CHAPTER 6

How China Rose to Prominence

Abstract This chapter outlines the main institutional features of the Chinese political system and the state and explains its resilience and independence vis-à-vis external imperial influences. Further, it lays out the main economic policy principles that guide Chinese economic policy and discusses the ways in which China’s ruling class connect its principles of economic development with geo-economic and geopolitical expansion in Asia and beyond. In this context, the chapter sheds light, among others, on the Belt and Road Initiative (BRI) and explains how China’s mode of economic development and expansion differs from that of the West.

Keywords China politics · Belt and Road Initiative · Chinese economic model · Competition

China’s party-political system is not subject to the institutional-economic constraints found in the West’s two-party political systems, not least because the history of economic and political development in China since WWII differs fundamentally from that of the transatlantic assemblage cum Japan and Australia. China, for example, has never been part of the hub-and-spoke neo-imperial governance of the USA, which set out a number of institutional and other constraints for all western polities, including Japan and Australia. In China, policy bargaining processes, convergence
to centrist policies and forms of decision-making are happening within the central and regional apparatuses dominated by the Chinese Communist Party (CCP). The only constraints that are reflected and accounted for within the Chinese polity are those pertaining to the international political economy system as a whole and the distribution of political-military power generated from it.

Governmental power and state-class power in China—a distinction fundamental to western polities—do not apply in the same way to China’s political system as in the West. Further, no formal distinction of powers exists—legislative, judiciary and executive—and China’s Central Bank mechanism are directly controlled by the CCP. All policy decisions by the Bank are deeply political decisions, as opposed to the “de-politicisation” mantra of neo-ordo-liberal postures—which are, of course, the exact opposite: the anti-inflationary bias of the ECB and other banks is deeply political, namely, neo-liberal.

The party is unofficially factionalised in Marxist, centrist and liberal caucuses, but all bargaining processes and decision-making happen within its ranks and institutional hierarchies itself has set up. Such institutional hierarchies are: (a) the National People’s Congress—NPC, the “legislative branch”, with some 2000 members—that oversees (b) the State Council of state ministers and commissioners; next to these two bodies stands (c) the People’s Political Consultative Conference, which is a sort of an advisory “upper house” composed of delegates of eight other minor parties that pre-existed the foundation of Communist China in 1949, as well as business associations and trade unions, representative groups from Hong Kong and Macau, women’s groups and so on. The same composition is also reflected in the NPC but the overwhelming majority of

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1 We draw here on Sebastian Heilman (ed) (2017), *China’s Political System* (London: Rowman and Littlefield); see also Susan V. Lawrence and Michael F. Martic (2013), *Understanding China’s Political System*, CRS Report for Congress, 20 March; and Ai Qilai (2017), *Multi-party Cooperation and Political Consultation System Under the Leadership of the Communist Party of China* (中国共产党领导的多党合作和政治协商制度中国出版集团) (Beijing: Beijing Book Co.).

2 We would like to recall, at this point, that this formal distinction and “independent” functions of the three government powers in western polities are, by and large, a myth. On this topic, see no other work than Louis Althusser’s doctoral dissertation, which shows that even in Montesquieu’s classic work the “separation of powers” is completely exaggerated and rather non-existent; Louis Althusser (1959), *Montesquieu, la politique et l’histoire* (Paris: Presses Universitaires de France), pp. 98–108.
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members belong to the CCP. The CCP dominates all the aforementioned institutional bodies. It should also be noted that, since 1949, China’s Constitution has undergone four amendments in 1954, 1975, 1978 and 1982, each of which brought about more autonomy to local administration and regional ethnic minorities. Self-governance is allowed to the degree that processes and decisions do not deviate from directions and policies adopted by the National People’s Congress, the NPC. Effectively, the institutional constraints are set out by the CCP via a deeply politicised institutional process.

The key to understand the above, that is China’s political system, is the confluence between the National People’s Congress and the CCP. The Central Committee (CC) of the CCP—some 200 members—is elected from the NPC but the NPC is historically dominated by the CCP. From then on, the process is typical of a Communist Party structure: the CC elects the Political Bureau (PB) which in turn elects the PB’s Standing Committee, the highest echelon of leadership. Thus, democratic bargaining processes are happening within the ranks of a number of public institutions enjoying a relative autonomy from each other, the connecting link being the prevailing posture of the CCP in all those public institutions. Party factionalism and conflicting class interests in China’s political system do not block or paralyse its functioning and decision-making, nor do they obstruct economic and technological development, quite the opposite. We should also make clear that, as results from the above brief analysis, when we refer to the “Chinese state” we refer to the entire complex institutional system described above, which is dominated by the CCP. But it is not identical with the CCP as it provides the same liberal-democratic façade as western two-party systems, the sole difference being that bargaining processes are taking place within hierarchies permeated and dominated by the CCP. It is this that provides China’s political system with mechanisms of flexibility and adjustment, without relinquishing sovereignty.

From the start of the reforms in the late 1970s to the present day, key to China’s development has been the continuous, mass supply of labour from the countryside. This labour force was initially accepted very low wages as they usually maintained other sources of income, usually rent, from the peasant plots they left behind but which they never
relinquished. This low-skilled, enormous resource came to radicalise manufacturing domestically, especially since the Chinese state began using the South-east Asian region as a platform for the production of cheap intermediate goods that were eventually finalised on the mainland readied for export to western markets. This “regional globalisation” undermined Japan’s regional primacy and was boosted further by China’s entry in the WTO in 2001. This, in turn, enabled China to partake in global production networks, acquire essential know-how and advanced managerial skills and climb up the global supply chain. The global (western) corporation, the so-called TNCs or MNCs, entered China in the 1980s. They were benefitting from the cheap supply of labour and rents and huge consumer market, and also low taxation but at the same time the Chinese state benefitted—at every level: provincial, county, local, central—through subsidised industry, infrastructure and local exporters who combined skills and knowledge brought into the country from the global (western) corporation. In this combined way, China’s position in the global production networks and supply chains was being slowly but constantly upgraded. In every step of the way, the role of the Chinese state, which never adhered to a western-style pluralist party system, has been instrumental in steering and shaping this historical process of transformation of China’s political and social economy.

Capital controls have been the landmark of China’s resistance to America’s global financial statecraft. The Chinese state has always regulated its capital account, including reinforcements of regulation in periods of crisis, such as during the 1997 South-east Asian “panic”, or the Great Recession of 2007–2008. Thus, speculative inflows of capital from the transatlantic core were put in check, while prohibiting capital flight and keeping relatively low the value of the renminbi. This displeased US exporters who “could not beat the China price”. Capital controls suppressed domestic financial interests which, in turn, put pressure on the Chinese state to

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3 Apart from the work of Peter Nolan, mentioned above, see the interesting discussion between Robert Brenner and Victor Shih, “China’s Credit Conundrum”, New Left Review, v.115, January–February 2019, pp. 59–74.

4 See David Shambaugh (2005), “The Rise of China and Asia’s New Dynamics”, in David Shambaugh (ed), Power-Shift: China and Asia’s New Dynamics (Berkeley: University of California Press), pp. 1–20.

5 Brenner and Shih, op.cit.; and Arthur R. Kroeber (2016), China’s Economy (Oxford: O.U.P.), pp. 27–110, 163ff.
liberalise the capital account/markets, but so far these efforts have not been very successful. What has been happening, however, especially since the Great Recession, was an enormous boost of the aggregate demand management on behalf of the state, including incremental real wage growth (see below), at the moment when western labour markets faced an all-out neo-liberal attack from all sides (harsh/enduring austerity, “gig” work, zero-hour contracts, precarious and uninsured work, breakdown of the welfare state and public institutions and so on). Capital controls, however, helped China build enormous foreign reserves and achieve an unparalleled export-oriented growth at the expense of its competitors, especially the USA and the EU. Thus, China avoided any resort to classic import substituting industrialisation strategy (ISI) and all its subsequent hazards, typical of the developing economies (constant currency devaluation, problems importing intermediate and high-tech goods to support local industry and so on). Taking advantage of the regional platform of south-east Asia, China’s manufacturing produce was exported all over the world building enormous dollar and other foreign-currency reserves. The process, controlled by China’s central bank agency, the State Administration of Foreign Exchange (SAFE), i.e. the Chinese state, has been directed into two main outlets.

One portion of the trade surplus has been used to buy American debt (T-bills), which, amongst other things, helps re-finance the US debt obligations towards bankrupt American corporations, keeping US interests low and, importantly, keeping the value of the dollar stable. Many countries hold American debt, especially those with trade surpluses, such as Saudi Arabia, recycling dollars earned from petro-trade via purchasing of T-bills—the famous “petro-dollar recycling”. Currently, topping the list, China holds nearly $1.2 trillion US paper. This gives China enormous leverage in its trade negotiations with the Trump administration, because any substantive reduction of holdings would cause mayhem in America’s finances, let alone the knock-on effect such a move may have for other international investors of T-bills and other US debt.

The other portion of the surplus, however, goes to the financing of large export-led corporations and infrastructure projects in China proper, especially in western regions and beyond. The developed coastal area in East China, which is where most American and western TNCs are based, have over the last ten years been experiencing an exodus of labour force in order to be employed in state-run developmental projects in western regions and abroad. This is mostly connected to the territorial
and maritime routes of the Belt and Road Initiative (BRI), launched in 2013, which aims to unite geo-economically the south and central Eurasian plateau (Map 6.1)—Pakistan’s port of Gwadar figures prominently—including large swaths of Africa, especially via the maritime leg of BRI, reaching out to Greece (the port of Piraeus), the Balkans and Eastern Europe with the 16+1 initiative.6

China’s investment-spree in infrastructure—modern innovative factories, railways, ports, refineries, bridges, motorways etc.—using the western China platform as a model trampoline for penetrating Central-South Asia and beyond, indicates a developmental model distinct from that of the USA: the Chinese state aims at resource extraction to fuel the country’s growth, as opposed to commodification of public spaces and financialisation of profits—the model pursued by the US-led neoliberal financial statecraft. It also aims at externalising environmental costs to other Asian countries for highly polluting production, which are now contested in China by social movements.7 The grand majority of Chinese corporations leading these projects are state-owned and even when private shareholders prevail, especially in international operations, the state maintains a substantial part of the shares and financing, influencing the strategic direction of corporations and investments (see below). Moreover, China’s lending of money and buying of bankrupt enterprises abroad are relatively free of any political conditionality, such as that

6 The literature on BRI is already vast. See, among others, Alessandro Arduino and Xue Gong (eds) (2018), Securing the Belt and Road Initiative (London and New York: Palgrave-Macmillan); Astrid Pepermans, “China’s 16+1 and Belt and Road Initiative in Central and Eastern Europe: Economic and Political Influence at a Cheap Price”, Journal of Contemporary Central and Eastern Europe, v.26, n.2–3, 2018. For a geo-economic perspective that ties up with environmental concerns due to severe deforestation, especially in North-East and South-West China, see Julie Michelle Klinger and Joshua S.S. Muldavin, “New Geographies of Development: Grounding China’s Global Integration”, Territory, Politics, Governance, v.7, n.1, 2019, pp. 1–21. There is no doubt that BRI and Chinese expansion are results of an overaccumulation crisis China has been developing since the 1990s, or what David Harvey called “spatial fix”. See, among others, Alex Callinicos (2010), Bonfire of Illusions: The Twin Crises of the Liberal World (Cambridge: Polity), pp. 116ff., passim; David Harvey (2003), The New Imperialism (Oxford: O.U.P).

7 We thank Massimo De Angelis for pressing on this point. We would also add that the massive deforestation taking place in North and South-eastern regions is responsible for furthering China’s environmental degradation.
Map 6.1  China's Belt & Road Initiative (Source Strait Times Graphics)
employed by the IMF or the World Bank and other lenders.\(^8\) In short, capital controls, massive surplus of cheap (and relatively skilled) labour force and use of the south-east Asian platform have given China an enormous advantage in by-passing the pitfalls of ISI to sustain remarkable levels of GDP growth for decades. Significantly, since 2016, China has been ranking above the USA in terms of GDP PPP (Purchasing Power Parity), which adjusts a country’s GDP for differences in prices (inflation) and wages.\(^9\) In this context, America’s global strategy of financial statecraft and corporate expansion produced an uneven and combined outcome of which the main long-term beneficiary is the Chinese rather than the American state and its geopolitical allies. In many respects, the West’s long and protracted economic decline can and must be traced back in the 1960s, when its industrial might and global credit capacity came to be doomed in the stagflation of the 1970s, never to recover under the post-Bretton Woods regime of neo-liberal financialisation.

Arguments have been made that “national power cannot be equated with national accounts” and other metrics, such as share of world manufacturing and so on, because we “no longer live in a world of nationally discrete political economies”.\(^10\) According to this line of argumentation, the world has been transformed by the American global corporation—or TNCs/MNCs—most of which reside historically in the eastern coastal area in order to export the produce around the globe and repatriate profits and innovation to the USA, while cashing on China’s trade

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\(^8\)See Mike Roberts, “Xi Takes Full Control of China’s Future”, https://thenextrecession.wordpress.com/2017/10/25/xi-takes-full-control-of-chinas-future/ (accessed 15 February 2020). This dimension is important. Chinese banks, at times, lend money with higher interest rates than the IMF or the World Bank, but they do not condition the delivery of funds upon domestic pro-market reforms and other privileges that the receiving state in need should institute in order to get the funds.

\(^9\)This is very important. It means, for example, that a Chinese pilot’s training to fly a military jet is paid much less and without any additional cost to his living standards compared to the training costs of an American pilot to fly a similar jet.

\(^10\)Sean Starrs, “American Economic Power Hasn’t Declined—It Globalised! Summoning Data and Taking Globalisation Seriously”, International Studies Quarterly, v.57, 2013; Sean Starrs, “The Chimera of Global Governance”, New Left Review, May–June 2014, pp. 81–96; these arguments, among others, brush off the fact that US TNCs operating in China pay wages—and rather higher than those paid by China’s SOEs—in renminbi, boosting the consumer power of the Chinese worker, thus contributing to Chinese GDP. This said, the GDP is not simply an accountancy problem. It is, nevertheless, an issue what you include in it when measuring it.
surpluses via the T-bills system—this is the “China as America’s head servant” argument.\textsuperscript{11}

As we can see from the evidence presented above, this argumentation is rather poor, although we recognise the inter-dependencies, thus the competitive constraint of globalisation, which apply to all core actors involved, including China. In particular, we recognise the role of the dollar as the world’s key reserve currency, which remains unchallenged to date despite the hit it received from Covid-19.\textsuperscript{12} Overall, however, this argumentation fails to stand up to close scrutiny: it abstracts from the political role of the Chinese state in the composition of total capital formation in China at regional and municipality levels; it also brushes off the role of State-Owned Enterprises (SOEs) played in steadying China’s persistent economic growth; and, last but not least, it fails to touch upon the outbound projections of Chinese capital under the command of the Chinese state. As a consequence, these accounts cannot evaluate the ways in which China’s penetration in western economies disrupts the integration process of the transatlantic bloc and its geopolitical cohesion. Overall, they miss the long-term historical tendency of China’s rise and America’s decline, that is America’s leading political-economic position in the post-WWII global order. Given that these arguments were made some years ago, it is important to revisit briefly the relevant metrics of the situation today as regards the global position of American corporation compared to China’s own.

\textsuperscript{11} Hung Ho-Fung, “America’s Head Servant”, New Left Review, v.60, November–December 2009.

\textsuperscript{12} See, especially, Colby Smith et al., “Dollar Blues: Why the Pandemic Is Testing Confidence in the US Currency”, Financial Times, 31 July 2020 (accessed 1 August 2020).