States, Markets, and Capitalism, East and West

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Writing in the mid-1960s, Geoffrey Barraclough contended that when the history of the first half of the twentieth century — which for most historians was still dominated by European wars and problems — came to be written in a longer perspective, no single theme would prove of greater importance than "the revolt against the West."[1] In a similar vein, we may today contend that when the history of the second half of the twentieth century is written in such a longer perspective, the chances are that no single theme will prove of greater importance than the economic renaissance of East Asia. The renaissance has unfolded through a snowballing process of connected economic "miracles" in a succession of East Asian states, starting in Japan in the 1950s and 1960s, rolling on in South Korea, Taiwan, Hong Kong, Singapore, and some ASEAN (Association of Southeast Asian Nations) countries in the 1970s and 1980s, and culminating in the 1990s and early years of the

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twenty-first century in the emergence of China as the world's most dynamic arena of capital accumulation. According to Terutomo Ozawa, "The Chinese miracle, though still in its inchoate phase, will be no doubt . . . the *most* dramatic in terms of its impact on the rest of the world."[2] Owing to China's demographic size, its continuing economic expansion is indeed far more subversive of the existing global hierarchy of wealth than all the previous East Asian economic miracles put together. According to recent studies of world income inequality, this subversion has apparently already begun. To the extent that these studies identify a statistical trend toward declining intercountry income inequality in the 1990s, the trend is due *entirely* to the rapid economic growth of China.[3]

Equally important are the political-economic implications of the extraordinary Chinese expansion not just at the regional but at the global level as well. "Asia's rise is the economic event of our age," proclaims Martin Wolf in the *Financial Times*:

> Should it proceed as it has over the last few decades, it will bring the two centuries of global domination by Europe and, subsequently, its giant North American offshoot to an end. Japan was but the harbinger of an Asian future. The country has proved too small and inward-looking to transform the world. . . . China . . . will prove neither. . . . Europe was the past, the US is the present and a China-dominated Asia the future of the global economy.[4]

As we shall see, the Asian future envisaged by Wolf may not be as inevitable as he seems to imply. There are nonetheless signs that, at least regionally, that future may come sooner rather than later. As Tyler Marshall noted in the *Los Angeles Times*:

> In the space of a few years, China has become an economic power and increasingly potent political force in a region where the United States once stood unchallenged — from New Delhi in the west, to South East Asia, to Tokyo and Seoul in the east. . . . Much of China's new status stems from its emergence as one of the world's major trading nations. . . . But there is a strong political dimension to this power as Beijing's new

> leaders show themselves prepared to set aside old disputes and engage, rather than bully, other nations.[5]

While rapidly catching up with the United States as the biggest trading partner and importer of last resort of the East Asian region, China has begun to overshadow the United States in the promotion of multilateral trade liberalization. Regionally, it has sought integration with ASEAN, while simultaneously seeking economic ties with Japan, South Korea, and India. Globally, it joined Brazil and India in leading the global South's offensive at the 2003 World Trade Organization (WTO) meeting in Cancún against the Northern practice of imposing market opening on the South, while remaining fiercely protectionist in lines of production where the South has the greatest comparative advantage. China's stance contrasts sharply with the U.S. abandonment of multilateral trade negotiations in favor of bilateral free-trade agreements aimed at breaking up the Southern alliance that emerged at Cancún or at gaining support for the Bush administration's war on terrorism.[6]

Whatever their eventual outcome — an issue to which we shall return in the paper's concluding section — these tendencies raise problems of interpretation that challenge predominant understandings of processes of capitalist development and their relationship to the formation of states and markets. The most puzzling among these problems is the demise *and* seeming resurgence of East Asia, and, within East Asia, of China, as the center of the global economy. As Gilbert Rozman has observed, "East Asia is a great region of the past, having been in the forefront of world development for at least two thousand years, until the sixteenth, seventeenth, or even the eighteenth century, after which it suffered a relatively brief but deeply felt eclipse."[7] How does this eclipse relate to the nineteenth-century globalization of Western capitalism? And, above all, what is the relationship, if any, between the present economic renaissance of East Asia and its earlier position in the forefront of world development?

These questions invite us to reexamine the relationship between processes of market formation and capitalist development. The predominant view among historians and social scientists is that the relationship is one of mutual reinforcement. Indeed, discursively and analytically, the two processes are often treated as if they were the same thing. The economic renaissance of East Asia has nonetheless been accompanied by a growing awareness of a fundamental world-historical discrepancy between the two processes. For it now appears that, through the eighteenth century, trade and markets were more developed in East Asia in general, and in China in particular, than they were in Europe. And yet, in the nineteenth and early twentieth century, East Asian primacy in market formation was eclipsed by the spectacular achievements of European and then North American industrial capitalism.

In light of this discrepancy, the questions raised above concerning the demise and seeming resurgence of East Asia can be reformulated as follows. First, why did industrial capitalism develop in Western Europe rather than in East Asia, where processes of market formation were more advanced? Second, why was the British-led globalization of industrial capitalism associated with a sharp economic decline of the East Asian region, and especially of its Chinese center, for at least a century (let us say from the First Opium War to the end of the Second World War)? And why was this long decline followed by an even sharper economic renaissance of that same region in the second half of the twentieth century? Finally, what can the comparative East-West experience tell us about the prospective consequences of the ongoing East Asian renaissance?

The Smithian Dynamic and the Great Divergence

Recent attempts at explaining the reasons why comparable processes of market formation gave rise to industrial capitalism in Western Europe but not in East Asia revolve around two main themes: the theme of "Smithian dynamic" and the related notion of "high-level equilibrium trap," used by Mark Elvin, in 1973, to characterize late imperial China; and the theme of "industrious revolution," used by Jan de Vries, in 1994, to characterize economic expansion in seventeenth- and eighteenth-century Western Europe.[8] The concept of Smithian dynamic refers to a process of economic improvement driven by productivity gains attending a widening and deepening division of labor limited only by the extent of the market. As economic improvement raises incomes and effective demand, the extent of the market increases, thereby creating the conditions for new rounds of division of labor and economic improvement. Over time, however, this virtuous circle comes up against the limits imposed on the extent of the market by the spatial scale and institutional setting of the process. When these limits are reached, the process enters a high-level equilibrium trap.

As Bin Wong, Andre Gunder Frank, and Kenneth Pomeranz have underscored, what de Vries calls early modern Europe's industrious revolution is just a variant of this Smithian dynamic.[9] As Adam Smith already knew but Western social thought subsequently forgot, note these authors, throughout the eighteenth century, the Chinese national market far surpassed in size and density any Western national market. This greater size and density of the Chinese national market was due, not just to China's much greater population, but also to levels of commercialization, transport infrastructure, agricultural productivity, sophistication of manufactures, and per capita incomes as high as, or higher than, those of Europe's wealthiest countries. It follows that primacy in the formation of a national market cannot be taken as a reason, let alone *the* reason, why, in the nineteenth century, Europe/England displaced East Asia/China as the center of the global economy. Indeed, China was caught in a Smithian high-level equilibrium trap precisely because of its very success in the development of a national market. Rapid growth of production and population had rendered all resources *except labor* scarce and this, in turn, made profitable innovations increasingly problematic. In Elvin's words:

> With falling surplus in agriculture, and so falling per capita income and per capita demand, with cheapening labor but increasingly expensive resources and capital, with farming and transport technologies so good that no simple improvements could be made, rational strategy for peasant and merchant alike tended in the direction not so much of labor saving machinery as of economizing on resources and fixed capital. . . . When temporary shortages arose, mercantile versatility, based on cheap transport, was a faster and surer remedy than the contrivance of machines. This situation may be described as a "high-level equilibrium trap."[10]

The question then arises of how and why England/Europe managed to escape this high-level equilibrium trap through the Industrial Revolution of the late eighteenth and early nineteenth century. If the common Smithian dynamic of the European and Chinese economies cannot account for the profound rupture of possibilities initiated by the development and massive deployment of mineral sources of energy in the manufacture and transport of commodities, what can? Following E. A. Wrigley, Wong conceives of this development as a historical contingency largely unrelated to previous developments.[11] Its main feature was productivity gains, based on coal as a new source of heat and steam as a new source of mechanical energy, that far surpassed what could be achieved under the Smithian dynamic. "Once this fundamental break took place, Europe headed off along a new economic trajectory," writes Wong. But the break itself remains unexplained. Like "forces of production" in Marxist accounts, "technologies of production," are "the exogenous variable that drives other economic changes."[12]

Pomeranz does provide an explanation of what he calls the Great Divergence by tracing it to the fact that the Americas provided core regions of Northwest Europe with a far more abundant supply of primary products and demand for manufactures than East Asian core regions could obtain from their own peripheries.[13] Like Wong, he relies on the contention that a rich domestic endowment of cheap fossil fuel was essential to the take-off of the Industrial Revolution in Britain. But, in his view, in the absence of American supplies of primary products, it would have been impossible for European technology and investment to develop in labor-saving, land-and-energy-gobbling directions, at the very moment when the intensification of resource pressures previously shared by all core regions were forcing East Asian development along ever more labor-absorbing, resource-saving paths.

Although this explanation of the nineteenth-century divergence of the European and East Asian developmental paths contains important elements of truth, it nonetheless misses relevant aspects of the divergence. First, while Britain's endowment of cheap fossil fuels might have some validity in explaining why Britain escaped from the Smithian trap through the Industrial Revolution earlier than the rest of Europe, it cannot explain why China — which also had known and very considerable deposits of coal — did not make a similar escape. More important, feedbacks and spin-offs from the mining, transportation, and utilization of coal, as well as American supplies of primary products, became crucial to the British/European breakthrough later rather than earlier in the nineteenth century. As Patrick O'Brien notes, "Questions of what started and what sustained the Industrial Revolution should not be conflated."[14]

Second, as Frank maintains, according to all available evidence, prior to the Great Divergence, wages and demand were higher and capital more abundant in Europe than in Asia, and this difference probably contributed to making labor-saving, energy-consuming technology economical in the West but not in the East. Nevertheless, Frank provides no explanation of why processes of market formation that were more advanced in the East than in the West were associated with higher wages and demand, and more abundant capital, in the West than in the East. By his own account, before the Industrial Revolution, the only competitive advantage the Europeans had vis-à-vis the East was based on the mining and transportation of American silver, as well as its investment in various trading ventures, including intra-Asian trade. In his view, however, this one competitive advantage did not enable the Europeans to gain a commanding position in a global economy that remained centered on Asia, because, through the eighteenth century, the flow of American silver benefited Asian economies more than the European economy, and China remained the "ultimate sink" of the world's money.[15] But, if this was the case, as indeed it was, why was China affected by a shortage and Europe by a surplus of capital? And why did Europe experience greater demand for labor and higher wages than China?

Third, the puzzle of the European escape from a Smithian high-level-equilibrium trap through the Industrial Revolution must be dealt with in conjunction with the puzzle of why the globalization of that revolution was associated for about a century with the economic decline, and then with a rapid economic renaissance, of the East Asian region. In concluding his critical assessment of Pomeranz's thesis, O'Brien asks: "If the English economy might well (but for coal and its close involvement with the Americas) have gone the way of the Yangzi Delta, then why has even that commercialized and advanced region of the Manchu Empire taken such a long time to regain the economic rank and status it held in the world economy in the mid-eighteenth century?"[16] In short, a model of the Great Divergence must tell us something not just about its origins but also about its development over time.

Kaoru Sugihara has attempted to construct such a model. While substantially agreeing with Pomeranz's account of the origins of the Great Divergence, Sugihara departs from it in emphasizing the importance of major differences in the man-land ratio between the core regions of East Asia and those of Western Europe before 1800, as both cause and effect of an unprecedented and unparalleled East Asian industrious revolution. From the sixteenth through the eighteenth century, he claims, the development of labor-absorbing institutions and labor-intensive technologies in response to natural resource constraints (especially scarcity of land) enabled East Asian states to experience a major increase in population accompanied, not by a deterioration, but by a modest improvement in the standard of living. This escape from Malthusian checks was especially remarkable in China, where the population had previously risen several times to a ceiling of 100 to 150 million only to fall, whereas by 1800 it rose to nearly 400 million. This "Chinese miracle" had an impact on world GDP (gross domestic product) that far outweighed that of Britain's industrial revolution, and it was later replicated on a smaller territorial scale in Japan, where population growth was less explosive than in China but the improvement in standard of living more significant.[17]

According to Sugihara, the East Asian industrious revolution established a distinctive East Asian technological and institutional path, which played a crucial role in shaping East Asian responses to the challenges and opportunities created by the Western Industrial Revolution. Particularly significant in this respect was the development of a labor-absorbing institutional framework centered on the household and, to a lesser extent, the village community. Contrary to the traditional view that small-scale production lacks internal forces for economic improvement, this institutional framework had important advantages over the class-based, large-scale production that was becoming dominant in England. While, in England, workers were deprived of the opportunity to share in managerial concerns and to develop interpersonal skills needed for flexible specialization, in East Asia, according to Sugihara,

> an ability to perform multiple tasks well, rather than specialization in a particular task, was preferred, and a will to cooperate with other members of the family rather than the furthering of individual talent was encouraged. Above all, it was important for every member of the family to try to fit into the work pattern of the farm, respond flexibly to extra or emergency needs, sympathize with the problems relating to the management of production, and anticipate and prevent potential problems. Managerial skill, with a general background of technical skill, was an ability which was actively sought after at the family level.[18]

Moreover, the transaction costs of trade were small, and the risk involved in technical innovations was relatively low. Although the East Asian institutional framework left little room for big innovations, or for investment in fixed capital or long-distance trade, it provided excellent opportunities for the development of labor-intensive technologies that made an unmistakable contribution to the increase in per capita *annual* income, even if they did not increase output *per day* or *per hour*. The difference between this kind of development and development along the Western path, Sugihara notes, "was that it mobilized human rather than non-human resources."[19]

This disposition to mobilize human rather than nonhuman resources in the pursuit of economic improvement continued to characterize the East Asian developmental path, even when East Asian states sought to incorporate Western technologies within their economies. Thus, by the 1880s, the Japanese government adopted a strategy of "labor-intensive industrialization" that encouraged development along a hybrid path of conscious adaptation of Western technology to East Asian conditions of factor endowment.[20] For reasons that are not altogether clear from Sugihara's account, this fusion of the East Asian and Western developmental paths remained limited through the Second World War. After the war, however, three main circumstances enabled the fusion to materialize with spectacular results.

First, under the Cold War regime, Japan was expected to use its economic strength to counter communist penetration in Asia and was accordingly granted by the United States very favorable terms both in the procurement of all necessary raw materials and resources, including oil, from the rest of the world and in the sale of manufactured goods to wealthy Western countries. "This change in international circumstances allowed Japan, and later a number of other Asian countries, to pursue the systematic introduction of capital-intensive and resource-intensive heavy and chemical industries to an economy with relatively cheap and disciplined labor."[21] Second, the capital and natural-resource intensity of the Western developmental path increased further as a result of the competition between the United States and the Union of Soviet Socialist Republics (USSR) in the construction of powerful military-industrial complexes based on large-scale production in the steel, aircraft, armament, space, and petrochemical industries. New opportunities for profitable specialization, not only in labor-intensive industries but also in the relatively resource-saving sectors of capital-intensive industries, were thus created and promptly seized by Japan.[22] Finally, the surge of nationalism under the Cold War regime created conditions for fierce inter-Asian competition between relatively low-wage industrializers and higher-income countries. As Sugihara writes: "As soon as wages in one country rose even fractionally, [that country] had to seek a new industry which would produce a higher quality commodity to survive the competition, creating an effect similar to the 'flying geese pattern of economic development.' At the same time, successive entrance of new low wage countries ensured the lengthening of the chain of 'flying geese.' "[23]

Sugihara's idea of the continuing significance of a distinctive labor-absorbing, resource-saving East Asian path helps in explaining why Ozawa's snowballing process of connected economic miracles mentioned at the beginning of the article has occurred in East Asia to a far greater extent than anywhere else. Nevertheless, in explaining the eventual success of the Japanese-led fusion of industrious revolution and Industrial Revolution paths, Sugihara resorts to geopolitical considerations that remain unexplained in his model and raise two crucial questions. First, is it possible that the geopolitical environment was just as important in creating the conditions for the bifurcation of the two paths in the late eighteenth and early nineteenth centuries? Or, to rephrase, is it possible that much of what remains unexplained about the origins of the Great Divergence in Wong, Frank, Pomeranz, and Sugihara can be traced to differences between the geopolitical environments of the Western European and East Asian world regions? And, if so, which differences are most relevant to an understanding of the origins of the Great

Divergence? Second, what is the relationship between the geopolitical environment and the formation of distinct national and world-regional developmental paths? Are these paths mere products of the environment, or are they key ingredients of its formation? And if they are such ingredients, how did the Great Divergence contribute to transform the broader geopolitical environment from being unfavorable to being favorable to the hybridization of the industrious revolution and Industrial Revolution paths?

The Geopolitics of the Great Divergence before the Industrial Revolution

Geopolitical environments have indeed contributed decisively to the emergence of interacting but distinct developmental paths in Western Europe and East Asia. Thus, in the course of the three centuries that Fernand Braudel calls the "extended" sixteenth century with reference to Western European history (1350 to 1650), and which correspond almost exactly to the Ming period of East Asian history (1368 to 1643), Western Europe and East Asia came to be organized geopolitically into interstate systems sufficiently similar to be comparable but sufficiently different to give rise to two divergent developmental paths.[24] The idea of an interstate system as the geopolitical environment of national developments was originally conceived to describe the European system of rule that emerged in the course of the extended sixteenth century and was eventually institutionalized at Westphalia in 1648.[25] More recently, Japanese scholars specializing in the reconstruction of the China-centered tribute-trade system have shown that this system presented sufficient similarities with the European interstate system to make comparing them analytically meaningful.[26] Both consisted of a multiplicity of political jurisdictions that appealed to a common cultural heritage and traded extensively within their region. Although cross-border trade was more publicly regulated in East Asia than in Europe, since Song times (960 to 1276) private overseas trade had flourished and transformed the nature of tribute trade, the main purpose of which, in Takeshi Hamashita's words, "came to be the pursuit of profits through the unofficial trade that was ancillary to the official system."[27]

We can even detect analogies in the interstate competition that characterized the two regional systems. The tribute-trade system provided its separate domains with a symbolic framework of mutual political-economic interaction that nonetheless was loose enough to endow its peripheral components with considerable autonomy vis-à-vis the Chinese center. Thus, Japan and Vietnam were peripheral members of the system but also competitors with China in the exercise of the imperial title-awarding function.[28] Sugihara goes even further, suggesting that the diffusion of the best technology and organizational know-how within East Asia makes it "possible to think of the presence of an East Asian multi-centered political system . . . with many features analogous to the interstate system in Europe."[29]

These similarities make a comparison of the two interstate systems analytically meaningful. But once we compare their structures and modes of operation, we can detect two differences that provide a plausible and parsimonious explanation of the subsequent Great Divergence. First, even before the extended sixteenth century, political, economic, and cultural power in the East Asian system was far more concentrated in its center (China) than it was in the Western European system, where a center proper was much harder to identify both politically and economically. In the course of the extended sixteenth century, this difference became sharper with the institutionalization of the Western European balance of power, on the one side, and the defeat of Japanese attempts to challenge militarily Chinese centrality, on the other. Second, the two systems were characterized not just by a different distribution of power but also by a different way of relating to the outside world and to one another. Although trade within, between, and across political jurisdictions was essential to the operations of both systems, the economic and political significance of long-distance trade (including trade between the two systems) relative to short-distance trade was far greater in the Western European than in the East Asian system.[30]

Whatever the historical and geographical origins of these two differences, their consolidation in the course of the extended sixteenth century led to a bifurcation of the East Asian and Western European developmental paths. In East Asia, China led the way in a process of self-centered development, focused more on state-making than war-making, and more on domestic than foreign (especially long-distance) trade. The result was Sugihara's Chinese miracle. Eighteenth-century European thinkers (including Adam

Smith) were quite impressed by this achievement. The remarkable peace, prosperity, and demographic growth that China experienced for much of the eighteenth century was a source of inspiration for leading figures of the European Enlightenment. As Michael Adas has noted, Gottfried Leibniz, Voltaire, and François 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."[31]

This positive image of China subsequently faded, not because of European economic achievements as such, but because of European military superiority. European merchants and adventurers had long emphasized the military vulnerability of an empire ruled by a scholar-gentry class, while complaining bitterly about the bureaucratic and cultural handicaps they met in trading with China. These indictments and complaints gradually translated in a view of China as a bureaucratically oppressive and militarily weak empire. This negative view, in turn, contributed to transforming China in the political imagination of the West from a model to be imitated into the antithesis of the British model that was becoming hegemonic in Western thought.[32]

The British model had developed along a path that in key respects was indeed the antithesis of the East Asian path. While the Chinese/East Asian model privileged state-making over war-making, and national-economy-making over the formation of overseas commercial and territorial empires, the British/Western European model did just the opposite. From the fourteenth through the eighteenth century, war-making and overseas empire-building jointly constituted the most prominent form of interstate competition in the European system. They were integral aspects of the enlarged reproduction of the European balance of power and of the extroversion of the European system — that is, of the dependence of the successful pursuit of power *within* the system on access to resources (human and nonhuman) *outside* the system. As William McNeill sums up the process with specific reference to the period 1600 to 1750, within western Europe, "one improved modern-style army shouldered hard against its rivals," disturbing the balance of power only locally and temporarily. The result toward the margins of the European radius of action, however, was a systematic expansion that "sustained an expanding trade network, enhanced taxable wealth in Europe, and made support of the armed establishment less onerous than would otherwise have been the case. Europe, in short, launched itself on a self-reinforcing cycle in which its military organization sustained, and was sustained by, economic and political expansion at the expense of other peoples and polities of the earth."[33]

No self-reinforcing cycle of this kind could be observed in East Asia. Qing China did expand its frontiers north and west, but the economic benefits of expansion fell far short of what would have been required to sustain the costs of an armament race, European-style. As Wong points out, the logic of political economy emphasizing competition with foreign states had little in common with China's emphasis on the mutual benefits of domestic exchange: "Rather than extract resources from peripheries, the Chinese state was more likely to invest in them. Political expansion to incorporate new frontiers committed the government to a shift of resources to the peripheries, not extraction from them."[34]

As previously noted, the separate political jurisdictions of the East Asian interstate system did compete with one another. Sugihara, for example, detects a competitive relation in two complementary tendencies typical of Tokugawa Japan: its attempt to create a tribute-trade system centered on Japan instead of China and its extensive absorption of technological and organizational knowledge in agriculture, mining, and manufacturing from Korea and China.[35] Nevertheless, this kind of competition drove the East Asian developmental path not closer but further apart from the European: toward a deepening of the division of labor within households and microregions rather than between metropolitan core regions and overseas peripheral regions; toward short-distance (intraregional) rather than long-distance (interregional) trade; toward state-making rather than war-making.

The extent of this divergence can be gauged by the opposite trends of foreign trade in the two systems in the eighteenth and early nineteenth centuries. In this period, a growing number and variety of European governmental and business organizations built overseas commercial empires of growing scale, scope, and sophistication. As a result of these activities, European trade not only expanded far more rapidly than in the seventeenth century, but it expanded so as to promote the division of labor with the

Americas that enabled European core regions to specialize in labor-saving and land- and energy-intensive directions. East Asian states in contrast showed no tendency whatsoever to build overseas commercial empires. Even trade contacts among Asian countries "shrank sharply from the early-18th century and did not recover until the West forced China and Japan to open their ports to foreign trade in the middle of the 19th century."[36] The very success of the industrious revolution both in China and Japan thus intensified the shortage of natural resources, forcing development in both countries along ever more resource-saving, labor-intensive paths.

This is the bifurcation that figures prominently in Pomeranz's model of the nineteenth-century Great Divergence. All that is argued here is that the industrious revolution/Industrial Revolution bifurcation had deep roots in an earlier divergence of the geopolitical environments in which Western European and East Asian states operated. In the East Asian interstate system, a more centralized and introverted power structure provided a more favorable geopolitical environment for development along the industrious revolution path. But the more balanced and extroverted power structure of the Western European system provided a more favorable geopolitical environment for the mobilization through trade and coercion of the extrasystemic resources necessary to escape from the high-level-equilibrium trap of even the most successful of industrious revolutions.

Equally important, the operation of McNeill's "self-reinforcing cycle" of escalating intra-European military competition sustaining, and in turn being sustained by, expansion at the expense of other peoples and polities of the earth did not just create the kind of core-periphery relations between Europe and the Americas that enabled Britain to embark upon the land- and energy-intensive Industrial Revolution path. It played also a decisive role in creating the conditions for the takeoff of the revolution in the capital goods industries, which was far more crucial than the earlier revolution in textile production in bringing about the Great Divergence. As McNeill underscores, government expenditures for war purposes from 1793 to 1815 created an iron industry in excess of peacetime needs. But by providing British ironmasters extraordinary incentives for finding new uses for their large-scale furnaces, they created also the condition for future expansion: "Military demands on the British economy thus went far to shape the subsequent phases of the industrial revolution, allowing the improvement of steam engines and making such critical innovations as the iron railway and iron ships possible at a time and under conditions which simply would not have existed without the wartime impetus to iron production."[37] This interpretation supports Wong's contention that technologies of production are "the exogenous variable that drives other economic changes." But it also suggests that what appears as exogenous in a strictly economic model becomes endogenous (that is, intelligible) in a political-economic model that incorporates interstate power struggles among the "variables."

If much of what is unintelligible in Wong's, Frank's, Pomeranz's, and Sugihara's accounts of the Great Divergence becomes intelligible once we bring into the picture longstanding differences between the geopolitics of the Western European and East Asian interstate systems, not everything does. In particular, geopolitical differences as such cannot explain how and why Britain/Western Europe, in comparison with and in relation to China/East Asia, came to experience the overabundance of capital that made development along the Industrial Revolution path feasible and economical. For incessant wars, the armament race, and the building of overseas empires involved large investments of capital in personnel and materiel, the benefits of which materialized (if at all) only after long periods of time. This kind of investment contributes to explaining why Britain/Europe experienced the higher wages and higher demand that according to Frank made investment in labor-saving technology economical in Britain/Western Europe but not in China/East Asia. But they make even more inexplicable the overabundance of capital that made such an investment possible. In other words, if, through the eighteenth century, China was the "ultimate sink" of the world's money — as Frank correctly maintains — where did Britain/Western Europe get all the capital needed to finance incessant wars, increasingly expensive rounds of the armament race, and the construction of increasingly large overseas empires?

Capitalism East and West, before and after the Industrial Revolution

In order to answer this question, we must bring into the picture another key ingredient of the Great Divergence: capitalism. There are many conceptions of capitalism, but for our purposes Fernand Braudel's is the most useful. In Braudel's conception, capitalism is "the top layer" of the world of trade. It consists of those individuals, networks, and organizations that systematically appropriate the largest profits, regardless of the particular nature of the activities (financial, commercial, industrial, or agricultural) in which they are involved. Braudel distinguishes this layer from the lower layer of "market economy," which consists of participants in buying and selling activities whose rewards are more or less proportionate to the costs and risks involved in these activities.[38]

This conceptualization enables us to distinguish between a Smithian dynamic of market-based economic expansion and a Braudelian capitalist dynamic. As Braudel underscores, the essential feature of historical capitalism has been "its unlimited flexibility, its capacity for change and adaptation," rather than the concrete forms it assumed at different places and at different times.[39] The distinguishing feature of the Braudelian capitalist dynamic is thus a continual switching of resources from one kind of activity to another in the endless pursuit of monetary profit. As in Marx's general formula of capital (M-C-M'), the investment of money (M) in a particular combination of commodities (C) is strictly instrumental to an increase in the monetary value of the investor's assets from M to M'.[40] If the Braudelian capitalist dynamic is best symbolized by Marx's general formula of capital (M-C-M'), the Smithian market dynamic is best symbolized by Marx's formula of commodity exchange, C-M-C', in which money (M) is mere means in the transformation of a set of commodities C into another set C' of greater utility. Ideotypically, the main difference between the two dynamics is that the first tends to generate surpluses of means of payment (the accumulation of such surpluses being pursued as an end in itself), whereas the second does not (money being just a means of transforming one set of commodities into another of greater utility).

This difference enables us to explain why, in the seventeenth and eighteenth centuries, the leading capitalist states of Europe came to experience a surplus of capital, in comparison with China's shortage, in spite of the latter's persistent balance of payment surplus vis-à-vis Europe. For the intense political-military competition that underlay McNeill's self-reinforcing cycle of military empowerment and geographical expansion also created the conditions for an enlarged reproduction of the (Braudelian) capitalist dynamic and a consequent growth of the surplus of capital accumulating within the European credit system. This enlarged reproduction of the Braudelian capitalist dynamic was not due to a European primacy in the formation of capitalist dispositions and organizations. Braudel himself draws a parallel between, on the one side, the merchants and bankers of Shanxi province and the overseas Chinese originating from Fujian and other southern coastal provinces, and, on the other, the business networks that constituted the preeminent capitalist organizations of sixteenth-century Europe.[41] As William Rowe sums up the evidence, "Whatever the reason, the divergences between Chinese and Western social histories since 1500 are not due to the fact that the progressive West discovered capitalism and the modern state and China did not."[42]

The presence of comparable capitalist organizations, however, did not make the capitalist dynamic equally dominant in the two regional systems. For capitalism to become dominant at *the level of the system*, it had to become embedded in increasingly powerful states. As Braudel writes:

> Capitalism only triumphs when it becomes identified with the state, when it is the state. In its first great phase, that of the Italian city-states of Venice, Genoa, and Florence, power lay in the hands of the moneyed elite. In seventeenth-century Holland the aristocracy of the Regents governed for the benefit and even according to the directives of the businessmen, merchants, and money-lenders. Likewise, in England the Glorious Revolution of 1688 marked the accession of business similar to that in Holland.[43]

In this sequence of states that became identified with capitalism — the Italian city-states, the Dutch proto–nation-state, and eventually a state, the English, that was in the process of becoming not just a nation-state but the center of a world-encircling maritime and territorial empire — each state is larger and more powerful than its predecessor. It is this *sequence*, more than anything else, that evinces the capitalist transformation of the European regional system. And conversely, the absence of anything comparable to such a sequence can be taken as the clearest sign that the East Asian regional system itself was not in the process of becoming capitalist, in spite of the existence of capitalist organizations analogous to the European and in spite of greater advances than in Europe in the formation of market economies. As Wong notes:

> Much European commercial wealth was tapped by needy governments anxious to expand their revenue bases to meet ever-escalating expenses of war. . . . Both European merchants and their governments benefited from their complex relationship, the former gaining fabulous profits, the latter securing much-needed revenues. . . . Lacking the scale of financial difficulties encountered in Europe between the sixteenth and eighteenth centuries, [late imperial] Chinese officials had less reasons to imagine new forms of finance, huge merchant loans, and the concept of public as well as private debt.[44]

Indeed, under the Ming and especially the Qing, capitalism in East Asia became even more an interstitial formation than it had been under the Song or the Yuan. It became embodied ever more exclusively in an overseas Chinese diaspora whose influence on the region's main seats of power remained insignificant, despite its importance in linking the Chinese coast to Southeast Asia. *At the level of the system*, capitalism was thereby "externalized," in the sense that it developed most fully on the outer rims rather than at the center of the region's most powerful states.

This situation changed radically when the European system became dominant globally. Contrary to Marx's and Engels's famous claim that cheap commodities were the "heavy artillery" with which the European bourgeoisie "batter[ed] down all Chinese Walls," even after British gunboats had battered down the wall of governmental regulations that enclosed the Chinese domestic economy, British capitalism had a hard time out-competing Chinese merchants and producers.[45] British cotton cloth was never able to compete in rural markets with stronger Chinese cloth. As foreign imports displaced handicraft spinning of cotton yarn, the use of cheaper, machine-produced yarn gave new impetus to the domestic weaving industry, which managed to hold its own and even expand.[46] Western firms that set up production facilities within China could never penetrate effectively the vast interior of the country and had to rely on the indigenous Chinese traders for the supply of raw materials and the marketing of their products.[47] Western business did triumph in a few industries. But outside of railways and mines, the China market generally spelled frustration for foreign merchants.[48]

Far from destroying indigenous forms of capitalism, the incorporation of China within the structures of the U.K.-centered global capitalist system led to a renewed expansion of the Chinese merchant networks and communities that over the previous millennium had developed in the coastal regions of China and in the interstices of the China-centered tribute-trade system. As the capacity of the Qing government to control channels between the Chinese domestic economy and the outer world declined in the wake of the Opium Wars and intervening domestic rebellions, profitable opportunities for Chinese merchants operating within these networks and communities proliferated.[49] The capitalist stratum of the overseas Chinese benefited also from the fiscal and financial pressures faced by the late Qing as a result of wars, rebellions, worsening trade conditions, and natural disasters. These pressures forced the Qing court not only to relax controls on their activities but to turn to the overseas Chinese for financial assistance. In exchange for assisting the Qing court, the overseas Chinese obtained offices, titles, protection for their properties and connections in China, and access to the highly profitable arms trade and government loan business.[50] Although these closer ties often caused tensions with the governments of the countries in which the overseas Chinese resided or did business, up to the final collapse of the Qing in 1911 the overseas Chinese capitalist stratum managed to profit handsomely from the intensifying competition among the region's governments, both indigenous and colonial.[51]

The revitalization of Chinese capitalism in China and overseas was not the only result of the intensification of interstate competition that ensued from the subordinate incorporation of East Asia within the structures of the U.K.-centered global system. For at least one century, its most important effect was a fundamental transformation of the rivalries between China and Japan. As Heita Kawakatsu and Takeshi Hamashita underscore, Japan's industrialization and the territorial expansion that went with it were a continuation by new means of centuries-long Japanese endeavors to recenter upon itself the East Asian tribute-trade system.[52] Nevertheless, the change in systemic context transformed radically the nature of rivalries between China and Japan by inducing both of them to expand and modernize their capital goods industries, in an attempt to neutralize the Western military superiority that the Opium Wars had brutally revealed.[53]

For about twenty-five years after they were launched, industrialization efforts yielded similar economic results in China and Japan. On the eve of the Sino-Japanese War of 1894, in Albert Feuerwerker's assessment, "the disparity between the degree of modern economic development in the two countries was not yet flagrant."[54] Nevertheless, Japan's victory in the war was symptomatic of a fundamental difference in the impact of the industrialization drive on the two countries. In China, the main agency of the drive were provincial authorities, whose power vis-à-vis the central government had increased considerably in the course of the repression of the rebellions of the 1850s and who used industrialization to consolidate their autonomy in competition with one another. In Japan, in contrast, the industrialization drive was an integral aspect of the Meiji Restoration, which centralized power in the hands of the national government at the expense of provincial authorities.[55]

The outcome of the Sino-Japanese War, in turn, deepened the underlying divergence in the trajectories of Japanese and Chinese industrialization. China's defeat weakened national cohesion, initiating half a century of political chaos marked by further restrictions on sovereignty, crushing war indemnities, the final collapse of the Qing regime, and the growing autonomy of semisovereign warlords, followed by Japanese invasion, and recurrent civil wars between the forces of nationalism and communism. This catastrophic state breakdown is probably the single most important reason why — to answer O'Brien's question — it took such a long time for the Yangzi Delta and China to regain the economic rank and status they held globally in the mid-eighteenth century.

Victory over China in 1894, followed by victory over Russia in the war of 1904–5, in contrast, established Japan as "a respectable participant in the game of imperialist politics."[56] The acquisition of Chinese territory (Taiwan in 1895, followed by the Liaodong peninsula and the securing of all Russian rights and privileges in South Manchuria in 1905, and culminating in China's recognition of Japanese suzerainty over Korea, annexed as a colony in 1910) provided Japan with valuable outposts from which to launch future attacks on China, as well as with secure overseas supplies of cheap food, raw materials, and markets.[57] At the same time, Chinese indemnities amounting to more than one-third of Japan's gross national product helped Japan to finance the expansion of heavy industry and to put its currency on the gold standard. This, in turn, improved Japan's credit rating in London and its capacity to tap additional funds for industrial expansion at home and imperialist expansion overseas.[58]

This bifurcation of the Japanese and Chinese developmental paths culminated in the 1930s in the eclipsing of Britain by Japan as the dominant power in the region. With the Japanese seizure of Manchuria in 1931, followed by the occupation of North China in 1935, full-scale invasion of China from 1937, and the subsequent conquest of parts of Inner Asia and much of Southeast Asia, Japan seemed to be finally succeeding in recentering upon itself the East Asian region. The Japanese bid for regional supremacy, however, could not be sustained. As the massive destruction inflicted on Japan by the U.S. strategic bombing campaign in the final months of the war demonstrated even before Hiroshima and Nagasaki, Japanese advances in Western military technology could not keep up with U.S. advances. But the Japanese bid also collapsed because it called forth in China countervailing forces as firmly opposed to Japanese as to Western domination. Once the Japanese had been defeated, the formation of the People's Republic of China (PRC) would contest Western hegemonic drives in a struggle for centrality in East Asia that has shaped trends and events in the region ever since.

Origins and Prospects of the East Asian Economic Renaissance

The struggle for centrality in East Asia that ensued from the defeat of Japan in 1945 and the establishment of the PRC in 1949 has thoroughly shaped the snowballing process of connected economic miracles that constitutes the East Asian economic renaissance. Both processes — of struggle and of renewal — have gone through three partly overlapping stages. In the first stage, the main agency of expansion was the U.S. government, whose strategies of power propelled the upgrading of the Japanese economy and created the political conditions of the subsequent transborder expansion of the Japanese multilayered subcontracting system. In the second stage, Japanese business itself became the main agency of expansion. As the catchment area of Japanese investment and subcontracting networks came to encompass the entire East Asian region, overseas Chinese business networks were revitalized. In the new climate provided after 1970 by the United States/China opening, the fortunes of these networks became linked with the double pursuit by the Chinese government of economic advancement and national unification. In the incipient third stage, it is precisely the Chinese government acting at times in concert with the Chinese capitalist diaspora in Taiwan, in Hong Kong, and throughout Southeast Asia that appears to be emerging as the leading agency of the regional expansion.[59]

These three stages of the East Asian economic renaissance can be interpreted as stages of a process of revival of key features of the East Asian tribute-trade system in a radically transformed global context. In the initial stage, the Cold War split the region into two antagonistic camps and reduced most East Asian states to the status of vassals of one or the other contending imperial center—the United States and the USSR. As the Korean War demonstrated, however, even at this stage Western supremacy was more precarious than it seemed. It was indeed this precariousness that induced the United States to revive unwittingly a feature typical of the seemingly defunct East Asian tribute-trade system—that is, a regime of gifts and trade between the imperial and the vassal states that was very favorable economically to the vassal states. This was the "magnanimous" early postwar trade and aid regime of Pax Americana to which Ozawa and Sugihara trace the origins of the succession of connected East Asian economic miracles.[60]

In spite of U.S. "magnanimity," the fault lines between the U.S. and Soviet spheres of influence in the region started breaking down soon after they were established—first by the Chinese rebellion against Soviet domination in the late 1950s, and then by the U.S. failure to split the Vietnamese nation along the Cold War divide. Massive U.S. spending at home and abroad to sustain the war effort in Southeast Asia precipitated a major fiscal crisis of the U.S. warfare-welfare state and contributed decisively to the sharp contraction of U.S. global power, which reached its nadir at the end of the 1970s with the Iranian Revolution, the Soviet invasion of Afghanistan, and a new crisis of confidence in the U.S. dollar.[61] In the midst of this crisis, the militaristic U.S. regime in East Asia began to unravel. The

Korean War had instituted the U.S.-centric East Asian regime by excluding mainland China from normal commercial and diplomatic intercourse with the noncommunist part of the region, through blockade and war threats backed by, to use Bruce Cumings's phrase, "an archipelago of American military installations."[62] Defeat in the Vietnam War, in contrast, forced the United States to readmit China to normal commercial and diplomatic intercourse with the rest of East Asia. The scope of the region's economic integration and expansion was thereby broadened considerably but the capacity of the United States to control its dynamic politically was reduced correspondingly.[63]

It was in this context that Japanese business gradually replaced the U.S. government as the leading agency of the East Asian economic renaissance. The prodigious upgrading of the Japanese national economy from the 1950s through the 1980s, and the expansion of Japanese business networks in the region and beyond in the 1970s and 1980s, marked the reemergence of a pattern of interstate relations that resembled more closely the indigenous (East Asian) pattern — in which centrality was determined primarily by the relative size and sophistication of the system's national economies — than the transplanted (Western) pattern — in which centrality had come to be determined primarily by the relative strength of the system's military-industrial complexes. The limits of industrial militarism as a source of power were laid bare by the defeat of the United States in Vietnam. But it was Japan's growing influence in world politics in the 1980s that demonstrated the increasing effectiveness of economic relative to military sources of world power. For Japan's growing influence was based primarily on the role that the Japanese government and Japanese business played in supplying the inexpensive credit and cheap commodities that enabled the United States to reverse the precipitous decline of its power. The previous relationship of Japanese political and economic vassalage vis-à-vis the United States was thus transformed into a relationship of mutual dependence. Japan remained in the grip of U.S. military power, but the reproduction of the U.S. protection-producing apparatus came to depend ever more critically on Japanese finance and industry.

Japan's growing economic power in the 1980s was not based on any major technological breakthrough. In part, as Sugihara observes, it was due to the profitable opportunities that the strong growth of capital-intensive and resource-intensive technology in the United States and in the USSR created for Japanese specialization in labor-intensive industries and resource-saving activities.[64] For the most part, however, it was due to a reversal of a secular trend in business organization that Japan was particularly well positioned to turn to its own advantage. For the worldwide proliferation of vertically-integrated, multinational corporations intensified competition, forcing them to subcontract to small businesses activities previously carried out within their own organizations. The tendency toward the bureaucratization of business through vertical integration that had made the fortunes of U.S. corporate business since the 1870s thus began to be superseded by a tendency toward informal networking and the subordinate revitalization of small business.[65]

The strategy of big business, operating transnationally, to turn the advantages of small business into an instrument of the consolidation and expansion of its own power has been in evidence everywhere. But nowhere has it been pursued more consistently and successfully than in East Asia. Starting in the early 1970s, the scale and scope of Japan's multilayered subcontracting system increased rapidly through a spillover into a growing number and variety of East Asian states.[66] Although Japanese business was its leading agency, the spillover relied heavily on the business networks of the overseas Chinese, who were from the start the main intermediaries between Japanese and local business in Singapore, Hong Kong, and Taiwan, and, later on, in most Southeast Asian countries, where the ethnic Chinese minority occupied a commanding position in local business networks. The region-wide expansion of the Japanese multilayered subcontracting system was thus supported not just by U.S. political patronage "from above" but also by Chinese commercial and financial patronage "from below."[67]

Over time, however, patronage from above and below began to constrain rather than support the capacity of Japanese business to lead the process of regional economic integration and expansion. As a representative of Japanese big business lamented: "We don't have military power. There is no way for Japanese businessmen to influence policy decisions of other countries. . . . This is a difference with American business and it is something Japanese businessmen have to think about."[68] Equally important, U.S. business began restructuring itself to compete more effectively with Japanese business in the exploitation of East Asia's rich endowment of labor and entrepreneurial resources, not just through direct investment, but also and especially through all kinds of subcontracting arrangements in loosely integrated organizational structures. Since arrangements of this kind were a distinctive feature of large-scale business in late imperial China and still are in contemporary Taiwan and Hong Kong, we may interpret the formation and expansion in East Asia of U.S. subcontracting networks as another instance of Western convergence toward East Asian patterns.[69]

The fact that the convergence has been particularly strong in the East Asian context can be traced in part to the legacy of the China-centered industrious revolution which, as previously noted, did not deprive labor of the opportunity to share in managerial concerns, fostering versatility rather than specialization in a particular task and flexibility rather than rigidity in responding to and anticipating problems. The presence in the region of an abundant supply of entrepreneurship and high-quality labor probably owes much to this legacy. Equally important, however, is another legacy of the East Asian developmental path, namely, the extensive business networks of the overseas Chinese that had formed in the interstices of the China-centered tribute-trade system. The communist victory in mainland China replenished the entrepreneurial ranks of the diaspora by generating a new spurt of Chinese migration to Southeast Asia and especially to Hong Kong and Taiwan, as well as to the United States.[70] Nevertheless, under the U.S. unilateral regime that emerged out of the Korean War, the overseas Chinese role as commercial intermediaries between mainland China and the surrounding maritime regions was stifled as much by the U.S. embargo on trade with the PRC as by the PRC's restrictions on domestic and foreign trade.[71] Moreover, in the 1950s and 1960s, the expansion of overseas Chinese capitalism was held in check by the spread of nationalism and national development ideologies and practices in Southeast Asia.[72] In spite of this unfavorable environment, overseas Chinese business networks managed to develop further and consolidate their hold on the commanding heights of most Southeast Asian economies.[73]

The overseas Chinese capitalist stratum was thus eminently well positioned to seize the highly profitable opportunities that were opened up by the transborder expansion of Japan's multilayered subcontracting system and by the growing demand of U.S. corporations for business partners in the region. And the more intense competition over the region's low-cost and high-quality human resources became, the more the overseas Chinese emerged as one of the most powerful capitalist networks in the region, in many ways overshadowing the networks of U.S. and Japanese multinationals.[74] Indeed, by the early 1990s, as Japan plunged into a long, drawn-out recession, the East Asian economic renaissance entered its third stage — the stage of Chinese-driven integration and expansion. For the reincorporation of mainland China in regional and global markets in the late 1970s and in the 1980s brought back into play a state whose demographic size, abundance of entrepreneurial and labor resources, and growth potential surpassed by a good margin that of all other states operating in the region, the United States included. If the main attraction of the PRC for foreign capital has been its huge and highly competitive reserves of labor from the perspective of cost, quality, and control — along with the actual and potential markets created by the mobilization of these reserves — the "matchmaker" that has facilitated the encounter of foreign capital and Chinese labor has been the overseas Chinese capitalist diaspora.[75]

This role of matchmaker was made possible by the determination with which the PRC under Deng Xiaoping sought the assistance of the overseas Chinese in upgrading the Chinese economy and in seeking national unification in accordance with the "One Nation, Two Systems" model. A close political alliance was established between the Chinese Communist Party and overseas Chinese business, one that would be strengthened following the 1997 reversion of Hong Kong and the further integration of Hong Kong and other overseas Chinese business interests through their role in governing Hong Kong and their participation in China's National Peoples Congress. As Chinese entrepreneurs began moving from Hong Kong into Guangdong almost as fast as (and far more massively than) they had moved from Shanghai to Hong Kong forty years earlier, the Chinese government redoubled its efforts to win the confidence and assistance of the overseas Chinese. By 1990, the combined investments of $12 billion from Hong Kong and Taiwan accounted for 75 percent of the total of all foreign investment, almost thirty-five times more than Japan.[76]

In sum, each stage of the ongoing East Asian economic renaissance has been driven by a different agency, but all stages have involved one form or another of hybridization of the East Asian and Western developmental paths. Focusing on one important aspect of this process — the hybridization of the industrious revolution and Industrial Revolution paths — Sugihara suggests that it may result in a reversal of the secular trend toward worsening global income inequality: "If the 'European miracle' was a miracle of production . . . the 'East Asian miracle' has been a miracle of distribution which brought the benefits of global industrialization to the majority of world population." Given the environmental destruction brought about by the diffusion of the energy-intensive Western path, he goes on to conclude, for "the miracle of distribution to continue, the Western path must converge with the East Asian path, not the other way round."[77]

There is indeed some evidence that supports Sugihara's contention. As previously noted, to the extent that a trend has emerged in the 1990s toward declining intercountry income inequality, it is entirely due to the rapid economic growth of China. Should China continue to grow at present rates for another twenty to thirty years, and, above all, should it draw onto its path of successful development other poor but populous countries — first and foremost India — the global economy would definitely be characterized by greater income equality than at any time since the onset of the Great Divergence. There are nonetheless several reasons for being cautious in foreseeing a smooth continuation of the ongoing China-led miracle of distribution.

First, China's economic expansion has been accompanied by the rapid growth of income inequality *within* China, an inequality that is estimated to have become among the largest in the world. If this is indeed the case, and the evidence is compelling, the upward mobility of the PRC in the global value-added hierarchy would in fact reflect a far greater upward mobility of a limited number of (predominantly coastal) areas and a lesser upward mobility (or even downward mobility) of much of the rest of the country. This tendency constitutes a departure from the pattern of even development typical of the East Asian path and may become a major obstacle to further expansion. Besides restraining the growth of the domestic market, it is engendering social and political tensions that may jeopardize further growth. To be sure, the so-called fourth generation of PRC leaders, headed by Hu Jintao and Wen Jiaobao, has shown greater awareness than previous generations of the social costs and problems of uneven development. While retaining ambitious economic growth targets, it has put a new emphasis on balanced development between rural and urban areas, between regions, and between economy and society.[78] It nonetheless remains an open question what this new emphasis will amount to in terms of actual social reforms and whether it will succeed in making continuing economic growth socially sustainable.

Second, China's rapid economic growth has thus far failed to open up for the world's poor countries an ecologically sustainable developmental path. Convergence has been predominantly from the energy-saving East Asian path to the energy-consuming Western path rather than the other way round. Energy consumption per capita does remain considerably lower in East Asia than in Western Europe, let alone North America. But Chinese consumption of fossil fuels in factories and by a rapidly growing fleet of motor vehicles makes an increasingly significant contribution to global warming and has made some Chinese cities among the world's most polluted. Also in this respect, the PRC's new leadership has shown greater awareness than its predecessors of the environmental costs of energy-intensive economic growth. But it remains unclear how an ecological balance can be restored when 300 to 500 million rural residents are expected to turn into city dwellers by 2020.[79]

Third and most important, China cannot expect the world's most powerful states, first and foremost the United States, not to attempt to disrupt its continuing economic expansion. This, at least, is the conclusion that John Mearsheimer reaches in the most ambitious product of recent U.S. international relations theorizing:

> China is still far away from the point where it has enough [economic] power to make a run at regional hegemony. So it is not too late for the United States to . . . do what it can to slow the rise of China. In fact, the structural imperatives of the international system . . . will probably force the United States to abandon its policy of constructive engagement in the near future. Indeed, there are signs that the new Bush administration has taken the first steps in this direction.[80]

As it turns out, by getting itself bogged down in the Iraqi quagmire, the Bush administration was forced to deepen rather than abandon the constructive engagement of China. Better still for China, the self-inflicted troubles of the United States in West Asia have created conditions favorable to the reemergence of Chinese economic and political centrality in East Asia.[81] It is possible that by the time the United States has disentangled itself from the Iraqi quagmire, Chinese centrality in the East Asian region (as well as U.S. dependence on Chinese cheap credit and commodities) will be so consolidated as to bring to bear on the United States a different kind of "structural imperatives" than those envisaged by Mearsheimer. But it is also possible that the United States will, in any case, attempt to preserve its global dominance by disrupting Chinese economic growth. It is impossible to tell what the outcome of such an attempt would be. But the more unsustainable the Chinese economic expansion will have become socially and ecologically, the easier it will be for the United States to mobilize locally and globally forces capable of slowing it down or bringing it to an end.

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