

1 Introduction

The China impact

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Of all the competing forecasts for the 21st century, most agree that China's international ascent will have a defining impact. Nonetheless, most serious forecasts seem at a loss concerning how to capture the exact nature of this impact. China's ascent might be the harbinger of international turbulence, or portend the rise of a vast consumer market, ushering in a new era of global prosperity.

Whatever view one might lean toward, China's impact will spring from the massive transformations its political economy is experiencing. Analyzing these transformations is the purpose of this volume. We will explore the domestic origins of China's emergent political economy and its global ramifications.

The People's Republic of China (PRC) underwent a period of industrialization, nation-building, and military buildup after its founding in 1949. However, the starting point of China's contemporary ascent is most widely set in late 1978. It was then that Deng Xiaoping and his fellow reformers initiated the policy of reform and openness. The launch of these economic reforms triggered a breathtaking transition toward an internationally open market economy, in turn engendering an economic boom with few parallels in modern history. By now, this boom is putting Chinese workers within reach of middle-income status and potentially creating the biggest consumer revolution the world has seen.

Concurrent with economic change, a host of new social forces were unleashed. These include the creation of distinct professional interests, the move of human capital from the countryside to the city, and the stratification of China's social order. Enormous differences now exist in the life opportunities of Chinese citizens, especially along regional and urban/rural lines. China's reforms have therefore created severe imbalances that are threatening stability and pressuring Chinese leaders to establish more socially responsive institutions.

Even in terms of China's political system, often seen as a laggard in the reform process, changes have unfolded at a rapid pace. Whereas prior to 1978 China was characterized by a centralized system with almost absolute control over its populace, the reform period triggered a transition toward a

more open and pluralist polity. New interest groups, new avenues of expression, and new spaces for political influence are opening up despite the efforts of China's authoritarian political system to control these trends.

Throughout this reform process domestic dynamics and international forces have mutually conditioned each other. For instance, as international trade and financial flows increased across China's borders, Chinese economic policy became more constrained by global economic events. In tandem, international integration has catapulted China to become a major global economic player. The Chinese economy was in 2006 the fourth largest global economy, the third largest trading nation, and the most dynamic buyer of commodities. Perhaps most telling, China is now widely perceived as the world's factory for a large variety of consumer goods.

As a result of these concurrent and monumental changes, China has started to impact the world's economics and geopolitics. The country's growing interdependence with the global system is encouraging its leaders to take initiatives to engage and influence their international environment. Initiatives such as the pursuing of a free trade agreement with the economies of the Association of Southeast Asian Nations and concerted efforts to secure energy supplies are all altering regional and international political balances. Evidently, as China's international interactions increase, so will the country's impact on world affairs. The "China Impact" is likely to become more prominent as the 21st century progresses.

Scholars have responded to China's dramatic transformation by producing a large variety of works on its economy, politics, society, and international relations. While during the Cold War information on China was scarce and anecdotal, this new body of literature has allowed the world to gain an in-depth appreciation of contemporary Chinese affairs. In a sense, this burgeoning analysis has truly opened China to the world.

Nonetheless, China is often seen as standing on its own in this literature, somewhat distinct and special in terms of its historical experiences and contemporary circumstances. Even as China possesses vibrant markets, its economy remains permeated by the influence of state organs. And even as Chinese society is clearly on the move, the country continues to be dominated by a communist party. Indeed, China often appears as a contradiction within itself. Somehow the country's circumstances just don't fit the universe of social scientific concepts used to describe modern societies.

For sure, there have been many attempts to situate China within social scientific theory. In the political economy of development, China has been conceived of as a case of a developmental state, crony capitalist state, or post-socialist transition economy.¹ However, all of these conceptual migrations do not sit quite comfortably in the China of today. They may explain some of China's dynamism or present-day contradictions, but seldom provide a big picture logic explaining the international ascent of China.

In fact, the challenge of conceptualizing China's transition has led to the proliferation of new conceptual terms. These range from "incomplete

state socialism" to "capitalism with Chinese characteristics," "Confucian Leninism," "capital socialism," "bureaupreneurialism," and "nomenclature capitalism" (Baum and Shevchenko 1999: 333–334). Since China is a political economy in flux, this proliferation of often paradoxical concepts is a natural phenomenon. Alas, many of these new terms are of little use when trying to synthesize the monumental changes occurring in China and relate them to broader world historical trends.

While the literature on contemporary Chinese affairs has produced a wealth of analysis, it has had considerable difficulties in effectively synthesizing the forces shaping China's transformation. There are therefore few works that have put together the dynamics facing China into a logical and lucid whole while linking them to other well-known historical experiences. Our collaborative effort attempts to accomplish this. We aim to conceptualize the monumental changes taking place in China by recognizing them as part and parcel of a capitalist transition.

China's capitalist transition

While in terms of speed and scale the developments unfolding in China are without parallel in the past, there are intriguing parallels to earlier instances of industrialization and nation-building. China's stunning ascent is associated with the same historical dynamic that catapulted Great Britain, the United States, Germany, and Japan to international prominence – the emergence of a capitalist political economy. The purpose of this book is therefore to offer a new perspective on China's international ascent, conceiving it as the product of a capitalist transition, a term which captures the processes and phenomena associated with the emergence of capitalist political economies.

As noted above, scholars have responded to China's dramatic transformation by producing a variety of works attempting to fathom the logic and nature of China's meteoric rise. Intriguingly, few have directly addressed the nature of China's rapid development while consciously and explicitly applying the terms "capitalism" or "capitalist development." Of course, a number of recent works on China's contemporary political economy use the term capitalism, especially in their titles. However, most focus on particular aspects of this transition and fail to capture the bigger historical picture.

An early and defining work is Gordon Redding's *The Spirit of Chinese Capitalism* (1990). This book constitutes the classic conceptualization of a form of Chinese capitalism. Redding chiefly uses a Weberian notion to develop a detailed psychological and organizational ideal-type of Chinese capitalism. However, his focus rests on the Overseas Chinese in Hong Kong, Taiwan, and Southeast Asia. The contemporary PRC contains elements of this ideal-type, but looks quite different overall.² A newer work focusing on the PRC is You-tien Hsing's *Making Capitalism in China* (1998). This book provides a snapshot of China's capitalist transition, focusing on the

role that transnational networks of Overseas Chinese entrepreneurs play in transforming local political economies, especially in China's southern coastal regions.

A strong reference to capitalism is made in the title of Doug Guthrie's *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China* (1999). Yet, the author's emphasis rests on micro-social phenomena such as changing labor relations and the growth of rational-legal bureaucracies at the firm level. Little is said about the overall logic of China's emergent capitalism, especially the development of capitalist institutions and interests that shape the national political economy.

Another recent work that deals quite directly with the overall nature of China's transition is Yongnian Zheng's *Globalization and State Transformation in China* (2004). Zheng argues that market reforms and the embrace of global capitalism have necessitated Chinese leaders to undertake far-reaching reforms of the state.³ Most interestingly, the author consciously engages with the fact that China is undertaking capitalist development. He compares the process briefly to the European experience and argues that although China will follow a different trajectory than Europe's capitalist developers, it will have to establish the rule of law to enable effective governance.⁴

The popular business literature has of course been much more explicit in conceptualizing China as capitalist. From *Forbes* to *Businessweek*, the fact that China is a capitalist political economy is taken for granted.⁵ Our purpose, though, goes beyond the above-mentioned academic expositions and their more popular counterparts. The term capitalism will not be used in a casual manner. To the best of our abilities, it will be envisaged from a decidedly neutral and objective standpoint.

In other words, this volume will employ a capitalist lens to interpret the massive transformations occurring in the contemporary PRC. The application of a capitalist lens, in turn, requires a definition of capitalism that can effectively assess China's recent transformations. Accordingly, I will build on the large volume of both classical and modern conceptualizations of capitalism, but especially on the works of Robert Heilbroner (1985; 1993). Capitalism will be conceived of as a political economy characterized by three elements or dynamics.

First is the drive to accumulate capital, which can only occur if social and cultural infrastructures enable the relentless accumulation of capital. Second is the emergence of market society, denoting that market forces become the central force guiding the allocation of goods and services. Indeed, markets emerge as the social organizing principle by which most of us make our living, since we must "sell" our labor power on the market or engage in entrepreneurship shaped by market competitive forces. The final defining element of capitalism is the rise of capital-owning social strata to positions of social and political influence. As these new social forces gain in prominence, they attempt to restrain the powers of the state. Ultimately,

only a "constitutional" state permits a private property rights system to function effectively.

Chapter 2 of this volume will expand more on how the nature and logic of capitalism relates to China's emergent political economy. In that chapter I will further specify the above definition of capitalism. Then I will use this definition as a conceptual measuring stick and apply it to evaluate the progress of China's capitalist transition.

A logical explanation

Since capitalism originated in Europe in the 16th century, it has been regarded chiefly as an outgrowth of Western civilization. However, while the concept of capitalism is undoubtedly Eurocentric in origin, capitalism has become the dominant mode of social organization in the present global order. It has generated an unparalleled increase in living standards in its core economies. And as it spreads to China and beyond, it appears likely to create similar increases in wealth, while also producing stark manifestations of its dark undersides: inequalities, ecological imbalances, and a disruption of long-held practices, values, and beliefs.

Why then has China's transition only casually or in piecemeal fashion been conceived of as capitalist in nature? Since 1978 the Chinese economy has gradually outgrown state ownership and moved to a mixed economic model. Although state firms and investment remain important, the most dynamic parts of the Chinese economy are now powered by private capital, both domestic and foreign. China has further developed a vibrant market economy in which the vast majority of goods and services are allocated by the price mechanism. And as state institutions have escalated their interaction with markets and private capital, a more conducive environment to capital accumulation has emerged. Evidently, China seems to be progressing towards a form of capitalism.

The problem with conceptualizing China as a capitalist political economy therefore rests less with China's national circumstances. While certainly unique, these are quite straightforward. Rather, the crux of the matter lies with how the term capitalism is understood *and* misunderstood. Capitalism can be used to damn or justify almost any imaginable policy choice or social arrangement. Confusion and disorientation are further amplified because comprehending capitalism involves a diversity of social science perspectives and approaches.

As a result, some perceive capitalism to be a misnomer for our present political economies. Reinert and Daastol (1998), for instance, dislike this term because it emphasizes the role of capital over that of ideas and institutions. Moreover, some of the deepest problems lie in ideological preconceptions. On one hand, capitalism is seen by advocates of socialism and its related ideologies as a system to be superseded. On the other, fervent believers in capitalism tend to gloss over the system's dark underside and

advocate the omnipotence of market forces and private enterprise. More fundamentally, capitalism itself can hardly be envisioned as a unified ideological construct. While most modern ideologies are somehow associated with capitalism, such as libertarianism, social democracy, conservatism, and fascism, capitalism does not constitute a distinct ideology in itself.

In the case of China, the Chinese Communist Party's (CCP) own predisposition has aggravated these conceptual and ideological muddles. Modern capitalism is by far more complex than the simple picture of class relations that defines the Marxist image. As capitalism has evolved, class distinctions have become blurred with multiple class roles performed by single individuals and the forming of a whole host of "intermediate" classes. As Adam Przeworski (1985: 393) puts it: "The traditional Marxist theory of the structure of class conflict has been exceedingly crude and, I believe, both logically invalid and empirically false."

Perhaps the underlying problem is that we fail to think of the political economy of capitalism as historically exceptional. We just take many of its contemporary facets for granted, concentrating on subsets of its associated problems, such as the functioning of markets or the consolidation of democratic governance. Much social analysis thus misses one valid window on the big picture. Capitalism constitutes a historically unique system to arrange the human existence that emerged after the 16th century. It shapes our present world in the most fundamental ways and should be up and front in social inquiry.

With the collapse of the Soviet Union there will perhaps emerge a neutral space in which to reconsider the essential nature of capitalism.⁶ Unquestionably, communism has lost its luster, while socialist precepts have been successfully incorporated into capitalist political economies from Sweden to Singapore. Any pretense at finding an alternative path to supersede the fundamental nature of capitalism must therefore be questioned, although we will need to think seriously about capitalism's interaction with man and nature.

For lack of a better term, capitalism thus conceptualizes the nature and logic of the predominant political economies of our time. Just like feudalism, capitalism should not be conceived of as an ideology but rather as a social system with both its negative and positive attributes. So, whether we like it or not, "... there is in fact no viable alternative to capitalism at this stage in world history" (Lippit 2005: 3).

Following these observations, capitalism will be viewed as a purely analytical concept in our endeavors. We are careful, though, to use the term capitalist transition with respect to China. In this manner, we draw attention to the fact that the structure of China's emergent political economy is being forged by an ongoing process, the outcome of which remains indeterminate. China's capitalist transition could conceivably be arrested by internal political imperatives or external shocks.

Even so, viewing China's dramatic international ascent as generated by the forces of capitalism adds explanatory power. It allows us to use historical

and comparative materials about other capitalist developers to inform our analysis. Perhaps most importantly, we can use this analytical lens to indicate certain tendencies in China's political economy, therefore shedding light on what China's international ascent portends for our era.

The premise

The premise of our undertaking is straightforward: to explicitly interpret the enormous transformations taking place in China as associated with the same process of capitalist development that shaped the rise of the world's advanced industrial nations, including Japan, Germany, South Korea, and Taiwan. We explore China's capitalist transition, both as a phenomenon and as it impacts vital aspects of China's domestic and foreign policy.

Perhaps one of the most fascinating aspects of China's capitalist transition is that it is empowering domestic and international capital holders to an extent not seen before. In turn, this is conditioning the *modus operandi* of the Chinese party-state. Since the CCP's legitimacy rests in great measure on its ability to foster economic wealth, the leverage of capital holders has increased. The party-state is now partially dependent on the decisions of capital holders (both foreign and domestic) to manage the economy. In fact, if capital holders decide to take their capital out of the PRC, it could directly undermine China's economic prospects. The CCP has therefore been nudged toward recognizing and guarding private property rights, changing China's social, political, and economic environment.

To capture this underlying dynamic, chapters in this volume cover a wide range of topics, striving to provide a comprehensive overview of China's capitalist transition. Unfortunately, space constraints did not allow for the entirety of phenomena to be covered. The interaction of China's capitalist transition with ideational factors (beliefs, values, and ideology), for instance, is not covered in much detail. In addition, several aspects of the socioeconomic and political phenomena unfolding in China are not dealt with directly, including the role of labor and labor markets, the emerging Non-Governmental Organization (NGO) sector, the massive environmental degradation occurring in China, and the degree to which enhanced economic and technological resources influence China's military capabilities.

Diverse perspectives, common threads

To provide different perspectives on China's capitalist transition, chapter writers were selected from unlike backgrounds. Discussions that shaped this volume are therefore of an international and interdisciplinary character, yet focused on two central questions: if we conceive of China as undergoing a capitalist transition, how can we characterize the political economy of China's emergent capitalism? And second, what are the

implications of China's emergent capitalism for the country's domestic development and foreign orientation?

These two questions form the fundament of the volume and permeate all chapters. Before the topical chapters, though, Chapter 2 deals with some conceptual issues. This chapter expands on the definition of capitalism rendered above. It then applies this definition as a conceptual yardstick to evaluate China's recent transformations in the political and economic spheres. Chapter 2 thus builds a conceptual starting point that supports the following chapters.

Each of the nine topical chapters that follow serves as a wedge into the institutional and interest formations that are shaping China's emergent capitalism. Since authors come from different disciplines, a variety of materials, viewpoints, and analyses shape these chapters. Each chapter is therefore somewhat unique.

Conceptually, Chapters 3 through 7 all employ institutional lenses, though analytical emphases differ somewhat. Chapter 6 offers a more detailed treatment of how a capitalist institutional lens can be elaborated. Chapters 6 through 8 also home in on the changing relations among China's sociopolitical interests. Chapter 8 especially focuses on structural political change as shaped by changing class relations. Finally, Chapters 9 through 11 use both economic and foreign policy analyses to map China's emerging role in the global capitalist system.

To facilitate the pooling of diverse perspectives, the process of producing this volume aimed at creating an atmosphere of open and frank academic exchange. Chapters were presented at two workshops in August 2004 and 2005 at the East-West Center in Honolulu. During these workshops intense discussions on the nature and logic of capitalism ensued, especially with respect to China's transition. Chapter authors thus were forced to deal head-on with ideological, cultural, and political preconceptions.

Besides analyzing certain aspects of China's capitalist transition, an additional requirement for authors was to include future-oriented perspectives in their conclusions. Major concerns addressed focus on the emerging shape of China's capitalism, China's integration into the global economic order, and the likely effects of China's international ascent on geopolitical balances.

The central feature integrating the variety of materials, insights, and perspectives presented in this volume is a focus on common threads – the narrative structure of China's capitalist transition. These threads map the forces of change, points of contention, and emerging dynamics that China's capitalist transition is generating.

The first thread is, as Chapter 2 outlines more precisely, the incomplete nature of China's capitalist transition. Most chapters speak in one way or another of the partial nature of market reforms (Chapters 7 and 8) or the blurred borderlines between corporate and government sectors (Chapters 3 through 6). Clearly, China is a political economy in transition, shaped by

two fundamental logics that clash: a state dominant logic emphasizing political control and a capitalist logic emphasizing market competition and commercial success.

The interaction of these two logics generates a host of hybrid, intermediary, and often internally contradictory institutions. This is perhaps most clearly expressed in Chapter 7, which analyzes the tensions between political and commercial interests permeating China's media institutions. The fundamental contradictions and dualities characterizing China's emergent political economy also raise several crucial questions. For instance, how can the world's fastest growing economy cope with deteriorating socioeconomic polarization? More fundamentally, how can a burgeoning capitalism be reconciled with China's imperial legacy and more recent Leninist history of state dominance? These issues will be taken up in more detail in the concluding chapter (Chapter 12).

The second thread permeating the narrative of China's capitalist transition is that China is undoubtedly developing a unique form of capitalism. China is blending standard Western features with aspects of its historical and socialist heritage, combining state-led development with bottom-up network capitalism, and harmonizing a highly internationalized export regime with a relatively limiting internal trading system. In this manner, China is contributing to the generation of new capitalist institutions domestically and globally. For example, Chapters 3 through 5 all argue that China is rapidly melding global capitalist practices with China's institutional legacy. The outcome: new modes of Chinese management and new types of Chinese multinationals that are building impressive managerial and technological capabilities.

China has therefore developed specific institutional features and organizational structures that are beginning to constitute a new form of capitalism. Part of the uniqueness of China's emergent capitalism stems from the combination of cutting-edge capitalist practices with the underdeveloped nature of China's domestic economy. Another aspect is the unique nature of China's political economy, combining a dominant Leninist state with vibrant socioeconomic change. Indeed, as Chapter 8 argues, China does not seem to follow any historical model of political development under capitalism. Rather, China's capitalist transition has been initiated, guided, and controlled by an ideologically anticapitalist party-state.

The third thread permeating chapters is an intense concern with how China's unique form of capitalism will impact the globe's economics and geopolitics. Undoubtedly, if China's transition continues to evolve, it will reshape our era. Already China has at a very early stage in its transition produced internationally competitive corporations (Chapter 5). It has also emerged as a formidable trading power, one which is still far from reaching its full potential (Chapter 9). And China's capitalist transition will continue to deepen the country's energy import dependence, necessitating more active Chinese foreign policies to manage the geopolitical environment and avoid conflicts over energy resources (Chapter 10).

Ultimately, all chapters convey some unease about the future of China's capitalist transition and its impact on the international system. As Chapter 11 argues, China's domestic transition must not automatically lead to a liberal polity with a moderate foreign policy orientation. Ironically, China's unrelenting rise is becoming one of China's greatest challenges. As an emerging power, China is starting to "threaten" established geopolitical balances, thus reshaping China's own geopolitical environment.

Therefore, China's incomplete internal transition combined with China's escalating impact on the international environment poses crucial challenges for our world. Chapters 3 through 11 grapple with various facets of this challenge. Each comes from a unique perspective to provide critical insights. The concluding chapter (Chapter 12) will take up these three threads and attempt to shed more light on the future scenarios that might define China's emergent political economy.

Overview of the book

Part 1 of this volume begins with the two introductory chapters and sets the conceptual stage for the remainder of the book. Each of the following three parts constitutes a distinct field of analysis. These are linked by the three narrative threads presented above. Part 2 concentrates on China's corporate sector. After all, capitalist development is first and foremost characterized by the emergence of internationally competitive firms, including institutional infrastructures, such as innovation and financial systems that support these. Part 3 then concentrates on the dynamics unfolding in China's domestic political economy, with a special focus on how new capital-oriented social interests interact with China's dominant state. The final field of analysis directs its attention to China's enmeshment in the global capitalist system, providing three different perspectives and one concluding chapter.

Chapter 3 by Dieter Ernst and Barry Naughton starts with a macro-analysis of China's existing industrial capitalism, distinguishing three tiers of firms: large firms that remain mainly in the hands of the state; medium-sized firms that are hybrids and are starting to form the backbone of China's international competitiveness; and small firms that are mostly private. The chapter proceeds to show how China's information technology firms are upgrading their capabilities while embedded in global production and innovation networks. It ends by concentrating on one of China's foremost technology success stories: the telecommunications equipment maker Huawei.

Chapter 4 by Wei Zhang, Jian Gao, Steven White, and Paul Vega zooms further in on China's new technology firms. It analyzes how these firms are being supported by the remarkably rapid development of a Chinese venture capital system. Although this system follows in process the US model, it is in its practical implementation undergoing major modifications to fit China's transitional circumstances. A dynamic picture of China's evolving

financial system emerges that is not reflected in the more common analyses of China's staid state-owned banking system. Perhaps most importantly, the authors hold that the interaction between foreign and domestic management systems, including the influence of the Chinese state, will lead to a period of mutual adaptation and evolution that holds the potential to create a uniquely modern form of Chinese management.

Chapter 5, the final chapter in Part 2, elucidates a key question facing the global economy: will China produce internationally competitive indigenous corporations? Peter Williamson and Ming Zeng clearly answer this question in the affirmative. They note how innovative business strategies have allowed Chinese firms to establish multinational operations that are rapidly approaching world levels of competitiveness. Their analysis also draws attention to the challenges ahead for advanced industrial countries and the multinational corporations domiciled in these. They warn the world to look out for a competitive threat emanating from China that will force existing multinationals to view Chinese competitors as a new breed of partners. They also draw attention to an environment of increased frictions that is emerging as Chinese corporations move up the value-added ladder and directly threaten jobs and profits in the developed world.

Part 2 provides a rather positive outlook for China's corporate sector, noting that China's transition is producing respectable amounts of innovation and international competitiveness. This somewhat rosy picture finds its contrast in Part 3. Analyses here concentrate on how new social interests and institutions are interacting with existing ones to reshape China's emergent political economy.

Chapter 6 starts off with a big picture analysis that delineates the unique institutional contours of China's emergent capitalism. Coming from a historical institutionalist perspective, I argue that China's emergent capitalism is being shaped by three distinct forces: 1,000 years of petty capitalism that has sown the seeds for vibrant networks of small capitalists, many of which are transforming China's political economy bottom-up; the massive influence of the "new global capitalism" that is accelerating China's participation in the world economy; and the role of China's dominant Leninist state in initiating, managing, and sustaining the process of capitalist development from above. The chapter ends by drawing attention to a certain duality in China's emergent political economy that possesses historical antecedents. This duality encompasses a state dominant mode from above juxtaposed with an increasingly globalized and highly networked capitalist mode from below. This raises the question of whether historical tendencies will hamper China's capitalist transition, especially the establishment of the rule of law and a fully fledged private property rights system.

Following this broad treatment of China's emergent political economy, Chapter 7 focuses on a sector that stands at the crossroads of China's polity and economy: the media sector. Maryanne Kivlehan-Wise argues in this chapter that China's media sector provides a fascinating snapshot of how

capitalist dynamics and the Leninist nature of China's party-state interact. Her picture is one of continuous cat-and-mouse games. The party and its propaganda arm want to keep tight reigns on media enterprises in terms of content, while editors and managers of newspapers want to maximize revenue in an increasingly competitive market place. Newspapers therefore try to push the limits of what is permissible, since this is the only way to retain the loyalty of readers hungry for new content and information. The party-state, however, has so far kept the upper hand in this game. It has created an atmosphere of self-censorship and used a quintessentially capitalist innovation, the media conglomerate, to further its aim of information control.

In Chapter 8, An Chen pointedly asks "Does Capitalism Push China toward Democracy?" His answer is a resounding no! By analyzing the connection between China's emergent capitalism and the country's prospects for democracy, An Chen argues that China's present form of capitalist development hinders democratic prospects. In fact, the alignment of class interests in China creates a distinct possibility for the polarization of social interests and therefore future political instability. This is because the emerging interests of capital-holders and professionals (the bourgeoisie and middle classes) are aligning themselves closely with the Chinese party-state out of fear that broader democracy could threaten their privileged status and hard-won wealth. China's middle classes are therefore unlikely to become a force for a peaceful democratic transition, perpetuating high degrees of social inequality.

Part 4 takes the reader to China's rapid immersion in the global capitalist system. In Chapter 9, Christopher Edmonds, Sumner LaCroix, and Yao Li provide a pertinent overview analyzing the various aspects of China's stunning ascent to become the world's third largest trading nation. The economic survey they present finds that China trades quite evenly with the world, yet considerably more than would be expected for an economy of its size and level of development. They also distinguish certain parallels between China's rise as an international trading power and the experiences of earlier East Asian capitalist developers, such as South Korea and Japan. Indeed, historical comparisons show that China still has a long way to go in terms of its export boom. This suggests that China's trade performance and policies will exert increasing influence on how the world's trading regime evolves.

Chapter 10 homes in on an aspect of China's capitalist transition that has enormous global repercussions: China's increasing obsession with energy security. Kang Wu and Ian Storey present a comprehensive analysis of China's transformation from an energy exporting nation to a major energy consumer. They elaborate the reasons for why energy security has risen to the top of the Chinese government's agenda, especially the fact that China is faced with ever increasing imports of oil and gas, most of which are likely to come from the Middle East. In terms of the globe's future international relations, the authors note that China's capitalist transition will continue to increase the importance of securing energy supplies for China. At present, though, it is too early to tell whether China's need for energy will entail

greater cooperation or competition in the global system. Evidence of both scenarios is apparent. Clearly, the role of energy security in China's foreign relations will remain highly prominent, enmeshing China further with the global system.

Chapter 11 returns to a more expansive perspective. Coming from an insider's viewpoint, Yinhong Shi raises considerable doubts as to whether China's capitalist transition will lead to a more liberal polity and more stable international relations. He points out that the dramatic increase of China's economic strength, diplomatic influence, and military capabilities are likely to bring worries to neighboring states. The United States and Japan, for example, are feeling strategically "threatened" by China and the specter of a huge and dangerous "Japan Problem" is arising. In short, Yinhong Shi provides a level-headed analysis of the foreign policy implications of China's capitalist transition, arguing that changes in China's foreign policy orientation might not be auspicious for the smooth continuation of the country's capitalist development.

The concluding chapter (Chapter 12) rounds out the volume. I ponder here the common threads that tie the chapters together and form the narrative of China's capitalist transition. I then ask what future scenarios might face China's emergent capitalism. Certainly, changes of the magnitude generated by China's international ascent will have considerable repercussions for the rest of the world, including a changed competitive landscape for multinational firms and considerable challenges in the realm of global energy.

Ultimately, though, the most crucial challenges lie in China's domestic political transition. Will capitalism in the dragon's lair create a more liberal Chinese polity? Will China as a result become a moderate and "internationalized" global player? Or will China at some point challenge the global status quo, perhaps triggered by a failure in its domestic evolution? Certainly, China's distinct political, cultural, and historical legacies make the outcome of its capitalist transition indeterminate. Chapter 12 will therefore contemplate both the opportunities and challenges that China's capitalist transition is generating for the future.

Our collaborative endeavor in this book strives to present a big picture analysis of China's massive transformation that is historically and comparatively grounded. Chapters are linked by common threads, grafting a variety of perspectives and materials into a lucid whole. By understanding the fundamental tendencies in and consequences of China's capitalist development, this effort hopes to elucidate "The China Impact" – the tectonic changes in the global firmament that are being generated by China's international ascent. However, before we proceed to the empirical studies, some conceptual thinking is necessary.

So far, the fact that China is capitalist has either been denied, taken for granted, or only indirectly addressed. Drawing out the trends inherent in China's emergent political economy, though, necessitates a detailed treatment of the fundamental nature of capitalism as it relates to China's

transition. We must ask: how does the concept of capitalism relate to China's emergent political economy?

Notes

- 1 For more on these conceptualizations see Chapter 6 in this volume.
- 2 Another seminal work analyzing the formation of Chinese capitalism, especially among the Overseas Chinese, is the collection by Hamilton (2006).
- 3 Another recent work putting forward a similar argument is by Yang (2004).
- 4 There are several other books employing the term capitalism with respect to China in their titles, such as Gallagher (2005). Her work ties into a debate in the field of political science asking why China has developed capitalism but not democracy. See also Tsai (2005) and the contribution by An Chen in this volume.
- 5 One recent work in the business literature is Woetzel (2003).
- 6 Very gingerly, such a neutral space is emerging in the social sciences. Analytical work that views capitalism in an objective and neutral manner as the macro-structure shaping the institutions of our era is becoming more common. This literature will be discussed in more detail in Chapter 2.

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