Culture, Institution, and Development in China: 
The Economics of National Character

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How does culture shape history--and history shape culture? This book aims to help answer this question by conducting a comprehensive and rigorous analysis of the evolution of the Chinese culture, political and legal institutions, and “national character” throughout historical and contemporary China. By repeatedly applying the “political Coase theorem” and utilizing other economic theories, it investigates how a “national character” evolves endogenously along with an institutional environment, which is in turn determined by economic, political, and geographical fundamentals.

In a recent influential book, North, Wallis, and Weingast (2009) emphasize the importance of controlling violence to maintaining social order. They argue that successful societies can control violence at a relatively low cost, and that successful economic organizations can operate only in violence-free environments. This book extends North, Wallis, and Weingast (2009) in two ways.

First, it incorporates the role of “personality” into analysis of violence and social order. In a society where people worship bravery and violence, violent actions are often committed frequently between different individuals and groups. However, the individuals in a society that treasures courtesy and kindness usually engage in little violent conflict.

The “personality” described in this book refers to the “average personality” of a country’s people, rather than the personality of a particular individual.\footnote{Some psychology studies have shown that the people in geographically and historically related countries often exhibit similar personality profiles (e.g., Nisbett and Cohen (1996), Allik and McCrae (2004), and Schmitt, Allik, McCrae, and Benet-Martínez (2007)).} In the sociology and political science literature, the “average personality” of a country is often referred to as “national character” (e.g., Adorno, Frenkel-Brunswik, Levinson, and Sanford (1950), Barker (1979), Sniderman (1993)).\footnote{In this book, “national character” is determined by a nation’s social-economic environment and geography (rather than genetics), and is hence a completely neutral term. This book intends to investigate the role of “culture” in history, and narrows it down to one important component of national culture, i.e., the typical personality of the people.} Although “personality” may include multiple dimensions, this book focuses on a people’s tendency toward violence, which is the central element of North, Wallis, and Weingast (2009).

Second, this book contends that a people’s violent attitude is a double-edged sword for the state. Although it is more costly for a state to manage a people who exhibit more violent
tendencies, a bellicose populace is much more effective at defending its country when facing foreign invasion.

In the spirit of the “political Coase theorem”, which is elaborated in Chapter 7, this book contends that there is an “optimal” personality for a society that maximizes the welfare of its people. Moreover, the exact form of this optimal personality depends on the material fundamentals of the society. For example, the national character of one country can be either “tough” (brave, aggressive, bellicose) or “weak” (timid, submissive, un-militaristic). Both types of character can be optimal choices for countries in different economic, political and geographical circumstances.

“Institutional economics” has marked a major development in the economics, political science, and history literature in the past few decades, a fact emphasized by the conferment of the Nobel Prize on five intellectual leaders in the field. A large number of studies show that “institutions” matter greatly to economic performance, and they are often determined by economic fundamentals.

North (1991, p. 97) defines “institutions” as follows: “Institutions are the humanly devised constraints that structure political, economic, and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange.”

According to this definition, this book clearly belongs to the field of “institutional economics.” It offers a detailed study of the formation of the archetypical Chinese personality and its evolution in response to the changing economic, political, and military environments in historical and contemporary China. Moreover, it applies economic theories to analyze institutional developments in Chinese history, such as the introduction of the rule of law and the ways that ancient dynasties manage the large country of China.

The book studies the determinants of the Chinese personality in ancient times. China has been a large country in terms of its geographical size and population throughout most of its documented history. This phenomenon is fairly unique in world history. Other large countries such as Russia, the United States, Canada and Brazil attained their current geographical sizes only in the last 300 years. Continental Europe is similar to China in geographical size, but has almost always been divided into many small countries.

3 These leaders include Ronald Coase (in 1991), Robert Fogel (in 1993), Douglass North (in 1993), Elinor Ostrom (in 2009), and Oliver Williamson (in 2009).
What has influenced China’s longevity as a single large country? The historical literature provides an answer to this question. For example, Turchin (2009, p. 191, 194, 196) observes the following: “antagonistic interactions between nomadic pastoralists and settled agriculturalists result in an autocatalytic process, which pressures both nomadic and farming polities to scale up polity size, and thus military power…

The greatest imperial confederations of nomads in world history (the Xiongnu, the Turks, and the Mongols) arose on the steppe side of the frontier. In other words, the exceptionalism of the East Asian imperiogenesis hotspot was mirrored in the exceptionalism of repeated gigantic imperial confederations in the steppes. Furthermore, there was a striking degree of synchrony between the rise of the steppe imperial confederations and Chinese empires – Xiongnu and Qin/Han, Turks and Sui/Tang, Mongols and Song…

A successful raid can be devastating to a farming community. Not only does it lose a large part of the resources needed to survive until the next harvest but the nomads may also kill men of fighting age, and abduct women and children as slaves. Thus, raiding pressure from the steppes imposes a severe selective regime on farming communities…The only successful way of resisting nomad pressure is for several local communities to unite into a “meta-community”, with a larger defensive force to offset the nomads’ military advantage.”

Chapters 2 and 3 of this book present economic analyses that complement the history literature in further understanding why China has stayed a single big country and how it could deter powerful horse warriors. China has been a large country throughout most of its documented history due to its unique geographical location. There are vast areas of land at its northern border, including Mongolia and some present-day Chinese provinces. These areas are not suitable for agricultural production, but are ideal places to raise domestic animals such as sheep and cows. The nomadic tribes of China’s neighboring countries to the north usually rode horses while raising their sheep and cows. In fact, even today, the Mongols like to call themselves “the race on horseback.” The economic theory of “learning by doing” (or “practice makes perfect”) means that a worker’s productivity in a certain task tends to increase as he performs the same task repeatedly. This idea is generalized at the macro level in economics. Arrow (1962) and Lucas (1993) emphasize that “learning by doing” is an important engine of economic growth.

A nomadic tribe has the advantage over an agricultural community in combat because the action of combat is largely similar to the action of ordinary production for nomads. Even during times of peace, a nomad must ride his horse to raise cattle and fight with wolves and other fierce animals to protect it. Therefore, in ancient times, a nomad who survived into adulthood was usually and “naturally” a good soldier in combat. However, a peasant’s production has much less to do with the training to be a professional soldier, particularly in the cavalry. Nomadic tribes were historically much more war-like than agricultural communities.
What could an agricultural community do if its neighbor was a nomadic tribe? People in ancient China found a good answer to this question: form a large agricultural country. In contrast, Europe did not face such a grave threat from nomadic tribes for most of its history. This explains why China has long been a large country while Europe has been divided into many countries. A large country can deter the potential attacks of nomadic tribes. If an agrarian country is sufficiently large, it has an edge over a nomadic country in combat for two reasons. First, a large agrarian country can generate substantial revenues, which coupled with its large population enables the government to select high quality soldiers. In fact, as in the case of ancient China, a large agrarian country could often recruit soldiers from neighboring nomadic tribes when providing them with ample financial rewards. Second, the incentive scheme for soldiers and army officers is usually far better established in a large agrarian country. This scheme depends on both a carrot and a stick. A large agrarian country can provide plenty of bonuses for soldiers who perform well on the battlefield. However, a nomadic country often recruits all of its male citizens when fighting the army of a large agrarian country. In this case, the nomadic country cannot design a credible mechanism for rewarding all of the soldiers who perform well on the battlefield. Furthermore, the discipline shown against soldiers who shirk their combative duty can be very severe in a large agrarian country. Such a penalty mechanism would be hard to implement in a nomadic country, which usually consists of numerous autonomous or semi-autonomous tribes.

For example, in the Battle of Mobei that took place near present-day Mongolian capital of Ulaanbaatar in 119 BC, Chinese troops achieved an overwhelming victory over the powerful nomadic empire of Xiongnu. During the battle, 90,000 Xiongnu soldiers (mostly from cavalries) were killed, and the Chinese army lost only 20,000 cavalry soldiers.

During China’s Han Dynasty, Chinese general Chen Tang made a famous statement against the nomadic tribes to the north: “No matter how far away, whoever dares to offend mighty Han will be put to death.” This statement was credible only because China was a large country with a strong central government. In his influential book, Diamond (1997) argues that a country’s economic development is determined by its geographical location and natural environment. In a somewhat similar vein, this book argues that China’s large size has long been determined by its unique geography.

How is the social order of a large country maintained? The first answer is establishing a good rule of law. This book shows that a well-established legal system has been the cornerstone of a united China. In particular, Chapter 4 demonstrates that in the warring period, the Qin state could conquer other states and unite China due to its much better established rule of law. Moreover, it shows that a unique history and the geographical location of the state of Qin gave its king more centralized power than the kings of other states, which made a major legal reform possible in Qin but not in other Chinese states.
In contrast, many European countries had a less-developed rule of law. For example, a significant portion of European conflicts were settled by duels during the period. A duel served as an alternative to other conflicts that were less regulated and larger in scale. Consider the example of a major dispute erupting between two large families or clans. When a dispute could not be resolved in a legal court because the rule of law was not well established, one natural impulse of the families and clans was to resolve the dispute through war. Over time, social norms emerged out of this kind of scenario that resulted in far fewer destructive consequences. If a conflict broke out between two large families, each family was permitted to select a single member, such as its best fighter, and settle it via a duel between the two selected members without harming any other family members.

This book argues that the formation of submissive culture and people’s “personality” complements the rule of law in maintaining social order. Conformity is much less costly to enforce when the people involved have a submissive personality. The submissiveness of the ancient Chinese personality was sustained by the Confucian culture. Chapter 8 shows that the imperial exam system (Keju), which was used in selecting government officials based on Confucian literature, served as an effective mechanism of promoting Confucian culture. Keju was based on strict rules that largely guaranteed fairness and eliminated nepotism, racism, and favoritism based on personnel connections or physical appearance from the selection of government officials. Indeed, Douglass North made the keen observation that fairness is a crucial feature of lasting social institutions. That almost every man in ancient China was allowed to participate in the Keju and hence had the chance of becoming a government official with a high income and prestige provided a channel of intergenerational mobility even for the people at the bottom of the society. This “equal opportunity” substantially mitigated the grievances that ancient Chinese people had against income inequality.

Throughout the country’s history, Chinese governments and societies have not usually been concerned with race and personal appearance. Cultural unity and a consensus over basic values were maintained through the people’s adherence to Confucianism. The nomadic tribes outside China, who did not follow the teachings of Confucian Classics, were initially labeled “barbarians” but considered “Chinese” once they adopted Confucianism (e.g., Chen, 2005). In other words, in ancient times, a person was considered “Chinese” based on culture and personality rather than genetics. The Confucian culture was refined in a system of behavioral code to develop a “servile” personality that helped the ancient Chinese maintain social order in such a large country. Moreover, nationalism was weak because there was only one agrarian country of which the ancient Chinese were aware.

The central theoretical basis of this book is the “political Coase theorem”, which suggests that people tend to seek optimal choices in all aspects of their lives to maximize the social welfare. However, this implication usually holds true as a long-run trend only. In the short run, people often make mistakes and engage in all kinds of opportunistic behaviors that
deviate from the social optimum. This applies well to China’s attempts to find optimal ways of maintaining its status as a big country. The Tang Dynasty marked a golden age of Chinese history. However, it was torn apart by the local warlords, to whom the central government delegated too much power. The Song Dynasty resolved this problem by centralizing the military power. However, it did so at the cost of decreasing the military effectiveness of the Song army, which prevented the Dynasty from completely uniting China. The Yuan Dynasty tried to rule China through an alliance with the neighboring states of the Mongol Empire. To forge this alliance, a social hierarchy was created that placed the Mongols at the top, which ultimately led to the revolts of the Han Chinese and the downfall of the Dynasty. The emperors of the Ming Dynasty designed a system that appointed the princes of China’s royal families, who served effective roles in monitoring local military generals. However, the extended royal families were provided with a large amount of resources and grew rapidly. The large expenditure of the gigantic royal families ultimately became an unbearable economic burden for the Chinese populace, which led to the downfall of the Ming Dynasty. The Qing Dynasty built by the Manchus replaced the Ming Dynasty. The Manchus were perhaps the best rulers in historical China. They maintained China as a single large country by being benevolent to the people, imposing low taxes, minimizing racial differences, and deterring potential insurrections via a strong alliance with nomadic tribes in Mongolia. Furthermore, the Qing Dynasty forged a strong alliance with Mongolian nomads through both extensive marriages with tribal leaders and military conquests. In fact, the Great Wall was virtually useless in the Qing Dynasty because the Manchus forbade the nomads from invading and placed them under strict control.

The Qing Dynasty unfortunately met with “guns and steel” à la Jared Diamond (1997). Following the First Opium War in 1840, the Qing army was repeatedly defeated by Western powers with far superior weaponry. Those defeats convinced the Qing government of the importance of modern technologies and led to China’s “Self-Strengthening Movement,” a fairly successful endeavor that substantially strengthened the Qing army.

However, the First Sino-Japanese War broke out in 1894 on both land and sea, which again demonstrates Qing army’s weakness. Although the Qing navy was once commonly considered the most powerful fleet in Asia, its army was thoroughly defeated in 1895 by Japan, which did not have arms supremacy. Japan’s ground forces and navy achieved overwhelming victories, as illustrated by a comparison of the casualties. During the war, 35,000 Chinese troops were killed or wounded. In sharp contrast, the amount of Japanese casualties numbered fewer than 5,000. Moreover, the Chinese fleet was annihilated by the Japanese Navy, which did not lose a single ship. In April 1895, the Qing government realized that the Chinese army was simply no match for the Japanese army, and it sued for peace. The war was ended with the signing of the Treaty of Shimonoseki, by which China ceded Taiwan to Japan in perpetuity and China paid Japan an astronomical war indemnity.
Why was China defeated so completely? This question has puzzled the Chinese people since 1895. In fact, right before the war started, most Western observers perceived that China had a stronger army and would be victorious. The defeat was extremely humiliating to the Chinese people. The difference in weaponry between the two nations did not account for the outcome. Indeed, the main explanation for China’s complete defeat among the populace appeared to be that the Chinese had a “national character” that was inferior to that of the Japanese.

This enormous national humiliation has inflicted the minds of the Chinese people for more than a century. Various hypotheses have been advanced to explain the reasons for China’s defeat and mitigate this bitter psychological blow. The leading hypothesis is the corruption of the Qing government, which makes Empress Dowager Cixi the major source of blame. It is a familiar story in China that Cixi put a large portion of Chinese fleet funding into the construction of the royal summer palace. However, this explanation is too far-fetched. The Chinese population was about a half billion at the time. The expenditure for a royal summer palace that was relatively modest in scale was unlikely to account for a major proportion of the total government revenue of such a large country.

By applying economic theories and analyzing Japanese history, this book explains this event from new angles. First, based on the framework of “self-fulfilling” prophecy in the game theory developed by John Nash, it shows that the difference of bravery between Chinese and Japanese soldiers is an important reason for China’s defeat. What made the Japanese soldiers braver than the Chinese soldiers? On one hand, the Qing government had a very tight budget at the time due to its enormous expenditure on quelling large-scale domestic rebellions (e.g., the Taiping Rebellion), which led to serious corruption in the army. Consequently, its military discipline and reward system was poorly implemented. Moreover, because most Chinese people had a weak personality and lacked a sense of nationalism at the time, the soldiers fought cowardly and exhibited little military professionalism under the malfunctioning disciplinary system. Chapter 16 shows that in this case, although it was in the best interest of the Chinese soldiers that they all fought together bravery, every soldier expected that other soldiers would be cowards, and hence they competed to run away from battlefields. Indeed, Paine (2003, p. 362) observes that in the First Sino-Japanese War, the Chinese “common soldiers had little incentive to fight.”

On the other hand, before the Meiji Restoration in 1868, there were about 250 de facto countries, or at least autonomous regions, in Japan. Each country/region had its own private forces that consisted of samurais. The moral code of samurais is “Bushido,” which emphasizes loyalty, valor, the mastery of military skills, and honor unto death (e.g., Nitobe, 1900). Honor and pride were most important to a samurai. In fact, most samurais belonged to a low-income class in Japan, and were often poorer than peasants (e.g., Greenfeld, 2001). Samurais mainly received “payment” in the forms of honor and prestige, which were
bestowed upon their class on a daily basis. For example, when a samurai passed by, most members of the Japanese society were required to bow to him in a sign of respect. A samurai was legally entitled to strike with his sword at anyone who compromised his honor, such as a farmer or artisan who refused to bow. This right is called “Kiri-sute gomen” in Japanese. The samurai class was outlawed under the Meiji Restoration to strengthen the power of Japan’s central government. However, the spirit of samurais remained intact, and was redefined in the form of “Japanese nationalism” in the new era (Greenfeld, 2001). Many individuals of samurai origin quickly joined the Imperial Japanese Army, which substantially enhanced its combative power.

Second, the so called “O-ring” theory by Kremer’s (1993) can be applied to provide another explanation of China’s defeat in the first Sino-Japanese War. This theory emphasizes that in terms of industrial specialization, the qualities of different intermediate goods are highly complementary in producing the quality of the final consumption good. For example, a computer will not work even if only one out of the thousands of its components fails. Kremer (1993) uses the example of the space shuttle Challenger exploding because one of its many components, the O-ring, malfunctioned under very high temperatures.

Kremer’s insight can be well applied to a battleship. For example, suppose a battleship has 100 marines. Even if just one marine does not operate well, the artillery fired by the battleship may miss the target. The Japanese marines exhibited much more military professionalism and performed much better in training and combat than the Chinese marines. Thus, a Japanese battleship might have had much greater fighting power than a Chinese battleship even if the two ships were produced by the same British producer and were of the same quality.

The O-ring theory also applies to ground forces. In an army with firearms, coordination between different soldiers was important. Even if an individual Japanese soldier was only slightly better than an individual Chinese soldier in terms of bravery and military professionalism, the Japanese troop would have had greater combative power as a whole.

Soon after China’s defeat in the first Sino-Japanese War, some Chinese intellectuals began to ask whether Confucian culture was a major reason for the defeat and the country’s being bullied at the hands of foreign powers. The “New Culture Movement” began in China around 1916 and continued through the 1920s. It culminated in the massive demonstration of students and intellectuals in Beijing on May 4, 1919, when many participants strongly denounced the Confucian culture and advocated Chinese nationalism. Against this background, the Chinese Community Party (CCP) was established with the help of the Communist International (Comintern), an international communist organization in Moscow.

In 1937, Japan invaded China and its troops committed horrendous atrocities such as the Rape of Nanjing and the “Three Alls Policy” (“kill all, loot all, and burn all”). Applying various theories of economics and psychology, this book conducts a rigorous analysis of why
the Japanese committed hideous war crimes in China and particularly rape on a massive scale. Moreover, it shows that Japanese atrocities in China were the fundamental reason why the United States joined the war against Japan, and that the attack on Pearl Harbor was simply a preemptive strike given the belief of the Japanese generals that the United States would soon inevitably fight against their country.

Japanese atrocities changed China’s “national character,” which in turn fostered the development of Chinese communist troops and guerillas. For example, some Chinese witnessed Japanese soldiers raping their wives and killing their children. These traumas generated enormous humiliation and hatred, which turned the Chinese from cowards into potentially brave fighters. Indeed, consumed by such tremendous shame and hatred, many Chinese did not hesitate to trade their lives for even a slim chance to seek revenge against Japanese soldiers. Although continuous national humiliations imposed by foreign powers gradually toughened up the Chinese personality from 1840 to 1937, the atrocities of Japanese troops, which far exceeded previous atrocities committed by foreign countries in China in both scale and degree, fundamentally changed that personality.

In parallel to this change, the number of Chinese communist troops grew rapidly. Douglass North argues that social institutions were developed to be conducive to economic growth and the improvement of social welfare. According to this principle, social institutions tend to change along with economic fundamentals. Before the Japanese invasion, most of the Chinese people had rejected communism. One need not study economics to know that the economic system of communism, in which one’s payoff is independent of his work effort, provides no incentive to work hard. In fact, even orthodox Marxism argues that socialism should be established on the basis of highly developed capitalism. In other words, communism was not suitable to China at the time, which may explain why the Chinese Red Army was only a small force before 1937.

However, Japan’s hideous atrocities changed the Chinese people’s mentality. After the Sino-Japanese War, the Chinese were no longer concerned about economic development. Instead, their main concern was to defeat the Japanese invaders. They quickly learned that the only force that could match and beat the Japanese army in terms of bravery and toughness was the Chinese Red Army under the CCP, which was renamed the “Eighth Route Army” of the National Revolutionary Army of the Republic of China after 1937.

In terms of Baumol (1990), Chinese communists were the best “military entrepreneurs.” The Chinese communist troops exhibited significant bravery for two reasons. First, they joined the CCP because they believed in the ideology of fighting against oppression and “liberating the entire human race” rather than pursuing personal gains. Indeed, prior to 1937, the CCP was on the verge of annihilation, and the remaining troops were strongly committed to the ideology of communism. Second, the CCP had been a branch of Comintern, largely preventing its leaders from pursuing personal gains. Thus, many young men competed to join
the “Eighth Route Army” and its guerillas without demanding any remuneration/financial compensation.

Since then, the Chinese have maintained a bellicose personality, one that was further cultivated when the CCP took over China. For example, China’s national anthem is “March of the Volunteers,” which starts with the following lyrics: “Arise! All those who don’t want to be slaves! Let our flesh and blood forge our new Great Wall!” During the Cultural Revolution, Confucian classics were denounced as deceptive and anti-revolutionary, and Confucius himself was described as an evil person. The Chinese personality was transformed from servile to tough, with the Chinese people coming to place a high value on valor and national pride. The toughness and bravery of Chinese communist troops can be illustrated by their overwhelming victory in the Chinese Civil War, China’s fearless participation in the Korea War despite the far superior weaponry of its enemy, and China’s brief and little-justified invasion of Vietnam in 1979.

However, considering the social, political, and economic environments of the modern world, neither the traditional Confucian culture nor the communist ideology are the best choices for the culture and national character of Chinese people today. The Chinese in mainland China are virtually “culture-less” after the destruction of Confucianism and several decades of radical communist rule. In terms of the “political Coase theorem”, the Chinese people are currently searching for a new culture and the best possible “national character” in the new global environment. Although the search continues, it is certain that the personality of a typical Chinese individual will become increasingly “weaker”. In the era of advanced military technologies, a soldier’s bravery matters little to the outcome of a battle, which removes the material basis for the soldier’s personality. Moreover, a “weaker” personality facilitates the establishment of the so-called “Socialist Harmonious Society” advocated by the current Chinese leaders.

Although this book focuses on China, its basic idea has general applicability. For example, Nisbett and Cohen (1996) show that in the United States, white Southerners have a greater tendency to commit many kinds of violence due to a culture of honor in which a man’s reputation is essential to his economic survival. They argue that because the main economic activity in the American South has been the herding of animals that could easily be stolen, the residents there have had a strong incentive to establish a reputation of toughness for their material wellbeing and even for survival.

Iyigun (2008) suggests that the Ottomans’ military campaign in Europe led the people in Europe to be more tolerant of others’ religious beliefs. In particular, it allowed the Protestant Reformation to survive its infancy and mature. Based on a European dataset covering 1401 to 1700 CE, the author demonstrates a negative correlation between the incidence of military

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5 Although this book shares some basic ideas with Nisbett and Cohen (1996), it analyzes the issues in a different context. Furthermore, Nisbett and Cohen (1996) use psychology as their basic analytic framework, and the current book focuses on economics.
engagements between the Protestant Reformers and the Counter-Reformation forces between the 1520s and 1650s and the Ottomans’ military activities in Europe. Although this book analyzes different issues, it follows Iyigun’s study (2008) in showing that the threat from a formidable nomadic tribe affects the formation of cultures.

Moreover, consider the personality of Jewish people. The “national character” of the European Jews who were to form the core of the State of Israel before its formation could be said to be extremely non-aggressive and un-militaristic, with little exhibition of national interest. Within a generation, this character was turned on its head, much as the Chinese national character was over the course of the mid-20th century. In both cases, active political action was taken intended to change that character. When the Jewish people lived in the countries of “other” people, non-aggressive and un-militaristic personality enabled them to live more harmoniously with others. However, after the establishment of Israel, they lived in a hostile environment and were vastly outnumbered on battlefields by the enemies of the neighboring countries. Thus, Israeli soldiers had to be extremely brave to have a chance at winning the wars to ensure the survival of their new nation.

The basic theoretical foundation of this book is the “political Coase theorem”, which dictates that individuals tend to choose cultures and social customs that maximize social welfare in the long run. The Nobel Prize-winning contribution of Ostrom (1990) achieved this goal marvelously, with the Nobel Committee noting that Ostrom’s “research brought this topic from the fringe to the forefront of scientific attention ... by showing how common resources – forests, fisheries, oil fields or grazing lands – can be managed successfully by the people who use them rather than by governments or private companies.”

Ostrom (1990, p. 25) states, “As an institutionalist studying empirical phenomena, I presume that individuals try to solve problems as effectively as they can. That assumption imposes a discipline on me. Instead of presuming that some individuals are incompetent, evil, or irrational, and others are omniscient, I presume that individuals have very similar limited capabilities to reason and figure out the structure of complex environments. It is my responsibility as a scientist to ascertain what problems individuals are trying to solve and what factors help or hinder them in these efforts.” This book follows Ostrom’s spirit by conducting numerous case studies from a different angle, guided by the “political Coase theorem”.

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