

SPECIAL ISSUE: EARLY MODERN ECONOMY AND THE DEVELOPMENT OF THE STATE: CHINA AND EUROPE

The Early Modern Economy of the Yangzi Delta in a New Perspective

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近30年来中国经济持续高速发展，尤其是现在江南的经济发展水平正在迅速接近西方发达国家，创造了世界历史上最伟大的经济奇迹，这个奇迹赖以产生的基础是此前几个世纪江南经济的持续发展和增长。为了正确认识今天的江南经济奇迹，就必须真正认识江南经济在长期的历史进程中所创造的历史基础；而要真正认识江南经济的过去，关键是正确认识江南在西方到来之前的经济状况，就必须抛弃西方中心论，从新的视野研究近代早期江南经济史。这对于改进我们关于西方到来之前中国“传统”经济的看法具有重要意义。

关键词：长三角 经济奇迹 近代早期 历史新视野

China has experienced spectacular economic growth during the past three decades and seen some parts of the country, in particular the Yangzi Delta, swiftly converging with the developed countries in the level of economic development. This unprecedented growth has been seen as the greatest economic miracle in world history. This miracle is based on the economic performance of the Yangzi Delta in the long run of centuries. It is impossible to achieve a better understanding of the economic miracle of the delta without a better understanding of the basis created by the delta's economy during its long historical development, in particular in the centuries before the modern West arrived in the mid-nineteenth century. To achieve this objective, we must break free of the West-centric straightjacket and study China's early modern economy from a new perspective, which will be crucial to improve our knowledge of Chinese economic performance prior to the arrival of the West.

Keywords: the Yangzi Delta, economic miracle, early modern, new historical perspective

Because of the spectacular economic growth that China has experienced during the past three decades, the country has attained new importance in world history. This unprecedented growth raises a question: why has this economic miracle taken place? To find a good answer

to the question is an important task of economists and historians over the world. The theory of the Great Divergence provides us with a fresh view to look at the origin of the miracle, which will be crucial to our understanding of what has happened and will happen in China.

This miracle calls for a deep and comprehensive examination of China's economic performance before the arrival of the West in the mid-nineteenth century. As Dwight Perkins put it, China has changed greatly in the last decades. But China's history still clearly illuminates its present. The presence of the past can be seen in many areas. China's present is a continuity of its past, or the persistence of the past.¹

A strong interdependence lies between the theory of the Great Divergence and the study of the economic history of the Yangzi Delta. The study is an empirical basis for the theory, while the theory provides a new framework of analysis to the study. Because of this interdependence, the delta's economic performance, it seems to me, would be the best place to analyze why the theory matters in economic history.

I. Today's "Great Convergence": The Rapid Economic Catch-up of the Yangzi Delta with Western Europe

Today, the Yangzi Delta (*Yangtze* delta in the Wade-Giles spelling system, or *Jiangnan* in Chinese) is playing a role of the engine to the rapid economic growth of China. But it is not a recent phenomenon, because the delta has been China's most developed region, both economically and culturally, during the last millennium. This unparalleled importance gives the delta a special position in the study of Chinese economic history. It is not difficult to understand, therefore, why the economic history of the delta has been under the most intensive study in the past century. Several influential theories in Chinese economic history are drawn from the experience of the delta and the delta has been seen as the "representative" of the Chinese story, though it is a very small part of the country in terms of territory and population.

The Yangzi Delta is located in the mouth of the Yangzi River in the east coast of China, consisting of the municipality of Shanghai, the southern part of Jiangsu Province and the northern part of Zhejiang Province. This is the most populous area of the country, with a land area of 100,200 sq km and a population of 82.28 million in 2002,² with an incredibly high density of 823 people per sq km. It is also the most urbanized area of China, with an urbanization level of 52.63 percent,³ boasting its great cities of Shanghai, Nanjing and Hangzhou each of which has millions of residents, with Shanghai being the economic center

1 Dwight Perkins, ed., *China: Asia's Next Economic Giant?*, pp. 3-4.

2 This is the figure of the resident population. The registered population of 2002 is 75.71 million. See InvstHK & the Department of Foreign Trade and Economic Cooperation of Guangdong Province, ed., *Key Economic Indicators of Major Economic Regions of China*.

3 Ning Yuemin and Li Jian, "Urbanization in the Yangzi Delta Should Break Down Administrative Barriers," p. 14.

of China.

Though it has been the most advanced area of China for the past millennium, the Yangzi Delta had been much behind Western Europe in its level of economic development before 1979, when the economic reform began in China. In the following three decades, in particular since 1992, however, the delta's economy has been growing dramatically. Today, though the delta accounts for only 1 percent and 5.9 percent of the national totals in the terms of land area and population respectively, it produced 17.8 percent of China's GDP in 2009, which reached US\$ 878.6 billion (nominal),⁴ in striking contrast to US\$ 44.3 billion in 1978⁵ and US\$ 65.4 billion in 1992.⁶ If measured in PPP, moreover, the 2009 GDP of the delta was even bigger: it reached US\$ 1,600 billion (in 2009 dollars).⁷ In the other words, if the delta was counted as an independent economy, it would be the tenth largest one in the world, just a little bit smaller than the ninth one, Italy, and bigger than many major economies such as Mexico, South Korea, Spain, Canada, Indonesia, Turkey, Australia, Iran, China's Taiwan region, and Poland, which ranked the eleventh to twentieth.⁸

Thanks to the rapid growth, the gap between the delta and Western European countries has been reduced sharply in the past decades. In 1978, the GDP per capita of the delta was something like US\$ 1,200,⁹ less than 1/8 of that of France (US\$ 9,424), 1/5 of that of the UK (US\$ 5,727), and was only half of that of Portugal (US\$ 2,349), the poorest country in

4 "Yangzi Delta Contributes 17.8 percent of National GDP in 2009."

5 China's GDP was 362.41 billion RMB in 1978 (Xiao Jianlong, "Annual GNP and GDP in China during 1978-2005"), and the share of the delta was 18.7 percent (Ning Yuemin and Li Jian, "Urbanization in the Yangzi Delta Should Break Down Administrative Barriers"). Accordingly, the GDP of the delta was 67.77 billion RMB. Since the official exchange rate was 1 RMB=US\$ 1.68 in 1978 (NationMaster.com), 67.77 billion RMB can be converted into US\$ 44.33 billion.

6 Wu Guoxin, "FDI and Correlation Analysis of Economic Growth in the Yangzi Delta and Study of the Existing Problems."

7 According to CIA World Factbook (<http://factbook.lincon.com/geos/ch.html>), the difference in China's GDP measured in PPP and in the official exchange rate was 1:1.826 in 2009.

8 International Monetary Fund, World Economic Outlook Database, data for 2009; World Bank, World Development Indicators Database, September 29, 2010; United States Central Intelligence Agency (CIA), The World Factbook, April 20, 2010.

9 The GDP per capita of the delta was 797 RMB (Luo Yuemin, "Urban Agglomerations Drive Integration"), or US\$ 474. But the geographical extent of the "Yangzi Delta" as used in this essay is much bigger than that usually adopted. The GDP per capita of metropolitan Shanghai, which was much higher than other areas of the delta, was US\$ 1,500 in 1978 ("Shanghai's Economic Development in the Past Three Decades: A Jump from the Ten Billion Level to the Trillion Level"). The figure for the delta in this article should be between US\$ 500-1500, while the national GDP per capita was US\$ 978 (in 1990 US dollars) (Angus Maddison, *Chinese Economic Performance in the Long Run*, p. 102). Since the GDP per capita of the delta should be higher than the national level, it should be very possible for it to be something like US\$ 1,200. The exchange rate between the Chinese RMB and US\$ in 1978 used above is from NationMaster.com.

Western Europe.¹⁰ In 2009, however, the GDP per capita of the delta rose to US\$ 11,600 at the official exchange rate,¹¹ growing almost tenfold compared with the 1978 figure. Since the Chinese currency is thought to be undervalued considerably, it is estimated that the 2009 GDP per capita of the delta should reach US\$ 21,190 (in 2009 US dollars) using the PPP measurement, which was 60 percent of that of the UK (US\$ 35,200) or 65 percent of that of France (US\$ 32,800), equal to that of Portugal (US\$ 21,800) and much higher than that of most of the ex-communist countries such as Hungary (US\$ 18,600), Poland (US\$ 17,900) and Russia (US\$ 15,100).¹² The narrowing of the gap between the Yangzi Delta and the major West European countries means that the delta is making a rapid catch-up with Western Europe. With this high growth rate, it can be expected that the gap will be filled up in the near future. As part of the story of the catch-up, Shanghai is becoming a new economic center of the world. It jumped from the 160th in 1980 to the first in 2006 in the world's port ranking in terms of cargo. Its position in the world's finance has rocketed so fast that some economists such as Steven N.S. Cheung have optimistically predicted that Shanghai will become one of the major international centers of finance, keeping pace with New York and London, in the coming years.

In this sense, the catch-up of the delta can be seen as a "Great Convergence" of the two ends of Eurasia in the level of economic development.

II. What Does the Economic Miracle Owe to?

Many factors contribute to the economic miracle which the Yangzi Delta has seen in the past decades. The following are seen as the most important factors by scholars and politicians: the 1979 Reform, the pouring in of foreign investment, the introduction of advanced management and technology and so on. These factors are indeed crucial to the growth, but this is not the whole story, if we have a closer look at how the factors were working. There is no dispute that they were working in the whole country, not just in the delta, and, moreover, some other parts of China, such as Guangdong and Fujian, with Guangdong being more important in terms of economic size and potential for growth, have benefited much more from these factors. First, the reform began in Guangdong much earlier than any other provinces of China, because this province was chosen as the first experimental area of the reform by the central government. Second, because of its geopolitical and cultural links with Hong Kong, Taiwan and the overseas Chinese society which were major sources of foreign investment, management and technology in the 1980s and early 1990s, Guangdong was far in advance of any other parts of

10 Retrieved from <http://www.nationmaster.com>.

11 *Ibid.*

12 The figures of European countries are from the CIA World Factbook. Here I'd like to emphasize that the population of the delta was much bigger than that of the European countries mentioned above, though smaller than that of Russia.

China in receipt of foreign investment, management and technology. Third, Guangdong has benefited greatly from delivering much less revenue to the central government.¹³ In contrast, because the Yangzi Delta has been the most important source of financial revenue of the central government for centuries, the control of the central government over the delta has been much stricter than for any other parts of the country and the delta has had a much smaller say in the making of regional development strategy.¹⁴ It was very risky for the central government to do a great experiment such as the 1979 Reform in this area, which was unprecedented, and success wouldn't be ensured. As a result, in the first decade of the reform era, the delta was in a comparatively unfavorable position which led to the economic growth of the delta being slower than the national average,¹⁵ and it hung much behind its major competitor—Guangdong, which is roughly equal to the delta in terms of population but much bigger in terms of area and with richer natural resources.¹⁶ But as soon as the more or less “equal” policies were given, the great force hidden in the delta was unleashed immediately and the delta performed much better than any other regions of China. In the first decade of the twenty first century, the GDP of the delta was 50-60 percent more than that of Guangdong.¹⁷ It is clear, therefore, that this great success cannot be attributed only to the factors listed above.

Among other factors besides those listed above, the legacy that the previous economic development has left seems to be the most important. Just as Johann Wolfgang von Goethe said, “We think Dante great, but he had a civilization of centuries behind him; the House of Rothschild is rich but it has required more than one generation to attain such wealth. Such things all lie deeper than one thinks.”¹⁸ Dwight Perkins put it very clearly: the Chinese people had many values and traits that prepared them for modern economic growth once it came. And these values and traits had in large part arisen out of accumulated Chinese experience with a complex pre-modern society.¹⁹

The historical legacy is so important that even the 1979 Reform is based on the legacy.

13 The Yangzi Delta has been the major source of the revenue of the central government since the fourteenth century. It has had to pay disproportionately large revenue to the central government.

14 Because the delta has been the major source of the revenue of the central government, the policy makers dared not run the risk when they decided to launch an unprecedented experiment.

15 In 1980-90, its GDP grew 13.10 percent a year on average (at constant prices), lower than the national growth rate (14.96 percent). See Sun Haiming and Zhao Xiaolei, “Economic Competition Patterns, Cooperation Basis and Construction of a Common Market in the Yangzi Delta.”

16 In 2000 the area of Guangdong and the Yangzi Delta was 179,757 sq. km. and 100,200 sq. km. respectively, while the registered population of the two regions was 76.49 million and 75.71 million respectively, and the resident population was 85.23 million and 82.28 million respectively. See InvstHK & the Department of Foreign Trade and Economic Cooperation of Guangdong Province, ed., *Key Economic Indicators of Major Economic Regions of China*.

17 The GDP of Guangdong and the Yangzi Delta was 142.15 billion and US\$ 230.98 billion respectively in 2002, and 325.69 billion and US\$ 496.58 dollars respectively in 2006.

18 Cited from Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*.

19 Dwight Perkins, ed., *China's Modern Economy in Historical Perspective*, p. 7.

The reform undoubtedly is key to China's economic miracle because it ushered in later developments, just like the spark which starts a prairie fire. But if we have a closer scrutiny of the reform, it is very clear that it is closely linked with the past. In his book of *Keywords: A Vocabulary of Culture and Society*, Raymond Williams argues that the term *reform* originally meant "restore the original form" of something. From the 18th century to the 1970s, the term *reform* was typically used to describe policies favored by the moderate left, in opposition to advocates of revolutionary change on one side and of conservatism and reaction on the other. From the 1970s to the end of the 20th century, though, the direction of policy change was reversed, with the rise of neo-liberalism. However, the term *reform* continued to be used, even when the policies it described consisted of the dismantling of earlier *reforms*. This definition is absolutely true of the Yangzi Delta. The 1979 Reform was a rejection of the major policies carried out during the three decades before 1979, because they blocked economic development in China in general and in the Yangzi Delta in particular. More specifically, in the three decades, traditional family farming was uprooted, and rural handicrafts and other sideline activities were severely restricted, all of them being seen as "backward" in the Maoist era. With the 1979 Reform, however, the policies were made to revert to the former state, and to some extent returned to their pre-1850 form. But, surprisingly, the return has ushered a new era of indisputable great development. The reviving of tradition has made a great contribution to rural economic modernization in the delta. It is fair to say, therefore, that today's achievements are a result of the adaptation of some growth patterns which prevailed and proved to be successful in the past to the new conditions of the present day.

In short, with centuries of experiences of industrial and commercial activities, the Yangzi Delta was better prepared for modern economic growth than other regions of China if it was given the chance. The 1979 Reform gave it just this chance.

III. The Pre-modern Economy of the Yangzi Delta in Previous Scholarship

When one traces the origin of the recent Chinese economic miracle, it becomes clear that the conventional wisdom seems not very helpful.

The conventional view of China's past is negative in general. It is believed that in the late imperial times, the state was arbitrary and corrupt, and did nothing to promote economic development; just on the contrary, the state consistently pursued a traditional anti-merchant policy which held back commercial growth; the ruling class exploited the peasants and artisans so ruthlessly that little surplus was left for investment in production; the population grew too fast and outpaced increases in the means of subsistence; the legal system was deficient and property rights couldn't be protected; Confucian values and education discouraged creativity and innovations, and so on. All this led to a pessimistic picture: no modern growth would be possible in China without the impact from the West.

In the field of Chinese economic history, Japanese scholars advanced a theory of "the

Ming-Qing stagnation” in the late 1940s and 1950s, akin to Western ideas about “the Chinese social stagnation.” This convention had dominated the study of Chinese economic history for decades, though it was challenged by the new theory of “early modern China” which appeared in the West in the 1970s and identifies significant progress, social and economic, in late imperial China.

On the Chinese mainland, the study of Chinese economic history was carried out exclusively within the Marxist framework of analysis in the 1950s through the 1980s. Based on the overall scheme of the Stalinist formula of the “five modes of production,” the reigning construct of late imperial Chinese society was thought to be “feudalism,” which is a synonym of “stagnation.” It is juxtaposed against capitalism, which was seen as modern and dynamic.

During the decade of 1955-65, a few significant theoretical innovations were made in China. The most important ones are the theories of “Chinese Feudal Society” and “Chinese Capitalist Sprouts.” These theories claim that there were significant economic advances in late imperial China. Though they were still working within the Marxist framework of analysis and discourse, this was an important breakthrough from the view of China of the Stalinist doctrines.²⁰ But these theories also led to a pessimistic picture: it would be impossible for modern growth to take place in China without the impact from the West.

In the late 1980s and 1990s, the two theories were questioned and then abandoned gradually. More and more scholars, in particular of the younger generation, shifted to the theory of “Agricultural Involutionary Growth,” which was introduced into China in the 1980s and was seen as an easy substitute for the old conventions. According to the theory, there had been little economic development in rural areas of the Yangzi Delta until modern inputs were introduced after 1950. Moreover, since mounting population pressure on the land had to find different outlets, there was an increasing shift of labor to more labor-intensive commercial crops. Those cash crops were produced by a greater use of labor for higher total values of output per unit of land but lower average returns per workday. The growth of commercialized rural household handicrafts based on those commercial crops was part of this process. Returns per workday were abysmally low, and peasant living standards remained at bare subsistence levels. It was concluded, therefore, that this growth was just a “growth without development.”²¹

Though the three theories conflict with each other in some points, they share some common ground. The theories of “Chinese Feudal Society” and “Chinese Capitalist Sprouts” take the experience of Western Europe, in particular England, as the “norm” of modern economic growth. Following the norm, scholars spent great energy in searching for similarities and differences between the economies of the Yangzi Delta and England, to confirm that China had been following the “common pattern” of the evolution of history. The theory of

20 For the details of the two theories and their strengths and weaknesses, see Li Bozhong, “Retrospect and Prospect: One Hundred Years of Vicissitudes in Chinese Economic History.”

21 Philip Huang, *The Peasant Family and Rural Development in the Yangzi Delta, 1350-1988*, p. 14, and “The Paradigmatic Crisis in Chinese Studies: Paradoxes in Social and Economic History.”

“Involutionary Growth” was based on the so-called “Smithian-Marxian” growth model, which also sees the English experience as the only pattern of modern growth and the only standard to judge if modern growth took place in the delta. If it did not fit the standard, there should be no modern growth, but only “involutionary growth.”

The central theme of these theories is that it would be impossible for modern economic growth to take place in China. Karl Marx himself placed China (and India) in his category of “Asiatic society” which, he claimed, couldn’t follow the Western way of evolution. Moreover, he saw in China a closed and stagnant society like a mummy carefully preserved in a hermetically sealed coffin, which would dissolve when it was brought into contact with open air.²² Accordingly, the late imperial Chinese society and economy were hopelessly stagnant. The theories of “Chinese Feudal Society,” “Chinese Capitalist Sprouts” and “Involutionary Growth” hold that the late imperial Chinese economy was not stagnant, but would be outside of modern growth.

These theories are beset with problems. They mix up modern growth, capitalism and the market economy. Yet though the three things are related to each other, they are not necessarily identical.²³ The theories also take the “impact from the West” as the major driving force behind modern growth. But the fact is that after China was forced to open to the West in the late nineteenth century, the economic influence of the West on China was very limited and the Chinese economy showed little impulse of its own to develop full-grown capitalism from the supposed “sprouts” of the preceding centuries. Therefore, scholars of the “Chinese Capitalist Sprouts” school were forced to concede that modern growth would result from the Western impact. Scholars of the “Involutionary Growth” school are correct in revealing the backwardness of the economy of the Yangzi Delta in the late nineteenth and most of the twentieth centuries. But they cannot explain why the delta, which was characterized by the highest density of population in China and then fell into the worst plight during its centuries-long involution, had been the most vital area of China economically before and after the mid-nineteenth century crisis.²⁴ All these theories fail to explain why the Yangzi Delta has performed so well in the past three decades and done much better than other parts

22 Karl Marx, “Revolution in China and in Europe.”

23 Fernand Braudel reiterated the importance of distinguishing between the market economy and capitalism, because capitalism is not simply an “economic system.” Furthermore, “there is a dialectic still very much alive between capitalism on the one hand, and its antithesis, the ‘non-capitalism’ of the lower level on the other hand.” Fernand Braudel, *Civilization and Capitalism 15th-18th Century*, vol. 2, *The Wheels of Commerce*, pp. 630, 632.

24 In 1933, provinces in the lower reaches of Yangzi, with a population of 12 percent of the total, contributed a share of 15 percent in agriculture, 35 percent in handicraft, 57 percent in modern factory output, 65 percent in finance and 45 percent in modern utilities services. Altogether the provinces in the lower reaches of Yangzi had a 20 percent share in China’s NDP, making its per capita NDP 1.64 times that of the national average. See Ma Debin, “Modern Economic Growth in the Lower Yangzi Region of China in 1911-1937: A Quantitative, Historical and Institutional Analysis.”

of China have since 1992. They fail because some major weaknesses exist in the theories and arguments which these schools put forward.

First, these theories share the same basic idea: the evolution of Chinese economic history should follow the path of Western Europe. Since China's experience is so different from Western Europe's, it is doomed to fail in producing modern growth.

Second, these theories are based on some presuppositions on late imperial China, such as the Malthusian "population explosion," the conventions of technological and institutional stagnation, and so on. They also believe that in late imperial China the state was despotic and did nothing to promote economic growth, while the ruling class (mainly the landlord class) was greedy and parasitical. The state and ruling class ruthlessly squeezed anything from the miserable peasants and lowly-status merchants. As a result, little, if any, surplus was left to investment, and so on. Since China was alleged to be trapped in this vicious circle, any modern development would be impossible. These presuppositions, however, have never been well documented.

IV. Economic History of the Yangzi Delta Seen from the Viewpoint of the Great Divergence

These conventions have been questioned since the 1970s by a growing number of China scholars such as Han-sheng Ch'uan, Richard Kraus, Ping-ti Ho, Jacque Gernet, Paul Cohen, William Rowe, Evelyn Rawski, Pierre Etienne Will, Benjamin Elman, Peter Perdue, Madeline Zelin, Ye-chien Wang, Angela Leung, Vivienne Shue and others. Though working in different fields, these scholars make it very clear: the past Chinese studies are too Eurocentric and Chinese history cannot be studied in the framework of Eurocentrism. They have discredited the old idea that the late imperial Chinese economy and society was stagnant and argued that the imperial state made considerable efforts to promote the economy and social welfare, which included water control, famine relief, easing barriers in domestic trade and so on. As a result, markets were efficient, ordinary people enjoyed some degree of welfare, education was widespread, literacy was high, and the living standards of peasants were not low in late imperial times.

Here it is worth noting the "California School." A small but increasing number of scholars, who are working in different fields of Chinese history with different approaches, have pushed the new view further through their works on China's demographic behavior, population changes, labor productivity, economic growth, living standards, comparisons between China and Western Europe, and so on. These scholars were mainly working in California then, hence the name of the "California School." They have brought up a series of fresh points of view on Chinese social and economic history which challenge the conventional wisdoms based on Eurocentrism. In 2000, Kenneth Pomeranz, one of the "California School" scholars, published his book on *The Great Divergence: China, Europe and the Making of the Modern World Economy*, which covers major views of the school.

The title of the book, therefore, became the representative of the major points of view of the scholars of the California School. Later, the theory became one of the foundations of fledgling “global history,” which has challenged old national histories and area studies and the West-dominated “world history.”

Since it appeared for the first time in the late 1990s, the theory of the Great Divergence has been hotly disputed. The theory looms so large because it provides us with a fresh perspective which is different from conventional ones to look at the history of the world, in particular the history of the non-Western world.

The theory of the Great Divergence reveals the fact that in the pre-1800 world some parts of Eurasia “shared some crucial features with each other, which they did not share with the rest of the continent or subcontinent around them... relatively free markets, extensive handicraft industries, highly commercialized agriculture.”²⁵ In the other words, a few parts of Eurasia, not just Western Europe in general and England in particular, performed very well economically during the centuries before the Industrial Revolution. Some kind of modern growth took place in these areas and the levels of economic development were comparatively closer between these areas than between these areas and other areas in around 1800. After that, a great divergence happened. England first and other parts of Western Europe and North America then forged ahead of the others, which lost the race. Moreover, some areas such as the Yangzi Delta, though it missed the bus of the Industrial Revolution, still were better prepared for modern growth than many other areas which did not experience such early “modern growth.” This is the central theme of the theory of the Great Divergence which frees the economic history of the Yangzi Delta from the conceptual chains of Euro-centrism and avoids forcing the delta’s reality into a West European model.

The theory receives support from the more recent empirical studies of Chinese economic history. These studies overthrow many basic presuppositions on which the conventional theories are built and reveal the realities of China before the West arrived. For example, it has been documented that in the late imperial times, China’s population growth was not faster than Northwest Europe’s and there was no “population explosion” at all. Significant progress took place in some parts of China, both technologically and institutionally, which caused considerable improvement in labor productivities. Land rents and interest on loans were much lower than had been thought and were not very harmful to economic growth. As a result, the Chinese people enjoyed pretty high standards of living, which were comparable with rich European countries like France in the eighteenth century. The role that the Chinese imperial state played in economic growth was not just negative; it was positive in more respects. Taxation was quite light if compared with most Northwest European countries at the same time. A huge and integrated national market was under way, facilitated by the state

25 Kenneth Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy*.

which was the vanguard of the rapid economic growth China saw during this period.²⁶ In all these developments, the Yangzi Delta held a peerless vantage point.

Based on these more reliable studies, more convincing comparisons of the economies of the Yangzi Delta and some other parts of the world would be possible. In this aspect, an updated example is the comparison made by Jan Luiten van Zanden and Bozhong Li recently.²⁷ From the comparison, it is found that significant similarities and differences existed in the economies of the Netherlands and the Yangzi Delta at the beginning of the nineteenth century. As a legacy of economic growth in the preceding centuries, both areas boasted high labor productivity. Though it lagged behind England, the GDP per capita of the Netherlands remained among the highest in the world for most of the nineteenth century,²⁸ while the GDP per capita in the Yangzi Delta also remained the highest in China and was among the highest in East Asia for most of the nineteenth century.

As is shown in the title of their co-authored book, *The First Modern Economy: Success, Failure and Perseverance of the Dutch Economy, 1500-1815*, De Vries and van der Woude argued that the Dutch economy had been a “modern economy” by 1815. Because there were so many similarities and commonalities between the economies of the Netherlands and the Yangzi Delta at the beginning of the nineteenth century, it is justifiable to call the economy of the Yangzi Delta another “modern economy,” if we accept the conclusion of De Vries and van der Woude and see the economy of the Netherlands in this period as a “modern economy.” The recent comparative study of the economies of the Yangzi Delta and the Netherlands in the early nineteenth century made by Jan Luiten van Zanden and Li Bozhong also indicates that in terms of GDP per capita, the Yangzi Delta roughly matched Western Europe as a whole in the 1820s, though it was lower than the Netherlands.²⁹ Owing to this historical base, it would not be difficult to understand that the Yangzi Delta is making a rapid catch-up with Western Europe recently, and the contemporary “Great Convergence” is just a result of the catch-up. The theory of the “Great Divergence,” therefore, is crucial to a better explanation of why the recent “Great Convergence” would happen.

26 For the questioning of these assumptions, see the works of the “California School,” in particular of James Lee and Wang Feng, R. Bin Wong, Kenneth Pomeranz and Li Bozhong, in the references at the end of this paper.

27 Li Bozhong, *China's Early Modern Economy: A Study of the GDP of Huating-Lou Xian Area in the 1820s*, and Li Bozhong and Jan Luiten van Zanden, “Before the Great Divergence? Comparing the Yangzi Delta and the Netherlands at the Beginning of the Nineteenth Century.”

28 Angus Maddison, *The World Economy: A Millennial Perspective*, p. 49.

29 Li Bozhong and Jan Luiten van Zanden, “Before the Great Divergence? Comparing the Yangzi Delta and the Netherlands at the Beginning of the Nineteenth Century.” The Netherlands failed to produce its own industrial revolution, but it caught up with England in its later development. According to an estimate, in terms of GDP per capita, the Netherlands ranked fifth worldwide in 1900, only below New Zealand, Australia, the USA and Belgium. Retrieved from <http://www.nationmaster.com/graph/economy-gdp-per-capita-1900>.

V. From the “Great Divergence” to the “Great Convergence”

To link the “Great Divergence” between the Yangzi Delta and Western Europe which happened two centuries ago to the “Great Convergence” which has taken place in the past three decades, we need to know what content the term “modern economic growth” has.

Albert Feuerwerker suggests that there are three varieties of economic growth in history: (1) pre-modern or extensive growth characterized by constant returns to additional inputs and by the absence of large and sustained increases in per capita output and incomes; (2) modern growth of a Smithian type where both total output and per capita product may increase but slowly with large fluctuations and with uncertain continuity; and (3) modern economic growth a *la Kuznetz* (industrialization) identified by sharp structural changes, large and sustained per capita output increases, and the continuous development and application of new technologies.³⁰ Through the differentiation, we can see there are two types of modern growth which are characterized by an increase in labor productivity (or rise of per capita output).

The relationship between the two types of modern growth is quite complicated.

First, both Smithian and Kuznetzian growth are modern economic growth. Accordingly, what was created by both types of growth was an economy in which industry and services are dominant, in contrast to the previous economies in which agriculture was the bulk of the economy; though the “modern economy” created by Smithian growth is certainly different from the “modern economy” that is usually thought of,³¹ it is surely not a traditional one. The Yangzi Delta was such an economy as early as in the pre-mid-nineteenth century.³²

Second, though both Smithian and Kuznetzian growth is modern growth, there is a great gulf fixed between them. Smithian growth relies on pre-modern and rural-agrarian institutions and technology, while Kuznetzian growth is based on sharp structural changes, institutional innovations and the continuous development and application of new technology. The differences are so huge that many scholars are reluctant to call an advanced economy driven by Smithian growth a “modern economy.”

Third, since there are two types of modern economic growth, the absence of Kuznetzian growth does not rule out the possibility of another type of modern growth—Smithian growth. The conditions and causal factors of the two types of modern growth are quite different; the effects they have are also much different. Moreover, there is no necessary connection between them.

30 Albert Feuerwerker, “Presidential Address: Questions about China’s Early Modern Economic History that I Wish I Could Answer.”

31 De Vries said “The Dutch experience, when viewed in an international context, suggests that a modern, urban, commercial economy was continuing to rely on pre-modern, rural-agrarian techniques to adjust its population to its economic environment” (Jan de Vries, “The Population and Economy of the Pre-industrial Netherlands”).

32 Li Bozhong, *China’s Early Modern Economy: A Study of the GDP of Huating-Lou Xian Area in the 1820s*.

Thus, even though the growth of an economy is not caused by Kuznetzian growth, it still can be caused by Smithian growth because Smithian growth is not based on modern technology and does not have close links with modern industry.

Forth, there is no necessary successiveness between the two types of modern growth. Thus, though an area has not experienced Kuznetzian growth, it may have experienced Smithian growth. Moreover, not all the areas which succeeded in Smithian growth would succeed in Kuznetzian growth. In fact, most of them did not.

Fifth, historically, Kuznetzian growth first appeared in England and then spread in Western Europe and North America where capitalism flourished, while Smithian growth existed in some other places outside Western Europe, but was not accompanied by capitalism. Therefore, the framework of the combination of capitalism and Kuznetzian growth makes little sense to economic history of the Yangzi Delta, since in the delta capitalism had never flourished and Kuznetzian growth appeared very late.

Though there is no necessary successiveness between the two types of modern growth, however, it is certain that there are some connections between them. Some kinds of economic modernity exist in the two types of modern growth, and can be found in some important aspects. Among them, I'd like to name two which are the most important: the market and human capital.

1. Market

The modern economy is a market economy because it is based on the market, which is the hub of the activities in the economy.

In the age of Adam Smith, the driving force behind economic improvements is productivity gains attending division of labor and specialization. By producing what they are best suited to produce and exchanging their products with others, people capture the benefits of comparative advantage at the market place. Division of labor is limited only by the extent of the market. As the market expands, the opportunities for Smithian growth increase accordingly. A decentralized price system widens the scope of the market and extends the advantages accruing from the division of labor.³³ In other words, the market was the major driving force behind modern economic growth in early modern times. The bigger and the more integrated the market, the stronger the force. In this sense, a big and integrated market is a key to modern growth in this stage.³⁴

It is commonly that an integrated and well-functioning national market is also crucial to Kuznetzian growth, which is also a market economy. In some sense, we can say that this integrated and well-functioning national market was created by Smithian growth while it was developed by Kuznetzian growth. In China, a national market emerged in the mid-sixteenth

33 Mark Blaug, *Economic Theory in Retrospect*, p. 61; Wong R. Bin, *China Transformed: Historical Change and the Limits of European Experience*, p. 16.

34 For the Smithian dynamics, see Wong R. Bin, *China Transformed: Historical Change and the Limits of European Experience*.

century and was growing rapidly in the following centuries. By the mid-nineteenth century, the market had been developed into the largest market, in terms of size, in the world of those days.³⁵ It partly explains why China's economy had performed well in the centuries before the modern West arrived in the mid-nineteenth century, since Smithian dynamics could work smoothly only in a well-integrated and functioning market.

Since it was located in the center of this national market, the Yangzi Delta benefitted much more from the huge market than any other parts of China.³⁶ Small wonder that the delta became the center of China's fledging modern economy, commercial, industrial and financial, after the modern West arrived in China in the 1840s.

2. *Human capital*

Human capital is a measure of the economic value of an employee's skill set. The concept of human capital recognizes that not all labor is equal and that the quality of employees can be improved by investing in them. Understanding the impact of human capital investment, therefore, is perhaps the most important question of all in economics, as it has the power to explain why some societies thrive and others fail. It's well understood that having a lot of natural resources or financial capital isn't enough to guarantee success in the long run. Conversely, many countries succeed without great resources or financial capital to begin with. Therefore, investment in human capital has more explanatory power.³⁷

In major aspects of human capital investment identified by Schultz,³⁸ the Yangzi Delta has performed better than any other areas of China. During the centuries before the mid-nineteenth century, the delta followed a demographic pattern which was different from traditional patterns: lower birth rate, later marriage, smaller scale of family and longer life expectancy. The people of the delta enjoyed the highest standards of living in China. Literacy was extremely high by any pre-modern standards because of the high value placed on education and literacy by most members of society; the majority of male adults had received some years of schooling in their childhood. As for female workers, a big part of them were working in the textile industry and they were trained for 2-4 years in their early teens to become capable spinners and weavers.³⁹

35 Li Bozhong, "The Formation of China's National Market, 1500-1840."

36 *Ibid.*

37 Victor Fleischer, "Theodore Schultz, Investment in Human Capital."

38 Schultz breaks investment in human capital into 5 categories: health care, on-the-job training, formal education, agricultural extension programs and migration (Victor Fleischer, "Theodore Schultz, Investment in Human Capital.")

39 Li Bozhong, *Early Industrialization in Jiangnan, 1550-1850*; Li Bozhong, *China's Early Modern Economy: A Study of the GDP of the Huating-Lou Xian Area in the 1820s*; Li Bozhong, "Controlling Population Growth to Keep Prosperous: Demographic Behavior in Jiangnan during the Early and Mid-Qing Period"; "Abortion, Conception and Sterilization: Methods of Birth Control and Their Application in the Jiangsu-Zhejiang Region in the Song, Yuan, Ming and Qing Times"; "Population Changes in Jiangnan from the Early Tang to Mid-Qing Times"; "Drug Abortion Was Applied in Jiangnan during Ming and

Moreover, from their centuries-long experience of commercialization which reached a very high level in the mid-nineteenth century, the people of the delta gained rich commercial talents. Even ordinary peasant farmers well understood mortgages, deeds to land, formal contracts and interest. Few of the people of the delta lacked a drive to get ahead materially; poverty and limited resources of land did not affect the willingness to work. The quality of the labor force was so good that when the Western entrepreneurs arrived in the delta in the late nineteenth century, they looked on their local workers not as a problem, but as a valuable resource.⁴⁰ Smithian growth created an army of hardworking, readily trainable and well-disciplined labor force and a large number of entrepreneurs, professionals and skillful merchants. In this aspect, the Yangzi Delta boasted high-quality human resources which were seen as being among the best in China for centuries.⁴¹

This kind of human resources is crucial to Kuznetzian growth.⁴² Though China had many difficult times in the late nineteenth and most of the twentieth centuries, which were full of foreign invasions and internal dissensions, destructive wars and civil wars, large-scale social upheavals and political persecutions, the Maoist radical re-organizations of society and the economy, etc., human resources have survived and have proved to be invaluable to the post-1979 economic growth. Among all the parts of China, the Yangzi Delta was best prepared for modern growth.

This economic modernity is significant for the latecomers in their actual process of economic modernization. A transition may be comparatively easy from an economy which experienced sound Smithian growth to an economy which is driven by Kuznetzian growth, if other major factors are available. This partly explains why the Yangzi Delta performed much better than most regions of China in economic modernization after modern technology and institutions were introduced from the West in the late nineteenth century. The Yangzi Delta has enjoyed the edge over most of its opposition in the aspects above, which has made the delta better prepared for Kuznetzian growth if the chance is given. This chance includes the availability of some basic factors crucial to Kuznetzian growth which were inadequate or lacking in the Yangzi Delta, among which energy, minerals and technology might be the most

Qing Times: Four Cases and Relative Analysis”; “Beyond Training for Government Examinations: Education and Its Influence on the Economy in Jiangnan during Ming and Qing Times.”

40 Dwight Perkins, ed., *China's Modern Economy in Historical Perspective*, pp. 3-7.

41 Li Bozhong, *Early Industrialization in Jiangnan, 1550-1850*.

42 Dwight Perkins argued that China on the eve of its post-1949 push on the economic front had a hardworking, readily trainable population which was already experienced in the operation of or participation in a commercial economy. Pre-modern Chinese society appears to have nurtured within it certain values and traits more compatible with modern economic growth than those of many other less developed countries, and these values and traits prepared the Chinese people for modern economic growth once it came (Dwight Perkins, ed., *China's Modern Economy in Historical Perspective*, pp. 3-7).

important.⁴³ Once these factors became available, it would be possible for the delta to have a Kuznetzian type of modern economic growth. This possibility gradually became reality in the twentieth century and after.

This complicated relationship between the two types of modern economic growth, therefore, may explain the links between the earlier “Great Divergence” and the contemporary “Great Convergence” in economic development which have happened between the Yangzi Delta and Western Europe. From this point, it is fair to say that the theory of the “Great Divergence” does matter very much in economic history of the Yangzi Delta.

Notes on Contributor

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43 Li Bozhong, *Early Industrialization in Jiangnan, 1550-1850*; “On Burning Fuel in the Industrial and Agricultural Production of the Jiangnan Area in the Ming and Qing Dynasties”; “On the Problem of Wood in the Industrial and Agricultural Production of the Jiangnan Area in the Ming and Qing Dynasties”; “On the Power of Industrial and Agricultural Production in the Jiangnan Area in Ming and Qing Times”; “The Water Power Spinning Wheel and Its Historical Fate”; “The British Model, the Jiangnan (South of the Yangzi) Method, and the Seeds of Capitalism.”

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