Nanjing Decade:
A failed attempt and missed opportunity to state-building and economic growth

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State-building

- What is state-building?
  - “...the construction of a functional organization to govern a population within a territory by force.” (Deng, 2012)
  - Indicator of the functionality of an organization: strength of state institutions (Fukuyama, 2004)
    - “ability of states to plan and execute policies, and to enforce laws cleanly and transparently.”
  - State-building: a process by which a state increases its strength, regardless of its scope.
The essence of economic growth

- The essence of economic growth
  - “...implies not only sustained productivity gains but also a maintained opening up of new markets and an ongoing diversification of products.” (Berthélemy and Varoudakis, 1996)
- Effective state → Reliable economic environment
  - Long-term sustainable economic growth
  - Significant expansion of market
Fukuyama’s two dimensions of stateness

- **Strength of State Institutions**
  - Def: “*ability of states to plan and execute policies, and to enforce laws cleanly and transparently.*”

- **Scope of State functions**
  - Def: “*different functions and goals taken on by government.*”
  - depends on **how ambitious they are** in terms of what their government seek to accomplish

(Fukuyama, 2004)
Fukuyama’s two dimensions of stateness (Cont.)

- Nanjing Government (1927-37)
  - low strength: e.g. reliance on the Green Gang for security, corruption
  - wide scope: e.g. political repression
  - Belongs to Quadrant IV
  - “On the other hand the worst place to be in efficiency terms is in quadrant IV, where an ineffective state takes on an ambitious range of activities that it cannot perform well.” (Fukuyama, 2004)

- Nanjing period
  - Ineffective administration (e.g. corruption, bureaucracy etc.) + lack of legitimacy (e.g. government’s own violation of law) → did not create a reliable economic environment for long-term industrial development.
Our arguments

- State-building: a process by which a state increases its strength, regardless of its scope
- Effective state (high strength) → Long-term and sustainable economic growth
- Republican China: ineffective administration and lack of legitimacy → failed attempt and missed opportunity to state-building (2nd and 3rd speakers)
  - Eastman (1990): ineffective administration, corruption, factionalism, political repression
- Ineffective state without a reasonable level of legitimacy → failed attempt and missed opportunity to foster a long-term and sustainable growth (4th speaker)
  - Therefore, the Nanjing Decade is a missed opportunity and a failed attempt of state building and hence economic growth.
Missed opportunity and failed attempt to state-building
Incompetence due to nepotism

Nepotism:

- Chiang relied on military men + appointed trusted subordinates
- Head of a ministry: dismissed the old members -> replaced by his own adherents
- “Connection” to access to the bureaucracy (Connection > Ability)
- Unsuitable position & useless
- Careerists sought for power and profits
- Unaware the real situation in the country
- Wrong strategies to the problems and development
Disruption due to factionalism

- Disloyal warlords
- Warlord regimes threatened the Nanking government
- Lacked the sense of national commitment
- 1926-1936: "Rebellion" from time to time
- Chiang failed to balance factions

Chiang's military power

Warlords
Distrust the government due to corruption

Corruption:
- most corrosive feature in Nanking rule
- No one feared the against corruption efforts -> paper tiger
- Chiang tolerated corruption among his advisers and family
- inequality + popular cynicism + distrust government + less cooperation
Ineffectual administration:
- Entering the party as a short-cut to *sheng kuan fa tsai* (升官發財: to become an official and grow rich)
- Torpid officials: do nothing
- 37 steps for transmitting documents
- Slow and lengthy processing procedure of administration works
- Inefficiently, lackadaisically, negligently

Game of words:
- Lots of plans for development and nation building with huge budgets
- Paper schemes with no coordination with other departments
- Administration consisted of many slogans but little actual work, little implementation
- ie. industrial plans

Weak civil administration:
- Only 8-13% budgets for local government
- 40% for military
Illegitimate rule of Nanjing government

Legitimacy defined by John Locke: "the government is not legitimate unless it is carried on with the consent of the governed." (Ashcraft, 1997)

1. Abuse of physical force
2. Violation to law
3. Violation to execute Three People’s Principle

Nanjing government lost her legitimacy as she did not account to the public
Abuse of physical force

the legitimate use of physical force: maintain public order (Hunter, Mayhall, Barker, 2000)

Police force

- nationalized to eliminate communists in different regions
- not responsible to deal with ordinary policing
- even part of the system for corruption (Shanghai Police)

→ different crimes, robberies, murders, kidnapping, had been available in Chinese cities (Shanghai)

Green gangs (gangsters)

- chief of detectives
- in charge of managing the labor and the social order
- eliminate communists

“it is difficult to distinguish between policing and criminality.” (Frederic Wakeman)
Opium trade (illegal business)

- Nanjing government had set up the Smoking Committee (1927) and the Smoking Law (1928)
- secret trade of opium provided employment opportunities for thousands of gangsters (100,000 of Shanghai gangsters)
- trade of opium as the important source of revenue for the Nanjing government
- Nanjing officials and gangs built connections through bribes and deals

opium trade $\rightarrow$ violation of Smoking Law of the state
  $\rightarrow$ fostering the government-gangster business

using illegal means (opium trade and the use of gangsters) to gain revenue to function the government
Violation to execute Three People’s Principle

Three People’s Principle → ideological bedrock of the regime
democracy and human right should be protected
Nanjing government → adoption of authoritarian rule

- censorship in literature, arrest and assassinations to intellectuals
- restriction to freedom of assembly, association, speech and publication
- the government decided what the limits of the law were and no institutions checked officials when they violated human rights

→ contradictory to the protection of people’s human right
Violation to execute Three People’s Principle

Three People’s Principle → People’s livelihood

- emphasizing on the land reform and redistribution of land to ordinaries
  - land reform → lower rents, regulate agrarian relations, give the government the right
    → implementing the “land to tiller” ideal, extension of rule in rural area

- Nanjing government (Chiang) had not been launching the land reform due to the fear of threatening rural elites’ monopoly
- “the ties of affection among villagers between clan members moderated landlord-tenant tensions.” → the fear of class struggle and social instability from Chiang

→ the human right of ordinaries had been diminished
→ difficult for Nanjing government to extend her rule to the rural areas
The lack of support from the society

the violation of law and Three People’s Principle and abuse power executed from the state
→ leading to the inadequacy of support from the society

1. resistance of rule from the public

2. the failure of authoritarian rule
Resistance of rule from the public

As Nanjing government had ignored the will of the ordinaries
→ adopting authoritarian rule and silencing the opinion of people
→ leading to movements from students and intellectuals

1931 Student Movement
the December Ninth Movement (1935-36)
→ the ignition of public opinion due to the ignorance of impatience with appeasement from the ordinaries and the violation towards the demonstrators in Beiping
Failure of authoritarian rule

The lost of legitimacy due to violation to law and abuse of power

→ the frequent criticism towards the authoritarian rule to Nanjing government’s authoritarian rule

Soong Ching-ling’s criticism to Chiang’s authoritarian rule

“the penalty he paid for his liberalism must mean renewed struggle and renewed efforts to carry on, let the murders realize that political crimes inevitably carry with them their own penalties.”

→ force of crushing the Nanjing regime
Missed opportunity and failed attempt to economic growth

Weak state → unsustainable economic growth
Fiscal policy, tariffs, trade, and consumption

Crucial tax for the Chinese central government = land tax

A census was needed before taxes could be collected

Government: too time-consuming and too expansive → simply decided to write off the land tax

Years of war and turmoil

Unclear land ownership in many areas

Became dependent on tariffs, exercise taxes, and borrowing
What’s wrong with that? (Missed an opportunity)

- World depression
- Price of silver decreased
  - China was the only large country in the world that had a currency based on silver
- Stimulated domestic consumption and foreign investment
- However...
  - Government’s reliance on tariff → handicapped trade and industry, the modern sectors that the government wanted to develop (by making it more expensive to purchase machinery or items needed for manufacturing)
    - Japanese trade with China: China’s increase in tariff → Japanese exports of cotton products to North China declined by 60% in 1933 and 50% more in 1934 (Paine, 2012).
  - The UK and Japan’s abandonment of the gold standard (1931)
  - The 1934 U.S. Congress’ passage of the Silver Purchase Act
    - China’s silver reserves: 602 million yuan (Apr 1934) → 288 million yuan (Nov 2015)
Chiang’s government established regulations in the Land Law in 1930 that limited rents to 37.5 percent of the harvest.

However, the law – which even stipulated that tenants could buy the land from an absentee landlord if they farmed it for a decade – was never implemented.

Why? → The government’s fear of social unrest and its desire to maintain generally good relations with rural elites prevented further action.

These laws would have lowered rents, regulated agrarian relations, provided credit and expertise to peasants; they even gave the government the right, under certain circumstances, to redistribute land in order gradually to implement the “land to the tiller” ideal.
Results: The failure of rural policies → unable to mount policies to support agriculture and the rural economy in any systematic way

More importantly, the government’s violation of its own law has failed to create a reliable economic environment in which investors (domestic or foreign) could confidently invest and do business.

- the lack of transportation infrastructure needed to attract investment in poverty-stricken rural areas (Jackson, 2011).
Strategic failure

In 1930s: Prevalence of agriculture
- Agriculture contributed 65% to GNP.
- Vast majority of Chinese are employed

The only large nation whose currency was backed by silver:
- The stock-market crash of 1929
- Enter the boom of commercial and manufacturing period

Chinese urban economy was depressed after 1931
Strategic failure

- International trade and capital investment were important for major cities, but:
  - Business and industrial undertakings had overextended themselves during the boom period (1929-1931)
  - Inferior management and technology: these ventures crumbled in the new environment of tight money and foreign competition
  - Over 82% of families in the city earning insufficient wages to cover their living expenses
  - Modern industrial manufacturing only contributed 2.2%
  - In 1932, ⅓ urban factories and 40% of stores were closed
  - In 1934 Shanghai, 24 modern-style banks and 15 native banks were closed

- Chinese industry remained small of overall economy, while vulnerable to high taxes and barriers of finding capitals
  - Eg. Nanyang Brother Tobacco Company went bankrupt
Financial burden and unwillingness to demobilize armies

- The Nationalist government military expenditures continued to be extremely high in order to suppress the Communist armies, created huge government budget deficits.
- Lowered financial capacity to build infrastructure
- Included the borrowing from western countries, the expenditure on military and the compensation. (Eastman 1974 P.231-232)
- Chiang has a huge commitment to the military
  - Eg. Armies cost more than 360 million yuan per year, while government net revenue only had 300 million yuan
- Government refuse to move military fund to other aspects
  - In mid-1930s, the government refuse to move military fund for flood relief
  - fully 66.7% of national government expenditure were funneled to military and payment of debts
# Unequal wealth distribution

## TABLE 6.3 Distribution of Cultivated Holdings and Incomes per Household in China, 1930s

<table>
<thead>
<tr>
<th>Province</th>
<th>Gini Coefficient</th>
<th>Cultivated Holdings</th>
<th>Incomes</th>
<th>Percentage of Land Rented (mu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jiangsu</td>
<td>0.570</td>
<td>0.430</td>
<td>42.23</td>
<td></td>
</tr>
<tr>
<td>Zhejiang</td>
<td>0.569</td>
<td>0.416</td>
<td>51.31</td>
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<tr>
<td>Anhui</td>
<td>0.538</td>
<td>0.472</td>
<td>52.64</td>
<td></td>
</tr>
<tr>
<td>Jiangxi</td>
<td>0.530</td>
<td>0.339</td>
<td>45.10</td>
<td></td>
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<tr>
<td>Hunan</td>
<td>0.601</td>
<td>0.428</td>
<td>47.70</td>
<td></td>
</tr>
<tr>
<td>Hubei</td>
<td>0.525</td>
<td>0.363</td>
<td>27.70</td>
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<tr>
<td>Hebei</td>
<td>0.596</td>
<td>0.458</td>
<td>12.09</td>
<td></td>
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<tr>
<td>Shandong</td>
<td>0.541</td>
<td>0.464</td>
<td>12.63</td>
<td></td>
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<tr>
<td>Henan</td>
<td>0.598</td>
<td>0.457</td>
<td>27.27</td>
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</tr>
<tr>
<td>Shanxi</td>
<td>0.528</td>
<td>0.517</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shaanxi</td>
<td>0.562</td>
<td>0.415</td>
<td>14.64</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Gini Coefficient</th>
<th>Cultivated Holdings</th>
<th>Incomes</th>
<th>Percentage of Land Rented (mu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chahar</td>
<td>0.437</td>
<td>0.648</td>
<td>10.20</td>
<td></td>
</tr>
<tr>
<td>Suiyuan</td>
<td>0.641</td>
<td>0.497</td>
<td>8.75</td>
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<tr>
<td>Fujian</td>
<td>0.557</td>
<td>0.345</td>
<td>39.33</td>
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</tr>
<tr>
<td>Guangdong</td>
<td>0.423</td>
<td>0.335</td>
<td>76.95</td>
<td></td>
</tr>
<tr>
<td>Guangxi</td>
<td>0.542</td>
<td>0.445</td>
<td>21.20</td>
<td></td>
</tr>
<tr>
<td>Arithmetic average</td>
<td>0.547</td>
<td>0.439</td>
<td>32.84</td>
<td></td>
</tr>
<tr>
<td>Entire sample</td>
<td>0.615</td>
<td>0.458</td>
<td>30.73</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Tudi weiyuanhui, Quanguo tudi diaocha baogao gangyao (Nanjing, 1937), tables 15 and 33.
China struggle to regain its tariff autonomy

- By promising the foreign powers to abolish internal transit taxes and miscellaneous commercial taxes, the Nationalist government won tariff autonomy in 1928.

- Britain obtained a promise that for at least a year the duties on British goods should be those set forth in the 1926 draft schedule.

- The negotiations with Japan were difficult. Finally, China should hold a conference to discuss the debts and meanwhile should set aside C $5 million yearly to be applied later to debt payment.

--- China's nation-building effort, 1927-1937 Arthur Nichols Young
Conclusion

Nanjing government → failed attempt and missed opportunity
political institutions → weak bureaucracy
    → the lost of legitimacy to rule the state

→ unable to create a reliable environment fostering long term and sustainable economic growth


