

H. D. Fong and the Study of Chinese Economic Development

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H. D. Fong (Fang Hsien-ding, Fan Xianting, 1902–1985) was one of the most prolific writers dealing with China's economy during the 1930s and 1940s. During most of this period he was a member of the Nankai Institute of Economics, and his work contributed greatly to the institute's image as a premier research institution.¹ Much of Fong's writing is descriptive detail, useful now primarily to someone trying to survey Chinese economic conditions prior to 1949. However, his writings also display a search for analytical techniques and policy recommendations appropriate to improving the Chinese economy and particularly to promoting its growth and development. Fong was trying to become a development economist at a time when the field was not receiving much attention from economists in the West. A purpose of this essay is to examine the various approaches he attempted and the sources of inspiration and stimulation to which he responded.

During his teenage years, Fong became a protégé of wealthy cotton magnate H. Y. Moh and served a kind of apprenticeship in the Shanghai

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1. Fong's autobiography (1975) contains much useful information, but does not do much to explicate his economic ideas at different stages in his career. There is also a brief biographical sketch in Wang 1994.

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cotton industry from 1917 to 1921. Moh then provided financial support for Fong to begin undergraduate studies at New York University. When this support ended in 1923, Fong showed great ingenuity in becoming self-supporting through a variety of part-time jobs, including giving mah-jongg lessons in Gimbel's department store. In 1924 Fong was initiated into a fraternity of Chinese students, the Chen Chih-hui (CCH—Society for the Fulfillment of Life's Ambitions). This put him in contact with many people destined for prominence in Chinese public affairs. Fong's entry into the CCH was arranged by Franklin Ho (Ho Lien), who was then studying for a doctorate in economics at Yale. Ho became Fong's mentor, encouraging him to enter graduate study at Yale and then recruiting him for the Nankai economics program.

While at Yale, Fong held a student job in the library, which enabled him to buy surplus books very cheaply. He boasted that "when I returned to China in 1928 . . . I brought with me a library consisting of nearly 4,000 volumes of books and periodicals," a collection which helped form the Nankai library (Fong 1975, 28). During the summer of 1925, Fong had the opportunity to work at the Ford Motor Company's River Rouge plant for three months. This and his earlier cotton-industry experience gave Fong a firsthand familiarity with industrial conditions that was probably unmatched among Chinese economists of his generation.

Fong's studies kept him in the United States for seven years. His autobiography tells us little about his studies at Yale. He was much influenced by the birth-control campaigns of Margaret Sanger and recognized that pressure of population growth was keeping Chinese people in poverty (Fong 1975, 25). His doctoral dissertation was directed by Professor Clive Day, who was putting together his book *Economic Development in Modern Europe* (1933). Fong's dissertation was published in China under the title *The Triumph of Factory System in England* (1930). In it, Fong described in detail the coexistence around 1840 of three forms of industrial organization—the factory system, merchant-employers, and craftsmen. There was little effort to provide a broad historical context, no significant economic analysis, no real discussion of public policy, and no references to China or to other contemporary low-income areas. However, the book demonstrated a humanitarian outlook that characterized his writings throughout his career.²

2. A rare statement of his point of view is this one: "Because of the unwholesome economic condition of England in 1840, a result of war famine, currency inflation, foreign competition

Fong returned to China at the end of 1928. The country was in a state of political and intellectual ferment. The Kuomintang (KMT), under the leadership of Chiang Kai-shek, had gained control of the national government in 1927. The KMT leadership claimed to be dedicated to the ideas of Sun Yat-sen (died 1925), which included an ambitious if rather ill-defined program for state-dominated industrial and economic development (see Sun Yat-sen [1920] 1928, [1927] 1942).

By this time, Fong's friend Franklin Ho had become chair of the economics department of Nankai University. Nankai was a private university located in Tientsin, then the third-largest city in China, with significant industrial development. Ho wanted to develop research on China's economy and was quick to obtain research funding from the China Foundation and the Institute of Pacific Relations (Ho 1967; Chiang 1986). He believed that Fong's background in economic history equipped him well for the study of China's industrialization, and he persuaded him to join the Nankai faculty in 1929.

Industry Studies

Franklin Ho had secured from the Institute of Pacific Relations (IPR) a three-year grant of \$15,000 to study industrialization in Tientsin. He and Fong engaged a staff of eight investigators, six of whom had already been studying Tientsin's industries for the municipal government (Chiang 1986, 167–68). Their prospectus confidently asserted that China's economy promised "a fertile field for investigation. Such investigation, if carried on systematically . . . with the aid of modern methods of scientific research, will not only bring new contribution[s] to the field of economic theory and history, but will also have a practical bearing upon the

and the social and economic effects of the factory system and machinery, there was an oversupply of labor with consequent unemployment" (Fong 1930c, 9).

Day's book, intended as an undergraduate text, is much more lively and provocative. Its title was one of the first to use the term *economic development*. It presented a relatively heroic interpretation of the industrial revolution and its major entrepreneurs (Day 1933, 24–31). Day affirmed that nineteenth-century England experienced "a tremendous increase in efficiency, expansion of trade, and accumulation of wealth" (23). Around 1840, "family earnings had certainly increased [and wages] were . . . higher than those paid . . . in other European countries" (59). These positive statements, however, occurred amid a much lengthier recital of hardships, poverty, dreadful working conditions, and class divisions (51–61). Fong's later writings abound with references to the hardships experienced during British industrialization.

solution of manifold economic problems inherent to industrialization”—problems such as class conflict, labor of women and children, and displacement of handicraft labor by machinery (Ho and Fong 1929b, 3).

For the 1929 meetings of the IPR, they prepared a brief survey of the existing data on China's industrialization. Absent was any strong statement that industrialization was desirable for China, or that their research might aid in designing government programs to promote it. They did support a protectionist tariff policy (Ho and Fong 1929a, 31).³

In rapid succession, Fong produced a series of monographs on significant industries in Tientsin: carpets (1929), handloom weaving of rayon and cotton (1930), and hosiery knitting (1930). In 1932 he published a two-volume book on China's cotton industry and trade, focusing primarily on Shanghai, the center of the industry. A study of silk-reeling appeared in 1934 and one on shoe-making in Tientsin in 1935. These studies were basically descriptive. Fong briefly recounted the history of each industry, then described the products, techniques, and organizational conditions. Data were presented on the number and size of firms, measured by output, employment, and capitalization, insofar as data could be located. The research assistants surveyed each industry, but firms did not always cooperate.⁴ They also surveyed workers in the industry for data on wages (low), hours (long), working conditions (bad), and union organization, as well as demographic information on age, sex, origins, and how they had been recruited. Trade practices were described: marketing, transport, credit.

Fong's studies identified a number of common problems. Firms were undercapitalized, and their accounting systems were poor, particularly regarding depreciation. Products were often adulterated, and cheating occurred regarding quality and quantity (1930a, 44, 52; 1932, 30–31). Weights and measures lacked standardization: “Chinese mentality . . . is never exact” (1930b, 54; 1932, 35–36). The industries suffered from the competition of imports and from burdensome taxes on exports and

3. Since the mid-nineteenth-century, China's tariff policy had been controlled by the major European powers, primarily England, chiefly to secure revenue for servicing China's foreign debts. With that constraint, tariff rates were kept low—typically 5 percent. Thus Britain not only adopted free trade for herself, but also imposed it on China. Protectionism was almost universally supported by Chinese economists, partly as a patriotic gesture. Sun Yat-sen's program was strongly protectionist.

4. In his memoirs many years later, Franklin Ho (1967, 102–6) was quite skeptical about the quality of the data generated by these surveys.

transit. Fong particularly criticized the tendency for small firms to initiate price cutting and quality deterioration (1929, 76–77; 1930b, 74–78).

Fong's study of the cotton industry devoted more attention to "obstacles to development" in China, citing political chaos and civil war, lack of capital, and inefficiency of labor. He waxed eloquent concerning the "corruption of management":

The whole system of management . . . is usually polluted by ignorance, favoritism and squeeze. . . . The whole plant . . . may be entrusted to a manager who knows nothing about spinning. The latter [is] usually the trusted appointee of the most influential stockholder. . . . The head of the spinning or weaving department, oftentimes a close friend or relative of the manager or the stockholder, considers his job as the source of squeeze. (1932, 317–19)⁵

Fong also undertook two ambitious articles drawing on his previous industrial studies. A survey of industrial capital in China (Fong 1936c) identified, for specific firms and sectors, the relative roles of foreign capital, government capital, and private capital supplied by different social groups. The bulk of the article pinpointed the areas in which foreign capital was most important. Fong (1936c, 29) noted the advantages enjoyed by firms operating in the foreign concessions of the major treaty ports, particularly the security of law and order and access to transport. Foreign capital (primarily Japanese) was important in cotton textiles, helping to introduce modern spinning and weaving with the aid of cheaper credit and superior management skills, compared with Chinese industrialists (40). Foreign investment and management were also important in silk, woolen carpets, lace making, matches, cigarettes, extracted plant oils, cement, light bulbs, and other glass products.⁶ Outside manufacturing, such important sectors as coal mining and electric power generation also displayed substantial foreign involvement. Here Fong showed a traditional concern that "foreign capitalization . . . means the using up and exportation of an irreplaceable portion of China's national capital"

5. *Squeeze* is a generic term for all sorts of improper payoffs such as blackmail, extortion, and "skimming."

6. Discussing thermos bottles, Fong (1936c, 56) noted that "it was German enterprise which first brought this article to China and created an enormous market for it there. In fact, the vacuum flask today seems more indispensable to the modern Chinese household than even the electric bulb." Some things have not changed in sixty-five years.

(63).⁷ He concluded that foreign investment was not decisively either beneficial or harmful, but conceded that “in most cases Chinese adoption of modern methods has only been made possible by demonstration in China” (65). Here is a clear anticipation of the rationale for China’s “open policy” of the 1980s.⁸

Fong then examined Chinese government investment in industry. He gave negative marks to its role in electric power: “Nationalization has so far consisted simply of expropriation with subsequent deterioration of services” (64). He pointed to two limitations on government’s capability as an investor: “One is the survival of the family system in all economic matters, which affects the financial and industrial enterprises of governmental bodies no less than those of private citizens”; the other was “the insecurity of governments as well as private individuals. Again and again, a promising industry has been killed off by its own parent because the local or provincial authority concerned needed immediate cash” (70). Fong then noted the importance of investment by officials, noting their possible advantages from their political power and inside information—a familiar theme in the 1990s. Overseas Chinese were an important financial source then as now, but always vulnerable: “As soon as a small group or family would set up some conspicuous enterprise of its own, . . . it would be taxed out of existence or . . . expropriated and made one more item in the mounting fortune of a warlord or civil official” (78).

In subsequent articles, Fong was more explicit about the importance he placed on capital, until in 1942 he could simply state that “industrialization begins with the possession of capital” (1942c, 45; see also 1942b, 20–22, 63–73, 79).

In 1937, Fong again generalized across his landscape of industries, this time examining industrial organization in China (Fong 1937b). In his view, Chinese industries were *not* organized. To identify reasons, Fong drew on his familiarity with British industrial history. In Britain, sizable factories with disciplined labor came into existence before steam power revolutionized production. Chinese entrepreneurs “saw how quickly the machine did its work, but knew neither how it was made nor what conditions were required to keep it in good working order.”

7. A similar view is in Tawney 1932, 129.

8. In 1942, Fong (1942a, 416) implied a more positive impact from foreign influence when he remarked that “traditional [inland] China . . . was in prewar days largely undeveloped because it was inaccessible to foreign merchants, investors and manufacturers.”

Accounting methods did not deal adequately with depreciation, and personnel practices showed “no thought of a human relationship . . . which had to be managed to insure effective mutual cooperation over a long period” (1937b, 921). The Chinese family system led to nepotism in job assignments, impairing both efficiency and morale.⁹

Fong noted the important difference in urban development between Britain and China. Water power in Britain stimulated town life and linked city and countryside. China’s villages remained primitive, lacking amenities, education, and culture.¹⁰

Fong was clearly skeptical about the value of easy entry and free competition—“a system which does not permit either a control or a joint planning to further the growth of the industry” (1937b, 926, 932, 943). Contracts are not reliably honored (942). At many points, Fong returned to a negative assessment of the moral basis of Chinese society, “so little motivated by social considerations” (983).

He was particularly distressed by labor conditions. Contract labor was common, and the “contractor becomes simply a racketeer who lives as a parasite on the work of others” (957).

Rural Development

Ambitious as Fong’s writings on industry were, he soon added a second major topic to his research. Several developments led to this new concern. In December 1930, Nankai hosted a month-long visit from R. H. Tawney, the distinguished British economic historian. Tawney was working on an IPR-sponsored study of the economic conditions in China’s poverty-stricken rural areas, which culminated in his influential *Land and Labour in China* (1932). He drew extensively on the resources at Nankai’s library, and there are many similarities between the views in

9. “One large employer of a highly skilled class of labor . . . was moved by the obvious physical inefficiency of many of his employees and the large incidence of sickness among them to raise wages of his own accord. The only result . . . was that each of these men was now supporting an even larger number of relatives” (Fong 1937b, 924–25). The other side of the family system was “the almost unbelievable inhumanity toward those [who were] helpless because [they were] lacking family connections” (958).

10. Fernand Braudel (1973, 410) makes much of this contrast, arguing that “the social structures in both India and China automatically rejected the town and offered . . . refractory, substandard material to it. . . . The town, residence of officials . . . , was not the property of either craftsmen or merchants. There was no comfortably expanding middle class there. No sooner did this middle class evolve than it thought about desertion, being fascinated by the splendours of the mandarins’ life.”

his book and those that Ho and Fong were expressing.¹¹ At nearby Yenching University in Peking, British missionary economist John B. Tayler was also directing attention to rural conditions. Tayler was an early advocate of what we would now call “appropriate technology,” simple and inexpensive devices suitable to China’s labor-abundant capital-scarce environment (Trescott 1992, 1993).¹²

This concern with rural affairs was encouraged by the Rockefeller Foundation. In December 1931, the foundation agreed to grant the Nankai Institute of Economics \$75,000 in U.S. dollars over the next five years (Chiang, 1986, 174–84). This permitted a large increase in the economics faculty and operations. The leaders of the foundation were very impressed with the work of Tayler and also that of James Yen (Yen Yan-chiu), founder of the mass-education program to combat illiteracy (Hayford 1990). In response, Nankai introduced courses in agricultural economics in the spring of 1933.

Fong prepared an extensive survey of China’s rural industries for the 1933 IPR conference. He reiterated a familiar theme: “The disappearance of rural industries in China under the modern industrializing influence of the Western trading nations cannot be denied” (1933, 13).¹³ The decline was unfortunate, because rural industries were an important income supplement, using the “spare-time” labor of farm families whose small acreage did not keep them occupied full-time (Fong 1933, 63–65). Further, following John B. Tayler, he argued that basing “economic development [on] small-scale or decentralized industries in the rural districts makes it relatively easy to avoid the recognized evils of mechanization and to secure that the machine shall be understood by, and be the servant of, the worker” (66). Cooperative forms of organization, along the lines recommended by Tayler and Tawney, could improve the viability of rural industries (67).

11. Tawney 1932 drew on Fong’s manufacturing data on pages 117–18, 122, 125, and 148.

12. Tawney was very impressed with Tayler’s work, to which he referred frequently in *Land and Labour*.

13. Interestingly, this is not accompanied by any protectionist recommendations. One reason may be that the Japanese seizure of Manchuria (barely one hundred miles from Tientsin) in 1931 led to a relative breakdown of Chinese customs enforcement. Jack Potter (1968, 174–201) argues that the claim of negative influence of Western industrial products on China’s rural industries is greatly exaggerated by Fong and many of his contemporaries. An interesting case involves the production of inexpensive pictures and posters by village artists in the Tientsin area, described by Fong on pages 38–39 in Fong 1933. Despite his apparent fear that these would be destroyed by competition from lithography, the business continues to thrive.

Fong quickly followed this overview with a series of monographs on aspects of agribusiness—terminal marketing of cotton in Tientsin, the grain trade and milling operations in Tientsin, and detailed case studies of handloom weaving as it was concentrated in Kaoyang and Paoti. The latter marked a shift in Nankai research away from survey techniques toward case-study detail. Many of the themes developed by Fong in his urban industry studies were reiterated: problems of quality control, standardization, honesty, and fair dealing. He also referred frequently to failures of collective action. The various industries could benefit, he felt, by working together to promote such support services as storage, marketing, finance, and worker training (1933, 61–63; 1933–34, 630–31; 1935, 278–82, 301). These failures of collective action seem to be the target of an unusually bitter remark in 1936:

In China, perhaps better than anywhere [else], is it possible to study the survival of forms of production and of economic organization such as a satirist might quote to prove that the most unsuitable ways of earning a livelihood are precisely those which *homo sapiens* pursues. (Fong 1936b, 715)

This was hardly a ringing endorsement of the spontaneous adaptation of social institutions!

The Nankai efforts to impress the Rockefeller Foundation with a rural emphasis were successful. Nankai was included in an ambitious China program approved by the foundation in December 1934. The program stressed the training of field workers to work in villages to promote increased productivity, education, sanitation, and social and political development (Chiang 1986, 118–23, 209–19; Thomson 1969, 132–50). To help staff the program, Nankai initiated a graduate program focusing on cooperatives, land problems, and local government and finance.

In April of 1936, the Rockefeller Foundation persuaded Nankai and the other cooperating institutions to form the North China Council for Rural Reconstruction. Nankai was given primary responsibility for economics and for local government (Thomson 1969, 142–48). Fong assumed responsibility for teaching and research supervision involving cooperatives. Although he did not have the field experience of the Yenching staff, he showed his skill as a desk economist in excellent survey papers dealing with cooperatives in China, cotton marketing cooperatives in Hopei, and literature on China's land problems.

In 1937 Fong surveyed aspects of industrialization and rural industries in China (Fong 1937a). The article could easily be seen as a rationale for the Rockefeller Foundation's program. Acknowledging that the government has major responsibility for the development of heavy industry in backward countries, he feared that "the state in China is . . . disabled to initiate strong action in favor of rapid industrial growth" (1937a, 261–62). And large-scale industries were not able to withstand foreign competition. Fortunately, "small scale enterprises are meeting with greater success" (262). Fong had not changed his view that "the rural industries in China are showing signs of widespread decline" (267). But now he pointed to factors supporting viability, particularly utilization of rural surplus labor and local resources to serve local markets (265–66). Further, he felt that changes in industrial countries were also working in favor of industrial decentralization, particularly the substitution of electric power for steam. He noted that "rural industries have been at a disadvantage through the lack of facilities for obtaining . . . information, education, and training," but was confident that "this difficulty can be met with through the establishment of rural workshops devoted to extension work" (277). While government assistance would be helpful, he reiterated the Tayler-Tawney faith that cooperative forms of organization might be the most effective approach.

Planned Economy

In 1936, Fong's writings began to show qualified support for a more ambitious role for the government in planning and organizing industry (see Fong 1936d). Several developments help explain this change of emphasis. China had concluded a treaty with Germany in 1934 providing for barter exchanges that would enable China to import industrial equipment from Germany. The newly formed National Resources Commission completed in 1935 a preliminary program for development of heavy industry utilizing this import opportunity (Fong 1942b, 39; Kirby 1983).

Perhaps in response, Franklin Ho published in January 1936 a comprehensive overview of China's development problems and appropriate policies—in his case, also, a new departure. Ho reviewed and endorsed many of Sun Yat-sen's proposals, such as his emphasis on "equalization of land ownership" and "all land to the tillers." He supported Sun's recommendations for promoting farm consolidation and mechanization and for encouraging population movement to sparsely settled areas. Ho

urged tariff protection for industry, as Sun had done. Ho did not go so far as Sun in supporting direct government investment, ownership, and management in industry and trade, but visualized a substantial degree of government planning and control. Like Sun, Ho (1936a) urged government to extend highways and railways.¹⁴

Very possibly, Fong's article "Economic Ills and Their Control in China" (Fong 1936a), which appeared in the same journal as Ho's review, was his effort to differentiate his views from those of his mentor. While giving a general endorsement to a nonsocialist program of government economic planning and control, Fong differed from Ho on many points. He urged the promotion of trade unions for workers and trade associations for firms, the latter being a rational approach to the problems of collective action so frequently enunciated in his industry studies. Fong did not specifically endorse Sun's slogans regarding land policy or his mercantilistic views on tariff protection. Instead, Fong suggested export restrictions on natural resource products such as iron ore and tungsten. Fong also recognized that China's factor endowments dictated labor-intensive production, rather than the high capital intensity implied by Sun Yat-sen and implicitly endorsed by Ho.

A companion essay was Fong's English-language monograph, *Toward Economic Control in China*, prepared for the 1936 IPR conference (Fong 1936d). He praised "the far-sighted and comprehensive grasp of the need for economic control by Dr. Sun Yat-sen" (5) and urged, very defensibly, that the government follow Sun's recommendation to give priority to investment in railways and highways financed by foreign capital.¹⁵ In contrast to his earlier recognition of the limited competence and morality of the government, Fong here emphasized the supposed need for more centralized, coordinated economic planning and control (1936d, 76–77). It is ironic that this was occurring about the same time that the "socialist

14. Ho 1936a is in Chinese; I have not found any close counterpart to this in English. It is interesting to compare Ho 1936b, presented to the IPR conference and widely circulated in English. It is mostly a descriptive survey of China's economic policies, but lacking the element of advocacy.

Ho's enthusiasm for Sun Yat-sen's ideas was short-lived. After entering government service later in 1936, he soon set about trying to formulate a consensus view of Sun's ideas, but without success. In his memoirs, he concluded that "although formulators of policy claimed [Sun's] *San Min Chu I* [Three people's principles] as the basis of their action, there is no basic principle of development outlined there" (Ho 1967, 148, 294–300).

15. Tawney 1932 urged a similar approach—see pages 88 and 138.

calculation” debate in the West was moving to a higher intellectual level with the contributions of Friedrich von Hayek (Steele 1992).

In 1936 Franklin Ho went on leave to become head of the political department of the national government’s top administrative body, the Executive Yuan, in Nanking. This was the beginning of a decade of government service in a variety of agencies, during which time Ho was perceived as Chiang Kai-shek’s principal economic adviser. Eventually Fong was drawn into Ho’s government work. But the immediate change was that in 1936 Fong became acting head of the Nankai Institute of Economics.

War with Japan

Open warfare with Japan broke out in July 1937, with immediate disastrous effects on Nankai University. The campus was a major target for some of the first Japanese air raids, and much research material was destroyed. Nankai’s undergraduate program ended up in far-southern Kunming, where it merged with Peking and Tsinghua Universities to form Southwestern Associated Universities. Nankai research and graduate teaching went to Chungking, the wartime capital. The war virtually wiped out the ambitious Rockefeller Foundation–supported coordinated program for rural training and development. There was an effort to revive the program in remote Kweichow province, and Fong left the campus for about a year to head that effort, but it was not very successful (Fong 1975, 54–64).

War with Japan intensified Fong’s conviction that a government program was needed to promote industrialization:

The only way to strengthen our national defense in [the] face of external aggression is by means of quickened industrialization. . . . [Some] nations, deprived of wealth whether by war defects or lack of industrial development, such as Germany and Soviet Russia . . . , can also become powerful through resort to industrialization. Both these nations . . . have attempted industrialization in a new manner which China . . . may simulate with profit.

The wealth without which industrialization cannot be effected can be acquired through several means. First is the forced savings accumulated through a general lowering in the people’s standard of living. . . .

China under present war conditions must hasten to industrialize the best she can, . . . through the exercise of the strictest economy over the national life. The capital needed must be derived . . . from the forced savings . . . and through the exportation of agricultural and mineral products. (Fong 1939, 302–3)

In August, 1941, Fong left China to take up a sabbatical at Harvard, where he paid particular attention to Keynesian ideas, studying with Alvin Hansen. After a semester, he accepted a position with the U.S. government's Board of Economic Warfare in Washington, remaining through 1943 (Fong 1975, 77–83).

He continued to write on the theme of China's industrialization and the role of government. He stressed that capital scarcity was the primary problem, for which foreign capital would be needed (as Sun Yat-sen had proposed) (Fong 1942b, 63–68). However, Fong now gave more recognition to the problem of overpopulation and to the need to build up human capital, particularly managerial and technical personnel (1942c, 45–54; 1942b, 8–9, 13–14).

China's industrialization should focus on light industry, producing consumer goods, since these are mostly labor-intensive, use local materials to serve local markets, and benefit from the spread of industrial cooperatives (Fong 1942b, 20–21, 41–42, 79–80).¹⁶ Fong felt these light industries should remain private, "but with state regulation in respect to working conditions and other matters affecting public welfare." However, "the heavy industries which China must establish in order to satisfy her minimum defense needs . . . must be owned and operated by the state." The capital requirements were too large, the risks too great, and national security too sensitive for this sector to be left to private enterprise and free competition. But he concluded that "government enterprise is officially viewed as a means of supplementing private enterprise and by no means as a method of gradually eliminating private enterprise and socializing the economic system" (1942b, 78–79).

During Fong's semester at Harvard in 1941, he was much impressed by Keynesian economics and struggled to find some place for it in his discussion of development:¹⁷

16. This stress on light industry is also evident in Fong's 1935 article extracted in *People's University* 1958, 1–3 (original citation not clear).

17. Despite Fong's interest in development, he apparently did not connect with Joseph Schumpeter at Harvard. Fong's attraction to Keynesian ideas could have reflected the presence at Harvard of a large number of Chinese graduate students pursuing doctoral research on

Under a unified fiscal policy the four government banks . . . can expand their credit, reduce the rate of interest, and thus encourage investment. . . . Income from these investments when saved but not consumed will be available for further investments, and thus the process tends to become cumulative, and an expanding capital fund may be created for the purpose of financing China's postwar industrialization. (1942c, 49, quoting Keynes's *General Theory*)

Many modern economists, under the leadership of John Maynard Keynes, lay stress on the expansionist tendencies of full employment and maintenance of a high level of living, and challenge the traditional views on saving and investment. According to them, if foreign investment be assigned a new role of helping to develop the resources of capital-deficient countries after the war . . . the servicing of foreign loans may not become such an immediate matter of concern. Long-term financing may then be possible, and the responsibility for debt servicing may not arise until the borrowing nation . . . has developed sufficiently that fuller use of resources and higher level of income will in turn provide the necessary means for the repayment of these loans.¹⁸ (1942b, 67, quoting Hansen's *Fiscal Policy and Business Cycles*)

In December 1943, Franklin Ho became one of the top executives of the government's Central Planning Board and persuaded Fong to join that agency as head of its research department. He began work in February 1944. In December 1945, the board completed the draft outline of the postwar five-year plan, estimated to cost about \$6.6 billion U.S. dollars (ECAFE 1950, 394). Fong (1975, 70–71) described it as a “compilation of individual projects in six different fields, giving input and output targets for each project. . . . There was not any plan or programme per se, but a conglomeration of individual projects lumped together . . . without internal consistency in regard to inputs and outputs.” As civil war aggravated the government's monetary and fiscal disorder, the plan was never implemented.¹⁹

Keynesian topics. Fong (1975, 45) boasted that he “managed to dispatch the first and probably the only shipment of Keynesian and related literature via the Burma Road to Chungking.”

18. Aside from the reference to “fuller use of resources,” this does not seem a particularly Keynesian idea. I am surprised Fong did not refer to the possibility that capital-exporting countries would want to promote overseas investment as a way of stimulating their exports. This was, after all, the motivation for Germany to enter into the barter treaty of 1934.

19. An English-language typescript copy of the draft outline, titled “First Five-Year Program for China's Postwar Economic Development” (221 pages, January 1946), is in the

Fong's feelings about these matters were recorded by the Rockefeller Foundation's Roger Evans in an entry in his travel diary dated 22 April 1947:²⁰

HDFong may have been rendered irresponsible by repeated *gambeis* ["bottom-up"] with *maotai* [a Chinese liquor] but it still may prove worth while to follow up some of his references: e.g., that China is fascist, that bureaucracy is consuming the country. . . . HDF, on the way home, renounces all interest in the 5-year plan of industrialization in which he earlier played such an enthusiastic and prominent part, but it is not clear whether this is due to disillusionment with planning or with the present regime.

Fong retained his connection with Nankai and contributed to teaching and administration during his tenure with the Central Planning Board. But he did not return to Tientsin when the university reopened there after the end of the war. Instead, in July 1946 he accepted a position as acting director of a newly formed China Institute of Economics, which was being organized in Shanghai by Franklin Ho with support from leading businessmen (Fong 1975, 76, 86–90). To ward off starvation in hyperinflationary Shanghai, he added a number of other jobs, including consulting for the Economic Commission for Asia and the Far East (ECAFE), established in 1947 as a United Nations agency.

In January 1948, Fong became director of research for ECAFE, moving with them from Shanghai to Bangkok at the end of 1948 as the civil war intensified (Fong 1975, 92–95). Here began a second career, lasting (with interruptions) until 1968. Fong's diligence, affability, and ability to assemble descriptive data equipped him well for the position. He bore primary responsibility for putting together the annual surveys of Asia and the Far East, and also directed a special report on China's economy in 1953 (Fong 1975, 94–95, 104–7).²¹ He concluded his professional

Manuscript Collection, Columbia University Library. "Shortly afterwards, a two-year plan, issued under the title, *A Guide to Industrialization in China*, was prepared by the Foreign Economic Administration (formerly Board of Economic Warfare) of the United States Government, in close collaboration with the [Chinese] National Resources Commission. . . . This plan assembled data for the establishment of pilot plants in each of the industries proposed for development" (ECAFE 1950, 385). Fong (1975, 71) believed the draft plan was helpful to the Communists in formulating the first Five-Year Plan for 1953–57.

20. Evans's diary is in the Rockefeller Archive, folder 430, box 51, series 601, RG 1.1.

21. The 1953 document is mainly descriptive, but we can identify some of Fong's themes. The report suggested that the most important contributor to China's economic improvement

career with teaching at the Asian Institute of Technology and Nanyang University in Singapore. Singapore's successful blending of activist (and moralistic) government with extensive private enterprise probably conformed well with Fong's views toward industrialization in the early 1930s.

Assessment

H. D. Fong produced a voluminous quantity of writings on Chinese economic development during his Nankai period. They represent a search for organizing principles. His studies at Yale did not apparently provide him with strong analytical insights. Initially, his focus was on industrialization. His extensive industry case studies reflect a kind of radical empiricism, a hope that if sufficient data are assembled, they will display useful patterns and general principles. His descriptive work shows many parallels with the research of D. K. Lieu, the government's leading economic statistician. But Fong went further in identifying problems common to the various industries, many of them representing failures of collective action in matters such as quality control and standardization. His last overview studies stressed the importance of capital and organization. Through these early writings runs a tone of skepticism about free markets, competition, and *laissez-faire* in the Chinese environment of the early 1930s. But he also enumerated many of the shortcomings of government enterprise.

In 1921 a Chinese intellectual named Liang Shu-ming published this remarkable statement:

If Western culture had not made contact with us . . . China would have gone another three hundred years . . . or even another thousand years, and absolutely would not have produced steamboats, railroads, airplanes, scientific method, and democratic spirit. . . . The Chinese have

since 1949 was "the restoration of peace and order" (18). There was much attention to the spread of the cooperative movement in agriculture and in distribution. The report highlighted government measures in water conservation and transportation, which had been the top two priorities of Sun Yat-sen's program. While mostly nonjudgmental, the report was skeptical about some of the Communist data, noted the deterioration of rural morale as manifested in the migration to cities, and pointed out the heavy commitment to export food to pay for industrial imports. Fong's Keynesian phase was reflected in the view that price stabilization owed more to fiscal policy (higher tax revenues, a budget surplus) than to monetary policy (there was no reference to money supply at all). See ECAFE 1953.

not been traveling on the same path as the Westerners. (quoted in Alitto 1979, 87)

Liang challenged the view, advanced by Marx and adopted by Sun Yat-sen, that all nations pass through similar “stages” in the process of economic development. Fong never propounded a “stage” interpretation of China’s economic development, and his commentaries on Chinese business and government were certainly consistent with Liang’s observation.

The combined influence of R. H. Tawney, John B. Taylor, and the Rockefeller Foundation is very evident in Fong’s second phase. His writings focused on rural industries and the possibilities of development generated from the bottom up through the formation of cooperatives and the kind of leadership envisioned in the North China Council for Rural Reconstruction.

Fong’s third phase shifted attention to the possibility of government leadership in the development of industrial capital and production. He tried (not very successfully) to incorporate Keynesian ideas from his stay at Harvard. The coming of war with Japan reinforced the centralist focus. Fong formulated much of the Kuomintang’s national economic plan. In his final phase, however, he was profoundly disillusioned with the Kuomintang government. Like many connected with the KMT government, he prudently emigrated from China in 1948.

Fong’s industry studies were sufficiently valuable that the Japanese government had them translated into Japanese (Fong 1975, 46). They have become standard references for scholarly studies describing China’s development in the early twentieth century. In Communist China, a 1958 compilation of reprinted items labeled *Criticisms of Bourgeois Economic Ideas* led off with extracts from a 1935 article by Fong presenting “our knowledge of industrialization” (People’s University 1958, 1–3). Many of Fong’s monographs were reproduced in 1972 by the Center for Chinese Research Materials, for the Association of Research Libraries. A series of sixty-seven reprinted works on China’s economy, edited by Ramon Myers, includes four of Fong’s writings. Fong’s work was cited extensively in Kang Chao’s survey of the history of cotton textiles in China and in Wu Yuan-li’s thoughtful study of China’s economic policy.²²

22. Chao 1977 has references on pages 75, 81–86, 89, 93, 119, 124, 142, 144–46, 149, 158, 172, 184, 191–92, 197–98, 200, 204–5, 208, 214–15, 232–34, and 238, as well as in the relevant thirty-one endnotes on pages 334–61. Wu Yuan-li 1946 has citations on pages 13–15, 18, 19, 24, and 27.

However, references in other quantitative studies have been perfunctory. The pioneering national income estimates of Wu Pao-san and T. C. Liu, and the more specific studies of industrial development by John Chang and Thomas Rawski, have drawn primarily on government estimates and on studies subsequent to those of Fong.²³

Fong's work contains very little formal economic theory; it can be contrasted to the efforts of Ma Yin-chu.²⁴ Fong did consistently recognize that China's factor endowments dictated reliance on labor-intensive production. His development theory gave priority to the growth of physical capital, with only secondary attention to human capital and technological innovation.

There can be no doubt about the value of Fong's contribution to creating an outstanding economics program, combining teaching, research, and service, at Nankai University. This program produced such outstanding scholars as Ou Pao-san, Chen Chenhan and his wife Tsui Shu-hsiang, Li Jui, Wu Tayeh, Teng Wei-tsao, Yang Jingnian, Chien Rongkun, Chen Yinfang, Sang Heng-kang, Yang Shu-chin, Zhao Jing, and Song Hsia. In a tabulation of economics professors still active in China in 1987, twenty-five identified themselves as having studied at Nankai in or before 1950 (*Biographical Dictionary* 1990). Some of these remained on the Nankai faculty after 1976, helping to restore its status as one of the top economics programs in Chinese universities.²⁵

Finally, let us recall that Fong went on after 1948 to a distinguished career with ECAFE. His contributions to the annual *Economic Survey of Asia and the Far East*, and the corresponding quarterly *Bulletin*, were generally anonymous. But these bear considerable resemblance to Fong's Nankai publications—largely descriptive, comprehensive, meticulous, of great value to more analytical scholars. Fong's Nankai career could be seen, thus, as an apprenticeship to this highly productive activity.

23. Citations to Fong's work can be found in Chang 1969, 29, 44–45, 93; Rawski 1980, 162 n. 41, 164 n. 61. There are no citations in Liu and Yeh 1965.

24. Ma Yin-chu had received a Ph.D. from Columbia University in 1914 and worked with several universities and government agencies, publishing prolifically. Unlike Fong, he became an outspoken critic of the KMT government in the 1940s and was persecuted. Although not a Communist, he welcomed the coming of the Communists in 1949. His criticisms of their population policies put him in disfavor, but he was ultimately vindicated and lived to the age of one hundred. See Zhang Youren 2001. Unlike Fong, Ma published almost exclusively in Chinese. A relevant selection of his applications of Western theory from the 1920s and 1930s is in People's University 1958.

25. See the biographical sketches and program descriptions in *Nankai University* 1990.

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