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THE IMPACT OF THE FIRST SINO-JAPANESE WAR INDEMNITY: TRANSFER PROBLEM REEXAMINED

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Abstract

The first Sino-Japanese war that took place in 1894-1895 was concluded with Japan's victory and the Treaty of Shimonoseki which in effect requires China to pay a war indemnity of 230 million taels of K.P. silver; cede Taiwan to Japan in perpetuity and full sovereignty; open treaty ports for Japanese export and investment, etc. The amount of indemnity was about a quarter of Japan's GDP at the time. In contrary to the effect of Franco-Prussia war indemnity payment on France studied in Devereux and Smith (2007), China's post war terms-of-trade was improved. Using a small open economy (SOE) full DGE model, this paper investigates the impacts of the war indemnity on China's economy for 1895-1900, particularly issues related to the "transfer problem". Our simulation results predict an improvement of the terms of trade which fits the Chinese history. The assumptions of two-goods setting, import markup, and SOE explain the difference in results between the current paper and Devereux and Smith (2007).

Keywords: The Sino-Japanese War; Indemnity; Transfer Problem

JEL: F32, F34, F42, N45

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