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On China's growing geo-economic influence and the evolution of variegated capitalism

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ABSTRACT

China's growing geo-economic clout globally has attracted significant research attention over the past few years. Rather than strictly adopt a national-specific and path-dependent perspective, this paper offers a nuanced perspective on the rationale of Chinese economic expansions overseas. I propose we view China's growing geo-economic influence as a relational development, inextricably connected to broader changes in global capitalism, especially the failure of the US government to maintain confidence in the dollar. The paper probes critically the underlying logics of two recent developments: (1) the role of the China Investment Corporation (a new sovereign wealth fund) and state-owned enterprises (SOEs) in accessing new markets worldwide; and (2) the policies to extend the global reach of the Chinese *yuan*. I argue that these phenomena are concatenated to China's broader aim to secure domestic economic security, given its vast holdings of dollar reserves and its macroeconomic constraints through the maintenance of a fixed foreign exchange regime. These developments in turn contour and sustain the evolution of the variegated global system of capitalism.

"[R]efining the emergent problematic of variegated capitalism would call for a much more concerted engagement with 'macroeconomic geographies' – more work of a 'holistic' nature, concerned with macroeconomic patterns and trajectories, longue-durée processes, the restructuring of institutional ensembles (including those at the level of the nation-state, one of economic geography's less fashionable scales of analysis), and with those 'big geographies' of capitalist restructuring." Jamie Peck and Nik Theodore (2007, pp. 762–764)

"So, goodbye "Washington Consensus" (in favour of open markets and limited government involvement in business) and hello to what is being called the "Beijing model" or "China model". Instead of placing one's trust in the market, the future of economic growth is seen to be coming from a more muscular state hand on the levers of capitalism." The Economist (26 May 2009)

1. Introduction

The emergence of China as a global economic power has spawned a gamut of differing analyses on the causes and implications of this phenomenon. Building on Frank's (1998) seminal claim that the future geographical core of capitalism will relocate to East Asia, Arrighi (2007) argues that the revolution in China in the 1930s created the conditions of possibility for the implementation of state paternalism and the ultimate formation of a "market society" distinct from "Western" capitalism. Peerenboom (2008), on the other hand, examines whether China's politico-economic development constitutes a "threat" to "the West" or a "model for the rest". More dramatically, Li (2008) argues that the so-called "rise" of China will trigger the "demise" of global capitalism. While proffering insightful and timely perspectives on China's economic ascendancy, these analyses largely construe Chinese economic development from with*in*, as if China offers a clear 'model' distinguishable from *others*. However, I would caution against essentializing the Chinese political economy and construing its growth through a zero-sum lens; as this paper argues, it is more productive to place China's economic policies in a broader context, or more specifically with*in* what Peck and Theodore (2007) call the variegated global system of capitalism, in order to gain a deeper grasp of the specific processes shaping China's growing geo-economic influence.

To Peck and Theodore (2007, p. 761), understanding capitalism as a variegated whole, with different constituents (of which China is one) and outcomes, allows analysts to eschew the foibles of the varieties-of-capitalism approach because "reading [economic] differentiation primarily through the lens of (national) institutional coordination runs the risk of exaggerating and reifying some forms of geographical difference, while obfuscating threads of commonality and interdependence". The emphasis on "commonality" and

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"interdependence" is critical. As Gibson-Graham (1996, pp. 15–16) argue, "a capitalist site (a firm, industry or economy) or a capitalist practice (exploitation of wage labor, distribution of surplus value) cannot appear as the concrete embodiment of an abstract capitalist essence. It has no invariant 'inside' but is constituted by its continually changing and contradictory 'outsides'". Rather than construe such "outsides" as non-capitalist modes or practices (cf. Gibson-Graham, 2006), however, I would argue that capitalist sites and practices are shaped by other such sites and practices that may be territorially and qualitatively different, but which are *still* operating with*in* the logics of capitalism. To be sure, I am not claiming that capitalism is a totalizing system or that non-capitalist policies are unimportant; capitalist logics have proven extremely pervasive, however, and as we will discuss shortly, Chinese policymakers are proactively and *simultaneously* negotiating capitalist logics and macroeconomic constraints even as they mould their own version of domestic politico-economic governance. In other words, it is the *engagement* of capitalism at the global scale that helps explain China's growing geo-economic influence.

Indeed, the Chinese political economy is ensconced within the finance-driven global economy today. The Chinese state thus *reacts reflexively* to its self-imposed macroeconomic constraints and changes in other economies by seizing emergent opportunities to create new markets in new geographical regions. This is effected through a *dualistic* politico-economic strategy: (1) the regulation of the domestic financial system and restructuring of state-owned enterprises (SOEs); and (2) the selective adoption of neoliberal principles as a sovereign geopolitical entity as well as through capitalist vehicles (in the form of SOEs and a sovereign wealth fund)[1] on the global stage. Put differently, China's economic expansion is *co-produced* by the Chinese state's strong interventionist strategies domestically (notably its fixed exchange-rate regime) as well as the structural changes in the global capitalist system. In turn, China's active capital accumulation strategies overseas (especially over the past 3 years) are helping to stabilize an otherwise volatile global capitalist system.

This paper is arranged into four parts. In Section 2, I will provide the theoretical basis that frames the discussion. The analysis is situated within Harvey's ([1982]1999) conceptualization of the geographical causes and effects of capital flows, or what he calls capital's "spatio-temporal fixes". Harvey's arguments are tied to the specific *relationship* between interest rates, capital flows and foreign exchange regime. To follow Peck and Theodore (2007, p. 760), a closer scrutiny of macroeconomic developments could further enrich the analysis of the contexts and causes of China's growing geo-economic influence. For analytical purposes, the theoretical constructs are supported by references to US and Chinese examples, the primary reason being the symbiotic relationship between the two economies since China's post-1978 re-entry into the global capitalist system. I then elucidate the historical–geographical context of China's politico-economic reforms, paying particular attention to the recent "Go Abroad" policies, before analyzing the processes shaping China's global economic influence. The theoretical implications of the discussion are then addressed in the conclusion.

[1] While recognizing that privately-owned Chinese enterprises also invest overseas, the focus in this paper is on Chinese SOEs because they generate a significant portion of outbound foreign direct investments (FDIs). According to China's Ministry of Commerce, centrally-controlled SOEs alone contribute 64% of total outbound FDI in 2008 (China Daily, 18 October 2008). This figure does not include the outflows generated by non-centrally-controlled SOEs and the China Investment Corporation (CIC), which suggest that state enterprises' total foreign investments constitute the majority of China's outbound FDIs.

2. The flows of capital: conceptual tenets

2.1. The state as a geographical determinant of financial capital flows

The brief history of capitalism has witnessed a cyclical process of boom (resulting in overaccumulation) and bust (resulting in massive devaluation). This tendency is intensified with the emergence of 'casino capitalism' following the dollar's de-link with gold in 1971, which precipitated a rapid and colossal increase in short-term global financial flows, mostly for speculative purposes rather than to fund trade and foreign direct investments (FDIs) (Strange, 1986). The quest for a reduction of geographical barriers to financial flows and trade contributed to the rise of 'neoliberalism', a political-economic governance ideology that entails the state to effect *market-like rule* (Tickell and Peck, 2003; Harvey, 2005), protecting private property and ownership rights regardless of citizenship.

Capital accumulation exists in dialectical tension with uneven geographical allocation of physical resources, technology and labor forces. To Harvey ([1982]1999), capitalists are always searching for a 'fix' to achieve *sustained* profits; devaluation will otherwise ensue, leading consequently to crises. This 'fix', as Harvey (2003, p. 109) explains, is both temporal and spatial:

> Overaccumulation within a given territorial system means a condition of surpluses of labor (rising unemployment) and surpluses of capital (registered as a glut of commodities on the market that cannot be disposed of without a loss, as idle productive capacity, and/or as surpluses of money capital lacking outlets for productive and profitable investment). Such surpluses may be absorbed by (a) temporal displacement through investment in long-term capital projects or social expenditures (such as education and research) that defer the re-entry of current excess capital values into circulation well into the future, (b) spatial displacements through opening up new markets, new production capacities and new resource, social and labour possibilities elsewhere, or (c) some combination of (a) and (b).

A central characteristic of this spatio-temporal "displacement" of capital is the ever-present tension between capitalists' quest for autonomy of transnational capital transfers and nation-states' desire to assert macroeconomic control (Thrift and Leyshon, 1994; Yeung, 1998; Major 2008). While the neoliberal ideology was championed by the US and its allies as the quintessential politico-economic project to generate prosperity, booms and busts (in terms of the production of goods/services as well as credit provision) must be accepted as intrinsic occurrences if capitalists could be considered the best agents (rather than states) to allocate economic resources (Harvey, 2005).

More specifically, crises have often struck economies whose ruling governments have under-regulated financial capital accumulation, such as the Japanese asset bubble in the early 1990s (from which Japan has yet to recover), the East Asian financial crisis in the late 1990s which bruised Thailand, South Korea and Indonesia badly, the dot-com bust in the US in 2001, and most spectacularly, the credit crunch squeezing many advanced economies from 2007 onwards. As Harvey (2009) puts it, the state-finance nexus forms the 'central nervous system' of capital accumulation, and free flows of finance and unchecked credit-creation engender inevitable instability:

> If individual capitalists and other private agents continue to extend credit to each other in the face of burgeoning overaccumulation and spiraling quantities of fictitious capital, and if they continue to be backed up by the printing of money by the central bank, then the insane aspects of the credit system can run amok. (Harvey, [1982]1999, p. 311)