INTRODUCTION

Sinomania and Capitalism

AFTER THE COLLAPSE OF LEHMAN BROTHERS in September 2008, which unleashed a global financial crisis, China's export sector crashed at the turn of 2009. In a few months, however, the Chinese economy rebounded strongly into double-digit growth, where it largely had been since the 1980s. At a time when the global economic status quo seemed to be crashing, more than three decades of vibrant economic growth experienced in China—still ruled by the Chinese Communist Party (CCP)—induced excitement and even fantasy about the world's future among writers on both the left and the right.

To be sure, left-leaning intellectuals and the business elite have different reasons for their euphoria about China, which Perry Anderson calls "Sinomania" (2010). For corporate CEOs, the rise of China and its apparently strong recovery from the crisis represent a vast, new, and limitless frontier for profit, just when business profitability in the advanced capitalist countries is seeing less and less room for expansion. For example, the business-school professor and veteran hedge-fund trader Ann Lee's best-selling book *What the U.S. Can Learn from China: An Open-Minded Guide to Treating Our Greatest Competitor as Our Greatest Teacher* (2012) has drawn wide applause from business presses and consultants. The billionaire Donald Trump, who accused China of "stealing" American jobs during his entertaining bid for president in 2012, is in fact an admirer of how business is conducted in China, as he noted at an international hospitability conference in New York in 2008: "In China, they fill up hundreds of acres of land, constantly dumping and dumping dirt in the ocean. I asked the builder, did you get an environmental impact study? He goes, 'What?' I asked, 'Did you need approval?' No, the Chinese said. And yet if I am the last guy to drop one pebble in the ocean here in this city [New York], I will be given the electric chair" (qtd. in Heyer 2008).

In the meantime, for some intellectuals, the rise of China represents the emergence of an ultimate challenge to Western domination. Others assert that China's experience points to a "Chinese model" of capitalist development that is grounded in active state intervention (e.g., Ramo 2004). They see this "model" as a progressive and superior alternative to neoliberal capitalism, which is premised on unregulated free-market forces and has prevailed ever since Ronald Reagan's and Margaret Thatcher's free-market reform in the 1980s. State-directed "Chinese capitalism" is hailed for its supposedly better handling of economic crises and its greater effectiveness in sustaining uninterrupted rapid growth and poverty alleviation.

China's apparent success even leads some to question the viability of the Western democratic system and ponder the virtue of an authoritarian government. For example, the *Time* magazine article "Why China Does Capitalism Better than the U.S." suggests that "one of the great ironies revealed by the global recession that began in 2008 is that Communist Party–ruled China may be doing a better job managing capitalism's crisis than the democratically elected U.S. government" (Karon 2011). Martin Jacques, the former editor of *Marxism Today*, the organ of the Communist Party of Great Britain, goes so far as to celebrate "the birth of a new global order" and "the end of the Western world," seeing the 2008 financial crisis as "the beginning of the Chinese world order," as described in his book *When China Rules the World* (2009). This book stayed on best-seller lists in the United States and the United Kingdom for many months and was featured favorably in major financial presses. This is not the kind of treatment that a leftish author usually gets.

Just as the eighteenth-century European Sinomania among Enlightenment intellectuals was grounded in partial and sometimes deliberately distorted information about an exotic China (Hung 2003), the latest celebration in the Western world of the Chinese miracle and of its robust recovery from the recent global financial crisis often has been informed by a biased and selective understanding of the underlying dynamics of China's capitalist boom. China is a large economy, the development of which hinges on complex interaction between private and state-owned sectors. The economy is also driven by three main engines: domestic consumption, fixed-asset investment, and export. The interconnections among and relative weights of these sectors are mediated by the legacies and paths of China's long quest for modernity since the Qing dynasty was defeated by European gunboats in the mid–nineteenth century. As such, any account that lacks holistic and historical perspectives is inadequate for a full understanding of capitalist development in China.

The first goal of this book is to outline the historical origins of China's capitalist boom and the social and political formations in the 1980s that gave rise to this boom. It addresses why capitalism did not emerge spontaneously in eighteenth-century China, which was the most prosperous and admired market economy in the early-modern world; how and why state builders in the nineteenth and early twentieth centuries failed to foster state-directed capitalism, as Japan did; and how the rural-agrarian and urban-industrial developments in the Mao period laid the foundation for the capitalist boom in the 1980s. It also discusses the regional, global, and sociopolitical contexts at the turn of the twenty-first century that have made such a boom possible.

As Michel Aglietta (1997, 1998) suggests, capitalism in any particular country is not fundamentally different from capitalism elsewhere (see also Aglietta and Bai 2012; cf. Nee and Opper 2012). The underlying principle and basic dynamics of capitalism as an economic system are universal, though capitalism is always enmeshed in historically and nationally specific sociopolitical structures that enable the release of its productive forces at some times and fetter its reproduction at other times. There is no such thing as "Chinese capitalism" that is fundamentally different from "American capitalism," "Japanese capitalism," or "German capitalism." But this does not mean that the rise of capitalism in China is a simple replication of its rise elsewhere and will produce no distinct effects. On the contrary, capitalism in China is combined with China's particular social relations, state institutions, and geopolitical interests to present a particular face and to bring particular consequences to the global order. For example, many China observers have noticed the weight of state-owned enterprises (SOEs), a legacy of the Mao period, in China's capitalist development and have debated how it has contributed to China's economic growth and what lesson other developing countries can draw from this contribution (e.g., Y. Huang 2008; Acemoglu and Robinson 2012). Frederic Jameson once remarked metaphorically that "the [capitalist] system is better seen as a kind of virus . . . and its development as something like an epidemic" (1998: 139–40). It follows that even if the capitalist virus is fundamentally the same everywhere, the infected hosts' responses and behaviors will still diverge depending on the preconditions and characteristics of their bodies. This book is not another attempt to unveil a nonexistent "Chinese capitalism." Instead, it is meant to decipher how capitalism adapts to, thrives in, and falters under the Chinese conditions.

This book's second goal is to explore the global effects of China's capitalist boom and the limit of that boom. I focus on four common conceptions about how China is reshaping the world and evaluate them against reality. The first conception is that, given the weight of the state-owned sector in the Chinese economy, China is challenging the free-market ideology and global free-market or neoliberal order that the United States has been promoting since the 1980s. The second conception is that China is reversing the long-term trend of income polarization between the industrialized West and the industrializing rest by raising the income level of the vast population of the poor within China. China is also thought to constitute a new model and opportunity for developing countries in their efforts to catch up with developed countries. The third conception is that China is challenging or even replacing the political domination by the West in general and by the United States in particular, thus radically changing the existing world order. The fourth conception is that amid the global crisis that originated in and affected mainly the United States and Europe, China is rescuing the global economy by becoming the most powerful driver of growth.

This book offers a thorough examination of the historical origins, global effects, and imminent demise of China's recent capitalist boom, constructing a lens through which we can assess the prospect of China's capitalist development in a more sanguine, comprehensive, and well-informed manner. These four conceptions, which in my view overestimate

China's transformative impact on the global political economy and the sustainability of the China boom, are critically examined one by one in chapters 3 to 6. In contrast to popular opinion, I show that China is rising as a major, competitive capitalist power implicated in the world market that it is no different from other capitalist powers such as the United States, Japan, and Germany. The China boom has been dependent on the global neoliberal order, which is based on expanding, unfettered transnational flow of goods and capital, and it is in China's vested interest to maintain the status quo, though China might seek to change the balance of power within this arrangement. More, China's own imbalanced developmental path is a key source of rather than the solution to the global economic imbalance that led to the global financial crisis. Just like booms in all other capitalist powers, the China boom, which is the product of a specific concatenation of historical processes and global forces, cannot last forever. Therefore, China is more a foundation of the global status quo and its contradictions than a challenge and solution to it. Its boom is destined to be smashed sooner or later under the weight of imbalances it has created.

Existing accounts of capitalism in China, their insights notwithstanding, are often limited by a casual and sometimes confusing concept of what capitalism is and how capitalism as an economic system is related to the state and society. Any solid analysis of China's capitalist boom has to be grounded on a rigorous conceptualization of capitalism, as outlined in the next section.

A Brief Theory of Capitalism

In *The Protestant Ethic and the Spirit of Capitalism* ([1930] 1992), Max Weber put forward a concept of capitalism that still resonates today. To Weber, what is characteristic of a capitalist economic system is the dominant capitalist spirit, in which the urge to accumulate money for the sake of accumulating more money in a rational and methodical manner overrides all other imperatives. Benjamin Franklin described this spirit many years earlier: "Remember, that money is of the prolific, generating nature. Money can beget money, and its offspring can beget more, and so on. Five shillings turned is six, turned again it is seven and three pence, and so on, till it becomes a hundred pounds. The more there is of it, the more it produces every turning, so that the profits rise quicker and quicker" (qtd. in Weber [1930] 1992:50). However, as Weber points out, this logic is contrary to that of most if not all existing religious-moral systems preceding modern times:

> In fact, the summum bonum of this ethic, the earning of more and more money, combined with the strict avoidance of all spontaneous enjoyment of life, . . . is thought of so purely as an end in itself, that from the point of view of the happiness of, or utility to, the single individual, it appears entirely transcendental and absolutely irrational. Man is dominated by the making of money, by acquisition as the ultimate purpose of his life. Economic acquisition is no longer subordinated to man as the means for the satisfaction of his material needs. This reversal of what we should call the natural relationship, so irrational from a naive point of view, is evidently as definitely a leading principle of capitalism as it is foreign to all peoples not under capitalistic influence. ([1930] 1992, 53)

This unusual capitalist logic could not emerge by itself because of the widespread hostility toward it among preexisting religious orders from Catholicism to Islam, which condemned the pursuit of profit in one way or another. But once capitalism emerged and prevailed, it broke free of these sanctions and brought sweeping changes all over the world. Capitalism is like the spirits in Pandora's box. It had been carefully encased, but once it was accidentally released, it brought about a widespread, profound, and irreversible transformation of the world.

Certain contingent extraeconomic forces helped clear the way for the initial release of the capitalist force in some parts of early-modern Europe. To Weber, one of these forces was the Calvinist conception of predestination, wherein the anxiety to have a glimpse of God's grace urged Calvinist merchants to accumulate wealth for the sake of accumulating wealth and to see the size of their wealth as an indicator of such grace. Though many scholars have rejected Weber's cultural explanation of the rise of capitalism, his definition of capitalism as a system with the "ceaseless accumulation of capital" as its modus operandi can be found in many works by contemporary theorists of capitalism, including Immanuel Wallerstein and Giovanni Arrighi.

Wallerstein (1974, 1979) concurs with Weber in seeing the rise of capitalism in Europe as an unusual world-historical event. To him, capitalism emerged in sixteenth-century Europe out of the medieval "crisis of feudalism." It brought forth an international division of labor among core countries (specializing in high-value-added products), periphery countries (specializing in low-tech and raw-materials export), and semi-periphery countries (specializing in both high-value-added and low-value-added products). The genesis of such an international division of labor was driven by the rise of the logic of ceaseless accumulation of capital. This logic created and sustained exploitative unequal exchanges between core and periphery. It also induced the system's geographical expansion to incorporate new periphery zones through colonialism. Most of Wallerstein's work is about how the international division of labor developed, but it says little about how exactly the logic of ceaseless capital accumulation was set free against all odds. Arrighi (1994, 2007; Arrighi and Silver 1999) fills this gap with his analysis of the long history of capitalism, which combines insights from Karl Marx and Fernand Braudel, the French economic historian who delineated the origins of capitalism in his three-volume classic *Civilization & Capitalism: 15th–18th Century* (1992).

For Marx, in a market exchange, or what he calls "generalized commodities exchange," laborers produce things that they are good at producing in order to exchange them for other things they want, with money as the medium. This activity can be represented by the formula C-M-C, where C is commodity and M is money. In such an activity, money is just a tool of exchange, and the acquisition of a useful commodity is the end. Though generalized commodity exchange is an indispensable precondition for capitalism, it is not capitalism itself. Capitalism, to Marx, is the activity of using money to pursue a larger sum of money, an activity that turns the original sum of money into capital. Capitalism can therefore be represented by the formula M-C-M', in which M' equals M plus an increment, or ΔM. In such an activity, the commodity involved is just a medium in the pursuit of increasing monetary wealth. Here Marx agrees with Weber in seeing the pursuit of profit for the sake of making more profit as the defining characteristic of capitalism. Unlike Weber, however, Marx also suggests that the origin of the increment in capital, ΔM, must come from exploitation of value produced by waged laborers as surplus value.

Whether ΔM originates from surplus value in the labor process is a topic of debate. What is more important but neglected by Marx and many other analysts inspired by him is how exactly market exchange (C-

M-C) and capital accumulation (M-C-M') are related. Are they linked logically and naturally, with the latter being a spontaneous, inevitable outcome of the former? In *Capital*, Marx seems to suppose so. But if we look back at history across civilizations, as Braudel did, we readily find many cases—such as the Ottoman, Mughal, and Qing Empires—in which an advanced market economy did not lead to a spontaneous rise of capitalism (see also Pomeranz 2000 and the discussion in chapter 1). The puzzle becomes under what conditions capitalism could emerge out of a market economy.

For Braudel (1992), the market and capitalism are not to be confused and should be examined as two distinct patterns of economic activities. Whereas a market economy is grounded on exchange and competition among small producers, concerned more about livelihood than profit, capitalism is driven by profit maximization and wealth accumulation that historically required state support and monopolistic economic organizations, as exemplified by chartered companies in early-modern Europe, vertically integrated corporations fomented by antitrust regulations in the twentieth-century United States, and state-sponsored transnational corporations from such emerging powers as Brazil, Russia, and China today. The difference between market and capitalism is tantamount to the difference between a local farmers' market and transnational grocery chains. Though there were always urges in a market economy for some to pursue endless accumulation of monetary wealth, these urges had been repressed by political and cultural forces before modern times.

Arrighi traces how capitalism was set free and thrived in early-modern Europe by arguing that the unusual interstate system there, which was plagued by frequent military conflict, urged state makers to compete for internationally mobile capital to finance their war efforts, thus forging a state–capital alliance unseen anywhere else. Under such an alliance, capitalists supported state expansion by purchasing government bonds and submitting taxes, and the state offered military and political protection crucial to capitalists' accruing and securing of resource bases and trade routes. According to Arrighi, it was this state–capital exchange in early-modern Europe's unique geopolitical environment, rather than the Protestant ethics emphasized by Weber, that enabled capitalism to break free of the straitjacket of traditional moral hostility to it and rise to dominance.

After the first round of capital accumulation, or the "primitive accumulation," which was usually conducted through coercion and violence that concentrated scattered economic resources into capitalists' hands, such as during the European plundering of overseas colonies and the Enclosure in England, the accumulation became self-sustaining. The capital initially accumulated was continually reinvested in improving the economy's productivity, technology, and infrastructure. Such continuous improvements eventually fostered the Industrial Revolution at the turn of the nineteenth century (Braudel 1992: vol. 3; Arrighi 1994). In this light, all late industrialization in late-coming capitalist countries, China at the turn of the twentieth century included, was essentially a struggle to jump-start primitive accumulation and bring about the rise of self-perpetuating and self-aggrandizing capital.

Chapter Outline

With this concept of capitalism in mind, this book is divided into two parts. The first traces the rocky path of the historical rise of capitalism in China from the eighteenth century to the present, deciphering the origins of the contemporary capitalist boom. The second part explores the impact of the China boom on the global political-economic order and the demise of the boom.

In chapter 1, I discuss how the massive influx of American silver into seventeenth- and eighteenth-century China fueled a commercial revolution that made China the most advanced market economy in the early-modern world. Because eighteenth-century China was governed by a centralized paternalist state constantly fearful of social and political unrest stemming from rising inequality, merchant activities were circumscribed within the realm of market exchange, and the expansion of capital-accumulation activities was contained by a state that saw such activities as disruptive to social stability.

Chapter 2 describes the ordeal in which generations of Chinese state builders attempted to follow in the footsteps of late industrializers such as Germany, Japan, and Russia to foment state-directed industrialization as a response to Western imperialism from the mid–nineteenth century onward. After the Qing Empire was defeated by the industrial empire Great Britain, the Chinese elite devised a state-sponsored industrialization program aimed at appropriating and concentrating surplus from the countryside to foster the first generation of industrial capital. But because of the vicious cycle of rebellions and declining state capacity, the Qing state failed to accomplish this task. Following decades of chaos and warfare after the collapse of the Qing Empire in 1911, the Chinese Communist Party came to power in 1949. It followed a variant of the Soviet model, resorting to rural collectivization to extract rural surpluses and redirect them to feed rapid industrialization in the cities. This primitive accumulation of capital, although carried out in the name of socialism, was a success. By the late 1970s, China was equipped with a network of state-owned industrial capital and infrastructure.

Chapter 3 shows how the contemporary rise of capitalism in China is, on the one hand, a continuation of Cold War East Asian capitalism by the Asian allies of the United States—Japan, South Korea, Taiwan, Hong Kong, and Singapore—and, on the other hand, built on the foundation laid in the Mao period, including a large, healthy, and educated rural surplus labor force and an extensive network of state-owned capital. It discusses how China's decentralized authoritarian state emerged and fueled the capitalist boom. We see that the post-Mao market reform can be organized into two phases, with the 1980s focused on the revival of the market economy and rural growth and then the 1990s concentrated on the transformation of SOEs into profit-oriented capitalist corporations, many of which were aided by Wall Street financial firms and capitalized in overseas stock markets such as New York and Hong Kong. Chapter 3 also shows how the dominance of the export sector was subsidized by resources extracted from the rural hinterland. Given the transformed state enterprises tightly connected to the global financial circuit and the centrality of the export sector in the economy, the China boom is dependent on global free trade and investment flow. This assertion challenges the conception that China constitutes an alternative to the global neoliberal order.

In part II, chapter 4 discusses how China's capitalist boom reshaped the pattern of global inequality. It shows that although inequality has been growing rapidly in China, even the most backward and poorest segment of the population has been seeing per capita income growth at a rate higher than average worldwide growth. China has been contributing to the reduction in global inequality during the past three decades, reversing the long-term trend of global income polarization between the West and "the rest" since Europe's Industrial Revolution. But once China attains a per capita income level higher than world average, this reversal will diminish, and inequality may once again grow. Whether the unprecedented reduction in global inequality will continue depends on whether other developing countries follow in China's footsteps to attain rapid economic growth. Although China's appetite for natural resources has helped many developing countries achieve rapid growth in recent years, its export-oriented manufacturing is putting pressure on other developing countries that are similarly reliant on labor-intensive export manufacturing. If the opportunities and threats that China brings to other developing economies do not cancel out each other, the resulting net benefits or net impediments to development will vary from country to country. It is possible that the developing world as a whole will not benefit at all from the China boom and that the reversal of global income polarization brought about by the China boom is no more than a temporary aberration in the long term. This chapter questions the conception of China as a great equalizer in the world economy.

Chapter 5 disputes the idea that China's rise is at the expense of U.S. global power and is speeding up the decline of U.S. global dominance. Although the U.S. share of the global economy and its political influence around the world have been dwindling since the 1970s, its residual geopolitical dominance has been sustained by the continuous hegemonic status of the U.S. dollar in the international monetary system. This continuing status enables the United States to borrow internationally at low interest rates so that Americans are able not only to live but also to fight beyond their means. The perpetuation of the dollar's hegemony since the abolition of the gold standard in 1971 has been supported by the U.S. military's global supremacy. This dollar–military nexus has never been broken because all contending capitalist powers since the 1970s, such as Germany and Japan, have lacked geopolitical autonomy from the United States as a provider of military protection. China is the first rising capitalist power to stand outside the U.S. global military umbrella, so it should have the potential to end the twin dominance by the dollar and the U.S. military. But through its addiction to U.S. Treasury bonds, China has been following in Japan's footsteps in providing significant support to the dollar hegemony and thus to the residual U.S. global dominance.

China's immense purchase of U.S. debt is not a result of voluntary generosity but a consequence of China's export-oriented model, which led to an influx of U.S. dollars into China's central bank, the People's Bank of China. China cannot achieve genuine economic and geopolitical autonomy unless it successfully rebalances its economy and reduces its reliance on exports. This chapter also shows how China helps increase developing countries' bargaining power vis-à-vis wealthy countries and how China has started to be perceived as a neocolonial power in the developing world at the same time. It argues, however, that instead of ushering in a new world order, China is at best a new power in an old order.

Chapter 6 discusses how the particular pattern of capitalist growth in China, characterized by a decentralized and authoritarian structure of governance and a fiscal squeeze of the countryside, has been precipitating a greater economic imbalance marked by overinvestment and underconsumption during the past two decades. China's economic imbalance has been a significant contributor to the global imbalance that precipitated the Great Crash of 2008. Although China's immense stimulus program in 2009 successfully generated a strong rebound by means of lax lending to hasten investment projects and export-boosting measures, it only exacerbated China's internal imbalances and indebtedness, which will severely inhibit its growth in the years to come. Given the prospect of a sustained economic slowdown, the need to rebalance the Chinese economy is more urgent than ever. Such rebalancing must focus on making household consumption and income a larger share in the national economy. Attaining this balance, therefore, requires a serious redistribution of income and capital, which in turn requires a difficult and unpredictable reshuffling of the social and political order that has prevailed since the Tiananmen crackdown in 1989. In contrast to the conception of China as a savior to the global economy in crisis, this chapter argues that China is in fact a major source of global economic imbalances and crises and that the China boom is set to fade.

PART ONE

Origins