

GIOVANNI ARRIGHI



# ADAM SMITH IN BEIJING

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LINEAGES OF THE  
TWENTY-FIRST CENTURY

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GIOVANNI ARRIGHI



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## EPILOGUE

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The central question from which we began is whether, and under what conditions, the Chinese ascent, with all its shortcomings and likely future setbacks, can be taken as the harbinger of that greater equality and mutual respect among peoples of European and non-European descent that Smith foresaw and advocated 230 years ago. The analysis developed in this book points towards a positive answer but with some major qualifications.

As we have seen in Chapters 7 and 9, the emergence of China as the true winner of the United States' War on Terror has resulted in a reversal of the two countries' influence in East Asia and in the world at large. One expression of this reversal has been what Joshua Cooper Ramo has called the Beijing Consensus—the China-led emergence of “a path for other nations around the world” not simply to develop but also “to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices.” Ramo points to two features of the new Consensus that are especially appealing to the nations of the global South. One is “localization”—the recognition of the importance of tailoring development to local needs, which necessarily differ from one location to another—in sharp contrast to the one-size-fits-all prescriptions of the increasingly discredited Washington Consensus; and the other is “multilateralism”—the recognition of the importance of interstate cooperation in constructing a new global order based on economic interdependence but respectful of political and cultural differences—in sharp contrast to the unilateralism of US policies. As Arif Dirlik has pointed out, these features of the Beijing Consensus may lead the world in radically different directions. They may lead to the formation of a new Bandung—i.e., a new version of the Third World alliance of the 1950s and 1960s—aimed, like the old, at countering economic and political subordination but suited to an age of unprecedented global economic integration. Or they may lead in the direction of a co-

optation of Southern states in North–South alliances aimed at containing the China-led subversion of the global hierarchy of wealth.<sup>1</sup>

The more “realistic” alternatives to the failed neo-conservative strategy aimed at containing China discussed in Chapter 10 point to three different kinds of North–South alliance. Each alternative strategy, we argued, has problems of its own, which have resulted in incoherent US policies towards China. As long as the United States is bogged down militarily in West Asia, the incoherence will probably persist regardless of who rules the roost in Washington. But whether pursued coherently or not, all three strategies have the potential to derail the formation of a new Southern alliance capable of countering Northern domination.

The most disastrous derailment would be the one implicit in Pinkerton’s “happy-third” strategy, which advocates a rerun of the first half of the twentieth century—when the US grew rich and powerful by financing and provisioning European states at war with one another—with the difference that the states at war would now be Asian rather than European. The least disastrous derailment would be the one implicit in Kissinger’s strategy—which envisages the co-optation of China into a reformed US-centered world order—because, if successful, it would preserve Northern dominance but at least it would not plunge Asia and the global South into the chaos and wars that would ensue from the success of the happy-third strategy. The costs and risks for the South of Kaplan’s strategy of encircling China with a US-led military alliance—which advocates a rerun of the Cold War but centered on Asia instead of Europe—would fall somewhere in between. It would provoke deep divisions among Asian and Southern countries and risk the nuclear holocaust that the old Cold War managed to avoid, but it would force the United States to treat with some respect and make concessions to its Southern allies and to be cautious in provoking wars that would involve the US directly. There are, of course, other possibilities, some of which are already being practiced; but they are all variants or

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1 Joshua Cooper Ramo, *The Beijing Consensus: Notes on the New Physics of Chinese Power* (London, Foreign Affairs Policy Centre, 2004), pp. 3–4; Arif Dirlik, “Beijing Consensus: Beijing ‘Gongshi’: Who Recognizes Whom and to What End?” *Globalization and Autonomy Online Compendium*, available at [http://www.globalautonomy.ca/global1/position.jsp?index=PP\\_Dirlik\\_BeijingConsensus.xml](http://www.globalautonomy.ca/global1/position.jsp?index=PP_Dirlik_BeijingConsensus.xml).

combinations of the “third-happy,” “co-optation” and “cold-war” strategies.<sup>2</sup>

We should not underestimate the temptation for China to settle for co-optation in a US- or Northern-dominated world order and for other Southern countries to seek or accept US support for their mutual jealousies. But neither should we overestimate the power of the United States, even in collusion with Europe, to succeed in the pursuit of these strategies. Not only has the Iraqi debacle confirmed the limits of coercive means in enforcing the Northern will against Southern resistance; more important in a capitalist world, the financial underpinnings of US and Northern dominance rest on increasingly shaky grounds.

A crucial turning point in this respect has been the Asian financial crisis of 1997–98. Wade and Veneroso have claimed that this crisis confirmed the validity of the dictum, attributed to Andrew Mellon, that “in a depression assets return to their rightful owners.”

The combination of massive devaluations, IMF-pushed financial liberalization, and IMF-facilitated recovery may have precipitated the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world, dwarfing the transfers from domestic to US owners in Latin America in the 1980s or in Mexico after 1994.<sup>3</sup>

Correct in identifying the immediate effects of the crisis, the diagnosis missed entirely its longer-term effects on North–South relations and on the capacity of the IMF to further facilitate the transfer of Southern assets to Northern owners. As Figure 7.1 shows, the

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2 These strategies, of course, may be directed not just against China but against other states or against South–South links in general. Thus, the US offer of cooperation in dual-use nuclear and space technologies with India apparently had the immediate objective of blocking the Iran–Pakistan–India gas pipeline so as to isolate Iran and simultaneously break up a South–South connection of great symbolic and material value. See R. Palat, “India Suborned: The Global South and the Geopolitics of India’s Vote against Iran,” *Japan Focus*, October 24, 2005. Similarly, the US and EU co-optation of India and Brazil into an informal grouping known as the Five Interested Parties (FIPS), consisting of the four of them and Australia, was aimed at turning these two countries from leaders of an emerging Southern alliance into partners of a North–South alliance at the upcoming 2005 Hong Kong meeting of the WTO. Focus on the Global South, “The End of an Illusion. WTO Reform, Global Civil Society and the Road to Hong Kong,” *Focus on Trade*, no. 108, April 2005.

3 Robert Wade and Frank Veneroso, “The Asian Crisis: The High Debt Model versus the Wall Street—Treasury—IMF Complex,” *New Left Review*, 1/228 (1998).



1997–98 crisis marks the beginning of a huge bifurcation between the Northern deficit and the rest-of-the world's surplus in the current-accounts of their respective balances of payments. The bifurcation reflects the fact that there are less and less goods and services that the North, especially the United States, can produce at lower prices than the rest of the world. Much of the rest of the world's surplus still flows to the US financial entrepôt, both to finance the escalating US deficit and to be reinvested around the world, including the global South. But a significant and growing portion of that surplus is bypassing the US entrepôt, both to build up currency reserves and to flow directly to other Southern destinations, thereby relaxing the hold of the IMF and other Northern-controlled financial institutions on Southern countries.<sup>4</sup>

Flush with cash and eager to regain control over their economic policies, Southern countries have bought back their debts reducing the IMF's loan portfolio to the lowest level since the 1980s. A shrinking loan portfolio, notes the *Wall Street Journal*, "greatly diminishes the IMF's influence over global economic policy;" forces it to switch from "arm-twisting" to "persuasion;" and reduces its interest income and cash reserves. "In an irony that has provoked tittering among many [Southern] finance ministers, the agency that has long preached belt-tightening now must practice it itself."<sup>5</sup>

In spite of its massive purchases of US Treasury bonds, China has played a leading role both in rerouting the Southern surplus to Southern destinations and in providing neighboring and distant Southern countries with attractive alternatives to the trade, investment, and assistance of Northern countries and financial institutions. "Here comes a very large new player on the block that has the potential of changing the landscape of overseas development assis-

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4 The ravages of past financial crises contributed decisively to the build-up of currency reserves in low- and middle-income countries. For most of these countries, "these reserves are simply insurance against financial disaster. A long list of developing countries have experienced devastating crises in the last 15 years: Mexico in 1994; Thailand, Indonesia and other Asian countries in 1997; Russia in 1998; Brazil in 1999; and Argentina in 2002. . . . As the dust settled over the ruins of many former 'emerging' economies, a new creed took hold among policy makers in the developing world: Pile up as much foreign-exchange as possible" (E. Porter, "Are Poor Nations Wasting their Money on Dollars?" *New York Times*, April 30, 2006); "Another Drink? Sure. China Is Paying," *New York Times*, June 5, 2005; F. Kempe, "Why Economists Worry about Who Holds Foreign Currency Reserves," *Wall Street Journal*, May 9, 2006.

5 M. Moffett and B. Davis, "Booming Economy Leaves the IMF Groping for Mission," *Wall Street Journal*, April 21, 2006.

tance,” noted the director for the Philippines at the Asian Development Bank (ADB) shortly after China announced an extraordinary package of \$2 billion in loans to the Philippines each year for three years, which made the \$200 million offered by the World Bank and the ADB look puny; easily outstripped a \$1 billion loan under negotiation with Japan; and sheltered the Philippines from Washington’s disfavor after President Arroyo pulled the country’s troops out of Iraq. This was just one of a large and growing number of similar deals in which China has been out-competing Northern agencies by offering Southern countries more generous terms for access to their natural resources; larger loans with fewer political strings attached and without expensive consultant fees; and big and complicated infrastructure projects in distant areas at as little as half the cost of Northern competitors.<sup>6</sup>

Supplementing and complementing Chinese initiatives, oil-rich countries have also redirected their surpluses to the South. Of great political and symbolic significance has been Venezuela’s use of windfall proceeds from high oil prices to free Latin American countries from subordination to Northern interests.

When Argentina needed loans so that it could say goodbye to the International Monetary Fund, Venezuela committed \$2.4 billion. Venezuela bought \$300 million in bonds from Ecuador. Washington has historically had enormous influence over economic policy in Latin America through its control over the major sources of credit, including the IMF, the World Bank and the Inter-American Development Bank. Venezuela’s role as a new “lender of last resort” has reduced that influence.<sup>7</sup>

Equally important, and potentially more disruptive of Northern financial dominance, has been the interest that Saudi Arabia and other West Asian countries have recently shown in rerouting at least part of their surpluses from the United States and Europe to East and South Asia. According to Western bankers, “We’re definitely seeing a big jump in terms of deal flow between the Middle East and Asia, and Southeast Asia and China in particular.” Although, for the time

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6 J. Perlez, “China Competes with West in Aid to its Neighbors,” *New York Times*, September 18, 2006; V. Mallet, “Hunt for Resources in the Developing World,” *Financial Times*, December 12, 2006.

7 M. Weisbrot, “The Failure of Hugo-Bashing,” *Los Angeles Times*, March 9, 2006. See also N. Chomsky, “Latin America and Asia Are Breaking Free of Washington’s Grip,” *Japan Focus*, March 15, 2006.

being, West Asian investors are not withdrawing money from the United States, “a lot of new money from higher oil prices is not going to North America.” The reasons are partly political: the unpopularity of the war in Iraq and things like the backlash in the US that forced Dubai’s port company to sell off American holdings after it bought the British port operator P&O. But the most compelling reason is strictly economic: China and all fast growing Asian economies want West Asian oil, and the West Asian capital and liquidity generated by that oil are searching for investments with higher returns than US Treasury bonds.<sup>8</sup>

When, in May 2006, India’s prime minister, Manmohan Singh, urged Asian nations at the annual meeting of the ADB to redirect Asian surpluses towards Asian development projects, one US observer found the speech “stunning”—“the harbinger of the end of the dollar and of American hegemony.”<sup>9</sup> My argument in Chapter 7 points in a somewhat different direction: US hegemony, as opposed to sheer domination, in all likelihood has already ended; but, just as the pound sterling continued to be used as an international currency three to four decades after the end of British hegemony, so may the dollar. The really important issue here, however, is not whether Asian and other Southern countries will continue to use US dollars as a means of exchange—which, to an unknown extent, they probably will for a long time to come. Rather, it is whether they will continue to put the surpluses of their balances of payments at the disposal of US-controlled agencies, to be turned into instruments of Northern domination; or will instead use them as instruments of Southern emancipation. From this standpoint, there is nothing stunning about Singh’s statement, which merely lends support to a practice that is already in place. What is truly stunning is the lack of awareness—in the South no less than in the North—of the extent to which the monetarist counterrevolution of the early 1980s has backfired, creating conditions more favorable than ever before for a new Bandung to bring into existence the commonwealth of civilizations that Smith envisioned long ago.

For a new Bandung can do what the old could not: it can mobilize and use the global market as an instrument of equalization of South–North power relations. The foundations of the old Bandung were

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8 H. Timmons, “Asia Finding Rich Partner in Mideast,” *New York Times*, December 1, 2006.

9 A. Giridharadas, “Singh Urges Asian Self-Reliance,” *International Herald Tribune*, May 5, 2006.

strictly political-ideological and, as such, were easily destroyed by the monetarist counterrevolution. The foundations of the Bandung that may be emerging now, in contrast, are primarily economic and, as such, far more solid. As Yashwant Sinha, a former Indian foreign minister put it in a 2003 speech: “In the past, India’s engagement with much of Asia, including Southeast and East Asia, was built on an idealistic conception of Asian brotherhood, based on shared experiences of colonialism and of cultural ties. . . . The rhythm of the region today is determined, however, as much by trade, investment and production as by history and culture.”<sup>10</sup>

Under these circumstances, Northern resistance to the subversion of the global hierarchy of wealth and power can only succeed with widespread Southern collaboration. Crucial in this respect is what China and India—which by themselves account for more than one-third of the world population—will choose to do. Commenting in the *International Herald Tribune* on news of huge investments by China and India in each other’s economies, Howard French aptly asked: “If one places any stock in the notion of creative destruction, what could be more disruptive to the global status quo?”

With more than 2.3 billion people between them, agreement between India and China on almost any standard makes that item an instant contender for global standard status. What does this mean in practical terms? That the successor to a ubiquitous product like Microsoft Office could very well be Chinese. . . . It could mean that the mobile phone standards of the future are decided jointly in Asia, and not in Europe or the United States. . . . What it clearly means already is that the day when a cozy club of the rich—the United States, the strongest economies of Western Europe and Japan—sets the pace for the rest of world, passing out instructions and assigning grades, is fast drawing to a close.<sup>11</sup>

Yes, it does mean that but on condition that the ruling groups of the global South in general, and of China and India in particular, open up a path capable of emancipating not just their nations but the entire world from the social and ecological devastations entailed in Western

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10 Quoted in A. Giridharadas, “India Starts Flexing Economic Muscle,” *International Herald Tribune*, May 12, 2005.

11 H.W. French, “The Cross-Pollination of India and China,” *International Herald Tribune*, November 10, 2005.

capitalist development. An innovation of such world-historical significance requires some awareness of the impossibility of bringing the benefits of modernization to the majority of the world's population unless—to paraphrase Sugihara—the Western developmental path converges with the East Asian path, not the other way round. This is no new discovery. Almost eighty years ago, in December 1928, Mohandas Gandhi wrote:

God forbid that India should ever take to industrialization after the manner of the West. The economic imperialism of a single tiny island kingdom [England] is today keeping the world in chains. If an entire nation of 300 million [India's population at the time] took to similar economic exploitation, it would strip the world like locusts.<sup>12</sup>

Gandhi already knew then what many leaders of Southern emancipation have yet to learn or have forgotten: Western success along the extroverted, Industrial Revolution path was based upon the exclusion of the vast majority of the world's population from access to the natural and human resources needed to benefit rather than bear the costs of global industrialization. As such, it never was an option for that majority. Elvin's considerations concerning the developmental advantages and disadvantages of China's huge national market in the eighteenth century demonstrate the absurdity of the contrary view, still dominant among historians and social scientists across the ideological spectrum. The huge size of China's market created opportunities for the social division of labor that were not available in smaller markets, but it also ruled out innovations that were feasible in a smaller economy. Between 1741 and the early 1770s, for example, the introduction of machine-spinning tripled Britain's consumption of raw cotton.

To accomplish this tripling for China in a similar space of thirty-odd years would have been beyond the cotton-production resources of the entire eighteenth-century world. Between 1785 and 1833, the single province of Kwang-tung imported on average from India each year six times as much cotton as all Britain used annually at the time of Arkwright's first water-frame. Again, an expansion of Chinese exports of cotton cloth comparable to

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12 Quoted in Ramachandra Guha, *Environmentalism: A Global History* (New York, Longman, 2000), p. 22.

eighteenth-century Britain's both in its speed and in its relative size to the domestic market would have been too great for the available purchasing power of the world at that time.<sup>13</sup>

The economic success of Britain's Industrial Revolution, in other words, was dependent both on the relative and absolute small size of the British economy. A small absolute size meant that a given increase in the import of raw cotton and in the export of cotton manufactures translated into a much higher rate of growth of the economy than it would have in an economy of China's size. And a small size relative to the global economy meant that the rest of the world could supply the natural resources and purchase the products necessary to sustain a high rate of growth to an extent that was inconceivable for China. Had the rulers of Qing China been so insane as to follow in the footsteps of Britain's extroverted Industrial Revolution path, they would have been brought back to their senses by escalating import prices, collapsing export prices, and unbearable social tensions at home, long before they had a chance to "strip the world like locusts."

Two hundred years later China and India face the same problem with a vengeance. The displacement of the tiny UK island by the continental US island as the leader of the Industrial Revolution path has resulted in a further massive increase in the natural-resource intensity, not just of production, but of consumption as well. This massive increase was possible because the vast majority of world population was excluded from the production and consumption standards established by the United States. But as soon as a small minority of the Chinese population (and an even smaller one of the Indian population) gained partial access to those standards, the validity of Gandhi's contention has become obvious to all but the most obtuse defenders of the American way of life. "The world, as it turns out, cannot afford two countries [with a large population] behaving like the United States. It lacks the atmosphere . . . and it also may lack the resources." Bill McKibben calls this a "tragedy" because

China is actually accomplishing some measurable good with its growth. People are enjoying some meat, sending their [children] to school, heating their huts. Whereas we're burning nine times as

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13 Mank Elvin, *The Pattern of the Chinese Past* (Stanford, CA, Stanford University Press, 1973), pp. 313–14.

much energy per capita so that we can: air-condition game rooms and mow half-acre lots, drive SUVs on every errand, eat tomatoes flown in from Chile. . . . Which is why it seems intuitively obvious when you're in China that the goal of the twenty-first century must somehow be to simultaneously develop the economies of the poorest parts of the world and *undevelop* those of the rich . . . with us using less energy so that they can use more, and eating less meat so that they can eat more. . . . But try to imagine the political possibilities in America . . . of acknowledging that there isn't room for two of us to behave in this way, and that we don't own the rights to our lifestyle simply because we got there first. The current president's father [George Bush Senior] announced, on his way to the parley in Rio that gave rise to the Kyoto treaty, that "the American way of life is not up for negotiation." That's what defines a tragedy.<sup>14</sup>

As it turns out, the latest act of the tragedy, played out in Iraq, has shown that the United States does not have the power to impose coercively upon the world its right to an extravagant way of life and must therefore pay an increasing price for the preservation of that right.<sup>15</sup> But the fact remains that not even a quarter of China's and India's population can adopt the American way of producing and consuming without choking themselves and everybody else to death. Also in this respect, the PRC's new leadership has shown greater awareness than its predecessors of the environmental problems of energy-intensive economic growth. "Model cities" focusing specifically on environmental protection have been established; forests are replanted; the Five Year Plan for 2006–10 has set the ambitious objective of a 20 percent reduction in the energy intensity of the economy and, to this end, a far-reaching industrial policy, banning 399 industrial sub-sectors and restricting another 190 has been announced. It nonetheless remains unclear how these and other measures can restore a seriously compromised ecological balance if, as expected, over the next fifteen years 300 million rural residents

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14 Bill McKibben, "The Great Leap: Scenes from China's Industrial Revolution," *Harper's Magazine* (December 2005), p. 52.

15 In avidly supporting the war against Iraq, newspaper baron Rupert Murdoch observed that a reduction of the price of oil from \$30 to \$20 a barrel would have been a good thing for the US economy: D. Kirkpatrick, "Mr. Murdoch's War," *New York Times*, April 7, 2003. The fact that four years into the war the price of oil has instead doubled provides a good measure of the failure of the US attempt to coercively impose its right to extravagant energy consumption.

or more will move into cities where growing fleets of motor vehicles are crowding bicycles out.<sup>16</sup>

In short, by relying too heavily on the energy-consuming Western path, China's rapid economic growth has not yet opened up for itself and the world an ecologically sustainable developmental path. This reliance does not just threaten to bring the "economic miracle" to a premature end, because of pressure on scarce resources (including clean air and water). More important, it is both a result and a cause of the widening cleavage between those who have been in a position to appropriate the benefits of rapid economic growth and those who had to bear its costs. As we have seen in Chapter 12, this cleavage has resulted in a major wave of popular unrest, in which ecological grievances loomed large and which has prompted a major reorientation of Chinese policies towards a more balanced development between rural and urban areas, between regions, and between economy and society. All we need to add to bring our study to a close is that the eventual outcome of this reorientation is of crucial importance for the future not just of Chinese society but of world society as well.

If the reorientation succeeds in reviving and consolidating China's traditions of self-centered market-based development, accumulation *without* dispossession, mobilization of human rather than non-human resources, and government through mass participation in shaping policies, then the chances are that China will be in a position to contribute decisively to the emergence of a commonwealth of civilizations truly respectful of cultural differences. But, if the reorientation fails, China may well turn into a new epicenter of social and political chaos that will facilitate Northern attempts to re-establish a crumbling global dominance or, to paraphrase once again Schumpeter, help humanity burn up in the horrors (or glories) of the escalating violence that has accompanied the liquidation of the Cold War world order.

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16 Lester R. Brown, "A New World Order," *Guardian*, January 25, 2006; *Quarterly Update*, World Bank Office, Beijing, February 2006, pp. 13–16; K. Bradsher, "China Set to Act on Fuel Economy," *New York Times*, November 18, 2003; J. Kyngé, "New Agenda for a New Generation," *Financial Times*, December 16, 2003; A. Lorenz, "China's Environmental Suicide: A Government Minister Speaks," *openDemocracy*, April 5, 2005.