

# China's Way Forward? Historical and Contemporary Perspectives on Hegemony and the World Economy in Crisis

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2008—Annus Horribilis for the world economy—produced successive food, energy and financial crises, initially devastating particularly the global poor, but quickly extending to the commanding heights of the US and core economies and ushering in the sharpest downturn since the 1930s depression.

As all nations strive to respond to the financial gridlock that began in the United States and quickly sent world industrial production and trade plummeting, there has been much discussion of the ability of the high-flying Chinese economy to weather the storm, of the prospects for the intertwined US and Chinese economies, even of the potential for China to rise to a position of regional or global primacy. The present article critically explores these possibilities.

In "China's Way Forward," [1] James Fallows offers an astute ground's eye assessment of that nation's economic prospects and reflects comparatively on the experience of the United States, Japan and others in the teeth of the storm of 2008-09. Beginning with compelling images of migrant workers in their millions returning to the countryside where they face protracted unemployment while container ships sit idle in port, Fallows explains why China's

industrialization and export-dependent economy will be hard hit by the looming world depression. He believes, however, that China will not only weather the storm, but is likely to emerge stronger from it.



History can provide important clues to future possibilities. Financial specialist Michael Pettis has compared China today with the 1920s when the US, taking advantage of World I, transformed its substantial trade deficit and became the workshop of the world and a major creditor nation. The inflow of gold paid for US agricultural and industrial goods driving the US economy. [2] When the depression struck in the 1930s, the US was harder hit by unemployment than many others, including Europe and Japan, yet it emerged from depression and war as the global hegemon. The geopolitics of war would uniquely worked to US advantage in the first half of the twentieth century, but only then, in fueling industrial advance, in decimating all major rivals, and in extending the US reach through military bases. China today, with burgeoning industry and a huge trade surplus,

but five times the trade dependency of the US in the 1930s, faces the daunting prospect of industrial implosion, declining exports and spiraling unemployment. How will China respond? And with what effect on others, particularly the United States, in light of US-China economic and financial interdependence?

China's trade surplus continued to grow even as its exports fell dramatically between December 2008 and February 2009. As economist Brad Setser documents, that surplus facilitated further purchase of US Treasuries and securities [3] even as China's Premier Wen Jiabao warned the United States of its need to protect the value of China's investment against the declining value of the dollar. It is precisely China's competitively priced exports, now including a strong array of technologically sophisticated high end manufactures, together with its Treasury and agency purchases, which have allowed the US to continue its profligate debtor ways. Or, viewed conversely, the US market was critical to China's industrial advance. For its part, the US now calls on China to reduce its deficit by revaluing its currency and consuming more. The real worry for both, however, is that a surge of protectionism at a time of recession—signs already emerging in spring 2009—would irreparably damage both nations and the global economy. It could, more ominously, touch off a protectionist wave leading the way eventually to hostilities and war.

Fallows believes that China will not only weather the storm but may emerge from it stronger than before. He offers several reasons: Unlike deficit nations such as the US, China has vast surpluses and it is vigorously allocating part of them to boost production and reduce unemployment. Indeed, not only is China vigorously promoting construction that will boost employment, it has also embarked on massive labor retraining programs. As Keith Bradsher reported, this year Guangdong province alone has begun to implement three-

to-six month training programs to train 4 million workers. [4] Many of them combine training with part-time work in factories that are expected to hire them. The low wages paid to trainees are part of a process that is driving down wages so that China will be more competitive when export markets again expand. Nevertheless, the short-term prospects are bleak. China's manufactures, by World Bank reckoning, account for 33% of GDP, so declining output and exports quickly bring substantial job losses. Significantly, China, the world's number one steel producer faces plummeting production and exports in 2009. China's Iron and Steel Association on March 18 projected an 80% fall in 2009 steel exports on top of a 6% drop in 2008. [5] US steel production in the first three and a half months of 2009 fell by 52.8% to 22.5 million tons, with a capacity utilization rate of 42.9% compared with 90.5% in 2008. [6] The critical issue is not, however, whether Chinese investment in industry and training will solve the immediate problem of unemployment. It will hinge on whether these measures simply fuel overproduction leading to sharpening international conflict, or whether investment and retraining of workers can be directed to new industries and technologies that can thrive when economic recovery begins by showing the way toward more environmentally friendly and less destructive forms of development while creating jobs.

Fallows emphasizes Chinese inventiveness, and entrepreneurship, comparing the Chinese national mood to that of a recovering Europe in the 1950s when everything seemed possible. His buoyant views of Chinese entrepreneurship are best illustrated by the case of BYD Battery, a firm whose horizons are not only dynamic but also green. Based in Shenzhen, BYD rose from a household enterprise within a decade to become the world's leading battery producer. It is now investing heavily in technology that it hopes will drive the cleaner cars of the future. Indeed, it has begun producing its own plug-in

electric car and anticipates international sales in the near future.



Fallows is at his best in drawing on interviews to convey a sense of that nation's entrepreneurial energies. To assess China's prospects within the sweep of the history of capitalism in general and of East Asia in particular, consider the observations of Giovanni Arrighi in a recent interview and his major works. [7] Building on Braudel and Marx, Arrighi observes that the US sequence of deindustrialization and financial expansion since the 1970s, culminating in the crash of 2007-09, is characteristic of the autumn of hegemonic systems. Analyzing five centuries of the geopolitics of capitalism and empire, Arrighi highlights the recurrent pattern of financialization giving rise to a period of chaos and the emergence of a new hegemon. Could China—or perhaps a greater East Asia region—emerge to reshape the world economy in the new millennium? Or, to the contrary, might the US restore its hegemonic position through astute reforms leading to new technological breakthroughs and a sounder financial order? Would transition through a world depression be smooth, or would a new order emerge out of the ruins of economic and financial implosion, protracted class struggles or wars?

Arrighi shares Fallows' appreciation of Chinese strengths and energies. Drawing critically on the work of the economic historian Sugihara Kaoru on the "industrious revolution" in Europe and East Asia, he notes the specific character of China's partial proletarianization, which lies behind its dramatic surge of production and export-driven development. Central to this understanding is the dynamic role played by the more than 130 million migrant workers who have fueled China's low-wage industrialization while retaining land ownership rights in their villages while working, some for decades, in the cities. If China's migrant workers share much in common with the tens of millions of undocumented workers in the US, including vulnerability to arrest and deportation (from the cities, not across national borders) during periods of economic downturn, there are important differences. Working in the cities but denied the benefits associated with urban citizenship by dint of their rural household registration, many migrants display an entrepreneurial ethos. Indeed, China's household contract system guarantees equal land shares for rural (including migrant) people, a system that preserves household cultivation rights for all villagers, thus dodging the bullet confronting the scores of millions of landless farmers in other developing countries. The system, with links to the earlier household plots which complemented collective agriculture, provides more than a haven in hard times. Its importance becomes apparent in periods of downturn as a fallback against starvation, but its household-centered character also provides a breeding ground for the petty entrepreneurship that has been among the driving forces of China's economy since the 1970s.

Far from mythologizing China's inexorable rise to preeminence, however, Arrighi draws attention to the stability of world structures of inequality, which have preserved the dominance of the North over the South since the nineteenth century with little change in

relative per capita incomes. For all the growth and income gains of recent decades, China's per capita income remains low compared with that of core countries. Indeed, Arrighi finds that China's per capita income grew only from 2% to 4% of that of the wealthy nations (more, of course, in PPP terms). And, if we exclude China, the position of the nations of the South has actually declined in relative terms since the 1980s; with China included, it has risen only slightly. This underlines both the extraordinary stability of the world order of inequality and how far China is from a position of equity, not to speak of preeminence.

If there has been significant upward mobility over the last half century as measured by per capita GDP, its primary locus has not been China but the East Asia region, led by Japan and including the Newly Industrializing Economies of Taiwan, South Korea, Singapore and Hong Kong as well as China. From this perspective, a rising China is far from achieving a position of primacy, even in Asia, not to speak of the world. It will not reach the commanding heights in economic, technological or income terms any time soon. And, despite systematic military buildup in recent decades, and even recognizing the vulnerability of the vast American structure of bases, battleships, and nuclear bombs, as indicated by US stalemate and defeat in successive wars, China is unlikely to be able to project its military power decisively on a global or even a regional scale. [8]

The more interesting possibilities, certainly in the short to medium term, center on the rise of East Asia. But can the region respond effectively to the contemporary economic and financial crisis? More important, can it overcome historical and political differences, including conflicting understandings of war and colonialism and deep divisions between its two most powerful nations, China and Japan, to construct a new regional- or eventually world economic order? The challenges of any attempt

to do so are illustrated by the heavy international strains that Europe and the Euro face in the context of world depression despite the institutional strengths and accomplishments of the European Union. In economic terms, a critical issue is whether China, Japan and other East Asian nations will achieve pre-eminence in the new green technologies that will critically shape the economies of the future. What is certain is that, while regions have risen and fallen over the centuries, there has been no regional as opposed to national hegemony in historical capitalism to date, an outcome precluded by inter-state conflicts.

It is necessary, moreover, to consider the internal problems confronting China. Fallows, along with many contemporary analysts, notes the proliferation of popular struggles in recent decades, but dismisses the possibility of intense social conflict or revolutionary change in China in the face of economic crisis. While recognizing the potential instability that could arise from large-scale unemployment and falling incomes, he emphasizes the fact that worker and villager discontent has addressed specific grievances, rather than targeting the system or the state. Such a perspective slights both the legacies of history and the significance of strikes and protests that shape societies without precipitating a revolutionary rupture, as in the US in the 1930s and many nations in the 1960s.

It is critical, in particular, to recall that in the course of the last two centuries, China, has repeatedly been in the eye of the world storm of rebellion and revolution. Indeed, it has perhaps the world's longest and most fully developed tradition of rebellion and regime change from below of any nation. As Arrighi and Binghamton colleagues in the World Labor Group documented, the twentieth century was marked by two massive waves of worker and/or national insurgency, prior to and following the two world wars, giving rise to both national independence and revolutionary movements



and transforming the social balance, with China figuring prominently in each. [9] Particularly if economic turmoil leads to regional and global wars, the possibility of tumultuous class struggle should not be ruled out for China, Asia, or other regions.

In the face of rising challenges from below, in recent years the Chinese state, with an accent on stability, has demonstrated uncanny ability to limit protest by preventing horizontal alliances, keeping protesters isolated, and channeling most protest into the legal system. [10] But it has done so while riding the wave of economic growth, mobility, and rising prosperity since the 1970s. In the face of world depression, the Chinese state has moved far more boldly than the United States or any industrialized nation to create jobs through funding construction and fostering new industries. Equally important, as Wang Shaoguang has documented, there is evidence that the current Chinese leadership has begun to reconstruct the welfare and health safety net that was largely swept aside in China, as in England and the US, in recent decades: through a basic income program, health care and pension programs, for example. [11] These measures, together, suggest the kinds of flexible response that the Chinese state is capable of mounting in the face of challenges from below.

China nevertheless confronts three formidable immediate and long-term hurdles above and beyond the current world overproduction and financial crisis. The first of these is the specter of famine. North and Northwest China are in the midst of the most severe drought in at least half a century, with precipitation levels 70-90% below normal and water tables ruinously depleted from excessive well drilling. The FAO's 2009 report on "Crop Prospects and Food Situation" indicates that 9.5 million hectares of winter wheat in seven provinces have been severely affected by drought. [12] In this respect, China shares with other

developing nations acute problems of hunger and poverty. Here, too, proactive state policies will be essential if the disaster is to be mitigated. Nevertheless, while the problems are acute, China's financial and institutional resources appear to be greater than those of many other, and particularly developing, nations. [13]

Perhaps most challenging in the long run is whether China can shift gears to an environmentally sustainable development course. Thus far, with World Bank and US plaudits, it has followed the path of earlier developers to achieve rapid sustained growth but at a price of an environmentally disastrous combination of toxic industrialization, construction of the world's largest dams, heavy reliance on coal- and oil-driven production, and mass automobilization. Cumulatively, these have taken an immense toll on land, water, and air. If China's reckless development trajectory followed in the footsteps of earlier pioneers such as the US and Japan, the environmental consequences have been graver. All signs point toward a leadership that remains deeply committed to pursuit of mega engineering projects for damming and water diversion with potentially dire consequences not only for the Chinese earth and Chinese people, but for China's neighbors in Southeast Asia threatened by water diversion. China may eventually join an emerging consensus that prioritizes green technology and even, perhaps, begins to rein in the God of Growth . . . but with its vast legions of rural poor, this will not be any time soon. Whether China, as exemplified by BYD's green automotive production can become a pioneer in the emerging new industry remains to be seen.

A second challenge is the specter of rising inequality. In the course of three decades of rapid development, China's developmental priorities transformed a highly egalitarian income distribution pattern into one of the world's most skewed distributions, with class, city-countryside and ethnic divisions all

pronounced. This structurally determined outcome coincided, moreover, with the dismantling of the nation's extensive welfare network. [14] Can this genie be put back in the bottle? The state's recent proactive welfare policies, if deepened and sustained, could help. Strikingly, US programs, and not only its bailouts for billionaires, thus far ignore issue of inequality in a nation in which income inequality soared and the welfare structure was eviscerated in the same years that China's did.

Arrighi argues in light of the history of capitalist transitions and financialization that US hegemony entered its twilight in the 1970s and reached its terminal phase with the collapse of the financial and real estate bubble in 2008, a conclusion made inevitable by the earlier transition from industrial to financial primacy and the neo-liberal regime that gave the latter free rein. Perhaps . . . Yet, while recognizing the formidable problems confronting the Obama administration, in the absence of a serious contender in the form of a new hegemon, whether a nation or a region, such a conclusion seems at least premature. The strengthening of the dollar in the face of the US financial meltdown and huge deficits, and the Obama administration's attempts to launch the next wave of US growth on green foundations, suggest possible policy alternatives that could help to restore American economic preeminence and prevent, or at least forestall, the imminent demise of its hegemonic power. We should not rule out such possibilities, in particular a protracted muddling through in which the US remains indisputably the most powerful among rival powers for the foreseeable future. This could take place even under circumstances in which attempts to bail out the nearly bankrupt financial sector show few signs of gaining traction, in which a continued war in Iraq and an expanding war in Afghanistan and Pakistan, together with the stable growth both of the military budget and the global network of military bases, are emblematic of US

vulnerability rather than of hegemony.

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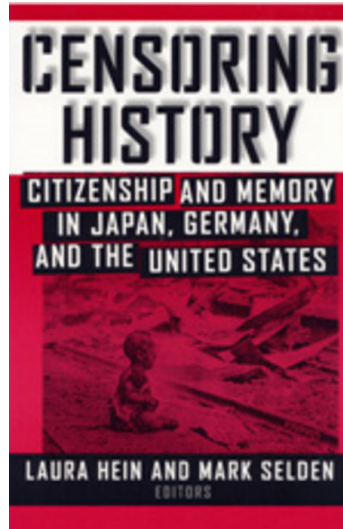
## Notes

- I am indebted to Andrew DeWit, Gavan McCormack, R. Taggart Murphy and especially Giovanni Arrighi for suggestions of sources and perspectives on the issues.

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2. "There are monetary echoes from the 1930s too," China Financial Markets January 21, 2009.

3. "Did SAFE really buy that many US (and global) equities?," [Follow the Money](#), March 19, 2009.
4. "In Downturn, China Sees Path to Growth," [The New York Times](#), March 17, 2009.
5. "Steeling for 80% Export Growth," [Shanghai Daily](#), March 19, 2009.
6. "This Week's Raw Steel Production," The American Iron and Steel Institute, [Steelworks](#), March 14, 2009. I am indebted to Andrew DeWit for data on Japanese and US steel production and exports.
7. Interview with David Harvey, "The Winding Paths of Capital," *New Left Review* 56, Mar-Apr 2009. See also *The Long Twentieth Century: Money, Power and the Origins of Our Time* (London: Verso, 1994) and *Adam Smith in Beijing: Lineages of the 21st Century* (London: Verso, 2008).
8. Arrighi notes, however, factors which could work in China's favor: (1) the importance of demographic size should be left open and (2) the possibility that China has more to gain from the US getting stuck in wars that it cannot win—as envisaged in *Adam Smith in Beijing* (part III)—should be left open. Personal communication March 23, 2009.
9. Giovanni Arrighi, Beverly Silver and Melvyn Dubofsky, eds., "Labor Unrest in the World-Economy, 1870-1990", special issue of *Review*, vol. 18, no. 1, Winter, 1995. The analysis is further developed in Beverly J. Silver, *Forces of Labor: Workers' Movements and Globalization since 1870*, Cambridge University Press, 2003.
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13. For early rumblings of North China drought, see Edward Friedman, Paul G. Pickowicz and Mark Selden, *Chinese Village, Socialist State* (New Haven: Yale University Press, 1991) and *Revolution, Resistance and Reform in Village China* (New Haven: Yale University Press, 2005).
14. See Ching Kwan Lee and Mark Selden, "Inequality and Its Enemies in Revolutionary and Reform China," [Economic and Political Weekly](#), Jan 13, 2009.



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