

Cities of Industry and Vice

Economic Development, Neo-Institutional Theory and Path Dependence in Hong Kong and Macau, 1800-2000

Abstract

This article attempts to fill a gap in scholarly literature regarding economic development in East Asian states. It pursues this goal by utilizing neo-institutionalist and path dependency theory in order to analyze the economic development pathways of Hong Kong and Macau since the beginning of the 19th century. These theories allow us to examine the formalization of institutions in Hong Kong and Macau during a period of high imperialism which had important bearings on economic development in the 20th century. By recounting the collapse of traditional trade networks in the south China sea at the beginning of the 19th century we establish a framework for the initial development of these institutions. We use quantitative analysis of colonial statecraft in the late 19th century which allows us to establish the context of the early development of these institutions. We also address theories of institutional ‘lock-in’ through a series of economic crises in the 20th century. This final section builds a narrative framework which allows us to address the economic development of Hong Kong and Macau through the lens of institutional development.

Robert Keenan
6364705

Utrecht University
MA History of Politics and Society

First Reader
Auke Rijpma

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Introduction

1. The Resurgence of East Asia and The East Asian Model of Economic Development

Trends in economic literature suggest that the global economy is currently experiencing the ‘resurgence’ of East Asia which will restore it to its traditionally held position at the centre of this global economy.¹ Since the publication of Kenneth Pomeranz’ *The Great Divergence* at the beginning of the 21st century, scholars have attempted to address this divergence of European and Chinese economies in performance.² Certain scholars, including Giovanni Arrighi, have attempted to isolate factors which have facilitated the resurgence of East Asian economies. The Hong Kong and Macau Special Administrative Regions (SARs) of the Peoples’ Republic of China represent curious cases in this resurgence. Both of these former colonial city-states which only reunified with China at the conclusion of the 20th century have experienced unique development paths. As of 2017, both Hong Kong and Macau held the highest levels of GDP per capita for the East Asian region, with the exception of Singapore which has slightly outstepped Hong Kong since the beginning of the 21st century but lags behind Macau.³ Both share an outlet on the Pearl River Delta on the south coast of China. Both were entrepôt ports in the mid 19th century. Despite this geographical proximity and commonality in their economic structures circa 1845, these two regions have pursued disparate development paths. It is the exceptional cases of these two economies, the last colonial entities in Asia, which we seek to explain.

What has been the cause of the specific development paths of Hong Kong and Macau since the beginning of the 19th century? As we shall see, the Great Divergence brought different fortunes to the regions of the Pearl River Delta at the beginning of the 19th century. The

¹ Giovanni Arrighi, et al. eds. *The Resurgence of East Asia, 500, 150 and 50 Year Perspectives*. (London, 2006)

² Kenneth Pomeranz, *The Great Divergence: China, Europe, and the Making of the Modern World Economy*, (Princeton, 2000)

³ World Bank national accounts data, and OECD National Accounts data files, accessed May 20th, 2019: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?contextual=default&locations=HK-MO-JP-CN-KR-SG>

differing evolutionary pathways of the economies of Hong Kong and Macau is rooted in this experience of the Great Divergence and its legacy. Subsequent developments in the latter half of the 19th and 20th century reveal how Macau became caught in a pattern of repeatedly expanding its gambling industry in order to sustain its state revenues, while Hong Kong was both a product of this divergence and a beneficiary of expanding European trade in the area.

In their influential report published in 1993 on the ‘East Asian Miracle’, representatives of the World Bank noted that while there is no singular ‘East Asian Model’, there are threads of commonality amongst the experience of certain East Asian economies which explain their exponential growth in the latter half of the 20th century.⁴ The most common feature of this experience is the willingness of the governments of Japan, the Republic of Korea, Singapore, Taiwan and others to actively promote investment in industries oriented for export to the world market.⁵ More sceptical literature has defined strong state intervention ‘of some form’ in the market economy as the only characteristic common across these countries.⁶ Conceptions of this interventionist characteristic have had consequences for policy design across Asia and more recently throughout Africa as other states try to emulate the success of those in East Asia.⁷ The peculiarities of the ‘East Asian Miracle’ have important implications a quarter of a century after the publication of the World Bank Report and as such have fueled continued debate within the academic literature published on the topic. Anne Booth ascribes the economic development paths of East Asian countries both to the colonial legacies which these states were bequeathed in the second half of the 20th century and to their abilities to enact land reform.⁸ This conceptualization has been emulated in more recent scholarship which has analyzed the

⁴ Nancy M. Birdsall et al. *The East Asian miracle : economic growth and public policy : Main report (English). A World Bank policy research report.* (New York, 1993), p. vi available at <http://documents.worldbank.org/curated/en/975081468244550798/Main-report>

⁵ Birdsall et al. *The East Asian miracle : economic growth and public policy*, p. 5

⁶ Richard Stubbs, ‘Whatever Happened to the East Asian Developmental State? The Unfolding Debate’ in *The Pacific Review*, Vol. 22, 2009, p. 9

⁷ John Page, ‘The East Asian Miracle and Development Policy: A Twenty-Year Retrospective’ in Kato et al. (eds) *Japan’s Development Assistance* (Springer, 2016), p. 106

⁸ Anne E. Booth, *Colonial Legacies: Economic and Social Development in East and South East Asia*, (Honolulu, 2007), p. 196

significant disparity between economic capacity in northeast and southeast Asia.⁹ Separating Northeast from Southeast Asia, Booth cites the successful dissemination of cultivation rights to a wider range of the populace as a leading cause in the expansive growth in the likes of Japan and Taiwan.¹⁰ According to Booth the colonial experience of inequalitarian land tenure in Southeast Asia and the lack of postwar reform has contributed to its comparatively slower growth rates. Performing a quantitative analysis of productivity and growth rates across Northeast and Southeast Asia she emphasizes the path dependent role of colonial legacies in the postwar economic development of these regions.¹¹ Criticisms of the 'East Asian Miracle' emerge from both accusations of simplicity and ambiguity. Stephen Haggard advocates for the disposal of the term in acknowledgement of the multiplicity of factors and variety of institutional influences in East Asian countries which have contributed to their economic development.¹² Haggard calls for more attention to be 'given to understanding the varieties of capitalism in East Asia'. In this effort he also stresses the path dependent and institutional context of postwar economic growth in Asia, rather than policy design since the 1960s.

A more recent study of economic development in Asia has redefined the 'East Asian Miracle' according to two principles. For Dilip K. Das the Asian model of capitalism is both 'state-centric' and incorporates an 'export led growth model'.¹³ In order to broaden our understanding of the varieties of development path in East Asia we propose the study of two geographical units which fail to adhere to Das' two principles and present unique opportunity for comparative research on the topic: the two Chinese SARs of Hong Kong and Macau. In the literature on the 'East Asian Miracle', Macau rarely appears as a unit of analysis. This is in

⁹ Wonik Kim, 'Rethinking Colonialism and the Origins of the Developmental State in East Asia' in *Journal of Contemporary Asia*, Vol. 39, 2009, p. 396

¹⁰ Anne E. Booth, 'Rethinking the Role of Agriculture in the "East Asian" Model: Why Is Southeast Asia Different from Northeast Asia?' in *ASEAN Economic Bulletin*, vol 19, 2002, p. 49

¹¹ Booth, *Colonial Legacies*, p. 197

¹² Stephan Haggard, 'Institutions and Growth in East Asia' in *Journal of Comparative International Development*, Vol, 38, 2004, p. 53; Haggard & Chung-in Moon, "Institutions and Economic Policy: Theory and a Korean Case Study." in *World Politics* Vol. 42, 1990

¹³ Dilip K. Das, *An Enquiry into the Asian Growth Model*, (Palgrave-Macmillan, 2015), pp. 7, 70

spite of its position of comparative economic success. GDP per capita in Macau has shot far above equivalent figures in many East Asian regions in the last decade, including both Japan and Hong Kong.¹⁴ Macau's conspicuous absence from the literature must be attributed to its unique pattern of development which is contradictory to the loose theoretical model of development outlined by the World Bank. It is apparent that contrary to the patterns of industrialisation for export which feature in the likes of Japan and Hong Kong, the Macanese economy has been reliant on its entertainments industry, and the revenue generated by its colossal casinos. Despite its growing wealth Macau relies not on an 'export led growth model' but one of investment in its entertainments and gambling infrastructure. Similarly, Hong Kong presents a contradiction in terms for Das' principle of state-centricity. Despite its general inclusion in the literature Hong Kong has not experienced the same level of state led intervention in the economy as in Japan and Korea. The longevity of the British presence as colonial rulers in Hong Kong assured that the relative laissez-faire guidance of British political economy stunted any such corruption of 'the invisible hand'. For much of its history the economy of Hong Kong has featured an export led growth model as described by Das, while Macau through the sale of monopolies and investment in its casino infrastructure has very much featured a 'state-centric' interventionism. How have Hong Kong and Macau, despite their variance from the much-flaunted terms of the 'East Asian Miracle', achieved such economic success?

The presence of only one of Das' principles and conspicuous absence of the other in each case forces us to look at other *long-term* factors of economic development. Aligning ourselves with the scholarship of Anne Booth and Stephen Haggard who stress the institutional and path dependent nature of economic development in East Asia, we look to the colonial legacies of Hong Kong and Macau in order to investigate the multiplicity of forms of East

¹⁴ GDP per capita data sourced from the World Bank, available at <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=MO-HK-JP>

Asian economies. To better comprehend the resurgence of East Asia in general and the peculiar place of Hong Kong and Macau within that resurgence it is a worthwhile exercise to interrogate the long-term trends which have resulted in this contemporary state. Literature on the economic development and underdevelopment of former colonies in East Asia has blossomed in the last number of years in tandem with the growing economies of East Asia in general and China in particular. By addressing the curious development patterns of Macau and Hong Kong we hope to augment research on the root causes of this East Asian resurgence. Hong Kong and Macau share voluminous commonalities both geographical and historical. Both regions were also among the last to be decolonized in the East Asia. Hong Kong was transferred from a British colony to a Special Administrative Region of China in 1997, while Macau underwent the same process of transfer from its status as a Portuguese colony in 1999. Between the opening of the 19th century and this process of decolonization, both of our units of analysis experienced the effects of expanding European activity in the region as a result of a renewed form of imperialism powered by the technologies and expansive economic capacities of the Industrial Revolution.¹⁵ Subsequent to this ‘Great Divergence, the region experienced the collapse of the Chinese Imperial system, the rise of both the Republic and then the Peoples’ Republic of China, the Sino-Japanese and then Second World wars and the rise of East Asia as the manufacturing centre of the world in the latter half of the 20th century. But for all these shared factors our regions have experienced markedly different economic pathways. Hong Kong has proceeded along an almost standardized Northwestern European path of industrialisation and capital accumulation going so far as to become a global financial centre. Macau meanwhile has repeatedly reaffirmed its position as a centre for entertainment, leisure and gambling. We also seek to address this disparity in the following analysis of the economic development of these two regions.

¹⁵ Gareth Austin, ‘Capitalism and the Colonies’, in Jeffrey G. Williamson & Larry Neal (eds.) *The Cambridge History of Capitalism, Volume II: The Spread of Capitalism: From 1848 to the Present*, (Cambridge, 2015), p. 302

In Section 2 of this introduction we shall discuss our methodology in performing this analysis of economic development. Following this, the initial chapter of the volume will address the state of Chinese trade with Europe in the first decades of the 19th century. We ultimately find that it is the collapse of trade in East Asia as dictated along Chinese terms which is the root cause of a path dependence which has allowed Hong Kong to diversify its economy over the past two centuries, while Macau has not. This is supported by examining a series of critical junctures throughout this history and how both of our colonial city-states reacted to the pressures and opportunities presented to them.

2. Methodology

In order to analyse these trends and critical junctures over the two-century period between 1800 and 2000 we build on concepts from neo-institutionalism. This school of inquiry into historical economics emphasizes the importance of ‘institutions’, both formal legal rules and informal social norms which dictate the behaviour of individuals within societies. Douglass North highlights such institutions as influential factors in the economic development of societies.¹⁶ Other scholarship completed by Robert Putnam has emphasized the nature of how institutions may direct socio-economic development centuries after the creation of such institutions.¹⁷ Putnam and others have called this institutional ‘lock-in’, as these institutions persist beyond the remit of their original design. Critical junctures can be described as events which ostensibly offer new pathways but may be restricted by previous decisions made regarding the concerned institution.¹⁸

In Chapter One, an enquiry into the state of trade in the South China Sea prior to the Opium Wars, we utilize the theoretical framework of the likes of North and Putnam to examine the

¹⁶ Douglass C. North & Barry R. Weingast, ‘Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England’, in *The Journal of Economic History* Vol. 49, 1989, p. 829

¹⁷ Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, (Princeton, 1993)

¹⁸ Christopher Kingston & Gonzalo Caballero, ‘Comparing Theories of Institutional Change’, in *The Journal of Institutional Economics*, Vol. 5, 2009

effects of institutional ‘lock-ins’ and critical junctures by posing the following hypothesis: *Macau’s earlier integration into Chinese trade networks made it more difficult to compete in the 19th century.* Portuguese settlements in Macau existed from the mid 16th century. British Hong Kong was only established in 1841 as a result of the First Opium War before being expanded to the surrounding island of Kowloon during the course of the Second Opium War.¹⁹ Between the formal establishment of both colonies, trade within the East Asian Region was dominated by the Chinese Empire and relationship it had with the surrounding nations such as Korea and Japan. Chinese imperial notions of ‘trade and tribute’ worked to ensure the dominance of China within its trade networks, exacting tribute from its trading partners in order to guarantee their privileged positions of trade within a relatively closed system.²⁰ The Portuguese appear to have been willing participants in this tributary system as the exclusive European trading partner of the Ming and the Qing imperial Chinese dynasties. In fact, Portuguese Macau continued to pay tribute to the imperial dynasties until 1863, more than two decades after the establishment of British Hong Kong.²¹ British Hong Kong itself was established during the collapse of this tributary trade network. By the middle of the 19th century East Asia had become an actor in its own modernity as expanding economies allowed nation-states such as Japan and Korea began to pull away from this tributary relationship and dictate their own terms of trade. We hypothesise that because of Macau’s earlier integration into Chinese trade systems while the pattern of tributary relationships was still dominant, it was difficult to compete with expanding European trade through British Hong Kong which was established during a period in which it could ignore the tributary structure entirely.

Chapter Two examines the changing revenue structures of Macau as it struggled against a period of decline initiated by the competition posed by British Hong Kong. The revenues of Hong Kong too are investigated using colonial records in the form of administrative *Blue*

¹⁹ Richard Louis Edmonds, ‘Macau, Past, Present and Future’ in *Asian Affairs*, Vol. 24, 1993

²⁰ Takeshi Hamashita, ‘Maritime Asia & Treaty Port Networks in the Era of Negotiation, 1800 - 1900’, in Arrighi, et al. eds. *The Resurgence of East Asia, 500, 150 and 50 Year Perspectives*

²¹ Edmonds, ‘Macau, Past, Present and Future’

Books, which inform us of the efforts of the colony in the latter half of the 19th century. Using this quantitative framework we pose yet another hypothesis: *The British Occupation of Hong Kong replaced Macau's position as the heart of European trade in China to the extent that the Portuguese Colony was forced to seek other revenue sources*. Since the foundational work of Daron Acemoglu, Simon Johnson and James Robinson in the early years of the twentieth century, studies of economic development have come to acknowledge the persistence of colonial institutions in the economic pathways undertaken by independent states in a post-colonial era.²² This has caused something of a revolution in the field and introduced the typology of colonies as an indicative factor for the economic development of post-colonial states. Of further importance to this discussion has been the operationalization of both the pre-colonial factor endowment of a region as well as the identity of the colonizer themselves as key variables in this economic development.²³

This has not been welcomed uncritically. Valuable research conducted by Anne Booth has served to blur the lines between typologies of colonies as extractive, laissez-faire or developmental in attitude. Using the activity of various colonial powers in Southeast Asia, Booth surmises that while a shift in the interwar period saw imperial powers improve their investment in the region in order to develop infrastructure further, the priority of these powers always remained the security of an annual budgetary surplus.²⁴ More recent scholarship on the economic history of Africa has given further support to the criticism of earlier scholarship by noting that colonizers with different metropolitan identities nonetheless utilized similar policies when acting under similar local circumstances.²⁵ These developments have important bearings on the current study. State pursuance of economic development in Hong Kong and

²² Daron Acemoglu, Simon Johnson & James A. Robinson, 'The Colonial Origins of Comparative Development: An Empirical Investigation', in *The American Economic Review*, vol. 91, (2001)

²³ Matthew Lange, James Mahoney and Matthias vom Hau, 'Colonialism and Development: A Comparative Analysis of Spanish and British Colonies', in *American Journal of Sociology* Vol. 111, No. 5 (March 2006)

²⁴ Anne Booth, 'Night Watchman, Extractive or Developmental States? Some Evidence from Late Colonial South East Asia', in *Economic History Review*, vol. 60, 2007

²⁵ Ewout Frankema & Marlous van Waijenburg, 'Metropolitan Blueprints of Colonial Taxation? Lessons from Fiscal Capacity Building in British and French Africa', in *Journal of African History*, vol. 55, 2014

Macau shows strong parallels in policy in the nineteenth century, emulating the findings of Frankema and van Waijenburg before Macau succumbed to its British rival. As we shall see, following the collapse of its hegemonic position, Portuguese Macau pivoted towards its gambling industries as a means of revenue farming, further supporting Booth's thesis of 'surplus generation' as the key priority of a colonizing power, regardless of its identity.

While initially a centre of opium and trade in Chinese indentured and slave labourers, British Hong Kong's position as the key arterial entrepôt port was established by the 1860s. Between this period and the end of the 19th century, Hong Kong grew to handle 42% of all of Chinese imports and 40% of its exports to the rest of the world.²⁶ Prior to the occupation of Hong Kong, Portuguese Macau had maintained a hegemony over other European states in its trading position with China. It is theorised that the annexation of Portuguese Macau's privileged position by British Hong Kong led to a financial crisis for the Portuguese colony which forced it to adapt to different industries. There is evidence for this in the legalisation of gambling after the occupation of Hong Kong in 1847.²⁷ This industry had previously been completely unregulated and it appears that the legislation drafted in regards to gambling was consciously constructed in order to bolster the revenue base of the Portuguese colony.

Chapter Three will conclude our narrative of economic development in Hong Kong and Macau over the previous two centuries by analysing a series of critical junctures faced by both of these city-states during the 'short 20th century'. Using documentary evidence and further quantitative analyses of changing revenues during the 20th century we propose a final hypothesis: *The Macanese government's over-reliance on gambling revenue from the 19th century created a path dependency from which it couldn't escape over the course of the 20th century.* Revenue extracted from gambling accounts for almost two thirds of the revenue for the Special Administrative Region today. Hong Kong's position as an entrepôt port ensured

²⁶ Liu Shuyong, 'Hong Kong: A Survey of its Political and Economic Development Over the Past 150 Years' in *The China Quarterly*, Vol. 151, 1997

²⁷ Chi Chuen Chan et al. *et al.*, *Problem Gambling in Hong Kong and Macao: Etiology, Prevalence and Treatment* (Springer, 2016) p. 12

that it was at the centre of a diverse series of trades from the late 19th century, allowing access and native adaptation to this diverse range of commerce. This is in stark contrast to Portuguese Macau which was experiencing dwindling trade revenues which it bolstered with gambling revenues. This reliance on gambling doesn't lend itself to diversification in the same sense that a multiplicity of trades seemed to have done in contemporaneous Hong Kong. As the population swelled in both Hong Kong and Macau following the collapse of the Qing Dynasty, Hong Kong was better placed to absorb the new refugee population due to the diversity of industries which it could expand. In the case of Macau it appears that the only mechanism possible for dealing with this surge in populace was an expansion of the gambling industry. This appears to have been a recurrent mechanism which Macau used to deal with crises throughout the 20th century and has its roots in its over-reliance on gambling revenue which began in the mid-to-late 19th century. The gambling industries themselves were generally run through family monopolies purchased from the government for a given period in return for some infrastructural investment.²⁸ This again gives emphasis to an over-reliance that became inescapable for the Portuguese colony over the course of the 20th century.

Accordingly, this leaves us with three main areas of research, Chinese trade structures in the early 19th century, Macanese revenue loss and growth in Hong Kong after its occupation by the British in 1841 and the crises faced by both of our colonies throughout the 20th century. These three primary areas of research seem to offer unique insights to present a path dependent explanation of Macau and Hong Kong's divergent trends from the East Asian standard. By the 19th century, the fortunes of Macau depended on the niche it had carved for itself by adapting to Chinese trade structures. The foundation of Hong Kong caused those structures to collapse. British Hong Kong remained exemplary of the new era of Sino-European relations throughout the 19th century, while Macau faltered alongside the ailing Qing Empire. By relying on revenues generated through its gambling industries, Macau restricted itself in the options

²⁸ Chan et al. *et al.*, *Problem Gambling in Hong Kong and Macao*, p. 12.

available to it during the succeeding century. By comparing revenue dependence in various European states, Richard Rubison has shown that over dependence on specific types of revenue are likely to hamper future economic growth. This occurs by restricting available options to governments, based on their revenue dependence.²⁹ Our story is one of continuous restrictions placed on the Macanese economic development path, while simultaneously accounting for Hong Kong's exploitation of a similar set of options during the same period.

²⁹ Richard Rubison, 'Dependence, Government Revenue & Economic Growth, 1955-1970', in *Studies in Comparative International Development*, Vol. 12, 1977

Chapter One: Trade and Tribute in the South China Sea at the Beginning of the 19th Century

1. Introduction

The British occupation of Hong Kong was a watershed moment for Sino-Western trade. Prior to this point all trade between European powers and China had been conducted through exclusively licensed merchants known as the *Hong* or *Co-hong* who operated out of the city of Canton along the Pearl River Delta. The Treaty of Nanking which ended the First Opium War and formalized the British occupation of Hong Kong specifically included an article which sought the destruction of the *Hong* or Canton System of trade.

“The Government of China having compelled the British merchants trading at Canton to deal exclusively with certain Chinese merchants, called Hong Merchants, who had been licenced by the Chinese Government for that purpose, the Emperor of China agrees to abolish that practice in future at all ports where British merchants may reside, and to permit them to carry on their mercantile transactions with whatever persons they please”.³⁰

This drastic policy demand from the British as a stipulation for the end of the war is rooted in the structures of Sino-Western trade at the beginning of the 19th century.

Older scholarship has stated that over the course of the 18th and early 19th centuries, trade within the East Asian region was dominated by the Chinese Empire and the tributary relationship it had with the surrounding nations such as Korea and Japan.³¹ This system of trade ensured the dominance of China within the trade networks which exacted tribute from its trading partners in order to guarantee their privileged positions of trade within a relatively

³⁰ Treaty of Nanking, quoted in *The London Gazette*, Nov 7th, 1843

³¹ J. K. Fairbank, ‘Tributary Trade and China's Relations with the West’, in *The Journal of Asian Studies*, Vol 1. No. 2, 1942.

closed system. The 18th century is detailed with the histories of those Hong merchants operating from Canton and Macau amassing and losing fortunes in the expanding world of international trade in South China.³² However, it is unlikely that this tributary system existed in material reality and was rather used inconsistently for the self-aggrandisement of the Qing Imperial Court. Rather it is the Canton System which Macau benefited from so greatly. In this regard, Macau existed in a unique position as the only European enclave on mainland China with direct access to the manufactured works of the Canton merchants, who also doubled as importers of European goods for the Chinese mainland. Indeed, the 18th century is littered with frequent attempts by the British to open trade with China, only to be frustrated by Macau whose officials were aware that they depended on the unique access which they maintained.³³

The establishment of British Hong Kong itself exacerbated the collapse of this existing trade network, as we shall see. We hypothesize that because of Macau's earlier integration into Chinese trade systems while the Canton System was still dominant, that it made it very difficult to compete with expanding European trade through British Hong Kong which was established during a period in which it could ignore the tributary structure entirely.

2. Orientalist Assumptions & Realities of Chinese Trade

Older scholarship on the trade structures of China in the 18th and early 19th centuries stress the tributary nature of that structure. Trade between China and other nations in East and Southeast Asia was ordered on a hierarchical basis and required annual tribute be paid to the Imperial Court in order for those structures to be maintained.³⁴ Tribute took the form of a ceremonial ritual appearing to promote vassalage, similar to feudal structures. This theoretical framework

³² In recent years, Paul A. van Dyke has contributed to our knowledge of the daily lives of Hong merchants through the production of several monographs including *Merchants of Canton & Macao: Success and Failure in 18th Century Chinese Trade*, (Hong Kong, 2016)

³³ Shantha Hariharan, 'Macao and the English East India Company in the Early Nineteenth Century: Resistance and Confrontation', in *Portuguese Studies* Vol. 23, No. 2 (2007), p. 143

³⁴ J. K. Fairbank, 'Tributary Trade and China's Relations with the West', in *The Journal of Asian Studies*, Vol 47. No. 3, 1969. P. 451

emphasized the suzerain-vassal relationships of China with the surrounding nations, trade simply being a tool of diplomacy for the Qing Imperial Court intent on maintaining the ‘doctrine of Chinese supremacy’.³⁵ This Western theory of Chinese trade and diplomatic relations owes much to conceptions of Confucian orderings within Chinese society. The patriarchal structures of a Confucian society placed a central focus on filial piety, with the Qing Emperor, the Son of Heaven at the top of this hierarchy. So too did this conception extend to Chinese relations with the surrounding nations in an almost feudal style of loyalty and dependence, China at the top of a hierarchy of *other*, ‘barbarian nations.’³⁶ Trade relations, it was stated, had a particular *moral* value for the Chinese.

Of course, these initial histories were written towards the end of the colonial period and are heavily influenced by orientalist assumptions. forcing a Western framework of ‘otherness’ onto Eastern institutions as distinct from anything in the West itself.³⁷ In this manner, the lines of demarcation between the West and the East were used to justify European colonial activities in the decades prior to the Opium Wars. Reports of European traders cite the Chinese Mandarins as treating them ‘cavalierly’. Recounting the frustrations of the former Governor of Madras, Lord Macartney, in attempting to open China to British trade at the end of the 18th century, William Milburn recorded that ‘the commerce of Europeans with China has always been exposed to oppression and insult’.³⁸ By the 1830s it had become apparent to British traders in Canton that ‘either by the Crown or the Company, some attempts should be made to put the trade with the Chinese upon a different footing from that which it now stands’.³⁹ By viewing Chinese trade structures through a lens of ‘otherness’, policy makers sought to justify their efforts against the Qing Imperial system in the decades prior to the Opium Wars.⁴⁰ However,

³⁵ J. K. Fairbank, ‘China’s Foreign Policy in Historical Perspective’, in *Foreign Affairs*, Vol 1. No. 2, 1942.

³⁶ Fairbank, ‘Tributary Trade and China’s Relations with the West’

³⁷ Edward Said, *Orientalism*, (Penguin, 2003), p. 2

³⁸ William Milburn, *Oriental Commerce*, Vol. II, (London, 1813), p. 470

³⁹ ‘China Trade’, *The Times* (London), July 15, 1830

⁴⁰ Said, *Orientalism*, p. 39

despite this the popularity of this notion of trade and tribute in some older scholarly literature, the Chinese trade structures as conceptualized simply did not exist.

More recent scholarship has come to challenge this conception of Chinese trade structures as a 'Western invention for descriptive purposes.'⁴¹ Chinese foreign policy can be described as having three distinct styles; expansive in Central Asia, diplomatic along the Russian border and tributary along coastal Asia.⁴² However, even where it had some reality as along the South China Sea, tribute structures were 'more ritualistic than substantive'. It was largely purposed towards 'preserving the myth of Chinese self-sufficiency' rather than being a hallmark of any reality in that notion of 'self-sufficiency'.⁴³ Even what little did exist of the tribute structures were varying in their application, occasionally but not consistently having cause in important frontier zones such as the port of Canton further up the Pearl River Delta.⁴⁴ Rather than an exact system of trade and tribute, what existed in the protocols of Sino-European trade was as nebulous as the constitutional status of Macau itself.

3. The Canton System & Macau

Macau, at the turn of the 19th century occupied an awkward position of cultural, political and economic overlap between Chinese and European activities in the South China Sea. The Portuguese had been present in Macau since the 16th century, and while the Chinese Mandarins were generally content to leave the government of the city to the Portuguese, when disagreements occurred between the Europeans and the indigenous people, the Mandarins would be swift to administer justice and withhold market provisions in the event of any protest.⁴⁵

⁴¹ Peter C. Perdue, 'The Tenacious Tributary System', in *The Journal of Contemporary China*, Vol. 24, No. 6 (2015), p. 1005.

⁴² Shuisheng Zhao, 'Rethinking the Chinese World Order: The Imperial Cycle and the Rise of China', in *The Journal of Contemporary China*, Vol. 24, No. 96, 2015, p. 968

⁴³ Zhao, 'Rethinking the Chinese World Order', p. 967

⁴⁴ Perdue, 'The Tenacious Tributary System', p. 1008

⁴⁵ Milburn, *Oriental Commerce*, p. 462

Macau was the primary port of Sino-European trade at the beginning of the 19th century, importing approximately 2000 bales of cotton and 175 chests of opium for export into the Chinese market on an annual basis.⁴⁶ However, while trade could be transacted freely in Macau, it's shallow port and the illicit nature of private Sino-European trade ensured that by the 19th century Macau was simply a transitory location. Here a European trader could meet with Chinese Mandarins and representatives from Canton further upriver where a much higher volume of trade took place.⁴⁷ Europeans were not allowed to enter the city of Canton itself, but rather were restricted to 13 factories, supervised by the *Hong*, associated bodies consisting of members from the Chinese merchant class, pressed to this duty by the Qing Imperial Court.⁴⁸ Here, European merchants could import their goods exclusively through one of these Hong merchants, and also could only export Chinese goods through the same. Regulation was so strict that permanent residence for Europeans was effectively banned and following the conclusion of the trading season (October – January), Europeans were required to leave or be forcibly expelled.⁴⁹

Despite these restrictions, illicit trade did still occur, and it appears that the Hong merchants were active participants in in this illicit trade.⁵⁰ Qing officials were intolerant of the expansion of private Chinese trade and preferred that if such business must be conducted, it should be better if it was conducted by Europeans. Taxation was also comparatively high in China, particularly on Chinese merchants. Further, it was illegal for Chinese merchants to accept foreign credit. These restrictions stymied the growth of Chinese trade.⁵¹ It was also these restrictions that contributed to Macau's position as a valued port of trade at the beginning of

⁴⁶ Milburn, *Oriental Commerce*, p. 463

⁴⁷ Alvin, Y. So, 'The Process of Incorporation into the Capitalist World-System: The Case of China in the Nineteenth Century', in *Review* (Fernand Braudel Center), Vol. 8, No. 1, 1984, p. 95

⁴⁸ Paul A. Van Dyke, *Merchants of Canton & Macao: Politics and Strategies in Eighteenth-Century Chinese Trade*, (Hong Kong, 2011), p. 2

⁴⁹ Peter C. Perdue, 'The Rise and Fall of the Canton System - 1, 1700 – 1860s' published by MIT, available at https://visualizingcultures.mit.edu/rise_fall_canton_01/pdf/cw_essay.pdf

⁵⁰ Weng Eang Cheong, *Hong Merchants of Hong Kong*, (Hong Kong, 1997), p. 8

⁵¹ Paul A. Van Dyke, *Merchants of Canton & Macao: Success and Failure in 18th Century Chinese Trade* (Hong Kong, 2016), p. 15

the 19th century. A safe haven for Europeans to operate from during the off-season, a comparatively easier point for organizing illicit Sino-European trade deals Macau relished in its position of ambiguity between Europe and China. It was in Macau that pilots could be hired to take European ships upriver to the Canton factories, it was here that intermediary merchants could be met to introduce Europeans to the Canton system.⁵² Macau was heavily reliant on the business of these commission merchants. One such merchant, Mattheus Johannes (d. 1794) was so wealthy that following his death, the Macanese government was so fearful of the negative effects that the distribution of his estate would have on the local economy that the Macanese government delayed its distribution for almost five years.⁵³ It was also in Macau that Chinese merchants could purchase a specific form of ship insurance known as ‘bottomry’. Bottomry was effectively foreign credit, otherwise illegal for Chinese merchants to accept. However, the ambiguity of the application of bottomry wherein money was forwarded to cover the voyage of a ship and returned upon its successful completion, allowed Chinese merchants to accept this credit.⁵⁴ Macau’s privileged position by the 19th century was heavily dependent on the niche it had carved out for itself amongst the restrictions placed on the Canton System of trade. Historian G.B. Souza noted that by the beginning of the 19th century Macau was ‘dependent on the Canton market for its supplies, its good and to an unquantifiable degree its finance, credit and commercial opportunities’.⁵⁵ As such Macau’s fortunes were intimately linked to the functionalities of the Canton System of trade, and its collapse would have important structural effects for the Macanese economy.

⁵² Jonas M. Albrecht, ‘The Canton System and the Great Divergence: Sino-British Trade 1700-1900’, M. Phil Thesis, Universität Wien, 2013, p. 13

⁵³ Paul A. Van Dyke, *The Canton Trade: Life and Enterprise of the China Coast, 1700-1845*, (Hong Kong, 2005), p. 150

⁵⁴ Van Dyke, *The Canton Trade: Life and Enterprise of the China Coast, 1700-1845*, p. 148

⁵⁵ G. B. Souza, *The Survival of Empire: Portuguese Trade and Society in China and the South China Sea 1630-1754*, Cambridge, 1986, p. 40

4. The British in China before Hong Kong

The story of the Portuguese in China at the beginning of the 19th century is the story of Macau's heavy reliance on the Canton System of trade. The restrictions placed on this trade and Macau's willingness to carve a niche for itself circumventing those restrictions played an important role in the functioning of the local economy. The story of the British in China meanwhile, is one of adapting to those same restrictions while also circumventing them in a manner which avoided Macau as much as possible. By the advent of the Opium War and the occupation of Hong Kong in the middle of the 19th century, Britain had both risen to become the primary European partner in Sino-European trade and through this, directly contributed to the decline of Macau. At the beginning of the 19th century, Britain made attempts to gain a more permanent foothold in Macau. During the Napoleonic wars, British troops were landed in the city-state, ostensibly to garrison it against a French invasion.⁵⁶ However, these troops were expelled at the behest of both the Portuguese government in Macau as well as the Qing Imperial court who perceived the growing presence of a European power on its borders with disquiet. Several attempts by the British to open China to trade further over the course of the 18th and early 19th centuries were frustrated directly by officials in Macau who sought to influence Chinese authorities against intrusions by other European powers.⁵⁷ This became such an issue for the British that by 1806 Macanese authorities were refusing anchorage for a damaged East India Company ship which sought access to the port for repairs.⁵⁸

Despite these frustrations, British supremacy over the other European powers in the region continued to grow. The virtual monopoly over Indian textiles and opium which the British maintained ensured the continued growth of both British presence and commerce in the

⁵⁶ Shantha Hariharan, 'Macao and the English East India Company in the Early Nineteenth Century: Resistance and Confrontation', in *Portuguese Studies* Vol. 23, No. 2 (2007), p. 138

⁵⁷ Hariharan, 'Macao and the English East India Company in the Early Nineteenth Century: Resistance and Confrontation' p. 152

⁵⁸ Hariharan, 'Macao and the English East India Company in the Early Nineteenth Century: Resistance and Confrontation' p. 140

South China Sea.⁵⁹ Through this presence and commerce Britain continued to develop her influence in the region. Following the outbreak of the Anglo-French War during the French Revolutionary period, several of the Canton factories lay abandoned by other European powers. Rates of abandonment were so high that Canton's primary trading partner at the beginning of the 19th century was Britain, as well as British settlements in India, Malaysia (then Penang) and later, Singapore.⁶⁰ By the 1830s, Britain, frustrated by its level of access to Canton through Macau had begun to subvert many of the services offered in the city state. British trade companies internalized a lot of the benefits which Macau offered, be it the commission merchants or pilots. Rather than attempt to hire the services of these people in Macau, British companies began hiring these people on a permanent basis. By internalizing these market factors, the British could avoid negotiating with Macanese merchants and middle-men at the beginning of each season. This permanence provided a comparative advantage, both by saving fees which might have been spent in the port-city of Macau and by allowing more immediate access to Canton. This allowed the British to avoid a certain amount of the politics of intra-European competition in Chinese seas, manipulated by merchants in Macau.

By directly hiring pilots and commission merchants as well as translators on a permanent rather than a contract basis British companies began to internalize aspects of the market necessary for trade in Canton while circumventing Macau entirely.⁶¹ Further, with the expansion of the British Straits Settlements over the course of the early 19th century, as well as the British settlements in India, Macau was not necessary for British residence during the off-season of trade when they had to leave Canton. Following the end of the East India Company's monopoly on British trade in China in 1834, companies began to flourish. These included the Jardine-Matheson company who established trade networks between Calcutta and Canton for

⁵⁹ Ng Chin-Keong, *Boundaries and Beyond: China's Maritime Southeast in Late Imperial Times* (Singapore, 2017), p. 49

⁶⁰ Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the 19th and 20th Centuries* (Oxford, 2000), p. 20

⁶¹ Jones, *Merchants to Multinationals*, p. 4; Milburn, *Oriental Commerce*, p. 474

the import of textiles and opium and would subsequently play a founding role in the British government of Hong Kong.⁶²

The volume of trade conducted between British companies and Canton as compared to other European companies can be seen quite simply in the volume of the tea trade over the course of the early 19th century.

Table 1. British tea exports from Canton as compared to the rest of Europe (lbs.)

<i>Year</i>	<i>Britain</i>	<i>Other Europe</i>
1800	29,772,400	3,968,207
1802	35,058,400	5,812,266
1804	28,506,667	3,318,799
1806	32,683,006	1,534,267

Source. William Milburn, *Oriental Commerce*, Vol. II, (London, 1813). p. 486

Table 1 shows to volume of tea exported from Canton in lbs in the first years of the 19th century. It compares the volume of tea exported by the British with the volume of tea exported by other European powers, regardless of destination. The leap in figures between 1800 and 1802 is due to the poor quality of tea available at Canton in 1802. This led both the British and other Europeans to demand a lower price for the commodity and so purchased larger volumes of it.⁶³ The table itself is representative of wider Sino-European trade as British companies came to dominate the Canton market. The relative volume of British trade continued to increase in the region and as British trade had effectively internalised into their company structures any of the benefits which Macau might provide. Macau's fortunes increasingly began to worsen over the

⁶² Jones, *Merchants to Multinationals*, p. 41

⁶³ Simon Chang-Yien Tsai, *Trading for Tea: A Study of the English East India Company's Tea Trade with China and the Related Financial Issues, 1760 – 1833*, PhD Thesis, University of Leicester, 2003, p. 280. Available at: <https://lra.le.ac.uk/handle/2381/9198>

course of the decades prior to the First Opium War. Indeed, Hong merchants were only too happy to adapt to the British trade networks which provided more security than Macau where one might always be subject to the watchful eye of the local Chinese authorities while conducting illicit business.⁶⁴

Britain's unique international network of trading settlements and the manner in which its companies adapted their structure so as to have easier access to Canton provided it with a comparative advantage over the Portuguese in Macau over the course of the early 19th century. This occurred to the extent that Macau began to struggle in the decades prior to the Opium Wars which would seal its fate. In this period we also see a cultural norm within the way British companies approached the indigenous Chinese. They were content to work with these people, as in the case with Cantonese middle-men, once they provided a net benefit. This social cognitive norm would find further development in Hong Kong as the government there sought to include the indigenous Chinese economic elite in advisory positions.

5. Reconceptualisation

By the beginning of the 19th century, whatever legal basis China's tributary-trade structures might have held, they were very infrequently reflected in material reality. Rather than exact annual tribute from European powers on a hierarchical basis of preference, Qing China instead isolated European trade to the port city of Canton further up the Pearl River Delta from Portuguese Macau and subsequently British Hong Kong. The Canton System of trade was restrictive both for European traders and for the Hong merchants who maintained thirteen factories through which European traders accessed Canton. This institution impeded free trade and was an outlet for the Qing Imperial suspicion of the growth of private Chinese companies. It was exactly these restrictions which allowed Portuguese Macau to operate as a base of access for European traders. In Macau, one could purchase all the necessary navigational and

⁶⁴ Cheong, *Hong Merchants of Hong Kong*, p. 8

negotiation services which might benefit their trade further upriver. It was through maintaining a semi-illicit trading base that Macau was enabled to support itself on the Chinese mainland.

However British frustrations with the Canton System of trade with mainland China as well as with Macanese designs against growing British influence caused the British to circumvent the latter and eventually demand the wholesale destruction of the former. Its growing international network of trading settlements and its borderline monopoly on the opium and textile trades in the region imbued British companies with a comparative advantage in comparison to other European powers. By using this comparative advantage and building upon it through internalising a lot of the benefits which the port city of Macau might otherwise have facilitated, Britain was able to ascend to supremacy over other European powers as well as ultimately China itself.

Rather than Macau being too integrated into Chinese tributary structures, it simply depended on operating a trade which was complementary to that which operated out of Canton. With the British occupation of Hong Kong and the Treaty of Nanking which ended to First Opium War in 1842, Britain destroyed the Canton System of trade. Its own comparative advantage had brought it to a position wherein it could dictate this destruction and this same advantage ensured that it could continue to thrive after its collapse. Macau however, had depended on this trade for survival and could not easily reap the same benefits from its destruction as the British. While it made attempts to adapt its trade structures to this new landscape, as we shall see these efforts were largely fruitless. Instead, the collapse of its economic base forced Macau to pivot to other forms of revenue collection in order survive.

Chapter Two: Revenue and Statecraft in the Late 19th Century

1. Introduction

British intrusion into China as a result of the First Opium War forced open several new treaty ports, including Shanghai and Canton, in turn breaking the Portuguese monopoly on trade with mainland China. Portuguese hegemony in the region had been steadily weakened over the earlier part of the 19th century and the Treaty of Nanking signed by British and Qing imperial representatives signified the death knell of Macau's position as the key entrepôt port in the region. While initially a centre of opium manufacture and trade in Chinese indentured and slave labourers, British Hong Kong's position as the key arterial entrepôt port was established by the 1860s. Between this period and the end of the 19th century, Hong Kong grew to handle 42% of all of Chinese imports and 40% of its exports.⁶⁵

During the early 19th century and the century prior, Portuguese Macau had been content to enjoy its ambiguous position as a merchant colony on the fringes of mainland China.⁶⁶ With the intrusion and activities of the British empire in the 1840s however, both banks of the Pearl River found themselves attempting to engage in modern state building from above.⁶⁷ In order to either construct or maintain a comparative advantage over its riverine rival, British Hong Kong had continued the previous Free Port Policy instituted by Macau. This policy limited the amount of taxation placed on trade within the port itself and was in line with British Free Trade policy of the era. In effect this ensured a lower or non-existent rate of taxation of trade in the region and attracted large volumes of goods through its harbours. This policy had been to the benefit of Macau prior to the British intrusion. Its monopoly position as a trading partner with

⁶⁵ Liu Shuyong, 'Hong Kong: A Survey of its Political and Economic Development Over the Past 150 Years' in *The China Quarterly*, Vol. 151, 1997

⁶⁶ Pedro Tavares De Almeida & Paulo Silveira E Sousa, 'Ruling the Empire: The Portuguese Colonial Office, 1820s – 1926' in *Revista da Historia Das Ideias*, vol. 27, 2006, p. 4

⁶⁷ Takeshia Onimaru, 'Financing Colonial State Building: A Comparative Study of 19th Century Singapore and Hong Kong' in *Emerging States and Economies*, (eds. Takashia Shiraishi & Tetsushi Sonobe).

China guaranteed that although trade itself was not taxed, the finances of the Portuguese outpost were maintained through the large numbers of commercial travellers and consumers of goods in the region. However, the British Occupation of Hong Kong replaced Macau's position as the heart of European trade in China. Previously, anyone could trade in Canton once they had permission from the Qing Imperial court but the trade itself was restricted to the thirteen Cantonese factories. Likewise, anyone could trade within Macau without excessive taxation. However the Macanese made a profit from their trade by maintaining the monopoly position in regards to free trade with China. By collapsing the Canton System and occupying Hong Kong, the British opened both free trade in Hong Kong and free trade with China *through* Hong Kong (as well as through other Treaty Ports including Shanghai). While Macau had exploited its monopoly position as the last point of contact for Sino-European trade, the British offered freedom of trade without regard for privileged positions. With a competitor in the region which was already in possession of a unique global network of trading outposts Macau struggled to maintain its hegemony in the region and was forced to seek other revenue sources.⁶⁸

The annexation of Portuguese Macau's privileged position by British Hong Kong as well as the ambitious programme of state-building on which Portuguese Macau embarked in the 1840s led to a financial crisis for the Portuguese colony which forced it to adapt to different industries. There is evidence for this in the legalisation of gambling, which had previously been completely unregulated, after the occupation of Hong Kong in 1847.⁶⁹ Indeed, it appears that the legislation drafted in regard to gambling was consciously constructed in order to bolster the revenue base of the Portuguese colony.⁷⁰ Our work relies on recent scholarship on colonial taxation which emphasizes the longevity of colonial political institutions such as that by Frankema and van Waijenburg.⁷¹ The British occupation of Hong Kong represents a critical

⁶⁸ Geoffrey Jones, *Merchants to Multinationals: British Trading in the Nineteenth and Twentieth Centuries*, (2000)

⁶⁹ Chan et al. *Problem Gambling in Hong Kong & Macao* p. 12.

⁷⁰ *Ibid.*

⁷¹ Ewout Frankema & Marlous van Waijenburg, 'Metropolitan Blueprints of Colonial Taxation? Lessons from Fiscal Capacity Building in British and French Africa', in *Journal of African History*, vol. 55, 2014

juncture within the history of Sino-European trade up until that point.⁷² By adopting gambling in order to sustain its imperial revenues, this new institution created a path dependency for the development of Macau as it struggled to compete in the new landscape. In turn this path dependency explains the contemporary over-reliance on gambling in Macau today.

2. Reform and State Building in 19th Century Macau

Prior to the First Opium War in the middle of the 19th century, Portuguese Macau was content to operate in its position as a settlement with an ambiguous colonial status on Chinese frontiers. Portuguese Macau benefited greatly from its geographical proximity to Canton and additional to its manufacturing and import capacities it operated a successful service industry serving other European traders wishing to enter the Canton market. After 1842, the British encroachment on the *status quo* introduced a new impetus for the Portuguese to alter the centuries old relationship which they maintained with the ‘Celestial Empire’. These events occurred during a period of decline for the Portuguese Empire. Portugal had recently lost the jewel of its imperial possessions with the secession of Brazil and the new liberal government sought to craft large fiscal and territorial reforms throughout the empire to avoid further imperial decline.⁷³ Though this statecraft was theoretically uniform throughout the Portuguese Empire, Macau’s ambiguous status as a self-governing settlement rather than an official colony nuanced the specific application of these reforms.⁷⁴ This was because the Qing Court insisted on dealing directly with the civil administration in Macau and would not accept any unilateral changes in administration emerging from Lisbon.⁷⁵ Macau at this point was effectively dually administered with a Chinese administration based in Canton overseeing the Chinese populace

⁷² Rasmus Broms, ‘Colonial Revenue Extraction and Modern Day Government in the British Empire’, in *World Development*, vol 90 (2017)

⁷³ De Almeida & E Sousa, ‘Ruling the Empire: The Portuguese Colonial Office, 1820s – 1926’, Tereza Sena ‘Macau’s Autonomy in Portuguese Historiography’, in *Bulletin of Portuguese-Japanese Studies*, vol. 17, 2008

⁷⁴ Tereza Sena, ‘Macau’s Autonomy in Portuguese Historiography (19th and Early 20th Centuries)’, in *Bulletin of Portuguese-Japanese Studies*, Vol. 17, 2008, p. 81

⁷⁵ A.R. Disney, *A History of Portugal and the Portuguese Empire, Vol II: The Portuguese Empire*, (Cambridge, 2009), p. 338

while the civil Macanese administration oversaw both Europeans and the Macanese themselves.⁷⁶ As a result the civil administration in Macau had a lot of control regarding the implementation of policy changes as they had to be adapted to fit the nuances of its relationship with China.

These policy changes were enforced through the expansion of statistical surveys of Portuguese possessions during this period and required definitive acknowledgement from the Chinese Imperial Court that Macau was a Portuguese possession.⁷⁷ In effect, eroding the dual administration which had existed in Macau for over three centuries. Under the governorship of Ferreiro do Amaral, the Macanese administration began a process of destroying Imperial Chinese symbols within the territory and refusing further to pay the ground-rent tribute to the Imperial Court which had been the regular state of affairs for almost three centuries.⁷⁸ What had existed in Macau up until this point had been a system of dual sovereignty and jurisdiction but Amaral forced the closure of the Imperial Customs House and extended the jurisdiction of Portuguese courts over Chinese present in Macau. This enforcement of a solely Portuguese sovereignty over Macau echoes parallel developments in Hong Kong at the time where the British were establishing Legislative and Executive councils with oversight over the whole of the population.⁷⁹ Reforms in Macau were interrupted by the assassination of its governor which resulted in the outbreak of military conflict with the Chinese on the city-states borders. While attitudes towards the Chinese tempered after the conflict, the reforms culminated in acknowledgement from the imperial government of Macau's status as a Portuguese territory from the 1860s. However, this acknowledgement was only ever implicit as the Emperor never ratified the treaty, leading RD Cremer to note that:

⁷⁶ Bill Chou, 'Macau', in David Pong (ed.) *The Encyclopedia of Modern China*, (New York, 2009), p. 541

⁷⁷ Paulo Theodoro de Matos 'Counting Portuguese Colonial Populations, 1776 – 1875: A Research Note', in *The History of the Family*, vol 21:2, (2016)

⁷⁸ R. D. Cremer, 'A Model For Macau?' in *Asian Affairs: An American Review*, vol. 13:4 1986, p. 41

⁷⁹ Liu Shuyong, 'Hong Kong: A Survey of its Political and Economic Development Over the Past 150 Years', in *The China Quarterly*, vol. 151, 1997

*'In more than four hundred years of history Chinese and Portuguese views on the question of sovereignty over Macau have never coincided.'*⁸⁰

Despite these reforms, levels of import and export passing to China through Macau began to stagnate in the 1860s.⁸¹ In fact, in the late 1840s, the reforming Macanese administration recognized the need to develop a new tax base due to the decreasing volumes of trade passing through its gateway with China, *Portas de Cerco*. The Macanese economy began to revert towards fishing which employed the majority of the populace up until the beginning of the 20th century, however the potential for revenue extraction from this industry was low.⁸² Additionally and with greater revenue generation, the government pursued the transport of indentured servants from China to the Americas. Known as coolies, Portuguese Macau was able to maintain a capable trade in these labourers who, while frequently voluntarily offering their labour abroad were also often kidnapped or otherwise coerced. The success of Macau in this sector was largely due to British criminalization of the coolie trade in the early 19th century. Macau continued in this trade until its formal abolition in 1875, by that point having shipped almost 150,000 Chinese to Cuba alone.⁸³ However, by this point another source of revenue had made itself available to the Macanese government.

The legislation crafted in 1849 to legalize the previously unregulated gambling sector in Macau was crafted to utilize gambling as a revenue farm for the administration.⁸⁴ Certainly the 200 or so gambling houses that began to operate legally after this period were taxed by the government through the form of a 'gambling rent'.⁸⁵ This was achieved through the sale of

⁸⁰ Cremer, 'A Model For Macau?', p 42

⁸¹ Nuno Valério & Palmira Tjipilica, 'Economic Activity in the Portuguese Empire: A Factor Analysis Approach' presented at the International Economic History Congress in Helsinki, 2006, p26

⁸² Newman M. K. Lam, 'Government Intervention in Macao's Economy', in *Asian Journal of Public Administration*, vol. 14, 2002

⁸³ W. G. Clarence-Smith, 'The Portuguese contribution to the Cuban slave and coolie trades in the nineteenth century', in *Slavery & Abolition*, vol. 5, p. 30

⁸⁴ Chan et al. *Problem Gambling in Hong Kong & Macao*

⁸⁵ S. S. Chan, *The Macau Economy*, (Macau, 2000), p.39

gambling licenses and taxation on income generated through gambling. These licenses were frequently granted on the basis of competitive bidding and later through monopoly licenses granted to individual companies, also through the process of competitive bidding. The first of these was the Tai Xing Company in 1934.⁸⁶ By creating competition in the licensing scheme Macau was further able to bolster its revenue. This also allowed it to tackle the problems posed by the activity of Triad gangs which had previously run the gambling sector in its unregulated form. This movement to regulate the gambling industry also aligns with neo-institutional theory and Williamson's four levels of institutional analysis. As the gambling industry in Macau became regulated it changed from being a tolerated social norm to becoming a sanctioned institution with an active role in society.⁸⁷

However, while the pivot to this sector bolstered the Macanese economy, it was ultimately detrimental to the development of all other economic sectors within Macau.⁸⁸ De Almeida and E Sousa note that in the 1860s, Portuguese Macau required no state help from the Portuguese metropole. The metropole however, dissatisfied with the static returns from its investment in the colony, encouraged a 'lean-in' to the gambling industry in order to extract greater revenue. This supports earlier scholarship such as those works mentioned above by Booth and Frankema which emphasize the extractive nature of colonial enterprise, and particularly those works which emphasize the importance of extraction for Iberian colonies.⁸⁹ Administrative reforms in the Portuguese colonies during the late 19th century further exacerbated the situation in Macau by unifying it with Timor on the Indonesia archipelago. Faced with Dutch expansion in Indonesia, Portuguese Timor was a struggling colony and so created a further drain on the

⁸⁶ Geoffrey C. Gunn, *Encountering Macau: A Portuguese City-State on the Periphery of China, 1557 – 1999*, (Westview Press, 1996), p. 88

⁸⁷ Oliver Williamson, 'The New Institutional Economics: Taking Stock, Looking Ahead', *Journal of Economic Literature* Vol. 38, 2000, p. 609.

⁸⁸ Susana Mieiro, Pedro Nagueira Ramos & José Alves, 'Gambling Tourism Boom, Foreign Currency Inflows and Dutch Disease Effects', in *International Journal of Trade Economics and Finance*, vol 3, 2012

⁸⁹ Matthew Lange, James Mahoney and Matthias vom Hau, 'Colonialism and Development: A Comparative Analysis of Spanish and British Colonies', in *American Journal of Sociology* Vol. 111, No. 5 (March 2006), p. 1450

Macanese finances.⁹⁰ As such Macau faced an uphill battle, not only to support itself but to support its colonial neighbours. The ease with which revenue could be generated through gambling licenses made it a ‘quick-fix’ for fiscal drain. However, this ‘quick-fix’ became so attractive as to become the only solution utilized by the Macanese administration when faced with such problems leading to an ever-expanding industry which grew to become the source of 70% of Macanese revenue by 1910.⁹¹ The growth of the gambling industry as an ‘institution’ can be described as institutional lock-in due to the persisting revenue which is provided. This created an over-dependence on these industries as it did not seem pertinent for the colonial administration to look elsewhere for revenue when gambling alone provided more than half of its annual income.

3. Fiscal Capacity Building in British Hong Kong

The obverse to Macau’s experience of state and fiscal capacity building can be seen through the experience of Hong Kong during the same period. At the point of British occupation Hong Kong was a series of rocky island on the fringes of the Chinese mainland, just across the Pearl River from Macau. Due to the unique nature of its global trade network British Hong Kong quickly overcame Macau to become the dominant entrepôt port in the region. Despite older scholarly conceptions of British colonialism as a laissez-faire or night watchman imperial power, the British very quickly began the process of statecraft, including building up a fiscal capacity and ensuring that its populace was policed. Onimaru notes that due to activity of illegal societies such as the Triads in Hong Kong during this period, the British were forced to ‘fashion Leviathan’ from the outset of their colonial enterprise.⁹²

⁹⁰ Nicholas Tarling, ‘The Establishment of the Colonial Regimes’, in Nicholas Tarling (ed.) *The Cambridge History of Southeast Asia*, (Cambridge, 1993), p. 13

⁹¹ Zhidong Hao, *Macau: History and Society*, (Macau, 2011), p. 75

⁹² Onimaru, ‘Financing Colonial State Building: A Comparative Study of 19th Century Singapore and Hong Kong’

Due to its Free Port policy which restricted taxation on trade in and out of Hong Kong the British were instead required to look for other avenues of revenue building. To this effect the British enforced rents on land, markets, buildings and further built revenue through licensing of services and through fines and fees for conduct within the colony. The option of building a revenue base upon a land tax was comparatively restricted in Macau. Its comparatively small geographical size (115 square kilometres) with reference to Hong Kong meant that it had a far smaller pool of available lands to tax. This disparity was widened further by the lease of the New Territories to Hong Kong in 1898. These comprised of a further 952 square kilometres and today make up over 86% of the land area of Hong Kong, as well as half the population.⁹³ The diversity of this tax base lent to its resilience against a variety of economic shocks which occurred throughout the 20th century.⁹⁴ This led to the relative strength of its governance through some sweeping changes on the mainland over the course of its century. Broms notes that building a strong tax base has positive correlations for governance and we can see this confirmed here.⁹⁵ Hong Kong was not ruled on a democratic basis during this period. The Legislative Council, the main governing body in colonial Hong Kong for this period was overwhelmingly reluctant to reform towards legitimacy based on a universal mandate. Even following the extension of the full franchise in mainland Britain between 1918 and 1928. While the majority of the council was installed by the Colonial Governor, the British administration was frequently remiss in its efforts to include native Chinese in an era when discriminatory legislation still existed. However, the colonial administration did make some effort to co-opt the indigenous elite, largely the wealthy merchant class and other state of the socio-economic elite into advisory bodies in order to maintain social stability. The input of this economic elite both aided legislative support for industry and created informed support for

⁹³ Tak-Wing Ngo, 'Hong Kong: Overview' in David Pong (ed.) *The Encyclopedia of Modern China*, (New York, 2009), p. 243

⁹⁴ Ron Martin & Peter Sunley, 'On the Notion of Regional Economic Resilience: Conceptualisation and Explanation' in *The Journal of Economic Geography*, Vol. 15, 2015 p. 2

⁹⁵ Broms, 'Colonial Revenue Extraction and Modern Day Government in the British Empire'

widening the revenue base of the colonial state.⁹⁶ Here we can also apply Williamson's neo-institutional analysis to see the rise of the economic elite in Hong Kong to become vocal participants in the institutions governing Hong Kong. Through this process the economic elite also developed what Robert Putnam and French sociologist Pierre Bourdieu called 'social capital'. This social capital contributed to the growing space for the Chinese economic elite in colonial institutions and influenced the reciprocal trust between the colonial and economic upper classes.⁹⁷

As a result of this inclusion and increasing trust in the advice of the indigenous Chinese, the diversity of Hong Kong's tax base increased during this period. In fact, in the latter half of the 19th century, it allowed the British administration of Hong Kong to embark on large public works projects. Table 2 shows the total colonial revenue and expenditure for Hong Kong quinquennially between 1871 and 1901 in British pound sterling. Inflation for British pound sterling (£) was low during the late 19th century. £1 in 1871 is equal to £0.97 in 1901 and so the figures for across the period are easily comparable.⁹⁸ The sharp increase after 1880 in both revenue and expenditure is due to the success of the colony and the growth of its population swelling due to further Qing imperial decline. This increase is also due to an expanding civil and military infrastructure on Hong Kong, as the British made attempts to more effectively govern the colony. Additional to this are the large-scale public works projects including the expansion of sanitary and health facilities, and later the foundation of Hong Kong University. Table 3 and Table 4 show a breakdown of colonial revenue and expenditure generated for 1881 and are typical for the years which follow. The disparity in totals between those included in Table 2 and those included in Table 3 and Table 4 are due to rolling financial considerations from the previous year: net profit and late expenditures. The diversity of the Hong Kong tax

⁹⁶ Liu Shuyong, 'Hong Kong: A Survey of its Political and Economic Development Over the Past 150 Years' in *The China Quarterly*, Vol. 151, 1997, p. 587

⁹⁷ Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, (Princeton, 1993), p. 67

⁹⁸ Jim O'Donoghue, Louise Goulding, and Grahame Allen, *Consumer Price Inflation Since 1750*, UK Office of National Statistics, (London, 2004)

base is clear. Over half of the revenue generated is owed to the rent and sale of land which produced roughly 25% of colonial revenue, and taxes which produced over 30%. Beyond this the range of sources of revenue is wide and includes both licenses and interest on financial assets. Table 2 shows that the growth of expenditure kept pace with the growth of revenue during this period. The destination of this revenue in Table 3 is clear. While over half of the colonial expenditure went towards the salaries of the colonial government, the next greatest expenditures are those which account for public works projects.

Table 2. Total Revenue and Expenditure for Hong Kong, 1871 – 1901 (£)

<i>Year</i>	<i>Total Revenue</i>	<i>Total Expenditure</i>
<i>1871</i>	175,962	186,675
<i>1876</i>	184,405	187,569
<i>1881</i>	1,324,455	981,582
<i>1886</i>	1,367,977	2,020,861
<i>1891</i>	2,025,302	2,449,086
<i>1896</i>	2,609,878	2,474,910
<i>1901</i>	4,213,893	4,111,722

Source. Hong Kong Blue Books, various years, 1871 - 1901.

Table 3. Hong Kong Government Revenue for 1881 (£)

Source of Revenue	Revenue Generated
Land Revenue	139,371.03
Land Sales	203,659.20
Rent on Markets and Buildings	59,115.17
Licenses	237,154.36
Taxes	387,137.14
Postage	98,822.56
Fines and Fees of Court	16,897.57
Fees of Office	103,918.52
Reimbursement for Govt Expenses	29,269.40
Interest on financial assets	23,316.22
Misc receipts	24,903.63
Total	1,323,564.80

Source. Hong Kong Blue Book, 'Revenue' 1881

Table 4. Hong Kong Government Expenditure for 1881 (£)

Source of Expenditure	Expenditure Disbursed
Salaries and Employee Expenditures	562,991.31
Pensions	29,260.90
Charitable Allowances	3,970.00
Transport	3,407.35
Works and Buildings	60,281.00
Roads, Streets and Bridges	40,136.07
Lighthouse maintenance	2,634.03
Government Gardens and Plantations	13,959.81
Misc Services	57,236.36
Contribution to Military Expenditure	108,605.17
Total	882,482.00

Source. Hong Kong Blue Book, 'Expenditure', 1881

Almost 15% of government expenditure went towards public infrastructure. This figure is almost double when one discounts the contribution to military expenditure which was expected from British colonies during this period.

Overall these tables dispel notions of 'positive non-interventionism' as an adequate descriptor of British colonial policy and while this has been proven for other British imperial possessions, particularly in Africa, it is important to note that the myth should also be exorcised from Hong Kong. Table 2 also represents the commitment of the colonial government to investing in the colony. Expenditure levels frequently outmatch the steadily growing revenue receipts. Frederick Lugard, Governor of Hong Kong at the beginning of the 20th century was a firm believer in taxation as a form of social engineering, not merely a way to finance

governance but rather a form of governance in and of itself.⁹⁹ By making colonial subjects active participants in the state through taxation, Lugard hoped to craft the ideal subjects. This notion of the *process* of colonial administration became somewhat of an obsessive ideal for colonial administrators in the latter half of the 19th century. We frequently find Lugard and his colleagues stressing the ‘solidity’ of British imperialism as opposed to the ‘seductiveness’ of its French counterpart.¹⁰⁰ It is in pursuit of this idyll that colonial statecraft in Hong Kong attempted to provide a net benefit to its subjects. However, what ‘social capital’ Lugard might have hoped that colonial subjects might build through active participation in the state as taxed subjects never materialized. Hong Kong remained undemocratic until well after the Second War as the reciprocal trust which the economic elite were able to build with the colonial elite, never extended to the rest of the Chinese population.

This notion of ‘benevolence’ also blurs the material reality that warfare was a fundamental characteristic of the colonial administration. The possession of Hong Kong was enlarged at the very end of the 19th century, causing the leap in both revenue and expenditure which we find between 1896 and 1901. The ‘carving up’ of China by the European powers following the Boxer Rebellion is as much a cause of the expansion of the colonial finances as any notion of imperial altruism.¹⁰¹ Britain’s commitment to ascendancy in Asia in the latter half of the 19th century influenced its pursuit of a larger state capacity, but it is the diversity of resources which that capacity had at its behest which facilitated Hong Kong’s success throughout the 20th century.

4. Surplus Extraction

Portuguese Macau did not immediately begin to haemorrhage revenue following the ascension of British Hong Kong in the middle of the 19th century. As we have seen the settlement was

⁹⁹ Barbara Bush & Josephine Maltby, ‘Taxation in West Africa: Transforming the Colonial subject into the ‘Governable Person’’, in *Critical Perspectives on Accounting*, vol. 15 (2004)

¹⁰⁰ Said, *Orientalism*, p. 212

¹⁰¹ Eric Hobsbawm, *The Age of Empire, 1875 – 1914*, (London, 1987), p. 281.

capable of financing itself even after the collapse of its core import and export industries. However, metropolitan demands for surplus generation forced the Macanese administration to adopt a new revenue source. Though several were attempted, including fishing and the trade in indentured servants, it was gambling which revolutionized the Macanese economy. After Macanese finance were united with those of Portuguese Timor, a struggling colony which was part of the Indonesia archipelago, Macau further courted the revenue generated from its growing gambling industries.¹⁰² This over reliance created a path dependency for the course of the 20th century from which Macau could not easily escape. As the status of gambling in Macau grew from an informal social norm to a regulated institution, Macau proceeded further down the path towards institutional ‘lock-in’ which would limit its economic choices in the future.

The specifics of Macanese colonial finances during this period are difficult to encounter. W. G. Clarence-Smith, economic historian of Portuguese empire has decried the statistical gaps for Macau which exist in the 19th century.¹⁰³ However, what little we have reconstructed from secondary literature contrasts greatly with contemporary circumstances in Hong Kong. While Hong Kong had been able to generate a diverse revenue base by the end of the 19th century, Macau supported itself with revenue from gambling which provided between 60-70% of colonial income during this period. The pursuit of the British colonial project in Asia was ascendancy. Surplus generation in Hong Kong took a secondary role to ensuring the growth of a stable and sustainable British presence in Asia. This resulted in the expansion of the colonial tax base in order to fund an inflating colonial administration and military. The diversity of this revenue base contributed to British Hong Kong being able to effectively weather the series of crisis and challenges which would emerge from the Chinese mainland over the course of the 20th century. Macau on the other hand was forced into the position of supporting both itself and Portuguese Timor whilst also generating enough surplus revenue to

¹⁰² Antonio Pinho, “Gambling in Macau”, in R. D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1991), p. 157

¹⁰³ W. G. Clarence-Smith, *The Third Portuguese Empire, 1825–1975: A Study in Economic Imperialism*, (Manchester, 1985), p. 224

deliver to the colonial metropole. The expenditure dedicated to public infrastructure projects was far more limited than that of Hong Kong. It would take until the 20th century and competitive bidding for gambling monopolies before large infrastructure building would take place. These projects were usually undertaken by the holders of the gambling monopoly as a part of a stipulation for being initially granted the monopoly. This is further evidence of a compounding path dependence which limited the options of Macau for economic diversification as it entered the 20th century.

Chapter Three: Economic Choices and Path Dependence in the ‘Short 20th Century’

1. Introduction

The political and economic landscape of mainland China changed drastically over the course of the 20th century. By the beginning of the 20th century the Qing Imperial government in China had effectively collapsed, with individual provinces ruled by warlords who would plague the countryside for the first half of the 20th century.¹⁰⁴ Challenged by the growing power of Japan and the shock of the Russian defeat in the Russo-Japanese War, 1904-5, European supremacy in Asia also began to falter.¹⁰⁵ By the conclusion of the 20th century China had resumed its position as a respectable political entity and was in the process of re-uniting with the two colonies of Macau and Hong Kong. The fate of these colonies is intertwined with that of China, as has been the case throughout their history. However, the ‘short 20th century’ offers us an excellent selection of case studies with which to view the development of the economy in Macau and Hong Kong.¹⁰⁶ Large-scale human migration, war, the rise of Chinese communism and its subsequent market liberalisation all produced profound challenges for both the Portuguese and British administrations. Both state administrations were products of the era of ‘high imperialism’ at the end of the 19th century and over the course of the succeeding decades were forced to adapt to the collapse of European imperialism. The rise of China, as well as other Asian countries including Japan and the Republic of Korea, to economic supremacy within the region further hastened the decline of European influence. Those two colonies which began the 20th century as representations of global European power, ended as awkward outposts of a resurgent China; Special Administrative Regions wherein the Chinese Communist Party

¹⁰⁴ Jonathan Fenby, *The Penguin History of Modern China: The Fall and Rise of a Great Power, 1850 – Present*, (London, 2009), p. 140

¹⁰⁵ T. G. Otte, ‘The Fragmenting of the Old World Order Britain, the Great Powers, and the War’, in Rotem Kowner (ed.) *The Impact of the Russo-Japanese War* (Routledge, 2007) p. 104

¹⁰⁶ Eric Hobsbawm, *The Age of Extremes, 1914 – 1991*, (London, 1994), p. 5

(CCP) seemed content to utilise inherited capitalist structures to benefit the erstwhile communist mainland.

It is over the course of the 20th century that we shall see how the inheritors of 19th century administrations adapted or amplified their existing economic structures to become some of the wealthiest regions in Asia.¹⁰⁷ The rise of Republican China in 1912, the occupation of Hong Kong and Macau during the Second World War and the subsequent rise of the CCP, as well as the beginning of Chinese market liberalisation and its ‘open door policy’ in the early 1980s all represent critical junctures in the history of Hong Kong and Macau. By investigating three distinct crises in the Middle Kingdom and how the economic structures of these colonies responded we may begin to see how structures from the 19th century informed the changes to the economy. For Macau, this took the form of a strong path dependency owing to its courtship of gambling industries at the conclusion of the 19th century, while the broad Hong Kong revenue base facilitated a diversification of its industry throughout the 20th century. It is through this lens that we might explain the rise of the economies of Macau and Hong Kong, whose pattern is so distinct from both one another and from the standard East Asian development model.

2. Population Growth and the Collapse of Imperial China

Qing imperial power in China had continued to weaken over the course of the ‘Century of Humiliation’ (1839-1949) until its final collapse in 1912 at the behest of Republican military power.¹⁰⁸ As the provisional republican government, an incipient communist movement and regional warlords vied for power, the ensuing chaos caused large migrations of the Chinese populace both internally and overseas. For Macau, this meant the doubling of its population

¹⁰⁷ In 2015, GDP per capita in both Hong Kong and Macau outmatched equivalent figures in Japan, China and the Republic of Korea. <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=HK-MO-JP-CN-KR>

¹⁰⁸ Alison Adcock Kaufman, ‘The “Century of Humiliation,” Then and Now: Chinese Perceptions of the International Order’, in *Pacific Focus*, Vol. 25, No.1 (2010), p. 1

during a period of stagnant economic growth.¹⁰⁹ With inadequate industry to employ the refugees, segments of this new populace found solace in the *fan-tan* houses and other gambling dens leading contemporary Western observers to state that; ‘*Gambling is here a business, all the business there is. It pays for everything.*’¹¹⁰ This populace was absorbed into the gaming industry over time. The Portuguese administration of Macau made efforts during the same period to reassert its position as a trading port. Through dredging the silt from its shallow harbour the Macanese hoped they might be able to stimulate competition with Hong Kong. However, the harbour proved stubborn and the project failed. By the 1930s the harbour had become so silted that it proved unusable to any but the smallest ships.¹¹¹ Instead the gaming houses grew and in the years prior to the Second Sino-Japanese War the Macanese government granted the first monopoly concession.¹¹²

The first monopoly was briefly held by a syndicate named Tai Xing before the monopoly was transferred in 1937, to another syndicate named Tai Heng. During this early period three casinos were established in Macau as western styles of gambling began to become more prevalent in the area.¹¹³ This appears to have been a conscious decision on the part of the Macanese administration attempting to promote its gambling industry abroad.¹¹⁴ By this point it was clear to Macanese administrators that the pursuit of economic growth could be achieved through the growth of the gambling industry if properly controlled. By including stipulations in monopoly licences which obliged the monopoly holder to build public infrastructure to support the gambling industries, the Macanese administration outsourced the modernisation of the city-state. The Tai Heng were required to build a ferry operating between Hong Kong and Macau to facilitate tourism across the Pearl River. This is an early example of the Macanese

¹⁰⁹ Richard Louis Edmonds, ‘Macau: Past, Present and Future’, in *Asian Affairs*, Vol. 24, No. 1, 1993, p. 6

¹¹⁰ Frederick Courtland Penfield *East of Suez: Ceylon, India, China and Japan*. (New York, 1912), p. 283

¹¹¹ Edmonds, ‘Macau: Past, Present and Future’, p. 6

¹¹² Philip H. Loughlin and Clifton W. Pannell, ‘Gambling in Macau: A Brief History and Glance at Today’s Modern Casinos’ in *Focus On Geography*, Vol. 53, No. 1 (2010), p. 3

¹¹³ Loughlin & Pannell, ‘Gambling in Macau’, p. 5

¹¹⁴ Geoffrey C. Gunn, *Encountering Macau: A Portuguese City-State on the Periphery of China, 1557 – 1999*, (Westview Press, 1996), p. 89

administration outsourcing public infrastructure projects to the holders of the gambling monopoly.¹¹⁵ Macau also began to experience the benefits of a tourism industry as tourists from Hong Kong, mainland China and as far away as the United States began to travel to gamble in Macau. The new population in the area found work in this expanding casinos industry as gambling continued to prove profitable for the administration and Macau continued along the path dependency established in the 19th century. Here again we see the position of Macanese gambling mature through neo-institutional analysis. No longer simply a regulated institution, gambling in Macau had grown to the point of having regular interchange with governance structures by accepting government contracts for building public infrastructure. Gambling was beginning to dominate the physical landscape of Macau. Kingston and Caballero have described a similar social mechanism which leads to institutional lock-in which we can see in Macau.¹¹⁶ In this instance institutions proceed along a path from social norms towards established power and interests before institutional lock-in occurs. However, here we clearly see the gambling industry rise to become a powerful and interested party in Macanese society.

Hong Kong at this point still maintained its position as the key free port in the region, and while Shanghai had developed a strong European enclave, Hong Kong remained the primary point of trade between China and the West, handling 42% of all imports and 40% of exports in 1900.¹¹⁷ Following the collapse of Imperial China, Hong Kong also experienced a huge rise in its population due to refugees, with the total number of people living in the British colony rising from 400,000 to 1,600,000 between 1910 and 1941.¹¹⁸ Due to the size of its trade, Hong Kong was more readily able to absorb the surplus population into its existing

¹¹⁵ Loughlin & Pannell, 'Gambling in Macau', p. 5

¹¹⁶ Christopher Kingston & Gonzalo Caballero, 'Comparing Theories of Institutional Change', in *The Journal of Institutional Economics*, Vol. 5, 2009, p. 156

¹¹⁷ Liu Shuyong, 'Hong Kong: A Survey of Its Political and Economic Development over the Past 150 Years' in *The China Quarterly*, Vol. 151, 1997, p. 591

¹¹⁸ Newman M. K. Lam, 'Development Strategies of Small Economies: Singapore, Hong Kong and Macau', in *Asian Education and Development Studies*, Vol. 4, 2015, p. 268

employment structures. In the years prior to the second Sino-Japanese War, Hong Kong began to embark upon industrialisation projects, improving its shipping handling capacities in the port and building railway lines to better transport textiles and other manufactured products into mainland China.¹¹⁹ Further, because of their place on advisory councils to the British administration, members of the Hong Kong economic elite were better able to direct the expansion of their diverse range of industries.¹²⁰ These included the textiles and film industries in Hong Kong but also the construction industry and the beginnings of a banking sector. The inclusion of these economic elites also lends itself to explanations for the high levels of social stability in Hong Kong despite the lack of democratic government.¹²¹

This informal policy of including the economic elite in an advisory position had developed into a formal institution by the early decades of the 20th century as ethnic Chinese came to make up the majority of the Hong Kong Chamber of Commerce.¹²² This facilitated a network of Chinese businessmen and industrialists who found themselves in a strong advisory position in regards to the Hong Kong government. Hong Kong was also on the receiving end of European and Chinese financial, human and industrial capital departing the Chinese mainland, particularly from Shanghai. This took a variety of forms but one of the most important cultural and economic institutions to rise out of the migration was the development of Hong Kong cinema. The Hong Kong film industry, effectively imported from Shanghai, expanded to a huge degree in the early 20th century. To the extent that by the middle of the 1920s the *Chinese Mail* regularly covered investment opportunities in the production, exhibition and distribution of films in Hong Kong.¹²³

¹¹⁹ Shuyong, 'Hong Kong: A Survey of Its Political and Economic Development', p. 269

¹²⁰ Lau Siu-kai, 'Social Irrelevance of Politics: Hong Kong Chinese Attitudes towards Political Leadership', in *Pacific Affairs*, Vol. 65, 1992, p. 226

¹²¹ Sunil Khilnani, 'The Development of Civil Society' in *Civil Society, History and Possibilities*, (Cambridge, 2001), p. 7

¹²² Hwei-Ying Kuo, 'Agency amid Incorporation: Chinese Business Networks in Hong Kong and Singapore and the Colonial Origins of the Resurgence of East Asia, 1800-1940', in *Review* (Fernand Braudel Center), Vol. 32, 2009, p. 231

¹²³ Tin-Yan Cheung & Pablo Sze-Pang Tsoi, 'From an Imported Novelty to an Indigenised Practice: Hong Kong Cinema in the 1920s.' in Emilie Yueh-yu Yeh ed. *Early Film Culture in Hong Kong, Taiwan, and Republican China: Kaleidoscopic Histories*, (Michigan, 2018), p. 382

Administrations in Macau and Hong Kong were both forced to adapt to exogenous factors emerging from the Chinese mainland. While Hong Kong absorbed a greater proportion of the refugee population emerging from China, the margin between those emigrating to Hong Kong over Macau is minor enough for the volume of migrants to be an irrelevant factor in comparing Hong Kong and Macau.¹²⁴ The main difference lies in their varying ability to absorb this new populace. In Macau, the administration did little to cope with the expansion as they attempted unsuccessfully to reassert Macau's trading potential. Here the populace fell initially into the vice of the gambling houses before early modernization of that industry in the 1920s and 30s provided them with employment. By the 1920s, 70% of Macanese administrative income came from the gambling industry and what remnants of the opium industry it maintained.¹²⁵ By the end of the 1930s, gambling alone provided 60% of that income.¹²⁶ In Hong Kong the expansion of industry benefited greatly from the population surge and while the economic elite were able to advise on the development of industry at the highest levels. Chinese capital found security in the profitable entertainment industry, the emerging banking sector in pre-war Hong Kong and also in the growing industrial efforts of Chinese businessmen.

3. Japanese Occupation and The Rise of the CCP

The experience of Macau and Hong Kong differed greatly over the course of the 12 year long period beginning with the outbreak of the second Sino-Japanese War, leading to the Second World War and concluding with the ascension of the Chinese Communist Party to government in 1949. While Hong Kong was occupied in the hours following the Japanese attack on Pearl Harbour in 1941, Macau benefitted from Portuguese neutrality and was free to continue to operate under its own administration.

¹²⁴ R. D. Cremer, 'Hong Kong, Macau and the Peoples' Republic of China: A David and Goliath Relationship?', in *Asian Affairs: An American Review*, Vol. 18, No. 3, 1991, p. 157

¹²⁵ Zhidong Hao, *Macau: History and Society*, (Macau, 2011), p. 75

¹²⁶ Gunn, *Encountering Macau*, p. 90

The Macanese economy benefitted greatly from Portuguese neutrality, both through legal and illicit means. Immigration to Macau surged again following the Japanese occupation of Hong Kong as many Chinese natives fled the British colony. While this initially led to large levels of unemployment, the government increased its revenue by issuing more gambling licenses.¹²⁷ Due to the occupation of Hong Kong, capital flight from mainland China which was also suffering from occupation, this time found its way to Macau. This further increased the revenue generated in the gambling industry as Chinese middle classes sought escapism in entertainment.¹²⁸ Although pressure was placed on the European enclave by Japanese occupiers in surrounding areas, the economy experienced a resurgence in trade as its main competitors, Hong Kong, Singapore and Shanghai suffered under Japanese invasion and occupation.¹²⁹ In fact, not only did Macau trade with Japan during the war but it also developed a smuggling industry into mainland China which had effectively been embargoed. Macau industry also benefitted after the war from the departure of industrial and financial capital from Guangzhou (formerly Canton). As the Chinese Communist Party continued to assert its hegemony over the rest of mainland China, manufacturers further up the Pearl River Delta situated themselves in Macau in order to escape seizure.¹³⁰ This increased Macau's ability to produce textiles and led to a quiet renaissance of manufacturing within the region. However, the Macanese administration appears to have been content with its main source of revenue as they increased promotion of the gambling trade as the war concluded, through the Chinese revolutionary period.¹³¹

This is due to the vested power which the gambling industry had attained by this point. As an active participant in the construction of Macau as a city, the institutional position of

¹²⁷ Zhidong, *Macau: History and Society*, p. 74

¹²⁸ Renato Feitor, 'Macau's Modern Economy', in R.D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1987), p. 140

¹²⁹ Edmonds, 'Macau: Past, Present and Future', p. 6

¹³⁰ Newman M. K. Lam, 'Government Intervention in Macao's Economy', in *Asian Journal of Public Administration*, Vol. 24, 2002', p. 215

¹³¹ Lam, 'Government Intervention in Macao's Economy', p. 216

gambling in Macau ensured that it was preferred by colonial administrators. This level of promotion continued to increase after the foundation of the Peoples' Republic of China in 1949 as Mao and his administration criminalized gambling on the Chinese mainland.¹³² This is an example of 'bounded rationality'. Bounded rationality affects the development of institutions as their designers and guides are restricted by their own cognitive limitations.¹³³ While further development of its trade infrastructure may have been beneficial in the long term, Macanese administrators had learned from experience that bolstering the gambling industry was an easy way to generate revenue. As Macau expanded from fireworks and matches towards a competitive textiles industry manufacturing growth at the end of this period was considerable. Despite this growth it was nonetheless outmatched by the growth of the gambling sector.¹³⁴ The criminalization of gambling in the PRC was a large factor in this growth but the gambling industry also benefitted from gaining the monopoly on the trade of gold following the war. Portugal had not been a signatory of the Bretton-Woods agreement which had been a multilateral attempt to regulate the trade of gold in order to control currency conversion rates. Britain was one of the signatories along with the US. Following the war, restrictions which were placed on the trade of gold in Hong Kong did not occur in Macau which became the primary point of gold entering China from 1944.¹³⁵ As the Hong Kong Chamber of Commerce had developed into an invaluable institution for the Chinese economic elite in Hong Kong to have an input in economic policy, so too did Macau's gambling industry continue to grow and become a dominant force in the region. While manufacturing grew to become the primary employer in Macau following the Second World War, government revenues continued to be composed primarily of revenues obtained from gambling. This continued along pre-war levels of supplying almost 70% of government revenue until at least the 1970s.¹³⁶

¹³² Lam, 'Development Strategies of Small Economies', p. 270

¹³³ Kingston & Caballero, 'Comparing Theories of Institutional Change', p. 153

¹³⁴ Antonio Duarte de Almedia Pinho, 'Gambling in Macau', in R.D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1987), p. 157

¹³⁵ Gunn, *Encountering Macau*, p. 134

¹³⁶ *Ibid.*

Hong Kong also reaped the benefits of Chinese capital flight during the ascension of the CCP following the end of the Japanese occupation. Industrial capacity in Hong Kong had begun to grow in the years prior to its occupation, with the percentage of its exports manufactured in Hong Kong itself rising from 3% to 12%, and while the Japanese interlude impeded continued growth for a four year period, the benefits of capital flight to Hong Kong following the war were immense.¹³⁷ Between 1945 and 1949, 288 firms and approximately \$50 million worth of capital transplanted from Shanghai to Hong Kong.¹³⁸ This is due at least partially to the established links between Hong Kong and Shanghai which made it preferable to Macau, but also its larger spatial geography and industrial capacity.¹³⁹ It was also during this period that Hong Kong benefited from the development of its textiles industry. As production costs rose in metropolitan Britain, labour-intensive production such as textile production was transplanted to Hong Kong facilitating a rise in that industry.¹⁴⁰ Ensuing flight of both capital and labour from mainland China bequeathed to Hong Kong the factors which would make possible its huge leap in industrial production during the 1950s. The indigenous economic elite in Hong Kong had already attained an institutional presence through participation as advisors to the Legislative Council. This ensured that the new Chinese immigrants to Hong Kong, particularly those with large volumes of financial capital and industrial experience had an outlet through which to develop their businesses in a new environment.

Although the experience of Hong Kong and Macau varied over the course of the 1940s, the end result is a compounded version of what existed prior to the outbreak of the second Sino-Japanese War. Macau failed to build on its reclaimed position as a free trade port, instead preferring to commit itself to the gambling industry which had sustained it during sparser years. While its industry grew during this period, it remained vulnerable to market shocks which

¹³⁷ Shuyong, 'Hong Kong: A Survey of Its Political and Economic Development', p. 269

¹³⁸ This figure is in 1950 US dollars and excerpted from Lam, 'Development Strategies of Small Economies', p. 269

¹³⁹ Ibid.

¹⁴⁰ Alvin Y. So. 'The Economic Success of Hong Kong: Insights from a World Systems Perspective', in *Sociological Perspectives*, Vol. 29, 1986, p. 244

would become a pressing issue during market liberalisation in China in the 1980s. It's manufacturing industries were largely uncompetitive auxiliaries to those present in Hong Kong and the primary source of its administrative revenue relied on the continuation of a policy of criminalizing gambling in both Hong Kong and the PRC. A policy which lay outside of the control of Macanese administrators. Hong Kong meanwhile benefited greatly from the flight of human and financial capital from China between 1945 and 1949. Much of this capital migrated dependent on linkages built between Hong Kong and Shanghai during the interbellum. This was used to help kick start a higher level of industrialisation in the British colony. While Hong Kong would also suffer from the shock of market liberalisation in China in the 1980s, its broader industrial base and the investment capital which emerged from these industries was better suited to cope with the next critical juncture of the short 20th century.

4. Deng Xiaoping and Market Liberalization

The ascendancy of Deng Xiaoping towards the end of the 1970s instituted a set of market liberalizations for the Peoples' Republic of China. Sweeping changes saw the focus of the CCP move from 'class struggle' to 'economic development'.¹⁴¹ China had been closed to the capitalist market since 1949 and to the Eastern Bloc since the Sino-Soviet split of the 1960s. By 1978 it was one of the most closed economies in the world. The opening of the economy to foreign investment in 1979 encouraged the growth of manufacturing industries along old manufacturing belts in Guangzhou, formerly the city of Canton at the mouth of the Pearl River. This had important ramifications for industry in both Hong Kong and Macau.

In the previous decades, Hong Kong's industrial base had grown from 961 factories employing 47,000 people in 1949, to 4541 factories employing 170,000 people prior to China's

¹⁴¹ Yingyi Qian, 'The Process of China's Market Transition (1978-98): The Evolutionary, Historical, and Comparative Perspectives', prepared for *Journal of Institutional and Theoretical Economics* symposium on "Big-Bang Transformation of Economic Systems as a Challenge to New Institutional Economics," June 9-11, 1999, Wallerfangen-Saar, Germany, p. 3

market liberalization.¹⁴² Although these initial investors were largely wealthy gambling or manufacturing magnates from Macau and Hong Kong, China quickly outstripped Hong Kong's manufacturing capacity.¹⁴³ Figure 1 shows the percentage of Hong Kong's GDP contributed by the primary, secondary and tertiary sectors between 1970 and 1995. As we can see from Figure 1, the value of manufacturing to Hong Kong's GDP had been decreasing since at least 1970. This is at least partially due to increased competition from the rising East Asian tigers; Japan and the Republic of Korea, as well as increased protectionism in US trade policy to combat the surging East Asian economies.¹⁴⁴ However, the rate of the decline in manufacturing and the rise in service as portions of GDP is hastened after 1985. This alteration and Hong Kong's adaptation to a service economy are largely due to Hong Kong manufacturing facilities moving to mainland China where labour and production factors were largely cheaper.¹⁴⁵ This is a direct result of market liberalization in China where labour was cheaper due to its greater abundance than present in Hong Kong. Other production factors were similarly cheaper as the PRC began to prioritize a policy of industrialization encouraging competitive pricing, subsidizing factor prices where appropriate to ensure this.¹⁴⁶

¹⁴² Shuyong, 'Hong Kong: A Survey of Its Political and Economic Development', p. 271

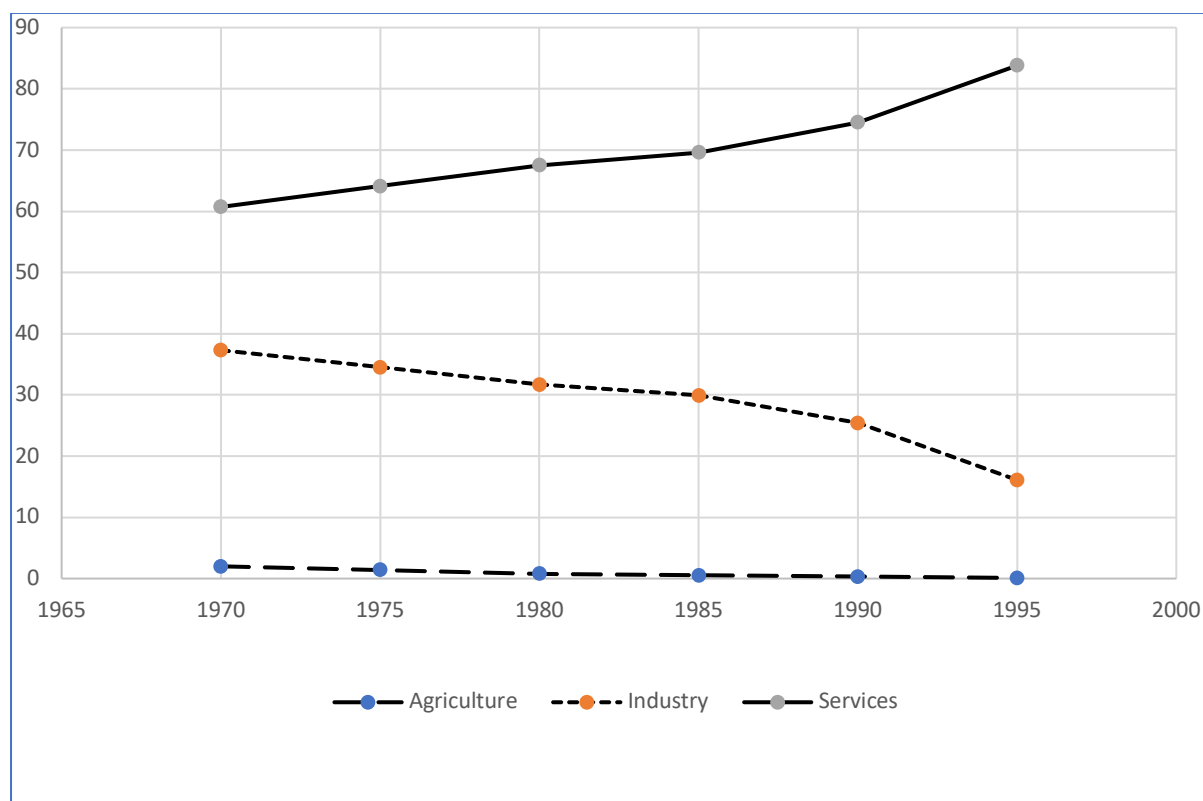
¹⁴³ Lok-Sang Ho, 'The Economy of Hong Kong as a Special Administrative Region of China', in *Asian Affairs: An American Review*, Vol. 24, 1998

¹⁴⁴ So, 'The Economic Success of Hong Kong', p. 246

¹⁴⁵ Ho, 'The Economy of Hong Kong as a Special Administrative Region of China'

¹⁴⁶ Dic Lo, *Market and Institutional Regulation in Chinese Industrialization, 1978-1994*, (Palgrave-Macmillan, 1997), p. 85

Fig 1. Percentage of HK GDP by Sector, 1970-1995 (%)



Source. *Gross Domestic Product, 1961-1999*, Census and Statistics Department, Hong Kong, SAR, (Hong Kong, 2000), pp. 65, 112

Due to Hong Kong's position as a refuge for Chinese financial capital after the ascension of the CCP, it had already begun to restructure towards becoming a financial centre for the region.¹⁴⁷ While the Hong Kong Banking sector began to grow in earnest by the 1970s, the market liberalization of China and corresponding shocks to Hong Kong's manufacturing sectors encouraged its growth further. By the mid 1990s Hong Kong maintained the second largest international finance centre in the region, following only Japan, placing it as the seventh largest international finance centre in the world.¹⁴⁸ Market liberalization in China hastened the

¹⁴⁷ Shuyong, 'Hong Kong: A Survey of Its Political and Economic Development', p. 271

¹⁴⁸ Y.C. Jao, 'Shanghai and Hong Kong as international financial centres: historical perspective and contemporary analysis'. Working Paper No. 1071, The Hong Kong Institute of Economics and Business Strategy, University of Hong Kong, 2003, p. 10

restructuring of the Hong Kong economy but Hong Kong itself had a broad enough economic base to weather the exogenous shock.

Macau was similarly affected by China's new 'open door policy' which stripped it of some of its remaining industries. Though the Macanese administration had similar aspirations to Hong Kong in regards becoming a regional financial centre, Hong Kong, as throughout its history, maintained the comparative advantage with its British capital resources and links with old Shanghai capital.¹⁴⁹ Table 5 shows the average growth rates of imports and exports to and from Macau between 1970 and 1985. The sharp decline in growth rates following 1970-1980 is as a result of market liberalization. China began to open its own manufactories, many of them simply further up the Pearl River at the site of the 18th century European factories in Canton. This began to cause a decline in the demand for goods emerging from Macau. Similarly, as China now accepted foreign trade openly, it devalued the position of Macau as an export location for goods emerging from China. As a result, Macau reverted to its old, timeworn path of encouraging the growth of its gambling industry. This can be seen in Table 6. Table 6 shows the gaming revenue as a percentage of the total public revenue and expenditure of Macau between 1877 and 1984. Here the same shock caused by Chinese market liberalization is clear as the contribution of the gambling industry to total government revenue leaps from 29-59% between 1982 and 1983. As manufacturing in Macau was hampered by Chinese industrialisation the lock-in position of the gambling industry reasserted itself as the absolver of revenue deficits.

By the late 1970s, Macanese industry had matured to the extent of employing over half the population as well as generating significant revenue so as to displace the gambling industry as the primary source of income for the civil administration. However, by the mid 1980s this trend had been reversed as industries moved back over the border into China. This displacement led to yet another bolstering of the gambling industry as Stanley Ho's monopoly

¹⁴⁹ Edmonds, 'Macau: Past, Present and Future', p. 8

under his Sociedade de Turismo e Diversoes de Macau (STDM) was renewed in 1983.¹⁵⁰ By the 1980s, Macau's gambling monopoly was had been held by Stanley Ho under STDM for almost 20 years. The renewal of this license in 1983 at the height of the effects of Chinese market liberalization came with increased stipulations to ensure the supply of public utilities and services.¹⁵¹ Not only did his monopoly employ 30% of the population of Macau by the 1990s, but it also provided 64.5% of government revenue and was responsible for large public infrastructure projects.¹⁵² These links between monopoly holders and public infrastructure projects were frequent throughout the 20th century. It was common for the promise of building of public infrastructure to be a prerequisite for being granted the gambling monopoly in the first place. While attempts had been made to escape the civil administration's over-reliance on gambling in the years after the war, by the mid 1980s the industry made itself available to resolve yet another crisis. Here we finally see institutional lock-in. The gambling industry in Macau by this point was a powerful institution and an active benefactor to the modernisation of the landscape of Macau. When the economy began to struggle there was only one direction the Macanese administration chose to turn, towards the gambling industry from which it could not escape.

Table 5. Average growth of exports and imports through Macau, 1970-1985 (%)

	1970-1980	1980-1985
Imports	26.8%	15.9%
Exports	21.6%	10.9%

Source. Feitor, 'Macau's Modern Economy', in R.D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1987), p. 151

¹⁵⁰ Feitor, 'Macau's Modern Economy', in R.D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1987), p. 141

¹⁵¹ Ibid

¹⁵² Chan, et al., *Problem Gambling in Hong Kong and Macao*, p. 17

Table 6. Public revenue generated from gambling industry as portion of total public revenue and expenditure, 1977 – 1984 (%)

<i>Year</i>	<i>P/C Public Revenue</i>	<i>P/C Public Expenditure</i>
<i>1977</i>	<i>30%</i>	<i>42%</i>
<i>1978</i>	<i>30%</i>	<i>41%</i>
<i>1979</i>	<i>30%</i>	<i>37%</i>
<i>1980</i>	<i>26%</i>	<i>35%</i>
<i>1981</i>	<i>30%</i>	<i>35%</i>
<i>1982</i>	<i>29%</i>	<i>29%</i>
<i>1983</i>	<i>59%</i>	<i>67%</i>
<i>1984</i>	<i>58%</i>	<i>73%</i>

Source. Pinho, 'Gambling in Macau', in R.D. Cremer (ed.), *Macau: City of Commerce and Culture*, (Hong Kong, 1987), p. 162

The effects of market liberalization in China were damaging to aspects of both the Hong Kong and Macanese economies. However, what separates them is how they were able to deal with these effects. In Hong Kong, this meant more fully completing its economic restructuring to become a business and financial centre.¹⁵³ The loss of its manufacturing industries to China was absorbed relatively easily as Hong Kong could afford to make up the loss in GDP through the growth of its service sector.¹⁵⁴ In the case of Macau, while it was also able to absorb the

¹⁵³ Lam, 'Development Strategies of Small Economies', p. 269

¹⁵⁴ See *fig. 1*

loss of its manufacturing industries, these industries had represented a hope for a maturing economy which had now been removed. Further, Macau had less options than Hong Kong and as it failed to adequately construct a banking industry which could compete with that of its Pearl River rival, it again found itself constricted by its fiscal dependency on its gambling industry. This is completely dependent on the growth of institutions in Hong Kong and Macau during this period. The gambling industry and its position in relation to government revenue had effectively achieved institutional lock-in, obscuring any other economic choices which the Macanese might have had. In Hong Kong the Chamber of Commerce, dominated by the indigenous Chinese, was able to discuss the direction of the Hong Kong economy and evade the worst effects of Chinese market liberalization. Economic decisions in Hong Kong were, if not completely democratic, at least debated by informed parties. In Macau, while not necessarily uninformed, economic decisions were made in the shadow of its colossal casinos.

5. Conclusion

Presented with similar crises emerging from the Chinese mainland throughout the 20th century, Hong Kong and Macau adapted in different ways. The collapse of Imperial China, the second Sino-Japanese war and the rise and subsequent market liberalization policies of the Chinese Communist Party forced Hong Kong and Macau to exploit different sources of revenue throughout the 20th century. For Hong Kong, this meant following a relatively well-established pattern in Europe, that of capital accumulation, investment in industry and diversification of economic base as the economy matured. In Macau the economy repeatedly and aggressively bolstered the gambling industry which provided its primary economic base. Though not always dealt the same hand, as in the case with the Japanese occupation of Hong Kong during the early 1940s, Hong Kong and Macau consistently relied on their 19th century colonial inheritance in order to adjust to market shocks. These critical junctures represent a variety of opportunities for change in Hong Kong and Macau, however when faced with material reality, be it a diverse

range of industry and capital or a heavy reliance on gambling, Hong Kong simply had a wider range of options to choose from while Macau was trapped in the path dependency by which it had been plagued since the middle of the 19th century.

Concluding Discussion

This work has attempted to address a gap in the scholarship of rising East Asian economies. Past works have frequently neglected the Portuguese port-city of Macau while claims that laissez-faire government in Hong Kong allowed its economic success are oversimplified. We find, in line with Anne Booth and Stephen Haggard that colonial legacies in states and institutions are an influential factor in the economic development of Asian states in the 20th century. Earlier discussions of the ‘East Asian Miracle’ emphasised state structuring for export oriented industries as a leading cause for post-war success of Japan and the Republic of Korea. While there is some evidence of this in Hong Kong, the Macanese development path is completely different from the standard East Asian Model. Neo-institutionalist theories are well purposed for explaining this economic development, in both Macau and Hong Kong.

For a brief period during the 1840s, Hong Kong and Macau were relatively similar. These were both colonial administrations in small cities-states along the southern border of China and across the river from one another. Both operated a business which revolved around the import and export of goods between China and Europe. For all their similarities, today these economies have a significantly different economic makeup from one another. Both are fundamentally service economies. As of 2009 the service sector accounts for approximately 89% of GDP in both Macau and Hong Kong.¹⁵⁵ However, this percentage masks the disparity between these two service sectors. For Hong Kong these services are related to financial or consulting institutions while in Macau the monolithic casinos are an ever present reminder of the dominant force in the Macanese economy; the gambling industry. We have seen that Macau struggled to keep pace with Hong Kong as the ‘Great Divergence’ took hold and altered relations between China and Europe. Britain was the champion of this divergence and Hong

¹⁵⁵ World Bank national accounts data, and OECD National Accounts data files.
<https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS?locations=HK-MO>

Kong, its new colonial possession, gladly profited from the collapse of traditional Sino-European trade structures including the Canton System. Macau had built its economy around trade within this Canton System as well as supplying a litany of services to European traders to aid the navigation of this system. What occurred as a result of the First Opium War, the destruction of the Canton System was *the* critical juncture in the history of Hong Kong and Macau. For Hong Kong it opened a new path to trade with China and the informal institution of British trade networks in east and southeast Asia ensured that it would be unparalleled in its position as the ascendant entrepôt port in the region. For Macau this critical juncture caused the formalization of the gambling industry in order to support government revenue.

Over the subsequent 150 years we find that informal business networks in Hong Kong became more formalized as time passed and the indigenous Chinese members of these networks developed a social capital which allowed them access to higher levels of decision making. This ultimately allowed a navigation of economic crises which ensured Hong Kong's successful maturation into a service economy along the lines of the western standard of capital accumulation, industrialization and diversification. Macau also experienced the formalization of informal institutions in the form of the gambling industry which increasingly strengthened its influence in Macau by obtaining public infrastructure contracts and becoming the main source of revenue for the civic administration. Through this mechanism Macau eventually experienced institutional lock-in and as early as the 1970s was described by popular printed tourist guides as 'nothing without gambling'.¹⁵⁶ Market shocks in the early 1980s affected Hong Kong and Macau as China made attempts to modernise through opening its economy to international markets. However, we see again the same pattern which Macau had been following since the 1840s. While Hong Kong embarked upon a Western style of financing

¹⁵⁶ Bert Okuley & F. King-Poole, *The Gambler's Guide to Macau*, (South China Morning Post, 1979), quoted in Pinho, , "Gambling in Macau", p. 155

modernisation, Macau consistently reasserted its support for and dependency on the gambling industry.

Currently, Hong Kong and Macau occupy ambiguous positions. This is not a new experience for two European colonies carved out of mainland China, in the case of Hong Kong over the course of a few decades, and for Macau, over the course of a few centuries. Fears of invasion in Macau and Hong Kong were quickly put to rest after the rise of the Chinese Communist party which seemed content to allow their ambiguous position stand. Indeed that ambiguity has continued to benefit the PRC since the handover of Portuguese Macau and British Hong Kong as it utilizes their capitalist market structures to pursue its erstwhile communist aims. Popular demands for democracy and the extension of its capitalist market put pressures on relations between Hong Kong and mainland China, but it is arguable that Macau's future is yet more uncertain. Macau currently relies on the fact that gambling is illegal in both Hong Kong and mainland China. The legalization of the same in either region could be dire for Macau's economy. Twice since its reunification with China has Macau suffered serious shocks to its economy. Though liberalization of its gambling industry in 2002 has led Macau to jump ahead of Hong Kong, China and most of Asia in its GDP per capita, an outbreak of SARS shortly after, as well as Xi Jinping's crusade against corruption since 2015 has seen Macau's GDP per capita drop by almost 25% in very short periods of time.¹⁵⁷ It appears that Macau has a high level of vulnerability to market shocks since its reunification with China and while Hong Kong has shown its ability to weather these shocks through its diverse economy, Macau has only ever bolstered itself through its gambling industry. But recent years have questioned the sustainability of such policies and shown that should the gambling industry itself be effected adversely by any of these market shocks the results could be catastrophic for the Macanese economy.

¹⁵⁷ Newman M. K. Lam, 'Development Strategies of Small Economies: Singapore, Hong Kong and Macao', in *Asian Education and Development Studies*, Vol. 4, 2015; World Bank national accounts data, and OECD National Accounts data files. Available at <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=MO>

This raises questions of how to craft policy to dismantle the institutional lock-in which the Macanese gambling industry has experienced. Such research efforts would benefit greatly from Macanese administrative statistics which appear unavailable but may be buried in archives either in Macau itself or in Lisbon. I would encourage future research to attempt to reconstruct trade, revenue and expenditure databases for 19th century Macau as current figures are extremely limited. Other research might pursue the relationship between civil society and economic development in our two areas of analysis. In Hong Kong, the maturing economy seems to have been accompanied by vocal political participation, especially since reunification with China. This active civil society has ensured that China does not unilaterally make decisions regarding Hong Kong's legal system without protest, both in recent months and throughout the early 21st century. By contrast, even in the years prior to reunification with China, Macanese political participation was low with most Macanese pursuing survival rather than political integration.¹⁵⁸ These years were proliferated by mass demonstrations in Hong Kong. The lack of an active political populace comparable to Hong Kong will make any unilateral policy decisions stemming from Beijing difficult to combat. Research on the links between economic development and civil society in Macau and Hong Kong would be worthwhile in possibly isolating another detrimental effect of the dominance of the gambling industry.

Neo-institutional and path dependency theories are perhaps most the adept at explaining the unique development paths of Macau and Hong Kong. We have borrowed from other scholarship and emphasised the presence of 19th century colonial legacies as influential factors in this development. Those institutions which existed in British Hong Kong facilitated the growth of social capital and reciprocal trust between the indigenous Chinese and the economic elite. As the gambling industry rose to become the most influential institution in Macau it

¹⁵⁸ Herbert S. Yee, Liu Bo-Long, Ngo Tak-Wing, 'Macau's Mass Political Culture', in *Asian Journal of Public Administration*, Vol. 15, 1993, p. 186

neither pursued nor achieved the development of social capital or reciprocal trust. Instead it has consistently profited from Macanese economic crises. In recent years policy emanating from Beijing has caused as sharp a drop in GDP as 25% due to Macanese over reliance on gambling. Further, as has been seen recently in Hong Kong, appetites appear to be growing in Beijing for altering policy towards its Special Administrative Regions. This causes one to wonder how long this profiteering may continue.

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