

# The Inward-oriented Policies of Adam Smith and the China

## (Outline)

Chang, Ming Chung and Peng, Hsiao Ping

### Abstract

In this paper, we will demonstrate that Adam Smith favored “inward-oriented” policies. And he often presented evidence from the traditional China to support his viewpoints. We will also study why the traditional China was inward-oriented.

Keywords: Adam Smith, China and inward-oriented

The “inward-oriented policies” are usually defined as that economic independence or self-reliance by developing countries. Kurer (1996, p.645) explained such inward-looking strategies impose a comprehensive regulation to the private sector avowedly in the interest of import substitution. And Meller (2009, p.89) pointed out if the strategies were replaced by opening up the economy to imports, then the local economy is more efficient in resources allocation, and enables people to consume a highly diversified basket of goods which are cheaper. And it also prevents potential discretionary behavior by the public sector.

However, in this paper, the “inward-oriented policy” involved a new definition. This new definition is more close to the description of Fairbank (1983, 2006) and Huang (1981, 1988). It refers to lack for incentive on maritime expansion of foreign commerce or territory, and intermingle with non-Chinese-speaking peoples rather by steady assimilation based on the Chinese way of life than outright military conquest. Furthermore, we define an economic agent adopts “inward-oriented policy” if he increases the welfare by pursuing the improvement of the factors which he could control, and excludes the other factors which are out of his control.

This definition could be expressed more delicately by Adam Smith’s statement. In his book of *The Theory of Moral Sentiments* (1790, VII.II.28<sup>1</sup>), he described that the Stoics appears to consider human life as a game of great skill. The Stoics viewed the stake of the games just as a trifle for there was a mixture of chance, and the whole pleasure of the game arises from playing well, from playing fairly, and playing skillfully. Hence human life ought to be regarded as a fiddling sum of money which is

---

<sup>1</sup> VII.II.28 is an abbreviated version of Part VII, Section II, and Paragraph 28 of *The Theory of Moral Sentiments*

too insignificant to be concerned with anxiety. Adam Smith supported the argument. He expressed if we placed our happiness in proper discipline, education, and attention, we placed it in what depended upon causes altogether in our own power, and under our own direction. Then our happiness would be perfectly secure, and beyond the reach of fortune. On the contrary, if the event of our actions was out of our power, it should be equally out of our concern. Therefore, we could never feel either fear or anxiety about it; nor ever suffer any grievous or even any serious disappointment. Adam Smith (1790, VI.I.13) interpreted the man is naturally contented with his situation, who lives within his income is growing better and better every day by continual, though small accumulations. He feels double satisfaction with this gradual increase of ease and enjoyment. He actually enjoys the secure tranquility and does not go in quest of new enterprises and adventures which might endanger. However, if he decides to enter into any new projects or enterprises, then he surely has well prepared. Moreover, Adam Smith (1790, III.I.73) pointed out the great source of both the misery and disorders of human life seems to arise from over-rating the difference between poverty and riches. If a man attempts to pursue with that passionate ardor which would violate the rules either of prudence or of justice; or to corrupt the future tranquility of his minds, then he is playing at the most unequal of all games of hazard, and he seems to stake everything against scarce anything.

In China, the secure tranquility is held up as the basis of grading or standard of measurements. The performance of the sovereign is also evaluated by the criteria. Yang (1961, p.6) pointed out unity and expansion, and peace and prosperity, are two pairs of the criteria, in other words, civil and military achievements. In general, Chinese tradition expects military merits from the founder of a dynasty, and civil achievements from his successors. Expansionist emperors in the middle of a dynasty were often denounced for their ambition. For instance, the court proposed to honor the Emperor Wu of Han with the temple name of the “Epochal Exemplar” after his death. A strong objection was raised by scholar for the late emperor had brought upon the people disasters through his ambitious wars. However, an adequate national defense was considered necessary. Huang (1988, p.151) pointed out similar to the Germany was “saturated” toward the end of the nineteenth century in Bismarckian’s viewpoint. The Ming emperor of Chu Yuanchang left a permanent injunction to his descendants against sending expeditions to other countries. And imperial subjects of the Ming were not allowed to take to the sea, either. However, adequate national defense was considered a serious undertaking. Most sections of the Great Wall on the northern frontier were built at that time. Moreover, Fairbank (1983, p.149; p.151) pointed out the Ming court is responsible to ward off repeated invasions of the northern frontier. Maritime expeditions were no help against the Mongols. Such amazing expeditions

between 1405 and 1433 ever took Chinese ships to India, the Persian Gulf, and the East African coast almost a century before the more famous Portuguese navigators reached those places by sea around Africa. But this achievement had little significance in the Chinese scheme of things. Perhaps there is no more telling point of contrast between the China and Europe of the fifteenth century than their respective attitudes toward maritime exploration. Fairbank and Goldman (2006, p.139) concluded anticommercialism and xenophobia won out, and eventually China retired from the world scene. The military declined and bureaucrats ran the show. The contradiction between Ming China's superior capacity for maritime expansion and conservative Neo-Confucian throttling of it reflected that Ming China almost lost the opportunity of modern technological and economic development.

Furthermore, the regime's fiscal crisis that made funds really unavailable for these costly ventures. Huang (1988, p.158) also pointed out the lack of staple good was a major weakness of the maritime expeditions. The junks carried out silk fabrics, copper cash, porcelain, and camphor. They returned with incense, gems and jewelry, cutlery, ointment, botanic medicine, and tropical birds and animals. None of these goods was appropriate for a mass market. They were not of a commercial value to justify the maintenance and operation of such a mammoth oceangoing fleet. Therefore, the Ming ceased voyages fifty years before Vasco da Gama. But the main point demonstrated was China's self-sufficiency.

We argue that Adam Smith's work is based on the foundation of the inward-oriented strategy. And he often presented evidence from the China to support his viewpoints. For example, Adam Smith claimed the protection of domestic security is more important than the encouragement of foreign trade and expand the territory. Therefore, he stressed the sovereign has at least three duties to attend to; first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions (Adam Smith, 1904, IV.9.51<sup>2</sup>). Adam Smith (1904, I.3.7) interpreted that it is remarkable that neither the ancient Egyptians, nor the Indians, nor the Chinese, encouraged foreign commerce, but seem all to have derived their great opulence from the inland navigation. Adam Smith (1904, IV.1.10) also cited the title of Mun's book, *England's Treasure in Foreign Trade* to explain that the inland or home trade is the most important trade of all the world, for the trade could afford the greatest revenue, and creates the greatest employment to the people of the country in equal capital of all the

---

<sup>2</sup> IV.9.51 is an abbreviated version of Book IV, Chapter 9, and Paragraph 51 of *An Inquiry into the Nature and Causes of the Wealth of Nations*.

trades. This inward-oriented is contrary to the common cognition that the inland or home trade was considered as subsidiary to foreign trade. In other words, Adam Smith argued the brilliant achievement in the ancient China did not derived from the any expansion of foreign commerce or territory which were out of sovereign's control, but provision of public works and institutions which were all in sovereign's own power, and under its own direction. Moreover, Adam Smith (1904, IV.2.4-2.6) emphasized that every individual always devotes himself to finding out the most advantageous employment for whatever capital he can command. To save the risk and trouble of exportation, he endeavors to employ his capital as near home as he can. And consequently it contributes to a greater quantity of domestic industry, and gives revenue and employment of the country than in the foreign trade and carrying trade. Adam Smith (1904, III.1.3 and III.4.24) also pointed out that most men will choose to employ their capitals rather in the improvement and cultivation of land than either in manufactures or in foreign trade upon equal profits. If a man employs his capital in land, then his fortune is as well secured as the nature of human affairs can admit of, and much less liable to accidents than that of the trader. And the capital which arises from the more solid improvements of agriculture is much more durable and cannot be destroyed. Therefore a man usually retains a predilection for this primitive employment in every stage of his existence. On the contrary, it is in a great measure indifferent to the merchant from what place he carries on his trade; and a very trifling disgust will make him remove his capital from one country to another. That is why the capital which is acquired to any country by commerce and manufactures is all a very precarious and uncertain possession. Thus Adam Smith (1904, IV.9. 40) pointed out that the Chinese governments have little respect for foreign trade. Even viewed it as beggarly commerce! And they are favor to agriculture more than all other employments. This is original from its specific relation of man to nature. Furthermore, Adam Smith (1904, V.1.87; IV.9.46) pointed out that the revenue of the sovereign in China arises almost altogether from a land-tax or land-rent. Therefore the sovereign should be particularly attentive to the interests of agriculture, upon the prosperity or declension of which immediately depended the yearly increase or diminution of their own revenue. This linkage led the sovereign devoted himself to promoting the increase, both in quantity and value, of the produce of the land. Moreover, in order to provide the most extensive market for that produce, it also reinforced the motivation of the sovereign to maintain the best roads and the best navigable canals.

Besides the prosperity of agriculture, Fairbank and Goldman (2006, p.35; p.89; p.137) pointed out that the Neolithic peoples living on the sea developed a nautical technology parallel with the Neolithic capacity for agriculture. However, a robust sea trade did not grow up in China comparable to that in the Middle East and

Mediterranean. The reasons lay in an accident of geography: Only few communities in East Asia could be reached from China by coasting or by sea trades and its location is not accessible to foreign countries by sea. Even when certain sectors of China showed a tendency to grow through industry of foreign trade, the Ming government saw no reason to help them but rather opposed such a growth of imbalance which “in turn would threaten the empire’s unity.” It was better to keep all the provinces on the same level as the more backward sectors. Furthermore, China’s domestic and interregional trade was facilitated by cheap transportation on the Grand Canal, the Yangzi, its tributaries and lakes, and other river and canal systems. These waterways created the world’s most populous trading area. Foreign trade would be an offshoot of this great commerce of China at all times. Moreover, Pomeranz (2000, p.203) also pointed out that China sovereign viewed itself as a “world empire” that could see nothing to be gained from involvements with economies beyond its borders. From the sovereign viewpoints of security, it is unsafe if too many overseas ties (as opposed to the foreigners themselves) combine with mercantile and naval power in the same set of hands; see Wills (1979, 1995). Eventually, it might turn out an internal rebellion—a threat that would only have been increased by licensing violence among people who would eventually return home—see Wong (1997, p.83-89). Moreover, the Ching sovereign desire to keep taxes low led to authorize passively armed maritime trade by Chinese. Consequently, no private parties were ever able to be the exclusive link between the huge Chinese market and overseas luxury goods.

In addition to the inward-oriented policy of the lack for incentive on maritime expansion, the governments in China acquire experiences to intermingle with non-Chinese-speaking peoples rather based on the Chinese way of life and government than outright military conquest. Fairbank and Goldman (2006, p.61) pointed out Han foreign policy began with the need for stable relations with the far-flung tribal confederation of the Hsiungnu-Turkish nomads whose mounted archers habitually raided North China for loot and supplies. When the Han were strong, they developed their own horse pastures and mounted archers. The Han government also subsidized the Southern Hsiungnu as a client state to help fend off the warlike Northern Hsiungnu. When militarily weak, which was much of the time, Han emperors used a policy of “peace and kinship”—entertaining the nomad chieftain, giving him Han princesses in marriage, and making lavish gifts, especially of silks.

Fairbank (1983, pp.81-82) concluded Chinese defensive efforts to keep out the nomads started from the construction of the original Great Wall of China in third century B.C., were followed by constant later efforts to achieve security, either through defensive attack or bribery and payments or through diplomacy and

negotiation. Moreover, Fairbank and Goldman (2006, pp.112-113) pointed out in the absence of contact with any other state of equal cultural achievement, Han and Tang foreign policy thus became based on the tribute system, a reciprocal foreign relationship between superior and inferior. Since presentation of tribute offerings was normally reciprocated by lavish gifts from the emperor, accepting China's supremacy was materially worthwhile. In addition, the tribute system early became the institutional setting and indeed covers for foreign trade.

Though the inward-oriented policies were undertaken, the development of the China was still brilliant. Fairbank (1983, p.30) indicated that Japanese scholars in particular have helped establish the Medieval flowering picture of China from eighth to thirteenth centuries as the world's most advanced society. Adam Smith (1904, IV.1.33) also pointed out that the empires of China were in every respect much richer, better cultivated, and more advanced in all arts and manufactures than either Mexico or Peru, except the abundant mines of gold or silver. This shows inward-oriented policies were sufficient to promote the affluence of society, and protect the security of the territory. Furthermore, we may find the virtue of prudence could be the typical essence of the inward-oriented policies. Adam Smith (1790, IV.I.12) pointed out the prudent character may be fitted to promote the happiness both of the individual and of the society. On the contrary, the fatal effects of bad government arise from the absence of providing the secure tranquility. Adam Smith (1790, IV.I.17) interpreted that the virtue of prudence consists two qualities which is most useful to the individual. The one is the superior capacity for discernment on the remote consequences of all our actions, and of foreseeing the advantage or detriment which is likely to result from them. And the other is self-command, by which we are enabled to abstain from present pleasure or to endure present pain, in order to obtain a greater pleasure or to avoid a greater pain in some future time. All the characters of prudence could be shown in the inward-oriented policies which the Chinese government adopted. For instance, Huang (1981, p.109) pointed out as long as peaceful solutions to the problem had not been exhausted, it would be unwise for the empire to consider itself at war with the entire Mongolian confederation. It is obvious that the empire could claim a majority of victories over the nomads yet still could not ward off the attack by the nomads. But on the other hand, a trifling carelessness might lead the dynasty ruined. Therefore, the government lacked of the incentive to expand territory and foreign trade, but concentrated on the security of domestic. These efforts are all in their control. Then happiness would be perfectly secure, and beyond the reach of fortune. On the contrary, the events were out of the sovereign's power, they should be out of his concern. He actually enjoys the secure tranquility and does not adopt any expansion and adventures which might endanger.