

China's Challenge to the West in the 21st Century

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CHINA'S CHALLENGE TO THE WEST IN THE 21ST CENTURY

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Abstract

What follows is based on *Global Rivalries: from the Cold War to Iraq*. In that book and elsewhere I have developed the theory that the global political economy for several centuries now has been characterised by an evolving core structure juxtaposing an expanding, English-speaking 'West' to a succession of *contender states*—beginning with France in the late 17th and the 18th centuries; Germany, Japan, and Italy and Austria-Hungary from the late 19th; followed by the Soviet Union. In the 1970s, a Third World Coalition rallied behind a tentative New International Economic Order seeking to impose a state-led world economy on global liberalism through the UN (Krasner 1985). Today, China would be the main contender state challenging Western hegemony.

Introduction

From the Glorious Revolution of 1688, theorised in Locke's *Two Treatises of Government*, the Anglophone West has established itself as a transnational, liberal society, a 'Lockean heartland'. Apart from building on a long tradition of self-government, geographic location gave the inhabitants of the British Isles and the settlers in North America privileged access to the world's oceans; overseas trade and piracy added a mercantile outlook. Commercial activity and local initiative stimulated a process of *privatisation* of collective property (appropriation of assets, dispossession of direct producers) which over time developed into capitalism. Capitalist economy is anchored in the competitive exploitation of wage labour, producing a surplus circulating through circuits of commodity and money capital; profits are by necessity reinvested, again under the compulsion of competition. Capitalist class formation therefore is a process of constant adjustment and regrouping of class *fractions* around shifting nodes of capital accumulation. Through networks of interlocking directorates, international organisations, and national and transnational planning groups like Bilderberg, the Trilateral Commission, or the World Economic Forum, something like a shared class interest yet may be achieved.

As a historical social force, a capitalist class must overcome competition between individual owners and firms to be able to act with a common purpose. It also must negotiate the heartland/contender structure of the global political economy. The reason why capital first crystallised as an integral circuit among the states making up the English-speaking West is because their liberal constitutions facilitate free access to each other's citizens and capital. As the prime movers of the capitalist revolution in the world and very much the controllers of the world economy, the states of the Lockean heartland successfully consolidated their historical advantage through global wars—against France and the Axis powers—or through arms races and peripheral, proxy wars, as with the Soviet bloc. The contender states, on the other hand, were able to assert their sovereignty only by *confiscating, to different degrees, their social basis* and locking out Western influence and capital.

Contender states have sometimes relied on capitalist forms of economy but never to the extent that that was achieved in the transnational society created on the Atlantic shores in the 17th and 18th centuries. Indeed *all* contender states have based their attempt to catch up and resist Western hegemony on

- a degree of state control of society and an activist attitude towards the economy; with the result that
- power remains in the hands of a *state class* which commands both the political sphere and (key levers of) the economy (as against the liberal arrangement in the West, in which power arises from society first and there is a distinction between a *ruling class* which sets the course of social development through ownership of

productive/financial and media assets, and a *governing class* managing day to day affairs).

The contender states have typically been on their own; at best they relied on a sphere-of-influence of sorts. These ranged from Napoleon's Continental System, to the Nazi *Grossraum* and Japan's Co-Prosperty Sphere, and on to the Soviet bloc. The Chinese contender role would not be where it is today without the role played by the overseas Chinese.

1. China's Reintegration into the Capitalist World Economy

The rise of China as the new contender state and its current 'economic miracle' are at the centre of international attention today; they are also, inevitably, activating the fault-lines running through the global political economy in a variety of ways. Currently boosting the largest proletariat in the world working at the lowest wages, capital accumulation in China profits from ruthless privatisation transferring state assets by the block into the sphere of private enrichment. Hourly wages are as low as 50 US dollar cents per hour, with no independent trade unions allowed. By flooding world markets with goods at an exchange rate estimated at 20 per cent of purchasing power parity, China's ascent has thrown the post-war configuration of Asia into disarray, whilst exerting downward pressure on wages worldwide. Paradoxically however, the country's breakneck economic development has also enlarged the manoeuvring space for a range of raw-material supplying states in the South in their relations with the West, from Brazil to Angola. In this section, I will place the rise of China as the new contender in historical perspective.

As a bloc, the Anglophone West became involved in China when Britain, the hitherto prominent imperialist power, enlisted the support of the United States for a policy of equal access, the 'Open Door'. This was a major landmark in the reaffirmation of the English-speaking heartland connection, against contenders encroaching on British tutelage over the Chinese empire. Resentment over the Open Door policy obtained a new vigour when Japan triumphed over Russia in the war of 1904-05. For the first time in modern history, an Asian power defeated a European state, and this served as a signal to Chinese intellectuals that their country, too, would have to awake from its lethargy. A nationalist revolt against the Manchu emperors led by Sun Yat-sen in 1911-12 did not produce a stable government, however. Regional warlords contested his and each others' authority; in 1923, two years before his death, Sun even sought the support of the USSR, aware of the continuing machinations of the Western powers in cahoots with Japan. By now, the Chinese Communist party had begun to organise in the major port cities. It was fatally encouraged by the Soviet Union to enter into an alliance with the nationalist Kuomintang (KMT), even though under Sun's successor, General Chiang Kai-shek, the KMT moved to the right by allying with the powerful landlord class and pro-Western financial circles. In a series of confrontations in China's main urban centres, the

communists were massacred by their allies in the late 1920s, after which Chiang established his government in the new capital, Nanking.

A revolution from above that would have turned China into a contender state (at a juncture where other, comparable states such as Turkey or Brazil were also choosing that path), was never to be expected from the KMT. Not only was the leadership entirely tributary to the innermost circle of the Chinese financial aristocracy; the Chinese bourgeoisie interested in developing domestic markets and industry and achieve greater autonomy vis-à-vis Japan and the West, also feared the workers and poor peasants more than their own landlord class and its allies. When Japan in the 1930s began to press forward into China, Chiang Kai-shek resisted that advance only within the limits set by the US and Britain. After 1940, the war against the Japanese was even given second place to the struggle against the communists.

The communists had therefore little difficulty in wresting the banner of national independence from the Kuomintang. When Mao Zedong took over the leadership of the party, he switched it to a strategy of peasant-based revolution. In the guerrilla war against the Japanese invaders, the communists were able to put their programme of social equity and collectivism into practice in remote provinces. Between 1937 and '45, communist party membership increased from 30,000 to 1.2 million. In 1949, the communist armies took Beijing and restored it in its dignity of the historic capital.

The revolution was primarily anti-imperialist and anti-‘feudal’, that is, directed against the domestic class of large landowners. In 1947, an agrarian reform was promulgated in the liberated zones that confiscated large holdings without indemnity; in the aftermath of the revolutionary take-over, the large industrial monopolies directly associated with the KMT were confiscated, but smaller capitalists were allowed to continue in business. This was the ‘national’ bourgeoisie meant to work with the communists in building up the Chinese economy. Within the party leadership, Zhou Enlai was the organiser of a strand of opinion supporting the revolution on grounds of national pride, the ‘second front’. This tendency would come under repeated attack but triumphed in the late 1970s (Han Suyin 1994: 213). Nationalisation of industry meanwhile remained limited to around two-thirds of assets. Löwy (1981: 24) concludes from this that the revolution in China moved from its ‘1917’ straight to the New Economic Policy, which in Russia had only been introduced to compensate for the ravages of the intervention and civil war.

From 1952 to '76, the year of Mao's death, industrial output grew by 11.2 per cent annually. At various turns, the party under Mao tried to accelerate the development effort by mass mobilisation campaigns which were characterised by the ‘magical’ utilisation of Mao's brand of Marxism, and which were part also of struggles within the leadership. In the Great Leap Forward (1958-61) and the Cultural Revolution (1966-76) significant gains were made but at tremendous cost. Both episodes were instances of the revolution from above; the Cultural Revolution was especially disastrous. ‘Rather than empowering working people... [it] wore them out with constant campaigns orchestrated

from above.’ But with unions practically suspended, industrial production stuck to a 10-per cent level of growth (Hart-Landsberg and Burkett 2004: 28, 30). The countryside on the other hand, fared less well. Accumulation in industry had been realised by creating adverse terms of trade for farm products, and the farming population suffered from the authoritarianism of the commune system. Only by vastly increasing the agricultural workforce could output be doubled over the 1952-76 period. Certainly there was a much better food situation than in comparable Third World countries such as India. But by the close of the Mao era there were mounting imbalances in the economy, which required democratisation and real involvement of the population, or a change in orientation.

Internationally, the Chinese revolution only briefly conducted a radical policy. Already in the early 1950s it shifted to a course which made it one of the founding members of the Non-Aligned Movement by mid-decade. In 1958, parallel to the Great Leap, there was a return to a militant foreign policy, which as we saw led to tensions with the USSR, then on the path of normalisation with the West. Washington imposed an embargo on China and encouraged the KMT survivors who had sought refuge on Taiwan, to harass and provoke the mainland. Since the US State Department had been purged of its China specialists in the McCarthy backlash over the ‘loss’ of China and a far right China lobby held successive governments hostage, it took the Americans a decade longer than others to recognise the communists in ‘Peiping’ (the name for Peking/Beijing when Nanjing was the capital) were available for active balancing against the USSR.

Shifting Gear to Nationalism and Capitalism

Even during the Cultural Revolution, when Maoism became a synonym for extreme radicalism, Chinese communism never lost the political culture of peasant nationalism. The Cultural Revolution, a mass campaign of Mao’s inner circle in alliance with the army, against the party (over which he had lost control after the disasters of the Great Leap), eventually allowed it to break completely with communism and shift to a nationalist posture. After the death of Mao, two years of struggles in the leadership ensued. In 1978, Deng Xiaoping was able to stage a comeback and it was he who announced the shift to ‘market socialism’. ‘China began, in short, to experiment with the second strategy for breaking out of its backwardness’, that of straight imitation of the Western model (Johnson 2002: 151). This was pursued through a resumption of the revolution from above, keeping the Hobbesian state in place. To the people emerging from the ravages and madness of the Cultural Revolution, the promises of material abundance and free initiative were certainly welcome. But there was little otherwise to compensate for the moral degradations and excesses of Maoism’s final years, no restoration of autonomy and democracy. As Martin Hart-Landsberg and Paul Burkett write (2004: 30-1), ‘It was the party’s decision to marketize the Chinese economy. There were no mass movements seeking to solve China’s many economic and social problems by strengthening market forces.’

The reforms began in 1979 as an experiment in selected urban areas. They were accompanied by massive swings in emphasis, from an initial campaign to prioritise the goal of increased steel production, to a swing back to agriculture and light industry first, and so on. Through these shock-like accelerations, a labour market emerged. Managers were encouraged to hire workers on contract instead of permanently; a policy extended to the state sector in 1983. Simultaneously, the private sector was allowed to branch out, its workforce growing from a quarter million at the outset of the reform phase, to 3.4 million in 1984. Still in 1979, Deng, using a term reminiscent of the most painful of humiliations suffered by imperial China, announced his 'Open Door' policy inaugurating four special economic zones in the southern provinces of Guangdong and Fujian. The catch-up logic of the contender state was brought out in his use of the term 'schools' for the expected foreign investments; schools for labour discipline, technology, etc.

The view held by many that the Chinese communists have been able to avoid the fate of the Soviet Union in the transition, tends to overlook that the main difference resides in the complete absence of democracy. The Chinese state class controlled the process of economic privatisation in such a way that all transfers of power proceed without mass involvement; in 1982, the right to strike was removed from the constitution, to facilitate the recruitment and exploitation of labour for the industrialisation drive in the coastal zones.

Chinese state socialism in hindsight has served to prepare the country for a role as one more Asian export economy, oriented towards Western markets, especially the US. The shift in gear to an 'Open Door' policy Chinese-style marks the moment when China entered this situation as a competitor. Hence, it changed from being a rival in guiding the world socialist revolution (with the USSR) to a rival of Japan, hitherto the favourite Asian vassal of the US in the confrontation with the two state socialist world powers. All signs, then, are of a 'return to great power politics and rivalry' (Park 2004: 79). More fundamentally, China was now emerging as a straightforward contender, willing to confront the West if need be. Unlike Europe, Asia has never been allowed by the US to develop as an integral bloc capable of absorbing redistributive pressures peacefully, and this makes the rise of China such a potentially destabilising event. As Benedict Anderson has argued in the *London Review of Books*, 20 (8) April 1998, the economic growth miracles on the East Asian rim were predicated on three geopolitical and geo-economic conditions.

- *First*, the hot wars fought in Korea and Indo-China and the 1965-66 massacres in Indonesia. These triggered a vast flow of US funds to the region, e.g. by footing South Korea's defence bill or maintaining military bases in the Philippines. This was continued in the final phase of the cold war, when China sided with the anti-Soviet alliance, but at the time this did not yet prejudice US support for the others.
- *Secondly*, the Asian 'miracles' profited from Japan's rapid economic rise from the 1960s, which benefited countries such as Thailand through foreign investment.

- The *third* and final condition, however, was the Chinese revolution. As long as Maoist China was developing as an autarchic collectivist economy, its role in the wider Asian economy was negligible. But once it allowed private capital back in, its expansion was bound to disrupt the overall Asian picture entirely.

‘In the nineties’, Anderson concludes, ‘China was finally in a position to out-compete South-East Asia in manufacturing exports, a situation which seems certain to continue indefinitely.’

Seen retrospectively, the South-East Asian miracle was thus in part the product of an extraordinary forty-year sequestration from the global market of the greatest power in Asia. The Western attitude towards this process was contradictory and vacillated accordingly.

Certainly, the Bush I administration had to join the condemnation of the Tiananmen clampdown on student protesters and impose sanctions, and did not forget to bolster Japan’s military readiness, as we will see below. But the 1991 ban on satellite parts and high-speed computers was lifted already in early 1992 already, and whilst trade frictions did occur, these too remained subdued. The globalisation drive under Clinton did not initially affect China either. Beijing’s decision to peg the Chinese currency on the dollar in 1994 was seen as a move to tie its fate more emphatically to the United States economy at a moment when Washington was gearing up for an attack on Japanese state capitalism, to which I return below.

In the mid-1990s there were signs of growing readiness in the West to reciprocate. At the Toronto Bilderberg Conference in May-June 1996, the usual roster of royalty, economic statesmen and blue-chip corporate executives heard former US assistant secretary of defence, C.W. Freeman, Jr., deliver a paper entitled ‘Let China Awake and Join the World’. Freeman identifies China’s rise as the linchpin of the displacement of the Atlantic Community by an Asia-Pacific one and the concomitant need to guide the country into the multilateral regulatory infrastructure of the heartland. China’s strategy would be to defuse conflict with its East Asian neighbours and with Russia, while building up a military capacity to reintegrate Taiwan into its jurisdiction—if necessary in a conflict with the United States. In Freeman’s view, there was no question that China was succumbing to the centrifugal effects of its crash course towards capitalist modernisation. China ‘is well along in its efforts to create the central institutions necessary to manage an increasingly dynamic and integrated national economy’, with a growing nationalism among the population to back it up politically. Comparing the Chinese challenge to that of the previous contender state, the USSR, the Freeman paper further notes that

Beijing China is not an implacable foe of the West or the world order the West has created... The challenge to the world posed by the rise of China is different. In some ways, it may prove more daunting. ...The 21st century will see China resume its traditional pride of place among the world’s societies. The question before Europeans and North Americans is not how to prevent what cannot be prevented. It is how to ensure that the rise of China in the new

millennium buttresses rather than erodes the international system we have constructed with such difficulty in this century. To that end, we must urgently consider how to speed up China's integration into existing institutions on acceptable terms.

Again, I would argue that the contrast with the USSR is mistaken: the anti-Western posture of prior contenders was always a product of the contender experience itself. Its failures and frustrations in one stage guide it to a more militant, radical confrontation in the next. We may look at France under Richelieu and then Napoleon; Germany under Bismarck and then under Hitler. In that light, the Russia under Witte and Stolypin which transforms itself into the USSR after World War I is less of a unique experience. And whilst each contender will bring its own special assets and conditions into play and poses its challenge at a given point in world history under circumstances that will always be different, the Chinese challenge to the West *and the response to it* may still be in a benign stage which need not last. The tactical alliance with Beijing was reversed early on by the Bush II administration, and its confrontation strategy appears to have survived the September 11 emergency. With the Olympics approaching and rebellious stirrings in Tibet and other provinces, the souring of the atmosphere may come sooner rather than later.

The Transnational Chinese Capitalist Class in the Contender Effort

The formation of a Chinese capitalist class interlocked with a wider Asian network of ethnic Chinese power holders in the economy and in politics has become a crucial force in the turn to a contender role of the mainland. Influencing its broad orientation and the speed of privatisation in various ways, the overseas Chinese have become strategic partners of the state class. As Chalmers Johnson writes (2002: 152), 'China has one major asset not available to most developing nations: the overseas Chinese. This reservoir of talent, capital, and experience is open to a China that stresses nationalism rather than communism'.

The Chinese capitalist class in the South East Asian region has roots that go back centuries. In modern times its role was shaped by relations with Western colonisers and imperialists, for whom Chinese wholesale traders served as middlemen. This has created powerful minorities controlling entire economies. 81 per cent of quoted capital in Thailand is owned by ethnic Chinese, who form 10 per cent of the population; in Indonesia, the percentages are 73/3.5; Malaysia, 61/29; the Philippines, 50 to 60, and 1.8, respectively. Along with the Chinese societies of Hong Kong, Taiwan, Macau, and Singapore (77 per cent Chinese), these communities have jumped on the opportunities offered by the opening of the mainland Chinese economy to capital. Often, there are particular regional links involved as well, which may structure reintegration: thus Guangdong Chinese went to Malaysia and rural Thailand and rural Indonesia, while Fujian Chinese went to Jakarta, Manila, Singapore, Bangkok and the cities of Indochina. Often, overseas Chinese retain kinship links with communities on the mainland. As

David Kowalewski writes (1997: 87), 'Chinese elites, with their transnational connections, are the cutting edge for the outflow of national capital... Asian [TNCs] are based primarily in Chinese-dominant countries—Hong Kong, Singapore, and Taiwan'. Certainly family-based, owner-managed companies and groups of companies will face all the problems that come with this type of firm such as limits of expert management, succession crises, and problems associated with expansion. But as Chinese MBAs from the US and other countries return to China, James Mittelman notes (1997: 99), they will bolster the competitive edge of the transnational Chinese capitalist class, raising the level of the challenge to the West.

While clan and especially linguistic ties continue to reinforce business interests among ethnic Chinese, traditional family linkages are increasingly integrated with professional management practices. Generational divergence within the Chinese networks has challenged the customary, intuitive style of the ageing patriarchs. Modern English-speaking, MBA-toting managers, many of them financial technocrats, reflect the tenets of liberal-economic globalization transmitted by business and law schools not in their ancestral villages but in western countries where they now invest, trade, and borrow.

One problem that complicates the evolution of China as a contender state in this respect is that the actual 'MBA legion' is modest in size, if they return to China at all. This may inflect the Chinese state/configuration the pattern persisting in Taiwan; I return to this in Section 3. But there is no denying that a transnational Chinese business class exists and is organising itself as such. They have formed a common platform in the World Chinese Entrepreneurs Convention, which meets annually - a Chinese equivalent of the likes of Bilderberg and the Trilateral Commission. Already in its meeting at Vancouver in August 1979, the first time outside Asia, prominent figures from the communist Chinese state class joined the overseas Chinese business elite to discuss matters of common concern—in the first year of 'reform'.

The privatisation of the mainland state class has since developed as a movement of party cadre who use their party cards to set themselves up as capitalists using 'borrowed' state assets. Investigations by Chinese state institutions and foreign researchers found that in the hands of military, provincial and local bureaucrats, state assets have tended to miraculously melt away whereas the 'private' sector has continued to grow. By 1995, private capital accounted for 40.4 per cent of non-agricultural employment, 45.1 per cent of retail sales, and 47.7 per cent of exports. Under favourable tax rates and declining central state tax income, the state sector (heavy industry conglomerates, banks) is effectively being bled white by this class, applauded from the West as 'reformers' and 'entrepreneurs', but effectively embezzling public property in all kinds of ways. Hong Kong is the key pivot of this process; Li Ka-shing, the Hong Kong magnate, illustrates how high-level mainland interests were woven into existing relations with the West. Li took over the sprawling conglomerate, Hutchison Whampoa, from its British owners in 1979, while sharing influence with the British Keswick family in Jardine Matheson

holdings, the historic British trading firm in Hong Kong. He developed valuable ties with the Deng family, as well as with the Thatchers in the UK.

Investment into China from the former British crown colony often represents capital from mainland enterprises seeking to evade taxes and other restrictions by 'investing' in Hong Kong and then 'investing' back again - a laundering process called 'round-tripping' (Zhou and Lall 2005: 45). The size of the property passing from state to private hands in these and other ways is such that the key handlers can attract major Western firms as partners. Thus, Huang Yantian, president of Guangdong province's GITIC investment corporation, forged links with McDonalds, PPG Industries, and Pabst Brewing from the US. Morgan Stanley of the US in October 1994 set up a joint international investment bank with the People's Construction Bank of China (with smaller participations from Singapore and Hong Kong investment companies), etc.

The decision to transform the large public corporations into joint stock companies with state majority ownership has further facilitated the transfer of public into private property and given the aspiring bourgeois element grounds to challenge the state's remaining prerogatives. Foreign capital is made part of the transition because of the requirement of a local partner if investments are made in China; this locks transnational corporations into an embrace with the state sector and its privatising offshoots, hotbeds of favouritism, corruption, and incompetence. It is perhaps a sign of things to come that senior executives have already spoken out for a further reduction of the state role and want the communist party to withdraw from the scandal-ridden, bankrupt banking sector (Hochraich 2003: 59).

The position of the overseas Chinese in Asia as a mercantile, 'market dominant' ethnic minority, all through their history has made them vulnerable to popular discontent, not least when an indigenous bourgeoisie finds the high grounds of the economy already occupied. Mainland China today wields the political clout (more than as a communist state in this respect) to offer protection to Chinese minorities abroad. But in addition, the capitalist transformation has made available a one billion population to economic exploitation as labour or customers. This conflation of political and economic motives is what unifies the overseas Chinese capitalist class with the privatising state class into a single social force. We are looking here at a major aspect of what makes the Chinese contender role specific, an aspect that may leave only Japan as a regional target for China's 'nationalism'. I return to this in Section 3.

Finally, the growth of the ethnic-Chinese capitalist class was always facilitated by the closeness between business and politics in the respective countries, which all developed under directive states as vassals of the West in the cold war. There is nothing specifically Chinese about this. South Korea, too, has a great reputation in this respect. Political payments, whether as campaign contributions or plain bribes, are a familiar phenomenon in the countries involved, and there was no reason why one could not, as part of transnationalisation, shift this flow of funds also to politicians in other countries than

one's own. The process certainly crossed a crucial threshold when US politicians began to be paid by Asian sponsors, which really took off under Reagan and Bush I. The Chinese entered this game when Clinton began reaching out to them and various operators of Chinese background reciprocated to the point where their access to the Clinton White House broke into scandal. But then, as former Undersecretary of commerce Jeffrey Garten noted later (*Newsweek*, 31 March 1997), the push into emerging markets like China, India, and Brazil 'attracted a lot of foreigners who wanted to play in the new game... Our firms needed partners, local suppliers, help setting themselves up'. It was from these quarters that emerged shady sponsors of the Clinton re-election campaign such as former Commerce official John Huang, and an entire ring of Asian contacts of the Democratic Party as exposed in a scandal in 1996.

2. The Asian Crisis and the Disruption of the Japan-Centred Order

The Asian crisis of 1997-98 marks the moment in which the rise of the new Chinese economy overturned the cold war order in Asia. As I will argue in this section, it was this crisis that allowed Western capital to breach the barriers imposed by state-monitored economies of the Japanese type. Of course this does not mean the West therefore 'engineered' the crisis. The twists and turns by which contender states manoeuvre to engage in the catch-up effort, send shock-waves through the global political economy which create situations that are, as such, unpredictable. In each case, the test is not whether a positive theory predicts/explains in detail what happens on the ground, but whether a core structure like the heartland/contender one developed in this study, can still be developed to meaningfully account for the evolving complex of forces—acknowledging the new and the unexpected at the same time. Western investors were able to exploit the new openings in the Asian economies because they sensed that the tectonic shifts produced by the rise of China were working in their favour.

Japan is the linchpin of the Western position in Asia, the Pacific vassal in the contest with the Soviet bloc and until the 1970s, China. I already noted that there has been no integration process in East Asia comparable to that in Europe to guide the uneven development of capital into peaceful channels; it was left to the Japanese state and capitalist classes to organise the wider region themselves. Like all contender states pursuing a capitalist strategy, catch-up industrialisation in post-World War II Japan operated through finance capital structures (the *keiretsu*, the resurrected form of the pre-war *zaibatsu*), which had the domestic market very much to themselves thanks to an extensive system of quotas, tariffs, and import restrictions. The state ensured that industrial activity was spread across the economy but otherwise allowed the leading firms to become the organisers of integral product chains in which every aspect is controlled from the centre. This system, named 'Toyotism' after the car maker, in the 1970s was transnationalised; the state role, centralised in the ministry of trade and industry, MITI, strategically identified the tasks for the separate 'flying geese' (van den Berg 1995: 389;

Ruigrok and Van Tulder 1995: 39-62). The corporations then organised the actual distribution of productive activity. Japanese capital in this way built up a regional socialisation of labour on a cost base that gave it a competitive edge over the United States. By the 1980s, it had also achieved a technological edge into which US capital sought to tap to secure its own development through joint ventures and consortia. Kenichi Ohmae at the time (1985) called this negotiated market structure, in which Europe was the third partner, 'Triad Power'.

The United States was never going to accept such a triangular structure in the longer run. The competitive side to its attitude towards Japan was evident in the 1970s already, and the legislative weapons forged to combat OPEC and the NIEO, were also deployed against Japanese textiles, consumer electronics, and steel exports to the United States. With the Carter administration, Japan agreed to an 'orderly market agreement' of voluntary export restrictions in 1977. Under Reagan, protectionist forces became more pronounced. The US pressured Tokyo into opening the Japanese market for computers, auto parts, agricultural products, satellites, and beef, not least to protect Reagan's re-election chances in 1984. In fact, as Ohmae noted at the height of the furore over the US trade deficit (in *Newsweek*, 13 April 1987), the real balance with Japan was almost even if sales by the 300 largest US multinationals in Japan were set against those of Japanese companies in the US plus Japanese exports. But that of course does not necessarily hold for each separate congressional district in the US.

Japan still was a loyal ally against the USSR, and Tokyo joined Reagan's new cold war every step on the way. Economic friction never became overt political rivalry. However, the 'Keynesian' expansion by which Reagan sought to achieve recovery, re-armament, and re-election in one go, drove up the dollar and as we saw, generated a massive surge in imports into the US. Further protectionist measures were taken but obviously a more enduring solution was necessary. In September 1985, Secretary of the Treasury James Baker concluded the Plaza Accord with the other members of the Group of Five (G 5) to arrange a managed equilibrium between their currencies. In three months' time, the US dollar declined in value by 18 per cent against the yen. Washington also obtained agreement that the 'Triad' partners would stimulate their domestic economies to keep the currencies at the equilibrium level. The Japanese government did this by bringing down interest rates; in one year, it lowered interest rates three times. It was this decision, taken in response to US pressure, which drove up the yen and inaugurated a wave of hyper-liquidity that became known as the 'bubble economy', and which lasted until 1991 (Hartcher 1999: 64, 69-70). At the outset of the 1980s, the book value of all real estate in Japan taken together was equal to the value of US real estate; at the end of the decade, its value was four times the US equivalent. In 1987, Japanese stocks accounted for 42 per cent of all listed assets in the world, although the Japanese economy represented only 15 per cent of the world economy in real terms—output, employment, etc.

The United States turned into a net debtor country in 1985. Foreign sponsors of the American political economy were needed, and Japanese banks, deregulated by suspending

interest rate ceilings and barriers between deposit banking and security firms, were first among foreign buyers of US treasury bonds. Japan would continue to meet American deficits in this way, but of course it also gained a weapon to defend itself against US pressure. Meanwhile Japanese capital was pouring into the United States at a rate between 25 and 50 billion dollars a year, with landmark take-overs such as Columbia Pictures by Sony and of MCA by Matsushita leading a wave of tariff hopping investment to maintain market positions in the US. The Japanese ministry of finance reported in May 1987 that of total Japanese FDI, 35 per cent, or \$ 37.4 billion, had been invested in North America (against 21.7 billion in Asia, and 20.4 billion in Latin America) (Tolchin and Tolchin, 1989: 8-9, 185).

At this point, feeling was widespread that the United States might be forced to cede pride of place to Japan in Asia. Thus Lawrence Krause of the Brookings Institution in 1988 argued that the US should accept the 'shift to Japanese hegemony'. A growing number of Americans were actually working for Japanese paymasters and a study in 1986 showed that from 1980 to '85, of the 76 former US government officials who went to work for foreign interests, 20 signed up with a Japanese employer. The fact that two-thirds of the more than 400,000 foreign students in the US in 1992 were from Asia, further reinforced the idea of a global shift. Paul Kennedy's *The Rise and Fall of the Great Powers*, with its theory of imperial overstretch causing the decline of every great power—read, at this point, the US—captured the spirit of the time (Cox 2001: 322-3). The shift from the Atlantic to the Pacific Ocean as the new centre of the world inevitably conjured up a deeper sense of decline of the West, although Treasury Secretary James Baker dismissed the idea that the US would not be the leading power in the emerging Pacific Century as 'ludicrous'. Indeed, the notion of the 'Pacific', according to Manuel Castells (1998: 215), reflects 'the psychological and political shock suffered by North America and Europe when confronted with the developmental experiences of Japan first, of the so-called Asian "tigers" next, of the "new industrializing periphery" (for example, Thailand) later, and finally, of China, with India looming on the horizon.' Yet,

In itself, the phenomenon should not be threatening to the West, since it actually represents the access of billions of people to a higher standard of living, and therefore, the creation of new, very large markets, on which Western companies could also thrive. This is why a growing number of economists and politicians insist on the dismantlement of Asian protectionism as the sine qua non condition for this new Asian prosperity to be shared with a parallel expansion of trade and investment in the world at large.

This became the guiding doctrine in the decade to come. In the late 1980s, the United States were in the grips of a veritable paranoia as far as Japan's economic rise was concerned, and forces seeking to raise the stakes in economic competition had a ready audience. In the meantime, a massive financial crisis was brewing in Japan that would make the idea of overtaking the United States a pipedream. The high yen led to an increase in imports, producing windfall profits for Japanese trading companies to the tune of \$ 350 billion between 1985 and '88, which flowed to the banks; but Japan's large

corporations were equally cash-rich, leaving the banks with unused liquidity which then began to pour into real estate. Three-quarters of all lending for real estate purchases between 1985 and '89 (\$ 623 billion in all) was provided by banks. All along, interest rates were kept low and only in May 1989, did the Bank of Japan raise the interest rate from 2.5 (by several steps) to eventually 5.25 per cent in March 1990. The Tokyo stock market at that point was in free fall, and although the Gulf War worked as a stabilising factor, the total loss in land and stock values as a result of the interest rate hikes amounted to \$ 8 trillion Hartcher 1999: 77, 96-8).

Clinton won the elections just when the crisis in Japan exploded, and the president, committed to a neoliberal globalisation strategy, now felt he could raise the stakes and force a removal of protectionist structures. The cold war had certainly ended, but not the underlying rivalries along the heartland/contender state divide past and present. The department of commerce under the incoming secretary, Ron Brown, advocated a vigorous 'commercial diplomacy'; his deputy characterised relations with former allies as 'economic war'. As former Undersecretary Garten sums it up (*Newsweek*, 31 March 1997), 'The culture was electric: we set up an economic "war room" and built a "trading floor" that tracked the world's largest commercial projects'. There was even a 'Team B' (reference to the group that created the Soviet threat panic in the Carter days), formed by protectionist and anti-Japanese Democrats. It was led by Senator Dick Gephardt, and included company representatives but also Dutch journalist Karel van Wolferen. Van Wolferen was one of the 'Gang of Four' who produced works stressing the supposed anomaly of Japanese state-led development (Hummel 2000: 172-85).

Finally, Clinton himself in 1994 (at the juncture in which he presided over the offensive turn that would take NATO deeper into Eastern Europe and the Balkans), openly went to the attack against Japan. Specifically targeted were the ministry of international trade and industry (MITI) and the ministry of finance. These 'permanent government agencies,' Clinton claimed (quoted in Hartcher 1999: 1), had created an economy with 'low unemployment and high savings rates, big exports and no imports—and they want to keep it that way.' Of course he did not emphasise that this had been US policy for Japan in the first place. Instead, the president now urged the country's state class to stop impeding the emergence of 'a fully modern state with fair and open trade'.

The end of a particular phase of a contender challenge is usually accompanied by a collapse of the specific political structure that guided it so far. When Japan was discarded as a vassal state with the end of the cold war, the Liberal Democratic Party (LDP, another 'state disguised as a party') by which the state class had effectively run a one-party political system, went down with it. Until that time (1993), politics in Japan had evolved as factional struggles under the LDP umbrella; now it 'simply collapsed of its own corruption and redundancy' (Johnson: 2002: 197). A straight neoliberal turn, however, is incompatible with the contender legacy of Japanese society and its economy. The Hosokawa government which favoured an increased role of 'markets', was out of office within three months. It was at this point that the Clinton offensive switched to high gear.

But when Washington in early 1994 stepped up pressure on Tokyo to liberalise imports now that a falling dollar gave the US a competitive edge, the Japanese ministry of finance threatened in an oblique way that it might begin to divest itself of US treasury bonds. This unprecedented gesture of defiance showed that the Japanese ruling class was not going to capitulate.

Scattering the Flying Geese

The emergence of China in the global political economy as the new 'world factory' is the deeper cause of what became known as the 'Asian Crisis' of 1997-98. This is not a simple mechanism. The neoliberal globalisation drive entailing hedge fund exploitation of 'emerging markets'; the targeting of Japan by the Clinton administration; the Japanese position within the Asian economies and its history of rivalry with China; as well as the position of the overseas Chinese in the 'flying geese' economies organised by Japan and geared to exports to the US, all have to be entered into the equation to understand how the rise of China as the new contender and the financial crisis that spread across East Asia as far as Indonesia, are interconnected. But an important bottom line was the tacit deal struck between the United States and China to operate a transnational machinery that links American over-consumption to Chinese over-exploitation, a deal that includes the undervaluation of the Chinese currency, pegged to the dollar. This has the perverse effect of a downward trend in overall world consumption and production, because at the consuming end, only the United States can sustain demand by using its structural advantages as the organiser of the world economy and provider of its reserve currency; whilst at the producing end, the downward pressure on wages and working conditions worldwide by cheap Chinese exports (low wage costs plus an undervalued currency) depresses demand and production everywhere else. This accounts for the overproduction/under-consumption aspect of the Asian crisis that was exposed by the currency collapses as a result of short-term financial flows.

The absence of institutionalised regional integration in East Asia and the specific ethnic heterogeneity of the ruling classes within the separate states lend a particular fragility to the regional economic structure that crumbled in the crisis. The 'flying geese' arrangement was never a process of integral replication of the Japanese state-led economic development pattern; unlike the extended reproduction of state socialism, for instance, the different Asian societies and their conception of authority and the state role are incomparably more divergent (Bernard and Ravenhill 1995: 199). Yet in all cases we are looking at state classes controlling their economies to varying degrees through their political power. The Kuomintang in Taiwan controls a vast financial and commercial empire; Mahathir Mohamad's ruling party in Malaysia has links to large network of businesses; the Suharto children were on the boards of many companies; the People's Liberation Army of China ran a host of large corporations. However, 'as Asia's middle class becomes larger and more affluent, it will increasingly demand respect from its masters, more say in policy and more transparency in government's relations with

business' (*Financial Times*, 29 December 1995). Rising behind the middle class, of course, are the masses of the populations in these countries which equally demand a fairer share. Therefore the state classes in each separate Asian country were manoeuvring within a narrow space set by domestic and international constraints different for each. Rather than relying solely on US military protection and, economically, on the 'Toyotist' supply architecture centred on Japan, they tried to avoid dependence and instead developed patterns of industrialisation 'linked both backward to Japanese innovation and forward to American markets' (Bernard and Ravenhill 1995: 177). Their attitude to Japan remains mortgaged by the wartime experience, the unwillingness to allow a yen bloc to develop, and by the fact that the economies of the countries joining the flying geese later, such as Thailand, the Philippines and Indonesia, are dominated economically by a Chinese minority. Hence the 'national' element in state capitalism is compromised and to the degree a Chinese element can direct the orientation of the state, it will always look with one eye to mainland China.

After the Plaza Accord, Japanese corporations used the strong yen to invest abroad, primarily, as we saw, in the US. After 1987, South Korea and Taiwan joined in; their investments flowed to the ASEAN countries and, at some distance still, China. Korea and Taiwan until that time accounted for the largest share of Japanese manufacturing FDI in Asia, but now they themselves became major investors as well. As Mitchell Bernard and John Ravenhill write (1995: 183), 'the integration of Malaysia, Thailand, and parts of coastal China with northeast Asian production has been one of the most marked changes in the spatial organization of the East Asian political economy since the Plaza Agreement.' Competition shifted from a pattern of rival national economies to transnational processes in which local production is made part of wider networks controlled by rival centres. As part of this inner-Asian rivalry, and to retain a degree of independence, the Southeast Asian economies pegged their currencies to the low dollar, thus gaining an advantage in export markets over Japan, South Korea and Taiwan. Trade between these three and the US continued to grow, but at a slower rate because their currencies appreciated considerably. This again motivated their exporters to switch production to Southeast Asia, where wages, e.g. in textiles, in 1990 were one-third of the Northeast Asian levels (which in turn were one-third of the US).

The Southeast Asian economies thus were growing at record rates, with their exchange rates securely tied to the currency of their most important foreign market. However, unlike Northeast Asia, their export-oriented industrialisation was not based on prior import-substitution experience, but 'grafted on economies whose small manufacturing sectors are notable for their histories of rent seeking and inefficiency' (Bernard and Ravenhill 1995: 196). This was a corrupt environment which now was targeted by short-term speculative funds from abroad seeking quick profits. In the enrichment frenzy that caught fire in the Clinton years, hedge funds were scouring 'emerging markets', profiting from the pressures applied to Asian governments, Russia, and others, to liberalise, privatise, set up stock markets, make currencies convertible, and remove capital controls. The most notorious hedge fund, Long-Term Capital Management (LTCM), was

established in 1994 and run by a former senior official of the Federal Reserve Board along with two Nobel Prize winning economists; it went bankrupt in 1998. Although LTCM had its capital base in an offshore location for tax reasons, former colleagues at the Federal Reserve bailed out the operation at the cost of \$ 3.6 billion of taxpayers' money— 'as good an example of pure "crony capitalism",' comments Chalmers Johnson (2002: 216), 'as any ever attributed to the high-growth economies of East Asia.'

Capital inflows into the Southeast Asian countries were encouraged by the liberalisation of bank lending in the early 1980s (first in Malaysia, last in Thailand), stable (i.e., dollar-pegged) currencies and high interest rates. Japan in late 1996 decided to liberalise its financial markets too; a 'Big Bang' that brought a wave of Western investment bankers to Tokyo and led those who had offices there already, to upgrade their operations. All the hype about the Pacific Century after all seemed to be confirmed, in spite of the recent crisis of the Tokyo stock market. Indonesia was estimated to be the world's largest importer of private capital in 1996, Malaysia the 4th. However, money was no longer being invested in the export industries (which were stagnating), but diverted into the property sector, in a repeat operation of the Japanese bubble a decade earlier. Real estate loans accounted for an estimated 25 to 40 per cent of bank lending in Thailand, Malaysia and the Philippines in 1998, in large part funded by short-term credit (Nesvetailova 2002: 232-5).

In the summer of 1997, Western fund managers became distrustful of the levels of debt of some of the companies they had invested in, and began to withdraw capital. The mass flight out of the fragile Southeast Asian economies and South Korea that has gone down in history as the Asian Crisis, ensued. Thailand led the way with a net private capital outflow of 10.9 per cent of GDP in 1997 compared to an almost equal *inflow* the year before; followed by the Philippines which saw net private capital flows come to a standstill in 1997 compared to a 9.8 per cent (of GDP) inflow the year before. Short term capital debt (debts which have to be paid back within two years) rose to unsustainable levels in South Korea (\$ 74.3 billion compared to 29.1 billion longer-term and unallocated), Thailand (50.2/19.2 billion) and Indonesia (38.2/21.5 billion). As the Asian states resorted to draconic devaluations (South Korea, 48.1 per cent against the dollar between July 1997 and February 1998; Thailand, 43.2 per cent, Indonesia, 73.5 per cent), and stock market values collapsed, there was no way in which these debts could be redeemed (*Financial Times*, 30 January, 20 February 1998). In financial terms, the crash of 1997-98 was triggered by 'the swelling debt-to-equity ratios of the [Newly Industrialising Countries], which by 1997 far exceeded the ratios of corporate debt to gross domestic product in the developed countries' (Nesvetailova 2002: 253). Japanese investors were exposed to the greatest extent, but there was a broad international participation of the Gold Rush.

Yet financial flows are only a surface phenomenon, the most volatile element of a larger set of forces. The underlying movement of production away from the Japanese-centred Asian economies to China, and the over-production crisis due to the deflationary effect of

China's low wage export strategy, must be considered the more fundamental causes of the Asian crisis. US trade with China already in 1992 surpassed Japan's (in 1985, US-China trade was still less than half that of China with Japan). This established the China-US axis, although Chinese exports to Japan were still equal to those to the US through the 1990s. But South Korea and Taiwan also had become dependent on the North American market, which was twice the size of their exports to Japan in 1993. Chinese manufacturing production between 1980 and '92 grew at an average annual rate of about 11 per cent, only slightly behind South Korea (Castells 1998: 208 table 4.1). When Vietnam, Myanmar, Laos and Cambodia joined ASEAN in the early 90s, a range of further low-wage export locations came on stream. Who would absorb all the output of these economies?

China solved this problem for itself when it effectively devalued the (non-convertible) yuan by unifying several managed exchange rates at the low swap market rate of 8.7 to the US dollar in January 1994, after an earlier devaluation in 1990. The 1994 (dollar-pegged) exchange rate undercut its Southeast Asian rival manufacturers in export markets. But they received a further blow two years later when the Clinton administration, fearful that Japan might indeed begin to divest itself of US bonds and withdraw capital (as we saw they had threatened), negotiated a 'reverse Plaza Accord'. This time it was the yen that was brought down, throwing the Asian exporters, both north and southeast, into a crisis, as Japanese exports now became much cheaper and dollar-pegged Asian currencies drifted upwards with the US dollar. Export growth in South Korea, Thailand, Indonesia, Malaysia, and the Philippines fell from 30 per cent a year in early 1995 to zero by mid-1996 (Johnson 2002: 212). Thus the rise of China exploded 'the Japan-led regional-national production order, financed by export-oriented foreign direct investment in the "tigers",' Anastasia Nesvetailova concludes (2002: 253); because it 'was no longer balanced by the financial sphere determined by an American-dominated dollar-bloc regime linked to a "yen-appreciating bubble"'.

But why was South Korea, alone among the Northeast Asian economies, implicated in the crisis the way it was? The answer is that Korea witnessed a powerful workers' movement fighting for democracy and better wages and working conditions. Real wages in manufacturing in the East Asia/Pacific region almost tripled between 1970 and 1996, and South Korea was among the countries where the gains made by the workers were greatest—a moment of reckoning for one of the most repressive vassal regimes sustained by the United States in the cold war. In addition, there was the growth of a domestic middle class already referred to. South Korea also bore the brunt of the overproduction aspect of the crisis. As the editors of *Monthly Review* (vol. 49: 10, March 1998) noted at the time, prices of computer memory chips, South Korea's main export item, entirely collapsed, while markets for cars, petrochemicals, shipbuilding and steel were glutted. Hence the markets on which service on short-term obligations was to be earned were subject to severe competition, which eventually led to the crisis becoming manifest. Here too, a directive state, in this case developing as a vassal of the West, reaches the end of its trajectory. The South Korean state class in the later 1980s relaxed state authoritarianism

to deal with the popular movement which previous dictatorships had failed to contain; the revolt of the city of Kwangju in 1980 and the massacre among its inhabitants, was the last stand of the South Korean state and its American supervisors. However, as the state class mutates into a political class, it also fractures, becoming dependent on elections. The need to form coalitions with diverse social forces then turns its closeness to business from positive direction to being bribed and captured; also by foreign operators.

3. The Asia-Pacific Geopolitical Triangle—The US, Japan, and China

All the alliances and commitments the United States built up in Asia since World War II have been essentially tactical and short-term. In the absence of an integration process like the one pursued in Western Europe under Washington's protection, there was no common East Asian position to block the playing off of separate states against each other. Hence the West can continue to conduct a policy of active balancing, and as I will outline in this concluding section, the US occupies a position of pre-eminence here.

For Washington, the end of the cold war with the USSR heralded the beginning of economic warfare against the former Asian vassals, whose dispensation from neoliberal market discipline had expired. The handling of the Asian crisis bears out this thrust, although as indicated, the actual crisis was the result of erratic movements of speculative finance across a plane destabilised by shifts in the distribution of productive activity. The Asian crisis was followed by renewed capital inflows, no longer speculative money of course, but direct investment to cherry-pick key productive assets at bargain-basement prices. Between January 1998 and February 1999, South Korea saw an influx of FDI of \$ 21.6 billion, divided over 91 deals; Thailand, 75 deals worth \$10.2 billion; and the Philippines, 3.7 billion (22 deals) (*Financial Times*, various issues 1998-2000). Yet the expected bonanza did not materialise due to underlying overproduction problems, the indebtedness of companies, and uncertainties about long-term chances for Asian economies other than China. US financial institutions in particular were keen on entering the closed Japanese bank and insurance sector, but on the whole, Japan remains inhospitable to foreign investment (2 per cent of GDP in 2005, compared to 22 per cent for the US).

China continues to be the production location of choice. Unlike the Northeast Asian contenders such as Japan and South Korea, who closed off their economies to foreign investment during their growth spurt, China has opened its doors (with the aforementioned restriction of a mandatory local partner). This relative openness has allowed transnational capital to play a major role in the reorganisation of the Asian economy around China, but in turn has made the country completely dependent on foreign markets and capital to sustain its pace of development. Of the \$ 50 billion-plus annual inflow of foreign direct investment into Asian economies in the years following the crisis, half was destined for China. When China overtook the United States as the top

destination of FDI in 2002, \$ 53 billion flowed into the mainland economy alone. In 1990, the ASEAN countries, South Korea and Taiwan still attracted four times the direct investment flowing into China; in 2002, this had been completely reversed (Kim 2004: 158, 171; Zhou and Lall 2005: 42).

Two-thirds of FDI inflows into China are in manufacturing, with an upward trend of high-value added sectors such as semiconductors. I mentioned already that a large slice of the investment into and from Hong Kong is 'round-tripping' by operators from the mainland, and tax haven routing; according to one estimate (Zhou and Lall 2005: 45), official Hong Kong investment figures into China should be discounted by 40 per cent to skim off this moving around of funds from actual FDI. Along with the overseas Chinese and Taiwan, Hong Kong investment and (not through investment) US contract production, typically seeks to engage in low-wage manufacturing for export; Japanese capital goes to intermediate goods production for export to Japan; whereas US and European investment is typically in firms that are expected to cater to the Chinese market. Estimates of the share of foreign firms in China's exports range from one-quarter to half. China, then, is now part of the regional 'flying geese' formation, not as the organiser, as Japanese capital was before, but as a big goose somewhere in the middle, struggling to move up in the flight. The growing trade deficit with Singapore, South Korea and Taiwan between 1994 and 2004, and the parallel growth of the export surplus with the United States, support the thesis of a growing socialisation of labour in the region with elements of complementarity notably in electronics, which as a sector lends itself best to parcelling out different production stages.

However, signalling the ambition of a true contender, the Chinese state class is not content with being the recipient of investment. China aims to become a major foreign investor itself, with a vice premier announcing that Chinese firms must 'go global'. This strategy, which according to the leadership will benefit not only 'China's development but also the prosperity of the whole world', has already resulted in more than \$2 billion government authorised foreign investment outflow in 2003. The acquisition by Chinese companies of IBM's PC arm and a French perfume retail chain, are spectacular instances of their aspirations and the current wave of sovereign wealth funds picking investments across the globe, not least in the hard-stricken financial sector in the West, only confirms that this is a real trend. The Chinese are becoming an active force in the global political economy in their hunt for resources across the continents—energy from Saudi Arabia, Kazakhstan, Sudan, and Angola; Cuban nickel, Brazilian iron ore and soy beans, et cetera. This inevitably restricts, to name but one aspect, US options in dealing with challenges in Latin America, and thus becomes part of global rivalries generated along the heartland/contender fracture.

Now as we have seen, every contender at some point faces the problem of having to adjust its political system to the class structure that emerges along with the modernisation emulating the heartland. The antagonism with the West can develop into a dynamic of its own in the process; Chinese nationalism thus can precipitate, but not solve, the transition

problems that occur when a society finds itself in the 'wrong' type of state/society configuration, unable to merge into the expanding liberal universe. China is already experiencing specific difficulties in restructuring its society to an Asian capitalist format. Thus the aim of the Chinese state class is to create powerful business groups of the finance capital type, like the zaibatsu/keiretsu of Japan and the family-owned chaebols of Korea. But apart from the class of tycoons composed of overseas Chinese and privatising party leaders, an educated middle class is lacking, due to the shortfall in higher education. In combination with the limited size of the foreign-trained 'MBA' element referred to earlier, this may force the Chinese state class to forego its finance capital strategy and instead seek to follow Taiwan, where the state and the ruling party own or control some 50 per cent of corporate assets, accounting for around 30 per cent of the island's GNP. But that would only further consolidate the contender state configuration and complicate any further transition.

In the Asian crisis, China, itself insulated from currency speculation by capital controls and non-convertibility of its currency, was a tactical ally of the West. Japan on the other hand posed an acute threat to heartland hegemony when it proposed, in September 1997, to create an Asian Monetary Fund (AMF) to deal with the crisis. It offered to put up half of the initial \$ 100 billion of the fund's capital. The US promptly rejected the proposal, calling it a way of prolonging Asian 'crony capitalism' and an invitation to fiscal imprudence in the stricken countries, given that the Japanese proposals departed from neoliberal orthodoxy. What Washington feared most, however, was the prospect of Japan assuming a larger political role in the Pacific region; earlier proposals that Asian 'super-exporters' shift their energies to 'unification projects in their own region' had been dismissed for this reason. Robert Rubin's deputy at the Treasury, former World Bank economist Lawrence Summers, was sent on a mission to ensure that the IMF was put in charge of dealing with the crisis. Officially this was intended to maintain overall policy cohesion; in fact it served as a guarantee that the crisis would be solved on conditions set in Washington. As the *Financial Times* commented at the time (15 January 1998),

In the last three months, as the Asian crisis has broadened and deepened, Mr Summers has been everywhere—putting pressure on the Japanese to reflate their economy, cajoling the Koreans to implement tougher financial reforms, nudging the US Congress not to pull the plug on IMF funding.... More important, Mr Summers has been successful in ensuring that *the entire international rescue operation has been run along US lines*. There was a dangerous moment before the Korean collapse, when momentum was building in Asia behind a Japanese-led plan for a special regional bailout fund... Mr Summers managed to kill off the proposal and leave the IMF at the forefront of the bailouts—the critical element of the US approach.

In the counterattack on the NIEO following the debt crisis, strict IMF conditionality had been one of the main mechanisms by which the contender state grip on its society, and the structures of state ownership, finance capital, and social protection that were in the way of competitive liberalisation, had been removed. From 1969, when only half the

number of states requiring IMF assistance, were subjected to the full adjustment package, the percentage rose to 90 in 1984 (then 66 countries), so that director de Larosière could claim that 'adjustment measures really have become universal' (quoted in Chahoud 1987: 46). Not that the actual record was that impressive: in the decade since 1987 when the IMF put in place the Enhanced Structural Adjustment Facility (ESAF) to gear countries to export-led industrialisation and improved debt service, the 36 countries that sought IMF assistance, according to the IMF's own report did worse than those than the 43 eligible candidate countries that didn't (G. Kolko in *Le Monde Diplomatique*, May 1988: 7). Hence the 'universal recipe', a neoliberal austerity policy and the sale of debt-ridden local companies, was far from convincing by the time of the Asian crisis. Also, companies operating in the context of the finance capital structures of state-monitored economies with high savings rates, are *always* 'debt-ridden' by the standards of Anglo-American stock-market capitalism. No wonder that the question arose whether 'allies' (to be distinguished from countries such as Pakistan, Argentina, or the vanquished USSR) should be subjected to the full impact of IMF conditionality.

Thus Martin Feldstein, presidential economic adviser, in an article in *Foreign Affairs* (1998: 26) wondered whether it was fair to demand a fundamental overhaul of the South Korean economy to qualify for a \$ 57 billion IMF loan package. This in effect only served to bail out Korea's foreign creditors, whereas a bridging facility to meet short-term debts might be better for Korea. If a strong economy like South Korea must be placed under IMF discipline, why not the EU? There the same conditions prevail—'labour market rules that cause 12 per cent unemployment, corporate ownership structures that give banks and governments controlling interests in industrial companies, state subsidies to inefficient and loss-making industries, and trade barriers that restrict Japanese auto imports to a trickle and block foreign purchases of industrial companies'. In addition, the ruthless imposition of the neoliberal capitalist model threatened to undermine the structures of vassalage better kept in reserve in the evolving geopolitical configuration. Asian 'moderates', according to Henry Kissinger, were already complaining that 'Asia is confronting an American campaign to stifle Asian competition' (quoted in Wade and Veneroso 1998: 21). Yet the prevailing opinion was that the crisis offered an opportunity to rectify the 1945 failure to remake Asia in the image of the West—in the words of B. Nussbaum (in *Business Week*, 1 December 1997), 'a second chance to create democratic, laissez-faire societies across the Pacific Rim.'

The Failure of East Asian Bloc Formation

The smaller Asian economies were hit hardest by the successive shocks that constituted the Asian crisis—the withdrawal of short-term capital and the IMF assault on the structures of state-monitored capitalist development—the larger ones held their own. Japan refused to follow the IMF recommendations outright, China had not suffered and was equally unwilling to deregulate; Taiwan, too, dragged its feet on liberalisation. But around them, Asian economies were severely affected, their state classes dethroned by

varying forms of, usually oligarchic, democratisation—most spectacularly in Indonesia, which because of continuing political instability, also failed to recover economically.

To the Japanese ruling class, the shock of having been targeted at all, created the space to seek a new relationship with the United States. Ideally, by inviting it into a Pacific partnership that would limit Washington's ability to play off different states against each other. This option had been raised first in the mid-1980s, when the Takeshita government installed a commission to study the future of trade in the Asia-Pacific region. Redefining the Pacific relationship was also a response to calls for a confrontation with the United States, such as the book, *The Japan That Can Say "No"* by the nationalist politician, Shintaro Ishihara (a cabinet minister in 1986-'88), and co-authored with Sony president Akio Morita (who lent Ishihara his support to further an agenda of his own). Ishihara and Morita denounced America's strategy of confiscating, on national security grounds, technologies developed by its allies in the context of SDI, and called on the government not to allow Japanese ingenuity to be sequestered by Washington in this way (Johnson 2002: 194). In 1989, the government commission under Yoshihiro Sakamoto recommended that Japan should abandon its exclusive concentration on the US market, and create a loosely institutionalised regional forum to strengthen regional economic integration without antagonising the United States. Conscious of Western sensibilities, the Sakamoto commission even advised that not Japan, but Australia should propose these steps; prime minister Bob Hawke had raised the idea of an Asia Pacific Economic Cooperation (APEC) on a visit to South Korea earlier that year. In late 1989, APEC was indeed founded in Canberra, with the USA and Canada, Australia and New Zealand, Japan and South-Korea, and the ASEAN countries as members. China, Taiwan, and Hong Kong were admitted in 1991; a secretariat in Singapore was set up the year after.

So the English-speaking states were still in a directive role even when finally, an Asia-Pacific bloc was constituted (just as the US and Britain had been in the case of ASEAN). 'In east or northeast Asia, the United States viewed its military capabilities as sufficient to neutralize the surrounding threat, and thus preferred to maintain its interests in the region through bilateral arrangements', Hun Joo Park writes (2004: 85). 'The failure to establish multilateral cooperative institutions in Northeast Asia in the post-World War II era stems partly from the American hegemony and its preference for a divide-and-rule strategy [and a] hub-and-spokes pattern of bilateral alliances.' At this point, Japan was still the partner of choice. The Bush I administration sold it the technology of the F-16 jet fighter so that the country could produce its own version, the FSX. This was part of grooming Japan for balancing against China, and it certainly raised the stakes in the Asian arms race that was beginning to pick up; to the point where the Southeast Asian arms market overtook the Middle East as the third-largest weapons sales area after the United States and Europe in the mid-1990s.

Asian state classes were aware of their weakness relative to the US and the multilateral regulatory infrastructure under its control. They did not necessarily consider APEC the

best solution to defend their interests either. Pressures from the United States to liberalise economies and introduce parliamentary systems along with stock markets, were resented along a broad front for reasons good and bad. In 1990, prime minister Mahathir of Malaysia launched the idea for a free trade zone including Japan and South Korea, but *excluding* the US, Australia and New Zealand. In 1993, finding insufficient support for a proposal which was so obviously directed against the English-speaking heartland, he proceeded with another project, a 'Caucus' within APEC. On several occasions, however, President Bush Sr. and his Secretary of State Baker warned that this Caucus would 'constitute a trade barrier'—code for sanctions. Japan and South Korea in the circumstances saw no advantage in risking the wrath of Washington (Kwon 2004: 103 note). Yet there was no denying that after the collapse of the USSR, 'peace was breaking out in East Asia', and this was bound to diminish US influence. China recognised South Korea in 1991, and the government of the Philippines asked the US Navy to vacate the Subic Bay naval base.

There was no way the United States were going to leave Asia to the Asians, however. The draft Defence Planning Guidance for 1994-99, the notorious Republican strategy document that cast its shadow over the Clinton administration, provides important clues here. As to Asia, it warns against 'the potentially destabilizing effects that enhanced roles on the part of our allies, particularly Japan but also possibly Korea, might produce.' Nuclear proliferation in the region had been sparked off by South Korea's intentions and was interrupted only when its architect, president Park, was assassinated with US connivance; in the meantime, North Korea had set up a rival programme though. A potential succession crisis in China was another threat which should not be left to Japan to handle on its own. Washington therefore moved to become more active in the evolving process of regional cooperation. Fred Bergsten was put in charge of an APEC eminent persons group to study the direction the organisation should take. Upon taking office, president Clinton then invited the APEC leaders to an informal summit in Seattle in 1993 where they agreed to work towards an Asia Pacific Community (Hummel 2000: 156).

Thus, the Clinton administration effectively hijacked the APEC process and made it part of the globalisation drive. In late 1994, at the APEC summit in Bogor, Indonesia, participants committed themselves to liberalisation trajectories for the 21st century, whilst in 1995, at Osaka, agreement was reached to unilaterally open the Asian economies to foreign capital. Chile was admitted as a member and the creation of an Asia-Pacific free trade zone was agreed for 2020. This was the juncture, as noted earlier, when the Japanese ministry of finance threatened to divest itself of its US treasury bond holdings, even though Clinton backtracked from his initial Japan-bashing (and also upgraded US creditworthiness by bringing the budget into the black, among other things by cutting social security). In fact there was a divestiture in progress already—Japanese investment trusts in 1989 still invested 60 per cent in US securities and 18 in Asia; whereas in 1994, this was reversed to 13 and 75 per cent, respectively (Hartcher 1999: 229). Japan now actively resisted US demands for liberalisation and even became more confident in

challenging Washington. In one gesture, Tokyo criticised the priority accorded to Eastern Europe by the IMF and the World Bank, claiming that more finance was needed for East Asian projects. In 1993, the World Bank report, *The East Asian Miracle*, paid for by Japan's ministry of finance, highlighted the positive role of the state in economic development in a sign of Japan's willingness to stand up for what had been the true basis of its development success. Obviously a rift was opening up between the United States and Japan which reflected long nurtured resentment. Japan's contender trajectory, which had gained a new lease on life during the cold war, was losing its licence, but it was obviously not being abandoned.

Towards China, on the other hand, the Clinton administration showed more leniency. In spite of the Tiananmen repression, it renewed commercial partner status (MFN) for China in May 1994. Yet the centrifugal tendency also affected China and its regional allies, and the country's role as the new contender transpires in the fact that Beijing, jointly with the ASEAN countries, became the driving force behind the idea of an Asian bloc independent from the 'Americanized Pacific-Asian economic regional order' (Kwon 2004: 103). In 1995, a meeting of the ASEAN states, China, Japan, and South Korea ('ASEAN + 3') took place to prepare a common position. These meetings were institutionalised from 1997. Although the preparation for ASEAN+3 coincided with projected negotiations with the EU in the first Asia-Europe Meeting (ASEM), Europe in this part of the world is far weaker than the United States. As Richard Higgott notes (2004: 170), 'the prospect of Asia and Europe balancing against the US, via [ASEM] remains—occasional rhetorical flourishes notwithstanding—a remote prospect'. In no way will the integration of Europe spill over to integration in Asia, or otherwise strengthen the hand of an Asian bloc—which itself remains elusive. China on the other hand, as we will see, does look to the EU to counterbalance US pressures.

The Asian Crisis had the obvious effect of souring relations between the United States and the East Asian states. The APEC summit at Kuala Lumpur in November 1998 virtually collapsed amidst serious disagreements over the causes and handling of the crisis, and 'resistance of Asian policy makers to a strengthened APEC after the financial crisis was caused not only by the lack of tangible benefits but also by a fear of American dominance within the organisation' (Higgott 2004: 162). But given the preponderant military and economic assets Washington continues to wield, and the blows incurred by the weaker APEC members, the anaemic state of regional integration in the Asia-Pacific area only strengthens the hand of the United States—except that now it must return to active balancing.

Balancing Japanese against Chinese Nationalism

A bloc of its own might have shielded Japan from economic turbulence in the way Germany profits from the EU, but none exists. Japan together with China and South Korea accounted for 22 percent of world GDP in 2000, which puts the region roughly in

the same class as the EU or NAFTA; but intra-regional trade was only 20 percent of total trade of the three countries, against the EU's 60 and NAFTA's 47 per cent (Park 2004: 81). On its own, Japanese preferences on how to organise the world economy carry little weight. As John Braithwaite and Peter Drahos write (2000: 478), '[the] most ironic feature of Japan's consistent comparative impotence across [global business regulation] regimes is that it is a quintessentially unitary realist state actor.' The Pacific Business Forum, set up in 1994 by the president of Itochu corporation of Japan as a private planning network for the APEC region, champions increasing investment and area-wide product standardisation; but attempts to stabilise markets are inimical to the neoliberal mind-set prevailing in the West. Newspaper reports on the February 1998 WEF meeting in Davos provide several illustrations that at no level Open Door policies pursued from the liberal heartland were allowed to be compromised by Asian proposals for long-term stabilisation.

In response to the Asian Crisis, Japan suspended liberalisation of its economy in order to prevent further fall-out. Indeed, the country 'has been intensifying, albeit as quietly as it possibly can, its search for more independent policy lines from America and a more proactive role in promoting intra-regional cooperation befitting the post-cold war era' (Park 2004: 81-2). But the Japanese position does not allow it much freedom; its exports are still highly dependent on the US market. Nevertheless, the Asian Crisis was a turning point. Nationalism was given a lift by popular indignation on how the crisis was handled by the United States. Ishihara in 1998 wrote a single-authored sequel to 'Japan That Can Say "No"', in which he called for a halt to further Japanese purchases of US bonds. This had such a public resonance that it secured his election as mayor of Tokyo the next year.

The Chinese response to the Asian crisis, on the other hand, was to intensify its export offensive, improve conditions for incoming foreign investment, and apply for membership of the WTO (to which it was admitted in December 2001). In 2000, Prime Minister Zhu Rongji proposed creating a free trade zone with the ASEAN countries (eventually agreed in 2002). But now Japan, fearing marginalisation from the process of regional economic integration, began courting ASEAN countries in turn and agreed a free trade area with Singapore 'in order to counter the ASEAN-China [free trade area].' Washington, too, concluded a free trade agreement with Singapore, reflecting concern to control the rise of China. South Korea, finally, began exploring free trade agreements with both Japan and Singapore, and comprehensively with ASEAN, in 2003-04. The visit of the South Korean president to Japan in 1998 was a breakthrough in the relations between countries whose citizens until recently considered the other 'the most disliked nation'. The 2002 football World Cup held jointly in South Korea and Japan was of equal importance in the thaw.

However, the ability of Japan to build a regional bloc to counter the Chinese ambitions towards its southern neighbours where the overseas Chinese hold economic power, continues to be hampered by its past. The lack of integration and the survival of an imperialist nationalism condition each other here. Because of the failure to engage in

regional integration and the unwillingness of the US to allow such integration to proceed, there was also no need for Japan to admit war guilt. With the emperor allowed to stay on, 'Japan and the Asian victims of Japan's continental war and brutal colonial rule did not have a chance to resolve the problems of fear and mistrust, which deeply underlie and perpetually mar the international relations in the region' (Park 2004: 85). There was no Japanese Willy Brandt to go to Nanjing, the place of the worst wartime massacre of civilians, kneel down, and apologise. On the contrary, Prime Minister Koizumi's ceremonial visits to the Yasukuni shrine, where Japan's war dead, including the leadership hanged for war guilt, lie buried, continue to insult its former victims, notably China.

This obviously is not a personal quirk on the part of a Japanese politician, but a political gesture catering to a new public mood. Nationalism is on the rise again now that economic crisis and the loss of the lifetime employment guarantee have exposed the Japanese population to insecurity to a degree not seen since the Second World War. Ishihara, the mayor of Tokyo and the man who wants Japan to say 'no', enjoys a growing popularity with his calls for the Japanese government to speak up. But the 'no' isn't aimed primarily at the United States any longer; it is directed *against China*. This does not so much resonate with the older generation, which remains faithful to the pacifism that settled with the dust of the atomic attacks on Hiroshima and Nagasaki. But among the young, this counts for less. A poll amongst 20 to 30 year olds held in 2004 by Japan's leading newspaper, *Asahi Shimbun*, revealed a 63 per cent majority in favour of revising the constitution to legalise a regular army. Of course, Japan was part of the Western defence set-up all along. With 240,000 men under arms and a defence budget of \$ 40 billion, it is today second only to the US. North Korea's nuclear policy was one reason why it embarked on a policy of military normalisation already in 1996, effectively abandoning the pacifist principles of the constitution. But in the new context that has emerged in the aftermath of the Asian Crisis, Japan's policy, as Chalmers Johnson has noted (2002: 61), is 'to do everything in its power to adjust to the re-emergence of China on the world stage.' The United States in the circumstances has clearly adopted a policy of active balancing on the side of Japan; the Clinton economic warfare strategy was soon abandoned again. In 1999, Washington decided to embark on a missile defence system essentially directed against China and North Korea, devoting \$10.6 billion to it over a five year period, and with Japan as a partner. By joining forces with Tokyo however, the United States risks being drawn into disputes between China and a number of Southeast Asian states (notably Vietnam) about energy resources in the South China Sea.

China meanwhile, like all contender states before it, has profited from the tactical balancing pursued by the heartland, before emerging as the primary contender itself. After Nixon's trip to Beijing had normalised relations, the United States developed a strategic relationship against the USSR under Deng Xiaoping. To compensate for the loss of important US monitoring stations in Iran, mainland China in 1979 was prevailed upon to provide the US intelligence community with listening stations to spy on the Soviet Union. Under Bush II, the first signs of an emerging confrontation with China were

temporarily eclipsed by the Global War on Terror. The United States, in the words of one of its ambassadors, has 'never accepted a deterrent relationship based on mutually assured destruction with China' (quoted in *The Guardian*, 13 September 2002), in the way it accepted the balance of terror with the USSR; the Bush administration certainly would not allow China to develop militarily to the point where the US would have to accommodate to such a balance in the way it did in the cold war with the Soviet Union in the 1970s.

In the first intelligence memo Bush Jr. received as president-elect, three strategic threats were identified: first, al-Qaeda terrorism, secondly, the proliferation of weapons of mass destruction, and the rise of China as a military power, third—but third only because it still 'was 5 to 15 or more years away.' Soon after, Paul Wolfowitz in an echo of the statements on the USSR made by Richard Pipes in Reagan's days, stated that 'over the long run the Chinese political system is going to have to change' (Woodward 2004 : 12). Beijing was not intimidated; a few weeks after the inauguration of the second president Bush, Chinese aircraft forced a US spy plane to land on the island of Hainan. The Americans had to engage in humiliating negotiations to get the plane and its crew back, but only after the Chinese had thoroughly inspected it. The September 11 attacks deflected attention, but they did not stop the Quadrennial Defence Review of the US defence department shortly afterwards from defining Northeast Asia and the East Asian littoral as 'critical areas' for American interests; areas which cannot be allowed to fall under 'hostile domination'. Given that Asia is 'emerging as a region susceptible to large-scale military competition' in which rising and declining powers produce dangerous instabilities, the document sees one state, obviously China (though not named), as the ascendant 'military competitor with a formidable resource base'.

In the last two years of the president's second term, the Bush administration can be seen to revert slowly to its original anti-China line, pursuing an idea of Secretary of State Rice to build a vassal bloc with Japan, Taiwan, and India as partners in 'containment' whilst encouraging an aspirant liberal capitalist class in China itself, whom she identified earlier as 'people who no longer owe their livelihood to government', to gain political ground. Washington's joint statement with Tokyo in early 2005 that the two governments consider the peaceful solution of the Taiwan problem a 'common strategic objective'—which amounts to guaranteeing its current status, could not but infuriate the Beijing government. Taiwan could avoid a further deterioration of relations with the mainland only because a parliamentary majority has prevented the Taiwanese government from spending a record \$ 18.3 billion US arms deal, and by a visit of the pro-Beijing opposition leader to the Chinese capital. The Chinese have sought to cultivate a strategic alliance with the EU instead, subsidise the Galileo project, and want to order weapons, although the US has threatened to suspend Atlantic military cooperation if Europe will supply arms to China.

The Chinese state class, too, has cultivated nationalism as a new ideological basis for its hegemony. But as I indicated above, mobilising emotional energies generated by the

painful dislocations of privatisation and breakneck industrialisation for nationalism carries great risks. Nationalism in China has worked well to deflect Tiananmen-style demands for democratisation, but has meanwhile reached an intensity that may propel the Chinese state class to take actions it would not necessarily have chosen itself. Internally, it works to destabilise the socialist policy of national self-determination by highlighting ethnic dividing lines. In the case of Tibet, this has contributed to the recent (March 2008) disturbances which threaten to cast a shadow over the Beijing Olympics. Buddhism has always been a problem for the Chinese central government because lama's, holy men, are born into their divine capacity but may unexpectedly emerge as political leaders too. Hence, as Frazer emphasised long ago (2000: 102-3), the Chinese empire already kept an official register in the *Li fan yuan*, or Colonial Office, which in his days had hundred and sixty names of registered gods. Only in Tibet, the miracle of a god being born was allowed to occur, since (still according to Frazer),

the birth of a god in Mongolia [could] have serious political consequences by stirring the dormant patriotism and warlike spirit of the Mongols, who might rally an ambitious native deity or royal lineages and seek to win for him, at the point of the sword, a temporal as well as a spiritual kingdom.

Under communist rule, Tibet's autonomy was curtailed in 1959 in response to a revolt against central authority, which forced the Dalai Lama into exile in India. Meanwhile, Buddhist numbers in China have grown to an estimated 100 million, and new forms of religious activity, like the itinerant spiritual instructors who are active outside government-controlled temples, make Buddhism harder and harder to contain. As they make themselves the mouthpiece of the critique of corruption and environmental degradation, these preachers obviously have the potential to become an outright challenge to the government in Beijing. It is the movement spearheaded by these ambulant preachers, rather than the Dalai Lama, which is today challenging the central government in Beijing. Certainly there were a few moments at which the Dalai Lama seemed to be enlisted by Western attempts to develop him into a lever of influence in China—from the Nobel Peace prize in 1989 to the Freedom Medal awarded by US President George W. Bush in 2007. It would seem, though, as if he is as little in control of spreading unrest in China's western provinces as are the rulers in Beijing themselves. As with Chinese (and Japanese) nationalism, the rise of new generations of Tibetan (and other) Buddhist agitators, must to all intent and purposes be traced to the experience of the dislocations that come with contemporary capitalist development and which are shared by Chinese and Tibetans alike.

It is a cliché today that the Chinese economy will overtake the US as the world's largest economy by 2041 or thereabouts (e.g. *International Herald Tribune*, 24-25 January 2004). But then, most contender states in history were on a course of overtaking the heartland had their economies not at some point ran aground in political crisis entailing geopolitical confrontation. The roots of imminent crisis are not hard to detect.

- First, China has committed itself to precisely the export-led growth model that ran into trouble in the Asian crisis, and faces staggering over-production in several areas. Investment coordination at the state level was thrown out along with central planning, with massive over-capacity in several sectors the inevitable result. In car production for instance, around half of capacity is idle.
- Secondly, China has become dependent on ever growing resource imports and food to keep its economy going at the current rate. China's energy and petrochemical corporations have emerged as powerful competitors, notably in the chase for the remaining fossil fuel deposits in Central Asia, Africa, and the Middle East. China is responsible for 17.5 per cent of world growth and its economic development strategy can only heighten competitive pressures and rivalries throughout the region, to be solved by increased exploitation of society and nature (Hart-Landsberg and Burkett 2004: 81). Indeed the government in Beijing in a recent report expresses concern about the 'ceaseless widening of the gap in income distribution and the aggravated division of the rich and the poor'; whilst an official of China's Environmental Administration warns that in light of the ravages on society and nature wrought by breakneck industrialisation, 'China's populace, resources, [and] environment have already reached the limits of [their] capacity to cope.'
- Now a true contender state class would have retained the full capacity to act on these issues, given its hold on the levers of state power. But here the choice of transnational capitalist forms of economy as the means of accelerating economic and social development, are exacting their own price—this is the third aspect of a potential crisis. Indeed, unlike its Soviet counterpart before 1985, the Chinese state class has allowed central planning to be sidelined by rampant privatisation, undermining its capacity to actually regulate its society and economy centrally. As David Victor writes (in *Newsweek*, 10 March 2008), the paradoxical result is that this contender state is evolving into a 'weak state' in the very process of its development.

Uniquely among contender states at this stage of their development, however, China holds a major stake in the American economy in the form of dollars and US bonds earned through its massive export surplus. An expert judgment recorded in late 2003 that '[i]f China were to cease to accumulate dollars, the result would be an uncontrolled free-fall of the U.S. currency, inducing a systemic shock for the global economy' (*International Herald Tribune*, 27 December 2003), still holds today although the free fall of the US dollar in a way is already happening. Also, the author at the time warned that any comparison with Japan in this area would be mistaken because

There was little risk that Tokyo was going to transform its economic muscle into strategic power directed against the United States, which ensures Japan's security in a dangerous and unstable East Asia. China, on the other hand, has its own strategic agenda to press... The United States will thus have to chart an increasingly difficult course between the risks of appeasement and the dangers of confrontation.

Ultimately, like all contender states before it, and if it does not turn towards socialist democratisation, China may come to face the hazardous internal transition from a directive state guiding the development of society, to a Lockean configuration. This would involve the dispossession of sections of the state class, transnationalisation, and exposure to the working classes in its own society clamouring for improvement of their lot. It must be expected that this transition will destabilise the wide-ranging geopolitical and economic webs which China's rise has created in the last few decades.

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(for a more extensive text, all tables, and a more complete apparatus of sources on the subject I refer to chapter 9 of *Global Rivalries from the Cold War to Iraq*, London: Pluto, New Delhi: Sage Vistaar, 2006)

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