CONCLUSION

After the Boom

IN PART 1 OF THIS BOOK, we saw how capitalism, an economic system driven by the imperative of profit maximization and capital accumulation, developed along a rocky road in China from the nineteenth century to the early twenty-first century. Amid the late-twentieth-century rise of global neoliberalism, under which the United States and Europe shifted to financial expansion, debt-driven consumption, and reliance on imported manufactured goods from low-wage countries, China eschewed central economic planning and absorbed substantial foreign-capital accumulated during the industrial takeoff of its Asian neighbors, particularly those of Chinese diasporic origins, turning itself into a dynamic center of export-driven capitalism.

China had been a geopolitical heavyweight during the Cold War, taking advantage of the U.S.–Soviet rivalry. Now, charged with the energies released by the capitalist boom, China's influence in global affairs rose. In part II, we saw China's uneven impact on the prospect of development in other developing countries. It is apparent that China has no intention of or capacity for transforming the global neoliberal order because the China boom has been relying heavily on transnational free trade and investment flow. China also makes significant contribution to the perpetuation of U.S. global dominance through its addiction to U.S. public debt. But it is also apparent that the China boom is shifting the balance of power within that global neoliberal order in developing countries' favor. And finally, it is clear that because China is a significant source of the global economic imbalances underlying the global financial crisis of 2008, the success of sustained global economic recovery hinges on China's own economic rebalancing, which will require profound social and political reforms.

The Two Myths of Capitalism in China

This book challenges two popular myths about the historical origins and global effects of the development of capitalism in China: that China's capitalist development today is a radical break from its Maoist past and that China's capitalist boom is making it a subversive power within the U.S.-centered global neoliberal order.

Regarding the first myth, many believe that the Communist Party's founding of the People's Republic of China in 1949 and the market reform Deng Xiaoping started in the 1980s constitute two radical breaks that cut the economic development of modern China into three distinct periods: incipient capitalist development around 1850–1949, socialist reorientation in 1949–1978, and capitalist revival from 1978 on. To be sure, the Communists' seizure of power and Deng's reform were important events that triggered significant changes in socioeconomic structure, political order, and government policy. But we should not allow our vision to be clouded by these changes so that we neglect the long rise of capital in China that transcends these watershed events. Chapters 1 and 2 discussed how the Qing state, fearing the social disruptions and unrest that profiteering activities would bring, restrained capital accumulation among the merchant class in eighteenth-century China, even though China had developed the world's most advanced market economy. The merchant class's resulting propensity to move to bureaucratic-official careers instead of continuing a multigenerational accumulation of capital meant that Qing China lacked an entrepreneurial class capable of concentrating the abundant surplus generated in the commercialized agrarian sector to ignite a capitalist-industrial takeoff, as happened in early-modern England. In the meantime, however, some entrepreneurial families moved to European colonial outposts in Southeast Asia, constituting a network of Chinese diasporic capital that persisted into the twentieth century and helped fuel China's capitalist boom at the turn of the twenty-first century.

After the Qing Empire's defeat in the Sino–British Opium War of 1839–1842, China's state elite were confronted with the same challenges faced by their counterparts in all other backward countries in the nineteenth century: how to foster rapid capital accumulation and industrialization to catch up with Europe economically and militarily. Modernizing elites in Germany, Japan, and Russia harnessed centralizing state power to squeeze and channel surplus from the countryside to jump-start capitalist-industrial development. Reformers in the late Qing dynasty followed the same path by initiating a state-sponsored industrialization program. But the Qing state was already in decline before the Opium War, and it simply lacked the capacity to mobilize and concentrate the ample rural surplus effectively. With limited industrial success in comparison with that of other late industrializers, signaled by China's military humiliation at the hands of Russia and Japan, two new industrial powers at the turn of the twentieth century, the decline of the Qing state accelerated, finally leading to the collapse of the empire in 1911.

After the revolution in 1911, the ruling KMT never accomplished its goal of building a strong, centralized state amid local warlordism, military challenges from the CCP's Red Army, and invasion by Japan. The commercialized agrarian economy was still witnessing decent growth despite the social and political chaos of the time, but the state-supported industrialization in the period was far from effective. It was not until the CCP seized power and built a Soviet-style centralized state in 1949 that state-led industrialization really took off.

Many recent studies point out that SOEs and state control of the marketing of agricultural products as a means to speed up rural surplus extraction and industrial capital accumulation began in certain KMT-controlled areas before 1949 (see Kirby 1990, 1995; Cohen 2003; Bian 2005). What the CCP did after 1949 was to expand this state-owned sector to the whole economy and to collectivize agriculture, turning the state into the sole agent of capital accumulation. As a consequence, China managed to build an extensive network of heavy industries and infrastructure despite its international isolation in 1949–1979. It also successfully defended its sovereignty and geopolitical security vis-à-vis both the United States and the Soviet Union. The Mao period in China represented the culmination of a century of the state elite's quest for state-led industrialization.

The continuity between KMT and CCP economic policies across the 1949 divide is also corroborated by recent studies that unveil the comparability of industrialization strategies in the CCP-controlled mainland and KMT-controlled Taiwan after 1949. According to these studies, the expansion of KMT-controlled state enterprises, the successful land reform, and the rise of state-directed rural cooperatives that facilitated agriculture-to-industry surplus transfers in Taiwan can be seen as a mild variation of SOEs and the People's Commune in Mao China (see, e.g., Ka and Selden 1986; Yao 2008). This continuity attests to Immanuel Wallerstein's provocative formulation that "actually existing socialist countries" emerging in the mid–twentieth century were always part of the capitalist world system and that their socialist system has been little more than a strategy of rapid capital accumulation and industrial catch-up under the strong hands of mercantilist states (1984: 86–96).

In retrospect, many Deng and post-Deng reform measures would not have been that successful had it not been for the legacies of the Mao era. The SOEs and infrastructure constructed in Mao times, though moribund and unprofitable at the advent of reform, were important foundations for the capitalist takeoff during the reform period. For example, many foreign companies investing in China did not start from scratch but began as joint ventures with preexisting SOEs. At the same time, many SOEs developed into sizeable transnational capitalist corporations with financial and policy support from the state, though ownership changed from the state by itself to other combinations—for example, public listing but with the government owning a majority share. Most of China's biggest corporations today originated in the Mao era or were built on state assets developed in that era (Nolan 2012). The continuing prevalence of SOEs is inseparable from the long history of the state as the key accumulator of capital. It is not at all surprising that many other formerly socialist countries in Russia and eastern Europe have also witnessed a similar predominance of state corporations (*Economist* 2012a).

Other Mao-era legacies include the restriction of rural–urban migration by means of the household registration system and public investment in rural education and rural health care in the People's Communes. These policies created a generation of literate and healthy rural laborers available in great numbers for private, export-oriented enterprises as well as TVEs from the 1980s on. The self-reliance policy in the Mao period prevented the large-scale external borrowing in the 1970s that many other developing or socialist countries indulged in, thus sparing China from the international debt crisis in the 1980s that brought large setbacks to the developing world and the Soviet bloc.

The emphasis here on the Mao era's legacies in the making of China's capitalist boom is not intended to downplay the significance of the market reform that Deng initiated. Only under such reforms could East Asian industrial capital, which had been thriving since the end of World War II and had inherited the three-centuries-long legacies of Chinese diasporic capitalism, enter China, take advantage of the Maoist legacies and unleash the boom. As a result, China's capitalist boom has been an explosion ignited by the mixing of the Maoist legacies and East Asian export-oriented capitalism, each developing on its separate side of the Cold War in Asia.

The second myth about the rise of capitalism in China is that China is becoming a powerful, subversive, and anti–status quo power, challenging the U.S. political and economic dominance in the world as well as the global free market that the United States has promoted. This perception is often associated with exaggerated accounts of China's intention and capability to subvert the global status quo. Left-leaning authors critical of the existing global neoliberal order are tempted to believe that China will fulfill their wish that an alternative vision of development challenging the free-market orthodoxy will be ushered in. They also expect that China will bring down U.S. global dominance, take the place of the United States, and create a more egalitarian world. In the meantime, many authors on the right are prone to believe that China poses a threat to U.S. global leadership and existing international institutions, a threat that needs to be aggressively contained. In 2003, international politics expert Alastair Iain Johnston argued that China manifested a stronger orientation toward being a status quo power than toward being a revisionist power in the international system. This book shows that after more than a decade of global turbulence and China's continued ascendancy, this characterization remains valid today.

As discussed in chapters 3 and 5, China has not challenged U.S. global dominance despite its leaders' postures and its nationalist press's rhetoric. On the contrary, it has been a key force in helping perpetuate U.S. global dominance. China's SOEs have been transformed into U.S.-style capitalist corporations, many of them with the aid of Wall Street financial firms, and floated in overseas stock markets such as Hong Kong and New York. China's export-oriented growth relies on the United States and Europe, the two biggest markets for its manufactured goods, and China's exports to both places have been paid for mostly in U.S. dollars. The massive flow of U.S. dollars into China in the form of trade surplus impels China to invest addictively in U.S. Treasury bonds as the most liquid and largest US-dollar-denominated store of value. Since 2008, China has replaced Japan as the biggest foreign creditor to the United States, and such financing enables the United States to continue living and fighting beyond its means. This investment in U.S. Treasury bonds in turn facilitates the perpetuation of the global dollar standard, which has been the single most important foundation of U.S. global power. The foreign exchanges brought in by China's export sector have been the foundation of the state banks' profligate creation of liquidity that fuels fixed-asset investment. In short, the China boom relies on the global free market instituted and warranted by the United States. It is thus far from China's interest to undermine the global neoliberal status quo and U.S. leadership in it.

Though China is not likely to terminate U.S. global dominance and the global neoliberal order, it has tipped the global balance of power a bit within that order, enabling other developing countries to obtain better terms in their dealings with the United States and Europe. Throughout the postwar period, developing countries on the U.S. side of the Cold War depended on capital, financial assistance, and credits from the United States and Europe. They also relied on U.S. and European markets for their raw-materials exports. Because of this dependence, the United States or former colonizers was able to interfere with their governments' policies. Beginning in the 1980s, when the Soviet bloc was weakening, and culminating in the 1990s after the bloc's collapse, many developing countries' dependence on the West deepened and widened. Hit by the international debt crisis, many of them were subjugated to the "Washington consensus," a set of radical market-reform as well as trade and financial liberalization policies promoted by the World Bank, the IMF, and the U.S. government. The outcome of the Washington consensus

was disappointing if not disastrous because many of these developing countries experienced worsening indebtedness and faltering economic growth in the wake of the reform. Nowadays, even the World Bank and IMF have backpedaled from their fervent pitch for free-market reform in the developing world.

Chapters 4 and 5 show that the capitalist boom in China makes it a new major buyer of energy and raw materials from the developing world. China is also becoming a significant source of FDI in many countries in Africa and Southeast Asia. Accompanying its investment and appetite for natural resources are the aid and loans the Chinese state has offered to its poor economic partners. China's presence in the developing world in general, to be sure, does not yet match the presence of the United States, Europe, or even the former Soviet Union. But it does relieve many developing countries' post–Cold War economic dependence on the West. Although China's presence has not severed developing countries' ties to the developed world, it does increase the plurality of their investors and trade partners, thus enhancing their bargaining power in the world market. It is in this sense that the capitalist boom in China is altering the power relations between the developing world and the developed. But we need to bear in mind that China's investment in these countries and its importing of their natural resources are driven by the same capitalist logic and national interest that drove the expansion of Western powers into the developing world. Its presence in the developing world creates new competition and exploitation, so much so that China is starting to be perceived in some developing countries as a new colonial power that deindustrializes its partners and extracts their resources. China is therefore both a facilitator of developing countries' autonomy from the developed ones and a status quo power that joins hands with traditional core powers to help reproduce a global neoliberal order. Chapter 4 also noted that although China's rapid economic growth is temporarily reversing the long-term trend of increasing global inequality between the West and the rest since the Industrial Revolution, its continuous growth beyond the world average income will bring a revival of rising global inequality. The China boom, therefore, has not altered the capitalist dynamics of world income polarization in the long run.

In response to those who argue that China is the cure for the ongoing global economic crisis, which intensified after 2008, chapter 6 demonstrates that the structural imbalance in China's capitalist development, which has worsened since the 1990s, is in fact one of the sources of the global economic imbalance that precipitated the crisis. A decentralized authoritarian regime of capitalist development emerged in the aftermath of the 1989 crackdown and unleashed rapid export-oriented industrialization and debt-financed investment by the state sector, which led to a deteriorating imbalance between consumption and investment. The relatively slow growth in domestic consumption led to China's increasing reliance on foreign markets, a ballooning trade surplus, and the increasing purchase of U.S. Treasury bonds, which in turn contributed to the expansion of the U.S. debt bubble accountable for the Great Crash of 2008. The expansion of debt-financed overinvestment in China after the 1990s has also created financial and real-estate bubbles within China that are themselves destined to deflate. The rapid rebound of the Chinese economy in 2009–2010 after the initial shock of the Great Crash of 2008 was driven solely by a redoubling of debt-driven overinvestment, which aggravated the economy's structural imbalance. The imminent and inevitable readjustment of the Chinese economy is poised to create significant repercussions throughout the world.

The Many Debts of the China Boom

Any readjustment of the structure of capitalist development in China will have to involve an increase in domestic consumption's share in GDP and a corresponding reduction in export and investment's share. As shown in chapter 6, such restructuring must be associated with a profound redistribution of wealth and income that will let average households share a larger slice of the pie of the expanding economy, reducing the advantages that the state has been offering to the export sector and state enterprises, both of which have been protected by entrenched vested interests in the political process. Such readjustment, coupled with the cleaning up of existing bad debts in the system, will inevitably bring a slowdown in economic growth through either a disorderly hard landing or an orderly soft landing. This slowdown already started in 2013, when China's GDP growth rate dropped below 8 percent, which has happened only two times before in almost three decades, in 1990–1991 and 1999–2000. In 2014, China's GDP growth rate dropped below target

to 7.4 percent, hitting a twenty-four-year low point. Although the earlier two slowdowns did not last long, with the economy rebounding strongly amid expanding global free trade that fueled China's export-led prosperity, the latest slowdown is likely to get worse and be more protracted not only because of the dismal state of the global economy but also because of the dangerously high level of the economy's total indebtedness, which has reached a staggering 282 percent of GDP in 2015.

Although such a slowdown is inevitable and normal in the adjustment and rebalancing process, it is unknown whether existing political institutions in China can withstand it. The authoritarian-capitalist state so far has been effective in containing unrest despite escalating social polarization. But this containment has been made possible by a continuously booming economy. Though all types of protests proliferated and intensified from the 1990s to the 2010s (O'Brien 2006; Silver and Zhang 2009; Perry and Selden 2010), the Chinese state, aided by increasing financial and fiscal means resulting from the economic boom, has been able to keep this unrest under control by making concessions to protesters' demands.

For example, in a delayed response to the widespread and increasingly violent tax riots in the countryside during the 1990s, the Chinese government simply abolished agricultural taxes in 2006. The escalating labor unrest in export-processing zones in South China impelled the central government to devise the new Labor Contract Law in 2008, which provided more protection to labor and directed labor to use legal means in defending their rights (Solinger 2009). Of course, these measures were far from providing a solution to the root cause of unrest because the vested interests usually found new ways to get around such measures to reproduce their privileges. Many local governments redoubled their efforts to seize farmland for real-estate development to compensate for revenue loss owing to the abolition of agricultural taxes. Enterprises also increased their use of free vocational labor in place of formal labor protected by the new Labor Contract Law (see Pun, Chan, and Selden forthcoming). Regardless of these limits, these concessions have nevertheless offered an effective temporary containment of unrest.

The booming economy also supports political stability by bestowing the regime with "performance legitimacy" (Zhao 2009), enabling it to claim credit for the continuous prosperity and improvement in livelihoods—either actual or expected. Under this perceived legitimacy of the state, protesters of all stripes will be more prone to restrict their demands to economic ones and not challenge the political system at its core (O'Brien 2006; Whyte 2010; Hung 2011). Another link between economic growth and stability is the availability of a large "stability maintenance fund" to local governments. In the context of the state's ever-improving fiscal position amid the capitalist boom, local governments use this fund to build large networks of surveillance and repression that prevent any incipient protests. Local governments can also use this fund to offer cash compensation to protesters once protest has materialized (C. Lee and Zhang 2013).

All these ways of maintaining stability are connected to the boom in one way or another. Once the economic slowdown continues for a prolonged period, they will no longer be effective. By that time, there might be an uncontained explosion of social unrest that presents a serious challenge to the authoritarian state. The chaos that this unrest might engender would further repress economic growth, creating a downward spiral of deepening economic crisis, worsening social unrest, and possibly even war if the party–state elite were to try to divert popular anger to aggressive nationalism.

Another crisis that feeds into a prospective economic crisis is the environmental crisis, an aggravating factor in most of the past three decades of capitalist boom. In the fierce competition for foreign manufacturing capital, local governments rely on the vast supply of low-wage labor from the countryside and a variety of tax and policy concessions. Their competitiveness also stems from lax implementation of whatever environmental laws and standards exist. The result is that the manufacturing establishment in China has rarely been forced to bear the cost of cleaning up their emission and waste discharges. Industrial pollution to the air, rivers, and underground water has reached deadly levels. It is estimated that the economic costs of environmental degradation around the mid-2000s stood at 8 to12 percent of GDP, mainly in the form of health-care costs and the loss of life (Economy 2010: 91). Such costs are poised to rise as the reckless industrial growth continues.

A related issue is that with the increasing encroachment on farmland by urban and real-estate development, together with the loss of labor

power to the urban-industrial sector, growth in agricultural output has been falling far behind growth in demand for three decades. An increasingly meat-heavy diet among the urban population adds pressure on the already dwindling agricultural resources. In the 1980s, when China's capitalist takeoff had just started, China was more than self-sufficient in its food supply. But in 2001, it became a net importer of food. As of 2010, China's trade deficit in agricultural products had passed U.S.$40 billion (Keogh 2013; also see Gale, Hansen, and Jewison 2015).

In 1995, environmentalist and food expert Lester Brown published *Who Will Feed China?*, warning that the rapid economic growth and industrialization of China will eventually generate a food crisis within China and throughout the world. At the time of publication, the book was criticized for "China bashing" because many social scientists argue that improvements in farming technology would catch up with the increasing demand for food in China so that a food crisis would never come (Huang J. et al. 1999). But today, with China's food security being compromised and food prices around the world skyrocketing, Lester Brown's thesis has been reexamined seriously (see, e.g., Bacchus 2011; Brown 2011; Larsen 2012). The pollution of water and soil from urban-industrial growth only makes matters worse as the number of cases of contaminated agricultural land and products rise. Clean, drinkable water is increasingly scarce, leading the World Bank and many other observers to predict a brewing water crisis in China (Zheng et al. 2010; *Economist* 2013c). Some pessimists go as far as to stipulate that the rise of China is pushing the capitalist world economy beyond its environmental limit, and the looming environmental crisis, if not effectively contained, will not only terminate China's economic rise but also threaten the reproduction of the capitalist world system at large (Li M. 2009).

Capitalist development is destined to be plagued by the boom-and-bust cycle. No nation experiencing robust capitalist growth can avoid an outbreak of economic crisis, as demonstrated by the great panic in Britain in 1796–1797; the Great Depression in the United States in the 1930s; and Japan's "lost decade" in the 1990s. The consequences of these crises varied. In some instances, the state, under particular constellations of social and political forces, adopted timely and pertinent reform to rebalance the economy, preparing it for more sustained growth, as in late-eighteenth-century Britain and the early-twentieth-century United States. In other instances, the state failed to respond effectively, and the economy fell into protracted stagnation and crisis, as in late-twentieth-century Japan. It is nearly certain that China will confront this challenge sooner or later, and the social and environmental debts that have been accumulating in the system during its boom years will likely make the readjustment of China's developmental path more challenging. However, economic slowdown and multiple crises might urge China to restart its long-suspended political liberalization, which would foster more inclusive political processes. Political liberalization, if it unfolds smoothly, would enable the Chinese state and society to weather a slowing economy in a more stable manner, making China's rebalancing less painful.

China has come a long way from the eighteenth century. On the road to the capitalist boom at the turn of the twenty-first century, there were imperial disintegration, revolutions, wars, and famines. It is unthinkable that the upcoming crises might be more daunting than the ones that China has weathered over the centuries. In the long run, if China can effectively accomplish the overdue rebalancing of its economy, its robust capitalist development will continue for a long time. Whether it can accomplish such a transition, how long such a transition will take, and how painful it will be to China and to the world depend on a variety of contingent forces inside and outside China. If China successfully weathers intervening crises, it will join the United States, Japan, and Germany as yet another major capitalist power.

In the end, China is far from becoming a subversive power that will transform the existing global neoliberal order because China itself is one of the biggest beneficiaries of this order. It will not be exonerated any time soon for its role in facilitating continued dominance by the United States in the world through its supply of low-cost export and credit to the United States. If U.S. global dominance is going to end, it will not likely be fostered by China but by some other forces. To be sure, China has been reshaping and will continue to reshape the context of development in the developing world, bringing to other developing countries more favorable and competitive conditions for development at the same time. Whether China's net impact will be beneficial or detrimental to development will vary from country to country and will change from time to time. In the

short run and from the perspective of specific individual countries, China's capitalist boom might seem like a game changer that will bring new prosperity, empowerment, subordination, or crisis. At the global level and in the long run, nevertheless, China is set to disappoint many who hail or fear the prospect of its challenging the existing global order in any fundamental way.