

# Foreign Powers, Domestic Integration, and Firms: Evidence from Shanghai in the Era of Concessions

Laura Alfaro\*  
*Harvard Business School  
& NBER*

Cathy Ge Bao<sup>+</sup>  
*UIBE*

Maggie X. Chen<sup>++</sup>  
*George Washington  
University*

Junjie Hong<sup>/</sup>  
*UIBE*

Claudia Steinwender<sup>⊥</sup>  
*Sloan, MIT  
NBER & CEPR*

## ABSTRACT

We investigate the influence of institutions on industrial and firm growth by exploiting the unique historical context in Shanghai, China, during the late 19<sup>th</sup> and early 20<sup>th</sup> century. While there is a general consensus in the current literature that institutions are important for economic growth, the empirical assessment of this question has traditionally relied on comparing countries with different institutions to each other and over time. This has made it challenging to disentangle institutions from other location specific factors that may affect economic growth (for example: climate, culture, language, access to natural resources/rivers/waterways, suitability as port, etc.). Another challenge has been to disentangle which aspect of the broad term “institutions” really matters for growth.

This paper aims at contributing to our understanding on institutions and economic growth by looking at the growth of firms and industries (rather than countries) that are subject to different institutions, but are located within the same city, and therefore share the same geographic amenities. Historical Shanghai provides an intriguing context for studying our research question. First, because multiple foreign political powers divided the city into segments that shared similar natural advantages (i.e., location fundamentals) but were ruled by distinct institutions in a period displaying remarkable openness to trade, investment, and immigration, this provides us with a unique context for distinguishing the economic influence of institutions from the impacts of location fundamentals. Second, we were able to compile a newly digitized dataset on firms in Shanghai between 1872 to 1941, covering firm level outcomes related to employment, trade, and firm organization. Third, we plan to digitize several datasets, including the minutes of the municipal council meetings and the texts of the municipal law, and perform text analysis on them in order to measure several aspects of institutions at a finer level than previously done. Since all of our datasets vary over time and cover a large time period, we will also be able to test how institutions change over time, and relate this to the transmission of foreign shocks, as well as to firm level outcomes.

---

\* Corresponding author: lalfaro@hbs.edu. Harvard Business School, Morgan 263. Boston Ma 02163. Phone 617-4957981.

<sup>+</sup> baoge@uibe.edu.cn, University of International Business and Economics.

<sup>++</sup> xchen@gwu.edu, George Washington University.

<sup>/</sup> hongjunjie@uibe.edu.cn, University of International Business and Economics.

<sup>⊥</sup> csteinwe@mit.edu, Sloan, Massachusetts Institute of Technology.