

# **What Is China? And What Is It Up To? — Global Power, Capitalism with Chinese Characteristics**

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**We reproduce below the first part and second part in a series on China as a global power, from Foreign Policy In Focus (FPIF).**

## Contents

- [Is China an Imperial Power \(...\)](#)
- [Capitalism with Chinese \(...\)](#)

## **Is China an Imperial Power in the Image of the West?**

**Unlike the West, modern China has seldom used brute force to access resources or expand markets — except, notably, in the South China Sea.**

Owing to geography and geopolitics, my country the Philippines finds itself in the middle of an escalating conflict between the United States and China.

Like the trench lines that stretched from the North Sea through France to Switzerland during the First World War, the front lines of this conflict stretch across both land and sea for over 4,200 kilometers — from Korea and Japan to Taiwan and the East China Sea, and on to the Philippines and the South China Sea.

Like most other people in Southeast Asia, Filipinos know much about one actor in this conflict: the United States, an imperial superpower whose troops we host in nominally Philippine bases. Though they are much closer geographically to the other actor, China, they know much less about it.

## **What Is China? And What Is It Up To?**

What is clear, though, is that Filipinos don't like the People's Republic of China. They know it mainly as a powerful country with a Communist government that claims 90 percent of a body of water traditionally called the South China Sea — and, lately, the West Philippine Sea — and says “fuck you” to the claims of the Philippines and four other countries which border it.

In particular, Filipinos feel — justifiably — that China is a bully that has seized two maritime formations that belong to us, Mischief Reef and Scarborough Shoal, that lie much closer to the Philippines than they do to China, and that it has done so in violation of international law.

But while Filipinos don't have much affection for the People's Republic of China — and much of the rest of the world doesn't either — there are questions for which they must find credible answers so

they can arrive at the appropriate strategy for dealing with it.

The big why for Filipinos, Vietnamese, Malaysians, and Indonesians is: Why is China behaving in this crude, big power fashion in the South China Sea? This brings up a related question: Is China an imperial power like the United States and other western powers that preceded it as powers on the world stage?

There follow other related queries, such as: What kind of economy does China have? Is it really priming itself to be next global hegemon? Is it really as powerful as it is cracked up to be? What is China's record in its relation to other countries in the global South?

In this article and others, I'll seek to provide some clarification on a number of these questions — and to provide a guide with which China's neighbors can formulate a strategy to deal with this big, threatening, and yet in many ways still mysterious neighbor.

## **China's Road to Capitalism**

Perhaps the most urgent question is what kind of society is China at present, for the way a society is organized is a key driver of its relations towards the external world. If we take the social relations of production — the way people organize their economic life — as central in shaping a society, then China is a capitalist society.

China embarked on state-led capitalism after its leaders felt that building socialism (or what Marxist economists called "socialist accumulation") was too costly in terms of lives, and failed to deliver rapid economic growth that would banish poverty. Millions were said to have died in the famine and dislocations following Mao Zedong's Great Leap Forward in the 1950s.

But while Mao's economic policies failed, the strong state that his revolution had created provided a powerful political framework for a significant measure of independent development in the global capitalist economy from the 1980s on. This was an asset that was missing in developing countries that had not undergone revolutionary transformation.

Market relations were introduced first in the countryside, leading to peasant prosperity in the 1980s. Then, in the 1990s, the cutting edge of the economy became export-oriented industrialization centered in the cities.

Key to this strategy was the marriage of low cost labor provided by migrant workers from the countryside and foreign investment, the latter coming first from overseas Chinese and Taiwanese capital, then from big U.S. transnational firms attracted by what was seen as the so-called "China price" that other developing economies such as Brazil, Mexico, and China's Southeast Asian neighbors could not match.

## **How China Capitalized Differently**

In contrast to Europe and the United States' eras of early capitalist transformation, China's "primitive accumulation of capital" over the last 40 years has been relatively peaceful.

This does not mean that there was no state violence or direct coercion at all, of course. There was the relocation of thousands of peasant families to clear the way for the massive Three Gorges Dam on the Yangtze River, as well as legally sanctioned takeovers of peasant properties by revenue-short local authorities for urban development, a practice that continues until today.

Still, the overall approach in the first decade of the reform was to promote peasant prosperity. And

while the countryside took a back seat to urban-oriented development beginning in the 1990's, peasants today benefit from reforms such as free compulsory education for the first nine years, provision of basic health insurance, and a minimum income guarantee. There was none of the massive violence employed across the board against peasants and workers during Europe's period of capitalist transformation.

There was, of course, the Tiananmen Square massacre of 1989. But while the dynamics of capital accumulation did contribute to popular discontent, it was largely the demand for greater political democracy that triggered the protests that met a violent, inexcusable state response that brought about the death of thousands.

### **Global Expansion: The Western Record and China's**

The contrast with Europe and the United States is even clearer when it comes to China's expansion globally from the 1990s on. There has been none of the violence of colonization or military intervention that European states and the American state visited on other societies during their periods of global expansion.

China's going out to the world in search of raw materials and markets took place in the era of corporate-driven globalization, when the U.S. and Europe were pushing down trade barriers via the World Trade Organization, which China joined in 2001. Insofar as coercion, formal or informal, was used to liberalize global trade via the WTO, it was the United States and the European Union that deployed it. China simply sat back, as it were, to enjoy the benefits of trade liberalization while other countries — including, paradoxically, the main advocate of free trade, United States — were stuck with its costs as cheap Chinese goods poured in and dislocated their industries and communities.

Why is it important to point this contrast in the use of force? Because for many analysts, both Marxist or orthodox, the use of force to secure formal or informal colonies or dependencies is one of the essential trademarks of imperialism. In China's going out to the world, one simply cannot find equivalents of the violent scramble for colonies that the western powers pursued in the late 19<sup>th</sup> century in Africa, nor instances of the gunboat diplomacy that both Britain and the U.S. resorted to in Latin America in the 19<sup>th</sup> and 20<sup>th</sup> centuries and even today.

There have been cases of abuse of labor, environmental destruction, and preference for Chinese over local workers, which shall be looked at more closely later in the series, but there is nothing in China's record that matches the Central Intelligence Agency's covert actions to overthrow Jacobo Arbenz in Guatemala, Mohammad Mossadegh in Iran, and Salvador Allende in Chile in the second half of the 20<sup>th</sup> century.

China's neighbors have little fear of China mobilizing for intervention in the event of an investment dispute — not only because China does not have the military capabilities to do so, but because intervention is simply not part of China's economic diplomatic repertoire.

For instance, China's army lay just across the border, but the Thein Sein government in Myanmar did not even take the prospect of military intervention into consideration when it abruptly cancelled the construction of the Chinese-funded Myitsone Dam in 2012. Indeed, when Yangon opened up to the world in 2011, Beijing acknowledged that it lost much of the economic influence it had built up during Myanmar's period of isolation, but there was never any consideration on its part to restore its preeminent position by force or intimidation.

Nor was the deployment of force entertained when two nearby countries, Pakistan and Nepal, cancelled multibillion dam projects that the two governments had entered into with Chinese state

enterprises — in the first case because of objectionable conditionalities, and in the second because of the lack of competitive bidding.

In contrast, Latin American countries, such as Venezuela, have always factored in the possibility of U.S. intervention — not only by direct gunboat diplomacy, but by covert action and support for opposition forces when they nationalize U.S. firms or adopt progressive economic policies not sanctioned by the U.S.

This does not mean that China has never used force in its foreign relations. It has, though as will be shown later, its deployment of arms has been largely triggered by border-related issues.

China's use of force to secure economic advantage and resources from its neighbors has been rare. And this is precisely why its recent behavior in the South China Sea, where its employment of force appears to be motivated not only by border-related security considerations but also economic and resource acquisition, departs so strikingly from the norm that it begs for an explanation.

Does this mean that China is becoming an imperial power in the image of the West, where force either preceded or was quick on the heels of economic expansion? This is a question that will be explored later in this series.

## **Walden Bello**

*This article is the first part in a series on China as a global power.*

- *FPIF columnist Walden Bello is a founding director and current co-chair of the Board of Focus on the Global South. He is the author or co-author of 26 books and monographs. As a member of the Philippine House of Representatives from 2009 to 2015, he authored the resolution renaming the South China Sea the West Philippine Sea, a recommendation that was adopted by the national government.*

- *Foreign Policy In Focus, November 13, 2019:*

<https://fpif.org/is-china-an-imperial-power-in-the-image-of-the-west/>

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## **Capitalism with Chinese Characteristics**

**The strengths of Chinese-style capitalism have also been its vulnerabilities.**

*This article is the second part in a series on China as a global power.*

China's experiment with socialism was chaotic and failed to produce the much-desired transition to development and prosperity.

When the country broke with socialism and cautiously ventured into market-led development in the countryside in the late 1970s, China was one of most equal societies on earth. It was also quite poor, with over 30 percent of the population living under the poverty line, much like the Philippines then.

Today, with its gini coefficient, a measure of inequality, at .50 or above, inequality in China matches that of the Philippines. However, the number of Chinese living in poverty are down to around 3

percent of the population, while over 20 percent of Filipinos are still poor. Inequality has increased, but in terms of lifting people out of poverty, China is regarded as an unqualified success story — probably the only one in the world.

An acquaintance with the key characteristics and vulnerabilities of China's contemporary economy will enable us to get a sense of the dynamics and direction of China's economic relationships with the Philippines and the rest of the Global South.

For instance, it is easy to mistake the vaunted Belt and Road Initiative (BRI) as a grand plan for China's global hegemony, as many have, if one does not take into consideration China's massive industrial overcapacity problem, for which the BRI has been devised as a solution. And one cannot understand the overcapacity problem without referring, in turn, to one of the central features of China's economy: the decentralization of economic decision-making, which has led to a great number of competing projects, much waste, and tremendous surplus capacity.

China's economy is a capitalist economy, though one that is uniquely Chinese. It might be called "capitalism with Chinese characteristics," to give a more accurate spin to Deng Xiaoping's puzzling description of his project as "socialism with Chinese characteristics." Deng, Mao's pragmatic successor as the dominant personality in Chinese politics, led China's integration into the global capitalist economy in the 1980s and 1990s.

China's contemporary political economy has four key features:

1. It is largely liberalized or market driven.
2. It is largely privatized but with state intervention in areas considered strategic.
3. Its cutting edge is export-oriented production sustained by "financial repression."
4. And it is decentralized, with a great deal of autonomy for local decision-making while central authorities focus on broad national-level macroeconomic strategies and policies.

## **Liberalization**

Liberalization, or the removal of state controls on production, distribution, and consumption, took place in three stages over the 1980s and 1990s.

Market reform started with de-collectivization and restoration of a market-based peasant economy in the countryside in the early 1980s, followed by urban state-enterprise reform and price reform in the late 1980s. In the 1990s, reform of state-owned enterprises (SOEs) accelerated, with the aim being the transformation of these enterprises into profit-oriented capitalist corporations.

Throughout these phases, the main thrust of the reform was, as Ho-Fung Hung, a leading authority on China's economic transformation put it, "to decentralize the authority of economic planning and regulation and to open up the economy, first to Chinese diasporic capital [Overseas Chinese] in Asia and then to transnational capital from all over the world."

## **Privatization with Strategic State Intervention**

While market signals stemming from local consumer demand and global demand became the dominant determinant of resource allocation, the visible hand of the state did not disappear. It just became more discriminating. While departing from central planning, the Chinese state did not follow the so-called Northeast Asian developmental state model pioneered by Japan, South Korea, and

Taiwan that restricted foreign investment and favored domestic enterprises across the board.

In contrast, in China, non-strategic sectors of the economy were opened up to competition among private enterprises, local and foreign, while those areas considered strategic from the point of view of national security, national interest, and overall “national competitiveness” were subject to significant state regulation, with much production controlled by state-owned enterprises (SOEs) that were, however, allowed a degree of competition with one another.

In other words, the government permitted large-scale foreign direct investment to allow local businesses to access and diffuse foreign technology across a whole range of industries, while maintaining exclusive control and focusing state resources on those industries considered vital for the comprehensive development of the economy.

Given the massive pullback of the state from large swathes of the economy, there is justification in describing China’s political economy as “neoliberal with Chinese characteristics,” as the Marxist economist David Harvey does. But perhaps, it is better characterized as a market economy with strategic islands of state-controlled production and with broad macroeconomic surveillance exercised by the central state.

This is a far cry from the centralized micromanagement of the economy of the pre-1978 socialist state.

### **Export-Oriented Production with Financial Repression**

While the greater part of domestic production was directed at the local market, the strategic thrust of the Chinese economy post-liberalization was rapid industrialization via production for export, a feature captured in the saying that China became “the manufacturer of the world.”

Exports at their peak in the first decade of this century came to a whopping 35 percent of gross domestic product, a figure that was triple that of Japan. China became, as Hung puts it, the “hub for a global production network that begins with design studios in the United States and Europe; proceeds through producers of specialized components and raw materials in East and Southeast Asia; and ends up in China, where designs, materials, and components are brought together in finished products that are then sent all around the world.” (In this “Sino-centric” division of labor, the Philippines was integrated as a food producer, a source of raw materials, and a provider of industrial components like computer chips.)

Making export-oriented production the cutting edge of the economy meant restraining the growth of domestic consumption, a feature that was underlined by the policy of financial repression — that is, the interest rate on savings from consumers was deliberately kept low in order to keep the interest rate of loans to state-owned enterprises and private enterprises engaged in production for export low. From 2004 to 2013, the average real deposit rate was an extremely low 0.3 per cent.

A third key ingredient of export oriented manufacturing was a policy of keeping the value of the renminbi low relative to the dollar. From 1979 to 1994, the renminbi steadily depreciated against the dollar, from 1.5 to 8.7, as China moved away from its old Mao-era import substitution model towards an export-oriented model that required an undervalued renminbi to make China’s exports competitive on global markets. Then, in 1994, the renminbi was devalued 33 percent relative to the dollar, followed by a peg of 8.3 renminbi to the dollar over the next nine years, greatly boosting the competitiveness of Chinese goods in global markets.

In his trade war with China, U.S. President Donald Trump has called China a “currency manipulator,” allegedly deliberately keeping the value of the renminbi low to flood the U.S. with its

exports. However, most economists say that China has let market forces largely determine the value of the renminbi since over a decade ago.

The fourth ingredient in the export-led model, its “indispensable fuel” according to Hung, was the “protracted low-wage labor released from the countryside since the mid-1990s.” While there was a “demographic windfall” in the form of large rural surplus labor force that allowed China to take advantage of low-wage labor longer than other Asian economies, the latter was also a result of government policies that, in contrast to the 1980s, funneled resources from the rural areas to the urban areas and generated a continuous exodus of the rural population since the 1990s.

The combination of favorable financial policies for the export sector, an undervalued currency, and low wage labor was a formula that unleashed a flood of cheap Chinese goods on the world that proved to be deeply destabilizing not only for the industrial sectors of economies in the global North but also of those in the global South like Mexico and Brazil, which had higher wage levels.

In these areas, China was not only as a source of competing imports but a cause of deindustrialization, as some corporations uprooted their labor-intensive industrial facilities and moved them to Southeastern China and others simply subcontracted the making of their products to cheap-labor Chinese firms. Not surprisingly, working class resentment built up in places like the so-called “rust belt” of the U.S. that Trump was able to harvest in 2016 with his anti-China rhetoric in his drive to the presidency.

### **Decentralized Authoritarianism**

Contrary to the popular image of China’s development being the product of centralized direction, a decentralized character has, in fact, been one of its key features.

Decentralization has been one of the key ingredients of China’s growth formula, dating to the 1990s. Decentralization was a spur to intense competition among localities since Beijing, according to one account, “started evaluating local officials by how quickly the economy grew under their watch” — and they, in turn, “competed with each other to woo firms, offering them cheap land, tax breaks, and low cost labor.”

Described as essentially like turning the bureaucracy into a “large start up business,” decentralization sought to decisively break the command economy as well as force local authorities to “own” the reform process both by giving them the responsibility for coming up with the resources for investment and allowing them to reap the rewards of successful capital accumulation.

Provincial and local authorities have thus had a great deal of power in interpreting and implementing general strategic directives from Beijing. The economic authority of the central government has been deliberately weakened, its role being transformed into that of an “indirect player” focused on managing the macroeconomic backdrop such as interest rates, exchange rates, and preferential policy toward certain regions and sectors. Indeed, China has been described as the “most decentralized country on earth,” with the share of revenue of local government being more than twice that common in developed countries — and also much bigger than that typical of developing countries.

It is important to note, however, that strong local authority and command of resources in the capital accumulation and development process covered mainly the nonstrategic sectors of the economy. Important agents of central control across provinces were some key state owned enterprises (SOEs) in the designated strategic sectors, such as energy, heavy industries, railways, and telecommunications that were directly controlled by Beijing, though they themselves enjoyed a great

deal of autonomy. Here it must be qualified, though, that the majority of the country's 150,000 SOEs — and two thirds of all SOE assets — were controlled by provincial and local governments, not by Beijing.

The relationship between the local and the center has oscillated between decentralization and recentralization over the years, with the latest phase of recentralization, though limited, taking place under the current leadership of Xi Jinping.

In most other countries, the extent of decentralization would probably have led to a permanent weakening of the center. China, however, has an advantage over other countries that makes the system work and not fly apart — and that is the Communist Party structure that parallels the government structure at all levels and across all regions. While allowing factional conflicts to a significant degree, the party structure and its attendant discipline are what makes possible the paradox of “decentralized authoritarianism.”

Liberalization, privatization along with strategic intervention in key industries, export-led industrialization with currency management by the state, and decentralized authoritarianism — these were the ingredients of the so-called Chinese miracle. They were also responsible for generating the problems now faced by the economy, a topic to which we will turn in the next installment of this series.

### **Walden Bello**

- Foreign Policy In Focus, December 6, 2019:  
<https://fpif.org/capitalism-with-chinese-characteristics/>
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### **P.S.**

- This series is based on the recently published study by Focus on the Global South titled China: An Imperial Power in the Image of the West? on the occasion of the 70<sup>th</sup> anniversary of the founding of the People's Republic of China this year:  
<https://focusweb.org/publications/china-an-imperial-power-in-the-image-of-the-west/>