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China's Unique Position in the Global World Order

By Ho-fung Hung

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From Rise to Stagnation?

For more than three decades, China's remarkable economic boom has been reshaping the world. Despite a recent slowdown, this transformation continues to fascinate, and observers have offered numerous interpretations of what it means for China, its neighbors, and the world. Does China offer an alternative model of growth or just a new face for neoliberalism? Do China and the BRICS (Brazil, Russia, India, China, and South Africa) threaten the current world order, or are they willing and active participants in it? What impact do China's activities have in Southeast Asia and elsewhere in the global South? How can we expect the policies and global position of China to change in the near future, and what alternative paths are available to China?

At the Rosa Luxemburg Stiftung's New York Office, we have been grappling with how China and the other large emerging economies of the global South are reshaping the world and changing the global balance of power. Vijay Prashad's RLS–NYC study on "Neoliberalism with Southern Characteristics: The Rise of the BRICS" argues that the BRICS initiative reflects a long-held dream of the global South to wield real political power at the global level, even if the BRICS have so far bolstered the status quo rather than challenging it. In his 2015 presentation at our office, Walden Bello acknowledged the exploitative practices of the BRICS at home and abroad but saw them, potentially, as direct challengers to neoliberal institutions and ideology—if they can overcome their deep internal contradictions.

Ho-fung Hung, East Asia expert and associate professor at Johns Hopkins University, wades into this sharply contested terrain to argue that China's impressive economic gains stem from its integration into the global economic order. While China is by no means a challenger to this order, it has reshaped geographies of trade and made the economic system more fragmented. China's rise is both rooted in the legacies of Maoist developmental policies and its proximity to the export-driven East Asian tiger economies. However, China's impact on the global South cannot be characterized in simple terms. It has been uneven, shaped on the ground by local circumstances and institutions.

In order to change the world, we need to understand it. This article offers a nuanced and clear-eyed understanding of how China has emerged as a major player in global politics. What comes next for this economic powerhouse will shape the lives of its more than 1.3 billion citizens—and the rest of the world as well.

Stefanie Ehmsen and Albert Scharenberg
Co-Directors of New York Office, February 2016

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China's Unique Position in the Global World Order

By Ho-fung Hung

China's economic boom over the last three decades, though losing steam lately, has fascinated many and invoked a multitude of imaginations about how such an economic powerhouse is reshaping the context of development for other economies in the Global South. There have been plentiful analyses that portray the China boom as an antithesis of the Washington consensus, and many do see China as exemplifying an alternative development model that could be replicated in other developing countries. At the same time, many foresee that China will ultimately challenge the geopolitical domination of the United States and create a new political order in Asia and even the world at large.

In this paper, I argue that the Chinese economic boom originated at a convergence of legacies of Maoist development and of East Asian export-oriented development on two sides of the Cold War. It is a unique condition that can hardly be replicated in other developing countries. More, the ultimate source of China's economic dynamism comes from its export sector, which has been dominated by private enterprises (domestic or foreign) and closely integrated into global trade. It is this export sector on which the expansion of the relatively unprofitable state-owned sector has been grounded. As such, the China boom is made possible by China's participation in the global neoliberal order characterized by free trade and free flow of capital. It is far from a challenge to this order.

While the China boom was created under very unique world-historical and path-dependence conditions that cannot be easily copied in other developing countries, the boom has been creating contradictory impacts on China's neighbors and on other developing countries in the world. On the one hand, it generates intense competitive pressure on other labor-intensive manufacturing exporters and drives them to adopt to and plug into the Sinocentric production network and commodity chain. On the other, it foments a commodity boom in commodities exporters. Geopolitically, China's increasing economic involvement in the developing world is urging Beijing to start to project political or even military power overseas, and it creates a backlash that drives China's neighbors and other developing countries to closer allegiance with the United States. As such, the China boom is creating mixed impacts on the prospects for development in the Global South, while fostering a rise of inter-imperial rivalry between China as a rising geopolitical power and established Western powers, especially the U.S. The rise of China has not created a new global political-economic order, as many expected. Instead, it is making the existing order more fragmented.

The Origins and Dynamics of the China Boom

Conventional wisdom assumes that China's recent capitalist boom started with a radical break from Mao-era central economic planning. But upon closer examination, the boom was not possible without the many legacies of Mao-era development coupled with East Asian export-oriented manufacturing capital that rose at the height of the Cold War in Asia. The China boom originated from a unique combination of the outcomes of Maoist development and the East Asian export-oriented growth model.

From Maoist Social Compact to Neoliberal Dictatorship

During the Mao period, the Communist party-state managed to extract and concentrate scarce rural surplus and build up an extensive network of state-owned urban-industrial capital through rural collectivization and "price scissors" between agricultural and industrial products (Selden 1993; Friedman et al. 1991; Wen 2000: 141-271). Though the peasants were chained to their villages under the household registration system that restricted their migration away from their birthplaces, their life expectancy and literacy rate improved significantly as a result of state investment in rural elementary education and public health (Hesketh and Zhu 1997; Ross 2005: 1-13). With the exception of the Great Leap Famine of 1959-61, the Maoist path of development fostered a high GDP growth rate over most of the period until the mid-1970s, when the growth momentum generated by the central planning system was exhausted and the economy came to a standstill. But it also left China with a bulk of state capital and a vast pool of healthy and educated surplus laborers in the countryside. China also developed a strong state less burdened by external debts in comparison with other developing and socialist countries. These developmental outcomes laid a solid foundation for the market reform launched by the post-Mao leaders in the late 1970s as a remedy to overcome economic stagnation (Naughton 1995: 55).

The market reform started with decollectivization and restoration of a peasant economy in the countryside in the early 1980s, followed by urban state enterprise reform and price reform in the late 1980s. In the 1990s, state-owned enterprise reform accelerated and the question of privatization came to the forefront as the most contentious issue. Through these stages, the main thrust of the reform has been to decentralize the authority of economic planning and regulation and to open up the economy, first to Chinese diasporic capital in Asia and then to transnational capital from all over the world.

Decentralization

The first stage of reform was characterized by decentralization that transferred power of economic governance to local governments, which were then cut off from subsidies from the central government. (Shirk 1993: 334-5). Lured by opportunities for profiteering, local governments with different preexisting resource endowments devised different strategies of capital accumulation. Some directly run collective township and village enterprises or turn public enterprises within their jurisdiction into profit-oriented units (this mode of local development is known as "local corporatism" or "local state entrepreneurialism," see Oi 1999; Lin 1995; Walder 1995; Duckett 1998 for example). Some assume the role of "referees" instead of direct "players" in the local economies. They promote local development through such classical developmental state measures as making discriminatory rules and constructing appropriate infrastructure to facilitate the growth of select industrial sectors, on which the local governments rely for tax revenue (for a discussion of the "local developmental state" in China, see Blecher and Shue 2001; Wei 2002; Zhu 2004; Segal and Thun 2001).

Due to lack of technical and management know-how as well as marketing networks in overseas markets, most local developmental or entrepreneurial states depend heavily on labor-seeking transnational capital, mostly from within East Asia, to jumpstart and sustain local economic growth. Though foreign direct investment does not constitute a major part of China's continental size economy in quantitative terms, it plays a significant role in driving China's labor-intensive and export-oriented industrial growth (see Lin 1997, 2000 and Hsing 1998). As of 2004, almost 60 percent of Chinese exports are manufactured by foreign-funded enterprises, and this percentage is even higher for higher value added products. It is a startlingly high figure in comparison with other Asian tigers in similar stages of take-off—20 percent for Taiwan in the mid-1970s, 25 percent for South Korea in the mid-1970s, and 6 per cent for Thailand in the mid-1980s. Measured in terms of the ratio between FDI and gross capital formation, China's FDI dependence has been among the highest in East and Southeast Asia since the 1990s (Hughes 2005; Gilboy 2004; Huang 2003: 4-35).

The bulk of state capital accumulated in the Mao era conveyed large convenience to foreign investors, who can simply plug themselves into the pre-existing network of production by establishing joint ventures or multilayered subcontracting connections with local state-owned or collective enterprises. For example, transnational industrial giants like Boeing, Volkswagen, and Toyota started their businesses in China by simply collaborating with existing state-owned aircraft or automobile enterprises (Chin 2003). The "unlimited" supply of healthy and educated labor from the countryside, another legacy of the Mao era, persistently keeps wages much lower than the international standard. China's attractiveness to global capital is further enhanced by competitive pressure among local states, which race with one another to achieve high GDP growth by offering the most favorable terms possible to foreign investors, ranging from tax breaks to free industrial land.

Fragmented Authoritarianism

A consequence of economic decentralization is the falling authority of the central government. With local states becoming the leading agents or direct regulators of capital accumulation, the central government retreats to become an indirect player specialized in devising the macro-economic backdrop, such as interest rates, exchange rates, and preferential policies toward certain regions and sectors against which local states pursue development. The falling power of the central government vis-à-vis local governments in direct economic management urges some to characterize China's political economy as "fragmented authoritarianism" (Lieberthal 1992).

Over the 1990s, the central government attempted to reinvigorate the power of the center in the area of administrative regulation, financial regulation, and commodities management. The 1994 fiscal reform also ensured a larger share of revenue for the central government vis-à-vis provincial governments. But the recentralization was at best half way, as the reform only managed to recentralize bureaucratic power from the county and township levels to the provincial level, but not from the provincial level to Beijing. In exchange for a smaller share of government revenue, provincial governments were granted greater autonomy in the pursuit of economic and income growth. In the end, the centralizing reform further empowered provincial governments vis-à-vis the central government and ironically aggravated the phenomenon of "perverse federalism" (Mertha 2005). The momentum of continuous empowerment of local states vis-à-vis the center is not easy to reverse, for this process is integral to the market reform itself.

Social Polarization

Under market transition, the old social compact from Mao's times—which was based on free healthcare, education, life-long employment, and other basic social services provided by state-owned enterprises and rural communes—was shattered. Before the late 1980s, the dissolution of this social compact was compensated by rising income offered by new market opportunities in the countryside and the shift from a scarcity to a consumer economy in the cities. In the first stage of reform up to the mid-1980s, "everybody wins," as most segments of the population benefited (Wang 2000: 37-9).

The social dynamics of the reform shifted dramatically when urban reform accelerated after the mid-1980s. The crux of the urban reform was to turn state-owned enterprises into autonomous profit-making units by hardening the "soft budget constraint" of the enterprises that warrant government subsidies and government absorption of losses. It was also to replace fixed, centrally planned prices of key commodities with floating, market prices. Under the new pressure to make profits, many state-owned enterprises started eliminating welfare packages for workers and replacing life-long employment with short-term contracts. Industrial workers' reduced income and job security were coupled with runaway inflation and rampant corruption unleashed by the price reform. The reform—which started with a "dual track system" that ushered in a coexistence of fixed planning prices and floating market prices for such key commodities as gasoline, cement, steel, and other materials in short supply—enabled government officials and state enterprise managers to purchase these commodities at low planning prices, stockpile them, and then sell them at skyrocketing market prices. Through this rent-seeking activity, many cadres—or their kin and protégés—amassed enormous private wealth and turned themselves into the first generation of China's "cadre-capitalist class" or "bureaucratic capitalists" in a matter of a few years (Wen 2004: 37). Inflation, corruption, and class polarization reached crisis proportions in 1988, paving the way for the large scale unrest in 1989 (Naughton 1995: 268-70; Wang 2003: 46-77; Selden 1993: 206-30; Zhao 2001: 39-52; Saich 1990; Hartford 1990; Baum ed. 1991).

The Tiananmen revolt's bloody crackdown cut off China's path to political liberalization. It also accelerated the neoliberal attack on urban workers' rights. To break the international isolation resulting from the bloodshed in Tiananmen, Jiang Zemin and Zhu Rongji, CCP leaders originating from Shanghai and chosen by Deng, pursued an aggressive neoliberal economic agenda throughout the 1990s, conscientiously following the Washington consensus and advice from U.S. financial capital. This approach provided cover and incentive for the Clinton administration to set aside all doubts about the CCP regime in the aftermath of Tiananmen and to adopt an engagement policy toward China in the name of promoting human rights by enhancing economic freedom and openness.

In the 1990s, the liberalization of the economy and subsequent social polarization advanced with far greater ferocity than in the 1980s. Massive layoffs of workers in state-owned enterprises, which were transformed into profit-oriented capitalist enterprises or underwent outright privatization, and the complete dissolution of the welfare system embedded in public enterprises swept all major cities, creating a swelling urban underclass. The incipient privatization of state owned enterprises in the 1990s opened up new opportunities for senior cadres and their associates to snowball their wealth through "insider privatization," heralding the formation of a new class of oligarchs, Russian style (Walder 2002, 2003; Li and Rozelle 2000, 2003). Many state enterprises, after reform, became profit-oriented capitalist corporations with the government holding the majority share. Some of them were listed on stock markets in China and overseas, such as

Hong Kong, Singapore, and New York. Had it not been for the post-Tiananmen authoritarian state's firm grip on society, the polarizing yet upheaval-free liberalization of the economy would have been impossible, at least at the pace achieved.

Capitalism in China

Capitalism was firmly in place in China by the 1990s. The new rich, including the cadre-capitalist class, self-made businessmen, middle class professionals, and the like, are the main beneficiaries of the party's new 1990s political consensus and became the party's new social base. These beneficiaries of market reform are more antagonists than pioneers of political reform. Recent large scale surveys consistently find that most middle class professionals and entrepreneurs in China are sternly opposed to political liberalization, for fear that it would trigger tyranny of the lower classes and threaten their private gains (e.g. Chen 2002; Tsai 2007). In this manner, China's party-state has reticently transformed itself from a socialist authoritarian state, which upheld the planned economic system and facilitated the accumulation of state capital, to a capitalist authoritarian state, which defends the private accumulation of capital among the privileged and keeps grassroots resistance to this accumulation process at bay.

Intense competition for foreign investment among local governments as well as the pro-capital authoritarian state that kept the demands of the working classes at bay contributed to the attractiveness of China to global capital—in particular to the manufacturing capital that developed in Japan and the Asian Tigers during the postwar take-off of East Asia. Between 1990 and 2005, investment from Hong Kong, Taiwan, South Korea, Japan, and Singapore altogether constituted 71 percent of the stock of foreign direct investment (FDI) flowing into China. Many of these investments are export-oriented, transforming China into the "workshop of the world." They underline the Chinese economic miracle as a continuation of the earlier East Asian miracle, and they tie China into the global network of free trade. They are the main sources of the Chinese economy's dynamism and profits.

The Centrality of the Export Sector

In the 1990s, export-oriented manufacturing started to roar in China. Though the export sector had emerged already in the 1980s, thanks to the beginning of the inflow of Hong Kong manufacturing capital, it did not go far as most surplus labor in the countryside was retained in the rural collective enterprises (known as township and village enterprises, or TVEs) and the booming agricultural sector. The one-off devaluation of the renminbi (RMB, the Chinese currency) against the dollar by more than 30 percent in 1994, followed by a peg to the dollar, was a boost to China's export manufacturing in the 1990s. Several factors contributed to the rise of China's export engine. The Clinton administration's landmark trade agreement with China in 1999 lowered trade barriers for all kinds of goods, and China opened its market in exchange for the United States and Europe opening their markets to Chinese products during China's bid for accession into WTO that became reality in 2001. But one indispensable fuel for China's export-oriented success is the protracted low wage of Chinese manufacturing given China's "unlimited supply" of rural surplus labor.

China's capacity to develop under the condition of unlimited labor supply is not a natural phenomenon given by China's population structure, as many tend to presume. Instead, it is a consequence of the government's rural-agricultural policies that, intentionally or not, bankrupt the countryside and generate a continuous exodus of rural population. Since the 1990s, investment by the Chinese government has been largely concentrated in coastal cities and towns to boost FDI and the export sector, while rural and agricultural investment has lagged behind. State-owned banks also focused their efforts on financing urban-industrial development, while rural and agricultural financing was in tatters. The emergence of this urban bias in China's development is at least partially caused by the dominance of powerful urban-industrial elite from Southern coastal regions amid China's integration with the global economy. This elite, which germinated after China's initial opening, grew in financial resources and political influence with the export boom and became increasingly adept at shaping central government's policy in their favor (see Zweig 2002; Gallagher 2002; Kaplan 2006; Shih 2008: 139-188). Their growing leverage in the policy making process of the central government secured the priority given to enhancing China's export competitiveness and China's attraction to foreign investment in lieu of rural-agricultural development. The urban revolts in 1989—stemming from hyper-inflation and deteriorating living standard in the cities—only made the party-state more determined to ensure the economic prosperity and stability of big cities at the expense of the countryside in the 1990s and beyond (Yang and Cai 2000).

The grip on state power by the coastal elite can be illustrated by the background of top CCP leaders since 1989. While the Politburo standing committee—the CCP's highest decision making body—in the 1980s contained about equal numbers of members who had significant prior tenure in coastal provinces and in rural inland provinces, in the 1990s and afterward Politburo members with coastal backgrounds always outnumbered those with rural-inland backgrounds, with the cohort of 2007 as the sole exception. In particular, two of the three post-1989 top leaders, namely Jiang Zemin and Xi Jinping, served long years in very important coastal export-oriented urban regions in Shanghai and Zhejiang/Fujian respectively (See Hung 2015: Table 3.4).

Urban-Biased Development

The result of this self-reinforcing urban bias is relative economic stagnation in the countryside and the concomitant fiscal stringency in rural local governments. Since the 1990s, the deterioration of agricultural income and rural governance and the demise of collective rural industries in the form of township and village enterprises, which used to be vibrant employment generators in the early stage of market reform in the 1980s, urged most young laborers in the countryside to leave for the city, creating a vicious cycle that precipitated a rural social crisis.

China's rural-agricultural sector was not only neglected but also exploited in support of urban-industrial growth. Large and increasing amounts of financial resources were extracted from the rural-agricultural sector to fund the urban-industrial sector's growth from 1978-2000, taking into account the transfer through the fiscal system (via taxation and government spending), financial system (via saving deposit and loan), and other means (such as grain marketing and remittance of urban migrants) (see Hung 2015: Figure 3.2; see also Huang 2000; Wen 2005).

Low cost, labor intensive, export-oriented manufacturing has been a driving force of China's economic boom since the mid-1990s. The massive trade surplus that the export sector generated provides the liquidity in the banking system—in the form of increasing supply of RMB backed up by foreign currencies, mainly U.S. dollars—that fuelled the growth of fixed asset investment mostly undertaken by state enterprises and kept the banking system afloat despite the not-so-impressive performance of state-owned enterprises, which benefitted from lax lending by state banks. The reliance on export, fixed-asset investment and a low wage regime that repressed consumption become key characteristics of the Chinese pattern of capitalist development. Like earlier Asian Tigers, the United States constituted the single most important export market, only to be surpassed by the EU as a whole recently. The rapid expansion of China's export-oriented industries has already made China the biggest exporter to the United States among all Asian exporters (Hung 2015: Table 3.6).

In sum, the urban-biased development pattern that bankrupted the countryside and forced villagers to leave their land is the origin of the prolonged unlimited supply of rural labor, as well as the subsequent wage stagnation, in China's export-led economic miracle. On the other hand, the low manufacturing wage and rural living standard brought about by this same strategy of development have been restraining the expansion of China's domestic consumer market and deepening China's dependence on developed countries' consumption demand, the growth of which increasingly relies on these countries' massive borrowing from China and other Asian exporters. This pattern of growth that is highly dependent on external demand—from U.S. consumers in particular—is definitely precarious. But as long as the consumption markets in the United States and Europe are expanding, as they did under debt-financed hyper-consumerism in most of the 1990s and 2000s, China's formidable export engine is a guarantee of growth and accounts for China's miraculous economic success.

Some may argue that given China's high investment share in GDP, Chinese growth is at least as much driven by domestic investment driven by state enterprises and different levels of governments as by exports. But one thing we need to bear in mind is that most fixed asset investment in the Chinese economy was financed by bank lending, and a large portion of liquidity in the banking system originates from a "sterilization" process in which exporters surrender their foreign exchange earnings to state banks in exchange of an equivalent amount of RMB issued by the People's Bank of China, China's central bank. In other words, a large part of the liquidity in China's banking system originates from the ballooning trade surplus. At its height in 2007, China's current account surplus amounted to 47 percent of the increase in monetary supply, as measured in M2, in the Chinese economy in that year. This liquidity, in the context of China's high savings rate, is mostly channeled to bank loans that finance fixed asset investment by state enterprises and local governments. It is not exaggerating to say that China's export sector is the mother of its capitalist boom.

Geographies of Production

China's booming export sector has reconfigured the geography of production in East Asia, making earlier East Asian exporters increasingly integrated with China's export engine through the regionalization of industrial production. When China had just started to establish itself as the most competitive Asian exporter of products at various levels of technological sophistication in the 1990s, earlier Asian exporters including Japan and the Four Tigers, together with a group of emerging exporters in Southeast Asia such as Malaysia and Thailand, were put under intense pressure to adjust. China's export competitiveness lured a lot of export manufacturing to relocate from other Asian economies to China. Some go as far as arguing that the erosion of manufacturing profitability under the competition from China is one of the underlying causes of the Asian financial crisis of 1997-98 (Krause 1998).

Amid the turmoil that the rise of China's manufacturing power brought to the existing export-oriented industrial order in the region, China's neighbors painstakingly restructured their export engines to minimize head-on competition with China and to profit from its rise. In the old export-oriented industrial order in East Asia, each economy exported specific groups of finished consumer products. The rise of China fomented a new, Sino-centric export-oriented industrial order under which most Asian economies increased the weight of their export of high value-added components and parts (e.g. Korea and Taiwan) and capital goods (e.g. Japan) to China, where these capital goods and parts were used to assemble finished products to be exported to rich countries' markets (Haddad 2007; Baldwin 2006; Ando 2006).

Exports from South Korea, Hong Kong, and Taiwan to China surpassed their export to the United States over the 1990s, while exports from Japan and Singapore to China moved up rapidly to become much closer to the weight of their export to the United States (See Hung 2015: Figure 3.7). By 2005, the Japan-centered flying geese model of Asian regionalism had been replaced by a Sino-centric production network in which China exports most final consumer products to the Global North on behalf of its Asian neighbors, which provide China with the necessary parts and machines for the assembly of final products.

Under this Sino-centric production network and East Asia's increasing dependence on China for export growth, the limits and vulnerability of the Chinese development model—given by its overdependence on debt-financed consumption demand in the rich countries and the lethargic growth of its domestic market—is inevitably translated into the limits and vulnerability of other Asian economies. The limits and sustainability of China's development, therefore, is not about China's economic growth alone. It is also about the collective future of East Asia as an integrated economic bloc.

The Crisis of Overaccumulation

When the bubble of financial expansion and debt-fueled consumption in the United States collapsed in 2008, driving a deep and long dive of the U.S. economy, the export-driven economy of China also collapsed. But Beijing soon successfully engineered a strong rebound in 2009-10 by opening the flood gates of state bank lending, mainly targeted at fixed-asset investment by state enterprises and local governments. It is this strong rebound of China amid U.S. downturn that generated the perception that China had displaced the U.S. as the sole engine of global capitalism.

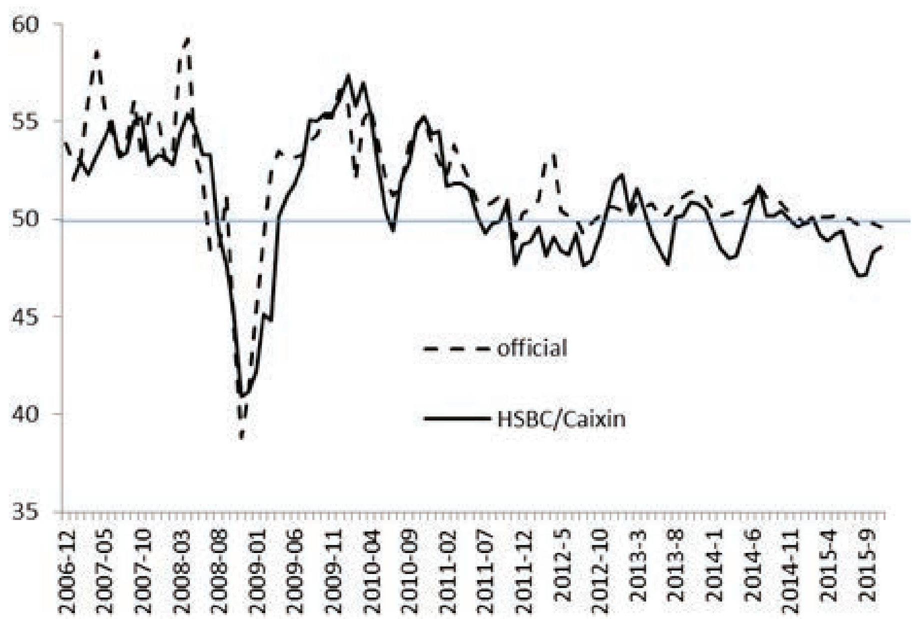
The weakening of the export engine and the reckless investment expansion during the rebound of 2009-10 has created a gigantic debt bubble no longer matched by commensurate expansion of China's foreign exchange reserve. Between 2008 and early 2015, outstanding debt in China skyrocketed from 148 percent of GDP to 282 percent, exceeding the level in the U.S. and most other developing countries. China's foreign exchange reserve ended its long rise and started to shrink in 2014. In the meantime, the many redundant constructions and infrastructure resulting from the debt-fueled economic rebound are not going to be profitable, at least not any time soon. The repayment and servicing of the debt is dubious, and a big debt time-bomb formed. China has therefore run out of room for growth through fixed asset investment while the export sector is still struggling. To make matters worse for capital, the escalation of peasant resistance and labor unrest in China since the 1990s has forced the party-state to make concessions through improving rural economic conditions (that finally curtail flow of rural migrant labor to coastal export sectors) and labor conditions in manufacturing. These concessions increase wage levels and put further pressure on the profitability of capital.

The manufacturing capacity and infrastructure, apartments, coal mines, steel mills, etc., that expanded rapidly during the boom time and the post-2008 rebound have become excess capacity with a falling profit rate. This leads China into a typical overaccumulation crisis epitomized by the many ghost towns and shut-down factories across the country. The Chinese economy's loss of momentum after the 2009-10 great rebound is illustrated by the movement of the manufacturing purchasing manager index (PMI), which is a lead indicator measuring the state of the manufacturing sector. A PMI higher than 50 signals expansion of manufacturing, whereas a value lower than 50 shows contraction. We can see that after the rebound of 2009-10 the index kept falling and is now fluctuating around the stagnation line of 50, which is a significant departure from the continuous expansion before 2008.

This overaccumulation crisis is the origin of the recent stock market meltdown and the beginning of the capital flight that drove the sharp devaluation of the Chinese currency in 2015.

Overaccumulation crisis is as old as capitalism itself. As Lenin diagnosed long ago in his *Imperialism, the Highest Stage of Capitalism*, an overaccumulation crisis within a national economy drives capitalists to export capital overseas in search of places with a higher profit rate. It was how manufacturing capital from the core relocated to Asia and China after the 1970s in the first place. Now it is China's turn to become a victim of overaccumulation and feel the urge to export capital. Ever since the early 2000s, China's capital export soared. Stock of China's outward foreign direct investment jumped from 28 billion USD in 2000 to 298 billion in 2012, though it is still small in comparison with smaller advanced capitalist economies like Singapore (see Hung 2015: Table 5.4).

Figure 1. China Manufacturing PMI, 2006-2015



State-owned corporations, mostly energy firms and infrastructure construction firms backed up by the mammoth foreign exchange reserve originating from the export sector, have been at the forefront of Chinese outward investment in the Global South, most notably Africa and Southeast Asia. Chinese manufacturing has been relocating to lower wage countries like Tanzania and Vietnam too. It is this same drive of exporting surplus capital that underlies China's recent ambition to create a "One Belt, One Road" network of ports, railroads, and highways linking China to Europe across Central Asia and the Indian Ocean. But as Lenin presaged, the drive to export capital overseas would inevitably urge the states of the capital's home countries to project their military and political power to protect the circuit of accumulation of the exported capital, leading to imperialist expansion and inter-imperial rivalry with other capital-exporting powers. We will deal with this later.

In the next two sections, we will see how the economic rise of China driven by both export-oriented growth and fixed asset investment, as well as China's increasing urge to export capital to the world, reshapes the context of development and the geopolitical balance of power in Asia and beyond.

New Contours of Development in the Global South

As we have seen, China's capitalist boom was fostered by unique legacies and circumstances that would be difficult to replicate in other developing countries. The question is how such a boom changed the world economic conditions that shape the development prospects of other economies in the Global South. The effects of the China boom on Africa, Latin America, and Asia are contradictory.

Over the last decade or so, China's increasing trade and investment links with other developing countries, African ones in particular, have attracted increasing attention and triggered a fierce debate in the developing and developed world alike. In many journalistic and polemical writings on the issues, some see China as a new savior to the developing world that helps exonerate downtrodden developing countries from the tyranny of neocolonialism by Western powers. Unlike Western countries and international financial organizations dominated by the United States and Europe that often tie aids, loans, investments, and trade agreements with requests for reforms and policies that favor Western interests, China allegedly acts as an alternative source of trading and investment opportunities with no strings attached. On the other hand, there are authors who accuse China of being just another neocolonial power that seeks to extract natural resources from other developing countries for its own developmental need and in negligence of the long-term sustainability of those countries. Worse, China is seen as a mercantilist country that aggressively seeks to expand its export market at the expense of the manufacturing sector in other developing countries. Some are alerting that China's mounting appetite for resources and cheap manufactured exports have been effectively de-industrializing many economies in the global South, pushing them back to dependency on natural resources exports.

More serious academic research has been emerging in recent years to address these conflicting claims about China's impact on other developing countries. What these studies find, in fact, is a more complex picture that the polemics of politicians and critical commentators fail to capture.

Commodities Exporters vs. Manufacturing Exporters

In the development studies literature, there are plentiful works suggesting the virtue of diversifying away from natural resources export for developing countries. From colonial times to the post-independence era, many developing countries have been locked in a "mono-culture" economy, in which each of these countries relies on the export of a single or a few agricultural products and raw materials to developed countries. The fluctuations in commodities prices in the world market far beyond the control of these monoculture exporters made their developmental path extremely unstable (with the only exception of oil exporters). Even if the commodities they export enjoy stable and decent prices, their economies are still vulnerable to the "Dutch disease" or "resource curses"—i.e. the world demand for their commodities exports drives up their currencies, curtailing the development of their export manufacturing sectors and encouraging conspicuous consumption of luxury imports among the elite. It follows that if developing countries aspire to foment balanced and sustainable growth, the natural resources export sector, as well as the vested interests tied to the sector, need to be compressed to make room for the growth of other sectors, above all the manufacturing sector (e.g. Karl 1997; Sachs and Warner 1995; Shafer 1994; Gallagher and Porzecanski 2010).

The endeavor of reducing reliance on natural resources export and industrialization is exactly what most developmentalist governments have been doing in the postwar era, either through import-substitution industrialization (that is, blocking imports of foreign manufactures to support domestic industries' market share in domestic markets) or through export-oriented industrialization (that is, subsidizing and promoting local industrial products sold in the world market). The rise of China has disrupted this endeavor in many developing countries. First, the rising demand for oil, raw materials, agricultural products, and the like from China has driven up commodities prices in the international market, generating huge returns to commodities exporters around the world, which benefit from China either directly through exporting to China or indirectly through the general rise in commodities prices attributable to China's demand. An IMF report confirms that

> *China is becoming increasingly important for commodity markets. Its role in the market and its impact on world trade and prices varies by commodity; in particular, China has become the dominant importer of base metals and agricultural raw material, with a smaller, but growing role, in food and energy markets (Roache 2012: 21).*

A consequence of rising profit for commodities exporters led to the boom and expansion of mining industries and agribusinesses across the developing world, countervailing the entrenched developmentalist policies to compress the significance of the commodities exporting sector in many economies. For example, land used for soybean cultivation in Brazil had doubled between 1990 and 2005. It led to vast farmland expansion deep into the environmentally sensitive Amazon frontier to cater to the demand from China, which constituted 42.7 percent of Brazil's soybean export market (Gallagher and Porzencanski 2010: 31-2; USDA 2004). Copper mining in Chile and other Latin American countries also expanded significantly over a similar period, with Latin America's total export of copper increasing by 237.5 percent between 2000 and 2006, with the increased amount mostly going to China (Gallagher and Porzencanski 2010: 22, passim). The same happened in Africa. Besides oil producing countries like Sudan and Nigeria, countries that are rich in metal ores benefit from China's increasing demand. Zambia's massive increase in copper exports driven by China is a case in point.

This expansion in commodities exports has been accompanied by pressure on manufacturing. All major Latin American countries have more than 80 percent of their manufactured exports under direct or partial threat from Chinese exports (Gallagher and Porzecanski 2010: 50). As such, both international and domestic markets for Latin American manufactured goods started to be filled with Chinese products.

Developing Countries' Responses to the China Boom

Taking the trend of expanding raw materials exports and the trend of increasing competitive pressures on domestic industries together, we could see that the rise of China has created conditions that may lead to de-industrialization and return to dependence on natural resources exports in the developing world. On the other hand, whether and how much this change would exactly damage or benefit the long-term developmental prospect of individual developing countries varies based on individual countries' internal political economies.

For example, most Latin American countries have their mining corporations regulated or owned by their governments, so they have at least some leverage over the pricing and output volume of the materials in demand. They are therefore capable of negotiating with China and other customers to attain deals that maximize their interests. Governments could also establish institutions that direct gains from the booming natural resources sector to other uses, including long-term investment, support of economic diversification, and poverty alleviation. There are some exceptionally successful cases. For example, the Chilean government has instituted an Economic and Social Stability Fund that siphons part of the profit from the resource exporting sector during boom times and spends this savings for currency market intervention, investment, and fiscal stimulus during down time. This smooths the impact of commodity price volatility on the economy at large, even though Chile is becoming more dependent on raw materials exports (Gallagher and Porzecanski 2010: 32-7). For another example, the Brazilian government under Lula created a number of efficient redistributive institutions (such as the well-known Bolso Familia conditional cash transfer program to the poor) just as the Brazilian economy was plowing ahead as driven by raw material export. These institutions of select Latin American countries ensure that the profits from the raw materials bonanza are distributed more evenly and that sufficient surplus from the industry is directed to finance long-term investment like education, infrastructure, and strengthening of other economic sectors crucial to the country's sustainable growth.

In contrast to Latin America, where many companies in the resource extracting sector are from within the region or even state-owned, many African countries lack competitive homegrown mining corporations and have been reliant on foreign companies to extract their resources. Their increasing export of raw materials to China, without exception, is accompanied by the investment of Chinese state enterprises in their mining sector. In many cases, Chinese state companies, together with other transnational mining corporations, own and run the whole commodity chain from the mining sites to the ports that export the raw materials. Under such circumstances, the African governments are in a much less favorable position to negotiate with their Chinese partners, who would tend to dig out and ship as much material as they need as fast as they want, without much consideration for the long-term impact on the local economy and environment. It is still debatable as to whether practices of Chinese companies are worse or better than the Western ones that have been entrenched in the African natural resources sector. But one thing for sure is that these companies tend to prioritize their interests over the long-term developmental prospect of their host countries. The copper industry in Zambia, where Chinese mining corporations expand, casualize labor, and collude with the corrupt local government to maximize short-term gains, is a case in point (Haglund 2009; Lee 2009).

In a similar vein, the impact of competition from China's manufactured exports varies from country to country, depending on the place in the value chain that particular country's industrial establishment occupies. According to Kevin Gallagher and Reberto Porzecanski (2010), even as most Latin American countries face major competitive pressure from Chinese manufactures, some are having harder times than others. Mexico stands out as the country that has been impacted most because its manufacturing establishment has been focused on a very similar range of products as are exported by Chinese manufacturers and because China's and Mexico's export industries both rely heavily on the North American market.

If we take a broader look to compare the impact of Chinese manufacturing on other Asian economies and on Latin America, we could readily see a more variegated picture. As we have seen in an earlier section, after the initial impact of China's rise as an export manufacturing powerhouse in the form of the Asian financial crisis, many of China's Asian neighbors adjusted their industrial structure to better integrate with China. After China's neighboring economies shifted their focus to products either higher or lower on the value chain than what China had been producing, these economies no longer competed head on with China. Moreover, a large part of China's export sector is processing manufacturing, in which China imports components from other manufacturers in Asia, assembles them into the final products, then exports them to the destination market as "made in China" items. As such, a regional network of production developed within Asia, in which manufacturers supplying China with components and machineries benefit from China's rise as a manufacturing powerhouse. Asian economies encounter a very different situation from Latin American economies, which enter into this Sinocentric global production network as natural resource providers rather than components suppliers.

China's Geopolitical Advance in Asia and Beyond

While China's economic influence in Asia has been increasing, it has started to actively employ its increasing economic clout to establish its regional leadership in Asia. China's approach to its Asian neighbors may be a precursor of its approach to other regions in the world. Though China has never been a political power with global reach throughout history, the Chinese empire did exercise hegemony in Asia until the Western imperial powers came to shatter the premodern Asian international order. Some see the trajectory of China's rising power in Asia in a post-U.S.-hegemonic world as at least a partial revival of the premodern Sinocentric regional order, which follows a very different logic as compared to the Westphalia international system that developed in Europe. To understand how the political rise of China is contributing to the reshaping of the Asian order, we need a historical perspective on China's relations with the world since imperial times.

The Sinocentric Tributary Order in Asia

According to Japanese historian Takeshi Hamashita (2008), premodern China's view of the world has been dominated by a universalism in which the distinction between entities "inside" the empire and those "outside" is not clear cut. The world according to China's imperial view is constituted by concentric circles centered at the emperor, with directly governed provinces located at the immediate outer circle and tribute vassals located at the circle further out. This world order, diverging from the Western model of empire that originated in Roman times, was not grounded on the logic of tributary extractions from the center. It departs from Europe's Westphalia system based on balance of power among states too. Instead, its operation rested upon the principle of the benevolence of the center and reciprocal loyalty from the periphery. Tribute vassals of the Chinese empire would send envoys and gifts to the imperial capital in tribute missions. In return, these missions obtained gifts of higher value from the emperor. Under this system, rulers in the tribute states derived their legitimacy from the endorsement of the Chinese emperor, and the loyalty of the tribute states was instrumental to the border security of the Chinese empire. At times, the Chinese empire sent troops to topple rulers of its tribute vassals that refused to pledge allegiance to China and installed friendlier rulers (Kang 2010).

This Sinocentric tributary system consolidated at the height of the Tang dynasty (CE 618-906), with Xi'an as the imperial capital that periodically received tribute missions from central Asia. Into the Song dynasty, when nomadic invasions from the North pushed the center of gravity of the Chinese empire to the South, official and unofficial Chinese activities in maritime Asia started to grow and culminated in the Ming dynasty (CE 1368-1644), and the Sinocentric tributary system expanded into Southeast Asia and Japan. With the growth of private maritime trade in Asia, tribute missions gained not only from the Chinese emperor's reciprocal gifts but also from the trading activities conducted by merchants who accompanied the tribute mission to China. With the rise of commerce alongside the tribute missions, the Sinocentric tributary system was in fact a tribute-trade system (Hamashita 2008; Kang 2010).

This tribute-trade system was not always peaceful. At times, rising powers in the region sought to challenge Chinese hegemony either by withdrawing from their own political and economic connection with China or by building up their own tribute-trade networks. For example, after Hideyohsi reunified Japan, he imagined usurping China's place as Asia's center and invaded Korea in the 1590s. His effort failed with the expulsion of Japan's forces from Korea by the Chinese army. His successor, Tokugawa shogun, adopted a seclusion policy that outlawed trade with China and stopped sending tribute missions to China after 1600 (Howe 1996). Japan also established a tribute relation with the Ryukyu kingdom, which had been China's tribute vassal. The Ryukyu kingdom was eventually incorporated into modern Japan in the 1870s and constitutes today's Okinawa prefecture.

The Disintegration of the Sinocentric Tributary Order

According to Hamashita, the development of modern international relations in Asia needs to be discerned in light of this indigenous tribute-trade system's transformation. The disintegration of the Sinocentric tribute-trade system with Western colonization of China's tribute vassals—such as Burma and Vietnam—opened up space for Japan, which successfully industrialized and constructed a modern centralized state after the Meiji restoration in 1868, to continue its ambition of usurping China's centrality in Asia. The effort to build a Great Asia Co-prosperity Circle that began with Japan's colonization of Taiwan and Korea in 1895 and 1905, establishment of a puppet state in Manchuria in 1931, followed by outright invasion of China in 1937 and brief colonization of a number of Southeast Asian states during the Second World War was in some way a continuation of Hideyoshi's dream of a Japan-centered Asian order.

After the collapse of the Japanese empire at the end of the Second World War, the East Asian international order was replaced with a Cold War order. Under this order, the United States became the hegemon that took the place of wartime Japan to dominate maritime Asia, providing economic and military security to Japan, Korea, Taiwan, Hong Kong, Singapore, and much of Southeast Asia. China, turning Communist in 1949, was at first a part of the Soviet bloc. But this Cold War order in Asia was complicated by China's increasing cleavage with the Soviet Union that made it an increasingly autonomous power in the region independent from both the United States and the Soviet bloc.

In the 1950s, China, though still formally a keen ally of the Soviet Union, already started to become a key perpetuator of the non-aligned movement that sought to carve out an autonomous political space for newly independent and developing countries. After the Sino-Soviet split in the early 1960s, China's revolutionary diplomacy became totally independent of the Soviet Union, and China's financial and military support of revolutionary regimes and movements, including those in North Korea, Cambodia, and other Southeast Asian states, resembled the patronizing relationship between imperial China and the mini-dynasties in its neighboring vassal states. At the time of the Cold War, this revival of a Sinocentric tributary order was only partial. China's influence over its neighbors was very limited as many of them, like North Korea, were also subordinate to the Soviet Union, and the political forces patronized by China were mostly guerrilla movements, such as the communist parties in the Philippines and Malaysia, not in power (see Brautigam 2011: 29-40).

Revival and Dependence

With the end of Cold War and the economic revival of China, the resurgence of a Sinocentric tribute-trade order became more full-fledged. With China becoming the biggest exporter of finished manufactured products in Asia, a regional division of labor emerged in which China's neighbors became specialized in exporting capital goods and components to China for the assembling of finished manufactured products, generating a Sinocentric network of production, as we have seen. On top of its neighbors' increasing economic dependence through trade, China has been also active in providing its poorer neighbors with investment, loans, and other economic assistance (Bower 2010; Lum et al 2009). The many infrastructure projects in Cambodia and Myanmar carried out by Chinese state companies or financed by Chinese state banks' lending are good examples (e.g. see O'Conner 2011; Grimsditch 2012).

When the economic dependence of these Asian countries, rich and poor, on China deepens, China gains more leverage to influence the disposition of their governments. Though the Chinese government always denies the link, many believe that the threat of severing economic ties with particular countries has become an effective diplomatic weapon. With respect to China's territorial disputes with Southeast Asian nations and Japan, China is rarely hesitant to use or threaten economic sanctions on whomever has been deemed to be violating China's sovereignty claim (Reilly 2012). For example, when China's territorial dispute with Japan over the Diaoyu/Senkakus Islands escalated in 2012, when Japan's government nationalized the islands, the official *China Daily* explicitly threatened that

> *China should use the World Trade Organization's clause of 'security exceptions' to impose economic sanctions on Japan. Similar threats were intermittently suggested regarding China's territorial dispute with the Philippines and Vietnam over the Spratly Islands in the South China Sea.*

To be sure, the rise of this new Asian order with China's increasing weight and centrality is far from a simple replication of the premodern Sinocentric tribute-trade order. For one thing, the premodern order was grounded on Confucianism as a cultural foundation, which justified the practices of reciprocity between the center and the periphery as well as benevolence from the center to the periphery. Such a cultural foundation also induced most Asian nations to look up to China as a model of government and economy. Today China's increasing centrality in Asia's international order, on the contrary, is not supported by any cultural ground but is based on no more than naked economic interests and realpolitik. For another, China had been the only one dominating power in the premodern Sinocentric system, while China's rising centrality today is met by the residual hegemony of the United States in the region.

The lack of cultural foundation and competition from the United States are the major hindrances to the continuous rise of China's geopolitical influence. Motivated only by economic interests and lacking cultural admiration for China, the allegiance of Asian states to China has been at best pragmatic and contingent. The protracted presence of the United States has also provided an opportunity for these Asian states to play one against the other in their dealings with China and the United States.

For instance, the military junta of Myanmar, which had been supported by Beijing and benefited greatly from its economic ties with China amid sanctions by Western countries since the 1990s, increasingly felt insecure because of its one-sided reliance on Chinese investment. This insecurity, together with the popular discontent that some Chinese state-owned mining companies had provoked, motivated the junta to attempt political reform in exchange for normalization of relations with the United States and the western world, starting in around 2011. While the Myanmar government continued its cozy relationship with China, as marked by the 2013 opening of the gas pipeline, constructed by the China National Petroleum Corporation, that connects the Bay of Bengal to China's Southwest Yunnan province through Myanmar, Myanmar's relationship with the United States was improved to the point that it was invited to be an observer in a U.S.-Thailand military drill in early 2013. Myanmar's political reform eventually led to the 2015 election in which Aung San Suu Kyi's opposition won a landslide putting it on the path to form a new government.

Besides Myanmar, Singapore, Taiwan, South Korea, the Philippines, and many other Asian states also strengthened their economic and political-military ties with the United States while enjoying increasing economic integration with China. The making of the Trans-Pacific Partnership, which is a free trade agreement between the United States and its Asia-Pacific allies not including China (at least initially), is another case in point.

China's rising centrality in Asia manifests the contradiction of its geopolitical ascendancy in general: China's increasing political influence on its neighbors is a direct outgrowth of its increasing economic centrality. But its political influence is also checked by continued U.S. dominance as well as by the backlash against economic overdependence on China in these Asian countries. This contradiction is not restricted to Asia's geopolitics but is also reflected in the contradictory rise of China's influence in other world regions and in the world at large.

A New Imperial Power in the Making?

China's practice of extending economic assistance to other developing nations in exchange for their allegiance is not restricted to East Asia. Since at the least the 1960s, China has been active in supporting revolutionary movements and governments in other developing regions, Africa in particular, with financial assistance and experts. In the 1960s, such efforts were related to Beijing's competition with Moscow for the leadership role in the Third World after the Sino-Soviet split in the international communist movement. Into the 1970s, after China and the United States normalized relations, Beijing's efforts to win support from African nations became driven mainly by obtaining votes in the United Nations General Assembly to facilitate its bid for a UN seat in place of the Republic of China in Taiwan (Brautigam 2011:67-70).

After the beginning of economic reform in the 1980s, China's attention to Africa abated. But such attention renewed with much more vigor in the 2000s when rapid economic growth in China urged Beijing to get "back to Africa" as a strategy to secure the supply of oil and other raw materials. From Beijing's viewpoint, it is important for China to establish its own investment in mining operations in Africa. Otherwise China would be vulnerable to natural resources extraction industries dominated by Western powers.

China's general approach to African natural resources exports is to befriend whomever is in power with loans, aid, and infrastructure investment projects. China has not been discriminate in type of regime, and China's efforts have been directed toward both democratic and authoritarian governments. China's investments in the region have been spread more evenly across different countries and represent more generous terms from the perspectives of the recipients (See Brautigam 2011). As we have seen, China's increasing investment and trade with Africa have created different socio-economic impacts, depending on local institutions and politics. Though the amount of Chinese economic assistance trails that offered by the traditional Western powers, most of all the United States (Hung 2015: Table 5.7), China's assistance generally brings new and positive gains to the continent, as the presence of China creates competitive pressure for other developing and developed countries to offer better terms in dealing with African nations.

Many African states have been reciprocal in their relations with China, returning China's economic favors with support for Beijing over such political issues as status of Taiwan and the Dalai Lama. In 2011, the Dalai Lama planned to visit South Africa to celebrate the 80th birthday of Nobel laureate and Archbishop Desmond Tutu, but the South African government did not issue a visa to the former despite Tutu's invitation, and the Dalai Lama had been denied entry to South Africa before in 2009. Opponents criticized such governmental action as unlawful and made under pressure from China. At the same time, China's increasing presence also offered these states new sources of financial support and opportunity, and therefore new autonomy to resist political demands from United States and other Western powers.

But just as many Southeast Asian countries are feeling insecure with their increasing dependence on China, some African leaders have started to voice their concern about "Chinese colonialism." When the issue of Chinese colonialism in Africa was first discussed among Western politicians and scholars in the 2000s, it was naturally discredited as hypocritical talk based on Western anxiety of losing influence on the continent to China. In the 2010s, discussion about Chinese colonialism emerged from within Africa, when opposition movements across Africa started to play the China card by attacking incumbent governments for becoming subordinate to Chinese interests. For example, in the 2011 election in Zambia, the opposition party campaigned on an anti-China platform and successfully ousted the party in power. During the countdown to the BRICS summit, attended by Brazil, Russia, India, China, and South Africa, in Durban, South Africa, in March 2013, NGOs and activists in Africa organized a counter-summit and coined the concept of "subimperialism," making sense of China and the other BRICS countries as "deputy sheriffs" for the neoliberal economic and political order in the continent. Some goes as far as claiming that the BRICS enthusiasm in expanding their presence in Africa resembles the "scramble for Africa" among European imperial powers after the Berlin Conference of 1885 (Bond 2013).

This concern about China's growing influence in Africa has been so powerful and widespread that even sitting governments that have close relations with China need to address it. In March 2013, right before the aforementioned BRICS summit in Durban, the then governor of the Central Bank of Nigeria, which has been heavily reliant on Chinese loans for its development, warned in the *Financial Times* that by embracing China, Africa is "opening itself up to a new form of imperialism." He also stipulated that "China takes from us primary goods and sells us manufactured ones. This was also the essence of colonialism" (Sanusi 2013).

China's rising dominance has been checked by the backlash it has generated in both Asia and Africa. The same also applies to Latin America, which is wealthier and politically stronger than Africa and is geographically much farther away from China than Asia. One example is the rise of the alliance between the United States and Brazil, which is one of the beneficiaries of the resource bonanza driven by China's demand, in accusing China in the WTO of mercantilist trade and currency policies. The limitations of China's political influence in other countries ultimately constrains the expansion of China's economic influence.

Multilateral Institutions

One solution that China has attempted in response to such backlash is to construct multilateral institutions to mediate China's economic expansion into other developing countries. The creation of the Asian Infrastructure Investment Bank (AIIB), aimed at funding infrastructure projects in Central Asia, Southeast Asia, and South Asia, in Spring 2015, is a manifestation of such an approach. Many see the China-led AIIB as demonstrating a further rise of China's power in Asia and the developing world. But in fact, it is more a step back from China's aggressive expansion of bilateral economic advance.

According to a RAND corporation report published in 2013, the annual amount of loans and grants that China pledged to other developing countries soared in 2001-2011, and the cumulative amount by the end of that period reached 671 billion USD. This figure must be much bigger now. Many of these loans and grants carry the condition that recipients have to use it to hire Chinese companies for their projects or to procure Chinese-made products. In comparison, the AIIB capitalization can potentially go up to 100 billion USD, with China's pledged contribution of 50 billion. In 2014, China also pledged 40 billion to the new, Shanghai-based BRICS Development Bank, which was also seen as a grave challenge to U.S. leadership in development financing. China's pledges to these new banks are quite small relative to its bilateral commitments. If China's bilateral assistance is working well, it does not need to build new multilateral banks. China definitely has the capability to lend alone. In such cases, it has total control over loan terms and whom to lend to. In contrast, China will be constrained by other stakeholders in the AIIB and BRICS bank in one way or another, even though China will dominate these institutions as their largest contributor.

China's efforts to build multilateral banks in fact manifests a new experiment in which China sacrifices some of its power to gain the cover and legitimacy that other participating countries can provide. China's newfound interest in building multilateral banks indicates that it may well become less dominating, not more, in international development financing. It is a small step backward from the surge in bilateral lending to the developing world over the last decade. Looking back in history, it is bilateral economic assistance, rather than multilateral institutions like the World Bank, that were most crucial to the rise of the United States as a global superpower during the mid-twentieth century. The World Bank was created in 1944 to finance postwar reconstruction, but once the United States started the Marshall Plan and other equivalent bilateral assistance programs in different parts of the world at the height of the Cold War, the World Bank was immediately sidelined. It was overshadowed for decades until it was revitalized in the 1970s, when U.S. global power weakened.

Hard Power

Alongside moderating its economic advance through the experiment of multilateral institution building, another response to the backlash against China's expanding economic influence is to project its hard power overseas. This follows in the footsteps of traditional imperial powers, relying on overseas extension of its political and military power to subdue any opposition to the expansion of its economic power. China's National Defense White paper in 2013 did state explicitly for the first time that protecting overseas economic interests is now one core goal of the People's Liberation Army:

> *With the gradual integration of China's economy into the world economic system, overseas interests have become an integral component of China's national interests. Security issues are increasingly prominent, involving overseas energy and resources, strategic sea lines of communication, and Chinese nationals and legal persons overseas.*

To be sure, the Chinese army is not yet ready for overseas troop deployment in the style of the U.S. marines, though Chinese nationals have become the number one kidnapping target by terrorist and rebel groups in Africa, and Chinese facilities are valuable sabotage targets (NYA International 2015; ENR 2014). As a remedy, Beijing went proactive by enlisting some of the most brutal international mercenaries to defend its African interests. In 2014, Erik Prince, the founder and former CEO of U.S. security firm Blackwater, which was heavily involved in the second U.S. invasion of Iraq, was recruited to become the chairman of a Hong Kong-based logistics and risk management firm. The firm, Frontier Services Group, has close ties and an overlapping directorship with China's biggest state-owned conglomerate CITIC. Its main business is to provide security services to Chinese companies in Africa. (Hung 2015: 141-2)

The manifestation of China's desire to project its hard power overseas is in line with the development trajectory of earlier capitalist powers. The expansion of China's geopolitical power in the Global South and in Asia in particular has alarmed the United States, which started its "Pivot to Asia" policy in 2012 to shore up its geopolitical and military presence in the region and to strengthen its cooperation with China's neighbors in order to balance China's growing influence. These developments may well lead to a classic inter-imperial rivalry between China and the United States. India, like other rising powers, is also wary of expanding Chinese influence in countries within its traditional spheres of influence, like Nepal and Sri Lanka, plausibly leading to rising tension between the two giants.

The Limits of China's Rise

But for now, China is far from becoming a new hegemonic or dominating power in the world any time soon, even though its increasing presence across the developing world is already changing the dynamics of global politics by empowering other developing countries. As many studies have pointed out (e.g. Kentor and Boswell 2003), developing countries' subjugation to Western, developed ones was not caused by trade with and investment from developed countries per se but was a result of Western countries' monopoly role as sources of investment and trade. With a wide range of developing countries competing for investment from a limited number of developed countries or exporting similar low value-added products to a limited number of developed countries, developing countries, particularly commodities exporters, lack bargaining power. This lack of bargaining power renders these developing countries less capable of resisting demand from developed countries in bilateral settings or in multilateral organizations like the World Trade Organization. With the rising prevalence of China as a trade partner and as an alternative source of investment to traditional Western powers, developing countries start to reduce their once one-sided reliance on the West for investment and markets. This improves their bargaining position in bilateral and multilateral negotiations. As such, China's rising influence in global politics is not without supporters in the Global South, despite the imperialist characteristics of its global power. It is comparable to the dynamics that rendered some popularity to imperial Germany among nationalists seeking independence from British colonial rule during the early twentieth century.

The rise of the G-20 as a developing countries negotiating bloc in the WTO is illustrative. The group was initiated by Brazil, South Africa, and India at the 2003 WTO ministerial meeting in Cancun with the intention of fostering collective positions in negotiations with developed countries on various key issues. They collectively resisted developed countries' requests for further opening of financial and agricultural markets (see Hopewell 2012). Bringing China into the group is a big boost for the group's share of the world market, as China's share of world GDP has surpassed ten percent and continues to rise. It is now the single largest economy in the group. Though China has not been active in strategizing and organizing, which have been taken up by other members like Brazil, its participation has significantly enhanced the group's power. In the current Doha round of trade talks, which started in 2001, the group's insistence on a drastic reduction of government farm subsidies in rich countries in exchange for developing countries' further opening has brought the talks to a standstill and near collapse. The prospects for the Doha round remain dismal. This episode signals that the WTO is no longer a tool that the rich countries can harness at will to open up developing countries' markets while protecting their own markets. It points to how China's rise has helped tilt the balance of power between wealthy and developing countries in the latter's favor, even though China has not yet been capable of directly challenging major Western powers in global politics.

Conclusion

Many see the Chinese economic miracle as an illustration of an alternative model of development to the neoliberal orthodoxy promoted by Washington. It is also assumed that China's increasing economic and political involvement in the Global South, particularly in its neighboring countries in Asia, is creating a new geopolitical order challenging American domination. In this paper, we see that the China boom, driven mainly by China's export-oriented growth, is in fact a constitutive part of the global neoliberal order, which was created by core countries in the 1980s as a way to solve their capitalist crisis by taming organized labor through relocating production to low-wage countries. China took advantage of this shift in global capitalism to become the workshop of the world by exploiting its own Maoist developmental legacies that left it with a vast rural workforce with a high literacy rate and good health.

As China's export-oriented growth approached its limit, especially after the global financial crisis of 2008, China became ever more reliant on debt-financed fixed-asset investment that boosted short-term growth but aggravated the unsustainable overcapacity and indebtedness of the economy. 2015's stock market turmoil, accelerating capital flight, and currency devaluation are just the latest signs that China is moving toward an overaccumulation crisis characterized by a falling profit rate and financial instability. Such a crisis has been brewing for some time and has been driving China to export its surplus capital in the form of foreign aid, concessionary loans, and foreign direct investment to its Asian neighbors and other developing countries in Africa and Latin America. China's creation of the Asian Infrastructure Investment Bank and the inauguration of its One Belt, One Road infrastructure construction initiative extending into Central Asia and the Indian Ocean are the culmination of this drive to export capital.

China's rise as a capital exporter is making it follow in the footsteps of preceding capitalist-imperialist powers to project its political influence overseas. This creates increasing anxiety among China's neighbors about its regional domination. It also puts China onto a collision course with the United States, which still dominates the existing political-security order in the Asia-Pacific region, precipitating a new inter-imperial competition. The escalating tension in the South China Sea is a case in point. As such, China's rise foments contradictory effects for the U.S.-centered global political-economic status quo. On the one hand, it helps reproduce the status quo by perpetuating the global neoliberal order based on free trade, mobility of manufacturing capital, and disempowerment of labor. On the other hand, it poses new challenges to Western geopolitical domination of Asia and other parts of the world. Whether such developments will lead to renewed Western domination of the world, intensifying global and regional conflicts, or a more egalitarian world order is far from determined. Which path the world will embark on will largely depend on the politics and struggles among different social and political forces within China and how these struggles are connected to the same struggles in other parts of the world.

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