THE NEW CHINA

Comparative Economic Development in Mainland China, Taiwan, and Hong Kong

Alvin Rabushka

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PREFACE

On March 1, 1963, I boarded my first trans-Pacific flight for Hong Kong. I spent ten months as a Chinese language student at Hong Kong University, during which I became impressed with the colony's relatively poor but extremely hard-working Chinese population. Since 1964, I returned almost annually to Asia, extending my territorial ambit to encompass Singapore, Malaysia, Taiwan, Korea, and mainland China. During these years of travel, I watched these East and Southeast Asian countries transform themselves from what are commonly termed less-developed countries (LDCs) into a wholly new category, recently popularized as newly industrializing countries (NICs). The exception to this trend in East Asia was mainland China, which lagged sorely behind in per capita levels of output and consumption. But in 1978, mainland China shifted course. After Deng Xiaoping consolidated power, he implemented a series of rural and urban economic reforms that increased the mainland's economic vitality.

This book is rooted in nearly a quarter-century of personal observation of economic change among largely Chinese-populated communities in East and Southeast Asia. The idea for a book comparing the postwar economic development of mainland China, Taiwan, and Hong Kong—three different political economies populated almost entirely by Chinese—grew from several conversations I had with David J. Theroux in the early 1980s, then president of the Pacific Research Institute for Public Policy, and Charles W. Baird, then Senior Economist with the Institute. The Institute obtained a grant from the Asia Foundation, which financed several research trips to East Asia. The World Media Association made it possible for me to visit Beijing and Taipei in 1986, during which I had lengthy discussions with academics and government officials in both countries on aspects of economic policy and development. In organizing the book, I received helpful suggestions

from Greg Christainsen, Senior Economist with the Institute and member of the economics department at California State University, Hayward.

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Alvin Rabushka

1

INTRODUCTION

Since the end of World War II, more than one hundred new nations scattered throughout Asia, Africa, Latin America, and the Caribbean faced the task of transforming their poor, traditional societies into modern economies. The majority followed a strategy for economic development that emphasized government intervention in economic matters and, in some instances, state ownership of key industrial sectors. A few attempted comprehensive central planning for the entire economy. The specifics of these policies varied among countries, but often included government-directed capital formation, foreign-exchange controls, limitations on overseas investment or ownership, high tariffs to encourage domestic industry to develop substitutes for imports, high marginal rates of direct taxation for the purpose of redistributing income, and other regulations on economic activity. Most sought, received, and remained dependent on foreign aid.

Basic indicators of economic development published in the World Bank's annual *World Development Report*[1] reveal that the most successful examples of post–World War II economic development in the world are located in the Pacific Area Basin. Hong Kong, Singapore, Taiwan, Malaysia, and Korea grew so rapidly that they graduated from the ranks of the developing world.

Why did these Asian countries prosper? Was it because they chose the correct economic policies? Or, rather, because their Oriental populations were diligent, thrifty, and ambitious? It would be a mistake to dismiss these personal traits out of hand. Oriental people inherited an old Confucian tradition, which emphasized love of learning; personal advancement through hard work and self-sacrifice to gain "face" for one's family, community, and country; respect for elders and authority; and moral virtue. Chinese people flourished almost everywhere they settled. Southeast Asia is replete with stories of penniless Chinese immigrants who went from rags to riches. Indeed, Chinese helped promote major economic progress in such countries as Thailand, Indonesia, the Philippines, and Malaysia, all of which enjoyed higher growth than most African and Latin American nations.[2]

The view that development depends on cultural traits lends little hope to millions living in famine-starved Africa and in other stagnant or slow-growing economies. No analyst of development seriously advocates importing millions of Chinese to invigorate other poor economies. To the extent that culture explains development, the design and implementation of economic policies becomes less important. Development is simply a matter of good luck!

The Chinese-culture thesis of development may itself be subject to inquiry. The presence of Chinese people cannot account for sharply higher growth rates in Taiwan and Hong Kong than in mainland China during the past three decades or for the fact that per capita income in Hong Kong in 1985 was thirty times more than that in mainland China.[3] In fact, mainland China enjoyed a greater abundance of natural resources than Taiwan or Hong Kong, which suggests that other factors such as political stability, economic institutions, secure property rights, the rule of law, and individual incentives play a role.

MAINLAND CHINA, TAIWAN, AND HONG KONG: A PREVIEW OF COMPARATIVE DEVELOPMENT

In 1949, Mao Zedong[4] established Communist rule over the Chinese mainland. His defeated adversary, Chiang Kai-shek, retreated to the island of Taiwan, where his Nationalist government imposed authority over an economy decimated by war. Meanwhile, on the Southeast coast of China, the British restored administrative rule over their Crown Colony of Hong Kong, which the Japanese had sundered during World War II.

Between 1949 and 1985, these three territories, populated by people of Chinese descent (save a minuscule foreign community in British-run Hong Kong), pursued economic policies that ranged from attempts at comprehensive central planning to almost complete laissez-faire. In mainland China, Mao Zedong implemented a program of Soviet-style emphasis on heavy industry coupled with his own radical version of rural collectivization. Government planners controlled all factories, farms, and enterprises, set prices for all goods and services, assigned production inputs and specified output targets, allocated labor, rationed goods in short supply, determined individual incomes, and chose the mix between consumption and investment.

Since 1978, Deng Xiaoping, China's liberal economic reformist leader, had deemphasized Soviet-style central planning in favor of greater reliance on market forces. He instituted far-reaching rural reforms that placed primary responsibility for agricultural production in the hands of individuals and households and moved gradually in the mid-1980s to establish labor and capital markets in the urban, industrial sector.

In Taiwan, Chiang Kai-shek's government initially undertook policies of land reform and import-substitution-based industrial development, which entailed substantial government participation in the economy. In the 1960s, following the withdrawal of U.S. economic assistance, his government switched directions to a private-enterprise-based, export-oriented strategy of industrialization. To this day, however, the government has continued to undertake major industrial development projects. In short, Taiwan has combined some state ownership of heavy industry, the banking system, and provision of infrastructure with a largely free-enterprise, export-oriented economy.

Finally, Hong Kong maintained its historically based free-market, free-trade, low-tax policies. The British territory remained the industrial world's closest approximation to the model of perfect competition found in economics textbooks. Although many of its political, social, and economic characteristics were unique, it nonetheless illustrated the workings of a largely private-enterprise, market-disciplined economy.

In September 1982, China announced that it would recover sovereignty over Hong Kong on July 1, 1997, when Britain's 99-year lease over Hong Kong's New Territories expires. The prospect that China intended to replace British rule sent the colony's financial, stock, and property markets into a sharp tailspin, which reflected an initial loss of confidence in Hong Kong's future. Confidence was temporarily restored after Britain and China signed a Joint Declaration on December 19, 1984. Britain agreed to restore sovereignty over Hong Kong to China; in return, China agreed to allow Hong Kong to maintain its capitalistic economic system for 50 years after 1997.

None of the three was a Western-style democracy. A Communist totalitarian regime maintained a firm grip on the mainland; an authoritarian Nationalist government ruled Taiwan; and a benign, slightly antiquated British colonial regime, struggling to localize and democratize, administered Hong Kong. In general, decision makers in all three regimes were able to impose long-term economic policies of their choosing, relatively free from the public pressures and voting interests that influence politicians in genuine democratic systems.

The three societies experienced different growth patterns in the postwar era. In Hong Kong, per capita income grew from about $180 in 1949 to surpass $6,000 during 1985. In Taiwan, per capita income rose from $70 to exceed $3,000 over the same period. In each case, annual real growth in gross national product (GNP) averaged between 8 and 9 percent for more than 30 years. At annual growth rates of 9 percent, economic output doubles in 7 to 8 years, quadruples in 15 to 16 years, grows eightfold in 23 years, and multiplies sixteenfold in 31 years. Sustained 9 percent annual growth over one generation increases national output sixteen times.

On the mainland, in comparison, per capita income grew from $50 in 1952 to about $180 by 1985, reflecting slower growth.[5] Sustained growth of 5 percent, China's postwar experience, doubles national income in 14 years and quadruples it in 28.[6] Five percent was fast compared with many African countries, some of which lost ground in the past 20 years, but it lagged far behind rates of 8–10 percent. The gap meant that the gulf in living standards separating mainlanders from Chinese in Taiwan and Hong Kong during the postwar era increased in both absolute and relative terms. Moreover, much of mainland China's postwar investment went into heavy industry, with little emphasis placed on the production of consumer goods.

More than three decades have passed against which to evaluate the performance of these three different economic systems. The comparison is especially significant for the Chinese-culture thesis of development inasmuch as the population in each is of the same genetic stock and each is situated in the same part of the world.

Admittedly, not all Chinese are alike. Hong Kong and Taiwan are disproportionately populated by coastal (Shanghai and Fujian) and Southern Chinese, who are renowned as hard-working, ingenious, competitive, and entrepreneurial peoples. These two lands have few of the more conservative, less venturesome people who inhabit Northern China and the vast hinterland. (Foreign travelers in the nineteenth century noted the laziness of the average inland Chinese, who seized every excuse to sit, drink tea, gossip, and consume hours chewing melon seeds.) Hong Kong, in particular, is home to several million refugees from mainland China, who displayed considerable effort, talent, desire, and courage to cross a dangerous border and start over again from scratch.

But these hard-working coastal and Southern Chinese made little economic progress in their own homeland in the late nineteenth and early twentieth centuries, when South China was being torn by civil war and rampaging warlords. Many fled for the relatively greater political security and economic opportunity afforded in the Dutch, French, and British colonies of Southeast Asia. The colonial powers maintained law and order, established well-defined systems of property rights, and, in keeping with prevailing Western beliefs of the time, left the creation and distribution of wealth largely to the private sector. This simple comparison illustrates the observation that differences in economic performance between mainland China and Taiwan or Hong Kong cannot be explained solely by reference to regional characteristics of the Chinese population.

Many factors bear upon productivity. These include availability and productivity of land, climate and weather, floods and drought, natural resources, size and scale of the economy, location, internal distances, the presence and magnitude of a rural hinterland, technology, national-defense requirements, sophistication of the economy, continuity in economic policies, individual incentives, property rights, opportunities for social mobility, immigration patterns, the development of human capital, the quality of political leadership, legal systems and practices, tax structures, subsidies, budgetary practices, orientation toward trade, and monetary policies.

To anticipate but one example: Three years of bad weather, coupled with the policies of the Great Leap Forward that destroyed individual incentives, produced famine in parts of China during 1959–1961. Three years of good weather combined with incentive-enhancing rural reforms introduced in 1978 enabled the same Chinese population to produce three successive record harvests during 1982–1984. Both good weather and the higher prices farmers received for their produce stimulated higher output.

COMPARING ECONOMIC POLICIES

Many factors influence economic growth. As mentioned before, culture, resources, economic system and policies, weather, the introduction of new technology and physical capital, and the development of human capital—as well as the interactions among these factors—affect economic activity. A single historical comparative study of three economies cannot prove beyond any doubt a proposition about the relative virtues of different economic policies and systems and the relative importance of different economic factors that impinge upon economic growth. But it can highlight differences in economic performance among people of common cultural extraction.

This book seeks to explain why Taiwan and Hong Kong grew much faster than mainland China. Two critical factors in explaining these different rates of growth are the structure of institutions and the effects of different degrees of government intervention in the three economic systems. Growth depends on more than injections of technology and capital. It also depends on the underlying incentives that motivate and reward individual behavior. These incentives are determined by political and economic institutions, which supply rules and mechanisms for enforcing those rules. The key rules include the definition and enforcement of property rights, which encourage improved productivity and the expectation that individuals will be able to reap the rewards of their own work or investments. Political institutions bear critically on the enhancement or destruction of individual incentives.

In addition to the structure of institutions and the presence of incentives, the degree to which free competition exists affects levels of output in each system. For example, economic planners in centrally directed economies may attempt to run an entire economy, but many day-to-day decisions are still made by local decision makers. The planners interfere with, distort, and slow down market forces, but never fully destroy them. They distort, but never wholly eliminate, price information.[7] In short, interference with market forces and erosion of incentives retard economic efficiency and growth.

The degree of free competition varies widely from one economic system to another. This book compares different degrees of government intervention and free competition in economic markets in three Chinese-populated societies. It compares the extent to which markets were regulated and how differences in public policies and practices affected output in these markets.

Markets exist in all economies, regardless of the degree of government regulation that is exercised. A market is a place or device enabling people to negotiate exchanges. In a market, individuals or firms buy or sell whatever goods and services may be available. Buyers and sellers conclude their exchanges after settling on a price, which is typically expressed in the units of some currency, unless goods are rationed by coupons or allocated by some other nonprice mechanism that might include instructions from state planning officials. Prices signal to both producers and consumers the relative worth of any given item compared with any other item. When the price of any item goes up, producers tend to supply more of that item and consumers tend to demand less. When the price declines, the reverse happens. Sometimes prices are set by the state and are not free to move in response to changing demand and supply conditions, which often produce surpluses or shortages.

Markets not only allow individuals to exchange the goods and services they produce for those they want; they also allocate resources for the society as a whole. People interacting in markets determine what products and services are provided within a society and how much of each is produced, although the government often dominates these decisions in centrally planned economies.

The objective of any economic system is to produce the largest possible supply of goods and services from an existing stock of natural and human resources: This is the notion of maximizing economic efficiency. Another objective of any economic system is to increase output from one year to the next, thus raising living standards: This is the notion of growth. Thus it makes sense to adopt policies that increase efficiency and yield high growth. However, some governments emphasize egalitarian or other nonmaterial values and are willing to trade off some efficiency and settle for slower growth in exchange for greater equality in the distribution of income or other social goals.

The notion of a free-market economy is a simplified model employed by economists, a point that is helpful in understanding the concept of economic efficiency. In a free-market economy, the government does not interfere with the prices established by market forces—the supply and demand conditions resulting from millions of individual decisions to buy and sell—nor does it protect existing firms from the pressure of competitors. New producers are allowed to compete with existing ones, and existing producers are allowed to go out of business if they wish. In a free market, prices reflect true scarcities, thus enhancing the efficient use of scarce resources. However, only in exceptional cases are markets completely free of all government regulation. Still, there is considerable variation in the degree of competition and the degree to which relative prices reflect relative scarcities, and thus efficiency, in different economies.

Of course, markets do not exist in a vacuum. Somebody has to define property rights, enforce contracts, and protect people from fraud. The responsibility for these tasks falls upon government. Government comprises the legally based institutions of a society that make legally binding decisions. With a legal monopoly on coercion, government officials have the power to tax and regulate economic activity to attain a variety of national objectives. These may include preventing monopolies, cleaning up pollution, provisioning a standing army, negotiating international treaties, redistributing income, and constructing public works such as dams, bridges, roads, harbors, and airports. Social or political objectives might include advancing education, imposing religious values, or preventing abortion. When government officials make these choices, they, not consumers, exercise sovereignty.

In the real world, economic activity always takes place in some political, institutional setting, where government officials make a wide variety of economic decisions and allocate large amounts of resources. Regardless of the form of government, whether it be democracy based on universal suffrage or the absolute dictatorship of one man, political decisions on how to tax, spend, regulate, print money, manufacture, distribute, export, and import all have the potential to enhance or harm efficiency and economic growth. How property rights are defined determines which goods and services will be privately produced and exchanged, and which the state will control, and whether individuals are willing to undertake the long-term investments that increase rates of growth. How taxes are levied can affect the performance of different industries. And so on.

This book systematically examines the structure and resources of three Chinese-populated economies and the effects of different political and economic institutions and economic policies on economic performance between 1949 and 1985. In Parts I, II, and III, the three cases of mainland China, Taiwan, and Hong Kong are reviewed. Each part first describes the demographic, economic, political, and social setting, covering such topics as physical setting and population, natural resources, pre-1949 economic history, the constitution, the official ideology, the political system, the structure of economic institutions, national security considerations, the overall strategy for economic development, the general administration of economic policy, and the mechanisms of public finance, money, and banking. Subsequent chapters examine the details of economic policy, identifying periods of continuity and change, and the effects of specific policies on economic performance and living standards.

In Part I, Chinese economic history is divided into pre- and post-1978 periods. Before 1978, Chinese planners attempted, with varying degrees of intensity, a method of central planning to develop heavy industry; after 1978, Chinese leaders adopted policies that stressed light industry and placed greater reliance on market forces to uplift living standards. In Part II, Taiwan's experience is discussed in terms of its transition from an import-substitution phase of industrial development to the post-1959 switch in favor of export-oriented development. In Part III, Hong Kong's generally constant economic policy during 1949–1985 is described, followed by an explanation of how the colony adjusted to the economic shocks caused by China's 1982 announcement that it would take over Hong Kong in 1997. In Part IV, conclusions from these three cases are drawn and the future prospects for economic development are briefly assessed.

NOTES

1. *World Development Report 1985* (New York: Oxford University Press, 1985). Each annual report contains an annex of "World Development Indicators" covering measures of production, consumption, investment, agriculture, industry, energy, trade, the composition of imports and exports, balance of payments, borrowing, fiscal reserves and debts, population, labor force participation rates, life expectancy, health indicators, education, and defense spending for more than 120 countries; it also includes a set of basic indicators for another 30-plus small countries with populations of less than 1 million.

2. Yuan-li Wu and Chun-hsi Wu, *Economic Development in Southeast Asia: The Chinese Dimension* (Stanford, Calif.: Hoover Institution Press, 1980).

3. Throughout this book, I shall use the terms *Taiwan, Hong Kong,* and *mainland China* as shorthand for their full names—the Republic of China, the British Crown Colony of Hong Kong, and the People's Republic of China, respectively.

4. The pinyin system of romanization is used throughout, except for such widely recognized Chinese names as Chiang Kai-shek and English names as Canton, the Yellow River, and so forth.

5. In January 1984, the Central Bank of China officially pegged the nation's currency, the Renminbi yuan, to the dollar at an official exchange rate of US$1 = 2.02 yuan. (Between 1955 and 1971 the rate was fixed at US$1 = 2.46 yuan. The devaluation of the U.S. dollar in the 1970s brought an appreciation of the yuan up through 1983.) During 1984, the Central Bank gradually devalued the yuan to US$1 = 2.80 yuan, where it stood until August 1985. Between August and November 1985, it further devalued the Renminbi to a rate of US$1 = 3.19 yuan, where the rate remained until July 5, 1986. On that date, the Central Bank abruptly devalued its currency by 13.9 percent, setting the rate at US$1 = 3.69 yuan. Between January 1985 and July 1986, the cumulative devaluation against the U.S. dollar was 24.5 percent; compared with January 1984, the cumulative devaluation came to 83 percent.

China's economy turned in a much stronger performance during 1978–1985 as compared with 1949–1977. In U.S. dollar terms, however, per capita income fell from a peak of $246 in 1980 to $196 in 1984. If we apply to these numbers the exchange rate in force after July 1986, per capita income in China fell further in 1985 and 1986 despite sharp gains in output. Thus the figure of $300, which appears in World Bank and other reports, is much too high. The devaluation of China's currency also means that the value of China's economic output was overstated in U.S. dollar terms throughout the 1970s and early 1980s. Most economists in China believe that the Renminbi is still overvalued and that a correct rate for 1986 would be in the neighborhood of US$1 = 5.2 yuan. See *Far Eastern Economic Review* (July 17, 1986), pp. 50–51.

6. The 5 percent figure is probably too high in light of revelations documented by Chinese economists after 1978 to the effect that much of China's industrial output was of substandard quality or completely unusable. (See Chapters 3 and 4 of this volume.)

7. Paul Craig Roberts, *Alienation and the Soviet Economy* (Albuquerque: University of New Mexico Press, 1971).

PART I

MAINLAND CHINA

2

PEOPLE, RESOURCES, AND POLITICS

When Mao Zedong officially proclaimed the People's Republic of China on October 1, 1949, the Chinese Communist Party controlled the world's oldest, continuously recorded civilization. Unlike ancient Mesopotamia or Egypt, whose cultures disappeared, China sustained the continuity of its history and civilization despite incursions from northern tribes, Mongols, and Manchus. Its people, some 94 percent of whom are classified as Han Chinese, shared a common written language, culture, and traditions for several thousand years.

Chinese civilization developed along the middle course of the Yellow River. The earliest known capital in China was Anyang, seat of the Shang Dynasty, which held sway during the second millennium before Christ. Its successor, the Zhou Dynasty of Confucian fame, moved to Changan, which is directly adjacent to the present city of Xi'an. During the second century B.C., Qin Shihuang Di, the first emperor credited with unifying China, moved his capital to Xianyang, which is upriver from Changan. Qin's repressive regime lasted less than two decades, replaced by the Confucian-based Han Dynasty, which survived for about four centuries. The Western early Han returned to the traditional capital of Changan, while the Eastern late Han, which ruled during the first two centuries of the Christian era, resettled in nearby Loyang. A succession of dynasties marked the next seventeen centuries as the Han peoples expanded northward and southward, gradually unifying the territory that today encompasses the national borders of China.

The Chinese word for China, *Zhongguo*, means middle kingdom. The Chinese word for foreign country, *waiguo*, literally means outside country, but figuratively speaking symbolizes uncivilized nations. The idiomatic translation of the word *foreigner*, from a Chinese perspective, is barbarian. The *Confucian Analects*, the official ruling political philosophy for 2,000 years, warns that "the study of strange doctrines is injurious indeeed."[1] Confucianism justified centuries of autocratic imperial rule so long as the ruler practiced moral virtue. It also placed mercantile or business activity on the lowest rung of the social ladder. Moral leadership was paramount in the Confucian political scheme; nonetheless, for Confucius, "the rude tribes of the east and north have their princes, and are not like the States of our great land which are without them."[2] China in anarchy, which was anathema in the Confucian doctrine, was preferred to foreigners with all their leaders.

When Western Europe was in the throes of the dark ages, China made great strides in art, literature, science, and technology.[3] China is renowned for inventing the art of printing and converting gunpowder from use in fireworks to true explosives. China developed stable administration, an integrated transportation network of inland waterways, and a monetized economy; it also experimented with early industrial techniques before the thirteenth century. Inculcated in the upbringing of the Chinese is the belief that China was the world's most literate and advanced material society centuries before the emergence of modern Western Europe.

The industrial revolution that transformed Western Europe left China in a comparative state of economic backwardness. Compared with Great Britain in the early nineteenth century, China was an industrial pygmy and a pitiful military Goliath. A handful of British warships deploying several thousand well-armed troops easily defeated the world's largest country.[4] The Opium War (1840–1842) marked the beginning of a century-long decline in China's social cohesion and political independence. Growing Western influence in China accelerated the internal decay of the Qing Dynasty, which shattered centuries of peace, internal stability, and a national sense of cultural superiority. Barbarians brought the world's most civilized nation to its knees. Chinese intellectuals and leaders found it difficult to cast off traditional ways of thinking as they struggled to modernize and restore national integrity. China's cultural unity, its long history of technological advancement over all foreigners, its disdain of commercial enterprise, and its isolated geography created an inward-looking society and economy that was slow to accommodate foreign ideas or institutions.

The dynastic system of government could not remain intact against the pressures of Western intrusion and social change.[5] Under the leadership of Sun Yat-sen, who tried to graft the Western values of democracy and equality as well as modern economic concepts onto Chinese culture in his great work, *The Three Principles of the People*, patriotic Chinese overthrew the remnants of the Manchu Qing Dynasty, which had ruled since 1644. They proclaimed the formation of a new Republic of China on October 10, 1911, and imported an American legal scholar to help draft its first constitution. But old practices died slowly.

Sun Yat-sen was elected president of the provisional government but resigned on April 1, 1912, in favor of General Yuan Shikai, who was considered the most likely person to work out an early abdication of the Qing monarch. Yuan Shikai took advantage of the presidency to enlarge his sphere of influence. Precursor to China's warlords, he purged his government of members of Sun Yat-sen's Kuomintang Party, ruthlessly crushing all opposition. He subsequently dissolved the legislature, hand-picked his own law-making body, and promulgated a new constitution that gave himself despotic powers comparable to those of former emperors. In the spring of 1915, he began the process of trying to change the republic back to a monarchical government with himself installed as monarch. He proclaimed 1916 the first year of a new dynastic cycle. But Yuan died in misery and disgrace in June 1916, as fate had dictated, and China lapsed into deeper internal turmoil as warlords vied with each other for control.

Generalissimo Chiang Kai-shek restored partial unity in 1927, when his forces occupied the major areas surrounding the Yangtze River Valley, seat of China's newly developing industry, stretching upriver from the vibrant port of foreign-dominated Shanghai. But Chiang never really governed the whole of China. Portions remained under the control of regional warlords, and a newly emerging Communist Party movement led by Mao Zedong continually threatened Chiang's rule. Still, portions of China made major economic strides during the late 1920s and most of the 1930s. The tallest buildings in the world outside New York were found in Shanghai.[6]

Japan's invasion of China in 1937 forced Chiang Kai-shek's Nationalist government to retreat inland to Chongqing, interrupting national economic development. The burgeoning industries of the Yangtze Valley had to be disassembled and carried piece-by-piece inland for reassembly. Nor did Japan's defeat in 1945 end China's turmoil: Nationalists and Communists waged a bloody civil war that brought Mao Zedong to power and exiled Chiang Kai-shek's Nationalist government to the island of Taiwan. Mao's proclamation of the People's Republic of China on October 1, 1949, ended more than a century of internal division, social upheaval, and Western influence.

PHYSICAL SETTING AND POPULATION

China is the third largest country in the world, with a land area of 3.7 million square miles (excluding the island of Taiwan) and a 1984 population estimated at 1,034,750,000.[7] It consists of a large portion of continental Asia and a number of offshore islands. It measures approximately 3,100 miles from east to west, and stretches 3,400 miles from north to south. Most of the country lies in the temperate zone, but the climate varies from severe winter cold in the north to tropical typhoons in the south.