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Chinese Capitalisms

Historical Emergence and Political
Implications

Edited by
Yin-wah Chu



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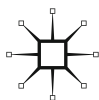
Historical Emergence and Political Implications

Edited by

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1

Chinese Capitalisms: An Introduction

Yin-wah Chu

Introduction

When Adam Smith published *The Wealth of Nations* in 1776, China was under the rule of Emperor Qianlong (reigned 1735–96). At the time, the country was perhaps exuding the last of its premodern splendor. For despite the rapid ascendance of Europe in the areas of navigation science, military skills, and production technology, China still managed to dazzle George Macartney, head of the British delegation, when he paid a court visit to Emperor Qianlong in 1793. Taken on a trip around the garden of the Emperor's summer palace, Macartney remarked that the 40 or 50 palaces and pavilions he visited were "all furnished in the richest manner ... that our presents must shrink from the comparison and hide their diminished heads" (Robbins 1908, p. 309). But it was not only material civilization that impressed Macartney. Reporting on the ceremony of his reception by the Emperor he wrote that the "commanding feature ... was that calm dignity, that sober pomp of Asiatic greatness, which European refinements have not yet attained" (Robbins 1908, p. 307).¹ At this time Europeans had also come to appreciate China's civilization at a more subtle level. According to Michael Adas (cited in Arrighi 2007, p. 3), China was a source of inspiration for the

[l]eading figures of the European Enlightenment. Leibniz, Voltaire, and Quesnay, among others, looked to China for moral instruction, guidance in institutional development, and supporting evidence for their advocacy of causes as varied as benevolent absolutism, meritocracy, and an agriculturally based national economy.

However in little more than a century, China had degenerated into appalling economic and military backwardness. By 1902 when Yen Fu² translated

The Wealth of Nations into Chinese, the “superiority of force ... on the side of Europeans” observed by Smith had grown further, and so had their capacity to “commit with impunity every sort of injustice in those remote countries,” including China (Adam Smith, cited in Arrighi 2007, p. 3). The country no longer projected the image of an ancient regime blessed with riches and material refinement; it seemed instead a nation afflicted by destitution and despair. China’s appeal as an advanced civilization also passed. Hence, despite Karl Marx’s repugnance for colonialism, he expressed the hope that Western imperial domination would bring material and cultural civilization to break the stasis that so suffocated the East.³

Much scholarly attention has been paid to the factors underlying China’s relative deterioration in the nineteenth and early twentieth centuries, from its position as the forerunner of world development for almost two millennia. A most important line of inquiry focuses on the absence of capitalist breakthrough in the country despite the presence of favorable conditions such as the prevalence of trade, advancement in science and technology, and the emergence of a nascent banking system. Generations of anthropologists, economists, historians, and sociologists—including such noted figures as Mark Elvin (1973, 1983), Gary Hamilton (1985), Philip Hwang (1980), Jin Guantao and Liu Qingfeng (1984), Joseph Levenson and Franz Schurmann (1969), Liu Kwang-ching (1962), Susan Mann (1987), Kenneth Pomeranz (2000), Alvin Y. So (1986), Max Weber (1951), Bin R. Wong (1997), and Yu Ying-shih (1987), among others—have explored the issue from a variety of angles.

Essays collected in this edition have been informed by, but do not address, the question of the lack of capitalist breakthrough in premodern China; among the eight substantive chapters, only the one written by Chung-hwa Ku alludes to the longstanding debate as to why China has failed to develop capitalism on its own. The empirical interests of these authors are much more contemporary and they have striven to address three major issues that emerge from theories of economic sociology or the political economy of development.

In the first place, despite the deterioration noted above, China and other Chinese societies have experienced rapid economic growth and seen the emergence of capitalist enterprises in the second half of the twentieth century. Indeed, trade and industry have burgeoned in Hong Kong, Singapore, and Taiwan since the 1960s, and for two decades these economies have attained an annual growth rate of about ten percent. Modern economic institutions such as shareholding companies,

banks, and stock exchanges have also taken root. As for China, the same level of astounding economic growth has been recorded for 30 years since the policy of reform and opening up was launched. Step by step, the country dismantled socialist practices such as production brigades in the countryside, the planned economy, and some state and collective enterprises in urban areas. Private enterprises sprang up and foreign investment was given a warm welcome. As manufacturing facilities sprang up throughout the country, China became the “world factory” that generated US\$1217.8 billion worth of total export in 2007 (Xinhua News 2008). In the same year, it became the fourth largest economy behind the United States, Japan, and Germany (World Bank 2007).

What forces underlie the economic dynamism of China and other Chinese societies? Why have these Chinese societies now been able to overcome all the obstacles that prevented China, over the centuries, from attaining capitalist development? What is the relative importance of the global capitalist economy or local forces such as the state, entrepreneurs, workers, and culture? In mainland China in particular, having pulled the country together by resisting the invading Japanese and winning the war against the Nationalist Party, the Chinese Communist Party sought for 30 years to construct socialist modernity in the country. Why was the country subsequently able to stem the fervent socialist tide and make the capitalist turn? Why, unlike other former socialist countries, which abruptly dismantled their socialist institutions, has China adopted a more or less gradualist approach and performed with exceptional vigor?

The second issue addressed in these chapters is that capitalist development in Europe, and in Europe’s offshoots, has entailed much more than economic expansion as such. Just as important have been changes in politico-juridical relations, as well as in the perception and practices of socioeconomic and political rights. What then are the political implications of capitalist development in these Chinese societies? How will different social classes be affected as China recoils from its socialist practices and adopts capitalist ones? Have the fruits of capitalist development been shared equitably in mainland China, in more or less the same way as has occurred in Taiwan during the early stage of its development? Will capitalist development be accompanied by the growth of civil society in China, as has been the case in Western Europe?

Finally, a few of the contributing authors have been intrigued by the question of whether these Chinese economies have exhibited unique Chinese characteristics. Have Chinese culture and social institutions left their imprint on the capitalist institutions that have arisen?

And—a related question—have mainland China and other Chinese societies, especially Taiwan, trodden more or less similar paths to capitalist development?

It would be unrealistic to expect a comprehensive, not to mention definitive, treatment of all the above issues within the span of a single book. Taken as a whole, the eight main chapters provide fresh insights on much explored issues, generate new conceptualizations, and point to novel and promising directions of theoretical investigation. The concluding chapter examines these essays' viewpoints in relation to other noted contributions to the study of Chinese capitalisms. In the following, the main arguments of the eight chapters are summarized.

Chapter plan

The edited collection has a total of eight substantive chapters. The first four concentrate on mainland China, examining the “spirit” of capitalism, the party-state, the internal organizational characteristics of the emerging capitalist enterprises, and the post-socialist working class. The next three chapters study aspects of industrial expansion in Taiwan, paying particular attention to global dynamics and the political context of entrepreneurship. The last chapter presents a comparison of China with former socialist countries in Eastern and Central Europe.

As noted in the above, Chung-hwa Ku is the only scholar who has tried to connect his study with the longstanding question of why China, unlike the West, has not developed capitalism on its own. He seeks to reexamine Max Weber's “China Thesis” in Chapter 2 and, in addition, tries to evaluate the nature of China's capitalism using Weber's thought.

In the first part of the chapter, Ku revisits existing criticisms of the China Thesis, such as Gary Hamilton's assertion that it is Eurocentric; C. S. Yang's proposal that it contains a hidden Orientalism; the damage done to the thesis, in Ambrose Y. King's view, by the surge of the “four little dragons”; theses put forth by Yu Ying-shih concerning the presence of the “spirit of capitalism” among the scholar-merchants; and studies like those undertaken by Bin R. Wong and Kenneth Pomeranz, that have utilized new historical materials.⁴ In reviewing all these, Ku contends that they have either obliterated Weber's original purpose or taken the Weber Thesis out of its intellectual context; and have misunderstood or even distorted the significance of the “spirit of capitalism” and importance of “ethic” as a guide to everyday behavior.

Having cleared the way and highlighted recent scholarship that sheds light on Weber's notions of “spirit” and “ethic,” Ku goes on in the second

part of the chapter to evaluate the removal of the obstacles that Weber identified as having originally prevented China from developing capitalism. Importantly, Ku contends that a process of de-traditionalization, made possible by Mao's strategies to construct a socialist China, inadvertently paved the way for the emergence of the institutional conditions necessary for capitalism. In particular, the introduction of production units and the one-child policy have destroyed the bondage of clan ties, and the replacement of patrimonial bureaucracy by a party bureaucracy has created a bureaucratic state capable of building capitalist institutions such as legal, financial, monetary and other systems.

At the same time, however, Ku laments that the "spirit" of capitalism or ethical-political underpinning of capitalist action has yet to develop in China. The communist state elite crushed the 1989 democratic movement for the sake of party survival, in a move similar to the crushing of the May Fourth movement for "national" survival in 1919. Since then it has striven to attain "stability" by separating politics from economics and articulating new ideological frameworks such as that of the "three represents," or of a "harmonious society." However, all these are a far cry from Weber's "spirit" of capitalism. Turning to analysis at the societal level, Ku also maintains that law and institutions have failed to provide ethical guidelines for the behavior of the contemporary Chinese and that the culture of "personal trust" has persisted at the expense of "system trust."

Altogether, Ku suggests that, while China has been able to assimilate market institutions, the country has failed to develop the "spirit" of capitalism and especially the quality of modern citizenship. Furthermore, the capitalism so developed in China is "not the 'Chinaization' of modern, Western, and rational capitalism, but a 'bird-cage capitalism' that is ... unable to extend economic freedom to the socio-political arena" (p. 36).

In Chapter 3, Yin-wah Chu and Alvin Y. So adopt a neo-Marxist approach to examine forces that have facilitated the emergence of what they call "state neoliberalism" in China. Engaging David Harvey's argument on neoliberalism, they suggest that there are at least two differences between neoliberalism that has emerged in Western capitalist societies, and state neoliberalism that is surfacing in China. Whereas neoliberalism in Western societies was spearheaded by capitalists who took the lead in dismantling the welfare state, the Chinese state introduced marketization, deregulation, and privatization when capitalists barely existed. Furthermore, although neoliberalism is associated with the decline of state power in the West, the Chinese state has strengthened its managerial and fiscal capacity, and uses it to implement various economic and social policies.

Chu and So devote the bulk of their chapter to examining the country's series of progressive transitions to state neoliberalism, and factors that underlie the changes. In their view, the three transitions that occurred in 1978, 1992, and 2002 had in part been prompted by sociopolitical crises, and also reflected the party-state's overriding concern with maintaining domination, and the ways in which the political elite and social actors with divergent cultural and material interests had resolved the ideological and political tensions that attended the introduction of neoliberal practices within a socialist country.

The 1978 reform was preceded by an acute food shortage that threatened to destabilize the country. As the policy of reform and opening up helped to attain basic stability, the state elite resumed their intensive and at times bitter debates about the appropriate level of marketization for a socialist country. The debates, being a continuation of the left-right contention since the 1950s, also accounted for the uncertain and incomplete movements toward neoliberalism until 1992. Reform-induced structural dislocations, the political impasse in the aftermath of the 1989 suppression, and the downfall of the former Soviet Union and Eastern European regimes made it unrealistic to revert to classical socialism. As China went on to embrace the deepening of neoliberalism, the state elite also sought to recentralize, taking back administrative and fiscal prerogatives from provincial governments. By the turn of the twenty-first century, the emergence of new social actors—influential private entrepreneurs, protesting workers and peasants—urged the party-state to reconsider its strategy of hegemonic leadership. It was against this backdrop that policies within the ideological frameworks of the “three represents” and “harmonious society” were introduced.

For Chu and So, these policies failed to enfranchise workers and peasants, and relied on a deficient system of “intra-party democracy” to select competent and conscientious officials to implement them. In their view, so long as state neoliberal policies are in place, local officials and private entrepreneurs will be under systemic pressure to exploit and plunder. Benevolence might alleviate the pains of the social contradictions that attend the functioning of state neoliberalism; it cannot be a cure in itself.

Turning to Chapter 4, Yi-min Lin draws our attention to China's capitalist enterprises and the question of whether they exhibit unique Chinese characteristics. Analyzing research conducted on Chinese capitalist enterprises in non-PRC contexts, Lin identifies three ideal-typical characteristics of such enterprises and contends that they can be considered to flow from China's civilizational forces. They include, firstly, an internal

organization characterized by a patriarchal structure of family ownership and control cemented by values of filial piety, loyalty, and benevolence; secondly, an external organization that is lodged within intricate networks of reciprocity or *guanxi*; and thirdly, the intertwining of economic and political entrepreneurial pursuits (p. 74). In the chapter, he confines himself to the first characteristic—internal organization—and examines the impacts of the social and economic policies of socialist China.

For Lin, 30 years of Maoist policy and reform since 1978 have brought about changes in mainland China more abrupt than those occurring in other Chinese societies. To name a few examples, collectivization has reduced the economic and social capital of a generation of fathers. The granting of equal rights to women in the early 1950s and stringent enforcement of family planning since 1979 have much enhanced women's educational level and labor force participation. Just as important, migration from rural to urban areas is increasing even as the *hukou* system remains intact, and remnants of "communist neo-traditionalism" continue to take effect even as state and collective enterprises undergo privatization.

These transformations have imparted rather uneven changes. Analyzing findings of the 2004 CASS–HKUST survey and other databases, Lin finds that—even though a large number of enterprises are family-owned and a sizable portion of the owners are women—parents, siblings, and offspring are rarely involved in their management. Just as filial piety and absolute obedience to parents cease to direct children's behavior, loyalty and benevolence have weakened as norms guiding interactions between owners and employees. Indeed, benevolence as a guiding principle for employer–employee interactions has been weakened further by the emergence of dual labor markets, owing to the persistence of the *hukou* system. The use of a particularistic approach to management has also been avoided among the remaining and larger state-owned enterprises, lest its similarity to "communist neo-traditionalism" should make employees suspicious of the commitment to economic reform.

Instead of jumping to the conclusion that mainland China is similar to other Chinese societies in that its civilizational forces have exerted a declining influence over capitalist enterprises, Lin contends that we need to wait for further observations. In particular, he wonders if Maoist social engineering has exerted more far-reaching impacts on family relations, and whether the so-called hybrid organizational forms, which combine universalism with elements of the Chinese familist capitalism found in a number of contemporary Chinese societies, could indeed take root in China.

If Yi-min Lin has examined the internal organization of Chinese capitalist enterprises from the angle of the entrepreneurs and management, James Hudson, William Hurst, and Christian Sorace have in Chapter 5 brought to center stage China's working class and its fragmented subjectivities. In their view, China's working class is fragmented in two senses. First, the workers' experiences and outlooks have been segmented along the lines of age and cohort, gender, region (coastal versus inland), rural-urban residence, and work unit status (public versus private sector employment). Second, at the same time that China's workers still hold dear their memories of the socialist past, they have been subjected increasingly to the market demand for labor discipline and a discourse of individualism and inequality; as a result of which they experience a "profound and pervasive sense of normative and material uncertainty" (p. 100). In socialist China, workers were revered as the most progressive social class, performing the leadership role both at the revolutionary moment and during the country's socialist construction. Their lives were organized around the production unit and subsistence was guaranteed by the "iron rice bowl." With economic reform, the social contract was transformed. Workers were even robbed of the language of class struggle amidst the ascending "market hegemony." In the words of Dorothy Solinger, whereas the socialist working class was "unified in collaboration, ... allegedly accomplishing miracles, the crowd before us now is composed of people struggling, usually singly, just to stay alive" (p. 100).

The fragmentation of the working class has had a rather ambiguous impact on the workers. While this fragmentation is associated with the loss of the workers' guaranteed place in the social structure and hence their means of subsistence, it is through holding onto such fragmentation—for example, being male, urban, an SOE employee—that they have the best hope of maintaining a social and political proletarian subjectivity. The latter point is demonstrated in the last section of the chapter through a study of motorcycle drivers in Hengyang, Hunan.

Of the hundred or so motorcycle drivers interviewed by James Hudson, nearly half were laid off from state enterprises. In part because of Hengyang's inland location and in part because of the incompetence of local officials, the city has been deprived of development. Lacking alternative employment opportunities, these workers have to labor in a marginal condition of both legality and illegality, as a result of which they have become targets of harassment by both the police and criminal elements. In competing for passengers, these motorcycle drivers have also lost the group-oriented bonds that were part and parcel of their former *danwei* (work unit) existence. However in working as motorcycle

drivers rather than remaining unemployed, they maintain a sense of masculinity; not only by shouldering their family responsibilities and providing for their wives and children, but also by excluding females from their trade. They also gain a sense of pride through the newfound "freedom" that was unavailable to them within the factory space. In presenting the anguish and struggle of the post-socialist workers, Hudson, Hurst, and Sorace also echo Ku's as well as Chu and So's concern with the future of China's civil society.

The study of Taiwan begins with the essay by Gary G. Hamilton and Cheng-shu Kao. In Chapter 6, they use the notion of "demand-responsive economies" to depict the industrial expansion of Taiwan and Korea since the 1960s. Relying on an analysis of disaggregated seven-digit US trade statistics, a study of historical changes in manufacturer-retailer relationships in the US, and interviews conducted with Taiwanese businessmen over some 15 years, Hamilton and Kao have delineated ways in which Taiwan's, and later on China's, export-oriented capitalism has been shaped by the global capitalist economy.

According to Hamilton and Kao, brand-name merchandisers and global retailers, in "generating intermediary demand in anticipation of final demand, have superseded manufacturers as the driving force that organizes ... whole sectors of the global economy" (p. 125). A battery of legal, social, and spatial factors has made way for the historical emergence of global retailers in the US. As American retailers' orders exceeded the capacity and/or willingness of manufacturers in the country, they looked abroad; initially to Japan but gradually also to Taiwan and elsewhere. In Taiwan, small and medium Japanese trading companies served as the intermediary from around 1965, though their salience was overshadowed by American buyers and Taiwanese trading companies after the 1970s.

Hamilton and Kao contend that global retailers have shaped Taiwan's export-oriented capitalism in three ways. In the first place, the global retailers or "[b]ig buyers not only create demand ... they also organize suppliers and develop supplier markets to fill that demand" (p. 126). Taiwanese enterprises that were interviewed admitted they would not have dreamed of producing those products if they had not received orders to do so. Japanese trading companies, in serving as the intermediary, played the crucial role of controlling technology, coordinating and supervising manufacturing, and if necessary, arranging finance. From this perspective, indigenous manufacturers from Taiwan were no more than the "price-sensitive organizational extension" of these global buyers (p. 126).

In the second place, orders placed by global retailers have served to structure the entire internal economies of the exporting societies. As global retailers and merchandisers became more knowledgeable about the capabilities of their suppliers, they ordered different products, and producers from the exporting economies expanded in response to such orders. This, in the opinion of Hamilton and Kao, explains why Korea has become more of a mass producer, whereas Taiwan has moved further down the path of being a batch producer.

Thirdly, Hamilton and Kao contend that it was through working with global retailers and especially their Japanese intermediaries that Taiwanese enterprises learnt and perfected an entire model of doing business or “making money” out of the global economy. This model not only led to a comprehensive reorganization of Taiwan’s entire economy, but was also transferred to mainland China when downturns in the US economy forced some Taiwanese enterprises to move there. Their particular way of “making money” has a few features, which cannot be fully reproduced here (see pp. 149–51). Among these characteristics is an interest in generating profit for oneself not only immediately but also in the long term. As such, the needs of buyers, including their need for profits, will be given foremost attention. Given the limited resources possessed by individual Taiwanese enterprises and the social organization they were accustomed to, the manufacturing of each product came to rely on production networks that sought to break down “the production process into distinct steps that standardized the product, the component parts, and the roles of the participants” (p. 149). The other side of the coin is that individual firms were often part of larger economic units—that is, production networks. To survive and thrive, which invariably implies the making of money for oneself, businessmen must take calculated risks; and must find a niche in production networks by innovating, yet also adhering both to buyers’ standards and those of other manufacturers within the networks.

Like Hamilton and Kao, Hsin-huang Michael Hsiao, I-Chun Kung, and Hong-zen Wang have drawn our attention in Chapter 7 to the influence of global capital. Although they have used the concept of “defensive globalization” to characterize the spread of Taiwanese transnational capital to Southeast Asia, they concur with Hamilton and Kao that these enterprises and their production networks are highly flexible, efficient, and competitive, so that the role of Taiwanese businesses (or *taishang*) in the global production chain cannot be easily displaced by business networks from other countries. Similarities between these two chapters, however, end here.

The starting point of investigation for Hsiao and coauthors is Taiwan's semi-peripheral status. It is with this backdrop that they proceed to examine the globalization strategy of *taishang* investing in Southeast Asia, analyzing both the reorganization of the regional division of labor and the restructuring of production relations; all along seeking to reevaluate the significance of cultural affinity and ethnic relations. Three main arguments emerge; firstly, these authors criticize the existing literature for essentializing the ethnic economy, assuming it to be homogeneous and static—so that *taishang* investing in Southeast Asia are supposed to have worked closely with ethnic Chinese businessmen resident in the region. In reality, culture and politico-economic factors have contributed to the emergence of what these authors call “production network enclaves.” In other words, *taishang* investing in Southeast Asia have mostly persuaded firms within their original production networks to migrate with them. At the same time, industrial policies pursued by Southeast Asian states have favored multinational corporations, leaving local ethnic Chinese businesses to concentrate on trade and commerce so that they have been in a poor position to work with *taishang*.

Although globalization has been pursued by Taiwanese businesses as a defense against their declining cost-competitiveness, the relocation to Southeast Asia has generated tremendous benefits, which is a second point made in the chapter. Specifically, while most *taishang* investing in Southeast Asia have started out as small and medium enterprises, cost structure in Southeast Asia and the opportunity to supply intermediary goods to US and Japanese transnationals have allowed these *taishang* to expand in scale and learn new business practices. This has enabled them to become truly global, move to the upper scale of the global commodity chain, and generate valuable knowledge that has helped them to invest in China at a later stage. Altogether, Hsiao and his coauthors argue that it is the scale and the synergy with R & D, production procedures, and service provision that render *taishang*-type production networks difficult to replicate elsewhere.

Having criticized the existing literature's tendency to essentialize the ethnic economy, the authors make the third and crucial point that ethnicity matters in management and labor control. *Taishang* enterprises in Southeast Asia are typically multiethnic and, depending on the country in question, might involve Taiwanese, Chinese, Malaysians, Indians, Indonesians, Bangladeshis, and Vietnamese working side by side. Often, Taiwanese and Chinese with Taiwan exposure occupy the most important managerial positions in the hierarchy, whereas ethnic