BEYOND THE WASHINGTON CONSENSUS: A NEW BANDUNG? [1]

Giovanni Arrighi and Lu Zhang

This chapter analyzes what we may call the "strange death" of the Washington Consensus with special reference to the economic empowerment of China and a fundamental change in relations between the global North and South.[2] What is "strange" about this death is that it occurred at a time of seemingly undisputed sway of the neo-liberal doctrines propagated by the Consensus. For that very reason, the death went largely unnoticed, and to the extent that it did not, its causes and consequences remain shrouded in great confusion.

Part of the confusion arises from the continuing influence on world politics of various aspects of the defunct Consensus. As Walden Bello has noted, "neoliberalism [remains] the default mode for many economists and technocrats that... lost confidence in it, simply out of inertia." Moreover, new doctrines are emerging, mostly in the global North, that attempt to revive aspects of the old Consensus in more palatable and realistic forms.[3] Our analysis rules out neither the residual influence by default of neoliberalism nor the possibility of its rebirth in new forms. It simply points out that the neoliberal counterrevolution of the early 1980s, of which the Washington Consensus was an integral component, has backfired, creating conditions of a reversal of power relations between the global North and South that may well be reshaping world politics as well as the theory and practice of national development.

We begin by sketching the origins and objectives of the neoliberal turn or

[1] Forthcoming in Jon Shefner and Patricia Fernández-Kelly (editors), *Globalization and Beyond: New Examinations of Global Power and its Alternatives*, Penn State University Press, 2010. We would like to thank Astra Bonini, Kevan Harris and Daniel Pasciuti for assistance in producing the figures and Kevan Harris, Jon Shefner, Beverly Silver and the graduate students in the Research in International Development seminar at Johns Hopkins University for comments on earlier drafts of the chapter. (version March 16, 2009)

[2] We borrow the expression "strange death" from George Dangerfield's classic account, first published in 1935, of the dramatic upheaval and political change that overwhelmed liberal England at a time of seemingly undisputed economic and political power. See Dangerfield (1980).

[3] Bello (2007).

counterrevolution in US policies and ideology of 1979-82. After highlighting the immediate impact of the neoliberal turn on North-South relations, we focus on the Chinese economic ascent as its most important *unintended* consequence with deep roots in Chinese traditions, including the revolutionary tradition of the Mao era. We conclude by pointing to the impact of the Chinese ascent on North-South relations, with special reference to the possible emergence of a new Southern alliance on more solid foundations than the one established at Bandung in the 1950s, as well as to the challenges and opportunities that the current global economic crisis creates for China and other developing countries.

I. The Washington Consensus and the Neoliberal Counterrevolution

The neoliberal turn began in the last year of the Carter administration, when a serious crisis of confidence in the US dollar promted Paul Volker, then Chairman of the US Federal Reserve, to switch from the highly permissive monetary policies of the 1970s to highly restrictive policies. It nonetheless materialized fully only when the Reagan administration, drawing ideological inspiration from Margaret Thatcher's slogan "There Is No Alternative" (TINA), declared all variants of social Keynesianism obsolete and proceeded to liquidate them through a revival of early-twentieth-century beliefs in the "magic" of allegedly self-regulating markets.[4] The liquidation occurred through a drastic contraction in the money supply, an equally drastic increase in interest rates, major reductions in corporate taxation, the elimination of controls on capital, and a sudden switch of US policies towards the Third World from promotion of the "development project" launched in the late 1940s and early 1950s to promotion of the neo-liberal agenda that later came to be known as the Washington Consensus. Directly or through the IMF

[4] On the rise and demise of such beliefs in the late nineteenth and early twentieth century, see Polanyi's classic work (1957). For a comparison of the late-twentieth century neo-liberal turn and its late-nineteenth century antecedent, see Silver and Arrighi (2003).

and the World Bank, the US government withdrew its support from the “statist” and “inward-looking” strategies (such as import-substitution industrialization) that most theories of national development had advocated in the 1950s and 1960s, and began to promote capital-friendly “shock therapies” aimed at transferring assets from public to private hands at bargain prices and at liberalizing foreign trade and capital movements.[5]

The change has been widely characterized as a “counterrevolution” in economic thought and political ideology.[6] The neo-liberal turn was counterrevolutionary vis-à-vis both labor and the Third World. As Thatcher’s advisor Alan Budd publicly admitted in retrospect, “What was engineered in Marxist terms was a crisis of capitalism which re-created a reserve army of labor, and has allowed the capitalists to make high profits ever since”.[7] In so far as the US government was concerned, however, this dis-empowerment of labor was less an end in itself than a means to the objective of reversing the relative decline in US wealth and power that had gained momentum with the US defeat in Vietnam and culminated at the end of the 1970s in the Iranian Revolution, the Soviet invasion of Afghanistan, and the previously mentioned run on the US dollar.

Although the Washington Consensus was first and foremost a strategy aimed at reestablishing US power, it was presented as a new developmental strategy. Taking this claim at face value, discussions of the impact of the neo-liberal turn have generally focused on trends since 1980 in world income inequality measured by synthetic indicators such as the Gini or the Theil. While a fairly general agreement has emerged that within-country inequality has increased, trends in between-country inequality remain the object of some controversy. Even in

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[5] McMichael (2000) and Arrighi (2002). As Hans Singer (1997) has pointed out, the description of development thinking in the post-war era as statist and inward-looking is correct, but neither characterization had the derogatory implications they acquired in the 1980s.

[6] See among others, Toye (1993); Gilpin (2000: 83-4, 227-30); Glyn (2006: 24-6).

[7] Quoted in Harvey (2000: 7).

this respect, however, the consensus is that, whatever the trends,

> improvement in world income inequality and poverty [since 1980] was not broadly based, but rather highly dependent, like the overall growth in world income, on the impressive growth performance of China and the substantial growth of India. When China is excluded from the calculations, inequality increases by most measures. When India is excluded along with China, not only is there a more marked deterioration in the distribution of world income, but poverty incidence remains about constant.[8]

In short, sums up Albert Berry, China and India "can be considered to have rescued the world from a dismal overall performance over the [last] two decades."[9] The data that Berry provides also show that the modest decline in the Gini that he detects from 1980 to 2000 did not affect negatively the richest 10% of world population (which has in fact further improved its relative position) but results exclusively from a redistribution of income from middle income to upper and lower income countries.[10]

[Table I about here]

Table I provides more details concerning this redistribution. As the table shows, in so far as the *overall* North-South income divide is concerned, the neoliberal counterrevolution made little difference, resulting at first in a minor decrease and then in a minor increase in the income per capita of the Third World relative to that of the First World. It did nonetheless make a big difference for individual regions both of the North and of the South. For our present purposes, it is sufficient to focus on three main tendencies. First, in the 1990s the United States did succeed in reversing its relative decline of the 1960s and 1970s but the reversal was entirely compensated by a deterioration of the relative position of Western and Southern Europe and Japan. Second, in the 1980s Sub-Saharan Africa and Latin America both experienced a major relative decline, from which they never recovered, followed by an equally significant relative decline of the former

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8 Albert Berry and John Serieux as quoted in Berry (2005: 17). On how measurement issues affect assessments of trends in world income inequality, see Wade (2004) and Korzeniewicz and Moran (2006).

9 Berry (2005: 18).

10 Thus, while the share of world income of middle- and upper-middle income groups (deciles 7-9) declined from 42.1% to 36.7%, the share of the lower income groups (deciles 1-6) increased from 11.3% to 14%, and that of the high-income groups (decile 10) increased from 46.6% to 49.3%. Calculated from data provided in Berry (2005: 18).

Soviet Union in the 1990s. Third, the greatest gains were those of East Asia and Japan up to 1990 and of India and China in the 1980s and 1990s, although China's advance was far more substantial than India's.[11]

These tendencies have been widely interpreted as the result of the closer integration of China, India and the former Soviet Union in the global economy. Richard Freeman, for example, has claimed that this closer integration effectively doubled the labor force producing for the world market without increasing the effective supply of capital. As twice as many workers compete for working with the same capital, not only has the balance of power shifted away from labor toward capital, but the prospects for economic growth of middle-income countries that were already integrated in the global economy have deteriorated.

> Countries that had hoped to grow through exports of low-wage goods must look for new sectors in which to advance–if they are to make it in the global economy... Mexico, Colombia or South Africa cannot compete with China in manufacturing, as long as Chinese wages are one-quarter or so of theirs–especially since Chinese labor is roughly as productive as theirs.[12]

If true, this contention would provide a highly parsimonious explanation of the double redistribution of income noted above: from lower to higher income groups within countries and from middle-income to low- and high-income countries. The contention, however, does not stand up to empirical scrutiny primarily because, before and after the US embrace of the TINA doctrine, the predominant feature of the global economy has been a large and expanding supply of surplus capital as much as (if not more than) an unlimited supply of surplus labor. While in the 1970s this expanding supply of surplus capital flowed primarily from high- to low- and especially middle-income countries, and squeezed profits rather than wages, the neoliberal turn shifted the downward pressure from profits to wages and, above all, brought about a massive

[11] World Bank data are subject to frequent and unexplained revisions that make them particularly unreliable in measuring short-term variations between specific countries. This unreliability, however, has little effect on the long-term trends among regions shown in Table 1.
[12] Freeman (2005)

rerouting of capital flows towards the United States. This rerouting turned TINA into a self-fulfilling prophecy: whatever alternative to cut-throat competition for increasingly mobile capital might have existed before 1980, it became moot once the world's largest and wealthiest economy led the world down the road of ever more extravagant concessions to capital. This was especially the case for Third and Second World (mostly middle-income) countries which, as a result of the change in US policies, experienced a sharp contraction both in the demand for their natural resources and in the availability of credit and investment at favorable conditions.

The extent of the rerouting of capital flows can be gauged from the change in the current account of the US balance of payments. As figure 1 shows, in so far as the United States is concerned, the alleged expansion in the global supply of cheap labor has been accompanied by a virtually unlimited supply of capital from the rest of the world. Moreover, as figure 2 shows, in the 1980s and especially after the East Asian crisis of 1997-98, this unlimited supply of capital has come from the former Third and Second Worlds. Whatever the reason of the shift of the balance of power from labor to capital in the United States–where the shift came earlier and has been more pronounced than in other wealthy countries–it cannot be attributed to an expansion of the global supply of cheap labor *unmatched* by a proportionate expansion of the global supply of capital, as Freeman, among others, maintains.

[Figures 1 and 2 about here]

Low- and middle-income countries have faced an altogether different situation. In these countries, the rerouting of global capital flows toward the United States turned the "flood" of capital that they had experienced in the 1970s into the sudden "drought" of the 1980s. First signaled by the Mexican default of 1982, the drought was probably the single most important factor in promoting both an escalation of interstate competition for capital and the major divergence among Southern regions shown in table 1. Some regions (most notably East Asia) succeeded in taking advantage of the increase in US demand for cheap industrial products that ensued from US trade liberalization and the escalating US trade deficit. These regions tended to benefit from the redirection of capital flows towards the United States, because the improvement in their balance of payments lessened their need to compete with the United States in world financial markets, and indeed turned some of them into major lenders to the United States. Other regions (most notably, Latin America and Sub-Saharan Africa), in contrast, did not manage to compete successfully for a share of the North American demand. These regions tended to run into balance of payments difficulties that put them into the hopeless position of having to compete directly with the United States in world financial markets. US business and governmental agencies were able to take advantage of both outcomes for the South: they were able to mobilize the cheap commodities and credit that Southern “winners” eagerly supplied, as well as the assets that Southern “losers” willy nilly had to alienate at bargain prices. As table 1 shows, the overall result was that, while the United States succeeded in reversing its economic decline, the gains and losses of Southern regions relative to the North largely balanced one another.

In short, the prime mover of the intensification of competitive pressures on labor and on Southern countries has not been the integration in world markets of China’s and India’s allegedly unlimited supplies of labor but the US sponsored neo-liberal counterrevolution. Freeman’s emphasis on unlimited supplies of cheap labor does highlight the fact that the Southern regions that have performed best in the competition initiated by the counterrevolution were endowed with large reserves of low-productivity agricultural labor that could be moved into higher-productivity, industrial and service jobs. Indeed, Jeffrey Sachs and Wing Thye Woo have contended that the existence of a huge farm sector is the crucial difference that explains the greater success of economic reforms in China in comparison with Russia.[13]

Arguments of this kind can nonetheless be criticized on two grounds. First, as Thomas Rawski has asked with specific reference to Sachs' and Woo's interpretation of Chinese achievements, "If millions of ill-educated, over-regulated and under-employed farmers represent 'advantages of backwardness,' why do we see no big growth spurts in Egypt, India, Bangladesh, Pakistan, Nigeria and other nations that have long enjoyed such 'advantages'?"[14] Second, a large reservoir of low-productivity agricultural labor is not the only source of exploitable labor. Marxists, for example, have long emphasized that capitalist development tends to create an expanding reserve army of labor that can prevent real wages from growing as fast as labor productivity, while regarding the existence of a large reservoir of agricultural labor with access to the means of producing means of subsistence not as an advantage but as a handicap for economic development.[15] The question then arises of whether a large peasantry only partially separated from the means of producing its subsistence, like the Chinese, constitutes a greater competitive advantage in attracting capital and promoting economic growth than the urban and semi-urban masses of unemployed and underemployed labor of which sub-Saharan Africa and Latin America are better endowed than China. If it does, should we revise or altogether reject Marxist theories of the reserve army of labor and of accumulation by dispossession? And if it does not, what other circumstances can account for China's success, in comparison with sub-Saharan Africa and Latin America, in turning to its advantage the world economic conjuncture created by the neo-liberal counterrevolution?

[13] Sachs and Woo (1996: 3).
[14] Rawski (1999: 141).
[15] See, for example, Brenner (1981: 1, 4-6; 1977: 35-6)

II. China's Reforms and the Washington Consensus

The institutional promoters of the Washington Consensus–the World Bank, the IMF, the US and UK Treasuries, backed by *The Financial Times* and *The Economist*–have boasted that the reduction in world income inequality and poverty, which has accompanied China's economic growth since 1980, can be traced to Chinese adherence to their policy prescriptions.[16] As James Galbraith has underscored, the claim is contradicted as much by the long list of economic disasters that actual adherence to these prescriptions have provoked in Sub-Saharan Africa, Latin America and the former USSR, as by the fact that both China and India, first, "steered free from Western banks in the 1970s, and spared themselves the debt crisis;" second, "continue to maintain capital controls to this day, so that hot money cannot flow freely in and out;" and third, "continue to have large state sectors in heavy industry." On the whole China and India have indeed done well. "But is this due to their reforms or to the regulations they continued to impose? No doubt, the right answer is: Partly to both."[17]

For what concerns China, Galbraith's claim concurs with Joseph Stiglitz's contention that the success of Chinese reforms–in comparison with the failure of reforms in the former Soviet Union–can be traced to *not* having given up gradualism in favor of the shock therapies advocated by the Washington Consensus; to having recognized that social stability can only be maintained if job creation goes in tandem with restructuring; and to having sought to ensure the fruitful

[16] For a critical survey of these claims, see Wade (2004). The idea that China has adhered to the neo-liberal prescriptions of the Washington Consensus has been as common among left intellectuals as among the promoters of the Consensus. Deng Xiaoping, for example, figures prominently, along with Reagan, Pinochet, and Thatcher, on the front cover of Harvey's *A Brief History of Neoliberalism*, and a whole chapter of the book is dedicated to "Neoliberalism 'with Chinese characteristics'." More explicitly, Peter Kwong (2006: 1-2) has likened Deng's slogan "let some get rich first, so others can get rich later" to Reagan's "trickle down economics." If the two slogans sound the same, we are told, it is because both Reagan and Deng "were great fans of the neo-liberal guru Milton Friedman." Our critique of the claims of the promoters of the Washington Consensus apply also to Harvey's and Kwong's contentions.

[17] Galbraith (2004)

redeployment of resources displaced by intensifying competition.[18] To be sure, China's reforms did expose state-owned enterprises (SOEs) to competition with one another, with foreign corporations, and especially with a mixed bag of newly created private, semi-private, and community-owned enterprises. Nevertheless, while intensifying competition resulted in a sharp decline in the share of SOEs in employment and production in comparison with the period 1949-1979, the role of the Chinese government in promoting development did not subside. On the contrary, it poured huge sums of money in the development of new industries, in the establishment of new Export Processing Zones (EPZs), in expanding and modernizing higher education, and in major infrastructure projects, to an extent without precedent in any country at comparable levels of per capita income.

Thanks to the continental size and huge population of the country, these policies have enabled the Chinese government to combine the advantages of export oriented industrialization, largely driven by foreign investment, with the advantages of a self-centered national economy informally protected by language, customs, institutions and networks accessible to outsiders only through local intermediaries. A good illustration of this combination are the huge EPZs that the Chinese government built from scratch and now house two-thirds of the world's total numbers of EPZs workers. Sheer size has enabled China to build three basic manufacturing clusters, each with its own specialization: the Pearl River Delta, specializing in labor intensive manufacturing, production of spare parts and their assembly; the Yangtze River Delta, specializing in capital intensive industry and the production of cars, semi-conductors, mobile phones and computers; and Zhongguan Cun, Bejing, China's Silicon Valley, where the government intervenes directly to foster the collaboration of universities, enterprises and state banks in the development of

[18] Stiglitz (2002: 125-26). For similar conclusions reached on the basis of statistical evidence, see Popov (2007).

information technology.[19]

The division of labor among EPZs illustrates also the Chinese government's strategy of promoting the development of knowledge-intensive industries without abandoning labor-intensive industries. In the pursuit of this strategy, the Chinese government has modernized and expanded the educational system at a pace and on a scale without precedent even in East Asia. Building on the exceptional achievements of the Mao era in primary education, the number of annual college graduates has *tripled* from 2001 through 2005 to over 3 million. As a result, China's state colleges produce graduates in absolute numbers comparable to much wealthier countries. Although the increase in numbers has undoubtedly involved a worsening in the quality of the education offered, the extension by the end of 2002 of the Nine-Year Compulsory Education (NYCE) to an area where 90% of the population lives is still an impressive achievemnt. Moreover, China has the largest contingent of foreign students in the United States, and rapidly growing contingents in Europe, Australia, Japan, and elsewhere. While the Chinese government has been offering all kinds of incentives to entice Chinese students abroad to return on completion of their degrees, many of them, including practicing scientists and executives, are lured back by the opportunities afforded by a fast growing economy.[20]

In short, the gradualism with which economic reforms have been carried out, and the countervailing actions with which the government has sought to promote the synergy between an expanding national market and new social divisions of labor, contrast sharply with the utopian belief of the neo-liberal creed in the benefits of shock therapies, minimalist governments, and self-regulating markets. In promoting exports and the import of technological know-how, the

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[19] Au (2005: 10-13).

[20] Guo (2005: 154-5); Au (2005); Shenkar (2006: 4-5); P. Aiyar, "Excellence in Education: The Chinese Way." *The Hindu*, February 17, 2006; H. W. French, "China Luring Scholars to Make Universities Great." *The New York Times*, October, 24, 2005; C. Buckley, "Let a Thousand Ideas Flower: China Is a New Hotbed of Research." *The New York Times*, September 13, 2004.

Chinese government has sought the assistance of foreign and Chinese diaspora capitalist interests. In these relations, however, the Chinese government has retained the upper hand, itself becoming one of the main creditors of the dominant capitalist state (the US) and accepting assistance on terms and at conditions that suit China's national interest. By no stretch of the imagination can it be characterized as the servant of foreign capitalist interests.[21] Even the widespread view that all high tech industries in China are controlled by foreign capital ignores the large and growing participation of local Chinese companies and joint ventures in the production of high tech goods, such as mobile phones, PCs, "brown" and "white" goods.[22]

Intensifying competition among public and private enterprises has undoubtedly resulted in major disruptions in the security of employment that urban workers had enjoyed in the Mao era, as well as in countless episodes of super-exploitation, especially of migrant workers.[23] These hardships must nonetheless be put in the context of government policies that also in this respect did not embrace the key neo-liberal prescription of sacrificing workers' welfare to profits. As David Schweickart has pointed out,

> China entered its reform period without a capitalist class at all. This was a hugely important fact. Not only [there was no] propertied class that could block any serious structural change, but the capitalist class that has been permitted, indeed encouraged, to emerge has been much more entrepreneurial than long-dominant capitalist classes tend to be, and hence more useful to society in general.

Moreover, China's twentieth century history has taught its ruling groups that large scale worker or peasant discontent can seriously jeopardize the accomplishments of the Revolution and subsequent reforms and that repression alone will not do. "This condition–the real threat of mass

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[21] On various aspects of this relationship of the Chinese government to foreign capital, see Arrighi (2007: ch. 12).

[22] Popov (2007: 35) quoting evidence provided by Dani Rodrik. To this we should add that recent changes in China's business tax code demonstrate that Beijing is far less concerned than in the past about importing technological know-how from foreign companies. For nearly 30 years, foreign direct investment was encouraged by taxing foreign companies as little as 15 percent, whereas domestic firms were taxed at up to 33 percent. With some exceptions for high-technology companies and "low-profit enterprises," within a period of five years all firms will now pay the same 25 percent rate. "While the practical effects of the bill will be negligible, the symbolic value is immense. It signals an end to the period in which foreign management and technology was given preference over China's domestic offerings." A. Wolfe, "China's Priorities on Display at the National People's Congress." *The Power and Interest News Report (PINR)* March, 21 2007

[23] See, among others, Chan (2000); Tang (2003-4); Lee and Selden (2007).

disruption and possible chaos–is absent in the West. It is present to a degree in many parts of the global South, but there the structure and balance of class forces are quite different from what they are in China."[24]

As a result of this balance of class forces, not only have medical, pension and other "mandatory benefits" for workers in joint ventures remained more generous, and the firing of workers more difficult, in China's formal sector than in countries at comparable or even higher levels of per capita income. More important, the expansion of higher education, the rapid increase in alternative employment opportunities in new industries, and rural tax relief and other reforms, which are encouraging villagers to put more labor into the rural economy, have combined in creating labor shortages that are undermining the foundations of the super-exploitation of migrant labor. "We're seeing the end of the golden period of extremely low-cost labor in China," has recently declared a Goldman Sachs' economist. "There are plenty of workers, but the supply of uneducated workers is shrinking... Chinese workers... are moving up the value chain faster than people expected."[25]

The gradualism of reforms and state action aimed at expanding and upgrading the social division of labor; the massive expansion of education; the subordination of capitalist interests to the promotion of national development; and the active encouragement of inter-capitalist competition have all contributed to this emerging shortage. But the most decisive factor has probably been the expansion of the domestic market and the improvement of living conditions in rural areas associated with the reforms. The key reform was the introduction in 1978-1983 of the Household Responsibility System, which returned decision-making and control over agricultural

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[24] Schweickart (2005).

[25] D. Barboza, "Labor Shortage in China May Lead to Trade Shift." *New York Times*, April 3, 2006; T. Fuller, "Worker Shortage in China: Are Higher Prices Ahead?" Herald Tribune, April 20, 2005; S. Montlake, "China's Factories Hit an Unlikely Shortage: Labor." *Christian Science Monitor*, May 1, 2006; "China's People Problem." *The Economist*, April 14, 2005. [Add more recent references to rising wages].

surpluses from communes to rural households. In combination with substantial increases in agricultural procurement prices in 1979 and in 1983, the system resulted in a major increase in returns to farm activity, which strengthened the earlier tendency of commune and brigade enterprises to produce non-agricultural goods. Although the government encouraged rural labor to “leave the land without leaving the village” through various barriers to spatial mobility, in 1983 it gave permission to rural residents to engage in long distance transport and marketing to seek outlets for their products and in 1984 it further relaxed regulations to allow farmers to work in nearby towns in the emerging collectively-owned Township and Village Enterprises (TVEs).[26]

The emergence of TVEs was prompted by two other reforms: fiscal decentralization, which granted autonomy to local governments in the promotion of economic growth and in the use of fiscal residuals for bonuses; and a switch to the evaluation of cadres on the basis of the economic performance of their localities, which provided local governments with strong incentives to support economic growth. TVEs thus became the primary loci of the reorientation of the entrepreneurial energies of party cadres and government officials towards developmental objectives. Mostly self-reliant financially, they also became the main agency of the reallocation of agricultural surpluses to the undertaking of labor-intensive industrial activities capable of absorbing productively rural surplus labor.[27] The result was an explosive growth of the rural labor force engaged in nonagricultural activities, from 28 million in 1978 to 176 million in 2003. Most of the increase occurred in TVEs, which between 1980 and 2004 added almost four times as many jobs as were lost in state and collective urban employment and by the end of the period employed more than twice as many workers as all foreign, private and jointly-owned urban

[26] Cai, Park, and Zhao (2004); Unger (2002).
[27] Oi (1999); Lin (1995); Walder (1995); Whiting (2001); Wang (2005: 179); Tsai (2004); Lin and Yao (n.d.).

enterprises combined.[28]

As Deng Xiaoping acknowledged in 1993, the explosive growth of TVEs took Chinese leaders by surprise. Only in 1990 did the government step in to legalize and regulate them by assigning ownership collectively to all inhabitants of the town or village but empowering local governments to appoint and fire managers or to delegate this authority to a governmental agency. The allocation of TVE profits was also regulated, mandating the reinvestment of more than half within the enterprise, to modernize and expand production and to increase welfare and bonus funds, and the use of most of what was left to the construction of agricultural infrastructure, technology services, public welfare, and investment in new enterprises. In the late 1990s attempts were made to transform vaguely defined property rights into some form of shareholding or purely private ownership. But all regulations were hard to enforce, so that TVEs came to be characterized by such a variety of local arrangements that makes their categorization difficult.[29]

And yet, despite or, perhaps, because of their organizational variety, the TVEs made key contributions to the success of the reforms. First, their labor-intensive orientation enabled them to absorb rural surplus labor and raise rural incomes without a massive increase in migration to urban areas. Indeed, most labor mobility in the 1980s was the movement of farmers out of farming to work in rural collective enterprises. Second, since TVEs were relatively unregulated, their entry into numerous markets increased competitive pressure across the board, forcing not just SOEs but all urban enterprises to improve their performance.[30] Third, by becoming a major source of rural tax revenue, TVEs reduced the fiscal burden on peasants and thus contributed to

[28] *China Statistical Yearbook* 2005 (*Zhongguo tongji nianjian* 2005) Beijing: China Statistics Press and *China Agricultural Yearbook* 2005 (*Zhongguo nongye tongji nianjian* 2005) Beijing: China Agricultural Press.
[29] Woo (1999: 129-137); Bouckaert (2005); Hart-Landsberg and Burkett (2004: 35); Lin and Yao (n.d.).
[30] Cai, Park, and Zhao (2004).

social stability.[31] Fourth, and in key respects most important, by reinvesting profits and rents locally, publicly owned TVEs expanded the size of the domestic market and created the conditions of new rounds of investment, job creation and division of labor. As Lily Tsai has observed on the basis of extensive research in rural China, family lineage or affiliation with a particular temple are effective substitutes for formal democratic and bureaucratic institutions of accountability in subjecting local government officials to informal rules and norms that force them to provide the level of public goods needed to maintain social stability.[32] The unique position of TVEs as publicly owned enterprises was thus a defining characteristic of China's "golden age" (1978-1996) in the Post-Mao reform era. "In no other transitional economy"--notes Barry Naughton—"did public enterprises play the pivotal role that TVEs played in China."[33]

To be sure, the entire TVE sector underwent dramatic transformation after the mid-1990s. Faced with a more challenging environment (including a shift of the national government policy toward building regulatory institutions, and increased market integration and competition) the overall growth rate of TVEs slowed significantly. Many TVEs were restructured and transformed into predominantly privately owned business. But some public-owned TVEs were converted into worker-owned joint stock companies. In 2003, there were 3.7 million workers in joint-stock cooperatives.[34] In many localities the government has retained a stake in the firm and tried to operate a joint venture with private managers. Indeed, it can be hard to determine what constitutes a private firm today among China's TVEs, since local governments may retain stakes ranging from 20% to 50%.[35]

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31 Wang (2005: 177-8); Bernstein and Lu (2003).
32 Lin and Yao (n.d.); Tsai (2007).
33 Naughton (2007: 287).
34 TVE Yearbook, 2004, as quoted in Naughton (2007: .291).
35 For the details of the changes of external environment and the restructuring process of TVEs after mid-1990s, see Naughton (2007: 285-293).

After 1996 TVEs continued to grow, albeit at rates closer to overall GDP growth than in the past. TVE value added as a share of GDP increased from 26% in 1996 to 30% in 1999, and then leveled off through 2004. More important, even after the restructuring, TVEs continued to be embedded in face-to-face relationships among members of rural communities and contributed to reinvestment in local communities.[36] Our own observations in Shandong province in 2005 support this contention. When one of the co-authors of this paper asked the manager and owner of a privatized TVE Cable factory, which had been one of the major cable producers nation-wide since mid 1990s, what induced his company to keep reinvesting profits locally even after the company was privatized, he pointed out that, "although the government encouraged people to get rich first, you cannot ignore your fellow folks if you still want to get along in the village. People here are so close to one another that one simply cannot get along if he is charged of getting rich without thinking of his fellow folks in the village." In addition to such social incentives, we found that political rewards, such as becoming a member of the Communist Party, a representative of People's Congress, or being appointed as a rural local cadre, constitute major incentives for TVE managers and entrepreneurs to reinvest surpluses in their local communities.[37]

In summing up the developmental advantages of China in comparison with South Africa– where the African peasantry has long been dispossessed of the means of production without a corresponding creation of the demand conditions for its absorption in wage employment–Gillian Hart has similarly underscored the contribution that TVEs have made to the reinvestment and redistribution of profits within local circuits, and to their use in schools, clinics and other forms

[36] Naughton (2007: 286).

[37] Many studies have shown that the Chinese Communist Party and the Chinese state have been able to control the growing number of private entrepreneurs by incorporating them into formal institutions. This had led to widespread claims that Chinese capitalists are not truly autonomous from the state. See, among others, Tsai (2007), Dickson (2003), Pearson (2002), Solinger (1992), Wank (1999).

of collective consumption. Moreover, a relatively egalitarian distribution of land among households enabled the residents of many TVEs to procure their livelihood through a combination of intensive cultivation of tiny plots with industrial and other forms of non-agricultural work. Indeed, "a key force propelling [TVEs] growth is that, unlike their urban counterparts, they do not have to provide housing, health, retirement, and other benefits to workers. In effect, much of the cost of reproduction of labor has been deflected from the enterprise." This pattern, Hart goes on to suggest, could be observed not just in China but in Taiwan as well.

> What is distinctive about China and Taiwan–and dramatically different from South Africa–are the redistributive land reforms beginning in the late 1940s that effectively broke the power of the landlord class. The political forces that drove agrarian reforms in China and Taiwan were closely linked and precisely opposite. Yet in both socialist and post-socialist China, and in 'capitalist' Taiwan, the redistributive reforms that defined agrarian transformations were marked by rapid, decentralized industrial accumulation *without* dispossession from the land... That some of the most spectacular instances of industrial production in the second half of the twentieth century have taken place without dispossession of the peasant-workers from the land not only sheds light on the distinctively 'non-Western' forms of accumulation that underpin global competition... [It should also compel us to] revise the teleological assumptions about 'primitive accumulation' through which dispossession is seen as a natural concomitant of capitalist development.[38]

Hart's suggestion that China's economic success may rest on a pattern of accumulation without dispossession brings us back to the question of whether a large peasantry only partially separated from the means of producing its subsistence, like the Chinese, constitutes a greater competitive advantage in promoting economic growth than the urban and semi-urban masses of unemployed and underemployed labor of which sub-Saharan Africa and Latin America are better endowed than China. The answer that emerges from the foregoing analysis is that it does, provided that government policies succeed in mobilizing the peasantry as a source, not just of abundant supplies of cheap labor, but also and especially of the entrepreneurial energies and managerial skills necessary to absorb those supplies in ways that expand the national market and the opportunities of new divisions of labor. While Deng's reforms were highly successful in this

[38] Hart (2002: 199-201).

respect, the success depended critically on two traditions that preceded and shaped the reforms themselves: the tradition of China's eighteenth-century industrious revolution and its more recent tradition of socialist revolution. To these traditions we now turn.

III. Legacies of China's Industrious and Socialist Revolutions

Kaoru Sugihara has claimed that in the eighteenth and early nineteenth centuries China experienced an "industr*ious* revolution" that established a distinctive East Asian technological and institutional path and shaped East Asian responses to the challenges and opportunities of 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 common view that small-scale production cannot sustain economic improvement, this institutional framework had important advantages over the class-based, large-scale production that was becoming dominant in England at about the same time. 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

> 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.[39]

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 increased per capita *annual* income, even if they did not increase output *per day or per hour*. The difference between

[39] Sugihara (2003: 79-82, 87-90, 94, 117 fn 2).

this kind of development and development along the Western path was a strong bias towards the utilization of human rather than non-human resources.[40]

Hart's observation that in the TVEs the intensive cultivation of small plots of land is combined with industrial and other forms of non-agricultural work, and with investments in the improvement of the quality of labor, supports Sugihara's contention of the persistence of the legacy of China's industrious revolution. Equally important in this respect is the tendency to utilize as fully as possible human resources and of endowing such resources with managerial and general technical skills at the family level. Compounded by the educational achievements of the Chinese revolutionary tradition to be discussed presently, this tendency can be observed even in urban industries, whose chief competitive advantage has been traced to the use of inexpensive educated labor as a substitute for expensive machines and managers. At Wanfeng automotive factory near Shanghai, for example, not a single robot is in sight. As in many other Chinese factories, the assembly lines are occupied by scores of young men, newly arrived from China's expanding technical schools, working with little more than large electric drills, wrenches and rubber mallets. Engines and body panels, which in Western factories would move from station to station on automatic conveyors, are hauled by hand and hand truck. By avoiding the use of multimillion-dollar machines, Wanfeng can sell its handmade luxury Jeep Tributes in the Middle East for $8,000 to $10,000.[41] Moreover, as one would expect from Sugihara's claim, Chinese businesses substitute inexpensive educated labor, not just for expensive machinery, but also for

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[40] Sugihara (2003: 87).

[41] Fishman (2005: 205-6). For other illustrations of substitution of low-cost labor for expensive equipment, see G. Stalk and D. Young, "Globalization Cost Advantage," *Washington Times*, August 24, 2004 and A. Taylor, "A Tale of Two Factories," *Fortune Magazine*, September 14, 2006. As a report in the *The Wall Street Journal* points out, statistics showing US workers in capital-intensive factories to be several times more productive than their Chinese counterparts ignore the fact that the higher productivity of US workers is due to the replacement of many factory workers with complex flexible-automation and material-handling systems, which reduces labor costs but raises the costs of capital and support systems. By saving on capital and reintroducing a greater role for labor, Chinese factories reverse this process. The design of parts to be made, handled, and assembled manually, for example, reduces the total capital required by as much as one-third. See T. Hout and J. Lebretton, "The Real Contest Between America and China," *The Wall Street Journal*, September 16, 2003.

expensive managers. "Despite the enormous numbers of workers in Chinese factories, the ranks of managers who supervise them are remarkably thin by Western standards... an indication of how incredibly well self-managed [workers] are."[42]

The legacy of China's industrious revolution might not have survived, let alone produced this kind of developmental effects, had it not been revitalized and transformed by China's socialist revolutionary tradition.

> For all the mistakes, chaos and human suffering of the Maoist years, a stunning transformation had taken place in China over the course of the preceding three decades. In 1949 China was a much poorer country and far less industrialized than was Russia when the Bolsheviks made their revolution thirty-two years earlier. By 1979 China had an industrial base that employed some 50 million workers and accounted for more than half of its GDP. The value of its gross industrial output had grown thirty-eight-fold and that of heavy industry ninety-fold. China was manufacturing jet aircraft, modern ocean-going vessels, nuclear weapons and ballistic missiles. In the countryside mammoth irrigation and water control works had been constructed. A largely illiterate population had been transformed into a mostly literate one. A public health system had been created where none had existed before. Average life expectancy had increase from 35 to 65. All this had been accomplished with virtually no external assistance–which meant that China entered its reform period with zero external debt.[43]

Indeed, as figures 3 and 4 show, while China's greatest advances in per capita income (shown by upward movements of the curves) have occurred since 1980, the greatest advances in adult life expectancy, and to a lesser extent in adult literacy, that is, in basic welfare, (shown by rightward movements of the curves) occurred before 1980. This pattern strongly supports the claim that "without the achievements of the Mao's regime the market-type reforms of 1979 and beyond would [have] never produce[d] the impressive results that they actually did."[44]

[Figures 3 and 4, about here]

In this connection it is worth underscoring that the success of economic reforms in China in comparison with the former Soviet Union should be traced, not just or primarily to the existence of a huge farm sector, as Sachs and Woo maintain, or to the gradualism and concern

42 Fishman (2004).

43 Schweickart (2005) quoting data provided in Meisner (1999: 415-19). On irrigation projects, road and rail expansion, and planting of hybrid rice in the Mao era as bases for reform-era growth, see also Bramall (2000: 95-6, 137-8, 153, 248).

44 Popov (2007: 26-30).

for welfare of the reforms, as Stiglitz and others maintain. It should be traced also and especially to fundamental differences between the Chinese and Russian revolutionary traditions. These differences originated in the distinct Chinese brand of Marxism-Leninism that first emerged with the formation of the Red Army in the late 1920s and developed fully after Japan took over China's coastal regions in the late 1930s. As Meghnad Desai has pointed out, unlike the Russian Bolshevik party, the Chinese communists had to struggle to win the support of the peasantry for a decade and a half before they won power in 1949. In the course of this struggle they "developed a philosophy of responding to popular needs within the confines of a single party."[45]

This ideological innovation had two main components. One was the replacement of the insurrectional aspects of Lenin' theory of the vanguard party with Mao's theory of the "mass line," whereby the party ought to be not just the teacher but also the pupil of the masses. "This from-the-masses-to-the-masses concept"–notes John Fairbank–"was indeed a sort of democracy suited to Chinese tradition, where the upper-class official had governed best when he had the true interests of the local people at heart and so governed on their behalf."[46] The other innovation was the replacement of Marx's and Lenin's revolutionary class–the urban proletariat–with the peasantry as the main social base of the socialist revolution. Driven ever farther from the seats of capitalist expansion by the Western trained and equipped GMD armies, in the 1930s the CCP and the Red Army thrust their roots among the peasantry of poor and remote areas. The result was, in Mark Selden's characterization, "a two-way socialization process," whereby the party-army molded the subaltern strata of Chinese rural society into a powerful revolutionary force, and was in turn shaped by the aspirations and values of these strata.[47]

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[45] Meghnad Desai debates with Will Hutton on "Does the future really belong to China?" *Prospect Magazine*, Issue 130, January 2007. Access on line (http://www.prospect-magazine.co.uk/pdfarticle.php?id=8174).

[46] Fairbank (1992: 319).

[47] Selden (1995: 37-8).

The combination of these two features with the modernist thrust of Marxism-Leninism has been the bedrock of the Chinese revolutionary tradition and helps to explain key aspects of the Chinese developmental path before and after the reforms. It helps to explain, first of all, why in Mao's China, in sharp contrast to Stalin's USSR, modernization was pursued, not through the destruction, but through the economic and educational uplifting of the peasantry. Second, it helps to explain why, before and after the reforms, Chinese modernization has been based, not just on the internalization of the Western industrial revolution, but on the revival of features of the indigenous, rural based, industrious revolution. Third, it helps to explain why under Mao the tendency toward the emergence of an urban bourgeoisie of state-party officials and intellectuals was fought through their "re-education" in rural areas. Finally, it helps to explain why Deng's reforms were launched first in agriculture in 1980s, the decade proved to be one of the most vibrant periods of China's reform, while the 1990s policy reversal under Jiang Zemin with unbalanced development in favor of urban over rural area resulted in the great traction in real welfare consequences,[48] and why the recent change of policies under Hu Jintao focuses on the expansion of health, education and welfare benefits in rural areas under the banner of a "new socialist countryside."

At the roots of this complex tradition lies the crucial problem of how to govern and develop a country with a *rural* population larger than the *entire* population of Africa, or Latin America, or Europe. No other country, except India, ever faced a remotely comparable problem. From this standpoint, however painful an experience for urban officials and intellectuals, the Cultural Revolution consolidated the rural foundations of the Chinese Revolution and laid the groundwork for the success of the economic reforms. Suffice it to mention that during its course the disruption of urban industries greatly increased the demand for the products of rural

[48] Huang (2008a).

enterprises, leading to a major expansion of the commune and brigade enterprises out of which many of the TVEs later emerged.[49] At the same time, the Cultural Revolution jeopardized, not just the power of state-party officials and the political achievements of the Chinese Revolution, but much of the modernist component of the revolutionary tradition. Its repudiation in favor of economic reforms was thus considered essential to a revival of that component. By the mid- to late-1990s, however, the very success of the revival began undermining the revolutionary tradition. Two developments in particular signaled this tendency: a huge increase in income inequality and growing popular discontent with the procedures and outcomes of the reforms.

The huge increase in income inequality within and between urban and rural areas that has accompanied China's switch to a market economy is a well established fact. China's Gini coefficient, for example, has soared from a very low 0.28 in 1983, to a quite high 0.45 in 2001 and 0.47 in 2007.[50] Up to the early 1990s this trend could be credibly presented as the result of a strategy of unbalanced development that created opportunities of advancement for most. For one thing, World Bank data suggest that poverty reduction continued unabated–the share of population living on less than $1 a day dropping from over 60 percent in 1980 to less than 20 percent in 1997. The increase in relative deprivation entailed by increasing inequality was thus accompanied by decreasing absolute deprivation.[51] Moreover, the increase in inequality–as measured by synthetic indicators like the Gini–largely reflected an improvement (rather than a deterioration) in the position of middle-income groups. Equally important, increasing inequality was accompanied by an *increase* in the inter-generational (parents occupation/children occupation) and intra-generational (first occupation/current occupation) mobility. Individuals in

[49] Lin and Yao (n.d.); Putterman (1997).
[50] See, among others, Wei (2000); Riskin, Zhao and Li (2001); Walder (2002); Wang (2003); Wu and Perloff (2004); Li (2005), CIA, *The World Fact Book* https://www.cia.gov/library/publications/the-world-factbook/fields/2172.html
[51] B. Davis, S. Lyons and A. Batson, "Globalization's Gains Come with a Price," *Wall Street Journal,* May 24, 2007.

the lower-income occupations had thus greater chances than in the pre-reform period to turn the income gap between occupations into a personal gain by moving to a higher-income occupation.[52]

Under these circumstances, resistance to increasing inequality was limited and could be easily repressed. Over time, however, increasing inequality clashed with the revolutionary tradition and seriously undermined social stability. Although the traditions of the "mass line" and of the "two-way socialization process" apparently played a role in the reforms themselves,[53] the more local and provincial party cadres and officials re-directed their entrepreneurial energies to the economic sphere and engaged in acts of accumulation by dispossession, the more the tradition of the "mass line" became a fiction, and the "two-way socialization process" between the party-state and the subaltern strata of Chinese society was displaced by a similar process between the party-state and the emerging bourgeoisie. And yet, the revolutionary tradition has endowed China's subaltern strata with a self-confidence and combativeness with few parallels elsewhere in the global South, while the continuing public commitment of the party-state to that tradition has given some legitimacy to this self-confidence and combativeness.[54]

The latest manifestation of this self-confidence and combativeness has been an escalation of social struggles in urban and rural areas alike. Officially reported cases of "public order disruptions"–a reference to protests, riots, and other forms of social unrest–rose from about 10,000 in 1993 to 50,000 in 2002, to 58,000 in 2003, to 74,000 in 2004, and to 87,000 in 2005. In rural areas, until about 2000 the main grievances prompting mass action were taxes, levies,

[52] See, especially, Wu and Perloff (2004: figures 2 and 3) and Research Group for Social Structure in Contemporary China (2005: chapter 4).
[53] In his dealings with Chinese policy makers as a senior World Bank official, for example, Ramgopal Agarwala "found senior leaders demonstrate greater interest in interaction with various levels of society than in more democratically organized societies such as India's." (2002: 90). See also Rawski (1999: 142).
[54] Schweickart (2005); Amin (2005: 268, 274-75); Wang (2006: 44-5).

fees, and various other "burdens." More recently, diversion of land from farming to industrial, real estate, and infra-structural development, environmental degradation, and the corruption of local party and government officials have become the most incendiary issues. Episodes like the 2005 Dongyang riot over pollution from a pesticide factory, whose operations were suspended, entered Chinese folklore as proof that determined mass action can force the authorities to reverse course and address popular needs.[55]

In the urban areas, the "old" working class of the SOEs has since the late 1990s reacted to mass lay-offs with a wave of protests that often appealed to standards of justice of the socialist tradition and to the "iron rice bowl" social contract between the working class and the state that prevailed during the first four decades of the PRC. Initially a mix of repression and concessions had some success in containing this wave of protest. More recently, however, an unprecedented series of walkouts has heralded the spread of unrest to the "new" working class of mostly young migrants, who constitute the backbone of China's export industries. Combined with growing unrest among urban workers in the service sectors, these two waves are putting to rest the Western stereotype that "there is no labor movement in China:" "you can go to almost any city in the country now"–notes Robin Munro–"and there will be several major collective worker protests going on at the same time." It is a spontaneous and relatively inchoate labor movement; but so was the US labor movement during its golden age of the 1930s.[56]

This upsurge of social unrest in rural and urban areas has prompted the leadership of the

[55] H,W. French, "Protesters in China Get Angrier and Bolder." *International Herald Tribune*, July 20, 2005; T. Friedman, "How to Look at China." *International Herald Tribune*, November 10, 2005; H,W. French, "20 Reported Killed as Chinese Unrest Escalates." *The New York Times*, December 9, 2005; J. Muldavin, "In Rural China, a Time Bomb Is Ticking." *International Herald Tribune*, January 1, 2006; C. Ni, "Wave of Social Unrest Continues Across China." *Los Angeles Times,* August 10, 2006; M. Magnier, "As China's Spews Pollution, Villagers Rise Up." *Los Angeles Times,* September 3, 2006; M. Magnier, "China Says It's Calmed Down." *Los Angeles Times,* November 8, 2006; Lee and Selden (2007).

[56] B. Smith, J. Brecher and T. Costello, "China's Emerging Labor Movement." *ZNet* http://www.zmag.org, October 9, 2006. On the earlier wave of unrest, see Lee and Selden (2007). On the contrast between the two waves, see Silver (2005: 445-7; 2003: 64-66).

CCP to seek a more balanced and sustainable development between rural and urban areas, between regions, and between economy and society, and to introduce new labor legislation aimed at expanding workers' rights.[57] The current Hu-Wen administration is making great efforts to address the rural issues and make once again rural development the priority of the policy agenda. Among other things, the government has abolished agricultural taxes, has started to reduce or waive educational charges in the rural areas, and has experimented with a basic health insurance program that is expected to cover the entire rural population by 2010.[58]

In response to the upsurge of social unrest and discontents among the disadvantaged groups in the past decade of the reform, the CCP has also called on its cadres to return to the party's revolutionary tradition of "mass line," to listen to ordinary people's requests and complaints and to help solve their problems. As a result, senior officials of the city, county and district governments have met with ordinary citizens in person regularly, listening to their requests and complaints. They have also paid more frequent visits at the grassroots level to ease problems that threaten social stability.[59] China already has grassroots elections in over 660,000 villages, although these contests are often rigged. There are already small signs of change, with larger cities, such as Nanjing and Guangzhou, opening more important posts to public competition. Most recently, Zhou Tianyong, deputy head of research at the Central Party School, has predicted that by 2020, China will complete its political and institutional reforms with the implementation of a 12-year plan aimed at establishing "public democratic involvement at all

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[57] E. Cody, "China Confronts Contradictions Between Marxism and Markets." *The Washington Post*, December 5, 2005; J. Yardley, "China Unveils Plan to Aid Farmers, but Avoids Land Issue." *The New York Times*, February 23, 2006; J. Kahn, "A Sharp Debate Erupts in China Over Ideologies." *The New York Times*, March 12, 2006; Mu Muying, "Dissenting Voices Within Communist Party Before 17th National Congress." *Cheng Ming Magazine*, August 16, 2007.

[58] Huang (2008a: 293-4).

[59] *Xinhua News*, "China seeks smooth communication with citizens," Access on line: http://news.xinhuanet.com/english/2008-10/14/content_10195062.htm

government levels."[60]

Whether these changes can rescue the socialist tradition, empower people, and redirect development in a more egalitarian and sustainable direction remains to be seen. But the changes at least signal a shift from the past emphasis on growth for its own sake to a broader stress on the quality of life, personal security and consumption. Moreover, the Chinese ascent is already posing a serious challenge to the increasingly discredited Washington Consensus. To the nature and prospects of this challenge we now turn.[61]

IV. Toward a New Bandung?

Joshua Cooper Ramo, a member of the Council on Foreign Relations in the US and of the Foreign Policy Center in Britain, has characterized the emerging Chinese challenge as the displacement of the Washington Consensus by a Beijing Consensus–the China-led emergence of "a path for other nations around the world" not simply to develop but also "to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices."

> The Washington Consensus... left a trail of destroyed economies and bad feelings around the globe. China's new development approach is... flexible enough that it is barely classifiable as a doctrine. It does not believe in uniform solutions for every situation. It is defined... by a lively defense of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection....While the US is pursuing unilateral policies designed to protect United States interests, China is assembling the resources to eclipse the US in many essential areas of international affairs and constructing an environment that will make US hegemonic action more difficult.... China's path to development and power is, of course, unrepeatable by any other nation. It also remains fraught with contradictions, tensions and pitfalls. Yet many elements of the country's rise have engaged the developing world.[62]

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60 M. Moore, "China will be a democracy by 2020, says senior party figure," *The Daily Telegraph*, 15 Oct 2008 Access on line: http://www.telegraph.co.uk/news/worldnews/asia/china/3195370/China-will-be-a-democracy-by-2020-says-senior-party-figure.html

61 The deepening crisis of US hegemony in the wake of the disastrous Iraqi adventure has played a crucial role both in facilitating the Chinese ascent and in undermining the credibility of the Washington Consensus. This double role of the crisis of US hegemony falls beyond the scope of the present paper. See, however, Arrighi (2007: parts II and III).

62 Ramo (2004: 3-5).

Among these elements, Ramo mentions a development model in which "the massive contradictions of Chinese development" make "sustainability and equality... first considerations," and "a theory of self-determination... that stresses using leverage to move big, hegemonic powers that may be tempted to tread on your toes."[63] Ramo's notion of a Beijing Consensus has been criticized for presuming the existence of a consensus where none exists, or for establishing a contrast with the Washington Consensus that some observers consider overdrawn.[64] Neither criticism seems to us appropriate, because Ramo himself emphasizes the variety of developmental paths implicit in the Beijing Consensus, in sharp contrast to the one-size-fits-all doctrine of the Washington Consensus. Ramo nonetheless does not tell us whether the Chinese ascent may actually contribute to a collective empowerment of the global South and not just to the empowerment of one or more of its national components. The relevant question in this connection is under which circumstances the Beijing Consensus can lead to the formation of a new and more effective Bandung–i.e., a new version of the Third World alliance of the 1950s and 1960s better suited than the old at countering the economic and political subordination of Southern to Northern states in an age of unprecedented global economic integration.[65]

The temptation for China to settle for co-optation in a US- or Northern-dominated world order and for other Southern countries to seek or accept Northern support for their mutual jealousies should not be underestimated. But neither should we overestimate the power of the United States, even in collusion with Europe, to succeed once again in rolling back Southern advances, as it did for almost 20 years through the neoliberal counterrevolution. For one thing, the Iraqi debacle has confirmed the limits of coercive means in enforcing the Northern will against Southern resistance. More important in a capitalist world, the financial underpinnings of

[63] Ramo (2004: 11–12).
[64] Kennedy (2008).
[65] Cf Dirlik (n.d.: 5-6).

US and Northern dominance rest on increasingly shaky grounds. A crucial turning point in this respect has been the Asian financial crisis of 1997-8. Robert Wade and Frank Veneroso have claimed that this crisis confirmed the validity of the dictum that "in a depression assets return to their rightful owners."

> The combination of massive devaluations, IMF-pushed financial liberalization, and IMF-facilitated recovery may have precipitated the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to US owners in Latin America in the 1980s or in Mexico after 1994.[66]

By focusing on the immediate effects of the crisis, this diagnosis nonetheless missed its longer term effects on North-South relations. As figure 2 shows, the 1997-8 crisis was followed by a huge bifurcation between the Northern deficit and the rest-of-the world's surplus in the current accounts of their respective balances of payments. Much of this surplus still flows to the US financial entrepot, both to finance the escalating US deficit and to be reinvested around the world, including the global South, to the benefit of the United States. But the basic fact underlying the bifurcation is that the North, especially the United States, can produce less and less goods and services at lower prices than the rest of the world. More important, a significant and growing portion of that surplus is bypassing the US entrepot, both to build up currency reserves and to flow directly to other Southern destinations, thereby weakening the hold of the IMF and other Northern-controlled financial institutions on Southern countries.[67] Flush with cash and eager to regain control over their economic policies, Southern countries "have voted with their feet and paid off the IMF, thus avoiding to take its advice."[68] The IMF's annual

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[66] Wade and Veneroso (1998).

[67] For most of these countries, "reserves are simply insurance against financial disaster... As the dust settled over the ruins of many former 'emerging' economies, a new creed took hold among policy makers in the developing world: Pile up as much foreign exchange as possible." E. Porter, "Are Poor Nations Wasting Their Money on Dollars?" *The New York Times*, April 30, 2006; F. Kempe, "Why Economists Worry About Who Holds Foreign Currency Reserves." *The Wall Street Journal*, May 9, 2006.

[68] As a result, the Fund's loan portfolio has dropped from $150 billion in 2003 to $17 billion in 2007, its lowest level since the 1980s. M. Weisbrot, "IMF Misses Epoch-Making Changes in the Global Economy." *International Herald Tribune*, 19 October,

meetings thus “become lonely affairs. Editorials in the financial press wondered if the fund had a mission left.” And as market-oriented central bankers began, in effect, nationalizing banks, “Western championing of free markets came in for a good deal of ridicule from states that had resisted the end-of-government enthusiasm of globalizers. Globalization, far from burying the state, now depended on states for rescue.”[69]

Notwithstanding its massive purchases of US treasury bonds, China has played a leading role both in re-routing the Southern surplus to Southern destinations and in providing neighboring and distant Southern countries with attractive alternatives to the trade, investment and assistance of Northern countries and financial institutions. “Here comes a very large new player on the block that has the potential of changing the landscape of overseas development assistance,” noted in 2006 the director for the Philippines at the Asian Development Bank (ADB) shortly after China announced an extraordinary package of $2 billion in loans to the Philippines each year for three years, which made the $200 million offered by the World Bank and the ADB look puny; easily outstripped a $1 billion loan under negotiation with Japan; and sheltered the Philippines from Washington’s disfavor after President Arroyo pulled the country’s troops out of Iraq. This was just one of many similar deals in which China has been out-competing Northern agencies by offering Southern countries more generous terms for access to their natural resources; larger loans with fewer political strings attached and without expensive consultant fees; and big and complicated infrastructure projects in distant areas at as little as half the cost of Northern competitors.[70]

2007. A shrinking loan portfolio, besides diminishing the IMF’s influence over Southern governments, reduces its interest income and cash reserves. “In an irony that has provoked tittering among many [Southern] finance ministers, the agency that has long preached belt-tightening now must practice it itself.” M. Moffett and B. Davis, “Booming Economy Leaves the IMF Groping for Mission.” *The Wall Street Journal*, April 21, 2006.

[69] S. Malcomson, “The Higher Globalization,” *The New York Times*, December 12, 2008.

[70] J. Perlez, “China Competes With West in Aid to Its Neighbors.” *The New York Times*, September 18, 2006; V. Mallet, “Hunt

Supplementing and complementing Chinese initiatives, oil-rich countries have also re-directed their surpluses to the South. Of great political and symbolic significance has been Venezuela's use of windfall proceeds from high oil prices to assume the role of new "lender of last resort" for Latin American countries, thereby reducing Washington's historically enormous influence over economic policy in the region.[71] Equally important, and potentially more disruptive of Northern financial dominance, has been the interest that West Asian countries have recently shown in re-routing at least part of their surpluses from the United States and Europe to East and South Asia. The reasons are partly the unpopularity of the Iraqi war and things like the backlash in the US that forced Dubai's port company to sell off American holdings after it bought the British port operator P&O. But the most compelling reason is economic: China and all fast growing Asian economies want West Asian oil, and the West Asian capital and liquidity generated by that oil are searching for investments with higher returns than US Treasury bonds.[72]

When in May 2006 India's prime minister, Manmohan Singh, urged Asian nations at the annual meeting of the ADB to re-direct Asian surpluses toward Asian development projects, one US observer found the speech "stunning"–"the harbinger of the end of the dollar and of American hegemony."[73] In reality, whether Asian and other Southern countries continue to use US dollars is not the most important issue. Just as the pound sterling continued to be used as an international currency three-to-four decades after the end of British hegemony, so may the dollar. What really matters for the future of North-South relations is whether Southern countries will continue to put the surpluses of their balances of payments at the disposal of US-controlled

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for Resources in the Developing World." *Financial Times*, December 12, 2006; R. Carew, J. Leow and J.T. Areddy, "China Makes Splash, Again." *The Wall Street Journal*, October 26, 2007.

71 M. Weisbrot, "The Failure of Hugo-bashing." *The Los Angeles Times*, March 9, 2006. See also N. Chomsky, "Latin America and Asia are Breaking Free of Washington's Grip." *Japan Focus*, March 15, 2006.

72 H. Timmons, "Asia Finding Rich Partner in Mideast." *The New York Times*, December 1, 2006.

73 A. Giridharadas, "Singh Urges Asian Self-reliance." *International Herald Tribune*, May 5, 2006.

agencies, to be turned into instruments of Northern domination, or will instead use them as instruments of Southern emancipation. From this standpoint, there is nothing stunning about Singh's statement, which merely lends support to a practice that is already in place. What is truly stunning is the lack of awareness–in the South no less than in the North–of the extent to which the neoliberal counterrevolution has backfired, creating highly favorable conditions for the emergence of a new and more powerful Bandung.

The foundations of the old Bandung were strictly political-ideological and, as such, were easily destroyed by the neoliberal counterrevolution. The foundations of the Bandung that may be emerging now, along with a political-ideological component, are primarily economic and, as such, far more solid. As Yashwant Sinha, a former Indian foreign minister put it in a 2003 speech: "In the past, India's engagement with much of Asia... was built on an idealistic conception of Asian brotherhood, based on shared experiences of colonialism and of cultural ties." The Asian dynamic today, in contrast, "is determined... as much by trade, investment and production as by history and culture."[74] Sinha's contention applies, not just to Asia, but to the global South more generally. Under the old Bandung, ideologically and politically motivated Third World solidarity had no economic foundation. Indeed, it had to run against the current of world market processes over which Third World countries had little or no control. Today, in contrast, a rapidly expanding South-South trade, investment, and cooperation in a growing variety of fields–including regional economic integration, national security, health and the environment–rest primarily on the increasing competitiveness of Southern countries in world production. Although idealistic conceptions of Third World solidarity still play a role, they are seldom the only or even the main determinant of South-South cooperation.[75]

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[74] Quoted in A. Giridharadas, "India Starts Flexing Economic Muscle." *International Herald Tribune*, May 12, 2005.
[75] T. Deen, "U.N. Backs South-South Cooperation." *Inter Press Service News Agency*, June 5, 2007.

Four countries in particular–China, India, Brazil and South Africa (CIBS)–are leading the way in this direction. Besides accounting for 40 per cent of world population, these countries are jointly emerging as major sources of capital, technology and effective demand for the products of the surrounding regions and the global South at large.[76] Notwithstanding their leading role in shifting the balance of economic and political power in favor of the global South, the CIBS countries have been criticized for establishing relations with other Southern countries similar in motivation and outcome to traditional North-South relations. China in particular has been taken to task for establishing relations with its commercial partners that reproduce their specialization in primary production at the expense of manufacturing and other high-value-added activities.[77]

In so far as they point to national self-interest rather than idealistic Third World solidarity as the foundation of Southern cooperation, these critiques are largely correct but miss the strengths of the new Bandung in comparison with the old. They miss first of all the subversion of the structural foundations of the global hierarchy of wealth and power entailed by the emergence of the CIBS, and especially China, as competitors of the North in world production, trade and finance. Not only do these countries provide other Southern countries with better terms of trade, aid, and investment than Northern countries–including substantial cancellations of debt;[78] by so doing they also intensify competitive pressures on Northern countries to provide Southern countries with better terms than they otherwise would. Closely related to the above, critiques that emphasize the specialization of China's and India's trading partners in primary production miss the ongoing reversal of the terms of trade between manufacturing and primary production

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[76] L. Atarah, "China, India, Brazil, South Africa Tilt Global Power Balance." *Inter Press Service News Agency*, September 13, 2007; A. Aslam, "U.S., Investors' Favourite, Faces Test from South." *Inter Press Service News Agency*, October 16, 2007.

[77] Among the many critiques of China, see Bello's chapter in this volume and Tull (2006). For a critique of South Africa as a "sub-imperial" power vis-a-vis the rest of Africa, see Bond (2007).

[78] On China's, Brazil's and India's cancellations of (mostly African) debt, see T. Deen, "South-South Trade Boom Reshapes Global Order." *Inter Press Service News Agency*, December 21, 2006.

brought about by industrial convergence between North and South. Just as “industrialization” has ceased to be a correlate of “development,” so specialization in primary production as such may no longer be a correlate of “underdevelopment.”[79]

More important, in so far as the critiques in question point to the socially exploitative practices in which the CIBS may engage at home, or indirectly encourage abroad through their foreign trade and investment, they disregard the fact that exclusion from trade and production, rather than exploitation as such, is more often than not the main cause of Southern “underdevelopment.” They also disregard the fact that power relations play a crucial role in setting standards of morality in the global political economy. Today these standards are for the most part set by the governments and institutions of the countries that occupy the upper reaches of the global hierarchy of wealth. The emergence of the CIBS, however, may well be creating a situation in which the governments and institutions of countries that occupy the middle and lower reaches might at last have a say. Crucial in this respect is what China and India–which by themselves account for more than one-third of world population–will chose to do. Should they choose to cooperate–as Howard French has envisaged commenting in the *International Herald Tribune* on news of huge investments by China and India in each other’s economies–“the day when a cozy club of the rich–the United States, the strongest economies of Western Europe and Japan–sets the pace for the rest of world, passing out instructions and assigning grades, [would] fast [draw] to a close.”[80]

The 2008 Wall Street meltdown has sped up the collapse of the Washington Consensus. As neoliberal American-style capitalism--including limited government, minimal regulation, and the free-market allocation of credit--lost credibility, many commentators wondered whether

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[79] Cf Arrighi, Silver and Brewer (2003).

[80] H. W. French, “The Cross-pollination of India and China.” *International Herald Tribune*, November 10, 2005.

China's state-led capitalism could be an alternative. As Huang noted,

> In contemplating alternatives to the fallen American model, some looked to China, where markets are tightly regulated and financial institutions controlled by the state. In the aftermath of Wall Street's meltdown, fretted Francis Fukuyama in Newsweek, China's state-led capitalism is "looking more and more attractive." Washington Post columnist David Ignatius hailed the global advent of a Confucian-inspired "new interventionism"; invoking Richard Nixon's backhanded tribute to John Maynard Keynes, Ignatius declared, "We are all Chinese now".[81]

At the same time, the fact that China's economy was not immune from the US-centered global economic crisis--especially its slumping exports and slow-down of economic growth--prompted a reassessment of the export-led growth model that China had adopted in the 1990s.[82] Indeed, Chinese officials have been aware of the constraints imposed on growth by low levels of domestic consumption. The current economic crisis may very well be what was needed to induce them to shift towards a more balanced, domestic consumption-driven, development path. Such a shift would inevitably involve a recession, which nonetheless is probably a necessary step in the direction of long-run sustainable development. As Naughton projected in 2006, "hundreds of firms will go bankrupt, trade tensions will increase further as failing companies seek to dump product on world markets, and sentiment toward China will swing from positive to negative."[83] But, as should be clear from this article, there are also good reasons to anticipate that the 2008 economic crisis might eventually lead a resumption of Chinese growth on more sustainable long-run foundations and to brighter prospects for a new Bandung.

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[81] Huang (2008b)

[82] According to *Xinhua News* (December 18th, 2008), exports in China fell in November 2008 for the first time in seven years. In Guangdong province where the export-oriented manufacturing push began, more than 7,000 companies closed or moved elsewhere in the first nine months of 2008.

[83] B. Naughton, "Arguing Against the Motion: Without significantly accelerated reforms and major new policy actions, China's rapid growth will unravel before its economy overtakes the U.S.," at Reframing China Policy: The Carnegie Debates Series 2: China's Economy, December 1, 2006. U.S. Capitol, Washington, DC

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Table 1: GNP Per Capita as % of First World's GNP Per Capita

Region	1960	1970	1980	1985	1990	1995	2000	2005
Sub-Saharan Africa (w/ SA) ……………	5.6	4.7	3.9	3.1	2.7	2.5	2.0	2.3
Latin America …………………………	19.7	16.4	17.6	14.4	12.3	12.9	13.4	11.2
West Asia and North Africa ……………	8.7	7.8	8.7	7.9	7.4	7.2	7.7	8.4
South Asia (w/o India)…………………	1.9	1.7	1.3	1.4	1.4	1.5	1.6	1.6
East Asia (w/o China and Japan) ………	6.0	6.1	8.0	8.6	11.0	13.8	11.5	11.8
China …………………………………	0.9	0.7	0.8	1.2	1.3	2.1	3.2	4.6
India …………………………………	1.5	1.3	1.1	1.2	1.2	1.4	1.6	1.9
Third World* …………………………	**4.5**	**4.0**	**4.3**	**4.1**	**4.1**	**4.7**	**4.9**	**5.2**
Third World (w/o China)* ……………	**6.5**	**5.7**	**6.1**	**5.5**	**5.3**	**5.9**	**5.6**	**5.5**
Third World (w/o China and India)* ..	**9.3**	**8.1**	**8.8**	**7.7**	**7.5**	**8.2**	**7.7**	**7.3**
North America …………………………	123.7	105.0	100.7	101.6	98.2	98.9	116.4	112.5
Western Europe …………………………	111.1	104.6	104.6	101.5	100.5	98.5	92.0	99.7
Southern Europe …………………………	51.9	58.2	60.0	57.6	58.6	59.2	61.5	70.2
Australia and New Zealand …………….	94.8	83.5	74.7	73.3	66.4	70.6	68.6	84.5
Japan …………………………………	78.7	126.4	134.4	140.8	149.8	151.9	121.0	103.1
First World …………………………**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100.0**
Eastern Europe …………………………	-	-	-	-	11.1	10.6	13.4	18.6
Former USSR w/ Russian Fed. …………	-	-	-	-	10.7	5.9	4.6	8.2
Russian Federation ……………………	-	-	-	-	14.1	8.2	6.0	11.8
Former USSR w/o Russian Fed …………	-	-	-	-	7.1	3.6	3.1	4.6
Eastern Europe and Former USSR***	**-**	**-**	**-**	**-**	**10.8**	**7.1**	**6.9**	**11.0**

Source: Calculations based on World Bank (WDI - 2001, 2006).

GNP in constant 1995 US$ for 1960-1995, GNP in current US$ Atlas method for 2000 and 2005.

***Countries included in Third World:**

***Countries included in Third World:**

Sub-Saharan Africa: Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Rep. of Congo, Congo Dem. Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda, Zambia, Zimbabwe

Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Rep, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay, Venezuela

West Asia & North Africa: Algeria, Arab Rep of Egypt, Morocco, Saudi Arabia (1971 for 1970), Sudan, Syrian Arab Rep., Tunisia (1961 for 1960), Turkey

South Asia: Bangladesh, India, Nepal, Pakistan, Sri Lanka

East Asia: China, Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan (Taiwan National Statistics), Thailand

****Countries included in First World:**

North America: Canada, United States

Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom

Southern Europe: Greece, Ireland, Israel, Italy, Portugal, Spain

Australia and New Zealand

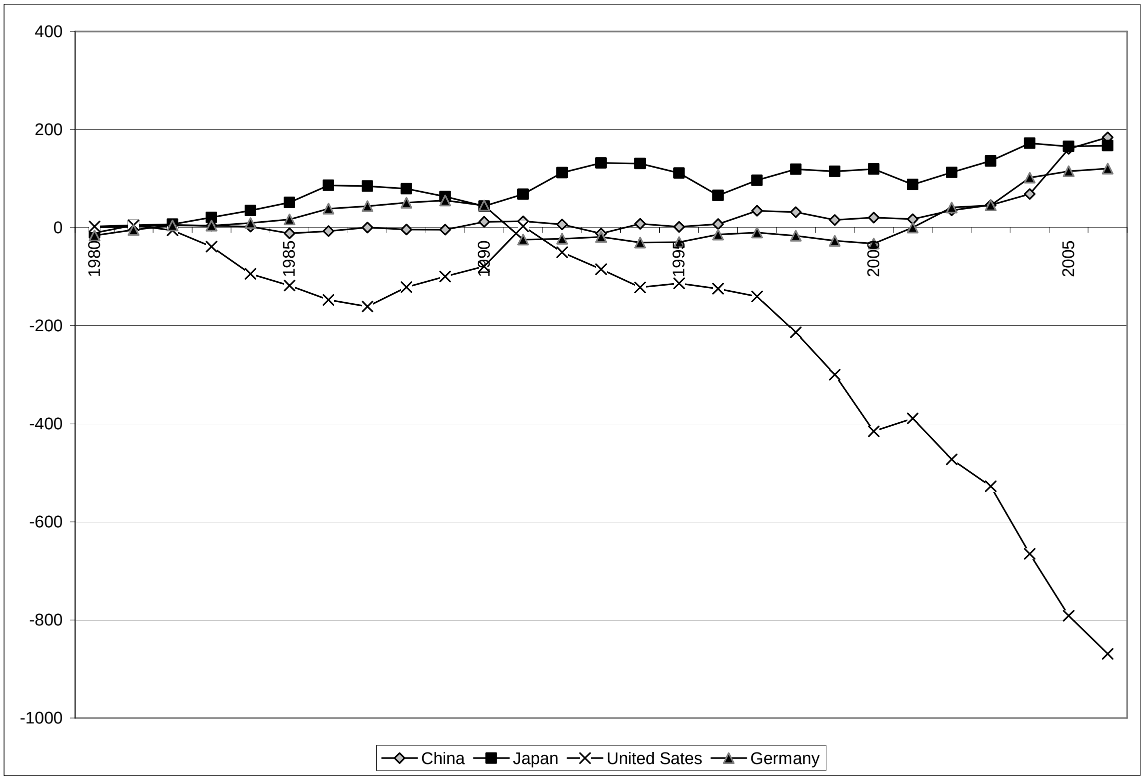
Japan

<u>*Countries included in Eastern Europe and the Former USSR:</u>**

Eastern Europe: Albania, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia

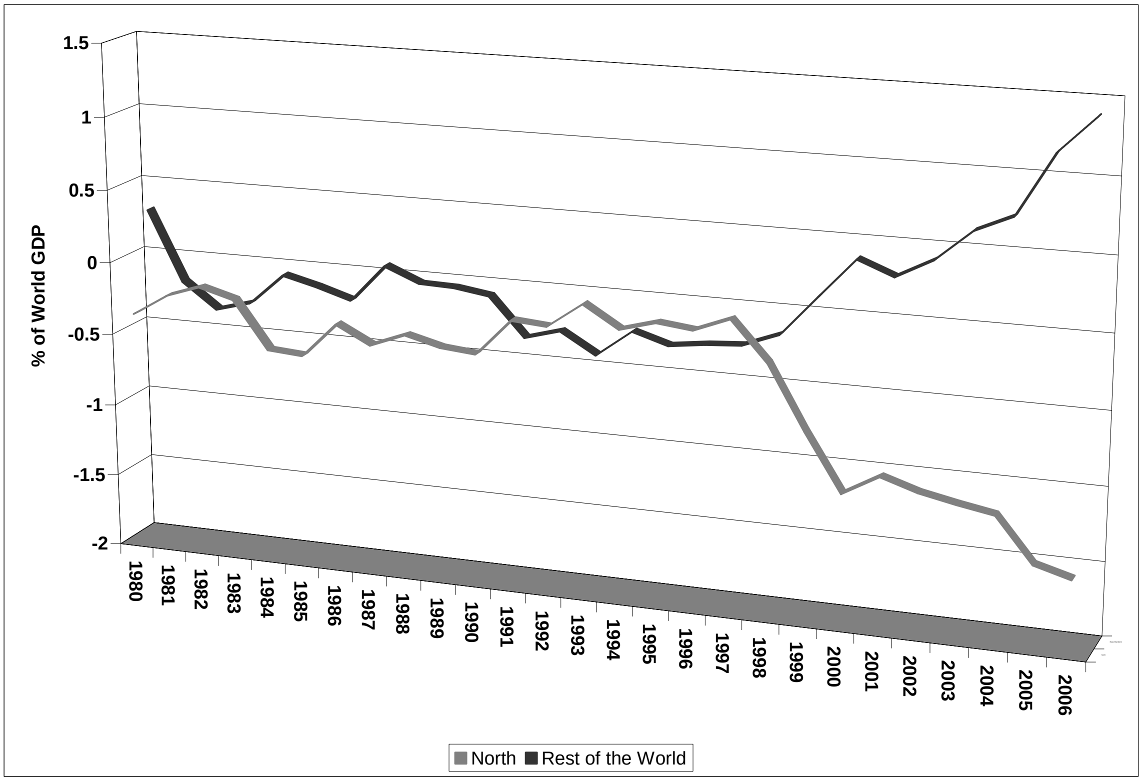
Former USSR: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

Figure 1: Current Account Balance (1980-2005)



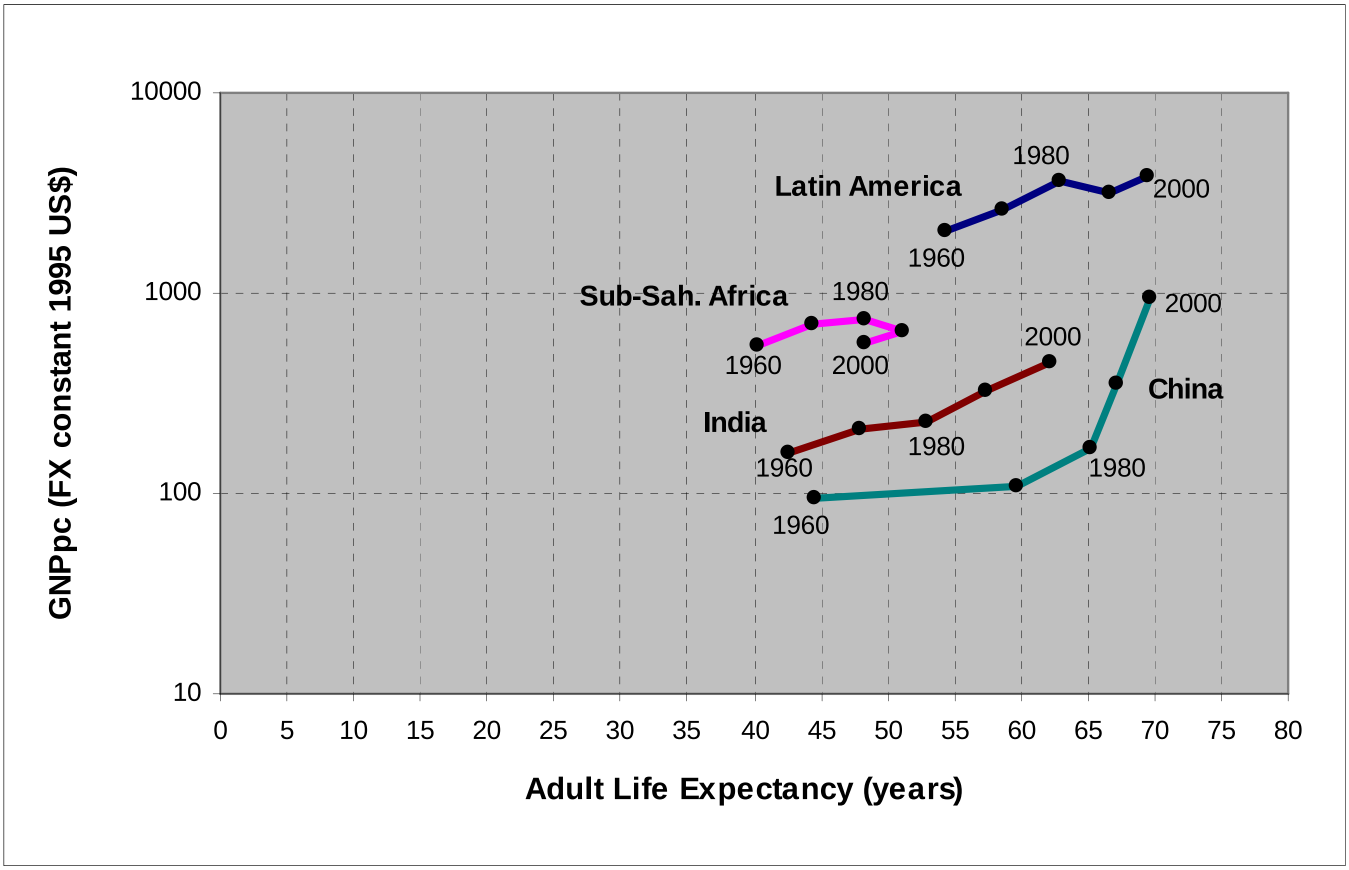
*Figures in Billions of Current US Dollars
Source: International Monetary Fund, World Economic Outlook Database, September 2006

Figure 2 : Current Account Balance as a Percentage of World GDP



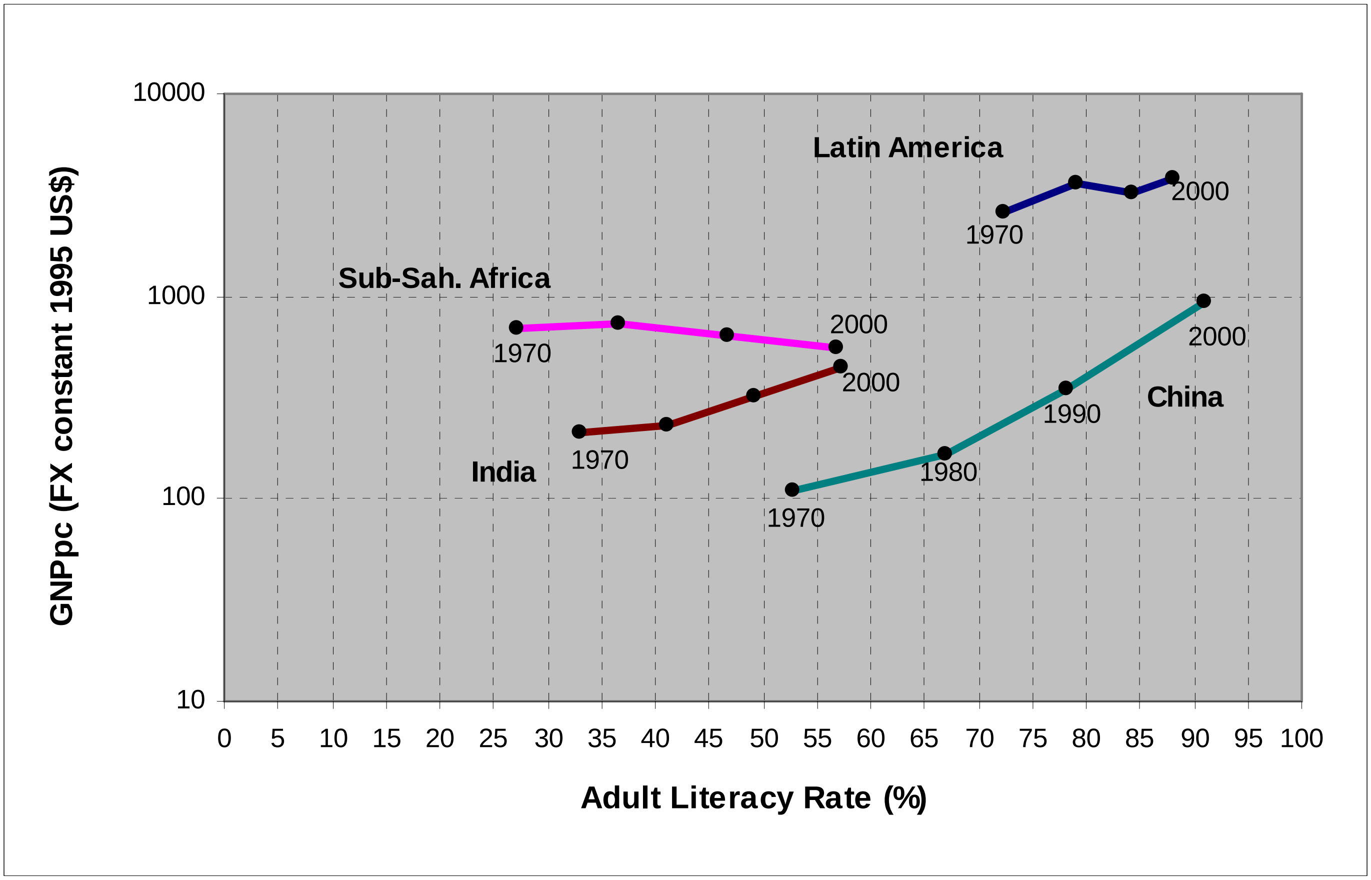
Source: IMF World Economic Outlook Database; September 2006

Figure 3: Per Capita Income and Adult Life Expectancy, 1960-2000.



Source: Calculations based on GNP, Adult Life Expectancy, and Population from World Bank - World Development Indicators 2004 and 2001

Figure 4: Per Capita Income and Adult Literacy, 1970-2000



Source: Calculations based on GNP, and Population from World Bank - World Development Indicators 2004 and 2001; and Adult Literacy Rates from United Nations Population Division 2005