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Editorial

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Money, Finance and Commerce in Chinese History: An Introduction with Reference to the Special Issue

Four decades of unprecedented economic boom have lifted China from once one of the world's poorest to the second largest economy. This often seems to beg the question why after all it took so long for this boom to happen. The flurry of debates centered on this and the Great Divergence issues ultimately led to a transformation in our research on Chinese economic history (Pomeranz, 2000; Ma, 2004; Brandt, Ma, and Rawski, 2014; Mitchener and Ma, 2016). The seven articles in this special issue reflected three distinctive features of this transformational research: the emphasis on the primary importance of institutions and ideology, the employment of comparative (mostly with Europe) perspective, and the systematic application of quantitative analyses based on new archives and data.

This special issue starts out with two articles that examine the urban and rural sectors of the Chinese economy. Yi Xu, Bas van Leeuwen and Jan van Zanden contribute new and consistent series of long-term urbanization rate from Song to the Qing era with breakdown by regions, where possible. Zhiwu Chen, Kaixiang Peng and Weipeng Yuan use survey data in the 1930s to show that the market mechanism of the rural credit markets, refuting the exploitation based thesis of usury lending. The second section contains three articles unveiling the unique features of Chinese monetary regime and price dynamics through insightful historical narrative, dynamic modelling as well as econometric time series tests

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(Hongzhong Yan, Zhijian Qiao and Chen Xu; Sheng Qian and Lemin Wu; Liuyan Zhao and Yao Zhao). Finally, section three brings two articles that look into the governance structure of firms. Meng Wu's paper examines the determinants of long-distance remittance by Shanxi banks, or *Piaohao*, based on firm transaction-level data. Jinsong Zhao and Hao Pang analyze the importance of political connections on the corporate governance structure of a modern bank in early 20th century in Sichuan province.

Although none of the topics and features on methodologies are completely new, the methodology, interpretation and analysis taken together in these seven articles are far more systematic and ambitious in scope and depth. In particular, as we show later, the importance of political economy, institutions and ideology came to the fore in one form or another as seen from the pattern of urbanization, rural credit, the changing contour of monetary regimes to the corporate governance structure of traditional and modern financial institutions. In no way does this special issue represent a comprehensive overview of the field. But rather, they aim to give a sampling of the frontier research and will hopefully set solid foundation for a new or re-interpretation of Chinese economic history.[1]

1 China's Urban and Rural Economies

Historical rates of urbanization have been an important subject in European and global economic history, and often used as a proxy for or part of historical income per capita, levels of economic development and structural change. In this special issue of FEC, Xu et al. provide new benchmark estimates of nearly one thousand years of Chinese urbanization rate. They show that in the year between 1100 and 1900, the level of urbanization in Song dynasty was high, and by international standards—the capital cities of the Song were probably the largest cities in the world. But overall, they find that the urbanization rate decreased from Song dynasty to Qing dynasty, from 11%–12% to about 7%. While the cities in Song dynasty were probably the largest in the contemporary world, cities in the Qing dynasty lost their leading place. A major strength of their paper is

[1] Just to name a few of the existing literature on the relevant topics covered in the special issue. See Brook (1998) on commerce in Ming dynasty, Skinner (1964) on market towns, von Glahn (1996) and Lin (2006) on the international flows of silver, Shiue and Keller (2007) on grain market integration in the 18th century. For monetary institutions, see Peng (2007), for finance see Wu (1994) and Du (2002), for the organization of firms, see Zhu (2012).

their cross-checking on existing estimates and other new works published in Chinese, in particular, the monumental works by the Fudan demography group (Ge, 2005). Their works also pay particular attention to differences in patterns of urbanization within regions of China, and more importantly, differences from Europe. Going beyond just providing estimates, they provide four explanations for the historical patterns of Chinese urbanization in a global perspective: namely the weakening control of the central government, the rise of market towns, the inward-looking economy, and the move of production from the core to the undeveloped regions. They emphasize that socio–political and economic causes such as the changing character of the Chinese state and the limited impact of overseas trade on the urban system were important in accounting for the differential patterns of urbanization in China versus, Europe or the Middle East. Their study has implication for the Great Divergence debate.

Given the low share of urban economy in China, our understanding of the vast rural sector is critically important for Chinese economic history. Chen et al.'s paper examines one important commercial and financial aspect of China's rural economy: the credit market. There has been a long tradition of condemning the usurious interest rates charged by lenders based on their monopoly power of exploitation, a point, in particular, expounded by the traditional scholarship of the 1930s and after.[2] The Chen et al.'s study utilizes a unique data set from the rural credit surveys in the 1930s which shows large differences in levels of interest rates across regions in China, with some at usuriously high levels. Based on a careful econometric analysis, they find the monopoly-exploitation hypothesis has little explanatory power. Rather, they argue that both institutional quality and income level offer more important and consistent explanation for regional differences in interest rates. They use land tenancy rate as a proxy for a region's institutional quality based on the unique Chinese institutional feature that find that usually the more owner-farmers there were in a region (more often in Northern China), the less likely for the region to develop a credit-friendly commercial culture and market institutions, making lending contracts more insecure. This further challenges the monopoly-exploitation hypothesis of the

[2] Some studies also find that usury worsened the poor's living conditions (Wang, 1995), or hindered the accumulation of capital for production because it attracted too much capital to the credit market (Chao, 2010).

monopoly power of landlords as usurers. Rather, if anything, it was poor commercial environment and poverty that caused higher interest rates in some regions than others. Thus, improving institutions to protect lenders' rights is a more productive way to combat high interest lending. Their finding also echoes with recent studies using regional data, such as Wen (2004)'s study on Jiangxi and Fujian, as well as Li and Zhang (2015)'s quantitative documentation of local credit markets using contract level data.

2 Money and Prices in Chinese Economy

Money and monetary regimes define the political economy features of the Chinese economy more than anything else, an issue that has not been adequately understood in the literature and in the Great Divergence debate. The three papers in this special issue tackle this important issue jointly but with different approaches and methodologies.

The paper by Qian and Wu tackles an ambitious question from nearly two millennia of Chinese monetary history: Why do long-standing autocracies such as Imperial China, which has absolute and most uncontested monopoly of power over a huge territory, manages to maintain a stable value of its governmental minted copper cash? They put forward a bold hypothesis: It was actually the threat of counterfeiting that had constrained currency debasement. Unwilling to share seigniorage with counterfeiters, who were active only if currency was debased, the Chinese government refrained from debasement unless in extreme fiscal situations. Their paper develops a dynamic macro-model to simulate the impact of counterfeiting on seigniorage revenue and a game theoretic framework to illustrate the governmental choice. They further argue that monetary stability under autocratic regimes achieved facing the threat of private counterfeiting rather than through independent monetary authorities such as modern Central Bank also produces the negative consequence of lower monetary capacity and money supply. Their case is supported by a database of historical Chinese copper coins that covers the period from the Qin dynasty (221–207BC) to the Republic of China. They also present the case of the introduction of the steam press in late Qing as a natural experiment to show that once the steam press produced coins that could not be counterfeited, it triggered the most serious debasement in the Qing dynasty (1644–1912).

The second paper by Yan et al. provides a much more careful and nuanced institutional narrative of the Chinese monetary regimes. Although the Chinese system composed mainly of two metal currencies of silver and copper, they argue that the system could not be simply classified as a standard bimetallic standard (see also Peng, 1983; Peng, 2007; Wang, 2015). They re-conceptualize the monetary regime in China as a multilayer system of currencies and examine the features and logics of its operation from the 16th century to early 20th century. This system consisted of a variety of silver and copper currencies, each occupying a particular layer in the structure and each satisfying a specific market demand or a specific function. These varieties of currencies in the form of silver ingots, sycee, dollars, copper cash and later copper dollars were complementary rather than substitutive. The relative segmentation of these currencies led to high transaction costs but also some form of price stability across time and space. Their paper ends with a detailed empirical test on the differential routes of diffusion of silver dollars and copper dollars in the early 20th century. Using data drawn from gazetteers, they find that—all else held constant—while proximity to treaty ports explains the popularity of silver dollars, which was originally imported from overseas, proximity to provincial capital accounts for the importance of copper dollars that were largely minted by provincial governments. Their empirical works confirm the multiple origins and layers of Chinese currency system.

The third paper by Liuyan Zhao and Yan Zhao focuses on a much narrower monetary and geographic sphere for the later period of 1922–1937. Using wholesale monthly price indices and time-series econometrics, they examine the purchasing power parity of prices in silver terms and finds evidence of highly integrated markets between Shanghai and the Western world. Further analyses suggest similar patterns in other major cities, such as Canton. This naturally leads to the conclusion that the degree of integration between Chinese market and the West was substantial in pre-WWII era. These findings have further implications on impact of the American Silver Purchase Act of 1934 on the Chinese economy and the assessment of the 1935 Chinese currency reform. Zhao’s finding does not directly controvert the fact that currency segmentation possibly continued within China, particularly in rural hinterland despite the high degree of integration between large coastal treaty ports and the international markets in the 20th century.

3 Organization of Financial Institutions

Our understanding of Chinese monetary and financial history will not be complete without knowing the working of individual firms. The two papers in this section are exemplary in their careful reading and utilization of firm-level archival data. The first paper by Meng Wu examines one of the most well-known and important Chinese financial institutions known as *Piaohao*, or Shanxi banks (centered in Shanxi province) that built a nationwide remittance banking network in China during the 19th century. Although there has been a boom in new studies of *Piaohao* particularly in Chinese language literature due to the increasing amount of newly discovered or rediscovered archival materials,[3] Wu (2018)'s study stands out by its systematic compilation of remittance transaction data from the account books of the longest-surviving Shanxi banks, *Rishengchang*. The paper starts with a historical narrative of the history of *Rishengchang* and Shanxi banks in general. Armed with the knowledge of the institutional mechanism of remittance, Wu collects remittance transaction-level data with detailed individual characteristic, such as the types of remittances (at sight or fixed-term loans, the identities of the remitters, the amount of remittances, locations. Following detailed descriptive statistics, her regression result illustrates the determinants of remittances fees by the firm from about 1850 to 1900, offering a long-run and detailed insights into the workings of the most important business of China's traditional banking institution.

Zhao and Pang's paper turns towards modern Chinese banks, which experienced rapid growth only from the beginning of the 20th century (Cheng, 2003; Ma, 2012). However, why modern banks including private banks were prosperous remains unclear during the so-called Warlord Era (1912–1927), a period characterized by civil strife and limited protection of property rights. Their paper in this special issue explicitly addresses this using firsthand archives. They examine how the Yong Brothers' Bank in Sichuan province, the upper Yangzi province with relatively few connections to the international market and frequent civil unrest, adjusted their strategy to survive. They describe the development of the bank from its foundation as a family firm through its reinvention from a partnership into a public corporation. They find that, as an

[3] For example, Huang (2002) and Yan (2006) are two sets of archives published about Shanxi banks. Other research borrows ideas from economic theory to explain the success of *Piaohao*, including Cai et al. (2008).

organizational form choice to survive in the political chaos, the bank incorporated acquisitive local warlords into their board of directors. The change of this management structure may not seem profitable at the first glance as the bank sacrificed part of its stock share in exchange for protection from local warlords. However, they find that the participation of warlords in fact improved the bank's performance with both the benefit of political connection and the "forced" transition from a family firm to a modern corporation. They contrast the firm with another bank without such connections which actually went bankrupt. It perhaps illustrates the second best surviving strategy of family business under unstable political circumstances.

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