China and the 1930s Great Depression

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Introduction

The 1930s Great Depression was one of the key turning points in twentieth-century world economic history. The aim of this paper is to analyse its impact on China. Most works on the Great Depression by economic historians have focussed on its causes, concentrating mainly on the United States and, for those with a broader international focus, on Europe. A major exception is Kindleberger’s work, which argues that the origins of the Depression lay in agriculture in the LDCs, but this interpretation is not widely accepted.

Whatever its causation, the Depression had a profound impact on most areas of the world. Although many works on other aspects of world history in the 1930s are forced to take the Depression into account, there is surprisingly little direct analysis of its impact outside Europe and North America. Rothermund has examined the course of the Depression on a global scale, though his treatment of East Asia and especially China is somewhat sketchy. Latin America has been the main focus of theoretical study, emphasising the use of protection and import substitution mechanisms that allowed some Latin American countries actually to prosper in this period. Studies of Asia (or Africa) are less developed – there are some useful articles in The Economies of Africa and Asia in

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2 Rosemary Thorp (ed), An Economic History of Twentieth Century Latin America, Volume 2: Latin America in the 1930s: The Role of the Periphery in World Crisis (Houndmills: Palgrave, 2000).
the Inter-war Depression, but they are far from exhaustive. Earlier assumptions that falls in commodity prices had a catastrophic effect on Asian countries are being superseded by a revisionist interpretation that tends to downplay the impact. Many now argue that the macro effect of the Depression was limited, certainly less than the effect of a failure of the monsoon. Others suggest, however, that, when disaggregated, the impact of the Depression on certain groups, particularly the rural poor, was severe.

After briefly outlining the different views on the impact of the Depression on China, this paper examines the evidence for fluctuations in the Chinese economy in the early and mid 1930s. It analyses the major variables – industrial output, GDP and prices – which form the core of the story in other countries. It then uses a version of Peter Temin’s periodisation to provide a more nuanced analysis of two major periods – the early part of the depression between summer 1929 and the end of 1931, and then the period when China was most seriously affected, from the beginning of 1932 to the end of 1935. Throughout the paper will ask three major questions: In what way, and to what extent was China affected by the Great Depression? What accounts for the differences between China’s experience of the Depression and those of other countries? And were there other, more important, sources of short-term fluctuations in the Chinese economy during this period?

Studies of China and the Depression

Although studies of the Chinese economy during this period have almost all given more prominence to trends rather than cycles, the Great Depression is nevertheless important

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4 See for example some of the essays in Brown, *Economies*.
7 No even remotely usable figures exist for unemployment in China during this period.
8 Even an article specifically on the impact of the Depression wrote: “Strictly speaking, there was no so-called boom and bust in modern China’s agricultural economy; it was really always in chronic crisis. It was just that in the absence of particularly serious external shocks it was just about able to operate.” See
for the study of Chinese history for both economic and political reasons. First, it was an important indicator of the degree of China’s integration into the world economy. The extent – and the costs and benefits – of this integration were, and continue to be, issues of considerable debate. In the realm of history, some scholars have argued that the small foreign sector, located in the Treaty Ports, was an unimportant excrescence having little effect on China’s hinterland. On the other hand, scholars such as Loren Brandt have argued that, as early as the 1890s, grain prices across wide areas of central China fluctuated essentially with world prices, and thus that China was even then relatively integrated into the world economy. The Great Depression was the most salient fluctuation in the world economy during the twentieth century, and thus an analysis of its impact on China will contribute to this debate.

The impact of the Great Depression was also of political importance, in that it left for China’s future an enduring image of a bankrupt economy, and promoted the idea that China could not progress further under a market system. As David Faure writes: “The image of a rural economy gone to ruins was imprinted in China’s political ideology.” This image of the bankruptcy of China’s economy in the 1930s is deeply ingrained in both contemporary and later perceptions, with the Great Depression cited as an important, though far from the only, cause. There is, however, a question as to how serious the economic problems really were, and whether they were essentially secular or cyclical. It can be argued that in practice it did not matter a great deal, because the devastation of war put a rapid end to any hesitant recovery that might have been taking place in the mid 1930s. But, from a systemic point of view, it is an important distinction that warrants examination, in part because, again to quote Faure: “The Chinese depression … accounts

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12 Ibid, p.211.
for the strong pessimism expressed by social observers of the Chinese scene regarding the detrimental effects of China’s involvement in foreign trade.”

Contemporary observers and micro studies almost universally painted a picture of economic decline and depression (a term not closely defined) in this period. In 1932 an article in the Shenbao Yuekan wrote of the complete collapse of the Chinese economy under the impact of the Great Depression. Similarly in 1934 a writer in China Weekly Review observed:

Business depression, which has been prevalent throughout the whole world since the past few years, is now fully realized in China, particularly in Shanghai ... many conservative merchants inform us that the year 1933 was the worst one in history for a great number of lines of business undertakings. ... Many lines of trade are hard hit by depression, notably the silk, cotton, flour, hotels, restaurants, textiles industry etc.

Even British diplomatic sources wrote of the danger of the complete collapse of the Chinese economy.

Widespread rural distress was also reported, and linked in part to the impact of the Great Depression. For example, Fei Xiaotong’s famous and influential micro study, Peasant Life in China, painted a devastating picture of rural destitution and hunger in his home province of Zhejiang, and argued that the problems were not the result of the landlords or the system of usury (as in fact was the standard Communist position), but that “the cause of depression lies in the relation between the village industry and the world market.” The brilliance, sophistication and uniqueness of this book have meant that the perceptions it offered of Chinese rural society have had a quite disproportionate influence on our understanding of the history of rural China in this period.

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Other rural areas were described in similar terms. Lloyd Eastman quotes a scholar returning to Guizhou in 1934:

Six years ago, when I was in my native village, 70-80 percent of the families had enough food to eat. Now, however, I learned that only 3-5 of the 400-50 families could barely get by. .. Poverty, poverty, poverty! Everywhere is poverty.\(^{18}\)

Such conditions were not attributed solely to Great Depression, with climate, landlordism and other factors playing a role, but external shocks, through the medium of imperialism, were given a major role.

This negative view of China’s performance during the Great Depression has been echoed by many more recent scholars, both in China and in the West. Thus China’s leading historian of its modern economy, Wu Chengming, writes in the third volume of the *History of Chinese Capitalism*:

The economic crisis of 1932-1935 was, with the exception of the wars of invasion launched by foreign countries, the single most severe blow to the Chinese economy.\(^{19}\)

Most Western scholars have also accepted that the 1930s saw a serious economic crisis in China. In his path-breaking work on North Chinese agriculture, Ramon Myers wrote of the “intolerable rural suffering” caused by the depression and argued that the rural problems spilled over into urban commerce and industry.\(^{20}\) David Faure has gone so far as to argue that there was a fundamental discontinuity in the Chinese rural economy caused by the Depression.\(^{21}\)

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\(^{19}\) Xu Dixin and Wu Chengming (eds), *Xin minzhuzhuyi geming shiqi de Zhongguo zibenzhuyi* (Zhongguo zibenzhuyi fazhan shi, vol. 3) (Beijing: Renmin chuban she, 1993), p. 5.


In stark contrast, some scholars in the 1980s and 1990s argued that China did not experience an economic downturn. In particular, Loren Brandt and Thomas Sargent concluded that “there was no contraction in economic activity”. An initially sceptical Ramon Myers also confessed that Brandt had persuaded him that “China’s economic growth continued through the 1930s and was not really affected by the Great Depression and the outflow of silver after 1934,” and that “China simply did not experience any national economic depression as the world depression deepened.” Thomas Rawski also argued that his data for economic activity “leave little doubt that contemporary and retrospective accounts of the early 1930s as years of desperate crisis for China’s economy contain large elements of exaggeration, particularly with regard to the modern and urban sectors.”

There thus remains a puzzle and a contradiction between contemporary, disaggregated and qualitative studies on the one hand, and the aggregate statistical record on the other. This puzzle is by no means limited to the case of China. Our perceptions of the Great Depression are strongly influenced by the experience of the United States, which was (with the possible exception of Germany) the country by far the most severely affected. In the US, there was a very clear and dramatic depression, with a 30% fall in GDP and a 45% decline in manufacturing output; output in 1939 was little higher than it was in 1929.

The statistical picture for many other countries is much less clear. In the UK, GDP fell by a much smaller 5%, industrial production by 10%, and there was a relatively rapid

recovery from 1934.\textsuperscript{27} Some figures suggest that consumption grew throughout the period.\textsuperscript{28} In a section of his book \emph{English History} entitled “Appearance and Reality”, A J P Taylor writes “Yet, at the same time [in the 1930s], most English people were enjoying a richer life than any previously known in the history of the world: longer holidays, shorter hours, higher real wages.”\textsuperscript{29} Similarly Stevenson and Cook’s major revisionist work sums up its conclusions as follows: “without diminishing the suffering and misery of the unemployed, it was too easy to fail to recognise that living standards, and the quality of life, actually improved for the majority of the population.”\textsuperscript{30}

An even more important case for our purposes is that of Japan. There again the qualitative literature is almost unanimous that Japan was severely affected – to the extent that the impact of the depression is used to explain the emergence of militarism and imperialism in the 1930s.\textsuperscript{31} However, as shown in Figures 1 and 2 below, the statistics show continuing growth in industrial production and no decline at all in GDP in constant prices. This is not to say there was no crisis, and GDP in current prices certainly declined, but it emphasises that a nuanced discussion is necessary. In fact, despite the fact that the depression receives much less attention in Chinese than in Japanese history, the hard figures show more of a decline in real GDP in China.

\textbf{Economic Trends}

The most important variables to examine when determining whether and how far China sank into a depression as a result of the Great Depression are those focussing on economic production, that is GDP and its main components, industrial and agricultural production. Economic data for pre-war China are relatively scarce and of a low level of

reliability, and aggregate figures are available only through the estimates of later scholars. Specifically there are no quarterly figures for economic production, so that the usual definition of a recession (declines in production in two successive quarters) cannot be used. In this situation, the more general definition produced by the National Bureau of Economic Research is a useful starting point:

[A] recession is a period of significant decline in total output, income, employment, and trade, usually lasting from six months to a year, and marked by widespread contractions in many sectors of the economy. .. A depression is a recession that is major in both scale and duration.

Even with a more general definition, there remain issues over the direction of the Chinese economy in this period and over the causation of any fluctuations.

Figure 1 is a version of Figure 1.1 in Temin’s work on the Great Depression, which compared trends in industrial production in the United States, the United Kingdom, France and Germany. Figure 1 here similarly compares four countries, but focuses on the United States, the United Kingdom, and also Japan and China, the two largest economies in East Asia. The Chinese figures are based on a recalculation of John Key Chang’s index, adding Kubo Tōru’s estimates for silk, and taking account of revisions by Kubo (cotton) and Wright (electric power production).

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32 In any case quarterly figures would be less relevant in a predominantly agricultural economy.
35 By enabling us to include silk, Kubo has greatly expanded the scope of the index and increased our understanding of the Chinese economy in the Republican period.
Note: The series for China is adapted from Chang’s pioneering series, adjusted for cotton, silk and silk cloth, and for electricity.


Figure 1 makes it clear that there were substantial differences in trends in industrial production in East Asia as against the Western economies. Specifically, growth in East Asia continued more or less throughout the period. The strongest contrast is in 1930 and 1931, in a period when western economies went into absolute decline but those in East Asia continued to grow, in China’s case at a substantial rate.

While for Western countries fluctuations in GDP were less dramatic than those in industrial production, East Asia again shows a somewhat different picture. Figure 2 gives comparative figures for the same four countries, but GDP estimates for China are only available from 1931, and so the indices are based on 1931. Whereas in China industrial production grew each year with the exception of 1932, GDP dipped in 1934 and did not regain the 1933 level until 1936. This was, as we shall see, largely a function of trends in agriculture. The timing of this downturn was clearly different from those in the UK or the US. By 1936, however, China was recovering from any effects of the Depression (Eastman describes the recovery as “spectacular”), and the first half of 1937 in particular was a period of economic as well as political optimism.36

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Finally, deflation was a central feature of the Depression in most countries. Again we see a substantial difference between China’s experience and those of other countries. As Figure 3 shows, trends in Japan and the Western countries show very substantial similarity, but China’s experience was radically different for the key period 1929-1935, rising when the others were falling, and falling when the others were rising. Again, Shanghai wholesale prices show a strong trend towards recovery from 1936 continuing into 1937. Thus both output and, even more, price figures showed a considerably different trend in China from those in Britain and the US, while Japan was somewhat in between.
**The First Phase, 1929-1931**

As an aid to developing answers to the questions posed in the introduction, this paper adopts a slightly modified version of Temin’s periodisation of the Great Depression: a first phase from mid 1929 to the end of 1931; and a second phase from the beginning of 1932 to 1935. During Temin’s first phase, China’s prices and output rose, while prices in Japan, the US and the UK fell, and output also declined in the two western countries. The simple explanation for this is that China’s currency was on a silver standard, and thus was automatically devalued by the rise in the value of gold against silver in the early years of the Depression. So China did not suffer the policy dilemmas, or the problems, encountered by other countries that used the Gold Standard. For China, the devaluation

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38 For my purposes I have dated the end of the first phase and the beginning of the second not to the European Financial crisis of mid 1931 but to Japan’s abandonment of the Gold Standard in December 1931, which had a more direct impact on China. Temin ends his second phase with America’s devaluation in 1933, which only intensified the problems for China. China’s depression, insofar as it suffered one, lasted to late 1935, when the Chinese government took their currency off the (overvalued) silver standard.
of its currency offered the country a degree of protection from world trends. As Sir Arthur Salter wrote: “During the first two years of the world depression, China was less affected by it than any other great country.”

Figure 4: Exchange Rates: Chinese Dollar Against Japanese Yen and US Dollar, 1928-1936 (1929 average = 100)

Figure 4 clearly indicates the situation: the fact that China’s currency was on silver led automatically to a steep decline in its value as against the gold-based currencies from 1929. This warded off deflation in China (see Figure 3) and improved the competitiveness of China’s exports. While many contemporary reports saw only the negative side of this phenomenon – and indeed many firms dependent on trade in imported goods went bankrupt – some observers correctly predicted the benefits that would flow to China. As early as January 1930, the Shengjing shibao predicted large profits for exporters, though adjudged the overall effect to be negative. The Japanese East Asiatic Economic Investigation Bureau argued: “In our opinion the inevitable result of the devaluation of the currency will be to promote exports, to raise prices and to


41 For a recent discussion, see Dai Jianbing, Baiyin yu jindai Zhongguo jingji (1890-1935) (Shanghai: Fudan daxue chubanshe, 2005), p. 280.
42 “Jingui jinjian yanghuoshang xiangji daobi”, Shengjing shibao, 18 June 1930, p. 4.
stimulate enterprise.” Chinese scholars writing in a government journal reported on the difficulties of Japanese cotton cloth manufacturers in competing with Chinese cloth in the market of either country, though the report stressed that the benefits went to the Japanese mills in China, not to Chinese companies.

Even agricultural prices show a similar, though not identical, pattern. Chinese historians have emphasised the collapse of agricultural prices and the consequent devastation of the villages, and it is true that, because of the steep fall in world agricultural prices, Chinese agricultural prices began to decline from 1931, a year earlier than prices in general. However, Figure 5 in fact shows that even agricultural prices rose in 1930 under the impact of the devaluation, and that later, on a 1929 basis (and that more or less represents the level of prices in the late 1920s), the fall in prices was the same as in Britain and less than in Japan or the US.

![Figure 5: Agricultural Prices in Four Countries, 1926-1936](image)


The silk industry provides an even tougher test of the contention that the devaluation of silver protected the Chinese economy in 1929-1931. The industry’s problems were structural as well as cyclical, by devaluation, and it clearly encountered serious problems

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46 Salter, *China and the Depression*, p. 33.
47 Xu Chang, “1929-1933 nian shijie jingji daweiji”, passim.
from the onset of the depression. Figure 6 charts the trends in silk exports, showing that the fortunes of the industry declined earlier – with a 33 percent decline in the value of exports between 1929 and 1931 – and more steeply than did those of other export products, and showed little sign of recovery even in 1936. As early as 1930, the number of silk filatures in Guangdong declined by one-third.\(^{48}\) Prices show a similar picture, with sharp declines setting in from the beginning of the 1930s. Although the trends, as shown in Figure 7, were in many ways similar to those of prices in general, the decline began earlier and was much more severe for silk than for other goods: in 1935 silk prices were 64% below the level of 1929, while wholesale prices in general were only 8% down, and export prices (which included silk) 26% down.

**Figure 6: Silk exports and total exports from China, 1928-1936**

![Graph showing trends in silk exports and total exports from China, 1928-1936](image)


Note: “Adjusted total exports” and “Total exports minus silk” are series adjusted to take account of the loss of Manchuria, by adding exports from Manchuria to countries other than China to the China total for 1932-1936; see Manshikai, *Manshū kaihatsu yonjūnen shi* (Tokyo: Manshū kaihatsu yonjūnen shi kankōkai, 1964), vol. 2, p. 796.

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\(^{48}\) Second Historical Archives, Nanjing (hereafter SHA), 422(2)/1424, Huang Yongan, *Jiang-Zhe cansi zhizhouye diaocha baogao*, 1933, p. 50.
Even in this case, however, a closer examination again reveals a more complex story, in which the fall of silver offered some temporary protection and the worst impact was in the mid 1930s. Silk prices in Shanghai fell by 5% in 1930, compared to an almost 40% fall in New York. While the fall in the price of silk did affect the Chinese industry, the fall in silver improved China’s competitiveness in Europe and America relative to other countries such as Japan, benefiting exports and even leading to the unheard-of situation of Chinese silk exports to Japan and to talk of a shortage of supply of Chinese silk. Certainly 1930 saw an increase in Guangdong’s raw silk exports by volume, even if generally lower prices reduced the value. Japan’s silk industry expressed serious worries about the situation. Later, poor harvests leading to high costs of raw materials, as well as Japanese price cutting, led to China’s advantage declining. Even then, in stark contrast to the situation in Japan, the problems were focussed on the silk factories and

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49 D. K. Lieu, *The Silk Reeling Industry in Shanghai* (Shanghai: China Institute of Economic and Statistical Research, 1933), p. 8
traders, with little impact yet on the primary producers. At the same time, the silk cloth industry in Shanghai remained prosperous right up to the middle of 1931, when it was hit by the impact of the Depression but also by the Yangzi floods and the loss of the Manchurian market.

The important role that the relationship between silver and gold currencies played in the history of the Great Depression in China can be seen in the case of the North-east, where the Chinese and Japanese sectors used different currencies, tied to some extent to silver and gold respectively. As a result the gold-using Japanese sector suffered an early and severe impact, while at least some of the silver-using Chinese sector actually entered a period of relative prosperity, because its competitive position was greatly improved by the enforced devaluation of its currency. Coal mining, Manchuria’s largest industry outside soybeans, provides a clear illustration of the contrast between those companies using gold-based currencies and those using silver. Figure 8 plots the profitability of the South Manchurian Railway’s Fushun mines, at the time the largest in China, as against that of the relatively nearby Kailuan mines, which, while largely controlled by the British, used silver currency and competed with Fushun in the key East Asian coastal markets.

It shows that Fushun, like other parts of the Japanese economy in Manchuria, went into steep depression from 1930, at a time when Kailuan was still prospering. Other, fully Chinese, mines, such as Beipiao in Liaoning, Muleng in Jilin and Hegang in Heilongjiang, enjoyed something of a golden period in 1930, substantially increasing their share of the market at the cost of Fushun.

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54 Ibid, pp. 17, 23
55 SHA 422(2)/1424, Huang Yongan, Jiang-Zhe cansi zhizhouye diaocha baogao, 1933, p. 4.
Although the decline in its silver currency offered China many advantages and a degree of protection, it by no means totally insulated the country from the negative effects of the Great Depression. As with all devaluations, there were negative as well as positive effects of the decline of silver, and it was perceived at the time as a serious problem. Any merchants involved in the import business were badly hit, while factories or enterprises using imported machinery or inputs found their costs rising steeply. In addition, again as is usual with devaluations, the initial impact was to worsen the trade balance, because of the time it took for the demand for imported goods to be adjusted downwards. In this context, much was made of the fact that it reduced the purchasing power of the Chinese people, though this would have been only true in relation to purchases from gold-standard countries. Because of all these problems, but perhaps still more because of the ideological power of gold, even as eminent an economist as Ma Yinchu called for China to adopt the gold standard.


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58 Salter, *China and the Depression*, pp. 87-89 gives a balanced account.
The Second Phase, 1932-1935

Figure 4 clearly indicates that the devaluation of China’s currency and the protection that offered to its economy up to the end of 1931 was quickly reversed by Japan’s abandonment of the gold standard. The trend was much more dramatic against the yen than against the US dollar, but it is clear that from 1932 China entered a period of a rapidly appreciating currency. This reversed the factors that had protected it in the earlier period, leading to falling import prices, conceptualised at the time in China (and in many other places) as “dumping”.60 As a result, as shown in Figure 3, prices began to decline and a general deflation set in. The trough of the deflation was reached in 1934-1935, when prices bottomed out and, as shown in Figure 2, GDP remained below the 1933 level.

Trends in output are, however, less clear than those in prices, and it is even less certain that any downward fluctuations were caused by the Great Depression rather than by other factors. It is true that, according to the revised series resulting from the work of Kubo and Wright (though not according to Chang’s original series), industrial output declined slightly in 1932, before resuming its growth from 1933. One could easily point to contemporary reports arguing that Japanese dumping, particularly of cotton goods, cement and coal, was undermining Chinese industry at the time.61 Dumping took place both in China and in China’s export markets, further reducing, for example, exports of silk cloth.62 One can attribute falling import prices to the way China was tied into the world economy and to the effects of (Japan’s reaction to) the Great Depression; indeed growing exports, fuelled by the devaluation of its currency, were an important plank in Japan’s recovery.63

60 For flour see SHA, 422(3)/481, “Gedi maifenchang diaocha baogao”.
It is, however, uncertain whether the decline in output was really the result of these economic forces. In fact the Chinese economy was buffeted by a series of shocks in this period. Much more directly, the Japanese attack on Shanghai, China’s main industrial base, in January 1932 closed down most of Shanghai’s industry for around three months.\footnote{Ho Ping-yin, “Industry and Commerce During 1932”, Chinese Economic Journal 12.1 (January 1933): 2-3; Donald A. Jordan, China’s Trial by Fire: The Shanghai War of 1932 (Ann Arbor: The University of Michigan Press, 2001), pp. 197-200.} For example, output of electric power by the Shanghai Power Company declined by 14 percent, basically because of the collapse in demand from China’s industry in the first quarter of the year.\footnote{Wright, “Electric Power Production”, p. 357; Tōa kenkyūjo, Shogaikoku no taishōshi, 3 vols (Tokyo: Tōa kenkyūjo, 1942), vol. 2, pp. 304-305.} Likewise, the production of reeled silk fell by almost half in 1932, as most filatures were forced to close.\footnote{Kubo Tōru, “Minguo shiqi Zhongguo de gongye fazhan”, pp. 49-50} Although the Shanghai War had a major effect on output, however, it is less clear that Jordan is right to attribute the sharp decline in prices in 1932 to a decline in purchasing power because of the war.\footnote{Jordan, China’s Trial, p. 195.} It is more likely that this was rather the importation of deflation because of currency appreciation.

After 1932, industrial output regained its upward momentum, and there is little hard evidence to suggest that the Great Depression depressed industrial output in aggregate during the period 1933-1935, when deflation was at its greatest. Both Chang’s original series and the recalculations based on Kubo’s work show continuing growth between 1933 and 1936. Of course, the situation was different in different industries. Although Chang’s original series showed a 12% decline in the output of cotton yarn – the most important industry – between 1932 and 1935,\footnote{Chang, Industrial Development, p. 119.} Kubo’s revisions show that growth was continuous up to 1936, except for a one-year 5% decline in 1935.\footnote{Kubo, “Guanyu minguo shiqi gongye fazhan de jige wenti”, p. 38.} On the other hand, according to Kubo’s recent estimates, production (of both reeled silk and silk cloth) in the silk industry, the industry hardest hit, fell sharply in 1934, not recovering the 1933 level before the war.\footnote{Kubo, “Minguo shiqi Zhongguo de gongye fazhan”, pp. 49-50}
Gross Domestic Product, according to Yeh K’ung-chia’s figures, was static in 1933 and dipped in 1934-1935, as shown in Figure 2; indeed GDP in 1934 declined by almost 10% from 1933. That decline was, however, almost entirely in the agricultural sector. The question then emerges as to how to explain the fall in agricultural output. Again it is possible to point to economic factors, particularly the decline in agricultural prices. A contemporary report on Sichuan linked the decline in rice production in the province directly (though by no means exclusively) to the fall in rice prices (though in neither case were the figures entirely unambiguous). Likewise, a recent leading Chinese text argues that the collapse of agricultural prices and the dumping of foreign agricultural products deprived Chinese agriculture of its markets, both internal and export, though it does not discuss any impact on output; low prices also led to declines in peasant incomes of up to one-half, and the consequent bankruptcy of China’s villages.

Climatic factors, however, were probably the main influence. Although China’s size means that natural disasters almost never affect the whole country, 1934 did see a serious drought covering most of the central Chinese provinces – nationally 431 counties reported drought conditions in 1934 as against 127 in 1933 and 189 in 1935. Although the impact of floods on GDP was in general substantially greater than that of droughts, a recent study still identifies the 1934 drought as one of six major disasters affecting large areas of the country during the Republican period, while floods and locusts also contributed to reducing output. Y. Y. Kueh’s quantitative analysis confirms that the fall in output was related more to climatic factors than to economic ones. The rice harvest was hardest hit, with over a 20 per cent decline, concentrated in the central Chinese provinces of Jiangsu, Anhui, Hubei, Hunan, Jiangxi, and Zhejiang (production in south

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71 Yeh, “China’s National Income”, p. 97.  
74 Xie Yonggang, Shuizaihai jingjixue (Beijing: Jingji kexue chubanshe, 2003), pp. 132-138.  
75 Xia Mingfang, Minguo shiqi ziran zaigai yangchou jishu (Beijing: Zhonghua shuju, 2000), pp. 41, 377-379.  
China held up, while the big decline in Sichuan had taken place earlier).\(^78\) The government estimated losses of agricultural production at 1.4 billion yuan, something less than 10 per cent of total agricultural production and around two-thirds of the decline in the value of agricultural production that year. Importantly the government estimated the losses from the 1934 drought as greater than those from the 1931 Yangzi and Huai floods;\(^79\) the estimate of crop losses in 1931 was just under 1 billion yuan.\(^80\) Nevertheless, some caution must be exercised in using these figures in this way: the crop reductions were in relation to some “normal” year, and it should be assumed that in a country the size of China some areas will be affected by natural disasters – for example the losses to drought in 1936 were not much less than 1934, but overall that was a good year for agriculture.\(^81\) Thus ideally what one would compare the impact of a given disaster or set of disasters with “normal” disaster losses across the whole country for that year. However, that is not really practicable.

Most often, disasters affected more specific areas, sometimes thereby also affecting national output. For example, agricultural production also showed a clear trough in 1934 in Manchuria. This was caused by widespread flooding, particularly in Heilongjiang: 57 counties in the north-east reported floods in 1934 as against only around 30 in the early 1930s, when flooding was also widely reported. Output dropped by 50% in the worst affected areas.\(^82\) Climate was also the cause of the largest disruptions in Sichuan, and influenced the subsistence as well as the commercialised sector. Two major droughts caused famines in the mid 1930s. In 1934 a famine affected 80 counties, with the population of Hechuan, for example, being reduced to eating bark. An even more severe drought in 1936-1937, affecting 125 counties and made worse by the passage of the

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\(^{78}\) *Minguo ershisannian nongqing baogao huibian* (Nanjing: Shiyebu, Zhongyang nongye shiyansuo, 1936), p. 21.

\(^{79}\) *Minguo ershisannian nongqing baogao huibian*, p. 45.

\(^{80}\) Department of Agricultural Economics, University of Nanking, *The 1931 Flood in China* (Nanjing: University of Nanking, 1932), p. 13.

\(^{81}\) *Nongqing baogao* 5.1 (15 January 1937): 1.

armies of Zhang Guotao, led to what Bramall estimates as a 30% decline in food consumption in 1937. Crop losses amounted to 270 million yuan,\textsuperscript{83} and infant mortality rose from 250 to 400 per 1000, and 30 million people across 80% of the province were affected.\textsuperscript{84} Despite the contemporary reports, however, the statistical record shows the impact less clearly. Thus the two major population histories of the province do not specifically mention the famine, nor do the population figures show the sort of effects so clearly visible from, for example, the 1959-1961 famine.

The other major non-economic factor that had an influence, though probably a lesser one, was military disruption. Up to 1937, military disturbances tended to be local, or at most regional. For example, the militarisation of Sichuan led to the high taxes cited by many observers as a major burden on the farming population.\textsuperscript{85} There remains considerable debate over the severity of the tax burden, however, with Rawski arguing that it was no more than 2% of provincial product, but Bramall calculating it at 9%.\textsuperscript{86} Again, the aftermath of the Japanese occupation of Manchuria and the subsequent, albeit limited, Chinese resistance led to disruption of agricultural production, and even more of agricultural marketing and finance.\textsuperscript{87} Nevertheless, Rawski argues (and even Bramall agrees) that, on a national basis, the burden of government and the impact of war on the economy up to 1937 have been exaggerated.\textsuperscript{88}

Given that all the statistical evidence suggests that, at the very least, China escaped relatively lightly from the Depression, and indeed that any disruption to output was more a result of climatic and military disturbances, how can one explain the perception of deep

\textsuperscript{83} Nongqing baogao 5.1 (15 January 1937): 5.
\textsuperscript{85} Jerome Ch’en, The Military-Gentry Coalition: China under the Warlords (Toronto: University of Toronto-York University Joint Centre on Modern East Asia, 1979), pp. 134, 141-143.
\textsuperscript{88} Rawski, Economic Growth, p. 39.
crisis at the time? First, contemporary perceptions were influenced by the overall national crisis being faced by the country. Politically conscious Chinese people perceived a threat to their country’s very existence, a threat coming primarily, though not exclusively, from Japan.\textsuperscript{89} This coloured economic reporting, and in particular led to a great deal of sensitivity to economic relations with Japan, for example in the controversy over dumping. A report on the dumping of cotton yarn in 1933 argued that the Japanese “were planning to bring down the Chinese cotton spinning industry, in order to further their ambitions of economic invasion.”\textsuperscript{90} More broadly, William Rowe has examined the puzzle of why reports on the tong oil trade were almost all framed in terms of crisis, at a time when the objective data were showing a growing and healthy trade.\textsuperscript{91}

Second, from a social point of view, redistribution of income through price effects, even if not affecting total national production, could have serious effects on particular groups. Industrial profits were clearly squeezed during the mid 1930s, as reflected in press analyses of the economy. China’s largest textile conglomerate, Rong Zongjing’s Shenxin group, experienced a sharp decline in its financial situation, leading to major losses. Again, the perception of this situation was accentuated by the threat of take-over from Japan.\textsuperscript{92} Similar problems were experienced by other groups: for example the Huaxin mill in Qingdao made profits of 10% or more during the years 1928-1931 but, during the following period between 1932 and 1935, its results varied from a profit of only 5% down to a loss of 2.3%. This was a general pattern, albeit with differences in detail across the country,\textsuperscript{93} which led to an atmosphere of crisis and calls for government action.\textsuperscript{94}

\textsuperscript{90} “Risha zai-Hua qingxiao shikuang”, \textit{Shangye yuebao} 13.8 (August 1933): guoneiwai jingji yuezhi 2.
\textsuperscript{92} Shanghai shehui kexue yuan jingji yanjiusuo, \textit{Rongjia qiye shiliao} (Shanghai: Renmin chubanshe, 1980), vol. 1, pp. 350-377, 640-641. The relevant chapter in this collection talks of Shenxin’s fate “under the national crisis”.
\textsuperscript{93} Xu and Wu, \textit{Xin minzhu xiyi geming shiqi de Zhongguo zibenzhuyi}, p. 139
The farming population may also have seen their incomes falling even from their previous precarious state during and, possibly though not so clearly, as a result of the Depression, because of the fall in agricultural prices. Moreover, that fall outpaced any fall in the prices of industrial products, so that the internal terms of trade moved against agriculture. It is, however, more difficult to make generalisations about rural incomes, and there is some disagreement among scholars as to which groups of farmers fared worst during this period.

Thomas Rawski argues that the better off farmers more closely tied into the commercial economy bore the brunt of the Depression: “It is in highly commercial farming regions, and only in these areas, that the effect of the depression in China may be compared with the hardships experienced by both urban and rural residents in the major industrial nations.” In Manchuria, one of the most commercialised regions, the decline of world soybean prices and the soybean export trade reduced, according to Herbert Bix, the incomes of villagers in the north of the region from 170 yuan in 1927 to 81 yuan in 1931 and 57 yuan in 1933 as a result of the decline of the industry. Nevertheless, these figures exaggerate the seriousness of the situation: the prices of gaoliang and millet – two major food crops – declined by as much or slightly more than did the price of soybeans. So farmers selling their soybeans more cheaply would also be able to buy cheaper foodstuffs, and to that extent the figures of income in yuan greatly exaggerate the decline in real incomes.

Even more clearly, the decline of the silk industry had devastating effects on some of China’s most commercialised areas, notably the Lower Yangzi and Lingnan. In Guangdong, the decline of the industry deprived 58,000 workers involved in cocoon rearing of their livelihoods and threw over 36,000 women workers in the silk filatures out

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95 In Shanghai agricultural prices fell by 32% from their 1930 peak, while industrial prices fell by 25% from their 1931 peak. See, Zhongguo kexue yuan, Shanghai jiefang qianhou, p. 135.
96 Xu Chang, “1929-1933 nian shijie jingji daweiji”, p. 140.
97 Rawski, Economic Growth, p. 179.
of work. Families were reduced to selling wives and children. To return to Peasant Life in China, broad perceptions of China’s rural economy are influenced by the fact that this book focused on a village in Zhejiang in the 1930s that relied heavily on silk, the product most seriously hit by the Depression. It thus stands at the extreme end of the influence of the Depression on rural China.

However, exclusive focus on one industry does not deliver a balanced verdict on the fate of the economy as a whole. There are at least three major qualifications to make. First, the products hit most seriously by the Great Depression made up only a relatively small proportion of the total economy: Liu and Yeh calculate that in 1933 (admittedly after the decline had begun), silk accounted for less than 0.8% of China’s GDP. Even in silk producing areas, its weight was limited: in Sichuan, silk accounted for only 1.5% of provincial product (even on my calculations; Bramall gives a still lower figure) and, although there were no doubt multiplier effects, the effect of its decline must have been limited. Second, the prices of purchased food or investment goods also declined. However, the case of silk is different from that of soybeans: the decline in price was much steeper, and trade contracted sharply in volume as well as price. Finally, the decline of silk did not represent the net effect on farm incomes, because economic restructuring led to the emergence of new lines of business. For example, in Sichuan, the decline in the silk trade must be set against the substantial rise in the tong oil trade during the 1930s, though different groups of farmers gained and lost. Even silk farmers had other options: in silk areas in Guangdong, cultivated land was divided between mulberries and fish ponds, allowing some flexibility for farmers when silk prices fell; the growth of urban demand for fish compensated them for falls in silk prices, at least delaying any effect on the farm sector. Likewise in Jiangsu farmers switched crops

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100 SHA 422(2)/1424, Liao Chongzhen, Guangdong canshiye fuxing zhi tu, 3b.
102 Bramall, Living Standards in Sichuan, pp. 30-31, 75-79.
103 See Wright, “Distant Thunder”, pp. 702, 704-705, 719-721. It would have made a greater contribution to total production in both Zhejiang and Guangdong. The basic point still holds, however.
105 Sanshigyō dōgyō kumiai, Shina sanshigyō no jōsei, p. 24.
after two years of low silk prices and therefore low demand for mulberry leaves.\textsuperscript{106} Of course it should not be assumed that this was an easy or seamless process – informed observers ruled out this option in Shunde, Guangdong.\textsuperscript{107} It is, moreover, likely that these alternatives all delivered lower incomes to the farmers (otherwise, why were they in silk in the first place?). Nevertheless, nor should it be assumed that there was no substitution, and the important point is that the net change in incomes was the difference between the loss from the decline of silk and the income generated by the alternative.

Thus a focus on silk in the analysis of the impact of the Great Depression on China delivers an unbalanced verdict. This in no way denies the widespread suffering and destitution endured by millions of Chinese farmers dependent on silk production, but their experiences – unhappy though they undoubtedly were – were not entirely representative of their counterparts in other lines of production.

An alternative line of analysis of rural incomes in the 1930s is proposed by Ramon Myers, who argues that falling prices for the commodities produced by farmers in commercialised areas would have been at least partly offset by falling prices for inputs. Moreover, the flexibility of a commercialised economy, such as that described above in Guangdong, allowed farmers involved in the market to adjust their production to minimize the impact of adverse fluctuations. For him, the most vulnerable farmers were poor farmers without the range of options offered by a market economy who were affected by military or climatic disturbances.\textsuperscript{108} Of course these two views are not totally incompatible, in that Rawski was talking about the specific impact of the Great Depression, Myers about the groups who were suffering the most in the mid 1930s. If it is in fact the case that the decline in GDP in 1934 and 1935 was generated mainly by climatic fluctuations, this might mean Myers is pointing to the more common phenomenon.

\textsuperscript{106} SHA, 422(2)/1424, Liao Chongzhen, \textit{Jiang-Zhe Cansiye diaocha baogaoshu}, 10 April 1934, 3a.
\textsuperscript{107} SHA 422(2)/1424, Liao Chongzhen, \textit{Guangdong canshiye fuxing zhi tu}, 4a-b.
\textsuperscript{108} Myers, “The World Depression”, p. 269
The depression in China, such as it was, came to an end in 1936. In addition to the effect of good harvests,\textsuperscript{109} this partly reflected a general recovery in the world economy, but also crucially it resulted from the devaluation of the Chinese currency in the course of the 1935 currency reform. Thus, Temin’s stress on the importance of currency devaluation in bringing an (albeit incomplete) end to the depression in other countries also holds for China. The recovery can be seen both in the aggregate price and output figures charted in Figures 1-4 and in optimistic press statements at the time: a leading Chinese economist wrote in late 1936:

Over the past few years the decline in the value of China’s foreign trade has given evidence of the depression in the economy and the reduction in the purchasing power in the interior. Over the past year trade has increased, giving evidence of the trend to economic recovery.\textsuperscript{110}

Even in the case of silk, the industry worse affected by the depression, informed observers at the time spoke of the problems being cyclical.\textsuperscript{111} While both hindsight and the aggregate figures indicate a situation of long-term decline, Bell’s study of the Wuxi silk industry talks of the effects of the Great Depression being “relatively short term”,\textsuperscript{112} and in the eighteen months immediately preceding the outbreak of war, there were reports of rising prices and reopening silk factories, even of a shortage of cocoons.\textsuperscript{113} From a different point of view, Ma argues that, after a long period of lagging behind Japan, in the 1930s the Chinese silk industry initiated the necessary technical reforms and promised to provide much stronger competition for Japan from the mid 1930s than it had before. Thus there was “a 1930s Lower Yangzi catch-up with Japan that was nothing short of remarkable”, and that led to a decisive shift of comparative advantage in China’s favour.\textsuperscript{114}

\textsuperscript{109} See for example the reports of the meetings of the Japanese Chamber of Commerce in Shanghai in SHA 422(4)/9361.
\textsuperscript{110} Peng Xuepei, “Huobi gaige hou Zhongguo jingji zhi jianyue”, Shehui jingji yuebao 3.11 (November 1936): 5.
\textsuperscript{111} SHA 422(2)/1424, Huang Yongan, Jiang-Zhe cansi zhizhouye diaocha baogao, 1933, p. 5.
\textsuperscript{113} Qian Tianda, “Jingqi sheng zhong zhi cansiye”, Guoji maoyi daobao 9.3 (March 1937): 3.
Conclusion

The data presented in this paper suggest several tentative conclusions. First, the level of China’s development and its integration into the world economy meant that the impact of the Great Depression, although significant, was on the whole overshadowed by non-economic factors, most notably climatic fluctuations and military disturbances. Second, China’s economic history in the 1930s up to the outbreak of war is one more of cyclical movements than of long-term bankruptcy. Moreover the downturn in the 1930s was of limited, though not negligible, magnitude. On the whole the signs were that nationally the economy was recovering from 1936. Third, as elsewhere, the impact of the Depression varied considerably by sector and by region. In general, as one would expect, the more commercialised sectors and regions were more severely affected by the Great Depression than those more reliant on a subsistence economy, though it is also important to point out that the latter were probably more susceptible to the more serious climatic and military disturbances that afflicted China during this period. In any case, the economic collapse that followed the Japanese invasion and the subsequent hyperinflation soon overwhelmed the cyclical influences of the Depression and the recovery.