

China's Development Journey: A Long-Trodden Path to Overcome the Great Divergence

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ABSTRACT

China's largely sustained impressive economic resurgence of almost half a century has captivated the world; yet its journey to prosperity was marred by a prolonged divergence from Western Europe, known as the Great Divergence. This article analyzes the intricacies of this historical phenomenon, tracing the divergent paths of China and Western Europe from a shared starting point around the mid-eighteenth century. Drawing on a multidisciplinary approach, including historical analysis and economic theory, the paper tracks the underlying factors that propelled Western Europe ahead while China languished behind. It explores the role of environment, technology, and institutions in shaping the divergent trajectories of these economies. Additionally, this paper examines the enigma of China's sustained economic growth amidst limited democratization, challenging conventional wisdom about the prerequisites of democracy for development. Through a cursory review of China's modern development path, this paper sheds light on the intricate interplay of historical, institutional, and economic forces that have shaped China's journey from early modern divergence to modern day resurgence.

Keywords: great divergence, great convergence, development miracle, Chinese resurgence

Introduction

The recent economic progress of China is one of the most significant events in the modern economic history of the world, as it was the material prosperity of ancient China. Equally interesting for academic research is China's relative downfall, which started around the eighteenth century and took over a century-and-a-half to catch up with the West, commonly known as the Great Divergence. The lasting material prosperity in ancient China was sustained over a long period in the world economic history (Huang, 2002) and could not remain only in the early modern era. Sugihara ascribes it to timing,

pace, and underlying causes of industrialization in the interaction between environment, technology, and institutions (Sugihara, 2015, p. 116). The essay traces when Western Europe overtook China in prosperity and how China subsequently managed to be on the path of progress. The first step of this analysis would be to demark the timeline that set them apart on a prosperous journey. Broadberry et al. (2018) argues that the Great Divergence between them appeared by the 1750s, before the start of the Industrial Revolution, well before 1800- the California School's initial assumption, and much later than the late Middle Ages, what the Eurocentric writers believed. Until then, both regions were

comparable in population, history, agriculture, handicraft industry, income, and consumption. The two worlds took different pathways from the identical situation because of the different structural changes these economies went through, as Broadberry (2020) explains. Huang (2002) explains it differently: When the West came with its military supremacy and economic superiority, China had to face the challenges presented by a capitalized, industrialized, and modernized occidental civilizational mode. Consequently, after the mid-seventeenth century, the divergence grew rapidly. In global economic history, it is widely concluded that to achieve modernization and sustained economic growth, inclusive institutions are necessary along with population growth. In the Chinese case, it will have to establish its inclusive institutions under the influence of path dependence; while there are universal rules, there are local circumstances (Jiang, 2023, p. 316).

In the Great Divergence debate between Europe and Asia, China's living standards and productivity have always remained at the forefront (Broadberry et al., 2018). The great divergence is an interesting phenomenon to understand China's early modern economic history and to find its link with China's recent sustained impressive economic performance for about a half-century (Pomeranz, 2021, p. x). The most perplexing is achieving sustained and spectacular economic growth over a very long period with little progress in democratization, which is generally considered a precondition condition for growth. Whether China's falling behind in the early eighteenth century resulted from positive growth in Europe or negative growth in China remains a matter of academic contestation.

In short, this paper provides a cursory review of the path of modern Chinese development. Apart from the introduction and methodological section, this article is divided into three parts: first, it explores the causes that diverted the road of prosperity between China and Western Europe; second, it analyzes the reasons for China's stunted progress for an extended period; and third, it discusses its recent success.

Problem Statement

The paper analyzes the underlying causes of China's taking almost two centuries to catch up with the West in terms of economic prosperity. China's modern development history is much talked about; however, it is still less appreciated and emulated in other parts of the world. General awareness is there that the country used to be a major power a few centuries ago. However, such nostalgic references do not help analyze and truly appreciate China's path to overcoming the divergence it has undergone in the last two hundred years. There is an inadequate, sweeping and often misplaced understanding of the Chinese development journey. Hence, there is a need for a closer examination and tracking of the Chinese modern-day development miracle in conjunction with its divergence journey that started in the mid-eighteenth century.

Research Objective

The overall research objective of this article is to track the great convergence journey of Chinese development by analyzing the interplay between political systems and economic progress, while comparing the development discourses of the West and East during the early modern era, and understanding China's diverse development pathways over the last two centuries.

Methodology

This analysis is based on the qualitative method of research, which uses discourse analysis as the main methodology. Discourse analyses in development studies focus on policy debates, academic narratives and research, official speeches, declarations, documents, interviews, newspapers, and editorials as primary sources, together with other scholarly works. Thus, this paper's analysis and conclusion will be drawn from such documents and scholarship on China's great convergence journey. To understand the Chinese pathway to overcome the Great Divergence, the assumptions of California School, Marxian, and Weberian approaches have been utilized as frameworks for analysis.

The Roads Diverged

The oldest and most crucial question in economic history is why some nations are wealthier than others. There are two most generalized explanations. First, it stresses the evolutionary nature of historical progress and social development, and second, it focuses mainly on the mere coincidence of events and play of fortune, attributing successes and failures of development to existing geographical conditions or historical accidents (Popov, 2010). It was a crucial yet contrasting point in modern economic history that Western Europe transformed its economic activities, founding technological breakthroughs and innovation. At the same time, most other societies were largely static and agrarian.

Two approaches describe what left China behind and how it successfully caught up with the West recently. First, the exploitation of the West or Imperialism: treating growth as a zero-sum game that paved the way for the progress of Europe while leaving others behind; second, the growth generated from within the West through institutional change created incentives for growth (Broadberry, 2020), which China arguably failed to garner in the early nineteenth century. Either way, it had hastened the deindustrialization of China because of reliance on imported European goods, labour-intensive production process, and export of primary goods that had also paved the way for increasing uneven resource allocation in favour of Europe (Sugihara, 2015, pp. 122–123). Twentieth-century economic historians like North and Thomas emphasise the emergence of superior economic and political institutions in Europe in the seventeenth century, lacking in China (North & Thomas, 1970). Eric Jones argues that Europe's competitive state system and excellent environmental conditions were the conduit for development that Asia lacked in the eighteenth century (Jones, 2003).

The divergence debate is not limited to income and price but ranges from far and wide to include science, rationality, religion, politics, the state, the environment, and institutions. One argument

is that Western countries grew rapidly after the Industrial Revolution because of the inevitable result of many interlinked social changes during that period. For example, the abolition of serfdom and guarantees of human rights, the Reformation and the protestant ethic, the Magna Carta, and the European Enlightenment all have paved the way for the incubation of new ideas and innovation of new technologies, which paved the way for industrial progress and accelerated economic growth (Popov, 2010). This was the decisive moment in the development history of humankind. No progressive violent changes occurred in the recorded history of humanity until the end of the eighteenth century (Broadberry et al., 2018). At the beginning of the eighteenth century, there was ‘a world of surprising resemblance’ (Pomeranz, 2021) between Europe and many parts of Asia. There were no significant structural gaps between the economies of advanced features of the world, such as parts of China, Japan, and Britain. Around the 1800s, the West took the path of rationality and scientific revolution based on protestant ethics by paving the way to the Industrial Revolution. It also upset the Malthusian trap by utilizing land and coal (Pomeranz, 2021). Its newfound land in North America to emigrate excess population and coal in easily accessible areas of England to utilize for industrialization had helped manage pressure on a scarce resource, land, and to avoid diminishing returns. As Pomeranz suggests, the economic hegemony of England was “beholden” to a geographical bonanza: the geographical closeness to ‘the New World’, which provided vast natural resources and a huge market. England had one unparalleled advantage: the zones which produced cheap coal were geographically close to main consumption zones, such as London, which made it profitable to innovate machines that consume cheap coal to replace expensive human labour. However, he puts no premium on the claim of Europe’s exceptionalism (Pomeranz, 2021). By contrast, the East Asian reply to the Malthusian trap was through the ‘industrious revolution’, basically ‘labor-intensive agriculture’ that had ultimately shaped the Asian path to industrialization first

in Japan and then in China (Sugihara, 2015, p. 117). Moreover, China did not have colonies but a significant population on its land. It also lacked enough coal available for industrial use. The available coal was also unviable because the price used to quintuple between the pithead and riverbank 50 km away (Sugihara, 2015, p. 112). Around the same time, China struggled to uphold the Imperial Order (Jiang, 2023) and avoid the Malthusian trap. Chinese government structure and the failure on its part to provide sufficient incentives for industrialization and modernization through adequate institutional mechanisms are also seen as huddles by others (Acemoglu & Robinson, 2012). It took long for China to transform into an industrialized society. The two worlds are set apart. China's labour-intensive industrialization continued to spread before being replaced by flying geese patterns of economic development only after the second half of the twentieth century (Sugihara, 2015, pp. 128–129).

Divergence was the conjuncture between needs and opportunities. Before the mid-nineteenth century, China's rulers could not accept any path breaking reformatory proposals and consider what was happening in the West, as their focus was on stabilizing imperial rule (Jiang, 2023, p. 311). Rodney observes that in Europe, the elements of change were not stifled by the weight of a state bureaucracy the way these were controlled in China (Rodney et al. 1981, p. 9). The California School repudiates the 'evolutionary path', ascribing some unexpected coincidences to Western economic progress. Therefore, China's social and economic structures should not be blamed. Still, why China could not compete with such an "occidental" model? In the face of real challenges from European counterparts, why did the Chinese Imperial System fail to continue to push the economy upwards? If speaking in terms of the stage theory, the question transforms partly into why China could not step into an industrial and modern society from an agrarian and despotic society. Especially when considering that Ming-Qing China possessed many characteristics deemed significant to economic

booms in European counterparts, China's failures are highlighted further (Jiang, 2023). When the divergence occurred, China continued to expand and govern under the Qing Imperial System. Under the Qing Dynasty (1644-1911), China expanded its territory and its population exploded. Pomeranz estimates that before the 200 years of great divergence occurred, there was a 200 per cent population increase in China due to expanding cultivated yields and the introduction of new crops such as sweet potato and maize with much higher output per acre. Economic stagnation followed in ancient China to the population explosion in the Ming-Qing era, especially after the shrinking man-land ratio. Jiang contrasts that the Malthusian Paradigm was not strongly associated with traditional China due to widespread and numerous practices of preventive checks of childbirth and marriage, and childbirth was subject to state intervention and family planning (Jiang, 2023).

Population pressure aside, some others have explained the great divergence and impending long catch-up period with the help of the socio-economic interpretation. For instance, Fairbank and Goldman attribute the failure of China's modernization to its traditional socio-economic structure (Fairbank & Goldman, 2006). The Emperorship owned everything under heaven, no code or law to protect property rights, and Merchants' businesses relied on the will of officials. China achieved only quantitative growth, but no qualitative changes were caused by the technological standstill (Jiang, 2023). China's stagnation seems plausible from the technological deterministic vantage point.

Weber (1910) argues that the affinity between religious thinking and economic rationality and the transformative impulse prevalent in Europe paved the way for development, which was lacking in China. Weber emphasizes the power of religious ideas based on the tenets of Protestantism and their influence on followers' behaviours by encouraging them to pursue worldly success and live a frugal lifestyle so that profits can be reinvested (Jiang, 2023, p. 13). The Protestant ethics and work culture facilitated the rise of capitalism in Western

Europe. To Weber, China is a diagonal comparison to Western rationalism. Weber explained China's economic stagnation from a cultural-religious-spiritual viewpoint while tracing the steps of Karl Marx to describe a revolutionary transition in Western Europe from medieval societal structures to modern capitalist society. Contrasting the worldview and rationality, Weber contends that China never had a native salvation religion and consequently produced different rationalities under the influence of its own Confucianism, which was different from the West. Christianity has set a salvation path in the West for followers, and to some extent, rationalism has arisen since the early modern era (Jiang, 2023). For Weber, the Reformation movement was to bring about spiritual changes in the people who became open to capital accumulation, investment, and other activities that would benefit capitalism's growth. It seems that the Reformation Movement powered Europe's capitalist economic growth in commercial and industrial development. Weber concludes that the Confucian doctrines in China were not conducive to the germination of the spirit of capitalism. Unlike Protestant ethics in Europe, which encouraged people to do well in world affairs as the tool of God, Confucian codes encouraged them to focus on the sentient things and the current world and interpersonal relationships. Confucianism emphasized individual education and moral behaviours and contributed to the early emergence of bureaucracy in imperial China. Still, it proved to be an obstacle to the essential rationalism for development and modernization (Jiang, 2023). Similarly, Landes (1999) describes Europe's success to its advantageous culture. Economists and historians have argued this phenomenon of the Chinese development path by ascribing structural, cultural, and economic factors of the two parts of the world. For others, Europe used to possess exceptional conditions for economic development, which had been lacking in China (Parthasarathi & Pomeranz, 2020., p. 1). While criticizing Rostro's stages of economic development, some have argued

that development does not happen everywhere in a similar pattern, time, and way. One size does not fit all (Manjapra, 2020). From the above discussion, the development issue's core lies in the relationship between the government and liberal society. China travelled a long journey of stunted progress compared with Europe because of the lack of resources, large population size, inability to initiate and adapt reforms, underdeveloped and exclusionary institutions, lack of scientific progress, Confucian doctrines, etc., which are further analyzed in the following section.

Reasons for Stunted Progress

Unlike its imperial past, China passed through a difficult path 150 years before the 1980s. Decades before the advent of foreign colonialists, the Qing Empire had declined economically and societally. The state could not carry out basic functions such as infrastructure maintenance like irrigation canals and disaster relief like holding enough stock in granaries. The central government left those tasks to local elites and the gentry class, while it only shouldered sustaining social order. Accordingly, the Qing government extracted much less taxes from different economic sectors than its Western counterparts (Jiang, 2023, p. 272). The traditional socio-economic structures in China were defined as extractive institutions. To a large degree, the nature and quality of institutions strongly influence the viability of economic growth and its sustainability, according to Acemoglu and Robinson (Acemoglu & Robinson, 2012). Organizational innovations for institutional efficiency were crucial for Western Europe's rise, primarily through new commercial and industrial entities. However, financial innovations were not lacking in traditional China, such as the invention of paper money and some transfer systems. The methods to utilize capital investment never fully ripened in China in the pre-modern period. To stimulate economic growth, the formation of institutions is critical. Amongst, the political situation is significant for economic institutions. It is the political process that determines the nature of economic institutions.

Sustainable economic growth could be achievable if inclusive economic institutions coincide with inclusive political institutions. Without such an institution, or if institutions are extractive, the result would be either economic stagnation/recession or unsustainable growth. In the institutional evolution and development process, history is significant (Acemoglu & Robinson, 2012). There was a lack of inclusive political institutions in China when the divergence occurred. With the absence of inclusive institutional development, there was a lack of scientific progress in pre-modern China. In the Ming-Qing era, scientific activities were pressed to a nadir. In contrast, the scientific revolution and the Enlightenment movement eventually led to the Industrial Revolution's advent in the West. Technological progress rarely appeared in pre-modern China, unlike in the earlier era when China experienced unparalleled technological progress (Jiang, 2023). China authority reported China's scientific backwardness in two ways. First, the large population was helpful for the trial-and-error experiment process to develop agricultural technologies in the pre-modern era. The large size of the population would have potentially been an asset for experience-based inventions. However, the modern nature of technological progress has changed drastically, relying more on theoretical breakthroughs and experimental activities. Unlike in previous periods, modern science was based much more on experiments guided by theories. China could not manage the nature of scientific change and the size of its population. Second, the state examination system worsened the level of human capital in China during the pre-modern time. Intellectuals were directed to succeed in the examination by having a good familiarity with the Confucian texts.

As the Great Divergence ensued, the Qing Dynasty failed to uphold the imperial structure and institutions. As elaborated above, the imperial irrigation projects and granary systems remained unmaintained, and farmers became impoverished. At the same time, the Western advent in China

made governance worse. A downward spiral in China followed. The British exported opium to China to maintain the trade balance and drew silver in huge quantities, amounting to widespread demoralization. In its efforts to prohibit opium, the Qing government faced humiliating defeat from foreign forces, which resulted in the signing of the 1842 Treaty of Nanjing. The Treaty formally opened China to the Western powers, losing much of their sovereignty in a series of conflicts with Great Britain, France, the United States, Tsar Russia, Japan, etc., by the second half of the nineteenth century. It is often characterized by China's declining international status, deteriorating political enforcement, and a weakening economy (Jiang, 2023, p. 255). Chinese people recall this period as an era of humiliation at the hands of foreign powers.

This only continued or widened China's divergence as the West was on the path of industrialization and scientific progress. The Qing Government collapsed in 1912 in the wave of provincial independence with the establishment of the Republic of China. Since the founding of the Republic, China tried to initiate the United States-styled democratic system and institutions. However, in the feud, the reformer Sun Yet-sen was defeated. Following the nominal unification efforts, China fell into an era characterized by political fragmentation, local warlordism, and economic chaos for fifteen years. With the eruption of the Second Sino-Japan War, the nation-building efforts led by Chiang Kai-shek failed, finally ceding power to the Chinese Communist Party (CCP) in 1949 under the command of Mao Zedong as the People's Republic of China (PRC). The situation of the early twentieth can be summarized overall: during the RC, the Imperial Mode collapsed, like any historical predecessor. Social order or national defense could not be guaranteed, and this situation harmed the economy, (Jiang, 2023, p. 256) leaving China far behind on the road of divergence.

With the establishment of the PRC, the CCP took several measures to fundamentally change China's social backwardness by introducing the

Stalinist mode of Socialism before 1956, before Mao introduced his system of Socialism. In the 1960s and 1970s, Maoist Socialism was much like an enhanced version of the Imperial Mode with some socialist characteristics. Its intellectual sources and actual practices came primarily from Europe. During the Mao era, although some industries developed noticeably, the economic growth was nominal, and the economy had always suffered from politics. After long economic stagnation and political turmoil, China managed to embark on the path of rapid structural reform and opening up, economic progress and transformation with the famous dictum- hide your strength, bide your time- of its reformist leader Deng Xiaoping.

How China Managed to Converge

With the demise of Mao, a series of economic reforms were launched in the 1980s, including the gradual abandoning of the planned economy, giving up collectivization and lowering the entry barriers of certain industries, shrinking the span of state-owned enterprises. Reform approaches were incremental and wide (Ang, 2016, p. 76), but reform efforts were not carefully plotted. These unfolded more like a step-by-step experiment, demolishing the planned economy and eventually introducing a marketisation process. With the introduction of the gradual liberalization process, mechanisms of the free market were introduced to stimulate economic growth to establish a socialist market economy, which is considered political propaganda rather than theoretical meaning. The expansion of capitalism drove economic reforms that successfully integrated China into the Asia-Pacific economy by the 1980s. It also helped make it the most competitive exporter of labor-intensive manufacturers in the world and the gravity of the growth of the Asian economies (Sugihara, 2015, p. 129). The Chinese version of liberalization models is based mainly on Anglo-Saxon countries. From this perspective, the Westernization process in China continued, which started in the middle of the nineteenth century (Jiang, 2023, p. 258). With the abolishment of collectivization, reforms were initiated from the bottom up, unleashing

the potential of a grassroots economy and labor force. Town and village enterprises flourish on the newfound agricultural and mining potentials. Small private firms eroded the market share of state-run firms. In the process, the private sector proved to be the most energetic. State-owned Enterprise (SoE) management was under pressure to maximize revenue. Similarly, the astonishing success of the initial four Special Economic Zones initiated in the late 1970s and the subsequent scaling up of this concept paid hugely to the economy.

In the 1990s, reforms developed rapidly in more sectors and deeper mechanisms, including the SoEs and the financial sector, in a few ways. Firstly, the state monopoly in many more industries was halted. The shareholding system was introduced in many critical industrial sectors. Private and foreign capital were allowed to operate in such sectors, which were forbidden for them to step in before. Secondly, the bankruptcy mechanism was introduced in SoEs. The government no longer took responsibility for SoEs. It resulted in much bankruptcy and unemployment, which instilled more labour into the market. Economic efficiency was further heightened. Thirdly, the banking system started acting as an independent commercial institution rather than providing free loans to SOEs like before. The stock exchange was also established in the late 1990s in Shenzhen and Shanghai. Thus, the market mechanism was also partly introduced to the financial sector. Ever since then, hastening marketisation did not stop until the mid-2000s. The share of public capital in the economy declined to approximately 30 per cent in 2005 and has not changed since then. The mixed economy was sustained when SOEs controlled vital industries, and private small firms grew in less essential industries. Financial liberalisation was fundamentally halted after the 2010s, although China was accepted to the World Trade Organisation in 2001.

The CCP is now satisfied with such a structure—an unchallengeable central authority, a domesticated and able bureaucracy and a mixed economy consisting of state-owned and private

capital. Industrial policies become increasingly crucial as it aims to compete with Western economic hegemons. The recent development path of China involves a transition from a planned economy to a market economy largely in sequence. The practice of a planned economy led to Maoist socialism, which can be interpreted as an economic mode carrying the historical legacy of the Imperial Mode of China. Similarly, the practice of reforms led to 'Oriental Capitalism', a societal type that combined the capitalist market economy and the Imperial Mode of China (Jiang, 2023). China's reform path from the late 1970s to the mid-2000s shows its economic system's constant increase of capitalist components. At the same time, it had tried to accommodate more inclusive economic institutions, which were long absent during the divergence period. This institutional reform enabled China to achieve enormous economic growth and make poverty history at the dawn of the new millennia.

Conclusion

To demystify China's long journey to development, Walter Rodney's (1981) rhetorical question- why different people develop at different rates, is relevant. To him, the environment and the superstructure of human society matter. For Ang (2016), development is a coevolutionary process between the state and market where both interact and evolve, changing over time. From the discussion above, it can be seen that both factors have influenced China's path to prosperity to a larger extent.

China is full of puzzles that outsiders find difficult to understand. The Chinese civilization is famous for its early formation and long-lasting invariability. In the agricultural era, Chinese people created unparalleled material wealth and technological advancement (Jiang, 2023). However, its relative backwardness in the early modern era was almost equally perplexing. However, it appears that China has been effortful since the mid-nineteenth century to find a feasible way to cope with the challenges that the West brought by carrying out modernization with its

characteristics. This process does not seem to yet to be completed in China. With the success of the communist revolution in the mid-twentieth century, China gradually focused on political consolidation and economic transformation. The colossal reform process initiated in the early 1980s was founded on its massive population capacity. On the whole, China's rapid growth was generated by two factors: first, enterprises that had more freedom to do business had wider access to the vast mass of domestic and international markets, thus making valuable assets and cheap labour that China has; second, introduction and extensive application of more efficient technologies from the West and Japan enhanced productivity and aggregate output (Jiang, 2023). Both factors contributed profoundly to higher efficiency within the Chinese economy. In other words, China was transiting from extractive economic institutions to inclusive ones (Acemoglu & Robinson, 2012). The CCP's programme that China would utilize Western technology and market mechanisms to develop the economy while keeping the one-party state resonated with China's late nineteenth-century self-strengthening movement that sought to adopt Western technology and economic methods while maintaining the traditional Confucian state and values (Fairbank & Goldman, 2006). The only difference is that this time, China successfully managed the hybrid model (western technology and market mechanism with the one-party state) to turn it out as an economic miracle and to turn the great divergence into a great convergence. The West developed the 'Atlantic Economy', paving the way for long-distance trade in the early nineteenth century. For China, it took almost two centuries to establish a free trade regime underpinned by the rapid growth of its trade with the developed world and intra-Asian trade. Since Deng's economic reforms, China has achieved unprecedented economic growth, which has made China the world's largest trading economy and the current second-largest economy in terms of GDP. There are predictions that China will have economic parity in the following decades and remain locked in this position for decades (Peak China?, 2023). Undoubtedly, the

introduction of inclusive economic institutions in China since the 1980s is unprecedented. Loaded by path dependence, China experienced a zigzag pathway in the last two centuries. All three players during this stage, i.e., the Qing government, the Republic of China, and the People's Republic of China, made efforts almost for the same aim. However, their specific actions, in most cases, appeared diagonally different (Jiang, 2023, p. 314). When the West sparked the Industrial Revolution, scientific progress, and institutional development, China tried to consolidate the agricultural economy and gradually lagged the West. After the West came in with astonishing power, including military strength and economic superiority, China realized the necessity of changes and tried many sorts of pathways, including monarchical constitutionalism, republicanism, communism, and so on, for modernization to be built based on the Imperial Mode before making an economic breakthrough by adopting a hybrid model- Western technology and market mechanism with the one-party state.

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