

Business on the Empire's Periphery: Local Chambers and the Transformation of Manchuria (1892-1930)

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Abstract: The effects of business organizations and economic development has been an important issue of concern in the field of economics. Using data from Manchuria on modern chambers of commerce, we explore how the chambers of commerce affected the transformation of Manchuria. We find that the chambers of commerce significantly promote the local industries and businesses, especially in the south Manchuria. In addition, they not only promoted the export of soybean products, but also deeply influenced the non-agricultural employment and land concentration in rural north Manchuria. Compared with traditional business organizations such as guilds, the modern chamber of commerce played an important role in economic development mainly by expanding information channels, disseminating technology, establishing newspapers and commercial schools, and safeguarding the interests of merchant groups. This paper not only enriches the related research on modern Chinese business organizations, but also provides some historical references for the role of business organizations today.

1. Motivation

The relationship between business organizations and economic development has been an important issue in the field of economics, and many scholars have not only taken the differences of business organizations as an important determinant to explain the differences in economic development among countries, but also as one of the important factors for the great divergence between modern China and the world (Epstein, 1998, 2008; Greif, 2006; Ogilvie, 2014, 2019; Ma, M., 2015; De La Croix et al., 2018). However, existing studies have mainly focused on the craft guilds or merchant guilds in medieval Europe, while the business organization in modern China has not been discussed enough.

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In the process of transition from traditional to modern economy, business organization plays a very important role in China. In particular, the modern chamber of commerce, which was born out of a semi-colonial and semi-feudal society, as a merchant association and a market intermediary organization, is not only different from the business gangs and guild halls based on geography, but also difference from the guilds and public offices based on business relationship. More importantly, the fact that the chamber of commerce emerged at a time that coincided with transformation of Manchuria provides us with an invaluable opportunity for examining the economic consequences of modern chambers of commerce; an issue that has been ignored within the Chinese context and which has little empirical evidence to bear upon.

Therefore, in this paper, we exploit the variation in the establishment of chambers of commerce in counties of Manchuria, to investigate the economic consequences of the modern chambers of commerce on subsequent economic growth. In particular, the followings are some research questions we will explore:

- a. Does the presence of modern chamber of commerce influence the subsequent development of local industry and business?
- b. Does the presence of modern chamber of commerce promote soybean exports?
- c. Does the presence of modern chamber of commerce affect the non-agricultural employment and land concentration in rural Manchuria?
- d. Why does the modern chamber of commerce produce an effect on the economic growth?

This study of modern chamber of commerce not only helps to understand the business organization and the development of industry and commerce in transition economies such as China's in modern era, but also provides some historical reference for the development of today's business organization.

2. Brief Literature Review

The relationship between the business organization and the economic development has become an important topic in economics, dating back at least to scholars' attention to the craft guilds or merchant guilds in medieval Europe (Cunningham, 1886; Hickson

and Thompson, 1991; Richardson, 2008). Although a series of studies exist that reveal the relationship between business organizations and economic and social development, the relationship between them is not clear. Among the existing studies, most of them focus on the impact of guilds in medieval Europe, and they found guilds have significant positive effects on economic development. For example, North and Thomas (1973) emphasize that merchant guilds could help merchants obtain protection of property rights from overseas city-states, but also had the effect of reducing negotiation costs, managing trade and taxes, and redistributing rents in their own city-states. However, since the advent of Adam Smith's liberal economic ideas, Western scholars have tended to view guilds as a type of business organization with monopolies that would restrict competition by raising transportation costs, monopolizing raw materials, and restricting immigration, which severely hindered the development of the capitalist economy (Thrupp, 1965; Ogilvie, 2011). On this basis, Greif (2006) argues that the complex relationship between business organizations and economic development is to some extent related to the historical background and culture of a country or region.

As for the study of chambers of commerce in modern China, although the study of modern chamber of commerce has received much attention, the existing studies mainly discuss its political function and commercial mediation role. In terms of political functions, the main focus has been on the modern chamber of commerce's function of "communicating with the government and commerce" (Ma, 2015). In addition, it also focuses on the key role of modern chambers of commerce in the political movements against imperialism and feudalism (Zhu, 2001). As for commercial mediation, Zhu (1993) and Yu (2004) examine the construction of the commercial arbitration system and the effectiveness of commercial arbitration by chambers of commerce in the late Qing and early Republican China. However, existing studies have not discussed enough the economic functions of chambers of commerce, especially lacking the necessary systematic examination, both in terms of theory and empirical evidence.

3. Methodology

Using relevant historical materials from Manchuria, such as the Northeast China

Yearbook, we collect the data on the establishment of the chamber of commerce in each county of Manchuria from 1892 to 1930, and discuss its impact on the development of industry and commerce, soybean export, and rural society in the Manchuria, respectively.

Ordinary least squares (OLS) and instrumental variable approaches are applied to identify the causal relationship between the chamber of commerce and the local industry and business for each county of Manchuria.

Using the time-series data, we employ autoregressive distributed lag model (ADL) to explore the effect of chamber of commerce on soybean exports.

We exploit village data from a unique farm survey conducted in Manchuria in the 1930s, to investigate the economic consequences of the modern chambers of commerce on rural society.

4. Findings

There are three important findings. The first is that the establishment of the chamber of commerce in each county has a significant positive impact on the subsequent development of local industry and business, with the population of modern industry and business increasing by 2.0% for each year that the chamber of commerce is established earlier, especially in the South Manchuria. Second, the modern chamber of commerce also has a significant contribution to the soybean trade in Manchuria. At last, although the chamber of commerce has no significant impact on the overall development of rural society in Manchuria, it has a significant impact on the North Manchuria, not only promoting local non-farm employment, but also significantly increasing local land concentration. Thus, the chambers of commerce play a very important role in the development of the transition economy in Manchuria.

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