

Research Report for the History Project

Zhaojin Zeng

Department of History, University of Texas at Austin¹

1. Economic Transformation in China's Northern Hinterland

The transformation of China from a poor agrarian country in the late nineteenth century to the world's second largest economy by the early twenty-first century is a true miracle in the economic history of the modern world. Countless studies have been done to demystify the dynamics of the remarkable transition. Through the lens of top leaders, high politics, and state policies, scholars have examined changes and ruptures that war, revolution, and reform had brought to China. My project, tentatively entitled "Nourishing Shanxi: Indigenous Entrepreneurship, Regional Industry, and the Transformation of a Chinese Hinterland Economy, 1907-2004," reinvestigates China's twentieth-century economic transformation through the perspective of indigenous business in the hinterland. It focuses on a micro analysis of Shanxi merchants and their largest industrial establishment, the Baojin Company. Shanxi province was home to the wealthiest trade and banking merchants in the Qing empire, and it also possessed one of the world's richest coal and iron deposits. The combination of indigenous business culture and modern industrial potential constituted the distinctive context of my project, which epitomizes China's vast under-studied hinterlands in contrast to the much-explored northeastern and coastal areas.

Literally meaning "Nourishing Shanxi," the *Baojin* Company was founded by the local merchants in 1907. As the first mechanized mining and ironmaking corporation in North China, Baojin symbolized the local people's quest for an industrial economy based on fossil energy and modern technology. Using the newly discovered 30,000-page company archive, this project recounts the rise and fall of the Baojin Company through war, communist revolution, economic reform. The persistent development highlights the central role that indigenous entrepreneurship and regional industry played in the making of Chinese hinterland economy in the long twentieth century. In so doing, "Nourishing Shanxi" challenges the prevailing explanation of China's economic transformation as merely the result of a series of the successes and failures of state policies.

"Nourishing Shanxi" is also an innovative contribution to scholarship on comparative economic history of East Asia and the world. First, drawing on research in nearly a dozen archives in China, Japan, Taiwan, Sweden, and the United States, it is the first monograph on the interrelations between an indigenous Chinese business and the five authoritarian regimes: Qing, Republican, Japanese, Communist, and Reform. The continuum from merchants to industrialists, from a private firm to a state-owned enterprise, and from a barren hinterland to an industrial backwater provides a new framework for me to view twentieth-century China as a series of ruptures and continuities at multiple levels. By exploring the myriad ways indigenous businesses dealt with the regimes, I argue that profound continuity existed in indigenous entrepreneurial culture and business practice, which survived the constant political and ideological turmoil of the past hundred years and laid the foundation of China's economic rise in the post-Mao era. Lastly,

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my study of Chinese hinterland economy illuminates the larger question on the origin of regional inequality within a country. I ask why the various forces of capitalism and socialism – both were alternately present at the various stages of China’s twentieth century – failed to establish a modern industrial economy in the hinterlands. Despite various state-led initiatives and programs intended to exploit local resources, economic gaps continued to enlarge between Shanxi and the coastal areas. By telling such a story of “the Great Divergence within China”, this project shows the evolution of regional divergence as a resulting interplay of state policy, political ideologies, ecological endowments, and indigenous business culture.

2. Business under Warlord, 1912-1937

The story of the Baojin Company under Yan Xishan’s warlord regime exemplifies the complicated warlord-business relationship in Republican China. The 1911 Revolution ended the imperial rule but brought China into the chaotic warlord era. However, unlike most parts of the country, for most of the time between 1912 and 1937, Shanxi was under firm control by the same warlord, Yan Xishan 阎锡山. Assuming power in the aftermath of the Republican Revolution, Yan established his own power base in the mountainous hinterland. Also, as a Shanxi native, Yan seemed to commit to Shanxi’s economic and social development. He launched various state-sponsored initiatives and programs in attempt to revamp the old elite and industrialize the poor hinterland. Because of his distinctive vision and consistent approach toward modernity, Yan won Shanxi the title of “the model province” in Republican China.²

Yan’s vision, however, relied on a unique combination of warlord coercion and state sponsorship. A strong state-controlled industrial economy, as Yan advocated, was essential for the local army and the local people. I term it “warlord capitalism.” At the core of Yan’s warlord capitalism was the Northwestern Industrial Company 西北實業公司 (*xibei shiye gongsi*, NIC hereafter). Born out of Yan’s famous “Ten Year Plan,” the NIC became the largest state corporation groups in the Republican era. Its business covered heavy and light, military and civil industries, ranging from coal mining, iron making, and artillery producing to cement, fur, printing, and match. On the eve of the Sino-Japanese war, the NIC had developed into an industrial empire that consisted of 35 factories and mines and over 20,000 employees and workers.

Although the NIC dwarfed the Baojin Coal and Iron Company in size and production, Baojin as the largest private business in North China soon figured out its own way to survive in the warlord capitalism. Through various strategies, Baojin successfully maintained its independence and developed a special relationship with the warlord economy and with Yan Xishan himself. Under the auspices of Yan’s government, the Baojin Company underwent remarkable expansion as well. In 1921, it opened the iron factory, the first and largest modern industrial iron foundry in North China. In contrast to most business stories under warlords told before, the Baojin story was a successful one.

As an industrial iron company, Baojin’s destiny seemed to be intertwined with war, whether abroad or domestic. The First World War, for instance, had repercussions in places as far as

² For an overview of Yan Xishan’s governance, see Donald G. Gillin, *Warlord: Yen Hsi-Shan in Shansi Province, 1911-1949* (Princeton, New Jersey: Princeton University Press, 1967).

Shanxi. As the price of pig iron soared due to war demands, Baojin started construction on the first 58-square-meter blast furnace and began establishing its basic business structure in 1919. From 1917 to 1937, a strategic alliance took shape between Baojin Company and warlord Yan Xishan, which led to the rapid expansion of Baojin Company. Through various means, the Baojin Company sought to develop a close relationship with the warlord himself and fitted into the economy of warlord capitalism. Under the leadership of Cui Tingxian, the Baojin Company finished the transition from a merchant-based coal mining business to a modern industrial complex that operated at multiple sites and engaged in the mechanized coal mining and iron making. With the expansion of its industrial business, a new generation of the business elite was emerging as well, composed mostly of university students who either studied overseas or received professional training in related industries. As the old Shanxi merchant community was collapsing, the making of a new industrial business world was underway in the 1930s. However, this close relationship between the warlord state and private enterprises did not end up with significant management and organizational change. It was partly because Baojin posed a quite cooperative attitude towards the warlord government. In addition to taking the honorary title of the chair of the board and issuing orders occasionally, Yan did not take no other actions to reinforce his control over the Baojin Company.