

Heterodox Economics Newsletter

ADAM SMITH IN BEIJING: LINEAGES OF THE TWENTY-FIRST CENTURY, by Giovanni Arrighi. London: Verso, 2007. ISBN: 978-1-84467-104-5; 420 pages.

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This is a long-awaited, in-depth analysis of the nature and implications of the rise of China, casted in the context of the historical evolution of capitalism and the contemporary international relations. With its iconoclastic vision, analytical rigor, and vast information, this book easily dwarfs the rest of the rapidly expanding literature on the subject.

Just like the archetypal capitalist production envisioned by Karl Marx was found not in Berlin but in Detroit (and hence “Marx in Detroit”), the non-capitalist market economy prescribed by Adam Smith has been thriving not in Britain but in China (and hence “Smith in Beijing”). Before delving into the features and impacts of China’s Smithian growth, Arrighi narrates the cyclical rise and decline of the dominant Western powers, from the Genoese, to the Dutch, to the British and finally to the American cycles of accumulation. This four-cycle thesis, extensively developed in the Long Twentieth Century (Arrighi 1994), holds that the Western capitalist development is predicated on endless accumulation of capital and power through the interplay of industrialism, militarism, and territorialism. However, the domination and hegemony of the West is on the decline. Notably, the efforts by the US - the current dominant power - in turning itself into a world state were devastated by the “signal” crisis and the looming “terminal” crisis. These crises are attributable to both inherent mechanisms of capitalist production and the mismanagement of the economy by the government.

First, the US and other capitalist states are faced with the crisis of profitability due to the “double squeeze,” that is, horizontal competition between capitalists and vertical competition between workers and capitalists. Second, the once successful warfare-welfare strategy of the US in the Cold War era is now failing its social and political objectives in the milieu of War on Terror - a disastrous move by the Bush Administration in response to the 9/11 incident, which precipitates the crisis of hegemony, or, the signal crisis. Finally, financial expansion entails adverse economic, political, and social consequences and destabilizes the existing order. All this leads Arrighi to pronounce the demise of US hegemony as he states, “[...] the sinking dollar of the 2000s [...] is the expression (and a factor) of a relative and absolute loss of the nation’s capacity to retain its centrality within the global political economy” (p. 203). The failure of the neo-conservative imperial project would pave the way for China becoming the new center, according to Arrighi.

The “peaceful ascent” of China and its potential to assume the role of the world’s new superpower are due to both structural (internal) and contingent (external) factors. In Arrighi’s view, the Iraq War significantly jeopardized the military, economic and political power of the US, which makes China the true winner of the War. Aside from this external, contingent factor, China’s Smithian genre of growth, coupled with its shrewd foreign policies backed by economic and financial strength, pushes it to the center

stage of the global economy. This would not only engender sweeping impacts on China itself but provide an opportunity to transform the whole world. China is likely to lead the way towards the emergence of “a commonwealth of civilization truly respectful of cultural differences” (p. 389), because the sheer size and the limited natural resources prohibit China from pursuing the same way of domination and living standard as the US and other global powers before it have enjoyed.

Throughout the meta-narratives, Arrighi does an admirable job in giving each particular its own due with great specificity and accuracy. That said; I still have a few quibbles. First, financial expansion, or financialization, is a double-edge sword for capitalism. On the one hand, it gives an (temporary) outlet to overcome over-accumulation and over-production (Magdoff and Sweezy 1987), and allows the US to reap the products of “brains and muscles” of other countries. But on the other hand, it sabotages the real, production side of the economy and accentuates the inherent instability in the capitalist system. Arrighi seems to agree with this. He further argues that the US’s reckless foreign borrowing and mounting indebtedness (partly due to the economic costs of the Iraq War) are taking a toll on its economy and undermining its currency. He also suggests that East Asian countries may stop using their balance of payment surpluses to support Northern domination (by way of “financing” the US current account deficit) but to facilitate Southern emancipation (p. 384). However, it is worth noting that unless East Asian countries reorient themselves toward an internal-demand driven growth pattern, they will continue financing US trade deficits in order to secure external demand. Dumping US assets is not in the interests of these countries that have accumulated enormous dollar reserves; the notorious statement “the dollar is our currency, but your problem” does have a grain of truth. As Arrighi acknowledges in the Epilogue, the decline of US hegemony does not lead to the immediate collapse of the dollar hegemony. In addition to the inertia of changing reserve currency as Arrighi points out, the lack of alternatives also makes the exit of dollar difficult (note that the unwillingness of the EU and Japan to run current account deficit and hence to supply liquidity renders their currencies infeasible and undesirable reserve currencies). Finally, if East Asian countries were to stop “lending” their surpluses to finance US trade deficit, the US will lose its capacity to import, and in turn, East Asian’s surpluses will actually disappear. Unless other export destinations can be established, or East Asian countries are willing to forgo their trade surpluses, they have no choice but to continue to finance US imports.

Second, although the idea of “the decline of the West and the rise of the East” is not new (for example, it was the central theme of Gunder Frank’s last book, *ReOrient* (1998)), Arrighi takes the argument to a higher analytical level. However, it still remains unclear why it is China, not India, Germany, the EU or any others that should rise to the center. Arrighi insists that China is the true winner of the US war in Iraq but he does not provide a full explanation as to in what sense China won. If US’s Iraq quagmire provided China with more breathing room, then either China would have been the target had the US not been bogged down in Iraq or any other countries competing (broadly defined) with the US are “true winners” (as depicted in Alice Amsden’s *Escape from Empire* (2007)). Therefore, it requires further elaboration as to why it is China that benefits and how these benefits could enable China to ascend to the top.

This gives rise to the third point about the growth of China. Arrighi argues that China's development is market-based and features social division of labor, expansion of education, subordination of capitalist interests to the national interest, and active encouragement of inter-capitalist competition. This is at odds with the Marxian notion of capitalist development because the government does not act in the interest of the bourgeoisie by separating the means of production from direct producers and by shifting competition pressures from capitalists onto workers. However, Arrighi is ambiguous on two critical questions: Does market reform, in particular, privatization, lead to the formation of a capitalist class? Does the capitalist class, if existent, seize the commanding power of the Chinese economy and society? Failure to give negative answers to both questions makes Arrighi's argument less convincing (p. 369). Perhaps China's situations are too complex to fit in the parsimonious concepts of socialism or capitalism. Still, Arrighi's analyses of China exhibit a series of contradictions: on the one hand, China's growth involves "accumulation without dispossession" in his parlance; the other hand, much ink is spilled on China's rising social unrest against myriad unjust or even exploitative treatments. Destructive competition between businesses and the recurring overinvestment in some sectors are read as a positive outcome of government promoting inter-capitalist competition and attempting to drive profit rates down to zero. The lack of scientific management systems and managerial personnel is praised as the manifestation of workers' self management. Based on the observations that the Chinese government effectively bargains with foreign investors on the conditions of their entry, Arrighi underplays the influence of foreign capital. There is much evidence suggesting the opposites – Arrighi rejects Harvey's and Hart-Landsberg and Burkett's claim that China embraces Neoliberalism, but he seems to ignore some of the significant studies, such as those found in Huang's *Selling China* (2003) and Gallagher's *Contagious Capitalism* (2006). All in all, I only wish Arrighi had spent some time addressing these complex yet critical issues.

Despite some of the imperfections in the book that merit further research, Arrighi's book is unquestionably a masterpiece on the evolution of the world capitalist system and the contemporary international relations. The depth, breadth, and incisiveness of the historical narratives not only reveal how the current system works but shed light on what lies ahead. This is deemed to be a controversial and provocative book that will enlighten and inspire interested scholars for many years to come.

References

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