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## Understanding China's Transformations

*The Dialectical Nexus between Internalities and Externalities*

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*Publication date:*  
2008

*Document Version*  
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*

Li, X. (2008). *Understanding China's Transformations: The Dialectical Nexus between Internalities and Externalities*. Paper presented at The Rise of China and Its Impact on the Existing Capitalist World System, Aalborg, Denmark.

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# **Understanding China's Transformations: The Dialectical Nexus between Internalities and Externalities**

Li Xing

## **Introduction**

After China was united in 221 BC under the first emperor, Emperor Qin, his response to the external threat along the northern borders was to build a long wall of “civilizational division” – the Great Wall - along its northern borders in order to keep the “barbarians” outside the “land of civilization”. Until the arrival of European colonialists in the 19th century, China had been an autonomous, self-contained and self-assertive civilization. Historically Chinese used to perceive their civilization as the “middle kingdom” of the world surrounded by barbarians.

China had traditionally been a land of empire in the length of unbroken history and cultural tradition, and Chinese devoted much of their energies to the sophistication of civil and cultural activities, and social organization. Despite the changes of imperial dynasties, the basic fabrics of Chinese civilization had been unchallenged until the 19<sup>th</sup> century.

The West began to have a great curiosity and serious interest in the Far East after Marco Polo returned to Italy and brought back his image of China to Europe: the most powerful and wealthy country in the world ruled by stable and efficient elites. Since the Rome's time, the flows of trade and commodities were overwhelmingly from the East to the West through the *Silk Road*. Although the West now takes special pride in its technological achievements, the original transmission of major new techniques was, until the recent past before the western industrial revolution, no less overwhelmingly from the East to the West (Segal, 1966: 318). The Western image of China had been indeed mysterious and promising.

For a long period of time China had no interest in dealing with outsiders and it claimed to need nothing from the West. But Western countries wanted a great deal from China and their ambition was not only to urge their government to protect their trade but also to force a passage for their own products. Since the early 19<sup>th</sup> century the Chinese civilization when the well equilibrated Chinese imperial system was gradually challenged. Unlike the downfall of previous dynasties, which did not inflict any obvious damage to the way of Chinese life and the integration of Chinese culture, the decline of the last Manchus dynasty had the whole civilizational foundations weakened. The causes of the decline

were both multiple and complex. There were certainly a number of domestic socioeconomic factors as well as external forces which contributed to this state of affairs.

China's first war with the West, *The Opium War* (1840-1842), ended with its disgraceful defeat. The *Treaty of Nanjing* forced China to pay a huge indemnity to Britain for the compensation of the war and imposed China a tariff on all imported goods. The consequences were very damaging: traditional tributaries were taken away; concessions to foreign privileges were made; the authority of the emperor, upon which the Chinese order based, was ended; the hand-labor-based industries on which Chinese economy depended were destroyed; and the favorable balance of trade, which existed until 1830 and which had brought an uninterrupted flow of silver from the outside, became lopsided (Kapur, 1987: 2). China became indeed an "international colony". The traditional social structure was finally broken down. China's customs and post offices were largely controlled by Westerners; Western ships were permitted to navigate freely in its water, and even to demolish some of its coastal defense; many Western troops were stationed at a number of points on a permanent basis; pieces of territory in various parts of the country were taken over as concessions. China was thus divided by Western powers as "spheres of interest" and was "carved up like a melon."

China in the late 19<sup>th</sup> and early 20<sup>th</sup> century was in a turbulent period of social disintegration, regional warlordism, popular revolution and political chaos. Very few societies like China had been so radically transformed in such a short time within the 20th century. Politically, the Chinese state and society transformed from a long imperial system to a short-lived republic, and then from a fragile and predatory warlordism to a revolutionary centralized socialist authoritarian state. Ideologically the Chinese value systems went through many "great leaps forward" from Confucianism to Marxism, from imperialism to republicanism, from feudalism to socialism and from collectivism to individualism. Economically China underwent a state-led socialist industrialization project based on planned economy and collective egalitarianism, and then moved to an all-round economic reform based on market mechanisms. The Chinese political and economic landscape had experienced repeated shifts from crisis and failure to very rapid growth and achievement.

#### *Objective and methodological consideration*

How can we comprehend and interpret these historical transformations shaped by fundamental changes? What are the internal driving forces and the external influences behind these transformations? And what are the consequential impacts when internal transformations were triggered by external thrust, and vice versa?

The objective of this paper is to offer a framework of understanding the dialectical nexus between China's internal evolutions and the external influences with a focus on the century-long "challenge-response" dynamism. That is to explore how external factors helped shaping China's internal transformations, i.e. how generations of Chinese have been struggling in responding to the external challenges and attempting to *sinicize* external political ideas in order to change China from within. Likewise, it is equally important to understand how China's inner transformation contributed to reshaping the world. Each time, be it China's dominance or decline, the capitalist world system has to adjust and readjust itself to the opportunities and constraints brought about by the "China factors". The current rise of China is and will be arguably the most challenging event in the 21st century that has an impact on the "future of the West" (Ikenberry, 2008).

### *Analytical propositions*

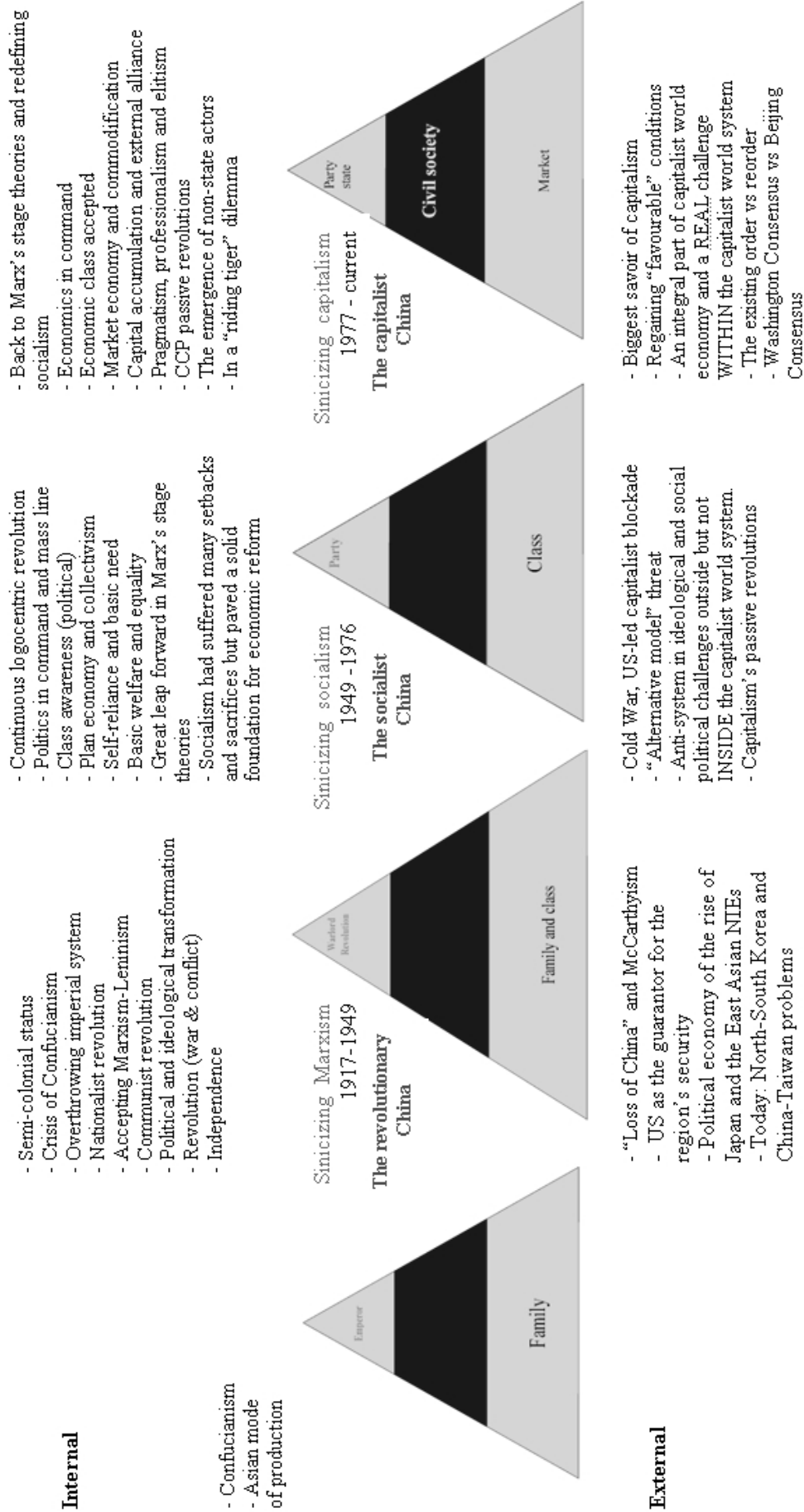
Methodologically, the paper's analytical frameworks proposes an analysis of the fundamental changes in the socio-political components of the Chinese society brought about by drastic revolutionary transformations at different periods and their external *reciprocal* impact (see Figure 1):

- 1) Before its collapse at the beginning of the 20<sup>th</sup> century China's imperial system consisted of two poles of societal components: the imperial authority at the top and the family structure at the bottom. Ideologically, culturally and politically Confucianism contributed to moral and ethnical frameworks for the sustainability of this two-pole system. The references of cultural understanding and the production and reproduction of political and individual life were structured around this two-pole system which had been unchallenged for more than 2000 thousand years. Linguistically, the vocabulary of "civil society" (the third social force between the state and the market) does not exist in the Chinese language, and even today the Chinese translation of "civil society" cannot cover its actual notion and implications.
- 2) Imperial China was less interested in the outside world, whereas the Western curiosity about China had never stopped. China's defeat in the Opium War not only had such an impact on the nation's psychological understanding of the "middle kingdom" as well as the Confucian teachings but also forced China to open its doors to external ideas and political thoughts. As a consequence of the China-West conflicts, the traditional equilibrium of the two-pole system began to be destabilized leading to several decades of disintegration and chaos.
- 3) Through sinicizing Western Marxism with Chinese reality, the Chinese communists achieved the state power in 1949. The Chinese revolution cut the root of the "old China" and created a socialist "new China"

characterized by a historically unique experiment to skip over the stage of capitalism and to bring about a socialist transformation of both the social structure and the consciousness of its people in ways that defied conventional ideological and political norms in established capitalist as well as socialist states. Externally the “loss of China” had a shock effect to the US-based capitalist system and contributed to the political economy of the rise of East Asian authoritarian capitalism.

- 4) The historical two-pole system was replaced by a new type of two-pole system represented by the party leadership at the top and class struggles at the bottom. The whole socialist period was characterized by state ownership, agricultural collectivism and welfare egalitarianism. However, such an endeavor of independent and self-reliance development alternative was severely constrained by the US-led capitalist world order. Chinese socialism had to adjust to both internal constraints and external pressures. Nevertheless, the overall achievements of socialism paved a solid material and infrastructural foundation to China’s comparative advantage in its post-Mao integration with the global economy. During the socialist period, red China’s attempt of “sinicizing socialism”, although seemingly threatening, did not impose any direct destructive impact on the capitalist world system.
- 5) The post-Mao leadership undertook a modernization process through economic reforms aiming at sinicizing Western market capitalism with “Chinese characteristics” and through embracing market capitalism while incorporating China into the existing world system. China is now undergoing transformative changes through a series of processes of economic, institutional and ideological “passive revolutions”. Not only has the previous party-class system been replaced by a party-market system, but also has it successfully integrated with the capitalist world system. The *sinicized* “Chinese capitalism” or “Chinese market socialism” combining market mechanism with an active role of the party-state is unleashing direct “threatening” impact on the existing international order. Dialectically internal economic achievement and external dependence are two sides of the same coin creating both internal contradictions and external anxieties.

Figure 1. The challenge-response nexus between the internalities and externalities



### **The classical China in the 19<sup>th</sup> century: emerging underdevelopment**

Between the early 19<sup>th</sup> century and the victory of the Communist revolution in 1949, China exhibited the classic symptoms of backwardness: political corruption, social debility and class exploitation, economic stagnation, negligible technical change, and heavy demographic pressure. The reality China faced was a typical picture of political-economic underdevelopment by any standard.

Then, the questions are: how had this come about? What were constraints that brought about China's decline and underdevelopment? Were constraints mainly external or internal? The decline of the Chinese civilization and its underdevelopment has been a subject of interest in social science and especially in the field of development studies. Different schools of thought have tried to offer the explanations from different perspectives.

In line with the classical Marxist conceptualization, which identifies East Asia societies with the *Asiatic Mode of Production* (AMP), the AMP goes that geographically, the landscape of the Chinese traditional communities was dependent on irrigation systems which required a centralized authority to coordinate and develop large-scale hydraulic works; politically, the Chinese state were stagnant societies dominated by a despotic state class with a centralized governance; and socioeconomically, the Chinese economic bases consisted of economically self-sufficient families and village communities combining agriculture and handicrafts. The sustainability of the system was built on loyalty to the state on the hand and filial piety to the family on the other, which made political patriarchy and patrimonialism possible. Under this type of socio-political organization, the middle space between the state and family became so narrow that it was not possible to expect China (or any other non-Western historical society) to have had, or to have required, anything like the complex of attitudes, values, and institutions that are amalgamated and reified under the term "civil society".

The concept of the AMP endorses "the privileged position of Occidental over Oriental history: the dynamic and progressive character of the West versus the stationary and regressive features of the East (Bottomore, 1983: 33). It argues that the Oriental pre-capitalist economic formations together with their "primitive" societal forms and family- or clan-based social structures were unfavorable for the emergence of the "capitalist mode of production," i.e. the existence of the Occidental feudalism in politically independent kingdoms and cities was crucial for the growth of the production of exchange values and for the rise of a bourgeois class and industrial capitalism. The primary hub of this conceptual approach focuses on the constraints of the internal economic organization.

Another school of thought which also emphasizes the internal factors is *The state and social structure theory*. It is an attempt by China-scholars to explain underdevelopment in China specifically from the perspectives of its internal factors in relation to a number of features of the Chinese state and social structure. It stresses the social structure symbolized by Chinese family system, a conservative bureaucracy and ruling ideology, a parasitic elite, fatalistic attitude, etc. as obstacles to modernization. The arguments of this theory suggest that the requirements of modernization were incompatible with the requirements of Confucian stability and hierarchy system (Lippit, 1980). Again, the conceptual framework of this school emphasizes the malfunctioning of the domestic socio-political structure.

The most challenging arguments come from the culturalist line of thinking. Hegel, for example, at a time when the Western consciousness of the world created revolutionary history, saw China in the “Childhood” of history (Engels in Dirlik & Meisner, 1989: 17); and Marx, whose theories and insight inspired the Chinese revolution, described China a society “vegetating in the teeth of time” and discovered in the Great Wall of China a metaphor for the universal resistance of non-European societies to change (Marx in Dirlik & Meisner, *ibid.*: 17). Their views were understandable because these perceptions of China, although premature, were a product of a comparison between the immobility of non-Western cultures and the revolutionary Europe. What was behind the viewpoint was to establish a European model for other cultures to follow. To put China in the framework of the Weberian explanation, the failure of China’s transition to the stage of capitalism was due to the fact that Chinese Confucian cultural values were not receptive to the development of capitalism in terms of creativity, competition and development. Once again, the theoretical paradigm of this approach points to the limits of inner value systems.

### **The revolutionary China: sinicizing Western Marxism**

Since China’s defeat in the Opium War and its final collapse of the Qing Dynasty, Chinese academics and elites were deeply divided in which direction China should move to. There were mainly four schools of attitude. The first school favored the restoration of traditional social structure, recovering the ancient power and expelling outsiders. The second school preferred a limited change, but was not interested in modern science and industry nor was it interested in learning Western political philosophy and economic system. Its only interest was Western weaponry technology and military training. The third school went to the opposite extreme. It favored total Westernization, and was convinced that science and technology did affect values. People belonging to this school believed that it was impossible to borrow Western technology while



maintaining Chinese ways of thinking and its outdated institutional structure. The most influential one was the fourth school - Marxism and Leninism.

#### *The historical role of Marxism-Leninism*

Confucian cultural and value system developed over several thousands of years under feudal systems, while Marxism emerged in a Europe context in the 18th century. They appear to be unrelated both in timing and content; nevertheless, history has brought the two together in China.

The post-Opium War challenges to the Chinese nation were dual: China had not only to build a modern economy, but also to create a new culture and value system in order to shape the direction of national development. The requirement for forming a new cultural identity became a yardstick for generations of Chinese reformers and revolutionaries because new value system and attitude were preconditions for the transformation of individuals as well as the material base of society, and economic development and culture were intricately interconnected (Kung, 1975: 219). China indeed needed a new comprehensive philosophical base, a new framework of understanding - a new Confucianism, and that was why Western communism found its precise role in China.

During this period different of schools of thoughts entered China including many foreign-inspired schools, such as Constitutionalism, Positivism, Marxism-Leninism, Socialism, Liberalism, Darwinism, etc. It was during this period that the Marxist proletarian culture and class theory began to influence and inspire the worldviews of revolutionary Chinese people especially some intellectuals, among them Mao Zedong, who was one of the founders of the Chinese Communist Party (CCP). The CCP successfully linked the potential of the Chinese proletarian revolution to the worldwide proletarian movement and paved the way for the establishment of a populist tradition in the course of the national struggle for independence and prosperity.

Marxism-Leninism opened the horizons of the Chinese progressive intellectuals and internationalized their conceptualization of China's domestic problems. The Marxist-Leninist teachings of colonialism and imperialism provided China with a radical approach viewing underdevelopment as essentially an outcome of a historical process caused by western colonial-imperialist expansion. Marxism and especially Lenin's theory of capitalist imperialism provided Chinese intellectuals with a partial theoretical framework as well as a psychological answer to their difficulties in finding the proper explanations and theories to the failures of traditional Chinese culture and for the humiliation suffered at the hands of the West (Peck, 1975: 73). It offered them a great source of inspiration to take positions and to analyze the world from different perspectives. China, as

they saw, was no longer an isolated center of globe surrounded by barbarians, but a part of the world full of different forces and ideas. Since the establishment of Chinese Communist Party in 1927, the Chinese impact on both transforming and strengthening Marxism-Leninism was equally important. The Chinese view on its role in the international affairs had changed from regarding itself as the center of the world and universal authority to seeing that China's problem was part of the world problems and Chinese revolution was relevant for the outside world.

Nevertheless, whatever political discourse might be more suitable to China, it was Mao who was able to combine both learning and statesmanship and combine Marxism-Leninism with China's reality. He seized this opportunity to sinicize the Chinese Communist movement in terms of skilful redefinition of "class" and application of class politics<sup>1</sup>. Mao's strategy of "using countryside to surround city" turned the Chinese revolution into a peasant-based and backward Chinese uprising. No matter how significant Western progressive theories were in influencing the Chinese revolution, without combining it to China's reality by Mao Zedong, Marxism-Leninism would probably have aroused only a few rebels. Although communist historians maintain that it is "the people who create history" and reject the great-man theory of history, it is no doubt that without Mao's contribution Chinese history would have run a different course (Chi, 1986: 296).

*The "loss of China" and the rise of East Asian developmental states*

This "loss" of China to Communism had a tremendous impact on American society (Thomson, 1992). From the president and government officials down to the media and ordinary people, Americans simply could not understand how a hopeful Chinese Nationalist government with modern US military support could be defeated by a Communist-led insurrection. There might have been a chance after the Second World War and the Chinese communist victory, when an American government could have actually coexisted and developed normal relations with socialist China. But the US government immediately responded to the "loss" of China by military containment and isolation of Red China under the assumption that the containment of China could prevent the spread of revolution. For nearly a quarter of a century, the "loss of China" had a grave impact on America's policies in Asia which were skewed by the fear of Communism, so were American politics, education, and society. This fear of Communism not only founded McCarthyism in the US politics but also made America take part in two perhaps entirely avoidable wars in Korean Peninsula and

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<sup>1</sup> Mao realized the power of hundreds of millions of peasants who could be converted to become part of the revolutionary army. The Chinese Revolution is in reality a peasant revolution rather than a working class one

Southeast Asia. And America-East Asia relations became engulfed by years of blind and lethal zealotry. The “loss of China” also attributed to the political economy of the rise of East Asian developmental states under the American parenthood (Hersh, 1993)

Under the American protection, external military threats and the internal danger of communist expansion were substantially contained in these two regions. Through providing security, economic support and military aid to Japan and other East Asian states, the American goal was consequently to control and define their roles (including Germany in Europe) within the American-led alliance and prevent them from embarking upon an independent political and military course (Schwarz, 1996: 92-102)<sup>2</sup>. The burden of the allied countries’ military expenses was also greatly reduced by the American military presence. American military bases have been documented to have not only protected these countries but also provided them with economic benefits such as employment. Even now, the withdrawal of American military forces would be considered as a substantial economic loss.

America’s long-term strategic interest in East Asia can be understood as having a dual objective: “watching” the role of Japan and “managing” the risk by the rise of China as a regional and global power. American role and presence in this region as a balance-of-power guarantor are generally welcome by the smaller nations. It is expected that in the foreseeable future the US will remain a key role player in this region’s integration process whether one like it or not.

### **The socialist China: alternative experiment in a capitalist world system**

#### *The history and trajectory of Chinese socialism*

According to some scholars that the reason why China was able to industrialize more rapidly since 1949 was that the Communist revolution “decisively broke the ties that chained China to the imperialist system” (Moulder 1977: viii-ix) and also broke free of a variety of complicated domestic confinements, such as localism, warlordism and foreign domination. However, like all socialist states, post-revolutionary China was still a constituent part of the “capitalist world system”<sup>3</sup>. Would China be able to form an autonomous entity interacting with the capitalist system while avoiding the vulnerability to the vicissitudes of the larger capitalist bloc? In other words, would China be allowed to peacefully

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<sup>2</sup> It is recognized that the US post-war objective in East Asia, as a part of its global strategies, was to restore the functioning of the capitalist world system, which was fundamentally different from the fascist-militarist Japanese agenda during the Second World War.

<sup>3</sup> Socialist countries, in the view of the World System Theory, are “state capitalism” because the state is the key actor in the capital accumulation process.

develop an alternative model and an independent path to social and economic development? The answer, as proved by the history, is no.

The ideas and ideologies of socialism can be traced back to some centuries ago, but worldwide socialist movements as a political force of global historical significance were relatively a recent phenomenon centered in the 20<sup>th</sup> century. Seen from a world system perspective, the historical evolutions of socialist and communist movements can be seen as part of long-run spiraling struggles between the expansion capitalism and the counter-reactions (Chase-Dunn, 1999). This history of spiraling struggles between these two contending forces can be comparably referred to “double movements” in a Polanyian term (Polanyi, 1957). Socialism, seen as part of antisystemic or counter-hegemonic movements, necessitated the capitalist world to initiate a number of social, economic and political “passive revolutions” including the New Deal, Keynesianism and Fordism in order to regain its dynamic and resilient capacities. Between the period of the post-war and the end of Cold War it was popular then for Western governments to proclaim themselves to be Keynesian or Social Democratic, rejecting laissez-faire capitalism and favoring for a more regulated macro-economic system of controlled and rationalized production.

The history and trajectory of socialist states in the 20<sup>th</sup> century indicates that worldwide socialist movements in the periphery and semi-periphery all initially attempted to transform the basic logic of capitalism and establish an alternative mode of product, but they ended up using socialist ideology to mobilize national industrialization in order to catch up with advanced capitalist states in the core. Hence, seen from a world system perspective, socialist states were still situated within the interactions of the capitalist world economy, and their activities are very much constrained by the international system of the capitalist world economy (So and Chiu 1995:139-40). Socialist states, despite of some socialist feature, such as egalitarian distribution, employment security, comprehensive welfare provision, etc, nevertheless they were still an integral part of *capitalist* accumulation. The history of Chinese socialism proved to be no exception.

It is necessary to point out that the setback of Chinese socialism must not be simply reduced to “utopianism” or domestic policy failures because, in addition to internal difficulties, Chinese socialism encountered severe external constraints such as imperialist hostility, economic embargoes, deprivation of access to capital and technology, diplomatic isolation and military interventions from the capitalist world led by the US. China faced the severe external constraints from the Cold-War world order, which in many ways influenced the choices and strategies of its socialist experiments as well as the course they took. Even its

institutional set-ups were structured according to the need of survival in a war situation.<sup>4</sup>

*The legacy of Chinese socialism*

Before drawing any deterministic conclusions on the period of Maoist socialism, we have to keep in mind that what Deng's China has been doing since the end of the 1970s is not "economic reconstruction" but "economic reform" aiming at correcting the "irrational" part of the earlier economic policies. Hence, it is historically incorrect to ignore the fact that the achievements Chinese socialism under political sovereignty and a major change in domestic class relations paved the foundation of the economic progress achieved in the post-Mao era. If we do not make a realistic assessment of China's socialist development during Mao's period when it developed from a backward agrarian society to a major industrial power in the 1970s, we will not be able to understand both the economic achievements and problems inherited from that era. The legacy of Chinese socialism can be obviously seen from the favorable position China had, when the economic reform started, in defining the terms and establishing parameters of interaction with the capitalist world order. As a China-scholar observes,

it [China] was not entangled in a complex web of external economic constraints which limited its freedom of action or skewed its decision in the interests of foreign powers or corporations. ... the establishment of a strong, autonomous state provided the political precondition for ensuring – with a margin for miscalculation – that international economic ties were more likely to be beneficial, as classical economic theory and modern development economics have promised.

(White 1982: 131)

The Maoist independent and non-alliance foreign policy, armed with concrete advance in certain industries and military technologies as mentioned before, and assisted by its strong ties with the developing world which backed China's victorious re-entry into the United Nations as a permanent member of the Security Council, paved a solid foundation for its successful rapprochement with the United States. Consequently and not coincidentally, the post-Mao regime was in a favorable position to negotiate political, economic and military relations with the outside world on a either relatively equal or advantageous basis.

The success of the post-Mao market reform proves fact that the fundamental changes and achievements during the reform period in the 1980s and the 1990s were a clear indication of the contribution of the socialist development strategy

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<sup>4</sup> The organizational logics of Chinese institution (in Chinese "*Dan Wei*") have their roots from the war periods (the anti-Japanese war and the civil war). It was a decentralized system in which each unit/institution is supposed to survive on its own in terms of production, reserve, welfare, medical care, etc.

rather than its failure. For example, it has been recognized that China's village-township enterprises had played an important role in its economic growth during the reform period. Township enterprises became, more than the state sectors, the most dynamic engine of China's economic growth. According to the World Bank report, the growth and performance of China's township and village enterprises (TVE) was extraordinary: their share in GDP rose from 13 per cent in 1985 to 31 per cent in 1994; their output grew by about 25 per cent a year since the mid-1980s; they now accounted for a third of total industrial growth in China; and for more than a decade TVEs had created 95 million jobs (World Bank 1996: 51).

Conventional wisdom claims that the rapid development of village-township enterprises is only due to the reform-oriented leadership which came to power and ended the public ownership system, and unleashed their enormous potential of entrepreneurship. While such a view contains elements of truth, it is not historically correct and can be seriously misleading.

What we must not forget is that the rise of TVEs was not a product of the reform policy; rather, it is the direct result of the socialist mass-line mobilization development strategy to push forward rural industrialization aiming at making rural areas into affiliations of industrialization processes alongside major industrial cities. What was behind the socialist economic policy, albeit it was radical, was the standpoint that Chinese peasants would ultimately bear the burden of industrial investment in one way or another; and instead of over-taxing them and widening the rural/urban gap, they could be helped to develop rural industries along with urban industrialization. The essential goal of the Maoist rural development policy was to create a simultaneous process in which collectivization went hand-in-hand with industrialization.

Therefore, TVEs were the outcomes emerged during the "Great Leap Forward" and the Cultural Revolution. Village-township enterprises are direct 'descendants' of those previously owned by communes and brigades (Putterman 1997). It was a gradual process based on a number of innovative ideas such as factory and commune linkage, young intellectual going to the countryside, cadres and technicians working in grass roots units, and linkage between industry and agriculture, etc. About 28 million people were employed in commune and brigade factories out of a total labor force of about 300 million (Lippit 1982: 128). In 1958, 85 per cent of the 1,165 enterprises under the jurisdiction of the central state were transferred to local administrations; and within one year there were about 6 million small-scale industries: coal, power station, cement, fertilizer, agricultural machinery and processing enterprises (Gao 1997).

### *The socialist foundation for China's economic emergence*

As it is well known, the success story of Japan and the rapid economic development of some Asian newly industrialized countries (NICs) were largely based on export-oriented strategy. It is widely recognized that the engine of economic growth in the East Asian model of development was attributable to the rapid growth of exports. Beginning in the 1960s, favorable conditions created opportunities for relatively low-cost industrial production to be integrated into the world economy through increased relocation of production by multinational corporations to low-wage sites. China was obviously denied access to all these benefits and was thus excluded from taking advantage of the favorable international development conditions during the upward phase of the world economy. Neither was China unable to pursue a development strategy based on export-oriented industrialization even if it had so desired, nor was it able to adopt the import-substitution option due to the economic sanctions and embargo imposed upon it.

Ironically and not coincidentally, the rapid economic advance of China in the post-Mao decades is actually because of the “regaining” of these favorable international conditions. Furthermore, dialectically, because of the international isolation leading to the alternative choice of self-reliance and self-sufficiency Chinese socialism, it was possible for China to confine the external impact of distortion at a limited level. Due to the socialist legacy, “China also stands out as the only developing country without any internal or external debts outstanding and a uniquely stable currency.” (Bhattacharya in Bergmann, 1977: 228)

In a nutshell, the economic success and comparative advantages generated during the decades of Chinese socialist experiment laid a solid foundation and paved the way for Deng Xiaoping's open-door policy in integrating the Chinese economy with the world market. However, the latter course was not predetermined. The socialist achievements made China relatively stronger and equal in world market exchanges. The present contradiction between China and the west, especially the US, is that the latter wants to make sure that China competes in the world market according to the “established rules” because its comparative advantages could be used to break these rules. Therefore, it is ahistorical to stress the present success without giving a proper assessment of the contribution of the socialist achievements.

### **The capitalist China: challenges and opportunities in the capitalist world system**

China's rejoining the capitalist world after restoring diplomatic relations with the United States and especially after it started the economic reform since the

end of 1970s was regarded as the biggest savoir to the capitalist world order because the core parts of the capitalist world system - the United States and Europe - were also much weakened by the long Cold-War competition with the former Soviet Union.

If the Maoist self-reliance and self-sufficient path of development was projected as a potential development model and ideology and the central goal of socialist politics was seen to challenge the unequal hierarchy in the world economic system, such a socialist hegemonic project, although threatening, existed more or less outside the US-led capitalist world system. In other words, it was more an ideological challenge without being able to construct an alternative world system to replace the capitalist world system. But ironically, the post-Mao economic marketization together with its political authoritarianism is also beginning to be viewed as a menace because of its ambition to have access to a larger share of world wealth, resources, and its responsibility in creating environmental problems as well as resisting American political demands. More importantly, such a “menace” exists *within* the mechanism of global capitalism! And it can be summarized in the following areas:

#### *The global “China factors”*

China’s high economic growth of three decades has already made its economic impact felt worldwide. China’s size and integration with the world economy have contributed to uncertainty about the global inflationary environment; its currency has been a subject of contention; its trade has raised concerns for workers and firms in both developed and developing countries; its hunger for energy has led to competition and conflict; it has rivaled the United States and the rest developing countries as a destination for foreign direct investment; and the effects of its own overseas investments have begun to be felt across the world; Beijing’s policies on finance, currency, trade, military security, environment issues, resource management, food security, raw material and product prices are increasingly seen as connecting with the economies of millions of people outside China’s boundary because China’s shifts in supply and demand cause changes in prices hence leading to adjustment in other countries. As a result, China is increasingly seen as having the quality of the previous US as an “indispensable country” (Feffer, 2007). China has generated incremental growth in the global economy that has made its success significant for the welfare of other countries. The global “China factors” can be summarized in the following areas:

#### 1) Research and development

China is rapidly developing as a more sophisticated industrial power. According to the Organisation of Economic Cooperation and Development (OECD), mainly due to growing international investment, China recently surpassed Japan



and became the world's second largest spender on research and development (*International Herald Tribune, Business Section*, December 4, 2006). China has also overtaken Germany as the fifth most prolific nation in filing patents for new processes and technologies. Although its overall capacity for technological innovation still lags behind industrially advanced countries, these figures demonstrate that China is rapidly catching up.

## 2) Two-track FDI

China has in the recent years become a magnet for global foreign direct investment (FDI). Especially in 2002, China replaced the United States as the world's number one destination for FDI, nearly \$53 billion. The dramatic inflows of foreign investment come due to China's progress on structural reforms, its accession to the World Trade Organization as well as its continuous effort in bringing regulations in line with international standards. China is to aim at developing a more transparent business environment with a clear legal and regulatory framework, which will help attract higher-quality investments that are focused on long-term, high-technology, capital-intensive projects.

In terms of China's outflow FDI to the developing world, Beijing has developed strategic plans on how to provide aid without following the colonial model of economic relations and without following the suit of Western condition-based practices. Most FDI to developing countries such as Africa are placed in the extractive mineral and primary economy sector, whilst China's FDI targets mainly at the manufacturing sectors in developing economies of Africa, Latin America and Asia. China does not tie aid to policy preference by those who receive its assistance, which is seen as a great challenge to the conventional ideologies and practices of Western donors.

## 3) Natural resource and commodity price

Metal prices have increased sharply due to strong demand, particularly from China which has contributed 50 percent to the increase in world consumption of the main metals (aluminum, copper, and steel) in recent years. Due to its rapid growth and rising share in the world economy, China is expected to retain its critical role in driving commodity market prices (*World Economic Outlook*, September 2006). China offers above world market prices for buying raw materials, which attributes great comparative advantages to the developing world.

China has always sought to maintain self-sufficiency in the production of basic food products for its entire population. However, following the rising living standards, it is forecasted China's demand for grains, meat and oilseeds will be gradually outpacing its ability to produce them. China has already become the

world's largest soybean importer and is expected to become a significant grain importer as well, with profound impacts on global commodity prices.

It is foreseeable that in the near future China's import of natural resources especially oil and gas will have to be substantially increased. The implication is seemingly clear that not only the global commodity price and international geopolitical power relations will be affected but also China's own internal evolutions, such as foreign policy thinking, foreign aid designing, arms sale consideration and compulsory expansion of its long-range naval power projection capabilities will be closely connected.

#### 4) International trade

Nowadays Ricardo's theory of comparative advantage is being questioned as never before. China is currently the world's third-largest trading nation and it will soon be the second in the coming years. The rapid rise of China as a major actor in the global economy is provoking a controversial debate about whether free trade is still in America's interest. China's rapid rise is feeding a common fear in the West: developing nations led by China and India may out-compete the western powers for high-tech jobs while keeping the low-skill, labor-intensive manufacturing jobs they won already. The fear is that China might soon gain comparative advantages of labor, capital and even technology that will allow it to dominate the world economy. According to the IMF studies, a strong tendency is shown that China is moving out of labor-intensive manufacturing such as textiles, apparel, footwear, toys, etc, and beginning to increase its share of technology-intensive products, such as machines, electrical machinery, telecommunications, together with increasing degree of specialization (Amiti and Freund, 2007:39-40)

The US trade deficit with China reached a new record of \$230 billion. The American and Chinese ruling elites have no progressive means for resolving these massive economic imbalances. Beijing needs to keep foreign capital flowing in and exports expanding, in order to create millions of jobs to maintain social stability. The US economy requires the supply of \$2 billion a day from the rest of the world, especially from Asian central banks, to finance its massive trade deficits. If this process continues indefinitely, the financial system must collapse at some point with incalculable consequences for the world economy.

#### 5) An emerging global creditor

China used to be proud of being one of the largest recipients of FDI. Although in comparative terms China's overseas investment is still small, the situation is changing considerably: China's foreign currency reserves surpassed the \$1.5 trillion last year; and according to the official statistics, "China's net overseas investment hit \$21.16 billion in 2006, with an annual average growth rate of 60 percent over the past five years" (*China Daily*, Oct. 2, 2007).

Recently, China's state Sovereign Wealth Fund has attracted the global attention. China Investment Corp (CIC), a state-owned investment company with \$200 billion of assets. In early this year during his visit to China the UK Prime Minister Gordon Brown openly offered London as an overseas base for China's sovereign wealth fund, aiming to get a share of Beijing's overseas invests in Britain. However, due to the state ownership of the fund, suspicions and worries about China's economic agenda and geopolitical motivations can be revealed by some headlines like "China Sovereign Wealth Fund Could Buy Every US Company" (Bonner, 2007), and "Sovereign Wealth Funds: China's Potent Economic Weapon" (Navarro, 2008).

#### 6) International relations

China's rise to the status of a world power is leading to some profound changes in the world system. The Chinese "indispensable" roles in influencing international politics and national policies are globally recognized: its active leadership in the 6-party talks in preventing North Korea from developing its nuclear program; its new approaches and policies to development assistance to the African continent are welcomed by most African nations and the representatives of 48 Africa nations gathered last fall in Beijing and expressed a new hope that Chinese investments in the continent will bring about their economic development. China's growing influence in Africa and in other developing countries under the Five-Principles approaches to international relations specially to development assistance and aid to in which Beijing's adherence to the principle of non-interference in internal affairs and its determination not to impose conditionality is challenging the Western especially the EU's ideology-based policies. In East Asia, the region since the 1990s has witnessed a gradual shift away from the vertical Japan-led "flying-geese" model of regional development to a new horizontal China-driven regional economic integration (Li, 2007a).

China's enlarging involvement in the relationship with Latin America, its new activism at the United Nations, its representative voice in the WTO for the developing world, and its close relations with the World Bank, and its efforts in promoting regional multilateralism through the Shanghai Cooperation Organization in central Asia, indicates China's global presence. Even for the China-US relations, which are the world's most difficult and complicated relations, the Bush administration will readily admit that China's purchase of American bonds is *indispensable* in keeping the U.S. economy afloat despite of the fact that American politicians tend to demonize China's large trade surplus and Beijing's reluctance to liberalize its financial sector.

### **The impact of China's challenges**

To some scholars the rise of China can be termed to be “Beijing Consensus” (Ramo, 2004 and Li, 2007b), a notion coined with distinct attitudes to politics, development and the global balance of power; to others it can simply be called the “Chinese model”, a sinicized market capitalism called “a socialist market economy with Chinese characteristics” implying an active role of the Chinese party-state in attaining macro-policy independence and socio-political stability. Both the “Beijing Consensus” and the “Chinese model” are being interpreted either as the rise of China’s soft power (Nye, 2005) or as a serious challenge to the existing economic theories (Chow, 1997) as well as to international relation theories (Paltiel, 2005). Will we witness the emergence of “Chinese international relations theories” in the near future along with the great economic and social transformation? The answer is both likely and even inevitable (Qin, 2007).

What is the implication of the rise of China to interest of the Western World at large and the United States in particular? Will a rising China be willing to be constrained by the established rules of games set up and defined by the post-war world order? Or will it alter the rules or write its own rules in many areas, such as intellectual property rights, trade practices, state-market relations, military expansion, and inter-state relations? Opinion-makers of both realists and neoliberals provide very different analyses and policy recommendations in response to the rise of China. Realists stress the importance of understanding the world system as zero-sum game advocating prevention against the “coming conflict with China” (Bernstein and Munro, 1997 and Mearsheimer, 2001 and 2006). Whereas, neoliberals emphasize strength of an institutional approach to engage China so that it will be incorporated in international regimes and becoming a stake-holder in the existing global system (Ikenberry, 2008).

In the past decades either fascination or irritation with China has always influenced Western scholarship and journalism, which often produce abrupt sentiment from excessive approval and unqualified optimism to unwarranted revulsion and deep pessimism. There were hopeful writings of confidence about China’s “second revolution” in the most of 1980s; then there was deep antagonism toward China’s lack of political reform following the June 1989 crackdown; and in recent years, there are exaggerated projections of China’s threatening rise to the superpower status. From time to time Western politicians and observers selectively use China’s successes and failures to justify their existing theories and prejudices. A *correct* reading of the anxieties and contractions connected with the rise of China must be found in the understanding of a dialectical process of “mutual generation” and “mutual destruction” between domestic transformations and international premises.

### *A dual pressure on the capitalist world system*

Internally China has dramatically transformed itself from being an agrarian society to becoming the “world factory” and within a short period China has experienced rapid industrialization and urbanization which the West has gone through for about 200 years. Consequently China’s class components of the population will be fundamentally transformed in such a way that the share of its proletarian and semi-proletarian wage workers will increase substantially, and in the foreseeable future China’s degree of proletarianization and wage level will be equivalent to the current levels of the semi-peripheral states in Latin America and Southeast Asia (Li, 2005:435). Here, the “China threat” could come from purely domestic destabilizing effects of economic marketization: massive social dislocations stemming from the, rising unemployment, energy shortage, and widespread protest over widening inequalities, environmental degradations, mass migrations, ethnic tensions, minority separatism, and etc. Some of these are of serious concern of both internal sustainability and global security. The social cost of the contradiction of China’s transformation is hugely high (Hart-Landsberg and Burkett, 2004).

The concerned scenario of China’s internal collapse portrays a threatening situation that if China suffered a Soviet type of sudden-death syndrome and spinned out of control, the whole world would face the worse nightmare – the return of pre-revolution China: a failed and predatory state surrounded by warlordism, civil war, crime, in addition to the modern China’s problems which are impossible for the world to deal with: huge refuge problem and proliferation of nuclear weapons.

Externally China’s competitive advantages are weakening the relative monopoly of the existing semiperipheral states in certain commodity chains exerting pressures on their production cost and wage level (Li, 2005). The danger of *peripheralization of the semiperiphery* in the current capitalist world system is analytically theorized by a scholar:

This has dangerous implications for the capitalist world economy. The semi-periphery plays the indispensable role of the “middle stratum” in the world system. A layer of the semi-periphery offers hope of “modernization,” “development,” and ultimately, upward mobility for the great majority living in the peripheral states. Should this layer disappear and be reduced to no more than a part of the periphery, the world system is likely to become politically highly unstable.

Peripheralization of the semi-periphery would deprive the capitalist world-economy of a major source of effective demand. Moreover, the peripheralized semi-peripheral states will inevitably face highly explosive political situations

at home. The relatively more proletarianized working classes will demand semi-peripheral levels of wages and political and social rights. However, the peripheralized semi-peripheral states will not be able to simultaneously offer the relatively high wages and survive the competition against other peripheral or peripheralized semi-peripheral states in the world market. The entire semi-periphery will be threatened with revolution and political turmoil.

(Li, 2005: 436-437)

It is unavoidable that China's capitalist growth strategy has generated regional and global contractions. China is being associated to the cause of the problems of other countries and other regions: overproduction, decreasing regional wage rates, destructive regional competition for investment and resource, etc. (Hart-Landsberg and Burkett, 2004).

## **Conclusion**

The paper attempts to construct a framework of understanding the dialectical nexus between the internalities and externalities behind China transformations. Such an internal-external linkage intertwined with challenge-response paradigms has a dialectical process of mutual generation: internal struggles were triggered by external challenges while internal transformations were responded by external adjustments and accommodations. China's century-long internal struggles to overcome constraints on its development can be equally paralleled by the continuous external responses to the "China factors". China's ability to successfully solve its internal development problems and manage external challenges will not only influence its internal stability, economic and political liberalization, and leadership but also affect regional and global security.

Historically China has been able to display a capacity of absorbing foreign ideas and influences as well as sinicizing and transforming them into part of native value systems, such as the sinicization of Buddhism and Marxism-Leninism. Today it is still a question whether China is attempting to sinicize capitalism and create a "socialist market economy". In recent decades economic growth has torn down much of the physical symbols of China's cultural history, but Chinese people still remain an intensely historical nation with strong and popular *nationalism*. Chinese nationalism is an integral part of the internalities of the driving forces which can be turned into strong anti-west sentiment if the West refuses to accommodate or share the leadership with China. The time when nationalism was mainly led by the party and the state, today nationalists, assisted by modern technology and economic prosperity, are acting independently beyond the control of the state (Gries, 2005).

Currently we witness an interesting dialectical situation China is facing: due to its embeddedness in the global capitalist system Beijing is gaining economic strength on the one hand but losing traditional political independence on the other. In other words, China's rise through active participation in the global political economy is, at the same time, translating into greater vulnerability and dependence (Economy, 1998). Beijing's desire to retain its legitimacy through integrating China's economy with global capitalism will make it politically vulnerable to internal economic setbacks and external pressures, thus endangering the preservation of its integration. Today China again finds itself to be a "middle kingdom" surrounded by jealousy, admiration, anxiety, worry and even resentment. The West must understand the political inevitability, cultural requirement and social necessity that China's adaptive *sinicization* is of vital importance.

Historically China, ever since its first contact with West, has been seen as a nation of puzzle, mystery and unfathomably beyond comprehension. Even now when China has become an integral part of the capitalist world economy, China is still a country that the West finds it difficult to understand. To many western politicians and opinion-makers China simply does not conform to some most basic beliefs in the West about what makes nations grow and about a set of mutually dependent relationship between property rights and economic growth, between the rule of law and market economy, between free currency flow and economic order, and most importantly between political system and popular sentiment (Zakaria, 2007). As a well-known historian put it clearly "the most salient characteristic of international relations during the last century was the inability of the rich, established powers - Great Britain and the United States - to adjust peacefully to the emergence of new centres of power in Germany, Japan and Russia" (Johnson, 2005, online).

Within the near future both China and the West will have to find a regional and global role which the other will accept and support. In order to do so both will have to go through a considerable period of struggle, adjustment and tension. It is still too early to predict whether the eventual outcome is a world disorder, reorder or new order.

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