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The Integration of China into Global Capitalism

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Although the current crisis has amply demonstrated the many challenges and contradictions the American state faces, it has also demonstrated that it nevertheless remains critical to the system’s survival. Whereas it was still possible in the 1960s and 1970s to represent the capitalist relationship between the global north and south in terms of “the development of underdevelopment,” by the new millennium there was clearly a very remarkable, if still highly uneven, process of capitalist development taking place in the global south. Nowhere was this clearer than with the integration of China into global capitalism. At the same time, the severity and duration of the latest crisis in a global capitalist economy that the American state had been so central to constructing has, unsurprisingly, led to a resurgence of pronouncements that US hegemony was coming to an end. China’s entry into the circuits of the international economy, many commentators now predicted, marked a fundamental “re-orientation” of the global capitalist order. However, far from displacing the American empire, China rather seems to be duplicating Japan’s supplemental role in terms of providing the steady inflow of funds needed to sustain the US’s primary place in global capitalism. Were this to change, it would require deeper and much more liberalized financial markets within China, which would entail dismantling the capital controls that are key pillars of Communist Party rule. Furthermore, a major reorientation of Chinese patterns of investment and production away from exports towards domestic consumption would have incalculable implications for the social relations that have sustained China’s rapid growth and global integration. In this regard, though the outcome of the working class struggles now underway in China cannot be known, this cannot but impinge on, and possibly even be affected by, the direction working classes elsewhere take out of the current crisis.

Keywords: China; globalization; US state

Whereas it was still possible in the 1960s and 1970s to represent the capitalist relationship between the global north and south in terms of “the development of underdevelopment,” by the new millennium there was clearly a very remarkable, if still highly uneven, process of capitalist development taking place in the global south.\textsuperscript{1} The networks of transnational production as well as finance that characterized this development more than ever linked other capitalist states and economies to American capitalism’s central place in global capitalism. This was seen in the extent to which other countries’ exports depended on access to the US consumer market; and in the increasingly integrated production networks that emanated from US MNCs’ (Multinational Corporations) foreign direct investment, on the one hand, and the flow of global investment into the United States itself on the other.

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\textsuperscript{1}For Marx’s formulation of his classic thesis in 1848 on the bourgeoisie creating “a world after its own image,” see The Communist Manifesto (Marx 2008, 38–39). For Andre Gunder Frank’s formulation, over a century later, of the counter-thesis, see his “The Development of Underdevelopment” (Frank 1966).

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Nowhere was this clearer than with the integration of China into global capitalism: all the elements of “globalization” by the millennium—the transformations in the global division of labour, the development of competitive networks of production, and a new financial architecture to facilitate accelerated financialization—were implicated both in the US economy’s continuing centrality in global capitalism and in the successful integration of the huge and fast-growing Chinese economy into it. At the beginning of the twentieth century, the *Communist Manifesto*’s prediction that the bourgeoisie would soon “batter down all Chinese walls” was, despite the “Open Door” policy, still very far from being realized (Hunt 1983). Half a century later, when the American informal empire was still at an early stage of expansion beyond its own hemisphere, the United States was primarily concerned that China’s Communist revolution should not have any domino effects in Asia. Three decades later, however, when the Chinese Communist elite made its historic determination that the most promising path to development passed through capitalism, this coincides with a new stage in the informal American empire’s drive to realize a fully global capitalism.

The failure to grasp the centrality of the American empire to capitalist globalization led many commentators to predict that China’s entry into it marked a fundamental “re-orientation” of the global capitalist order. Concerns over American dependence on external finance shifted from Japan to China, while fears that persistent US trade deficits reflected a “hollowing out” of the American economy were revived and intensified. But the US trade and credit “imbalances” were actually indicative of the extent of China’s integration into the American-led global capitalist order. US imports from China provided low-cost inputs for businesses and cheap consumer goods for workers, while China’s march to capitalism at home was characterized by the largest inflow of foreign capital and technology as well as the greatest export dependence of any late developer in history.

The crucial lesson the Chinese government drew from the Asian financial crisis of 1997–1998 was not so much the conventional one, that measures of financial liberalization needed to be sequenced, in order to allow time for appropriate institutional developments to take place, but rather that in a world of such massive capital mobility, a run on the currency would overwhelm capital controls if the country’s central bank was not holding massive dollar reserves. The impact of the 1994 devaluation of the Renminbi on the trade balances of other East Asian countries—which put pressure on their exchange rates, and portended the coming crisis in the region—already indicated China’s growing importance. China’s subsequent commitment to prevent a fall in its exchange rate in 1997–1998, and thus avoid competitive devaluations, was much appreciated by the other East Asian governments; and it was seen by the United States as signalling China’s embrace of international responsibilities in global capitalism.

It was China’s admission to the WTO in 2001 that positioned it to secure the massive export surpluses that enabled these reserves to be built up. The conditions that China agreed to in the key negotiations with the United States for entry were “far more stringent than the terms under which other developing countries had acceded ... in certain respects China’s liberalization commitments exceed[ed] those of advanced industrial countries” (Branstetter and Lardy 2008, 650, 656). This was not simply a matter of external imposition. The leading US negotiator, Charlene Barshefsky emphasized that, as with the former Communist states in the 1990s, the success of China’s “domestic economic reform programs hinges on the externality of international commitments to reform

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2The notion that the US was in “terminal decline” as the center of capital accumulation shifted to East Asia was the central theme of Giovanni Arrighi’s *The Long Twentieth Century* (1994), and was taken up again in his *Adam Smith in Beijing: Lineages of the Twenty-First Century* (2007). See also Andre Gunder Frank (1998).
in a particular direction.” China’s chief negotiator at the WTO, Long Yongtu (quoted in Branstetter and Lardy 2008, 650), concurred: “China’s economy must become a market economy in order to become part of the global economic system.” One of the key arguments Barshefsky made to Congress was that China’s commitment to liberalize its distribution system was “broader actually than any World Trade Organization member has made” (quoted in Branstetter and Lardy 2008, 657). And it was especially significant in terms of US priorities that China agreed “to substantially open its market in banking, insurance, securities, fund management and other financial services” (Branstetter and Lardy 2008, 658).

Before it was admitted to the WTO, China’s total trade (exports and imports) as a share of GDP was, at 43%, well below the average for low and middle-income countries; by 2007, its 68% trade-to-GDP ratio was well above the average of those other countries. By this time, too, China’s average tariffs on industrial products were under 9%, compared with 27% in Brazil, 31% in Argentina, 32% in India and 37% in Indonesia. China’s growing role in transnational production networks was seen in the rising share of parts and components in its imports: these inputs into products that were largely eventually exported rose from 18% of all imports in 1993–1994 to 44% by 2006–2007 (Hart-Landsberg 2010).

The surge of capital investment after China’s entry to the WTO came from MNCs that wanted to use China as an export platform. But many were also interested in China’s domestic market. By 2002, some two-thirds of the output of “foreign invested enterprises” (FIEs) was for sale within China, not only as inputs to transnational production networks but also as final products for sale to Chinese consumers (Loren, Rawski, and Sutton 2008, 574). For example, China’s strategy of trying to get foreign auto companies to produce in China by erecting high tariff walls against vehicle imports was generally unsuccessful (as late as 2000 fewer vehicles were being produced in China than in Canada). It was only after China’s entry to the WTO—signalling the state’s commitment to foreign property rights, non-discriminatory treatment and freedom to repatriate profits—that foreign auto companies aggressively moved in, contributing directly to the explosive growth of China’s automobile industry (by over 60% each year from 2001 to 2004); by the end of the decade China was producing more vehicles than the United States (Hu and Jefferson 2008, 307–8). The impact of WTO membership was also very important in opening up service sectors, with multinationals chomping at the bit to invest, not only in the retail trade but also in transportation and telecommunications as well as a variety of business services.

China’s dramatic capitalist development affected economic activity everywhere, forcing industrial restructuring not only at home but also abroad and determining global commodity prices. Though still a relatively poor country, with a per capita GDP only 15% of that of the United States, by 2007 China’s total GDP had surpassed that of Germany and Japan to rank second only to the United States. The number of manufacturing workers in China alone was double the 10 leading developed countries combined; its total labour force was larger than that of the United States, Europe, Japan and all Latin America combined; and its factories exported more goods than those of any other country. While its financial markets remained comparatively small, no country had larger international reserves, or was a larger holder of US Treasuries. Yet China was simultaneously able to maintain annual levels of domestic investment which, relative to GDP, were more than double those of both the United States and Europe.

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4Derived from World Trade Organization (WTO) (2011, appendix tables A1 and A14).
5The data in this paragraph is drawn from the World Bank’s World Development Indicators (2011).
China’s “open door” at the beginning of the twenty-first century was so utterly different from that of a century earlier because this time global capital entered by invitation. In the early 1980s, Deng Xiaoping explained to the US Secretary of State, George Shultz (quoted in Fung, Lau, and Lee 2004, xi), the Communist Party’s new principle of China’s “two openings.” The first was “in China itself, and that was important, but it was not enough. China also had to open itself to the outside world, particularly to the United States. The reason, he said, was that China was backward and needed the knowledge, the technology, and the markets that the rest of the world in general and the United States in particular had to offer” (quoted in Fung, Lau, and Lee 2004, xi). Although Deng was especially impressed by the rapid development of Japan and South Korea, the initial Chinese reforms had by and large been creative variations on reforms attempted by other Communist states: allowing rural households to have their own plots of land; promoting collectively-owned town and village enterprises (TVEs) while permitting the development of small-scale private enterprises; modest market-oriented reforms in state owned enterprises (SOEs); regional experimentation with “special economic zones to promote exports and induce foreign investment” (Naughton 2007).

All of this led to strong growth but came up against the same trade and fiscal contradictions that many other developing countries had experienced. By the end of the 1980s, the rapid rise in imports of machinery and consumer goods had left China with a negative balance of trade; this, together with the stagnation of the SOEs, had led to a serious decline of state revenues (Wong and Bird 2008, 432). With the limits of the SOE reforms exposed, a broader strategic shift to the “second opening” was put in hand by the early 1990s, involving a massive mobilization behind the market economy, but especially involving the embrace of foreign direct investment far more comprehensively than either Japan or Korea had done. This openness to foreign capital would pave the way for China becoming within a decade the host to more foreign investment than any other country except the United States (see figure 1).

The first wave of foreign investors, starting in the 1980s, had come from the large Chinese business communities in Hong Kong, Taiwan, Indonesia and elsewhere in East Asia, launching China as an assembly hub for Asian production networks and giving it access to an internationalized bourgeoisie that Russia, for example, lacked. But the subsequent waves of foreign investment in the 1990s, and especially after the WTO admission in 2001, came increasingly from advanced capitalist countries. To some extent, the Chinese leadership seems to have treated FDI “as a substitute for the domestic private sector . . . to the extent that the Chinese government has provided a space for private capital, it has shown a revealed preference for foreign over domestic firms” (Haggard and Huang 2008, 368). This preference was expressed in various ways, including the tax system, subsidies, trade regulations, and access to finance. Domestic and foreign capital effectively operated within different legal parameters, but in contrast to many other countries, the more favourable laws favoured foreign, not domestic capital.

Notably, and very much in line with what Deng had told Schultz about the US’s special role in the “second opening,” it was investments by US MNCs like DuPont, Ford, GE, GM, IBM, Intel, Lucent Technologies, Microsoft, and Motorola that proved especially significant. Although the US accounted for only about 10% of overall FDI going into China, this still put it at the top of the list of foreign investors. The significance of US FDI was less as a capital inflow (China had no shortage of capital funds) than as a source of technology and expertise (Hu and Jefferson 2008, 319). The preoccupation with the latter on the part of the Chinese leadership was also seen

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6For the “systematic discrimination against Chinese indigenous firms,” see also Branstetter and Lardy (2008, 649).
7It is the strategic importance of US investments in such high sectors that is not recognized in more general surveys like Branstetter and Foley (2007).
in the over 50,000 Chinese students who were sent to do doctorates in science and engineering at US universities between 1987 and 2007 (exceeding by a third the total for all those doing US doctorates in these fields from Europe, Canada and Mexico combined). At the same time, US legal education became “increasingly necessary to a career in China in international trade and investment” (Dezalay and Garth 1997, 265).

Among the various reasons why foreign capitalists invested in China—a cheap labour force, the potentially massive domestic market, high quality public infrastructure in transportation, communications and education—confidence that their investments would be protected by the state was far from the least important. The host of new laws that benefited foreign investors was an element in this, but the law generally followed, rather than constructed, the realities on the ground. China’s lawyers did not so much inform clients about the legal landscape as help their clients establish the proper contacts with regional and state officials. In other words, it was not so much the legal system that was crucial in protecting property rights as it was “the political structure itself [that] served as an alternative to the formal legal system in providing a reasonable degree of security” (Clarke, Murrell, and Whiting 2008, 400). This was not just a matter of confidence in the central Chinese state, it also applied to regional governments, which competed to create the most

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Figure 1. Foreign direct investment in China, 1980–2009.

Note: This table is derived from United Nations Conference on Trade and Development (UNCTAD) (2011). The remarkable boom in FDI to Hong Kong in 2000—after its return to China in 1997—reflected the fact that “TNCs planning to invest in mainland China . . . [were] ‘parking’ funds in Hong Kong, in anticipation of China’s expected entry into the WTO” as well as preparing for by way of “major cross-border merger and acquisition (M&A) in telecommunications” (UNCTAD 2001).

8It also exceeded the total for India (24,000), South Korea (26,000) and Taiwan (23,000). National Science Foundation (2010, 2–27, tables 2–6).
favourable conditions for joint ventures. Of course, as joint ventures grew in size and significance, and as Chinese firms’ supplier relationships with them and with foreign MNCs expanded, the line between domestic and foreign capitalists, as well as between them and the families of Party elites and state officials at all levels, inevitably became blurred. At the same time, the laws benefiting foreign investors spilled over into better protections for all private businesses, making the legal regime for Chinese capitalists “look more like the one for foreigners, not the other way around.”

It was still the case, however, that “the growth of mixed property forms that maintain central or local government ownership and control has far outstripped the growth of private firms” (Haggard and Huang 2008, 338). State owned enterprises continued to play a very important role in the Chinese economy, even though some sectors, such as textiles, were allowed to shift into the “competitive” sector, and what remained of the state sector was significantly restructured, so that the SOE share of employment fell by 45% between 1995 and 2004. In order to establish foreign business confidence without surrendering its control over the economy, the Chinese state clearly defined the boundaries of the state sector, promising to limit its extension into new sectors and to allow more space for foreign participation in the existing ones. To be sure, the Chinese state held on to its ability to affect the rate and direction of investment, not only in steel but also in oil, petrochemicals, auto, rail, and telecommunications, not least through state control of the largest Chinese banks (in the vast majority of cases where shares of SOEs were publicly offered, the state retained effective control). Of the top 500 companies in China in 2008, the largest 43 were state owned; privately owned firms accounted for only one-fifth of the list and for only 10% of total sales revenue.

It was nevertheless significant that, although by the early years of the twenty-first century foreign invested enterprises (FIEs) only accounted for some 20% of China’s industrial production, FIEs had captured 47% of sales in China’s domestic high tech market, while the share of State owned enterprises had slipped to 42% (Whalley and Xin 2010; Hart-Landsberg 2010). Moreover, the FIE’s share of China’s industrial exports had grown to well over half (up from 17% in 1990). By 2003, the extraordinary reorientation of China’s industrial role in the global division of labour towards electronics, telecommunications and machinery was very clear: high tech manufacturing

9 “China’s transition to a capitalist state has been carried out through a remarkable marriage of central power and decentralized authority” (Walker and Buck 2007, 46).

10 Peter Kwong, citing a report by the China Rights Forum in his “The Chinese Face of Neoliberalism,” summarizes the relationship between the Party elite and the owners and managers of business as follows: “only 5 per cent of China’s 20,000 richest people have made it on merit. More than 90 per cent are related to senior government or Communist Party officials . . . China’s new ‘princelings’ took over China’s most strategic and profitable industries: banking, transportation, power generation, natural resources, media, and weapons. Once in management positions, they get loans from government-controlled banks, acquire foreign partners, and list their companies on Hong Kong or New York stock exchanges to raise more capital” (Counterpunch, October 7–9, 2006).

11 Official attitudes to private property expanded from being considered a “complement” to the state sector (in the Constitution in 1982), to being a “supplement” to the state sector (Thirteenth Congress of the CPP, 1987); to being an “important component of the economy” (Fifteenth Congress, 1997); to developing “side by side” with the publicly owned sector (2001) and “actively encouraged” (2004) (Clarke, Murrell, and Whiting 2008, 380).

12 The overall share of SOEs and other publicly controlled enterprises in new fixed investment in 2003 was still 74% (two-thirds of the remainder was undertaken by foreign-invested enterprises). Key strategic industries such as steel remained in state hands (though there was great variation in firm size, productivity and profitability, the output of crude steel increased by 339 per cent between 1995 and 2006, while employment fell by 18%, implying a more than five-fold increase in output per worker, accompanied by an improvement in quality) (Brandt, Rawski, and Sutton 2008, 588, 594, 597; Perkins and Rawski 2008, 863).

13 The data is collected by the China Enterprise Confederation & China Enterprise Directors Association and modeled after the Fortune 500. See Tang Xiangyang, “State Monopolies Dominate China’s Top 500” (Economic Observer, September 9, 2009).
already represented 27% of China’s manufactured exports compared to an OECD (Organization for Economic Co-operation and Development) average of 18% (quoted in Dobson and Safarian 2008, 6). But what was no less remarkable was the FIE’s increasing domination in this sector: foreign firms and joint ventures accounted for almost 80% of China’s exports of industrial machinery; 90% of computers, components, and peripherals; and 71% of electronics and telecommunications equipment (Whalley and Xin, 2006; Gilboy 2004; Brandt, Rawski, and Sutton 2008, 574). Exaggerated claims about China’s growing economic dominance need to be somewhat discounted in light of this. Alongside its model of rapid catch-up facing profound environmental challenges, China is still catching up technologically to Korea and Taiwan, let alone the United States.14

Of prime importance for FIEs, and increasingly for SOEs as well, has been, and remains, the restructuring and management of the immense Chinese labour force. Indeed, China’s new place in the global order had required nothing less than the remaking of its working class. As one group of workers tried to hang on to the remnants of the old “iron rice bowl” regime, a new generation of workers that migrated to urban centers outside their home region had no rights whatsoever (Lee 2007, 71). In 1978, China’s workforce was 70% agricultural and 30% non-agricultural; by 2004 this ratio had been exactly reversed. From 1991 to 2006, the urban workforce increased by 260 million, 85% of that through migration to the cities. An estimated 120–150 million workers, accounting for almost two-thirds of the industrial workforce and one-third of the service sector, had no formal status in the cities; they joined newly laid-off SOE workers to swell the ranks of the 270 million Chinese known as “dispatch workers”—the world’s largest “precariat.”15 Notably, the commodification, deregulation and exploitation of labour power were based, as Ching Kwan Lee has emphasized, on a “remarkable and momentous increase in law-making activity by the central authority and the professionalization of the judiciary and the legal workforce” (Lee 2007, 10). She shows that while capital was attracted by the reforms that instantiated the rule of law, workers were subjected to a kind of “rule by law” that left them vulnerable to local administrations competing to attract investment, and to overworked judges closely linked to the same local officials. The tens of thousands of riots and protests that took place from the late 1990s (officially called “incidents”) belied the Chinese Communist Party’s claims that it still provided workers with anything like a protective regulatory system (Friedman and Lee 2010, 515–17).16

14Indeed, one major study concluded that, “the current model of technology import and imitation cannot in the long run sustain China’s technological advance. As China narrows the gap with the world technology frontier, opportunities for easy gains from imitating will dissipate” (Hu and Jefferson 2008, 332). See also Dale Wen and Minqi Li (2006). Also, according to Gordon Fairclough’s “China Slows Increase in Defense Spending” (Wall Street Journal, March 5, 2010), discounted should be claims about China’s challenge to US military dominance: leaving issues of quality and technology aside, US military expenditures in 2008 were 4.9% of GDP and China’s 1.4%. In actual expenditures, the United States spent close to $700 billion and China $60 billion and even if China’s official numbers are doubled, as the Pentagon suggests, that still leaves China’s expenditures at only 17% of the United States.

15In 2004, only 10% of them had medical insurance, less than half were paid regularly, over half were never paid overtime and two-thirds worked without any weekly day of rest. At the same time, employment in state-owned enterprises peaked in 1995 and over the next decade fell by 48 million (30 million of those being laid off and the rest transferred to TVEs) (Friedman and Lee 2010, 510–16; Cai, Park, and Zhao 2008, 168; Brandt, Hsieh, and Zhu 2008, 690).

16The number of arbitrated cases has gone from under 20,000 in 1994 to over 120,000 in 1999, 226,00 in 2003, and reached half a million in 2007. Ching Kwan Lee’s work (2007) provides the most insightful and in-depth discussion of how the discourse and forms of protest differ between the workers in the state enterprises in the “rustbelt” and the new generation of migrants coming to the “sunbelt.” Though there are important differences in terms of a lingering sense of collective rights versus focusing on the individual rights other workers have, and in the readiness to use class or populist rhetoric rooted in Marx and Mao, and
It was this relationship between the party-state and the working class that lay at the heart of China’s capitalist development. Ho-fung Hung has accurately summarized this as follows:

What made the Chinese miracle possible was first, the capacity of subnational states to promote local economic growth in a single-minded manner; and, second, the capacity of the national party-state to repress labor’s demands and the growth of civil society. While the autonomy and competitive pressure among local states perpetually goaded them to increase their individual attractiveness, and hence China’s overall attractiveness to global capital, the authoritarian national rule kept discontent at bay without requiring large-scale income redistribution through taxation and wage increases. These two processes, when unfolding on the vast geographical and demographic scale of China, made China the most dynamic center of capital accumulation in the world system. (Hung 2011, 218)

The transformations in China lowered poverty levels but also predictably and dramatically increased inequality. The official justification of “let some get rich first, so others can get rich later” oversaw China’s shift from one of the world’s most egalitarian societies to one of the most unequal. This was reflected in Chinese household consumption: from a share of GDP in the early 1980s that, at approximately 50%, matched the rest of Asia and other developing countries, by 2007 the share of household consumption had fallen to 36%, far below that in neighbouring countries, or in other major developing countries such as India, never mind the over 70% share of GDP that household consumption took in the United States (see figure 2).

China’s low domestic consumption left it with a profound dependence on American consumer markets, sustained by the policy of keeping the Renminbi low relative to the dollar despite China’s ever larger trade surpluses and capital inflows. Although a managed floating exchange band was implemented in 2005, supported by the introduction of an over-the-counter derivatives market, and foreign exchange and interest rate swaps, the Renminbi’s relative appreciation was small in real terms. This was only possible because extensive capital controls were maintained, even as China’s securities and bond markets were opened up to foreigners in line with the WTO accession agreement. But even while US institutional investors and investment banks became key players in Chinese financial markets (they were especially involved in major merger and acquisitions activity, and in purchasing the lion’s share of stock offered for sale by SOEs), China’s capital markets, while growing fast, remained “among the smallest in the world relative to the size of the domestic economy” (Masson, Dobson, and Lafrance 2008, 22). Despite having agreed under the WTO agreement also to open its domestic banking sector to foreigners by 2007, the financial system remained dominated by five large state-owned commercial banks primarily engaged in lending to SOEs, while interest rates were administered by the central bank with the primary goal of avoiding upward pressures on the exchange rate. This system of extensive capital controls and administered interest rates, which was a crucial part of the state’s arsenal in terms of engineering and channelling its massive domestic investment, left China “considerably less integrated into the global financial system than its importance as an investment destination and major exporting country might suggest” (Masson, Dobson, and Lafrance 2008, 27).

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even in the forms of actions taken, in both cases there remains a dependence on a paternalistic state and a focus on individual rights as provided in the law.

17There are many problems in interpreting the data, but that there has been a major increase in inequality in China is not disputed. For recent analyses with comparisons to other countries, see Chen Jiandong et al. (2010). A recent OECD study (2010) provides a lower indicator of inequality than the Chinese Academy of Sciences does but still has Chinese inequality as being higher than the United States; it also argues that income inequality in China peaked in 2005 and has since stopped increasing.
This pattern of China’s integration into global capitalism was a product of the way both domestic class relations and the party-state’s development strategy left it dependent on US consumer markets in particular. Even apart from how much China would lose from its accumulated reserves if the dollar were devalued, and the lack of alternative assets to park their surpluses nearly as safely, these domestic factors were especially important for understanding why the widespread expectations that China would respond to growing US trade and fiscal deficits by pulling out its massive dollar-asset holdings were proven wrong. The first global crisis of the twenty-first century would not be caused by the build up of external imbalances triggering a collapse of the dollar. On the contrary, it was caused by the build up of domestic contradictions rooted in US society’s own envelopment in the volatility of finance. It was a crisis made in America.

Given the severity and duration of the latest crisis in a global capitalist economy that the American state had been so central to constructing, it was hardly surprising to see a resurgence of pronouncements that US hegemony was coming to an end. As pundits of every persuasion once again blur the lines between a capitalist crisis and the decline of the American empire, it is especially important to recognize the central role that the American state continues to play in reproducing global capitalism. To be sure, the current crisis has amply demonstrated the many challenges and contradictions it faces in doing this, but it has also demonstrated that while the American empire is certainly not always able to control the spirits it has called up from the deep, it nevertheless remains critical to the system’s survival. Even China today explicitly speaks in terms of the US’s unique responsibilities for “the world’s economic soundness” given its status as “the world’s largest economy and the issuer of the dominant international

18It was notable, for instance, that even Niall Ferguson, especially in his essay, “Empire Falls” in Vanity Fair in October 2006, fuelled such expectations despite his understanding of the “symbiotic economic relationship” between China and the United States that he dubbed “Chimerica.”
reserve currency.” Thus did the Chinese State Media Agency Xinhua remind American political leaders that “political brinkmanship in Washington is dangerously irresponsible … It risks, among other consequences, strangling the still fragile economic recovery of not only the United States but also the world as a whole.” 19

It is increasingly clear, moreover, all the heady talk between Russia, China and other emerging market states about using “SDRs” (the IMF’s “special drawing rights”), let alone the Euro, to displace the dollar as the international reserve currency had amounted to little more than rhetoric. Rumours that the Middle East’s oil exporting states would abandon the dollar vanished with the 2011 “Arab spring,” just as May 1968 put a stop to expectations that France might lead a return to the gold standard. The dollar’s continuing central global role certainly produced problems for rapidly growing emerging market economies, which experienced high capital inflows and currency appreciation as a result of the Fed’s low interest rates and quantitative easing policies. This stoked real estate and stock market bubbles in these countries, and threatened to undermine their competitiveness and bring back hyper-inflation. But criticisms such as those repeatedly heard from Brazil that US policy might lead to “currency wars” amounted to nothing like a challenge to US hegemony.

The most significant change from the pattern of crisis management in the 1980s and 1990s was that whereas it had earlier been the developing states that were required to practise austerity, the prescription for a capitalist cure for this structural crisis was reversed: the G7 states now committed themselves to austerity, while encouraging the emerging market states to stimulate their economies. This reflected the fact that the major developing states were now so much more an integral part of global capitalism, so the issue was no longer just to restructure them so as to facilitate free trade but also to make them more responsible for sustaining global demand. Yet the rising purchasing power of the developing countries could hardly make up for stagnation in the developed ones (US consumption expenditure alone remains some three times that of China and India combined).

The real issue is less about changing consumption patterns than whether any other state would be capable of playing the crucial role in the reproduction of global capitalism played by the American state. Claims that this would be a European supra-state now looked threadbare indeed. And amidst all the talk about the impending dominance of China, the crucial question rarely posed was whether the Chinese state had the capacity to take on extensive responsibilities for managing global capitalism. No one seriously imagines Russia, even with its admission to the WTO, could readily develop such capacity, but even China is manifestly still a very long way off from being able to do so. To this point, far from displacing the American empire, China rather seems to be duplicating Japan’s supplemental role in terms of providing the steady inflow of funds needed to sustain the US’s primary place in global capitalism (Hung 2009; Murphy 2010).

Were this to change, it would require deeper and much more liberalized financial markets within China, which would entail dismantling the capital controls that are key pillars of Communist Party rule—at a time, moreover, when its own banking system is under severe stress. Furthermore, a major reorientation of Chinese patterns of investment and production away from exports towards domestic consumption would have incalculable implications for the social relations that have sustained China’s rapid growth and global integration. It would involve a restructuring of the country’s coastal industries, which would come up against powerful vested interests among Chinese capitalists and regional officials. And getting households to spend their savings on current consumption would also involve developing a welfare state as well as ongoing increases.

in wages. Given the redistribution of income that this would entail, which could only happen through a substantial shift of power to the working class, all of this—while certainly possible in the long run—would meet resistance that would go well beyond just those firms involved in exporting low-wage goods.

As noted in a China Daily article by Anita Chan named “Labor Unrest and Role of Unions” on June 18, 2010, the current conflicts in which Chinese workers are engaged, as seen in the strike wave of 2010 which yielded some large wage increases but no clear organizational transformation in Chinese trade unionism, pose increasingly sharp choices for the whole of Chinese society. It cannot be known in advance whether working class struggles in China will lead to the emulation of the West’s individualized consumerism or whether they will lead to new collectivist claims. What is clear is that the outcome cannot but impinge on, and possibly even be affected by, the direction working classes elsewhere take out of the current crisis.

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