationships to major social classes, as have many of the governments of newly independent third-world states since 1945. For instance, though operating in a very different, largely democratic, context, the Congress Party in India also performed a balancing act between progressive urban and conservative rural interests similar to that attempted by Jiang Jieshi (Patnaik, 1975:57-8).

The 'New Order' in Indonesia is another case in point. The

Suharto regime, like Jiang's, came to power in the context of an anti-Communist coup. Like Jiang's it is based ultimately on military power, but also has pretensions to party rule and to a technocratic ideology of development. There again the state machine and its personnel pressed their own institutional and individual claims even where these conflicted with the rights of bourgeois property. Nevertheless the 'New Order' state does still in many ways function to promote the development of capitalism as a whole within the country, even if there are conflicts of interest within the capitalist class between those whose main connections are with the state and more purely 'private' capitalists (Robison 1986).

China and the Depression

The impact of the world depression in China was less severe than in the developed world. Indeed some deny China suffered from a 'depression' at all. Many macro indicators suggest that it did not: Chang's index of industrial production, for instance, grew throughout the period (Chang 1969:60-1). This was in fact common in less developed countries, where various factors, including limited dependence on foreign trade, low initial levels of industrialization and the recovery of tariff autonomy (for instance, by both Turkey and Egypt as well as China in the early 1930s), meant that industrial growth continued through the depression, though at a reduced rate (Berberoglu 1980:97; Tignor 1984:109, 123).

Nevertheless, three factors meant that the government was still confronted with an economic crisis. First, the output figures alone understate the impact of the downturn, as the main effect was on prices, profits and especially the incomes of peasants involved in the market economy. Second, the political crisis was more serious than might be indicated just by aggregate national statistics, since the impact of the depression was greatest on the commercialized and industrialized areas of central China, which the Nanjing government controlled and depended on: Chang's figures, by including the mineral industries and Manchuria, are unrepresentative of the areas controlled by Nanjing (Coble 1980:300-1). Among the consumer industries in these areas, the worst hit was silk, which suffered from secular as well as cyclical problems, with the emergence of artificial fibres, so that the fall in its price was insufficient to counteract the

contraction in world demand. Cotton yarn, flour and other consumer industries also encountered serious problems in the mid 1930s, though these were not always reflected in any fall in output.

Third and most important, whatever the statistics show in hindsight, the literature at the time portrayed a situation of chronic crisis. In the mid 1930s, British observers feared the complete collapse of China's economy (Trotter 1975:135), and Chinese economists posed the question in terms not of any improvement in the economy but of its very survival (SBYK December 1934:12). Whereas the British concern was for an export market and the repayment of loans, for the Chinese the depression was inextricably tied up with the broader national crisis. Thus concern over the effects of the depression reached a peak when one of China's leading cotton mills was auctioned by a British bank to which it was mortgaged, and was apparently bought by Japanese interests (Bush 1982:257-64).

Granting that China experienced an economic downturn at least in terms of prices and profits, the timing was different in China from in the West. The decline in the value of its silver currency protected China to a large extent from 1929 to late 1931 (the exceptions being the gold-currency-based northeast and the silk industry). After the British and Japanese abandonment of the gold standard late in that year, however, China entered a period of deflation, falling profits and in some cases falling output, with the trough coming in 1935. Recovery began late that year, though only from November 1936 did there begin a sustained and continuing rise in both prices and output, and 1937 showed very strong growth in the modern sector.

Government and Business Responses to the Depression

The question of how to respond to the impact of the world depression became an issue between the Nanjing government and the Chinese capitalist class. The capitalists had emerged as a political force mainly in Shanghai in the 1910s and 1920s, a period of industrial growth and a weak government unable to impose its control (Coble 1980:19-25). Although during the Nanjing decade they faced a stronger regime interested in exerting control over them, there were still several institutions through which they could express their views. Apart from the Shanghai General Chamber of Commerce, by the mid 1930s partly under Nationalist Party control, the key role was played by the industry associations, of which the best known were the Shanghai

Bankers' and the Cotton Mill Owners' Associations, though most industries had their own organizations.

Individually and through these organizations, business interests put a series of demands to the government by means of public and private petitions. Three packages of proposals to overcome the crisis were also developed, one submitted by cotton interests to the Nationalist Party's Fifth Plenum (GWZB 1 January 1935:1), two emerging from public meetings in March 1935 (GWZB 4 March 1935:5; GSBYK 15 April 1935:9). Finally individual capitalists and sympathetic intellectuals used the pages of Chinese newspapers and periodicals such as *Yinhang zhoubao* (Bankers' Weekly) to push their case.

For their part, despite differences of opinion with the capitalists, neither the Nationalist Party nor the government should necessarily be seen as entirely anti-capitalist. There were certainly anti-capitalist elements in Party ideology and policy, as indeed there were among the Japanese state bureaucracy eventually responsible for the economic 'miracle' (Johnson 1982:108). Thus, economist Ma Yinchu pointed out the contradiction between a programme of economic nationalism aimed at supporting Chinese against foreign capital and a domestic policy which stressed the restriction of capital (DFZZ 1 July 1937:10). The Party was also suspicious of small capitalists and dubious about their ability to develop heavy industry in particular (Kirby 1984:79-80). Nevertheless, most of the capitalists discussed in this paper were involved in light industry, which was to remain the province of private enterprise. Moreover, although one can quote from Party motions condemning capitalism, there was considerable ambiguity on this question, and the Fifth Plenum did pass the package to help the cotton industrialists. Nationalism suggested strong support for Chinese capital, and a left-Nationalist elder wrote an article for *Bankers' Weekly* trying to lay to rest some of the anti-capitalist feelings he admitted were prevalent among young people and party members (YHZB 7 February 1933:1-4).

Nor were the leading figures in the government consistently anti-capitalist. Even Chen Gongbo, the left-Nationalist Minister of Industry in the mid 1930s, explicitly supported capitalist industry in China. He told Julian Arnold, the American commercial attaché, that he was 'favorable to the capitalist system for the time being', though one cannot put too much weight on such a statement to an American official (Arnold Papers Box 6: 'Report for the week ended August 5, 1933'). Song Ziwen (T. V. Soong), Finance Minister up to 1933 and

Jiang Jieshi's brother-in-law, can hardly be called anti-capitalist even if he wished to expand his own empire at others' expense; the same could probably, with a little less confidence, be said for his brother-in-law and successor as Finance Minister Kong Xiangxi.

Most importantly, the Nationalist state, especially when viewed in its regional context, operated within a social structure which limited its options in relation to the interests of dominant classes. To take an extreme example, it could not, without changing its very nature, support the workers against the capitalists or the peasants against the landlords. The government recognized it was working predominantly within a basically capitalist modern sector. Although it had some conflicts of interest with that sector, it nevertheless had a stake in its prosperity and growth. As Chen Guangfu (1961:88) pointed out, because of the government's proximity to Shanghai, it 'could not do too many unreasonable things or enact too many unreasonable laws'. Indeed it 'was more enlightened and competent than its predecessor military regimes'. Thus it was in its interest to respond to capitalist concerns over imports, taxation, liquidity and economic control.

China's Relationship to the World Economy

Many capitalists and most other groups saw as the state's first duty resistance to 'imperialist oppression'—the term they used to conceptualize China's relationship to the world economy which they saw as the origin of the country's problems. Few believed China could be entirely cut off from the world (the country had much less of a self-sufficient industrial base than it did in the 1960s at the height of 'self-reliance') but they felt that the world trend was towards economic nationalism and autarchy, and were quite happy for China to follow. Thus one senior bureaucrat on the National Economic Council argued:

China was originally a country able naturally to be self-sufficient. But because the lack of industrial development forced reliance on imported manufactured goods, while for various reasons substantial quantities of agricultural products were exported, the current national economic crisis emerged. If we are to resolve this crisis, the only way is to rouse ourselves to pursue the path of self-sufficiency (SJY May 1935:33).

This concern with China's relationship to the world economy reflected both the broader national crisis and the essentially import-substituting nature of China's early industrialization. Ever since the

end of the boom of the late 1910s, Chinese industry had perceived itself as suffering from severe competition from imported goods. The flood of cheap Japanese imports from 1932 made possible by the depreciated yen greatly heightened this perception. Often Chinese companies saw these imports as the mechanism forcing down prices in China and undermining Chinese industries across the board, from coal to cotton yarns and matches (Wright 1984:110; Quanguo jingji weiyuanhui 1935:3-4; SSKY 1980:1.414). Although competition from imports declined after 1933 because of the higher tariff, the tariff wall was partly evaded by widespread smuggling. Moreover, perhaps because of the Japanese threat to China as a whole, 'dumping' was perceived as a danger long after it had ceased to be one.

Tariff-based import-substituting industrialization was a common response to the depression on the part of the independent 'third world' countries. In countries as various as Turkey, Egypt and Brazil, national industry developed through the 1930s behind a wall of higher tariffs (Berberoglu 1980:102, Tignor 1984:111; Frank 1971:204). Even in the colonized countries the state responded in a similar though weaker way, as in India, where the sugar and cotton industries grew as a result of higher tariffs (Markovits 1985:58).

In China, too, the belief that imports were oppressing Chinese industry led naturally to calls for protection. After China regained full tariff autonomy in 1933, Song Ziwen introduced measures to protect Chinese industry (Coble 1980:125). Pressure from the Japanese and the military's demands for resources, however, forced Song's resignation, and in July 1934 a revised schedule lowered the tariffs on certain key Japanese imports competing with Chinese products. Protests and petitions opposing the change emanated from the Shanghai Chamber of Commerce and Shanghai newspapers as well as from cotton mill interests (CWR 7 July 1934:224, 14 July 1934:262, 21 July 1934:303-4).

Despite this blow, Chinese industry continued to press in late 1934 and 1935 for increased protection. In 1935, a group of fifty Chinese factories in Shanghai petitioned the government, calling for the adoption of a protective tariff (CWR 8 June 1935:72), and the annual meeting of the Chinese Cotton Mill Owners Association in Shanghai again bemoaned the effects of the 1934 tariff revision and called for 'balanced' tax treatment in order to aid competition with foreign goods (YHZB 28 May 1935;*guonei yaowen* [hereafter GNYW] 3-4). Business interests tended, however, to believe that tariffs should be totally protective: if imports still came in, they must be being dumped

and a dumping tax should be imposed. This was the message of the head of the Flour Manufacturers' Association when calling for relief for his industry in September 1933 (YHZZ 5 September 1933:GNYW 6), and a similar message came from cement manufacturers (SB 24 February 1934).

The interests of the state itself were the most powerful factor impelling it to resist such demands. In any choice between the revenue-raising and protective functions of tariffs, the government's military priorities, which left little room for cutting expenditures, forced it to choose the former. In addition, facing a strong and aggressive Japan, Jiang's regime was willing to trade economic concessions for political breathing space, to the disapproval of many patriotic elements. This was clearly shown by Song's forced resignation in 1933 and remained the situation up to the war.

In addition, however, the message the government was receiving from the capitalists was by no means unambiguous: tariff protection benefits and harms different sectors of the community, with the general pattern being for producers of the raw material or intermediate good to favour increased tariffs, the consuming industries (the scattered final consumers were much less influential) to oppose them. Disputes along these lines took place for instance between printers and paper producers (Kubo Tōru 1981:48, 50), and between grain traders (and possibly through them rural interests) and flour millers (YHZZ 19 December 1933:GNYW 2).

In the even more important cotton industry, merchants attempted to keep up prices, and their profits, by calling for increased tariffs on imported cotton (YHZZ 16 April 1935:GNYW 1-2). Those banks which held stocks of mortgaged cotton supported this call. But the powerful cotton textile interests, which in part used imported raw materials, and whose costs would be raised by any increase in the tariff, argued that such a move would lead to further mill closures, especially as mills in Japan did not have to pay any tax on imported cotton (YHZZ 23 April 1935:GNYW 1-3). The government supported the cotton mills, arguing that the earlier tariff had already sharply reduced imports, and current imports were mainly of high grade cotton, which did not compete with the Chinese product. Moreover, cotton prices had fallen only in relation to an artificially high speculative price at the end of the previous year (YHZZ 11 June 1935:GNYW 1). So the government gave little ground on this issue, making no further adjustments of tariffs for cotton or other goods before 1937.

Government Taxes and Charges

Some of the most insistent capitalist pressure came in calls for reductions in government taxes and charges, which they saw as penalizing the struggling industrial sector. Though the world has probably yet to see a businessperson who fails to complain about the level of taxes, the Nationalist government's reliance on taxes levied on the modern sector may have meant that the burden in China was especially heavy (Paauw 1957). Moreover, the Chinese-owned sector, for instance in the cotton yarn and tobacco industries, complained that the structure of taxes, which tended to fall more heavily on cheaper products, discriminated against them in favor of imports or the products of foreign factories in China (SB 27 January 1934; DFZZ 16 December 1934:27-35).

The Nationalists had already acted to improve the situation by abolishing *likin* and the local transit taxes. But in the 1930s, when prices and profits were falling, concern over taxation increased, and many industries saw tax relief as the primary avenue for government assistance. When canvassed for ideas on the relief of their industry, nearly all the major coal mines asked for a reduction in taxes (JJDA 17-24-8-1). Tobacco interests also made numerous requests for reduced taxes on cigarettes, though cuts came only in 1937 after Song Ziwen had bought into the largest Chinese-owned tobacco company (Cochran 1980:197; Coble 1980:231-2). The flour industry's demands were aimed mainly at local governments which taxed the transport of wheat to the mills (YHZZ 5 September 1933:GNYW 6).

In some industries a high price elasticity of demand both increased the problems caused by higher taxes and decreased the revenue gains to the government. Even the National Economic Council argued in a 1935 report that high taxes were a particular problem for the match industry. The recent increase in rates had not resulted in a commensurate rise in government revenue, while seriously adding to the people's burdens. Thus a reduction in the rate of tax was crucial for the relief of the industry (Quanguo jingji weiyuanhui 1935:71). The match manufacturers agreed, and industry leader Liu Hongsheng wrote to the Finance Minister in December 1935, listing tax cuts as one major way the industry could be helped (SSKY 1981:2.207).

The development of the consolidated tax to replace *likin* (Young 1971:63-7) and its gradual extension to an increasing number of commodities created a clear focus of conflict. In February 1934 the

National Cement Manufacturers' Association argued that their business had been adversely affected by the recent rise in consolidated taxes (SB 25 February 1934). Most importantly, the cotton industry argued for a reduction in the tax on cotton yarn, but was successful only in resisting attempts to raise it (Bush 1982:248-57). As the *China Weekly Review* (6 April 1935:187) wrote:

It has been agreed among the industrialists that the Government should be requested to extend immediate help to the Chinese mills in order to tide over the present urgent difficulties. All seem to have unanimously believed that the only means to pull the industry out of the rut is to lower the consolidated tax or to raise the tax on the imported cotton piece goods.

Equal treatment for Chinese and foreign cotton mills in the imposition of consolidated tax was first on a list of relief proposals advanced by the Chinese Cotton Mill Owners Association in 1933, though the second item suggested giving Chinese mills an advantage by refunding some of their tax payments (YHZB 4 July 1933:8-9).

Again the interests of the state left little leeway for the Finance Ministry to grant the sort of tax cuts requested. During the Nanjing decade the central government ran continuous financial deficits (Tien 1972:76-7). Moreover it was almost entirely dependent on indirect taxes on consumption, with the consolidated tax making up a growing proportion of its receipts and having the further advantage over the excise taxes of being more firmly under central control (Tien 1972:78, 80). Given that situation, it would have taken a major reorientation of government priorities to give much ground on the issue. Leading economist Ma Yinchu saw the solution in terms of the replacement of consumption taxes with the more equitable direct income tax (DFZZ 1 July 1937:13). But, certainly in the short term, such a proposal wildly overestimated the actual tax-collecting capacity of the Chinese state.

Finance and Liquidity

A third focus of interaction between business and the government was industry's hope that the latter, possibly in collaboration with the private banks, would act to increase the availability of liquid capital. Bush (1982:306) argues that the major thrust of activity by cotton mill owners was the search for credit, and proposals to increase bank reserves and therefore lending capabilities formed a prominent part of the relief package advanced in spring 1935, as did suggestions for

government-backed loans and the establishment of a bill market. These proposals also, however, ran up against both the state's financial and political weakness and its interest in extending its own power and revenue-raising capacity in the economy.

Struggling industrialists attributed many of their immediate problems to a lack of liquidity, and thence to the American silver-purchasing policy of 1934-1935 which was draining China of silver and reducing the money supply (Young 1971:211-15). Another factor seen as limiting liquidity for Chinese companies was the lack of a commercial bill market, forcing them instead to rely on short-term high-interest loans from native banks. This whole issue is a very complex one, and figures for non-silver money supply throw doubt on the very existence of a liquidity crisis, suggesting that the companies' problems lay elsewhere (Rawski 1989:179). Nevertheless the issue still formed an important focus of debate between business and the Nanjing government.

Industrialists complained also that the banking sector concentrated its investments too much in government bonds, to the neglect of industry. For their part the bankers did not see aid to industry as a prime duty. Zhang Jiaao (1960:71) wrote later: 'agricultural and industrial credit was not within the purview of the Bank of China,' and one of China's leading private bankers, Chen Guangfu (1961:42-3), complained, 'Some people have the mistaken notion that a bank's function is to help . . . industry,' and argued, 'the business motive is basic, not the idea of helping people . . . The idea of helping industry is not very strong.'

On the other hand Zhang (1960:71) recognized that 'in a time of national crisis, the Bank [of China] had the responsibility to take the lead'. In fact, many examples from the cotton and coal industries indicate that by the late 1920s the modern Chinese banks were already a major source of funds for existing enterprises in trouble (Wright 1984:151-2; Yan Zhongping 1963:228-39). Beyond that, the banks were beginning to adopt a broader entrepreneurial role, for instance through Song Ziwen's China Development Finance Corporation, which the American commercial attaché described as 'viewed by Chinese bankers as being a very helpful step in the direction of cooperation between the government and the bankers, or vice versa, in the financing of domestic industrial and commercial developments'. (Arnold Papers Box 6: 'Report for the Week Ended June 9, 1934'.)

Proposals for the government to raise or guarantee loans which

would then be re-lent to individual industries or enterprises were not new. In 1933 the government decided to float a Y5¹ million bond issue to aid the silk industry, and proposed a Y20 million loan to help the cotton industry (YHZB 30 May 1933:7). Similar proposals were made in both 1933 and 1935 in the coal industry, where the aim was mainly to rehabilitate the obsolescent rolling stock of the Chinese railways (KYZB 7 June 1933:11, 7 September 1935:577; FC 11 September 1935:271). On an individual basis, China's cotton king, Rong Zong-jing, asked the government in 1934 to guarantee an issue of bonds to save his Shenxin cotton mills (SSKY 1980:1.415). None of these proposals came to fruition, and even the silk loan was never fully subscribed, though the taxes levied to repay it were levied in full, so the industry was actually worse off (Coble 1980:156-7).

Such proposals were revived on a more ambitious scale in early 1935, when industry pressed the government to sponsor a massive loan programme to increase liquidity. The government's response has to be seen in the context of its wish to extend its control over the banks. Thus on 20 March 1935 the Ministry of Finance announced the floating of a Y100 million bond issue to help relieve industry and commerce (GWZB 1 April 1935:5). But two days later *Dagongbao* (22 March 1935) reported that the real plan was what actually happened: to use the Y100 million instead to buy new shares which the banks were forced to issue, giving the government control over the two major private banks in China, the Bank of China and the Bank of Communications.

Throughout much of 1935 discussion continued over a Y20 million loan package to help industry, of which Y5 million came to be tagged for small business (see issues of YHZB for 1935). However, the Native Bankers' Association refused to collaborate, arguing that they were already the main providers of credit to small business, with at least Y12 million in loans outstanding, so that there was no point in participating in any new syndicate (DGB 17 March 1935). Even the modern banks were willing only to contribute a small amount (YHZB 7 May 1935:GNYW 1-2). The Finance Ministry also argued that it could not directly advance its half of the loan for small business, and put the responsibility with the banks (YHZB 23 April 1935:GNYW 3-4).

Only after a further deepening of the liquidity crisis, during which the government had to extend a loan to the native banks, thereby

¹ Y: Chinese silver dollar.

bringing that sector under its control (YHZZB 11 June 1935:GNYW 6-8, 18 June 1935:GNYW 2-3; McElderry 1976:177-8), was a committee established to manage loans to the value of Y20 million (YHZZB 30 July 1935:GNYW 2-5, 6 August 1935:GNYW 10-12). Even then the prominent role played by Green Gang leader Du Yuesheng suggests that the scheme resulted in part in an expansion of gangster control over Shanghai business rather than, or possibly as well as, restoring commercial health (YHZZB 25 June 1935:GNYW 1).

Major government participation in loan schemes for industry was always unlikely given its stretched resources. The central government cited its own financial stringency when trying to shift the responsibility for financing relief for the silk industry on to the Shanghai city government (YHZZB 6 February 1934:GNYW 8). In any case, such direct bailing out of unprofitable enterprises has always been a questionable road for any government to take.

Government support for reform of the financial market, and especially the creation of a modern market for commercial bills, offered a less expensive, though still problematic, alternative. The silk piece goods industrialists, who were very dependent on outside sources for short-term working capital, took the lead in March 1935 by attempting to establish a system of commercial bills (SYYB March 1935:1-9; Lieu 1941:179-83). They appealed for rediscounting facilities to the Central Bank, which replied that, although it was a good way to increase liquidity, the banks would have to agree to discount the bills before the Central Bank could rediscount them (YHZZB 26 March 1935:GNYW 3). A bankers' meeting on 2 April agreed to discount the bills (YHZZB 9 April 1935:GNYW 2), and the scheme was put into operation. In practice, however, its scope of operation remained limited (Lieu 1941:184), and it did not make any major difference to the operation of the industry.

Interest in the question continued, however, and in August 1935 a working party reported that while there was no real shortfall in the money supply there was a lack of instruments of credit. It advocated the extension of the use of company bonds and commercial paper to replace the less flexible overdrafts and mortgages. This would ease the short-term crisis of Chinese industry, while in the longer term overcoming the speculative nature of the Chinese financial system (Jin Guobao 1936). Although thirty-eight banks participated in a bill discounting house in March 1936, this move never fulfilled its expected functions (Zhongguo jindai jinrong shi bianxie zu 1985:171).

The obstacles to the implementation of these proposals came less

from the government's weakness than from that of the capitalist sector itself. Many observers argued it was the lack of credit-worthiness of Chinese industry which prevented bankers from discounting their bills, and thus obstructed the formation of a bill market (YHZB 23 April 1935:9, 1 October 1935:13; Yi Shi 1935:9).

The government eventually moved to ease the liquidity crisis by permitting the banks to include bank acceptances and treasury certificates issued by the Committee of the Shanghai Bankers' Joint Reserve Board as deposit for legal tender notes. This had featured as part of the March 1935 proposals, but was only instituted in early 1936 (CESR February 1936:3). But the recovery of profits in response to rising prices and demand was a more important boost to the financial health of Chinese companies than were any institutional reforms.

Economic Control

A final area of government-business interaction was the attempt to institute 'economic control' in order to overcome excessive competition and poor management, factors often seen as underlying China's industrial troubles. Though this accorded more closely with the state's aim to increase its own power, it proved far beyond its capabilities.

Increased state involvement in the economy was a common, almost universal, response to the depression, which had undermined the idea that the market could on its own satisfactorily regulate capitalist economies. In Turkey, the depression was a key factor in the expansion of the role of the state, as 'Etatism' became one of the six 'arrows' of Kemalist ideology, assigning to the state the major responsibility for founding and managing new import-substituting industries. There, as in China, it was unclear what role remained for private enterprise (Hale 1980 and 1981; Berberoglu 1980). This trend was indeed so strong that a minority view even in the British government in India favoured intervention to support prices, arguing that 'the world is moving towards a stage where economic planning by Governments is becoming more and more necessary' (Tomlinson 1979:89).

More broadly, the state has played a key role in the economic development especially of late-comers (Gerschenkron 1962:16-21), and the same is true for the more recent East Asian success stories. In the 1930s the Soviet Union was the main example of a state-run economy, but the European fascist states were also influential in a

world-wide tendency in that direction. For China the most direct influence came from Japan, which was embarking on the initial and imperfect stages of its 'developmental state' (Johnson 1982:17,33) partly as a response to the depression.

There are striking parallels between the thinking behind economic control in China and in Japan, where the government also moved under the slogan 'industrial rationalization' to institute control over enterprises to improve management and replace competition with cooperation through setting up cartels (Johnson 1982:104). The lessons from Japan were not lost on the Chinese: the National Economic Commission attributed some of the success of the Japanese cotton industry to 'the spirit of unity in their industry' (JJDA 26-01-38-2), and Chinese coal owners were won over to the idea of a cartel after a favourable evaluation of the Japanese experience (Wright 1985:139).

One major target of control in China as in Japan was excessive competition and backward management. A leading economic bureaucrat argued that 'unfortunately competition within individual industries in China has led to unfavourable results' in that there were too many followers of a successful innovation, and so sales were made at below cost, affecting the whole industry (ZSZ June 1935:983). Such a perception was possibly more strongly held by government officials than by business. When the Ministry of Industry canvassed opinions from the coal companies, the replies mostly stressed the need to reduce taxes and transport charges, but the government official involved identified the main problem as that of competition, an issue that needed government intervention (JJDA 17-24-8-1). Nevertheless, industrialist Liu Hongsheng believed excessive competition in the match industry exposed it to imperialist aggression, and in 1934 the China Match Manufacturers' Association put the problem in terms of a 'lack of spirit of unity' (SSKY 1981:2.177).

The developmental state also concerned itself with the perceived backward management practices of the private sector. In Japan, the state wished to use the industrial rationalization movement to raise the efficiency and technological level of Japanese enterprises (Johnson 1982:108). In China, an essay in a volume edited by the Minister of Industry listed irrational organization and irrational management as two key internally-generated problems of national industry (Gu Yuquan 1935:65). Such opinions could also be found in the private sector: Chen Guangfu (1961:43) recalled his belief that poor management, speculation and over-expansion were the cause of the much-publicized difficulties of Shenxin, China's largest textile group, in

1934–1935; the banks lent the company ¥7 million in 1933 only on condition that its management be taken over by a special committee appointed by themselves. Chinese observers also pointed to the technical backwardness of Chinese firms, which some argued prevented them from competing on equal terms with their Japanese-owned counterparts (Shi Fengtao 1935:87; Gu Yuquan 1935:65–66; CWR 6 April 1935:187).

Such structural problems required, many agreed, a thoroughgoing solution encompassing at least cartelization within the industries and probably the extension of government control. Industry self-regulation was the initial choice for both business and government given the low level of institutionalization of the developmental state even in Japan (Johnson 1982:109). The most comprehensive, but still unsuccessful, attempt at self regulation in China was the agreement in 1933 by cotton mill owners to cut output as a way of shoring up the price of cotton yarn (YHZB 25 April 1933:GNYW 2–3). Arrived at with great difficulty, this scheme remained effective over only a short period and failed to achieve its aim (Bush 1982:207–13).

Mostly, however, government intervention was sought. Although ‘economic control’ can be seen as an aspect of ‘bureaucratic capitalism’, its relationship with the private sector was in fact an ambiguous one. All sections of Chinese society accepted and even welcomed a greater role for the state in economic and political development, and there were few advocates of an entirely free-enterprise laissez-faire economy. In March 1935, match interests warned: ‘due to business depression, even this industry is encountering serious difficulties, which, if not solved with the assistance of the Government, may lead to the collapse of the final branch in the national industrial edifice (FC 27 March 1935:356)’ Even foreign observers accepted the need for the government to play a role. A British Foreign Office expert argued: ‘The growth of Chinese industry . . . had in the main been due to individual initiative and the play of economic forces, but in the last five years [1928–1933] this natural process has been stimulated by official intervention (PRO FO371/18052, F11/11/10).’

Most observers, like the cotton textile pioneer Mu Ouchu and the banker Chen Guangfu, were therefore less concerned with the desirability of implementing economic control than with its feasibility (YHZB 26 September 1933:7–9; Chen Guangfu 1949:158–9). Few called for the government to withdraw from industry, many more denounced the inadequacy of its efforts and criticized official policies as ‘merely empty words’ (DFZZ 1 April 1935:28). Groups of

industrialists called for state control if they felt it would benefit their own immediate interests. Such policies, therefore, did not necessarily violate the perceived interests of the private sector.

Specific proposals for economic control included the petition from the Shanghai General Chamber of Commerce to the Ministry of Industry in May 1935, which cited as justification the fragmentation of Chinese enterprise and the necessity for cooperation: with surplus production in many sectors, government control was necessary to avert economic collapse (YHZB 7 May 1935:GNYW 4-5). The 1935 relief package for the cotton industry, which probably reflected industry opinion, called for the institution of control to regulate production and sales (Xu Xuehan 1936:88). At the time, cotton mills were being squeezed between expensive raw cotton and cheap yarn, while Chinese mills felt threatened by their foreign-owned competitors; the industry had tried but largely failed in its own attempts to reduce output, and government intervention seemed the most promising answer.

In the silk industry, most commentators also saw a major role for government regulation. In 1934, after Song Ziwen's return from the World Economic Conference with new ideas of economic control, the *China Weekly Review* (6 January 1934:241) wrote:

To the average business men who have very much despaired because of business depression, this government attempt to rationalize important industries has been welcomed as a panacea to economic ills. . . . The silkmen, who have been hit especially hard by business depression, have pressed the government most eagerly for the immediate organization of a Committee for Rationalization of the Silk Industry as a measure to relieve the present silk distress.

Later that year producers in the lower Yangzi area asked for government funds to establish a sales organization to promote silk exports (CWR 15 September 1934:96).

A general pattern in calls for economic control was for major producers to seek government support in order to police output restrictions and prevent new entrants into a given industry. In the match industry Liu Hongsheng petitioned the government in April 1934 to institute control in order to avoid 'excessive' competition and raise selling prices: Liu himself, as the largest producer, had an interest in restraining small but growing competitors. Though the matter was referred to the National Economic Council, the Executive Yuan argued that such output restrictions had no basis in law, and in any

case would be unenforceable against foreign-owned factories (SSKY 1981:2.172-6; Cochran 1988:36-40).

The government's response to calls for economic control emanated mainly from the National Economic Council and the Ministry of Industry. The former was officially established by Song Ziwen in 1933 as an agency for economic development, initially funded from the proceeds of the US Cotton and Wheat Loan. Japanese opposition soon dashed the original high hopes, however, leading to Song's resignation as Minister of Finance and a sharp reduction in the size of the US loan; possibly only the intervention of the League of Nations representative with Jiang Jieshi led to Song remaining head of the Council (Coble 1980:136-7; Arnold Papers Box 6: 'Report for the week ended December 30, 1933').

Both cotton and silk came under the auspices of the National Economic Council, which in October 1933 established the Cotton Industry Control Commission, with at least four major industrialists among its eighteen members (YHZB 24 October 1933: GNYW 4). One of its early, but unsuccessful, initiatives was to establish a company to buy up yarn on the Shanghai exchange to try to maintain prices (Bush 1982:229). Although always intending to attempt to rationalize the affairs of the cotton mills, financial constraints meant that the bulk of the Commission's work focused on improving the strains of cotton grown by Chinese farmers. The Sericulture Improvement Commission concentrated even more on the production of raw materials rather than the troubles of the filatures, though the two were intimately connected.

Under Ministers Chen Gongbo (1931-1935) and Wu Dingchang (1935-1937), the Ministry of Industry developed several schemes to control both industry and commerce and especially the export trades, which the Japanese bureaucrats also addressed first (Johnson 1982:98). The China Vegetable Oil Company and China Tea Corporation were two examples of such schemes. Although Coble (1980:243-5) stresses the degree to which these companies encroached on private enterprise, they also tackled real economic problems: even the government's American advisers believed that vegetable oil was the most promising export industry in which to develop control, though they felt that it should be put under the National Economic Council (Young Papers Box 53, 'Wood Oil': Memorandum). Less frequently, the Ministry attempted to involve itself in the control of production, as in the 1936 attempt to set up a coal cartel (JJDA 17-24-8-1; Wright 1985).

The obstacles in the way of these schemes lay not in any opposition from free-enterprise capitalism, but rather in the fundamental weakness of the Chinese state itself. The Nationalist government lacked the political and economic resources to practise economic control. The failure of the National Economic Council to help the cotton and silk industries was essentially due to a lack of finance, and the Ministry of Industry, while more successful in gaining control over key areas of commerce, seldom managed to raise the funds to establish new manufacturing facilities.

Political resources were also lacking, in that the state's control over society was limited both geographically and institutionally. The government's realization of this was one reason why it favoured self-regulation by industries (JJDA 17-24-8-1). The Ministry of Industry could not even enforce its plan for coal cartelization on the government-owned Huainan mine in Anhui, run by Song Ziwen's National Reconstruction Commission. China's lack of political integration also affected privately sponsored cartels. While Liu Hongsheng's attempts to form a match cartel were reasonably successful within the lower and middle Yangzi and southeast coast regions (Cochran, 1988:43-5), it proved very difficult to implement control on a national basis; Chinese factories in Shandong and in South China resisted attempts to integrate them into the scheme.

Another important limitation on the government's power came from the protection foreign companies enjoyed under the unequal treaties. The powers were generally opposed to the idea of control. A British official commented: 'The establishment of monopolies would be disastrous to British interests in China.' On the other hand, the head of the Foreign Office Far Eastern Department, admitted: 'State control of industry was not contemplated in 1858, and even since 1922 the idea has made headway. It seems somewhat difficult to deny the Chinese government the right to advance in that direction (PRO FO371/17142, F6068/6068/10).' The Japanese, though less opposed ideologically, had no compunction in resisting any proposals which threatened their interests, and Japanese coal companies in Shandong prevented the formation of a coal cartel in 1936 (Wright 1985:143-4). In the match industry the government's reluctance to confront Japanese and American interests led to the temporary shelving of the plan for control (SSKY 1981:2.175-6; SJY July 1935:78). Continuing efforts by Liu Hongsheng eventually succeeded in involving both groups, but on terms very favourable to the foreigners (SSKY 1981:2.219-25). The scheme was supposed to come into operation

with government support in February 1937, though the omission of the factories in south China led to scepticism over its prospects for success (Cochran, 1988:45; Arnold Papers Box 6: 'China Annual Economic Report for 1936').

With the exception of banking and currency, which in most countries remain partly the province of the state, regulation therefore made little impact on Chinese industry before 1937. When the economy recovered in late 1936 and 1937, it was still mainly under the auspices of private enterprise, with companies like Rong Zongjing's cotton mills resuming their expansion: in 1936 they passed their previous peaks of production both of cotton yarn and cotton cloth, and made over Y3 million profit (SSKY 1980:1.522,615).

Conclusion

No simple conclusion emerges from the history of government-business relations during the world depression, but this paper, while by no means going back to the old instrumentalist model, differs from the Coble–Eastman thesis in key respects. It stresses the importance of the structure within which the Nationalist regime operated, and which meant that it was in its own interest to try to encourage a healthy capitalist sector, while at the same time limiting its ability to bring this about. It is important not to see the relationship between state and capital as a zero-sum game. Especially for catch-up industrializers the state can play a very important role in promoting capitalist development.

The paper also stresses the use of a comparative perspective to argue that China's experience was by no means unique. Important differences of course existed between China and countries such as Japan, Turkey or Indonesia. China's size and its limited integration into the world economy may have given its government more room to manoeuvre, though this point is less compelling when focusing on the region under Nanjing's direct control. On the other hand, the even greater pressures, external and internal, that China faced probably made its government weaker domestically than in most of the other cases.

Nevertheless, China's response to the world depression, even in the area of 'economic control', was not just a function of specifically Chinese conditions. It is best seen not solely within the trajectory of Chinese history, but in a broader context of responses by states in

underdeveloped countries to the conditions of the world depression and, more generally, to the needs of import-substituting industrialization.

China in the 1930s was still in the import-substituting phase of industrialization, a period during which the national bourgeoisie was still weak, requiring a high degree of 'Bonapartist' intervention on the part of the state (Hamilton 1982:138). Likewise Robison (1985:302) describes the state in Indonesia in the 1950s as 'the only concentration of political and economic power with the potential to develop national capitalism', while Berberoglu (1980:97) writes that the depression forced the Turkish state to take the leading role, replacing the 'small, weak and incapacitated national industrial bourgeoisie.'

Thus state intervention in the economy was not simply as an imposition on an unwilling capitalist class, as Coble's argument implies. While industrialists like Rong Zongjing and Liu Hongsheng did not want the state to take over their enterprises, they were not averse to calling on state aid when it suited their purposes. It is far from clear that the major policy decisions of the 1930s (a much more important indicator than statements by government leaders) were as damaging to capitalist interests as is sometimes claimed. The government's establishment of an at least partially protective tariff in the early 1930s reflected the basic needs of import-substituting industry (Ci Hongfei 1985a). There was wide agreement, encompassing even Chen Guangfu (1949:170-1) that greater government control of the banking sector was a prerequisite for currency reform. Although our view of currency reform has inevitably been tainted by the 1940s inflation, before the war its effects were mainly beneficial (Ci Hongfei 1985b), even if, as Coble (1980:203-4) argues, unintentionally so. Even military reunification and the restoration of order could be seen as necessary prerequisites for capitalist growth.

Nevertheless, the state was unable and unwilling to offer genuine support to Chinese industry during the depression. It was unwilling to do so because its interest as state generated other higher priorities, and it had sufficient autonomy to pursue those priorities. It wished to avoid provoking Japan, being prepared to trade economic concessions, such as over the 1934 tariff, for political breathing space. It also wished to maintain a level of armed force sufficient to crush the Chinese Communist Party and unify the country, and its need for revenue to do this limited its options in tariff policy and industrial relief, while impelling it to extend its control into the banking sector in order to ensure its supply of funds. The revenue needs of the state

were in fact a very common limiting factor in the institution of protective tariffs (see for example Tignor 1984:109). More importantly, however, the Chinese state was simply too weak to help industry. As a British diplomat remarked, it would require 'a government of boundless authority and limitless perseverance' even to arrest the decay in China's external trade (PRO F0371/18052, F11/11/10). The Chinese government was far from having 'boundless authority' or the relatively high level of institutionalization required successfully to pursue policies of economic development or economic control (Rueschemeyer and Evans 1985:51-3). In this period it clearly lacked the bureaucratic machinery to enforce many of the policies requested by the capitalists.

Structural factors also constrained the state's actions. Indeed, although China's limited integration into the world economy gave natural protection to many areas and sectors, in the modern coastal sector the Nationalist government could do little to mitigate the effects of an economic fluctuation that defeated much stronger states. Its options were limited by China's position in the world economy and by the social, international and geographical limitations on its own control within China. In the international market, China was almost entirely a price-taker, and attempts to cut the country off from that market would have their own costs: indeed Jiang Jieshi accepted that China was 'an integral part of the world economic system' (Kirby 1984:79).

Within China, residual warlordism and Japanese aggression prevented the government extending its sovereignty across the whole country, while its weak hold over the rural sector forced it into dependence on revenues from modern industry and trade. The government wanted to help the capitalists, but in the end did not have the power to do so. As a Nationalist elder with close links to cotton interests remarked in 1934, Jiang Jieshi's pronouncements 'made a great show of being earnest, but in the end amounted merely to empty words' (SSKY 180:1.418).

Whether one should read back the extremes of wartime and post-war government control over the economy into the 1930s is therefore questionable. 'Bureaucratic capitalism' in the inflated form that later came to characterize China was only one of the possible historical outcomes of the system of political economy emerging in the 1930s, and one which was highly influenced by the exigencies of the war. Many authors have seen the interests of the 'bureaucratic capitalists' as fundamentally opposed to those of 'national capitalists' (Coble

1980). In addition to appearing to be borne out by China's immediate post-war history, such a view conveniently met the Communist Party's need to recruit the national bourgeoisie. An alternative view focusing on the 1930s might, however, be to see the bureaucratic capitalists as one fragment of the capitalist class. In Indonesia 'the politico-bureaucrats [were able] to appropriate state authority, resources and powers for private use' in a way very similar to what happened in China in the 1930s. But these 'primitive accumulators' later became more regular capitalists 'following a more normal path of accumulation through the generation of profits by capital investment' (Robison 1985:316). Such a process was at most incipient in 1930s China, but it does suggest the possibility of other outcomes.

Indeed, one of China's leading private business figures, Chen Guangfu (1961:87), despite his opposition to the 1935 nationalization of the banks, still felt optimistic about China's prospects on the eve of war:

Judging by my experience as a banker, I would say that the years 1936 and 1937 up to the outbreak of the war were [good] years. First there was stability in currency . . . Secondly there was no price increase, or very little price increase. Third, there was progress in industry and commerce. I felt very hopeful for China's future.

Thus the position taken in this paper is one that recognizes the considerable degree of autonomy exhibited by the Nationalist state, but stresses also the constraints put on that autonomy by the national and international situation within which the state operated. In its relations with business, it is not clear that 'bureaucratic capitalism' represented at this time a fundamental threat to the development of Chinese national capital. The government's failure to relieve the depression in Chinese business resulted less from an unwillingness than from an inability to do so, given its low level of institutionalization, its lack of resources and its weak position in the international economic and political system.

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