

GRASSROOTS INDUSTRY AND INSTITUTIONAL SYNERGY: AN EMPIRICAL RE-EVALUATION OF THE ECONOMIC IMPACT OF WARTIME CHINESE INDUSTRIAL COOPERATIVE MOVEMENT (1938-1945)

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ABSTRACT

During the Second Sino-Japanese War, China's coastal and eastern industrial centres were successively occupied. Such severe wartime crises resulted in the loss of most modern production capacity. To restore production and support the resistance against Japanese invasion, the Nationalist (Kuomintang) Government launched the Chinese Industrial Cooperative Movement (CIC/Indusco) in 1938, which organized refugees and unemployed workers to establish small cooperative factories to supplement military and civilian demands. This movement rapidly expanded to a nationwide scale. This paper aims to re-examine the role of the Indusco in wartime economy by organizing and digitizing the journals of Indusco, statistics from the KMT administration and various provincial reports on wartime production and economic outputs from 1938 to 1945. The author also plans to employ process tracing and data analysis to reveal the historical and political mechanisms underlying the statistical results and further elucidate the intermediary role of Indusco in the KMT-CCP interaction. Based on these methods, this study concentrates on answering four core questions: Have cooperative factories significantly increased regional industrial output? Does its employment and social assistance function effectively alleviate wartime economic pressure? What role have cooperatives played in mobilizing domestic and foreign capital? And what kind of institutional collaboration potential and limitations does this cross-party economic cooperation case reveal? The answers to these questions will provide a solid foundation for understanding the proper role of Indusco in the Chinese wartime economy.

Keywords: Chinese Industrial Cooperative Movement (Indusco); Wartime Economy; Second Sino-Japanese War; Industrial Production and Employment; Nationalist-Communist Collaboration

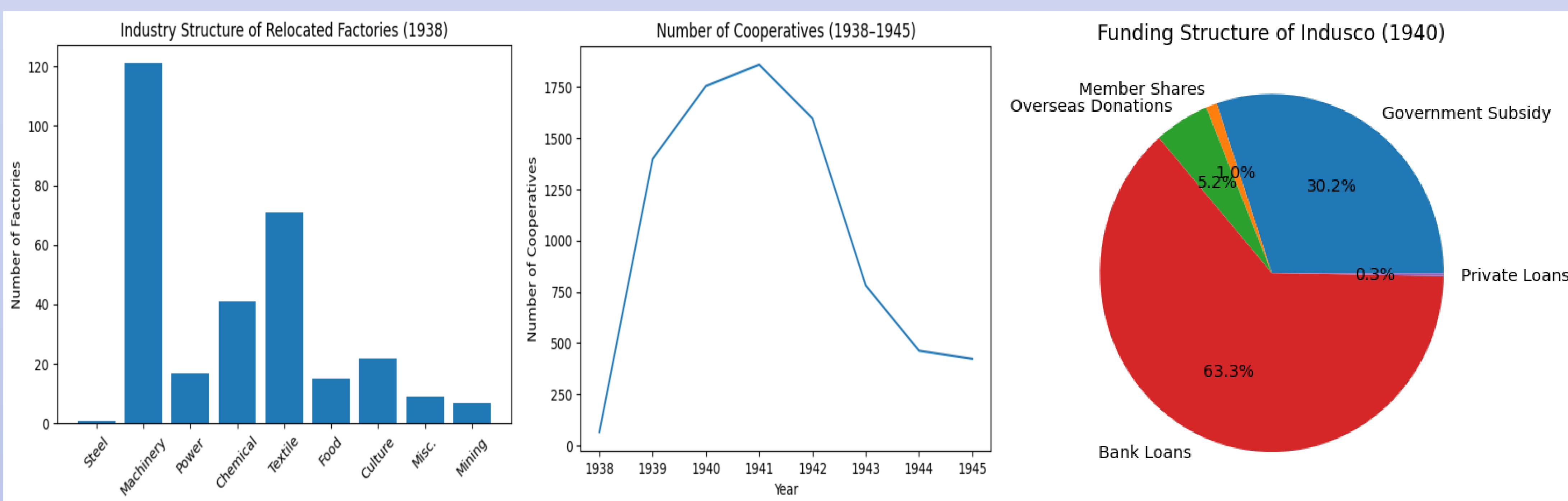
INTRODUCTION

The outbreak of the Second Sino-Japanese War in 1937 forced China into a protracted war of resistance against a militarily and industrially superior Japan. While existing scholarship has extensively examined military strategies and political alignments, particularly the roles of the Chinese Communist Party and the Nationalist government—the socio-economic foundations that sustained long-term resistance remain insufficiently explored. Research has often framed wartime mobilization through the binary lens of CCP versus KMT, or concentrated on battlefield narratives and high politics, leaving the institutional mechanisms of economic survival comparatively understudied. This research turns to the Chinese Industrial Cooperative Movement (Indusco) as an entry point for reinterpreting wartime China. Rather than treating the movement as a peripheral economic episode, this study situates it within the broader structure of the Anti-Japanese United Front and the evolving configuration of the so-called “Third Force.” It argues that the cooperatives were not merely auxiliary production units, but constituted a critical institutional response to wartime industrial collapse, regional fragmentation, and the limitations of centralized state planning. Methodologically, this research moves beyond partisan evaluation and adopts a multi-dimensional approach, integrating political, economic, social, and intellectual history. By examining regional variations, organizational structures, labour conditions, financial mechanisms, and transnational support networks, it seeks to reassess the cooperatives’ historical position.

LITERATURE REVIEW

- *Helen Foster Snow (1941): Framed Indusco as a grassroots democratic reconstruction movement and a new economic model for wartime China.*
- *Edgar Snow (1940s) / Rewi Alley (1940s–1980s): Presented the movement as a mass-based united front initiative with strong internationalist and anti-fascist significance.*
- *Hou Delei (1983; 1996): Interpreted the movement as an “economic salvation” campaign closely aligned with CCP-supported united front politics.*
- *Zhu Minyan (1989): Defined Indusco as a progressive wartime mobilization platform with “Neo-Democratic” characteristics.*
- *Mi Hongcai (1988): Systematized cooperative categories and emphasized their role as independent national economic forces.*
- *Lu Zhengzhi (1951): Viewed industrial cooperatives as a new industrial-democratic organization contributing to wartime economic stability.*
- *Douglas R. Reynolds (1975): Analysed the movement through political polarization theory, situating it within CCP-KMT rivalry.*
- *Identified Gap: Existing scholarship is i) Too politically interpretive; ii) Institutionally under-theorized; iii) Weak on market mechanisms and capital structure; and iv) Lacking comparative socialist-economic analysis.*

DATA ANALYSIS



The data demonstrate three major phases of the Chinese Industrial Cooperative Movement. First, between 1938 and 1941, the number of cooperatives expanded rapidly, reaching its peak in 1941. Second, financial records from 1940 reveal a heavy reliance on bank loans (63.33%) rather than direct state subsidies (30.20%), suggesting a hybrid financing mechanism under wartime constraints. Third, after 1942, the number of cooperatives declined significantly, indicating structural and financial pressures in the later war years. These trends reflect both the mobilization capacity and institutional limitations of inter-party economic cooperation during wartime China. The trajectory of Indusco illustrates how wartime institutional innovation could temporarily bridge state capacity gaps but ultimately depended on fragile financial and political equilibria.

INDUSCO ECONOMIC DEFENCE LINE



CONCLUSION

This study argues that the Chinese Industrial Cooperative Movement (Indusco) should be understood not as a marginal wartime improvisation, nor merely as an appendage of either the KMT or the CCP, but as a structurally significant institutional innovation under conditions of total war. Emerging from the collapse of coastal industry after 1937, the movement constructed a decentralized and mobile production network that compensated for the limitations of state-owned heavy industry and the vulnerabilities of centralized wartime planning. By embedding production in local societies, mobilizing refugees and skilled labour, and integrating overseas Chinese and international cooperative support, Indusco created a flexible industrial structure capable of sustaining both military supply and civilian subsistence. Politically, the movement operated within yet was never fully reducible to the Anti-Japanese United Front. It functioned as a mediating platform linking the Chinese “Third Force,” the Nationalist government, Communist forces, and transnational anti-fascist actors. In this sense, Indusco transformed industrial production into a form of political coordination, and economic survival into a shared anti-fascist project. Rather than viewing the movement solely through partisan polarization, this research repositions it as a hybrid institutional formation: at once economic infrastructure, united-front mechanism, and experiment in industrial democracy. Indusco thus reveals how wartime China generated not only military resistance, but also a reconfiguration of economic governance and social organization whose implications extended beyond the battlefield and beyond national borders.

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