The Tyranny of Monopoly-Finance Capital: A Chinese Perspective

by Sit Tsui, Erebus Wong, Lau Kin Chi and Wen Tiejun

Sit Tsui is an associate professor at the Rural Reconstruction Institute at Southwest University, Chongqing. Erebus Wong is a senior researcher at the Kwan Fong Cultural Research and Development Program at Lingnan University, Hong Kong. Lau Kin Chi is an associate professor in the Department of Cultural Studies at Lingnan University. Wen Tiejun is executive dean of the Rural Reconstruction Institute at Southwest University. All are founding members of the Global University for Sustainability.

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Emperors Yao and Shun governed virtuously, thence their people lived harmoniously and achieved longevity; Emperors Jie and Zhou governed brutally, their people were consequently debased and could only lead a short life.

–"Biography of Dong Zhongshu," *Book of Han* (111 AD)

The tyranny of global monopoly-finance capital can be seen in part as monetary geopolitics backed by military power. Through investment schemes, it directly appropriates the production gains made by the physical and resource economies of developing countries. At the same time, it engages in financial speculation by buying long and selling short in capital markets. The end result is the plundering of social wealth. China is not immune to this tyranny. This article analyzes the causes and effects of China's financial crises, which are in large part the fallout of crises occurring outside China. Crucial here is uncovering how financial capital–both domestic and foreign–has become alienated from the physical economy and "de-localized" in its pursuit of profits.

Since China launched its first nationwide program of industrialization in the 1950s, its economy has undergone ten successive crises. The seven that occurred before the mid-1990s arose from structural imbalances in the domestic economic system, while the three subsequent crises, those of 1997–98, 2008–09, and 2015–16, could be broadly attributed to China's rapid integration into a globalized economy, and can thus be considered "imported" crises.1 Later, in the summer of 2015, simultaneous assaults by domestic and foreign financial interests led to multiple stock market crashes. The renminbi exchange rate fluctuated wildly, and China's foreign currency reserves sharply declined. This most recent crisis is clearly not the result of isolated domestic factors, but is instead symptomatic of a globalization that has largely erased any distinction between domestic and foreign financial capital.

Since the 1980s, economic growth in the core capitalist countries has been driven by an enormous expansion of financial capital, accompanied by steady deindustrialization. In recent years, the monopoly power of this financial capital has displayed increasingly tyrannical characteristics: it depends for its continued growth on ever-increasing indebtedness and dependence in developing nations, widening the divide between rich and poor and ultimately fostering state violence that serves to suppress popular resistance.2 In the era of Western-dominated financial capital, military and monetary strength work together to profit from inequality and instability in emerging economies.

The Use of Monetary Geopolitics

Wherever it goes in its drive toward exorbitant profits, globally mobile financial capital is consistently characterized by three features: liquidity, short-term speculation, and concentration.[3] These tendencies inevitably produce bubbles and crises whose risks and costs are externalized from the multinational banks and firms that create them. The Internet and other innovations in telecommunications have made possible the immense volume of "high-frequency trading," a globe-spanning system of split-second, automated digital transactions that has come to dominate high finance. Where traditional banking served the physical economy by facilitating investment in productive infrastructure and in deposits, loans, exchanges, and remittances, financial capital today operates in a largely virtual realm of ever more sophisticated financial "devices" and "products."

These forces of de-localized, stateless financial capital depend equally on collusion with military powers in resource-rich regions, where "long-short" speculations are manipulated to reap huge profits, in the process sparking violent conflict and displacing tens of thousands of people. Chinese economist Song Hongbing calls such disruption "currency war."[4] Xu Yisheng and Ma Xin refer to it as "financial sanction."[5] Liao Ziguang has similarly named it "financial war."[6]

The role of Western governments and corporations in these regional conflicts is justified in the name of "human rights" and "democracy"—slogans that recall the "civilizing mission" of nineteenth-century colonialism. Indeed, Chinese scholar Liu Fudui has called it "financial colonialism," and proposes that China establish a "state financial security bureau" as defense.[7] Samir Amin has likewise implicated monopoly-finance capitalism in the recent global resurgence of fascist movements.[8]

While its power has weakened somewhat, the United States remains the world's financial hegemon. This monetary dominance is underwritten by military strength: just as the U.S. dollar dominates currency markets and reserves, U.S. military bases encircle the earth. Since becoming the world's "sole superpower" after the demise of the Soviet Union, the United States has regularly launched invasions, aerial bombardments, and other interventions in Iraq, Afghanistan, Libya, and elsewhere. Whatever their stated rationales or immediate goals, the ultimate aim of such actions is to defend, consolidate, and expand the so-called "Dollar Lake." In fact, as the U.S. debt crisis has worsened, its military spending has increased, because the country's unmatched power allows it to issue ever more debt to avoid repayment of existing debts—not by virtue of the strength of U.S. democracy or markets, but through the sheer military force that supports its financial capital. It is no surprise, then, that the United States accounted for more military spending in 2015 than the next seven biggest arms spenders (China, Russia, Saudi Arabia, United Kingdom, France, Japan, and India) put together.[9]

Every U.S. administration in modern history, regardless of which party is in power, has affirmed that a strong dollar is fundamental to the nation's prosperity and security—implicitly forbidding any country to try to undermine the primacy of the dollar as the international reserve and trade-clearing currency. The defense of U.S. monetary hegemony takes many forms, from military intervention to ideological pressure to economic sanctions to "free trade" agreements. As global capitalism enters its financial phase, the system's monetary geopolitics are undergoing major transformations, and the United States has felt compelled to respond to the rise of potential economic rivals. In December 2015, the International Monetary Fund changed its rules such that loans issued by the United States must still be repaid in full, but those from Russia or China not necessarily so.10 Preliminary negotiations for the U.S.-directed Trans-Pacific Partnership concluded in October 2015, and among the twelve charter member countries, one of the world's biggest economies was conspicuously absent: China. Then, a few months later, the opening of the Asian Infrastructure Investment Bank marked the inauguration of a major new regional financial institution—but the United States and Japan refused to join.

The Predicament of Emerging Countries

In the financial phase of global capitalism, financial competition is largely dominated by the "core" advanced economies, and the enormous profits and speculative capabilities of financial capital are concentrated among transnational corporations, based in the core countries, that command monopolistic positions. In the years since the 2008–09 crisis, central banks in core countries have, through enormous amounts of quantitative easing (QE), provided capital at effectively zero interest rates to institutional investors, allowing them to reap high returns from capital markets, resource privatization, raw material and food commodity markets, as well as derivatives, similar to those that precipitated the most recent financial collapse. Further, the zero-interest U.S. dollar has spurred overseas investment and strategic acquisitions in the physical economies of developing countries. According to one estimate, two-thirds of China's twenty-one major industries are controlled by foreign capital.11 With basic commodity prices pushed up by international trade, domestic inflation has inevitably risen, which in turn has increased the cost of business transactions. Countering inflation would induce higher domestic capital costs, making it even more uncompetitive in the global investment market relative to the low-cost overseas investment.12

In contrast, the U.S. Federal Reserve's plan to "taper" QE and gradually raise interest rates has rattled global financial markets, especially in emerging countries whose physical economies are most dependent on foreign investment. Losing the "long-short" battle manipulated by this outside investment is one of the external factors that has led to the recent slowdown of growth in developing countries, notably China.

It is to be expected that in order to externalize the cost of frequent financial crises, the core countries would develop corresponding institutional arrangements. The most obvious of these is the Fed's QE policy, which has served substantially to expand the role of virtualized financial capital in core countries. Next, in order to protect their assets from a worsening financial crisis largely driven by their own speculative investments, the centers of financial capital, such as the United States, Europe, and Japan, have advanced institutional reforms to stabilize their own financial markets. In October 2013, the central banks of six major developed economies—the United States, the European Union, Switzerland, Britain, Canada, and Japan, with the Fed at the center—announced a long-term multilateral currency-swap agreement that would build a cooperative network for liquidity among these core countries. This outwardly unremarkable decision in fact signified the formation of a "new core" for the financial phase of global capitalism, a major institutional adjustment. Chinese economist Xu Yisheng has called it the new "Atlantic System" of international currencies. Financial markets in the countries whose currencies have entered this system—the U.S. dollar, euro, yen, British pound, Canadian dollar, and Swiss franc—

will enjoy liquidity support as well as the “bottom line of risk premium” assessed by international capital. Meanwhile, in economies outside of the system currency exchange rates and financial markets are left vulnerable to volatility and crisis.13 In October 2014, the Fed formally announced the end of QE. The Japanese Central Bank and European Central Bank had earlier picked up the slack and put forward their own QE policies. In December 2015, the United States resumed its cycle of interest rate hikes.

Since the Fed’s mid-2013 announcement that it would begin tapering QE, which sent shock waves through global currency and financial markets, global financial capital has retreated en masse from emerging markets. The U.S. dollar has regained its strength, causing jarring fluctuations in emerging markets, including currency depreciation, asset price decreases, growth slowdowns, and even stagnation or contraction. Such effects have helped expose longstanding structural problems in these countries. Among them, states, such as Brazil, that lack measures to limit currency exchange or contain capital flows, have been hardest hit.

There has been enormous turbulence since June 2013 in emerging-market currencies threatened by the prospect of QE tapering.14 From June 2013 to early September 2015, in terms of U.S. dollar exchange rates, the value of Brazil’s currency had dropped by 73 percent, Turkey’s by 55 percent, Indonesia’s about 45 percent, South Africa’s by 34 percent, India’s by 17 percent, and China’s by 5 percent. It can be seen that, except in China, which maintains strict capital controls, these countries stand to lose the most in the ongoing institutional transformation of global finance. Brazil, Indonesia, Turkey, South Africa, and India are already being referred to as the “fragile five” in economic scholarship.15

It was estimated that in the thirteen months preceding July 2015, net capital outflows from the nineteen biggest emerging economies totaled $940.2 billion. Based on an estimate by EPFR, an organization that monitors fund flows, in a single week in June of that year, mutual fund out-flows from emerging markets reached $9.3 billion, a new record since the 2008–09 crisis. Of this, $7.1 billion flowed from Chinese mutual funds, the largest fund out-flow in emerging-market mutual funds in seven years.16

China’s Response to Imported Crisis

Since 2000, the problem of excess capacity, also known as excess production, a concept rarely seen in China in the twentieth century, has begun appearing in official documents with increasing frequency. Although the Chinese government has responded with policies that would strengthen financial investment in the physical economy as well as facilitate what it calls “supply side reform,” these do not address the problem’s deeper causes: the loss of funds with the decline of certain industries within China, as well as the expansion of capital markets driven by highly leveraged financial interests.17

There are thus important lessons to be gained from China’s experience of globalization. When the country joined the Western-dominated World Trade Organization (WTO) in 2001, China had by and large already completed its most sweeping marketization reforms. Amid Western sanctions initiated in 1989 by the United States, China’s government had announced in 1992 its project of building a “new system for a socialist market economy.” Before that, it had already decontrolled prices for food and other commodities, gradually phasing out the coupon distribution system and initiating currency reform. And in December 1993, the State Council announced its decision to liberalize China’s financial system, opening up three speculative capital markets—in securities, futures, and real estate.

By the early years of the new millennium, state-owned banks in China had completed the commercial banking reforms begun in 1998. Previously, the four major state-owned banks—the Industrial and Commercial Bank, Chinese Agricultural Bank, Bank of China, and Construction Bank of China—were specialized banks directly managed by the state. After the launch of market liberalization in 1992, public and commercial finance were strictly separated; during this period, the Chinese financial system was in chaos, saddling the banks with large quantities of bad assets, in turn resulting in severe shortfalls of capital. In 1997, the government sponsored the First National Financial Work Conference in Beijing. Conference attendees proposed the establishment of four asset management companies, one for each major bank—Huarong, Cinda, Great Wall, and Orient—to take on bad assets and smooth the path to commercialization reform. Afterward, during the Asian financial crisis, expansionary fiscal measures were adopted to invest in infrastructure in inland regions of China on a large scale, underwriting special national bonds that were issued to the four major banks to cope with a crisis that had originated outside China itself.

Given that China had not yet opened its domestic capital and currency markets to foreign investment, such measures to strengthen state banks’ capital in the face of an “imported crisis” amounted to an official countercyclical intervention, directly “buying long,” and as a result China was spared from the worst effects of the regional financial meltdown.[18] Yet this essentially Keynesian use of national fiscal policy to make countercyclical adjustments was regarded by Western countries as a form of “capital control,” in contrast to “capital flow.” The West then shifted its demands from an imperative to open the “market” in general toward a stress on the opening up of finance.

Before panic seized Western financial markets in 2008, China had mostly completed its reform of the four major state-owned banks for public trading. In response to the WTO’s request to admit foreign capital, the Second National Financial Work Conference in 2002 made it official policy that state-owned banks would be restructured as commercial banks, with the state retaining a controlling share. In due course, shares in the four major banks were offered to the public on the A-Share market of Shanghai and H-Share market of Hong Kong.

Thus, within a single decade, two major systemic reforms altered the role of financial capital in China: marketization reform and banking reform, which together created the institutional conditions for China to participate fully in globalization. Soon after that, in 2009, following the eruption of the global crisis, financial capital grew alienated from real industries. In the context of the government’s enormous injection of ¥4 trillion, growth in currency credit has exceeded that of GDP. The respective growth rates of industrial added value and of M2, the aggregate social financing, began to diverge. The additional credit fund did not prompt an expansion of the physical economy. Instead, many non-financial institutions that had obtained financing abandoned low-return primary industries and entered the financial sector, launching businesses that offered loans, managed wealth assets, and so on.[19] More broadly, since 2011, when growth in the domestic real estate market began to slow, a major shift has redirected China’s economy toward the Western model of globalized financial capital. Property mutual funds entered virtualized realms such as insurance and internet finance. At the same time, shadow banks multiplied, and the financial market expanded rapidly.

In recent years, the financial capital groups that drove this alienation of China's development priorities away from the real economy, along with sympathetic state authorities, have introduced a series of trading tools facilitating the development of derivatives, such as margin trading, financial futures, over-the-counter financing, and more. All of this represents a rare historic opportunity for foreign and domestic financial capital to collaborate and short-sell the Chinese economy.[20]

Stock Market Crashes and Exchange Rate Fluctuations

Objectively speaking, the multiple stock market crashes that occurred in 2015 in China, as well as the fluctuations in the renminbi exchange rate, were part of a larger "long-short" war that has typified global capitalism's financial phase, enabled by the entry of Chinese financial capital into the globalization process—even if on the surface it appears as merely a confrontation between the "long buying" of Chinese state capital and the "short selling" of private capital.

In early 2015, the stock market surged, prompted by an expectation of favorable policies. In April, the China Securities Regulatory Commission (CSRC) launched several new stock indices, as well as a mechanism for full "short-selling." According to estimates by analysts in over-the-counter financing institutions, the scale of over-the-counter financing was about ¥1.7 to 2 trillion, much higher than the CSRC's own estimate. In June 2015, data from Bloomberg showed that the largest Exchange Traded Fund (ETF) in the United States tracking renminbi-based stocks had seen the inclination to "short-sell" Chinese stocks rise to 16 percent of total circulating shares, a new record.[21] All the necessary factors were in place for a classic stock-market panic.

From June to July, successive stock market crashes shook the Chinese economy. The Shanghai Stock Exchange Composite Index plunged from a peak of 5178 to about 3300 before eventually recovering. ¥18 trillion of market value evaporated almost overnight. On July 6, the Shanghai-Hong Kong Stock Connect Program had a net "sell" in both directions: ¥13.4 billion in Shanghai and ¥14.6 billion in Hong Kong.[22] One after another, overseas funds fled Chinese stock markets.

On June 27, the Central Bank of China announced it would lower interest rates by 0.25 percent, and at the same time reduced the reserve-deposit ratio requirements for certain banks. The last time this unusual combination had been tried was at the peak of the 2008 crisis, an indication of the severity with which the government viewed the situation. A week later, the State Council held a meeting to discuss other possible measures, and it was reported that the government raised an amount of ¥1.7 trillion effectively to bail out the market.

Goldman Sachs estimates that the Chinese government had spent close to $140 billion to avert a stock market meltdown. Other industry analysts estimated that including social security, the China Securities Finance Corporation, and other institutional investors, the total fund for bailing out the market amounted to ¥2–3 trillion.

In August 2015, pursuant to the renminbi exchange rate reform, China's currency entered a cycle of depreciation. Since then, the offshore renminbi exchange rate has fluctuated wildly. Chinese authorities have intervened repeatedly in the currency and financial markets in order to deal with the coordinated short-selling activities of foreign and domestic investment funds.

According to calculations by economist Zhang Ming, compared to their peak near the end of June 2014, foreign reserves in China had shrunk by about $800 billion, of which $500 billion was used by the central bank to intervene in the foreign currency exchange market. From November 2015 to January 2016, the monthly decline was close to $100 billion, most of which was deployed in foreign currency exchange market interventions. By the end of 2016, China's foreign currency reserves were worth $3.01 trillion. The reduction was necessary to stabilize the renminbi, which had depreciated by about 7 percent against the surging dollar in late 2016.[23]

That Western financial capital had long been aiming to short-sell the Chinese capital market was an open secret.[24] Nevertheless, earlier attempts had failed, mainly because China's financial capital remained largely closed to foreign investment. Now, however, in order to realize the market's role as the deciding factor in resource allocation, China had extended its economic liberalization to include the opening-up of the financial industry, both domestically and externally.[25]

Before the 2015 reforms, China's only official set of capital requirements for foreign investment was the Qualified Foreign Institutional Investor (QFII) policy.[26] Because relatively few foreign investors were approved under QFII, speculative financial capital was given little room to cause trouble within China. This hardly kept speculative investors out of the country, however: financial big shots instead simply set aside their enormous funds in the more open environment of Hong Kong, eventually pushing the Hong Kong stock market to a six-year high of over 25,000 in September 2014.[27] This in turn led Hong Kong's economy into a deep dependence on capital markets, as well as a parasitic reliance on the economy of mainland China. As in the United States and other Western nations, an increasingly financialized economy is inherently incapable of overcoming mass unemployment, dimming the already bleak economic prospects of young people. A backlash was probably inevitable: from the youth-led Umbrella Movement of 2014 to the unrest in Mongkok in 2016, the root cause of Hong Kong's recent social disruptions is not the lack of free elections or the rule of law, but the unchecked rise of foreign financial capital, which has hollowed out the country's physical economy and polarized its society between rich and poor.

Transnational financial capital groups had finally found a long-sought opportunity to short-sell China. Where did that opportunity come from? Since 2008, after the U.S. government's bailed out major banks and initiated QE, the cost of zero interest rate had expanded liquidity on a global scale. The excess funds that went into commodity futures markets had pushed up prices for raw materials, natural resources, and food staples, in effect transferring inflation to the importing countries.[28]

China, as the world's largest importer of energy and raw materials, was thus exposed to high rates of domestic inflation which could hardly be contained. This in turn prompted domestic interest rate increases, narrowing profit margins in the physical economy and precipitating the latter's recent relative decline.[29] At the same time, because U.S. and Chinese interest rates tend toward an inverse relationship, foreign "hot money" continued to flow into China, abetted by public and private sectors keen on access to cheap foreign capital. China's new bourgeoisie rallied around calls to "open up the capital markets," leading to a series of liberalizing policies such as the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, and the Shanghai Free Trade Zone.

After the Shanghai-Hong Kong Stock Connect, other measures were proposed, such as a substantial expansion of QFII and the Renminbi Qualified Foreign Institutional Investors (RQFII) and the admittance of the A-Share into international stock indices. As part of the regional free trade zone established in Shanghai in September 2013, financial services were offered for free trade accounts that incorporated both domestic and overseas currencies, beginning in April 2014. Other coastal cities and even some large inland cities eagerly followed Shanghai's lead. It was these projects of opening up capital markets that set the stage for a major "long-short" battle. In fact, this so-called opening was mainly motivated by the strong demand in coastal regions to implement institutional "de-centralization," in order to facilitate direct articulation between cheap foreign capital and the local state-owned corporations, freed from any formal repayment obligations.30

After China's 2015 stock market crisis, the country's financial and fiscal authorities advanced a set of still more "pro-cyclical" policies. First, further reforms to facilitate the development of internet finance.31 Second, proposals to encourage cash dividends to improve the stock markets' rates of return.32 These proposals represent a decisive victory for the interests of financial capital, which has turned the current crisis to its own advantage. Finance's gain, however, is the Chinese people's loss.

"Long" Measures in China

Faced with the challenges of globalization, China has consistently taken active measures to increase "aggregate demand"; since 1998, China has continuously bought "long." These polices included large-scale strategic investment projects to drive economic growth, supported mostly by national debt: ¥3.6 trillion in 1999 for the development of the country's western regions; ¥2–3 trillion in 2001 to revive former industrial bases in the northeast; ¥2–3 trillion in 2003 on development of central regions; over ¥10 trillion for the Policy of Building a New Socialist Countryside from 2006–15, and ¥2 trillion in 2008 on post-earthquake reconstruction in Sichuan province, as well as ¥4 trillion in 2009 on emergency market bailouts. Driven by exports and state investment, 2002–12 appears in retrospect as a "golden decade" of rapid growth and development in China.

For years, these "long" measures were effective, since control over domestic financial markets remained strict. Since at that time there was, at least at the national level, no strong separation between fiscal management and financial investment, the central government could retain close control over financial capital, largely shielding China from the East Asian financial crisis in 1997, and later from the 2008 global financial panic. For the same reasons, for most of the past two decades international financial capital was effectively blocked from acting on its stated ambitions to "short-sell" China.33

All this came to an end around 2013, when the long-awaited "tapering" of QE provided Western financial capital a pretext to instigate capital speculations, producing violent stock market fluctuations and currency depreciations in Brazil, India, Russia, and other developing nations. Fortunately, in 2013, although China had already expressed its intention to further open capital markets, these reforms had not yet been implemented, sparing the country from such shocks.

However, in the years since, China has embraced the Western model of financial capitalism. The central government has promoted novel trading tools such as margin trading, financial futures, over-the-counter financing, and so on, all to facilitate the development and trading of derivatives. At the same time, objective circumstances such as the real estate crisis have redirected funds for property speculation toward the stock market.

A comparison with the 2007 stock market crash in China may be instructive. Before the U.S. subprime mortgage crisis initiated the Wall Street meltdown, China's stock market was already in shambles. The SSE Composite Index dropped from 5500 to 2500, erasing over ¥700 billion in wealth. Although these numbers may look modest now, they inspired a bearish mood in Chinese markets, trapping almost all the "hot money" that had recently entered the country and inhibiting its flow back to the United States and other western financial centers. This was one of the causes of the liquidity crunch during the subprime crisis, which set in motion the global financial crisis. By contrast, eight years later, in June 2015 another stock market crash occurred in China, this time wiping out ¥7 trillion, and again trapping large amount of overseas hot money. Yet this time China's instability caused only a brief dip in U.S. stocks, which quickly recovered. The decisive factor behind the disparate outcomes of these two crises was the new currency swap agreement of October 2013, set up among the United States and other core countries of financial capital, that was able to smooth market fluctuations.

The multiple stock-market destabilizations that have occurred since 2015 undoubtedly required the close collaboration of foreign investors and Chinese domestic capital. Yet this is not to say that China's vulnerable markets are the result of a conspiracy by the global financial elite. Rather, it accords with larger objective trends in the global political economy. Representatives of China's financial capital and their allies had only to stress the guiding principle of the "market," implicitly rejecting the counter-cyclical measures that had long characterized Chinese macroeconomic policy, and further, demand the government's adoption of so-called "deepened reform." After the subsequent launch of derivatives-trading products able to absorb large amount of excess currency, the interests of domestic and foreign financial capital would merge in the form of a Western-style virtualized financial capitalism. Viewed this way, no conspiracy theory is needed to explain the weakening of China's physical economy and the volatility of its financial markets; only the fluttering of butterfly wings in Shanghai or New York—i.e., the cumulative consequences of every individual short-selling transaction.

Will Financial Capital Collapse?

China's market crash calamity is one episode in a global "long-short" battle waged by domestic and foreign financial entities during the current phase of financial capitalism. Domestic private capital, as well as some senior management of state-owned enterprises, who worked to undo the counter-cyclical "long" policies of the central government are in fact representatives of the interests of foreign capital blocs. China's neoliberal reforms since 2013 have followed the larger pattern of financial globalization, but the fortress could only have broken down from within.

Unless Chinese regulatory authorities take decisive steps to contain it, the stock market crash will strike further blows to China's real economy. Wealth accumulated over the years by corporatized local governments in the real economy—albeit by suppressing workers' rights and wages and by destroying the environment—could be reduced to virtually nothing, as in the "500-day privatization plan" introduced in Russia in 1991.[34]

Financial capital is ultimately a black hole. In the longer term, as financial capital overtakes everything in the real economy, it may be hurtling toward its own destruction.35 Once it is no longer possible to wage "long-short" battles, it will implode.36 For now, however, a world economy in which financial capital always wins looks more and more like a global race to the bottom.

Notes

1. ↩Wen Tiejun et al.,*Eight Crises: Lessons from China, 1949–2009* (Beijing: Dongfang, 2013).
2. ↩See Michael Hudson,*Killing the Host* (ISLET, 2015); Eric Toussaint,*Your Money or Your Life* (Chicago: Haymarket, 2005); Maurizio Lazzarato,*Governing by Debt* (Cambridge, MA: MIT Press, 2015); Joseph E. Stiglitz,*The Great Divide* (New York: Norton, 2015; and Christian Marazzi,*The Violence of Financial Capitalism* (Cambridge, MA: MIT Press, 2010).
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16. ↩Josh Noble, "Emerging Markets Suffer Biggest Weekly Outflow in 7 Years,"*Financial Times*, June 12, 2015.
17. ↩"Xi Jinping Hosted the 11th Meeting of the Central Financial Leading Group," Xinhua, November, 10, 2015, http://news.xinhuanet.com.
18. ↩Wen Tiejun, Ji Han, Zhang Junna, "Central's Risk and Local Competitions,"*Journal of Chinese Academy of Governance* 4 (2015).
19. ↩Chen Daofu, "The Situation and Causes of the Rift between Monetary Finance and the Physical Economy in China,"*Journal of Development Research* 10 (2013).
20. ↩Wen Tiejun et al., "China's Stock Market Crash and Alternatives," seminar discussion at Lingnan University, Hong Kong, July 6, 2015; transcript available at http://our-global-u.org.
21. ↩San Feng, "Crash of a Share: The Phantom of Soros Looming in the Financial War," Deep Observation Think Tank, July 4, 2015.
22. ↩The Shanghai-Hong Kong Stock Connect is a mechanism whereby the Shanghai Security Exchange and the Stock Exchange of Hong Kong allow investors in either city to trade in the other's stocks—within certain limits—through local securities brokerages. Begun in November 2014, it represents a significant part of the opening of China's capital markets to outside investment.
23. ↩"News Analysis: China's forex reserve drop narrows in 2016, pressure remains," Xinhua, January 7, 2017.
24. ↩"Road Map of Five-Step China-Shorting," Ifeng, December 2, 2012, http://news.ifeng.com.
25. ↩See "Third Plenary Session of the 18th CPC Central Committee" adopting "Decision on Major Issues Concerning Comprehensively Deepening Reforms," November 2013.
26. ↩The QFII system permits qualified foreign institutional investors to remit into China certain amounts of foreign currency and to convert it to local currency, to be invested in local securities markets through strictly monitored special accounts. The capital returns, stock dividends, and so on may then be converted back into foreign currencies and remitted, with approval from Chinese regulators.

27. ↩"Hong Kong Stocks Closed above 25000 Barrier for the First Time in Six Years," China News Service, September 19, 2014, http://chinanews.com.
28. ↩Han Huishi, "The Export of Inflation under Quantitative Easing—from the Perspective of US Capital's Outflow,"*Shanghai Finance* 5 (2011).
29. ↩He Zhengquan, "Analysis of the Impact on China's Inflation due to US Policy of Quantitative Easing,"*Journal of Finance and Economics* 10 (2012).
30. ↩"Government corporation" carries two distinct levels of meaning and interpretation. The first is what Chinese scholars call "corporatized government," wherein local authorities seek to optimize profits, over and against the interests of the people. The second is a phenomenon in which government leaders treat their jurisdictions as their own private companies, enriching themselves illegally.
31. ↩On July 18, 2016, a joint press release, "Guiding Opinions on Promoting the Healthy Development of Internet Finance," was issued by People's Bank of China, the Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of Finance, State Administration of Industry and Commerce, Legal Affairs Office of the State Council, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, and the National Internet Office.
32. ↩On August 31, 2016, a joint announcement was made by the four major departments (the Securities Regulatory Commission, Ministry of Finance, State-Owned Assets Supervision and Administration Commission, and the Banking Regulatory Commission), "Notice on Encouraging Listed Companies in Merger and Reorganization, Cash Dividend and Stock Buy-Back." It recommended further measures to simplify governance, empower, push for mergers and acquisitions among listed companies, encourage listed companies to pay cash dividends, help listed companies buy back shares, develop innovative payment and financing tools, and, through acquisition loans, overseas and domestic syndications, and so on, support listed companies in making transnational acquisitions.
33. ↩The earliest attempt to "short" China was the so-called China Collapse that followed the disintegration of the Soviet Union and peaked during the 1997 East Asian Financial Crisis, before receding after 2001 as U.S. financial capital struggled to recover from the tech-bubble burst.
34. ↩This shock-therapy plan proposed that within 500 days, beginning on October 1, 1990, the entire base and structure of the Soviet economy would be liberalized, stabilized, and privatized, turning toward markets, and, in effect, toward capitalism.
35. ↩Immanuel Wallerstein et al.,*Does Capitalism Have a Future?* (Oxford: Oxford University Press, 2013).
36. ↩Samir Amin, *The Implosion of Contemporary Capitalism* (New York: Monthly Review Press, 2013).

‘One Belt, One Road’
China’s Strategy in a Changing Financial Order[1]

Sit Tsui, Erebus Wong, Lau Kin Chi, Wen Tiejun
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In late 2013, Chinese premier Xi Jinping announced a pair of new development and trade initiatives for China and the surrounding region: the “Silk Road Economic Belt” and the “Twenty-First century Maritime Silk Road,” together known as One Belt, One Road (OBOR). Along with the Asian Infrastructure Investment Bank (AIIB), the OBOR policies represent an ambitious spatial expansion of Chinese state capitalism, driven by an excess of industrial production capacity, as well as by emerging financial capital interests. The Chinese government has publicly stressed the lessons of the 1930s over-capacity crisis in the West that precipitated the Second World War, and promoted these new initiatives in the name of “peaceful development.” Nevertheless, the turn to OBOR suggests a regional scenario broadly similar to that in Europe between the end of the nineteenth century and the years before the First World War, when strong nations jostled one another for industrial and military dominance. The OBOR strategy combines land power and maritime power, bolstering China’s existing oceanic hegemony in East Asia.

Historically, since the Han Dynasty (206 BC–220 AD) and Tang Dynasty (618–907 AD), China’s trade with the West had motivated the Islamic world to expand its influence along the trading routes of Central and West Asia, forcing Europe—under the pressure of a silver crisis cause by continued trade deficits—to seek eastern trading routes that would allow it to bypass the Islamic regions. One after another, Spain, the Netherlands, the United Kingdom, and eventually the United States became dominant maritime powers, protecting and expanding their trade interests in East Asia.

If the project were merely “one road,” it would be little more than a traditional land-power strategy, but OBOR opens up secondary maritime power along China’s coast, backed by the vast expanse of the country’s land mass.

At the turn of the twentieth century, the English geographer Halford John Mackinder proposed that a strong power integrating the transportation and trading channels of Europe, Asia, and Africa into a single “World-Island” would be ready to dominate the globe.[2] In 1919, he wrote that “who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the world.”[3] In practice, however, it is still necessary to coordinate control of land routes with maritime transportation along the coast of this World-Island.

OBOR depends on a series of delicate geopolitical calculations. Today only three nations can be considered continental powers: China, Russia, and the United States. China cannot simply open a new inland Silk Road, because it would inevitably have to pass through Russia. Ever since its emergence as an imperial power in the late eighteenth century, Russian geopolitical strategy has been oriented toward Europe, with only secondary attention given to East Asia. This partly explains why, as its economy benefited from a surge in oil prices several years ago, Russia took little notice of China’s Silk Road proposal. Likewise, Russia took the lead in negotiating the new Eurasian Economic Union, meant to integrate and link Europe with the former Soviet countries of Central Asia. Putting it bluntly, it was not up

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1 This paper is an outcome of the Sub-project on “International Comparative Studies on National Security in the Process of Globalization”, led by Dr SIT Tsui, Southwest University, which is under the Major Project on “A Study of the Structure and Mechanism of Rural Governance Basic to the Comprehensive National Security” led by Professor WEN Tiejun, Renmin University of China. The Major Project is funded by the National Social Science Foundation of China (No. 14ZDA064). This paper is translated from Chinese into English by Alice Chan.
2 H.J. Mackinder, “The geographical pivot of history’. Geographical Journal, 1904, 23, pp. 421–37.
3 H.J. Mackinder. Democratic Ideals and Reality. A Study in the Politics of Reconstruction, National Defense University Press, 1996, p. 150.

to China to integrate Central Asia. However, in the aftermath of the Ukraine crisis, Russia faces hostility from Europe, U.S. and with the global drop in oil prices, the country has no choice but to turn east and seriously consider China's proposal for a trans-continental strategic partnership. Yet if relations with Europe were to improve, Russia would promptly turn back toward Europe. No matter how closely tied their regional interests become, neither Russia nor China can put all their eggs in one basket. That is why China's land-power strategy is being presented as OBOR, a distinctly Chinese project.

Nevertheless, China is aware that the United States would counter the OBOR effort by strengthening its alliance with capital interest blocs within China—both inside and outside the ruling CCP clique—to reassert its influence over China's future development policy. Indeed, in this respect the United States has already had much success: the Chinese financial bureaucracy accedes to the unwavering primacy of the United States as the world's central bank, making it unlikely to question, much less undermine, U.S. leadership in the global order. Nevertheless, there is little doubt the United States will adjust its diplomatic strategy with regard to OBOR. Iran, for example, is an important part of the OBOR proposal, and whatever its other aims, the U.S. nuclear agreement with Iran was a strategic adjustment meant to balance China's influence in the region.

Maritime Power and the ASEAN Region

For such a small place, Singapore has long had an outsize influence and strategic importance. With the Strait of Malacca it controls a vital access point for the maritime trade routes connecting Europe, Africa and Asia.

Singapore clearly understands that its survival depends on a balancing act between the West and China. The West valued Singapore's first prime minister, Lee Kuan Yew, an ardent Cold War Warrior, determined to stop the spread of communism in the region. Thus, despite Lee's close ties to Chinese officials and their sympathy for the authoritarian efficiency and corporatism of his "Asian values" ideology, Singapore would never become an ally. Lee remained loyal to U.S. interests to the end: shortly after Obama took office, he advised the United States on its diplomatic "pivot" to Asia and the Pacific, and opened up military ports to assist with new U.S. military deployment within the Association of Southeast Asian Nations (ASEAN) region. Given this legacy, China harbors no illusions about Singapore's allegiances.

For these and other reasons, China wants to open up another transportation channel from southwest China to the Indian Ocean, bypassing the Strait of Malacca. Another potential southbound route would pass through Pakistan or Bangladesh to the Indian Ocean. In either case, the goal would be to connect with Sri Lanka, where a new, world-class harbor would open up one more entrepot in the Indian Ocean. ASEAN is the starting point of the maritime Silk Road proposed by China, but it is also the region fraught with the most complexities, and where U.S. influence is most deeply rooted.

China's Development and the U.S. Dollar System

In recent years, China has taken a leading role in the establishment of a new set of international economic institutions, including the New Development Bank, the BRICS Contingent Reserve Arrangement, the Asian Infrastructure Investment Bank, and the Silk Road Fund, as well as the Shanghai Co-operation Organization. Together they represent a regional counterweight to Western-led entities like the International Monetary Fund and the World Bank—and more recently, the European Central Bank—that have dominated the global financial order since the introduction of the Bretton Woods system after the Second World War. China is arguably only the third country in history, after Britain and the United States, with the capacity to shape and lead a global system of finance and trade. Of course, in the foreseeable future, China will not replace the U.S. dollar system; it could at most stand on equal footing. After the United States overtook the United Kingdom to lead the world in industrial production capacity in the late nineteenth century, it took another fifty years and two world wars before it could dominate global finance. China recognizes this reality, and has consistently promoted the AIIB and other organizations as complements, not competitors, of the World Bank and Asian Development Bank (ADB).

Over the next decade or so, as long as no major instability unsettles the Chinese economy, it seems inevitable that the renminbi will become one of the most important international currencies. Nevertheless, it is far from clear that the renminbi, even in twenty years' time, could challenge the hegemonic status of the U.S. dollar. As a capitalist economy industrializes, the strength of its currency depends on the country's continued productive capacity, supported by the government and civil society. However, in the subsequent phase of financial capitalism, the main source of a currency's credibility is the political and military strength of a country. From this perspective, the impregnable position of the U.S. dollar as the world's credit currency arises foremost from the United States' enormous military strength. The United States accounts for 40 percent of global military spending, more than that of the next ten countries combined.

Of course, a continually expanding military hegemony has not been the only source of U.S. financial dominance. Since the Second World War, the private firms and government agencies in the United States has led the world in technological innovation, not only in arms manufacturing, but in chemicals, semi-conductors, film and television, aviation, computers, finance, communications, and information technology. All of these innovations have facilitated the global expansion of capital's high added value. The foundation of the U.S. dollar's value, besides American military and political strength, is thus the United States' monopolistic innovative capacity in raising the added value of capital.

In China today, a spirit of utopian capitalism is rampant at all levels of the economy, driven by the belief that as long as state-owned enterprises continually withdraw or dissolve, to be replaced by private firms, then China will be blessed by some miraculous market power with an innovative capacity for high added value. But without an enormous investment in systematic research and development it is unclear how scattered concentrations of private capital in China could make such advances in the near future—and consequently, China's currency is unlikely to challenge the U.S. dollar, or even the Euro. Ironically, the single force that seems most likely to bring down the U.S. dollar is the increasingly virtualized U.S. financial system itself.

In exporting capital over the past decade, China lacked any overall planning for foreign investment and development, sometimes entangling it in geopolitical crises, as in Libya or Sudan, other times in bureaucratic morasses, as in its role in the Mexican high-speed rail and Sri Lanka harbor projects. This misdirection resulted from the lack of any strong support and coordination from financial organizations like the AIIB. While China has become an important capital-exporting country, it does not have a political alliance, it has largely avoided entering into explicit political or financial alliances that might protect its large-scale foreign investments. With the establishment of the New Development Bank and the AIIB, however, China's financial ties to neighboring nations have become more formal and far-reaching. From this perspective, they represent the kind of transnational institutional construction needed to give greater focus and strategic leverage to China's capital exports.

One goal of the Obama administration's "pivot" to the Asia-Pacific was to prevent the emergence of a mutually beneficial Asian currency alliance among China, Japan, and South Korea, which would have threatened the primacy U.S. currency in the region. Toward that end, the United States encouraged the right-wing restoration in Japan under Shinzo Abe, helping to form a defensive Pacific ring to contain China. In addition, the United States has sponsored the Trans-Pacific Partnership (TPP) in part to ensure that the Asia-Pacific region will continue to be a dollar stronghold. The AIIB represents China's response. Though the United States put strong pressure on its European and Asian allies not to join the bank, since its founding in 2015 the AIIB has already attracted a prominent international membership, including not only major developing economies such as Brazil, India, and Russia, but also France and the United Kingdom. One reason for the slow progress of the TPP negotiations is that the agreement has been centered on U.S. interests, and the marginal returns gained from tariff reductions might prove minimal in comparison to larger issues of production and finance. However, the founding of the AIIB compelled the United States to both speed up these negotiations and to make significant concessions, finally concluding the negotiations in October 2015. (Though even now, after all these efforts, the election of Donald Trump has put the agreement's future in unforeseen jeopardy.)

Awkwardly for the United States, which launched the TPP with the original intent of blocking China, the AIIB marks the first time since Bretton Woods that the United States has been excluded from an important international financial structure. When trusted European allies like the United Kingdom, Germany, France, Italy, Switzerland, and others announced their participation, Obama called an emergency national security meeting. The reason is clear: the AIIB challenges, albeit still in an institutional framework, the U.S. financial hegemony that has prevailed since the Second World War.

Of course, these allies are not jumping ship from the U.S. dollar-dominated system just yet, but only hedging their bets, as that hegemony has shown clear signs of exhaustion. In setting up the AIIB, China has stressed shared interests and cooperation among member nations, the better to attracted interested allies.

The first European country to join the AIIB was reportedly Switzerland. (Because Swiss officials wanted to keep their negotiations with China secret and postponed announcement of the decision, Britain was the first European country to officially announce its participation.) That both Switzerland and Luxemburg, strongholds of financial capital that have previously declined to join most international organizations, have now signed on with the AIIB, suggests that the Bretton Woods alliance faces deep internal fissures. We can call it the Bretton Woods system's Triffin Dilemma: the interests of the United States and those of its longtime allies are beginning to show potentially insuperable contradictions.

The institutional coherence of this alliance has been slipping for some time. A primary purpose of the Bretton Woods system was to facilitate exports of excess industrial capacity and capital from the United States. The interests of postwar growth in the United States and recovery in Europe were in line. In 1971, when the Nixon administration unpegged the dollar from gold and the United States began to export liquidity on a large scale, these moves likewise seemed to serve the interests of European financial institutions. However, over the last two decades the fundamental needs of the two have come into conflict. Reforms within the IMF have stalled, because the United States does not want to give up its veto power, while other international financial organizations long dominated by the United States have proven unable to accommodate the rapid rise of East Asian economies. The AIIB, led by China, is a clear outcome of these trends.

The liquidity swap alliance formed in October 2013 among six central banks—the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the U.S. Federal Reserve, and the Swiss National Bank—is designed to prevent another large-scale liquidity crisis in Europe and North America like the one that precipitated the financial crisis of 2008–09. Yet it is only preventive. The new global paradigm now needs new institutions and proactive propositions. The IMF and the World Bank (and its subsidiary, the Asian Development Bank), constrained by U.S. interests are not up to the task. Can China take this opportunity to oversee the development of a new global financial alliance? For a large industrial country just entering the phase of financial capitalism, increasingly roiled by domestic disturbances, the challenge is unprecedented and enormous.

Weakening Alliances

The establishment of the AIIB puts the United States in an awkward position, because it marks the first significant defection by its close allies since the advent of the united front of Western capitalist countries after the Second World War. The United States has sharply criticized its European partners, particularly the United Kingdom, and Britain has responded in kind. South Korea and Australia were discouraged from taking part, only to join at the last minute. Of the major U.S. allies, this leaves only Japan, eager to regain its regional military standing, and Canada, which has been indifferent from the beginning

In addition to these tensions in the American-led financial order, there are signs that United States' political alliances in both Europe and Asia are under similar strain. For example, it is very difficult for European allies, particularly Germany, to follow the hardline, neo-Cold War stance of the United States toward Russia, where German economic interests are so deeply embedded. Of course, saber-rattling aside, the United States does not really want to make war with Russia. The former's broader geopolitical goal is to foment conflicts between Europe and Russia, the better to inhibit the development of a strong Euro-Russian-Central Asia integration. With the Ukraine crisis, the United States hopes to further isolate Russia from the rest of Europe, with only halfhearted assistance from Western European governments themselves.

Similar contradictions have arisen in Asia. South Korea and Australia are key partners in U.S. efforts to contain China, as well as members of the TPP. Yet they, too, have joined the AIIB, in an implicit dissent from overbearing U.S. influence. Only Japan, a holdout from both the TPP and the AIIB, remains a faithful ally, largely because of continued American support for its military expansion. The long and narrow Japanese islands are scarce in resources, and to become a strong nation it is necessary to build maritime power and expand. At the end of the nineteenth century Japan defeated the navy of the Chinese Empire then scored victory against Russia to become an overlord of the region. Next Japan wanted to challenge the strong maritime power of the U.S. but was defeated and taken over by military occupation, so it went along to become a vassal of the U.S. maritime power. In any case the two have been mutually compatible in ideologies to start with.

South Korea has long been Japan's main regional rival. A united Korea would be able to challenge Japan in terms of its population, military, and industrial capacity. But for now, South Korea has turned to China as its most important trading partner, and the two nations have signed their own free trade agreement. Even on the question of future unification, South Korea would ultimately need China's help. However, the prospect of a united Korean Peninsula holds little appeal for the United States, since the formidable trio of China, Korea, and Japan would compete directly with the United States in East Asia. Furthermore, in the event of unification, it is doubtful that South Korea would be willing to give up its nuclear capabilities, driving South Korea to eventually seek military independence from the United States. Thus, whatever their outward affinities, the long-range interests of the United States and South Korea are likely destined to come into conflict.

Even Japan, the United States' closest ally in Asia, may yet go its own way. The country is coping with an excess of capital, and is anxious for new outlets for its industrial exports. The country's leading corporations thus hope Japan will eventually join the AIIB. These trends are hardly new: after the 1997 Asian financial crisis, Japan moved to establish the Asian Stabilization Fund, which would have made it the dominant financial power in Asia, only to have it vetoed by the United States. Japan leads the ADB, but ultimately has to abide by U.S. directives. The region has an annual demand of $800 billion for infrastructure investments, yet the ADB has only approved $13.5 billion. The drive toward military expansion has kept the ruling Liberal Democratic elite in Japan firmly behind the United Sates, but in the long run Japan's subordination of its own regional interests to U.S. strategy may prove unsustainable.

As the legitimacy of the United States' sole-superpower status has slipped, the interests of other national blocs and alliances have grown more diverse. Internal contradictions among the United States and its close allies are deepening by the day. It will require careful planning and keen strategy for China to find its best position in this changing global order. Over two decades of rapid growth, China has kept a low diplomatic profile relative to its size and strength. In the coming years, China's diplomacy will need new ideas and tactics.

Beyond Development, Toward Social Justice

From the 1950s through the 1970s, the United States successfully exported an ideology of industrial development that suited both its economic and military interests alike. After the World Bank-directed developmentalism had left many emerging countries impoverished and mired in foreign debt, the United States' diplomatic discourse shifted in the 1980s toward institution-building, democracy, and liberty. In particular, after the first Gulf War, the cause of "liberty and democracy" had become the main theme of U.S. geopolitical ideology. However, in the last decade, imperial adventures in Iraq and Afghanistan have sparked a concatenation of regional conflicts, not only causing death and displacement on a massive scale, but fostering the rise of organizations like the Islamic State. Official talk of liberty and democracy, always disingenuous, has been decisively discredited. "Security" and "stability" are now the watchwords of U.S. strategy; the old causes of global peace and prosperity have fallen victim to the United States' own catastrophic interventions. The official ideology behind OBOR, by contrast, is peaceful development—to sponsor infrastructure investments and facilitate economic development, promoting cooperation and minimizing conflict. There is no doubt that peaceful development is more sensible and sustainable than American-style militarized "security"; poverty and injustice are hotbed for extremism. Yet the discourse of "peaceful development" has its own blind spots, which reflect China's domestic contradictions. For instance, how can the AIIB avoid the damage done by the World Bank and others to the environment and indigenous livelihoods? How can China promote infrastructure investments that drive local development through diversity and sustainability, and not simply serve its own need for export outlets? The challenge, in other words, is to ensure that the AIIB and Silk Road Fund do not simply become East Asian counterparts of the IMF and World Bank. Given that OBOR is a contest for institutional influence in East Asia, the deciding factor for success or failure may be the competitiveness of its guiding discourses. China must promote a message of social justice and equitable development to counter the ideological soft power of "institutional transition" that the United States has pushed since the 1980s.

It should be clear that this discursive power will depend on deeds as much as words. If China continues to absorb excess capacity through rapid urbanization without regard for rural culture or ecological sustainability, and if the government fails to address the severe social contradictions caused by rising wealth inequality, labor disputes, environmental deterioration, and official corruption, then the slogans of "infrastructure-based developmentalism" will have little persuasive power overseas. In other words, OBOR in itself is only a framework. It needs a much stronger grounding in social justice. If motivated only by an excess of industrial capacity and financial power, China is unlikely to realize its domestic goals for an ecological society or for mutually beneficial trade and development with other nations.

Learning from China's Rural Society

Since the end of the Qing Dynasty (1644–1911), as China has undergone a series of struggles for national independence and unity, rural society has been central to the structure of government. Whenever one of the traditional mechanisms of local governance has come under attack, threatening the livelihoods of peasants and villages, serious social conflicts have erupted, sometimes to the point of provoking peasant uprisings. From the collapse of the Qing to the demise of the Republic of China in 1949, violent peasant-led revolts were all too common. But where it was possible to make effective use of the traditional social and economic institutions of rural society, peasant communities were integral to the country's development. In particular, during the last few decades of industrialization, the Chinese countryside has become the source of a vast "labor reserve," allowing the state to rely on *sannong*—the so-called "three rurals" of peasants, villages, and agriculture—as the foundation of China's turbulent but continuous modernization over the last sixty years.

Chinese rural society has been able to absorb the risks of this modernization because of the strength of its relation to nature, an advantage that has never been adequately acknowledged. Chinese agricultural society has been formed on the basis of common needs, such as irrigation and disaster prevention. This interdependence creates a collective rationality, with community, rather than the individual peasant or family, as the basic unit in the distribution and sharing of social resources. This focus on collective needs runs directly counter to the Western emphasis on individual interests. The organic integration of thousands of years of oriental agricultural society with the diversity of nature has a tradition of being complementary to each other. It has the endogenous religion of polytheism from which the diverse ecological civilization is derived. As it plans and promotes its vision of sustainable development and peaceful trade, China should look inward, to these age-old social structures, as a guide to the future.

http://monthlyreview.org/2017/01/01/a-theory-of-chinas-miracle/

A Theory of China's 'Miracle'

Eight Principles of Contemporary Chinese Political Economy

by Cheng Enfu and Ding Xiaoqin

Cheng Enfu is a member of the Chinese Academy of Social Sciences and chair of the World Association for Political Economy. Ding Xiaoqin is deputy director of the Center for Socialist Political Economy with Chinese Characteristics at Shanghai University of Finance and Economics, a postdoctoral researcher at the Chinese Academy of Social Sciences, and secretary general of the World Association for Political Economy.

This article was translated from the Chinese by Shan Tong, East China University of Political Science and Law.

China's rapid economic development in recent years is often characterized as "miraculous."1 Talk of a "Beijing Consensus" or "China model" has become commonplace in academic debates. But as we have written elsewhere, "theoretical problems have started to emerge with regards to the very existence, content, and prospects of the China model."2 The key question, then, is what kind of economic theory and strategy underpin this "miracle." China's model has been variously described as a form of neoliberalism, or as a novel kind of Keynesianism. Against these positions, we hold that the country's major recent developmental gains are the achievements of theoretical advances in political economy, originating in China itself, while the main problems that have accompanied China's development reflect the damaging influence of Western neoliberalism. President Xi Jinping has emphasized the need to uphold and develop a Marxian political economy for the twenty-first century, adapted to China's needs and resources. The bulletin of a conference on China's economy of the Communist Party central committee, held in December 2015, accordingly stressed the importance of eight major principles of "socialist political economy with Chinese characteristics." These principles and their applications are discussed below, along with some comments on their varying interpretations among Chinese intellectuals. We hope to clarify the official theoretical model behind China's economic "miracle," using the terms and concepts prevalent in China today.

1. Sustainability Led by Science and Technology

A foundational premise of Marxian political economy is that the forces of production ultimately determine relations of production, with the two forming a constant dialectic that shapes the superstructure of ideology and legal and political institutions. At the same time, the relations of production that prevail in one stage of development eventually become fetters on the further development of other productive modes. Within this process the forces of production are the most revolutionary and active, while human beings, who constantly develop more advanced technologies and organizational methods, are the driving force of production. Today the development of productivity involves three essential substantive elements: labor power, tools and machinery of labor, and materials; as well as three interactive elements: science and technology, management, and education. Of these, science and technology tend to drive the decisive changes that lead the development of the forces of production.

The principle of sustainability, led by science and technology, is critical in the study of China's economic policy. This principle emphasizes that liberating and developing the forces of production is the overriding mission of socialism at its earliest stages. As an economic model, socialism requires a certain level of material and technological development at its base. This principle stresses that population growth, resource exploitation and allocation, and the environment should mutually support and sustain one another. In practice, according to China's official framework, this means building a "three-type society": a "quality-enhanced society," achieved by controlling and reducing populations; an "efficiency-enhanced society," through conserving resources; and an "environmentally protected and promoted society." All of these require continual innovation as their motive force.

An emphasis on sustainable innovation is especially vital today. The "bottleneck" problem restricting Chinese economic and social development is the deficiency within this area of motive forces for innovation and the lack of new forces. From 1998 to 2003, China's high-technology production not only depended heavily on imported materials, but was also largely managed by foreign firms and investors. For example, in 2003, Chinese firms dependent on foreign investment accounted for approximately 90 percent of the country's exports of computers, components, and peripherals, and 75 percent of its exports of electronics and telecommunications equipment.3 Since then, the Chinese government has given more attention to the policy of innovation.

Only if intellectual property rights are protected at all levels can Chinese enterprises and the economy as a whole exploit the commercial advantages of brand names and technical advances in certain fields, as well as meet international technical standards for export.4 Currently in the "new normal" economic climate, only if we grasp innovation, the first motive force for development, can we offset various risks, solve the difficulty of excess capacity, achieve structural transformation and upgrade of the economy, and keep up with the pace of global scientific and technological developments. Only if we make innovation the primary task of promoting development and use it to transform existing forces, nurture new forces, revitalize old ones, and create conditions for new ones constantly to emerge, can we instill powerful motives into the sustainable development of the economy and society. We should abandon such old ideas prevalent in Chinese economic discourse like "producing isn't as good as purchasing which isn't as good as renting," "using the market to acquire technologies," and so on, and address the issue of original innovation, integrated innovation, and re-innovation, and introducing and absorbing innovation into the economy. A triple system ought to be established combining the government, market, and technology together, in order to transfer economic "spontaneity" into "atomization." During this process, the "determining effect" of science and technology needs to be fully understood, and we should, at a strategic level, recognize the importance of science and technology guiding the distribution of resources.5

2. Orienting Production to Improve the Livelihood of the People

One of the principles in political economy is the theory of the objective of production. In capitalism, the direct and ultimate production objective is to accumulate private surplus values or private profits as much as possible, and the production of use value is aimed to serve the production of private surplus value or private profits. In this regard, there is a basic difference between capitalism and socialism. Under capitalism, driven by profit for the few, accumulation occurs on a world scale, while the great majority of the world's masses are plunged into poverty.[6] In contrast to this model, the direct and ultimate objective of production in socialism is to meet the whole people's material and cultural needs. The production of new value and public surplus value is aimed to serve the production of use value that reflects a "people-dominant" and people's livelihood-oriented objective of production.

The political economy of a distinctly Chinese socialism should follow the principle of organizing production to raise living standards and meet the needs of the people. This principle emphasizes that the chief contradiction in socialism at its earliest stage is that between the people's increasing material and cultural needs and backwardness of social production. This discrepancy can only be overcome through the speedy and steady development of productive capacities; this is the primary task of socialism in its initial phases. This development must be people-centered, with collective prosperity as its guiding goal. Our objective must be a society in which all people contribute to the satisfaction of human needs to the extent they are able, and enjoy access to the material, social, and spiritual resources they need for the full development of their human potential—in accord, of course, with the needs of ecological sustainability.[7]

The view that the "improvement of people's livelihood equals development" is an articulation of the objective of socialist production and economic development. We should keep on making economic development our central task and insist on the strategic idea of giving economic development overriding importance. We should pursue innovation as fundamental to this change thus promoting Chinese development and leading it to reach higher levels. However, the starting point and ending point of developing production and the economy is to improve people's livelihoods, and we should therefore set ourselves the goal of building a well-off society in an all-round way. Any plan for improving people's livelihoods should try to meet seven criteria: wealth and income distribution, poverty relief, employment, housing, education, medical care, and social security. In the "new normal" circumstances of slower growth and developing internal markets, these criteria must be met by coordinating economic development and social development.

Improving people's livelihoods is an endless task, and new challenges continuously emerge. We should adopt more targeted and direct measures, helping working people as a whole to solve their difficulties and promote their well-being through legal institutions and civil society. We should realistically assess the effects of our actions on living standards, ensuring that public services create a reliable "safety net."

3. Public Ownership Precedence in National Property Rights

The basic tension between increasingly socialized production and capitalist private ownership gives rise to other contradictions and crises. These include the conflict between the management and planning of private enterprises and the chaos of the market, the disparity between the indefinite expansion of production and the relative shortfall in real demand, and periodic bubbles, panics, and recessions.

The class antagonisms that result from these contradictions have historically inspired mass movements to replace private ownership of the means of production with public ownership.

Contemporary Chinese political economy adheres to the principle of property rights, with dominant public ownership. In the context of the relative underdevelopment of productivity in socialism at its earliest stages, economic development has required that a dominant public ownership develop alongside diversified private ownership: "Domestic and foreign private enterprises are developed under the precondition of the qualitative and quantitative priority of the public economy."8 This principle stresses the need continually to strengthen and develop the public economy while also encouraging the development of private sectors of the economy, ensuring that all forms of ownership make up for each other's deficiencies through mutual promotion and coordinated development. Nevertheless, the central role of public ownership must be safeguarded, so the state sector must be dominant in the economy. This is the institutional guarantee for all Chinese people—that they will share the fruits of development—as well as an important guarantee for enhancing the party's leading position and maintaining the Chinese socialist system. The principle highlights a basic difference between the socialist economy and the modern capitalist economic system, in which private ownership is dominant. If we handle it properly, public ownership cannot only have an organic integration with the market economy, but also achieve greater fairness and efficiency than private ownership. Meanwhile, we should also see clearly that currently the globe is still divided into nation-states and that state ownership still remains an appropriate form of socialist ownership.

At present, we must be guided by the idea that the state sector acts as the foundation of the socialist economy, and that the aim of mixed-ownership reforms is not to undermine state-owned enterprise, but to strengthen it. We should learn from past errors of state-sector reform that allowed a narrow elite to amass huge fortunes through misdirection of funds. We need to focus on the development of two-way mixed ownership with public capital holdings. The collective and cooperative model of Chinese village economies needs further investment. New policies must be introduced to enhance the vitality, competitiveness, and risk management of the public economy. The government should control and regulate private businesses both at home and abroad, and not just support them, in order to realize their benefits while minimizing their negative effects. China should encourage and lead private enterprises to implement reforms enabling workers to accumulate shareholdings, so as to benefit both labor and capital and achieve collective prosperity.

4. The Primacy of Labor in the Distribution of Wealth

In any capitalist economy, wage laborers are paid only for the expenditure of their labor power, and not for the value of the commodities they produce. Under these conditions, the specific wage a worker earns is associated with his or her position and performance. And while in some sectors of capitalist economies, collective labor organization can limit the rate of exploitation and give the appearance of a fair distribution of wealth, the overriding power remains the private property rights of owners and employers.

The distribution of wealth in a Chinese socialist economy must be guided by the needs of labor, not capital. We must strive against exploitation and polarization. The income gap should be bridged, and increased income for all citizens should coincide with economic growth and labor productivity. It is vital to establish a sound and scientific mechanism for determining wage levels, as well as a mechanism for regular increases in wages.

We should put into practice the idea that only by building effective institutions to ensure that the benefits of China's growth are equitably distributed can people be given a sense of common purpose in the project of economic development. We need to strengthen the momentum of development and promote people's unity, advancing gradually and steadily towards collective prosperity. Only if resource allocation focuses on collective prosperity can social production be carried out healthily and steadily and the superiority of socialist system be realized.

The adherence to shared development mainly involves the problems of people's livelihoods and collective prosperity, of which the distribution problem is the most outstanding. Indeed, maldistribution of wealth is the greatest obstacle to collective prosperity today. We have witnessed a major decline of labor's share of GDP from about 53 percent in 1990 to 42 percent in 2007. The growing "reserve army of labor," the segregation of the labor market, and massive privatizations of state-owned enterprises have significantly depressed the power and weakened the solidarity of the working class.9 In China today, inequalities in property ownership and income are large and growing, with a national Gini coefficient exceeding that of the United States. The richest 1 percent of Chinese families control one-third of all Chinese household assets, the same figure as in the United States. We should note that the primary index of polarization between the rich and the poor is not income from wages or salaries, but wealth, that is, the net assets of families.10

Over the last decade, official documents have emphasized the importance of "bridging income gaps," but this has proven controversial. Some articles even generally praise the rich as engines of economic growth and social role models, who thus deserve a disproportionate share of the country's wealth. This popular but destructive idea holds that the present gap between rich and poor is a trivial issue unrelated to the large-scale development of non-public economies, and that the real concern is now the so-called "middle-income trap."

But in fact, it was neoliberalism that invented the concept of the "middle-income trap," and dragged Latin American countries into it. It also helped plunge high-income economies, such as the United States, Japan, and the European Union, into financial crisis, and left low-income countries such as those in sub-Saharan Africa mired in long-term slow development. Economist Mylene Gaulard writes that

Chinese economic growth has slowed down since 2002. Many researches on "middle-income trap" are keeping a watchful eye on whether China will be able to join in the group of high-income nations with its per capita GDP. Most researches attribute this to the increase of wage cost, to be exact, the increase of unit labor cost, which results in the loss of the international competitiveness. However, due to the fact that the increase of unit labor cost doesn't seem as risky as the decrease of efficiency of capital, we should consult Marxist analysis to better understand this problem.11

China must heed Deng Xiaoping's instructions, given at the end of last century, to solve the problems of gaps between rich and poor and to achieve collective prosperity, developing a mechanism for wealth and income distribution based on the primacy of labor.12

5. The Market Principle Steered by the State

The anarchic character of the capitalist market, and the individual capitalist's drive to innovate in order to reduce labor costs, leads periodically to crises of overproduction, in which workers suffer most. Such crises can be short- or long-term, depending on the degree of "non-market" factors present, particularly the scale of monopoly. In a capitalist market economy, this proportional law relies mainly on such spontaneous adjustments, and the role of state regulation is relatively limited.

By contrast, in a Chinese socialist economy, the market is steered by the state, not the other way around. Marta Harnecker has argued that without participatory planning there can be no socialism, not only because of the need to end the anarchy of capitalist production, but also because only through mass engagement can society truly appropriate the fruits of its labor. The actors in participatory planning will vary according to different levels of social ownership.13 This "state-steered market" principle emphasizes that a socialist society can develop a market economy in a planned and proportionate way, and that the fundamental role of the market in resource allocation should be carried out under government supervision.

In giving the market a determining role in general allocation while promoting the regulatory role of the government, every effort must be made to address problems of imperfect market mechanisms, excessive government intervention, and poor regulatory supervision. To achieve this, we must advance market-oriented reforms that significantly reduce the government's direct allocation of resources and permit this allocation to occur according to market rules, with prices and competition, to achieve maximum efficiency. The duties and functions of the government are mainly to keep a steady macroeconomic policy, to strengthen public services, to guarantee fair competition and reinforce market supervision, and to promote collective prosperity and rectify or compensate for market failures.

We should continue striving to combine the basic system of socialism with a market economy. In this way, we can take full advantage of both aspects. It should be acknowledged that in China's economy, the laws of market self-regulation play a determining role within general resource allocation, but these nevertheless operate differently than in capitalist markets. In a capitalist economy, the operation of the market decides resource allocation. But in a socialist economy, the government uses price controls, subsidies, rationing, and other policies to ensure that resource allocation is planned and proportionate. We need, then, to see the determining role of the market better integrated into government plans. We should take advantage of the market's benefits while rectifying inefficiencies in the regulatory mechanisms of both the state and the market itself, thus forming a two-pronged approach.14 Obviously, as the Chinese socialist market economy is based on the primacy of public ownership, the strength and reach of regulation in areas such as the law, fiscal policy, administration, and ethics exceed the regulating capacity of governments in capitalist market economies. The unparalleled performance of the Chinese economy in recent decades is compelling evidence of the greater ability of the government to steer development.

We should not deny the objectivity of state programming, planning, and regulation, and hold that such notions as "state regulation law," "planning law," and others do not apply, just because this involves possibly mistaken actions by human actors. For in accepting this logic one must also accept that there is also a human element in market activities, and so related notions such as “law of market regulation,” “law of value,” and so on equally do not apply. After all, the market is determined by human behavior. Human economic action in the market regulates enterprise, the nature of the commodity, price and competition. Therefore, both the laws of market regulation and state regulation are based upon human activities in form and content. Good and effective micro and macroeconomics requires that all workers in enterprises and the government try to make their individual contributions fit in with the objective economic activities in which human beings participate.

6. Speedy Development with High Performance

The optimal economic growth rate should seek to maximize economic performance. A relatively low growth rate with insufficient resource use inhibits full employment, wealth accumulation, and public welfare. Yet a higher growth rate with extensive rather than intensive resource utilization is equally detrimental to ecological sustainability and distributive justice. A dialectical analysis is required for any index based on gross domestic product (GDP). Assessed in isolation, any approach focused solely on GDP is inadequate: we must give attention not only to growth for its own sake, but also to what kind of growth are we driving, in what areas, and at what cost.

The Chinese economy should prioritize performance over speed. From the 1980s through the 1990s, economic growth was the top priority of the Chinese government, and GDP quadrupled over that period. By 2020, GDP and per capita GDP are projected to be double that of 2010. Since 2013, after thirty years of nearly uninterrupted rapid growth, China has entered a new phase that we call the “new normal.” Growth has slowed, and China’s economy is transforming from an extensive, high-growth model into an intensive, high-performance model.[15]

To achieve stable economic growth, we should be concerned with supply-side structural reforms. The major reasons for the increasing downward pressure on the Chinese economy are the failure to reform the structures required for long periods of extensive growth, and their dependence on material input, resource consumption, and low levels of innovation. Changes in the economic situation both at home and abroad require an urgent upgrade of the Chinese economy from speedy development to high-quality development. The Chinese labor market should shift into a more diverse division of labor, with a more flexible structure.

7. Balanced Development with Structural Coordination

One of the principles of China’s political economy is the proportional distribution law of social labor (or “proportional law,” for short), which governs the contradictory movement between social production and demand and the need to coordinate development for the entire national economy. The law requires that the overall social labor of people, tools, and materials should be distributed proportionately according to demand, in order to maintain a structural balance among different industries and sectors. In social reproduction, output and demand maintain a dynamic balance in their structure of value maximizing production while minimizing labor consumption. The generalized structural coordination of the economy is reflected in the increasing rationalization and sophistication of industrial infrastructure, foreign trade, corporate management, technological innovation, and more.

This principle of coordinated structural balance is essential to contemporary Chinese political economy. This is part of its larger goal of promoting the evolution of Chinese industry from a low-and-middle level to a middle-and-high level. In the context of increasing modernization, balance should be maintained within and among primary, secondary, and tertiary sectors. The economic structures of provinces, cities, and regions should be diversified, and foreign trade should involve more new and high-technology products and domestic brands. Large Chinese enterprises and corporations should retain the largest share of trade, with smaller enterprises and foreign firms coexisting. With regard to high-technology products, the percentage of Chinese self-owned core technologies and intellectual properties on the world market should be increased. In the market, supply and demand should maintain a dynamic balance, with supply slightly higher than demand. Development should serve the real economy, and the virtual economy ought not to be over-developed. Industrialization, informatization, urbanization, and agricultural modernization should coordinate with one another.

For the time being, we must adapt our theories, guidelines, and policies to the economic "new normal." We must focus on strengthening supply-side structural reforms while also moderately enlarging gross demand and reforming major sectors of the economy, with special emphasis on reducing excess structural capacity. We should gradually scale down capacity and stock, deleverage businesses, and promote innovation to reduce costs and strengthen weak links. Improvements must also be made in the quality and efficiency of supply chains and the effectiveness of investment. Accelerating development of ecologically sound energy sources and building the momentum of sustainable growth is also important. We must abandon the persistent misconception that as long as we eliminate economic surplus caused by administrative intervention, excess production capacity and product surplus formed by marketization can be balanced automatically without any active government intervention. This neoliberal fallacy and its consequences are not only the major reason for large-scale structural excess capacity in the Chinese economy, but also go against the spirit of Chinese socialism.

8. Economic Sovereignty and Openness

A final principle is to open the economy to trade and investment. This principle holds that such opening is beneficial to economic growth both at home and abroad, aiding optimizations in the allocation of resources and improved interactions between industry and technology. The manner of this economic opening up of the economy, its range and extent, should be implemented in a way that is flexible and responsive to complex and changeable conditions in national and global economy. Developing countries should devote particular care to their strategies and tactics when opening up to developed countries, given the inherent risks and uncertainties inherent in such an unequal relationship.

A socialist political economy with Chinese characteristics must accordingly focus on the principle of economic sovereignty. China should insist on the state policy of two-way opening that integrates domestic and international politics, developing a higher-level open economy by taking advantage of domestic and foreign markets. It entails tailoring trade policy to find and exploit mutually beneficial deals, while protecting China's development and actively guarding against risks to national economic security. It requires a policy that gives equal importance to the foreign inputs and outputs of the economy, as well as "latecomer advantages" and "pioneer advantages." We should build international corporations governed by the "three controls": the Chinese side controls the shares, core technologies and technological standards, and brands. At the same time, it is important not to fall into traditional "comparative advantages traps" and carry out the theory and strategy of independent intellectual property rights advantages.

In the immediate future, we should focus on opening up different regions to foreign trade, utilizing their specific strengths and avoiding needless competition between regions for the same kinds of trade—especially when these obviously suit some regions better than others. China should make the best use of its imports and exports, neither importing products that could just as easily be domestically sourced, nor exporting products for which there is unsatisfied demand at home. It is also important to raise the level of international distribution, by making the most out of foreign expertise and technologies in developing international production capacity and manufacturing. Free trade zones and investment infrastructure need to be negotiated. Overall, China needs to play a stronger role in global economic governance.

A further challenge is that of effectively deploying Chinese foreign investment to secure optimum benefits. This equally applies to China's foreign exchange reserves. In this regard it is important to learn as soon as possible from the experience of developed economies such as Japan, South Korea, and the United States in their trade relations with foreign partners. The problem of "decapitating" mergers is to be avoided when growing companies and industries from abroad try to enter the Chinese market. China must commit to remain open to foreign trade in order to deepen and broaden the quality and growth of its own economic output. A key component of this strategy is China's "One Belt, One Road" initiative. This massive investment project must go hand in hand with developing a new global financial architecture, as embodied by such institutions as the Asian Infrastructure Investment Bank and the Silk Road Fund. These institutions represent landmark achievements in the larger project of strengthening and sustaining China's economic success.

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Notes

1. ↩Research for this article was supported by Project 16NKS081 of the National Social Science Foundation of China, a bidding project of the School of Marxism and Leading Academic Discipline Program, and Project 211 for the Shanghai University of Finance and Economics. Ding Xiaoqin is the corresponding author for this article.
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9. ↩Hao Qi, "The Labor Share Question in China,"*Monthly Review* 65, no. 8 (2014): 23–35.
10. ↩According to the*Reference News* of October 17, 2015, the latest Hurun Wealth Report shows that in 2015 the number of billionaires in China (596) surpassed that of America (537). This figure does not include billionaires in Hong Kong, Macao, or Taiwan.
11. ↩Mylene Gaulard, "A Marxist Approach of the Middle-Income Trap in China,"*World Review of Political Economy* 6, no. 3 (2015): 298–319.
12. ↩Xinghua Wei, "The Persistence, Development, and Innovation of the Economic Theories on Socialism with Chinese Characteristics,"*Studies on Marxism*, 10 (2015): 5–16.

13. ↩Marta Harnecker, “Question 5: Social and Long-Term Planning?” Science & Society 76, no. 2 (2012): 243–66.
14. ↩Guoguang Liu and Enfu Cheng, “To Have a Comprehensive and Accurate Understanding of the Relationship between Market and Government,”*Studies on the Theories of Mao Zedong and Deng Xiaoping*, no. 2 (2014): 11–16.
15. ↩From 2002 to 2011, Chinese GDP increased at an annual rate of more than 9 percent. GDP grew by 7.7. percent in 2012 and 2013, and dropping to 7.4 percent in 2014 and 6.9 percent in 2015. In the first half of 2016, GDP grew at an annualized rate of 6.7 percent. Despite this slowdown, China remains the world’s fastest-growing major economy; the IMF estimates that China accounts for more than a quarter of global economic activity.