

# Preface

IN 1769, French philosopher Voltaire wrote that “in China, everything is decided by the great tribunals, subordinate to one another, whose members are admitted only after several stringent examinations. . . . It is impossible under such an administration for the emperor to exercise an arbitrary power. . . . Now if there has ever been a state in which the life, honor, and welfare of men has been protected by laws, it is the empire of China. . . . What should our European princes do when they hear of such examples? Admire and blush, but above all imitate.” From today’s perspective, Voltaire’s idealization of imperial China seems ludicrous. In the Enlightenment, such a distorted view of China was not restricted to its admirers but could be found among other philosophers who were contemptuous of China. For example, Kant remarked that “the concept of virtue and morality never entered the head of the Chinese,” and Hegel once asserted that “Chinese are interested only in highly tasteless prescriptions for cult and manners.”<sup>1</sup>

These romanticized or racist views of China from some of the best minds in Enlightenment Europe cannot be attributed solely to the lack of information about China at the time because early accounts of China by travelers, merchants, and missionaries were not without accurate information. Some of those accounts are still regarded as serious sources on imperial China. The Enlightenment thinkers’ distorted images of

China show more about their politics in Europe. They used China, which enjoyed an economic prosperity and internal peace that fascinated Europe during the age of *chinoiserie*, as a polemical tool. Voltaire was a keen supporter of enlightened despotism and saw absolutist monarchs, such as his patron Frederick the Great, as progressive forces that warranted the eradication of aristocratic privileges. He portrayed China as the most successful model of such benign absolutism. But more radical Enlightenment philosophers who believed in popular sovereignty attacked absolutism by portraying a dark China where society and culture rotted under despotism.

Even though much information about China is available for global consumption nowadays, popular and scholarly writings on China, whose rising economic and political clout in the world attracts wide attention in the West, are still often distorted by the authors' political dispositions in their home countries. Whereas some use the image of a mighty, impeccable, and radically distinct China to support their critique of the allegedly corrupt and inefficient Western economic and political systems, some are keen to see China as the last stand of Communist dictatorship waiting to be swept away by free-market and liberal democracy.

What Voltaire and Hegel wrote about China as an exotic other had little direct effect on development within China (though some of these writings were later used to justify Western imperialist encroachment). In today's more interconnected world, where Western hegemony in the world system of knowledge production persists, Western accounts of China are instantly accessible in China despite government censorship there, generating significant effects on China's self-conception. Conservative forces in China are never shy of employing Western praise of the "China model" to defend the status quo, and quite a few dissident intellectuals uncritically adopt Western contempt of China to support their call for "total westernization," even to the point of hailing Western intervention as a liberating force.

Fostering a balanced, undistorted, and holistic account of the development of China that brings China's full complexity to readers is therefore very important. Doing so would facilitate more sensible and well-informed policies toward China among Western governments and would also contribute positively to critical, progressive discourses within China. Authors writing about China are inevitably predisposed to differ-

ent perspectives and judgments, but constructing a balanced and undistorted account of the current Chinese economic boom is not the same as pretending to have no personal take on any of the issues involved. Yet no reasonable account can allow the writer's opinions and politics to interfere with the selection and analysis of the evidence.

As a U.S.-based scholar born and raised in Hong Kong, I certainly have my own views and aspirations about China. My familial and personal histories are tied closely to the development of the People's Republic of China. My maternal grandfather was an intellectual who fought in the resistance against the Japanese invasion. With high expectation of the nascent Communist regime, he took his family, including my newborn mother, from Hong Kong to Guangzhou in 1949 to participate in the construction of a new socialist country. But beginning in 1957, he was persecuted as a rightist because of his untimely criticism of Soviet domination during the Hundred Flowers and so spent most of his life in the countryside thereafter, passing away not long after his "rehabilitation" under Deng Xiaoping. My mother moved back to Hong Kong alone in the aftermath of the Great Leap Forward, staying with her relatives active in the pro-Communist unions in the British colony. My uncles and aunts stayed on the mainland and were inevitably caught up in the Red Guards movement. I always feel that my grandfather's passion for justice and knowledge has passed down to me through my mother.

I came of age in late-colonial Hong Kong in the 1980s and 1990s, and my intellectual outlook was shaped by the many stories from the maternal side of my family, my mother's nostalgic recollection of her childhood in 1950s Guangzhou, the intellectual and cultural vibrancy in China during the 1980s, the Tiananmen revolt in 1989, and the local student movements that sought democracy and autonomy for Hong Kong on the eve of the 1997 sovereignty handover. In the meantime, my former Red Guard and anticolonial relatives were on the way to becoming the beneficiaries of the China boom, seeing their gains as compensation for what they lost during their turbulent youth.

My personal and familial histories rendered me anxious, curious, and concerned about the past, present, and future of China and other Asian societies that are living under China's giant shadow. Combined with my training in sociology, which lends me the conceptual and analytical tools to understand the world for the sake of changing it, these histories led

me to the two main research projects that have defined my intellectual agenda so far. In the first, I aim to delineate the origins and particularities of political modernity in China by way of protests from early-modern to contemporary times. One result of that project is the book *Protest with Chinese Characteristics* (2011). In the second project, I aim to trace the origins, unveil the core dynamics, and assess the global repercussions of China's economic resurgence in the world. This monograph has developed from it.

I started to investigate the political economy of the China boom during my days at Indiana University. The start of this endeavor benefited greatly from the insights provided by my distinguished China studies colleagues there, Scott Kennedy and Ethan Michelson in particular. Exchanges with my mentors and colleagues at Johns Hopkins University, including the late Giovanni Arrighi, Joel Andreas, Tobie Meyer-Fong, Bill Rowe, Beverly Silver, and Kellee Tsai, help me greatly in anchoring my analysis in historical and comparative contexts.

Parts of this project have been presented in different venues, including sociology colloquiums at the University of Maryland–College Park, the University of California–Berkeley, State University of New York–Binghamton, *Academia Sinica* in Taiwan, and the National University of Singapore; a seminar at the University of California–Los Angeles Center for Social Theory and Comparative History; Harvard University's Workshop on History, Culture, and Society; Northwestern University's Asia Pacific Politics Colloquium; the Comparative Research Workshop at Yale University; the Colloquium on the Economies and Societies of India and China at the New School; the International Relations Department and Socio-Economic Center colloquium at the Universidade Federal de Santa Catarina, Brazil; the "Year of China" colloquium at Watson Institute at Brown University; a seminar at the French Center for Research on Contemporary China, Hong Kong; a seminar at the National Tsing-Hua University, Taiwan, "The State of the Chinese Economy" conference at the University of Southern California; the "Global Asias" conference at Penn State University; the "China Rising" conference at the University of Bristol, Britain; the "Global Capitalist Crisis" conference at York University, Toronto; the "India–China Comparison" international seminar at the Institute of Development Studies Kolkata in the University of Calcutta, India; the BRICS seminar organized by IBASE in Rio de Janeiro, Brazil;

and the Gaidar Forum at the Russian Presidential Academy of National Economy and Public Administration, Moscow. Comments and suggestions from the audience at these presentations helped me to polish my arguments. I also thank the vital intellectual atmosphere at the University of Chicago Beijing Center and the Asian Research Institute of the National University of Singapore. They made the writing and revision of the manuscript during my visit to Renmin University in the summer of 2013 and to Singapore in the summer of 2014 much more pleasant and fruitful.

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Many ideas in the book evolved with the publication of a number of articles over the years. Part of chapter 1 is a rewritten version of a section of the article "Agricultural Revolution and Elite Reproduction in Qing China: The Transition to Capitalism Debate Revisited," *American Sociological Review* 73, no. 4 (2008). A few pages in chapter 3 updated some analyses from "America's Headservant? PRC's Dilemma in the Global Crisis," *New Left Review*, no. 60 (2009), and from "Beijing and the Banks: Paper-Tiger Finance," *New Left Review*, no. 66 (2011). Some of the data in the first section of chapter 5 are included in "China: Savior or Challenger of the Dollar Hegemony?" *Development and Change* 44, no. 6 (2013). Part of chapter 6 comes from rewriting and updating some of the content of "China and the Global Overaccumulation Crisis,"

*Review of International Political Economy* 15, no. 2 (2008), and “China’s Rise Stalled?” *New Left Review* no. 81 (2013).

As always, Huei-Ying, my intellectual and life companion, offers me the most important encouragement, confidence, and critique that drive any progress I make in my work. She is always the irreplaceable reminder of the initial compassion that took me to critical social science. Any gaps and naïveté in my arguments can never escape her critical eyes. Our children, Henry and Helia, have been growing fast alongside the development of this project. Their increasing zeal for knowledge and urge to analyze creates immense pressure for me to stay curious and incisive so as not to lag behind. I hope they will feel proud of this book, which they inadvertently contributed to.

## CHRONOLOGY

# State Making and Capitalist Development in China

## 16<sup>TH</sup> TO 21<sup>ST</sup> CENTURIES

- 1581** With the influx of Japanese and American silver through trade and with the rise of silver as the principal medium of domestic bulk commercial transaction, the Ming government unified taxes into a single silver tax. This unification further enhanced the silverization and commercial growth of the economy.
- 1592–1598** Hideyoshi, a warlord who unified Japan, challenged China’s centrality in Asia’s international order by invading Korea. Ming China sent in troops to repel the Japanese force from Korea.
- 1635** The Tokugawa government of Japan started the seclusion policy, forbidding foreign trade. This prohibition stemmed the export of Japanese silver to China. Cut off from the Japanese silver supply, China came to rely solely on Europeans traders, who brought American silver to purchase Chinese products at such Asian colonial ports as Manila, Macao, and Batavia (today’s Jakarta).
- 1644** Peasant rebels toppled the Ming dynasty (1368–1644). The Manchus, a militant ethnic group originating in China’s northeastern border, invaded and swiftly took over all of China, founding the Qing dynasty (1644–1911).
- 1661–1683** The Qing government imposed an evacuation policy to depopulate most of the southern coastal area as a scorched-earth tactic to cut off supplies to the remaining Ming loyalists holding the Island of Taiwan, which had become a commercial hub of trade between Chinese and European merchants. The policy cut off foreign trade and the flow of

- American silver into China, fostering a contraction of the market economy. Maritime commerce revived in 1683, when all trade restrictions were revoked in the wake of the surrender of the Ming loyalists and the Qing incorporation of Taiwan.
- 1757 The Qing government decreed that all foreign trade had to be conducted in the port of Guangzhou.
- 1796–1804 Millenarian sects in Southwest China launched the White Lotus Rebellion. The incompetent imperial army was unable to contain it for nearly a decade despite the vast financial resources the state mobilized to fund the pacification campaign. In the aftermath of the rebellion, the Qing state was substantially weakened.
- 1839–1842 To stem the massive outflow of silver caused by China's purchase of opium that the British grew in South Asia, the Chinese government banned the opium trade. Britain responded by initiating the Opium War in the name of defending free trade. After China was defeated, the Nanking Treaty was signed, which opened up Shanghai and other coastal cities for free trade. Hong Kong was ceded to the British as a colony.
- 1850–1864 Millenarian sectarians claiming to have received a revelation from Jehovah launched the Taiping Rebellion, which swept across southern and central China, subjugating some of the most prosperous commercial cities, including Suzhou and Hangzhou. The Qing state suppressed the rebellion with foreign support and local militarization, but the imperial state was further weakened in its wake.
- 1861–1895 The ailing Qing state initiated the self-strengthening movement that sought to foster state-financed and imported-technology-based industrial enterprises, including military industries. The movement ended in 1895 when the Japanese navy crushed the Chinese navy, built as part of the movement's achievement, in the Sino-Japan War of 1894–1895. Taiwan became a Japanese colony.
- 1911 The Republican revolution toppled the Qing dynasty, but the revolutionaries were too weak to form a new centralized state. Provincial military strongmen, who had prospered in the last years of the Qing dynasty, took over and fought with one another, leading post-Qing China into an unstable period dominated by these rival warlords.
- 1921 The Chinese Communist Party (CCP) was founded in Shanghai. Under Soviet supervision, the CCP formed a united front with the Republican revolutionaries, who established the Nationalist Party (Kuomintang, KMT) to prepare a military offensive against the warlords.
- 1927 When the KMT-CCP united front, with the Soviet Union's military and financial support, was about to win national power and subordinate warlordism, the KMT started an anti-Communist purge, eliminating

- CCP organizations in major cities. When CCP members were rounded up in coastal urban centers, the CCP turned to the countryside and organized the peasant-based Red Army. The KMT-CCP civil war began.
- 1937 Japan invaded China proper. The second KMT-CCP united front was formed against Japan.
- 1945 Japan surrendered. The Soviet army swiftly took over Japan's military-industrial base in China's Northeast, handing over the industrial facilities and heavy weaponry there to the CCP's Red Army, which had so far been made up of no more than poorly equipped rural guerillas. The KMT-CCP civil war resumed.
- 1949 The CCP defeated the KMT in the civil war, driving the latter to Taiwan, which the United States has protected from a Communist takeover ever since. The CCP founded the People's Republic of China in mainland China. The Communist governments' first major initiative was land reform, which broke down large landholdings and redistributed them to peasant households.
- 1950–1953 The Korean War broke out. China entered the war, and the United States led other nations on its side in the Cold War to impose an embargo on China.
- 1953–1956 The Chinese government initiated the Socialist Transformation campaign to nationalize most urban enterprises and integrated peasant households into rural collectives. Under Soviet financial as well as technical support, the CCP sought rapid state-led industrialization.
- 1958–1961 Mao launched the Great Leap Forward campaign, in which large-scale People's Communes were formed and became the only legitimate economic and social organizations in the countryside. Peasants were mobilized through the Communes to build local furnaces for steel making. The ill-coordinated campaign and the wasting of the vast labor force to make substandard steel led to a large-scale famine. During this period, Soviet-China relations deteriorated as China aspired to greater independence from the Soviet Union.
- 1966–1969 Mao, sidelined in the aftermath of the famine, staged a comeback by launching the Cultural Revolution, mobilizing youth Red Guards to seize power from allegedly corrupt bureaucrats. By 1969, most opponents of Mao in the CCP had been purged, and the whole government came to be staffed by Mao loyalists. Mao disbanded Red Guard organizations and sent the former Red Guards to the countryside to be "reeducated" by the peasants.
- 1969 The Soviet-China split escalated into border military conflict between the two countries.
- 1972 Nixon visited China in order to forestall Soviet expansion while the United States was losing the Vietnam War. China was motivated to end

the international embargo against it and to seek new allies against the Soviet Union. After the visit, China's relations with the United States moved toward normalization, and China's trade with the U.S. side of the Cold War accelerated.

- 1976–1980 Mao died in 1976. After a brief intraparty struggle, Deng Xiaoping became the top leader of the CCP in 1978. The CCP started to adopt market reform by dismantling the People's Communes. Though the state still owned land, peasant households obtained the "right to use" on small plots of land from the government and could sell their products on the market. The peasant economy and the market economy revived in the countryside. Township and villages enterprises, nominally owned by local governments, took off in rural areas. Special Economic Zones were set up in 1980 to attract foreign direct investment, mostly from Hong Kong initially.
- 1984–1989 With the success of market reform in the rural areas, the CCP started urban reform, which consisted of price liberalization and a reform of urban state-owned enterprises. Unchecked inflation and rampant corruption erupted in the cities.
- 1989 Inflation and corruption fueled the spread of urban discontent. Growing inequality and falling living standards in cities, coupled with diffusion of liberal thoughts among students, culminated in widespread urban revolts in 1989. The revolt started among the students who occupied Tiananmen Square in Beijing in early summer, but it also spread to workers and many other cities across the country. The revolt ended in a bloody crackdown by the People's Liberation Army in Beijing. In the aftermath of the crackdown, Deng made Jiang Zemin the CCP's new top leader while maintaining his own leadership behind the scenes.
- 1992 In response to the comeback of the old guard, who resisted further market reform after the Tiananmen crackdown in 1989, Deng Xiaoping traveled to major cities in southern China and praised their achievements in economic liberalization. He made several speeches during his tour to assert that market reform must go on. His speeches unleashed a new surge of market reform and commercial expansion. Local governments and private enterprises alike raced to invest, and state banks opened the floodgate of easy loans. These acts overheated the economy, causing inflation, fiscal deficit, and current-account deficit.
- 1993–1994 The government adopted a series of policies to cool down the economy and to resolve the fiscal and current-account deficits. They included drastic devaluation of the renminbi to boost exports, fiscal reform that made local governments surrender a larger portion of revenue to the central government, and a tightening of bank credits.

- 1998 Zhu Rongji became premier. He deepened the reform of state-owned enterprises. A large number of these enterprises were privatized, though in many cases the government continued to be the sole or majority stakeholder. Massive worker layoff from state enterprises started. Housing reform was also begun, privatizing apartments that used to be rationed by state enterprises and local governments. An urban private-housing market was created.
- 1999–2000 The economic overheating and investment boom, followed by credit tightening in the mid-1990s and the fallout of the Asian financial crisis of 1997–1998, led to a slowdown of the economy. A rapid rise in nonperforming loans in the banking system ensued. In response, the government bailed out the troubled banks by creating four asset-management companies, which took over bad loans from the four big state banks (Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China). Having unloaded their most toxic assets onto these companies, the banks expanded or were listed overseas one after the other.
- 2001 China gained accession to the World Trade Organization. China's trade surplus has soared ever since. China invested a majority of its foreign exchange reserve in U.S. Treasury bonds.
- 2002 Hu Jintao became head of the CCP.
- 2006 Agricultural taxes were abolished as part of the initiative to improve development prospects and living standards in rural China and in response to escalating antitax unrest there. Other policies developed at this time include increasing government investment and available credits in rural areas.
- 2008 The new Labor Contract Law came into effect. The law made it more difficult for firms to fire workers and ensured that firms would contribute to workers' social security accounts. The legislation also reflected the central government's intention to move China away from labor-intensive manufacturing, to increase the wage share in the economy, and to stem mounting labor unrest.
- 2008 China surpassed Japan to become the largest foreign holder of U.S. Treasury bonds.
- 2008–2009 In response to the global financial crisis triggered by the collapse of Lehman Brothers in the fall of 2008, the Chinese government introduced a sizeable stimulus, which was made up of fiscal and financial stimulus via state bank lending. The stimulus sped up and expanded infrastructure constructions. It enabled China to rebound swiftly from the initial fallout of the global crisis, which had made its export engine stall.

- 2011–2012 The stimulus started to lose steam, and local government's heavy indebtedness resulting from the stimulus began to hamper economic growth.
- 2012 Xi Jinping became head of the CCP. The new leadership suggests that it will revive the economy by speeding up urbanization and financial liberalization.

## The China Boom