The Perils of Borrowing Someone Else’s Spectacles

Aufheben’s Introduction

In 2010 and 2011 we published two articles analysing and explaining the economic crisis that began in 2008.1 We were approached last year by comrades at Klinamen Editorial (Spain) who were putting together a translation of these two ‘crisis’ articles, plus our 2012 article on the Euro crisis.2 They asked us to write a short piece,3 updating our analysis, which they could use as an Afterword in their book. In this short piece, we reflected upon our previous analysis of the UK economy and global situation, and indicated what we thought might happen in the future, including the extent to which capitalism was capable of recovery (versus in inevitable decline). Part of the new analysis covered developments in China, as we suggested that the prospects for post-crisis
global growth would depend on ‘China [being] able to return to, and then sustain, its long term target rate of growth of 8%-7%.’ We then briefly discussed some of the factors that could contribute to this return to growth, including China’s infrastructure plans, which aimed at ‘shift[ing] China’s economy from being a major net importer of capital to a major exporter of capital - thereby allowing Chinese capital to exploit the labour and the production of “primary commodities” across the globe’. In response to this ‘afterword’, the Chuǎng group, whose activity focuses on ‘analyzing the ongoing development of capitalism in China, its historical roots, and the revolts of those crushed beneath it’,4 produced a short article criticizing our analysis. We reprint this below, as an Intakes. It should be clear to readers from the number of articles we have published over the years analysing the situation in China5 that in our view Chuǎng’s project is a worthwhile and important one, and we acknowledge the time and effort that has gone into it. In our response to their response, however, we argue that, in drawing up their lurid analysis of the current economic situation in China, they have borrowed the spectacles of neo-liberal economics and therefore their analysis suffers from certain important blind-spots.

Intakes: Scenarios of thecoming Crisis: A Response to Aufheben’s ‘The Crisis: Afterword’

In China, official politics is a game of arcane signals. Predicting tectonic shifts in policy requires that one read the seismic shudders buried beneath terse statements issued by poker-faced officials. Slight changes in terminology may hint at sliding allegiances or new waves of repression. The most significant signals, however, take the form of interviews with anonymous oracles—almost always an “authoritative person”—their words propagated by the state’s highest media organs without attribution. The more such oracles speak, the greater the magnitude of the coming “intervention.” Such

1 ‘Return of the crisis: Part 1’ (Aufheben #18) and ‘Return of the crisis: Part 2 - the nature and significance of the crisis’ (Aufheben #19).
2 ‘The euro crisis: taking the PIGS to market’ (Aufheben #21, 2012).
4 See http://Chuǎŋcn.org/journal/

[Image]
proclamations also often signal internal disagreements within the seemingly monolithic Chinese Communist Party (CCP). With the slowing of economic growth, such disagreements have been exacerbated, as the top leadership debates the future of the economic reforms that have led China into a commanding role within global circuits of capital accumulation.

Over the past year, an “authoritative person” has been interviewed three times for front-page stories run by the People’s Daily. The first two times precede large interventions into the turbulent stock market. In the third such extended interview, the “authoritative person”—speculated to be a key supporter of president and party leader Xi Jinping—was quoted as saying, “Trees cannot grow to the sky. High leverage will inevitably bring about high risks, which could lead to a systemic financial crisis, negative economic growth and even wipe out ordinary people’s savings.” Though each of these interviews has sought to clarify policy decisions, the third offers the strongest statement to date, essentially arguing that the economy’s reliance on a series of debt bubbles is only worsening its prospects for a harsher, systemic crisis when these bubbles burst. Its suggestion is essentially to tear up the economy at its foundation, allowing a wave of firm closures to reduce overcapacity and liquidate “zombie” enterprises. The hope is that stimulus can be replaced with genuine demand, even if this means a period of “L-shaped” economic flatlining, as the market reworks the foundation of the economy.

In such interviews, the CCP’s officially-sanctioned oracle takes on an extremely pessimistic tone when it comes to the present state of the Chinese economy and its future role within global capitalism. The irony is that such extreme pessimism, coming from the very helm of the Chinese state, can be counterposed to an economic optimism on the part of many “analyses” of China originating within the leftist milieus of the world. Despite there being little evidence that the Chinese economy has begun to shift away from its unsustainable investment-driven model of economic growth, many such analyses still cling to the belief, cultivated in the years of double-digit growth, that China will adopt the role of a global superpower and sustain global capitalist accumulation for years to come.

In “The Crisis: Afterword,”8 the British communist collective Aufheben makes just such an argument as they return to their two-part series on the economic crisis known as the Great Recession. The group’s original series—written while China was still maintaining growth rates of around 10%—was quite optimistic about the ability of capitalism to snap back from the crisis, suggesting that it was only a momentary pause in the “long upswing in global capital accumulation since the 1980s,” and that capitalism was beginning “a new phase in the long upturn.” In the “Afterword” they admit that they were somewhat overly optimistic about the economic recovery in the West, but that if you looked at capital accumulation more broadly and with special attention to China and emerging markets, “there has [...] been a rapid economic recovery.”

China’s slowdown since 2014 would appear to be problematic, then, and the “Afterword” raises the issue of the slowdown (which they call an “overcorrection”), only to sidestep its implications for their original argument. In fact, the “Afterword” shifts at this point from a discussion of Aufheben’s position to the “rather rosy” assumptions about the Chinese economy of “most mainstream economic forecasters.” Despite attending to the slowdown of the Chinese economy, Aufheben ends by suggesting that the movement of Chinese capital abroad (for infrastructure projects such as the “New Silk Road,” which will make it easier to obtain resources)9 will likely help to maintain global capital accumulation. This implies that their original argument—that the Great Recession was merely a pause in “the long upswing in global capital accumulation since the 1980s”—remains largely correct.

We see this argument as untenable. In contrast to the sustainability of the “long upswing” narrated by Aufheben, we contend that the Chinese economic slowdown is not an “overcorrection,” but a contradictory set of responses to the problems of overinvestment, bad debt, and overcapacity. The portrayal of the economic slowdown as an “overcorrection” is only possible if Chinese growth is seen as primarily export-driven—limits to growth in exports can therefore be overcome by growing domestic consumption and the absorption of new growth sites in places like Central Asia. But Chinese economic growth has not been primarily export-driven. Instead, rising levels of exports and a trade imbalance are side-effects of an investment-

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7 “China debt-fueled stimulus may lead to recession – People’s Daily,” Reuters (May 9, 2016), http://www.reuters.com/article/us-china-economy-trend-idUSKCN0Y003W.


9 http://www.xinhuanet.com/silkroad/english/index.htm
driven strategy that results in overcapacity (meaning too many factories producing too many goods for the market to handle).

This investment-driven growth strategy compels financial repression (especially with respect to low, sometimes negative, deposit interest rates) that transfers household wealth into state-bank investments. China’s high savings rate (both its gross savings rate and household savings rate) feeds the investment-driven growth, but it also reduces effective demand, making investment-driven growth synonymous with low consumption rates and overcapacity. The goods that are produced largely flow into the global market as exports since domestic consumption cannot keep pace. Underconsumption thus appears as if it were export-led growth.

Overcapacity and overinvestment are things that have been openly discussed within the Chinese state since the late 1990s, before the more dramatic rise of the trade surplus starting in the mid-2000s and well before the rapid growth in investment in response to the global financial crisis. In fact, the idea of transitioning to a consumption-based economy became widely discussed from the early 2000s, and the problem has remained unsolved to the present. To cut overcapacity means pulling back on investment and allowing bankruptcies to weed out productive capacity. That would mean a temporary drop in GDP growth, potentially even negative growth. The hope would be that, over time, consumption would begin to take over from investment, and the savings rate would drop. This would initiate the economic transition to a consumer-driven economy. But this was never really tried during the boom period of the 2000s, when higher growth rates would have cushioned the pain in a way that is less possible in the present moment, were it to be attempted. Instead, whenever the economy began to slow over the last decade, the Chinese state opened the flow of cheap money and ramped up fixed asset investment (both private and public). This only increased overcapacity and total debt.

The response to the 2008 crisis was no different, except in scale: fixed asset investment and debt spending skyrocketed, exacerbating the existing problems of overcapacity. Total debt rose from 158% of GDP in 2007 to 282 percent in 2014, including both the debt of local governments and corporations. At the same time, debt spending became increasingly inefficient, with the amount of economic growth added per yuan of debt continuing to diminish. While investments before the 2008 crisis led to productivity gains, adding to China’s economic growth, since 2008 productivity gains have slowed considerably, with growth driven by little more than capital investment. For the present slowdown in China to be an “overcorrection,” one would have to show that debt spending as a percentage of GDP is dropping markedly, beyond what is necessary to deal with overcapacity. Not only is that not true, but the growth of debt has actually increased. This is not an “overcorrection”—there has been no correction at all.

10 The Chinese state has put a cap on the interest that banks can offer household savers. This repression of interest rates means that banks have access to cheap money that should be earning households higher interest rates. This helps feed the investment-driven form of growth in China.


Along the way there have been some countervailing tendencies, but they have all been short term. The wealth effect of rising real estate values into 2014 helped raise consumption among the urban middle class. Local governments pushed the development of the real estate sector, as much of their revenues came from selling land to developers. At the same time, as the deposit rate for savings was so low, many households used the rapidly rising values of real estate as a way to increase their wealth, buying two or more homes and leaving them empty. But the housing market, too, was unsustainable and quickly overwhelmed by overcapacity.

This led to the rise of the Chinese stock market bubble. The Chinese state began to heavily promote IPOs in the summer of 2013, and investment in the stock market as a whole in the summer of 2014, soon after the real estate bubble burst. They were trying to solve two problems. First, raising funds directly through the stock market would allow corporations to shift borrowing away from unsustainable bank loans, which were backed by the state. Second, since households made so little from bank deposits and the wealth effect of the housing market was no longer effective, pushing households into stocks would help build household wealth and, it was hoped, consumption as well. This failed dramatically in the summer of 2015.

The shock of the 2015 stock market crash had to happen sooner or later. But in response to this most recent collapse, the state has again ramped up investment to prevent GDP from dropping through the floor, and to keep at bay the social unrest linked to unemployment. Most new debt is being used unsustainably to pay interest on old debt or to finance operations, making debt servicing increasingly difficult. Despite some growth in domestic demand, there is no real indication that the Chinese economy is rebalancing.

How then are the global debt-fueled infrastructure investments like the “New Silk Road” going to save the Chinese economy and thereby global capitalist accumulation? Aufheben notes that these investments will allow China to gain access to global resources. But what are they going to be used for? The China commodity boom—driven in large part by China’s massive building projects—of 2003-2013 is over and unlikely to return. How is infrastructure spending going to get China out of its overcapacity problems? Even ignoring the problem of diminishing returns on investment, there is the problem of financing these investments. China’s foreign reserves have been shrinking at a rapid pace over the last year. This has slowed recently—mainly because the US Federal Reserve has put interest rate rises on hold—but it looks as if the yuan is again under a great deal of pressure. Dwindling foreign reserves make massive foreign investments like the “New Silk Road” much more difficult to sustain.

On the whole, we are far more pessimistic than Aufheben concerning China’s ability to maintain economic growth rates and fuel global capital accumulation. There are five possible scenarios:

**Scenario One**: successful transition with rapid increase in consumption. While the Chinese state has been talking about this for over a decade, there is little indication that this has been happening. And the most opportune time for such a transition (when growth rates were high and the working age population growing) is long past.

**Scenario Two**: successful transition with a period of recession, which wipes out overcapacity, and a slower increase in consumption. While slightly more possible than the most optimistic scenario, this is still unlikely to succeed. This would take a simultaneous cutting of overcapacity while increasing labor’s share of GDP, and these shifts move in contradictory directions. China’s very high and growing inequality makes this almost impossible.

**Scenario Three**: long-term stagnation (amounting to failed transition and the middle-income trap); growth rates drop but not below 2%, leading to rising unemployment and continued inequality; consumption as percent of GDP slowly


increases but is unable to lead to an economy that grows fast enough to move China into the status of a high income country. This scenario is quite possible, and it would drag heavily on global capital accumulation.

**Scenario Four:** economic crisis and recession, running into stagnation. There are many indicators that the economic crisis in China has not reached bottom: debt is still rising and overcapacity has not been cut. The yuan is still under a lot of pressure, and that will only increase once the US Federal Reserve begins to increase interest rates again. So this scenario is also quite possible. Such an economic crisis would lead to rising unemployment and social unrest.

**Scenario Five:** collapse and depression.

Only under the first two scenarios would China be able to keep playing an important role in maintaining global capital accumulation. But these scenarios are only visible to those wearing rose-tinted glasses. In reality, the countervailing factors make these potentials extremely unlikely. Looking at the present situation, the third and fourth scenarios are most likely, meaning that China will become a greater drag on global capital accumulation, on the one hand, and that social unrest in China will likely increase, on the other. The fifth scenario would entail a massive mismanagement of these problems on the part of the Chinese elite. Though less likely than the third and fourth scenarios, it remains more probable than the first and second. The result of such a collapse, however, would be far too chaotic to allow for any speculation here.

*Chuǎng*, June 2016

**Aufheben response:**

**The Perils of Borrowing Someone Else’s Spectacles**

**Introduction**

*Chuǎng* claim that we have made an overly optimistic assessment of the current predicament of the Chinese economy and therefore of future prospects for global capitalism. Our rose-tinted spectacles, it would seem, have meant that we have been unable to recognise the true significance of the recent sharp slowdown in China’s economic growth, its soaring levels of indebtedness, growing industrial overcapacity, the instability in both the foreign exchange market and the Chinese stock market and, we might add, the fall in the rate of price inflation and consequently the looming danger of price deflation. For *Chuǎng* the significance of all these economic phenomena, which have become increasingly apparent since the beginning of 2015, is that they herald the onset of a major economic crisis in the Chinese economy that is the result of China’s failure to make the transition to ‘consumption-based economy’.

For years, they inform us, the Chinese economy invested far too much and consumed far too little. Despite their repeatedly stated intentions to correct this imbalance between ‘overinvestment’ and ‘underconsumption’, the Chinese government and economic planners failed to do so. Having failed to act when times were more propitious, the Chinese state now faces the onset of a serious economic crisis. The chickens have well and truly come home to roost. 15

In assessing the future prospects of the Chinese economy, *Chuǎng* set out four distinct scenarios that are defined solely in terms of how successful and how rapid China is able to make this transition to a ‘consumption based economy’. *Chuǎng* then proceeds to make a judgement on the likelihood of each of these scenarios actually occurring.

The first scenario they put forward is that China is able to make both a successful and rapid transition to ‘consumption based economy’. As a result, the Chinese economy is able to avert a serious economic crisis and is able to sustain healthy rate of economic growth over the longer term. However, for *Chuǎng* this best-case scenario is highly unlikely. They do not tell us why they make this judgement, other than that the Chinese state has for years said they were going to increase consumption relative to investment but have repeatedly failed to do so. *Chuǎng* do not even offer any reasons why they have failed to...

15 *Chuǎng* put forward a number of recent developments that they take as evidence of the onset of fundamental crisis in Chinese economy. They point to the huge losses caused by the sharp fall in the Chinese stock market; the substantial fall in China’s foreign currency reserves required to prop up the value of the Yuan, and the rapid growth of debt in China. The nominal losses on the stock market may sound huge, particular in Yuan, but this fledging stock market is small and lacks the ballast of large institutional investors like stock markets in the West. It is therefore prone to high volatility and gives a poor indication of the expected fortunes of the Chinese economy as a whole. More concerning was the rush to sell Yuan in 2015, and the consequent fall in foreign currency reserves, as the central bank sought to prop up the value of the Yuan, and the rapid growth of debt in China. The question of rising debt is clearly far more serious. It is true that total debt (public and private) has risen rapidly over the last five years, and a growing proportion of this bad debt is unlikely to be repaid. But this rise in debt is from low levels. Total debt now stands at 225% of annual GDP; this may sound high, but it is not high by international standards - for example total debt in the UK stands at over 500%. What is more, much of the debt is owed by large state owned enterprises and local state owned firms to state owned banks. This is not to say rising debt is not a serious concern but that *Chuǎng* are overegging the pudding.
make this transition in the past and so why they are unlikely to do so in the future. Is it a matter of a lack of political will? Is it due to ideological reasons? Is it because of entrenched special interests in the party-state? Or are there more objective economic barriers preventing the Chinese economy making the transition to a ‘consumption based economy’? Chuang simply leave us in the dark.

The fourth and worst-case scenario is that China fails to make the transition to a ‘consumption-based economy’ and this results in a serious economic crash; banks and companies go bust, output is slashed, unemployment soars, as the Chinese economy falls into a deep and prolonged depression. Again, for Chuang, like scenario one, this worst-case scenario is also unlikely to occur. It is only possible, they tell us, if there are serious policy blunders on the part of the Chinese state in dealing with the economic crisis brought about by the failure to make the transition to a ‘consumption-based economy’.

This leaves us with the second scenario and third scenario as the outcomes that Chuang consider as the most likely outcomes for the future of China. In Chuang’s second scenario, China succeeds in making the transition to a ‘consumption-based economy’ but only slowly. In this scenario the Chinese economy grinds to a halt and then, for a period, contracts. Although Chuang do not themselves state this, we might presume that the experience of negative growth serves to concentrate the minds of the Chinese policy-makers sufficiently to take action to overcome the barriers to making the transition. Chuang do not tell us how long this period of recession is likely to last – merely the minimum of two successive quarters of negative growth generally accepted as defining a recession or whether it might last for years – but presumably this will depend on how quickly Chinese policy makers are able to bring about the necessary transition to a ‘consumption-based economy’.

In the third scenario, the Chinese economy fails to make the ‘transition to a consumption-based economy’. The Chinese policy makers succeed in averting a serous economic crash, but only at the cost of condemning China to years if not decades of economic stagnation. We might say, in this scenario, China goes the same way of Japan following its crisis in the early 1990s - although perhaps for different reasons.

Chuang do not give any indication how much investment should be cut back and how much consumption should be increased to ensure that the coming crisis of overinvestment/underconsumption is averted. But any substantial reduction in investment would imply a fall in the long-term growth in productive capacity, and thereby substantially reduce the sustainable long-term rate of growth of the Chinese economy. We might suppose that even in the ‘unlikely’ event that China makes a successful and rapid transition to a ‘consumption-based economy’ then not only is the era of double-digit growth rates over, but the target rate of long term economic growth of 7%-8% set by China’s economic plans are unachievable.

Thus even with their best-case scenario, Chuang’s view does seem to be significantly more ‘pessimistic’ for both the future of China and hence the future of the global economy, than what we suggested might be the case in our Afterword.

However, as we see it, the issue between Aufheben and Chuang concerning the future of China and hence global capitalism is not who is more ‘pessimistic’ or who is more ‘optimistic’ - who is wearing the rose-tinted spectacles and who is wearing the cynical dark shades. The issue is deeper than this. It is both the theoretical perspective and framework out of which such judgements concerning future prospects of capital accumulation in both China and the global economy are made.
Briefly in the conclusion of our Afterword, as well as at the end of our recent article ‘Obama’s Pivot to China and Pirouettes in the Middle East’, we put forward our view, if rather sketchily, that the all-important transition facing China is the shift from the export of commodities to the export of capital. This transition would mark a major step in transforming China from what we have termed a mere epicentre in the global economy to its establishment as a distinct second pole of within the global accumulation of capital – an emerging antipode to that of the US.

Chuang do not address this issue in their response to our Afterword, except for summarily dismissing it as something to do with China needing ‘resources’. It seems to us that they are unable even to recognise what we are suggesting let alone argue against it. But this is perhaps no surprise since it is clear to us that in drawing up their lurid analysis of the current economic situation in China they have borrowed the spectacles of neo-liberal economics. They have thereby inadvertently adopted a myopic and ideologically-circumscribed perspective in which the transition from the export of commodities to export of capital can only appear as little more than a fuzzy blob that has no meaning to them.

The perspective of Chuang’s neo-liberal spectacles

Even from a cursory reading of their ‘Coming Crisis...’ article, it is clear that Chuang draw heavily from the analysis of both financial and economic commentators and journalists. Now there is nothing wrong in drawing on such bourgeois sources, any more than it is to draw from bourgeois mainstream economists and official sources as we have done in our Afterword. After all, such sources have far more time, resources and access to information than we have available to us. What is more, the analyses presented by such sources are likely to have moment of truth.

However, it is important to critically appropriate the empirical evidence and analysis that they provide. It is necessary to understand who it is that is presenting this analysis, who they represent and where they are coming from. This is not simply a matter of adjusting for the fact that journalists, for example, are likely to over-egg the pudding in order to make a simple and emphatic point to sell their copy, and are therefore likely to be either excessively over-optimistic or over-pessimistic in their conclusions. Or, to take another example, to adjust for the fact that official sources are likely to present conclusions that are cautiously optimistic since they are under an obligation not to ‘spook the market’. It is necessary to understand the unstated ideological and methodological assumptions that provide the theoretical framework for the analysis of such bourgeois sources, and which give meaning to the data and statistics that they present.

As we shall now argue, in presenting the crucial transition facing the Chinese economy as ‘the transition to a consumption-based economy’, Chuang have adopted wholesale the restricted theoretical framework and perspective of neo-liberal economic theory. This is not to denounce them as closet neo-liberal ideologists. No doubt as communists they would reject the ideological presumptions they have inadvertently imbibed. But the point is to show how they have become ensnared by bourgeois ideology, which they can’t see beyond.

The Cold War and the origins of neo-liberal economics

It should perhaps be remembered that the origins of neo-liberal economics lie in 1950s America, at the height of the Cold War. For many American bourgeois intellectuals, the ‘land of the free’ was under siege in the face of what seemed the relentless ‘advance of socialism’ across the globe. After all, the aftermath of the Second World War had seen the establishment of People’s Republic of China, the coming to power of Communist Parties in Eastern Europe, and an increasing turn towards Marxism in the anti-colonial movements in the ‘third world’. Already over third of the world’s population lived under ‘totalitarian’ Communist regimes, and it seemed that it would
not be long before many more would find themselves under the rule of 'socialism'.

But this was not all; ‘socialist ideology’ was already making major inroads into the ‘Free World’. The social democratic post-war settlements across America’s allies in Western Europe had seen a rapid increase in the role of the state and increasing restrictions on the ‘free enterprise system’. Whole swathes of industry were being nationalised and what remained of the private sector was being increasingly subject to state regulation and ‘red tape’.17

Even in ‘land of the free’ itself, major concessions had been made to ‘socialist’ ideas. Roosevelt’s ‘New Deal’ had led to the growing state regulation of private industry, the ‘repression of banking and finance’ and the emergence of a ‘high tax & spend Big Government’.

For these intellectuals the Cold War was above all an ideological war between two diametrically opposed economic ideologies; that of the ‘free market’ economy of the West versus the state planned command economy of the communist bloc.

For a small number of up and coming liberal economists based in the economics departments of a few American Universities, the problem was that the older generation of liberals had come to accept the ultimate inevitability of ‘socialism’, and had thereby surrendered to the Communist propaganda that socialism was the ‘end of history’. As a result, they had pursued a policy of appeasement, accepting ever greater concessions to the particular demands of state intervention in the ‘free market economy’ in the mistaken belief that this would at least delay the inevitable. But far from putting off the advance of socialism such concessions served to hasten it.

For these young ‘proto-neo-liberals’ it was necessary to reassert and reinvigorate the principles of classical liberalism, which had reigned supreme in the middle of the nineteenth century, and whose origins lay in the writings of Adam Smith.18

Adam Smith and capitalism as a ‘consumption-based economy’

In writing his celebrated work, ‘An Inquiry into the Nature and Causes of the Wealth of Nations’, Adam Smith had sought to refute what he saw as the pernicious mercantilist doctrines, which had been foisted on generations of statesmen by the special interests of well-connected merchants and manufacturers, to the detriment of the general interests of society.

For the mercantilists, the wealth of the nation - and thus the state’s tax base - consisted of the total amount of world money, that is the amount of gold and silver, which it possessed. For countries such as Britain, which did not possess gold or silver mines of any significance, the only way of increasing the wealth of the nation was by running a trade surplus with other countries. By selling more goods abroad than it brought, more gold and silver coin would come in to the nation than would go out and hence the total amount of gold and silver that nation possessed would increase. The nation would thereby become wealthier and the state could raise more taxes to wage wars and make the nation stronger.

The mercantilists therefore recommended firstly that the ‘Sovereign’ should grant Royal Charters to chosen trading companies granting them the monopoly of the nation’s foreign trade with designated parts of the world. Free from the competition from other companies, which might out bid or undercut them, these companies could then ensure the nation obtained the best price for both the goods that it exported and for the goods that it imported. More gold or silver could be had for goods sold abroad and less gold would have to be spent on the foreign goods imported.

Secondly, they recommended that exporters should be promoted through state subsidies (or ‘bounties’ as they were known then), and that high customs duties should be imposed on a wide range of imported goods, not merely to raise tax revenues, but to discourage the nation’s demand from such imports. Thus, by both encouraging exports and discouraging imports, the state could act to ensure a trade surplus and an accumulation of the nation’s wealth.

To refute these mercantilist doctrines, Adam Smith argued that the wealth of the nation did not consist of gold and silver, but on the contrary was made up of the ‘consumable goods’ that satisfied the wants and needs of its people. As consequence, Smith went onto argue:

Consumption is the sole end and purpose of all production; and the interest of the producers ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, not consumption, as the ultimate

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17 For example, by the 1970s 50% of British industry was under public ownership.

18 For Marx Adam Smith fathered two traditions the first was classical political economy, which was to culminate with the David Ricardo. The second was that of what he termed ‘vulgar economy’, which was taken up and popularised by J.B Say, Bentham and Senior. It was to this second tradition that the proto-neoliberalists sought to reinvigorate.
end and object of all industry and commerce. (Wealth of Nations, p. 594)\textsuperscript{19}

If consumption is the ‘sole end and purpose of all production’, how is this best achieved? For Smith, as is well known, this is best attained through a competitive market economy in which everyone is free to buy and sell as they wish, and everyone is able to pursue their own self-interests without any undue regard to interests of others. In such an economy the ‘invisible hand’ of competition will ensure that producers meet the wants of consumers in the most efficient and cheapest way possible and the consumer would be sovereign.

For Smith, a competitive market economy - what he calls ‘a system of natural liberty’ – would necessarily arise spontaneously, if it were not for the meddling of the state prompted by the special interests of producers. The wise statesman should ignore the special pleading of various manufacturers and merchants and adopt a policy of laissez faire. He should confine the role of the state to the defence of the realm, the administration of justice and the protection of private property, and:

‘thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual or small number of individuals, to erect and to maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. (Wealth of Nations p. 620).

Attempts by statesmen to go beyond these limited roles of the state by promoting ‘the general interests’ through the state regulation production and commerce would not only be counterproductive but would necessarily lead to tyranny. The system of economic liberty was conducive to political liberty - or what his disciples would call democracy.

Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration and dispersion of power. The kind of economic organization that provides economic freedom directly - namely, competitive capitalism - also promotes political freedom because it separates economic power from political power and in this way enables one to offset the other.\textsuperscript{20}

For the pioneers of neo-liberalism, Adam Smith’s arguments against mercantilism applied with even greater force against socialism. After all while the mercantilists were primarily concerned with foreign trade, socialism was concerned with regulating the entire economy! In its ultimate form, the state-planned command economies of the Communist world, socialism had completely supplanted the free market by state regulation. As such socialism was the very anti-thesis to capitalism seen as essentially a ‘democratic free market society’.

The experience of the inter-war years had led to the older generation of liberals to make concessions to socialism. The rapid industrialisation of the USSR, at the same time as the unbridled free market capitalism in the US had lurched from boom to slump, led liberal intellectuals of the time to concede the superiority of rational planning and state intervention in a ‘modern industrial economy’.

However, although they might concede the economic superiority of socialism, Stalin’s show-trials epitomised how socialism lead to totalitarianism. The liberals’ criticism of actually-existing socialism therefore mainly was set out in terms of its lack of political freedom.

The pioneers of neo-liberalism argued that, although socialists might point to the fact that in both the USSR and China socialism had brought about rapid the industrialisation of what had been in varying degrees predominantly agrarian peasant societies, and might boast at the vast output of coal, iron and steel that these Communist states now produced, this had been at the expense of the consumer. As became increasingly evident, under Socialism consumer choice was severely limited; there were chronic shortages of basic necessities and, even when consumer goods were readily available without long queues, the consumer goods produced were often substandard or even defective. If consumption was the ‘sole end and purpose of all production’ then the state-planned command economies were certainly failing.

‘Actually-existing socialism’ had proved in practice that socialism was not desirable, not only in terms political freedom, but also in terms of economic efficiency.

\textit{The ‘end of history’ and the ‘transition to a consumption-based economy’}

In the 1970s, the onset of the crisis of the post-war settlements in the West, and the increasingly evident economic stagnation in the command economies of the East, served to bring neo-liberal ideology to the fore as a political force.\textsuperscript{21} With the

\textsuperscript{21} It is reputed that one of Thatcher’s first acts on assuming office as Prime Minister was to instruct her senior civil servants to read Adam Smith’s Wealth of Nations so that
defeat of the ‘enemy within’, epitomised by the defeat of the US air controllers in 1981 and the defeat of the British miners in 1985, and subsequently defeat of the ‘enemy without’ with the fall of the Berlin Wall and the disintegration of the Eastern Bloc, neo-liberalism emerged as triumphant. The forward march of socialism had not only been halted, but reversed. As Francis Fukuyama could now proclaim, ‘The End of History’ was not Communism, but liberalism, and hence 'The free democratic market economy'.

With regard to the future of the former Communist countries, it was self-evident to the now dominant neo-liberal ideologists that such countries should make the transition to a free democratic market society, which would necessarily entail ‘a transition to a consumption-based economy’. The only issue was whether this transition should be rapid or gradual.

So, the presumption that China is in ‘transition to a consumption based economy’ is common to all neo-liberal analyses of the Chinese economy; and it is a presumption swallowed whole by the communists of Chuǎ́ng. But while it might be accepted that China is in transition to capitalism, does this mean that it is necessarily in transition to a ‘consumption based economy’? Is consumption the ‘sole end and purpose’ of the capitalist mode of production?

**The Garden of Eden**

For Marx, in viewing the capitalist mode of production as essentially an economy of commodity exchange - that is as a ‘free market economy’ - bourgeois economists take the ideal appearance of capitalism for its essence. As such, their perspective is circumscribed by the sphere of circulation:

‘The sphere of circulation or commodity exchange ... is in fact a very Eden of the innate rights of man. It is the exclusive realm of Freedom, Equality, Property and Bentham. Freedom, because both buyer and seller of a commodity ... are determined by their own free will .... Equality, because each enters relations with each other ... and they exchange equivalent with equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks to his own advantage. The only force bringing them together ... is the selfishness, the gain and private interest of each. Each pays heed only to himself only, and no one worries about the others. And precisely for that reason ... they all work together to their mutual advantage, for the common weal, and in the common interest.’ (Capital I p. 280)\(^{22}\).

In this Garden of Eden, in which free and independent individuals enter into external and accidental relations with each other through the exchange of commodities in order to meet their wants and needs, alienation, exploitation and class antagonisms are hidden from view. As a consequence, the capitalist economy, like any other economy, appears as merely a mechanism for ensuring the satisfaction of human wants and needs in the form of the consumption of commodities.

But of course, as Marx shows in his critique of political economy, an economy of general commodity exchange, however free and equal it may appear, presupposes a mode of production based on class exploitation. The immediate aim of capitalist production is not to produce commodities as use-values that can satisfy human needs but to produce surplus value. Commodity exchange is merely a means to realise surplus value as money-capital and then to reinvest this money-capital by buying labour-power and means of production to expand capitalist production. Human needs are therefore commodified so they can be subsumed as a mere

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means to the self-expansion of capital – to capital accumulation. Hence the ‘sole aim and purpose of capitalist production’ is very much not consumption.

So we can see how Chuàng have adopted the presumptions of neo-liberal ideology, but what implications does this have for their actual analysis of China’s current economic predicament? To answer this we must look at how competing neo-liberal schools of thought understand China’s supposed transition to a ‘consumption based economy’.

**China’s transition: Fabian neo-liberals versus the free market Leninists**

As we have seen, following the collapse of Communism, the main issue was whether there should be a rapid or gradual transition to a ‘consumption-based economy’. At first, fresh from the great ideological triumph, it had been the ‘revolutionary’ neo-liberals that had held sway on this issue. They advocated the rapid economic transformation of former Communist states through the resolute and immediate dismantling of state planning, the abolition of all price controls and state subsidies, and the wholesale privatisation of nationalised industries. It was of course admitted that the shock of such policies would lead to period of economic dislocation, which might have serious repercussions on the economic welfare of the population as a whole, but in a couple years or so, they confidently predicted, the worst would be over and all would be better off for it in the long term. By sweeping away state control and the regulation of the economy, they were confident that long repressed natural spirit of free enterprise of the people would be released and the economy would soon be on course to become a fully-fledged ‘free market economy’.

However, the adoption of such policies by the governments of the former USSR and the former Eastern Bloc countries proved to be disastrous. As a result the arguments for a more cautious and gradual transition put forward by what we may term the Fabian neo-liberals began to gain far more credence.

In contrast to the former USSR or the Eastern Bloc, the Fabians could point to the example of China, which it could be argued had already embarked on the long and winding road towards transforming China into a ‘free democratic market economy’. The lifting of restrictions on the sale of agricultural produce and the cutting back on the scope of the state plan that had begun with Deng’s market reforms in 1979, the setting up of special enterprise zones in the early 1980s, the opening up to large-scale foreign investment in early 1990s, the programme of privatisations of small and medium sized enterprises along with the reorganisation of large-scale state-owned enterprises as profit-orientated corporations in late 1990s, and accession to the World Trade Organisation and China’s commitment to implementing its rules for promoting free trade in the early 2000s: all could be seen by the Fabians as steps on the road towards the liberalisation of Chinese economy. Rapid and sustained economic growth, which by the turn of the millennium had become undisputable, served to confirm the Fabian viewpoint, over and against that of the revolutionary neo-liberals, and as consequence the supporters of the tortoise ended up winning the argument against the hare.

At first, sustained rapid economic growth could be taken as being the fruits of economic liberalisation. As the process of economic liberalisation was exhausted, and China completed its transition to a ‘consumption based economy’, rapid economic growth could be expected to subside to more ‘normal’ levels. As such, China could be seen as being well on course to meet its historical destiny. The potentially lucrative business opportunities offered by the opening up of China to large-scale foreign investment, particularly for US transnational corporations, the flood of cheap manufactured consumer goods imported from China, which helped keep US wage costs down and at the same time helped tame the decades old problem of consumer price inflation, and China’s policy of recycling its growing trade surplus by buying up US treasury bills, thereby easing the financing of US government debt; all served to encourage this benign and sanguine view of the direction of the Chinese economy.

Nevertheless there were dissenting voices amongst conservatives and neo-conservatives in Washington’s foreign policy establishment, backed up by both the trade unions and employers facing competition from Chinese imports and by those capitalists who were miffed at being locked out of China, that the emergence of China as an economic power was a potential threat to the continuation of America’s hegemony. After all, the Chinese had supposedly been on path of liberalisation for nearly a quarter of century and yet China was still very far from being a ‘free democratic society’. As could be pointed out, despite the programmes of privatisations of the late 1990s more than 50% of industry was still state-owned. Indeed, by the early 2000s, with the increasing numbers of joint ventures between the state and foreign transnationals, state ownership was if anything increasing. The all-important banking and financial sector was predominantly state owned and directed. And the Chinese state remained committed to strict controls over the inflow of foreign capital, restricting access to the business
opportunities opened up by China’s economic prosperity.

If China’s economic liberalisation appeared somewhat dubious then its lack of political liberalisation seemed certain. There was clearly no sign that the Chinese Communist Party was preparing to surrender its monopoly of political power and accept a transition to multi-party democracy. If China was able to maintain rapid economic growth, it might be asked, how long would it be before the Communists converted their economic power into political and military power that could be used against America and its allies in the ‘Free World’?

The neo-liberal Fabians could confidently reply to such concerns by arguing that China would not be able to maintain double digit growth rates for very much longer. Attempts by the Chinese government to artificially prolong the rapid economic growth given impetuous by previous market reforms were misguided. There might be short- to medium-term advantages to resisting the advance to full liberalisation, and there were no doubt powerful special interests within the party-state that had to be overcome, but failure to maintain progress would inevitably result in economic stagnation or crisis. It was therefore in China’s best interests not to dawdle too long along the yellow brick road to a free democratic market-based society by making the transition to a ‘consumption-based’ society even if it meant accepting a more normal rate of economic growth.

There two distinct lines of argument why this would be the case; and these two lines of argument gave rise to two different conclusions concerning what should be the next step in China’s progress towards economic liberalisation. The first, which Chuǎng rejects outright, focuses on China’s attempt to sustain ‘export led’ growth. The second, which Chuǎng embraces, focuses on the Chinese state’s attempts to maintain high rates of productive investment.

Export-led Growth

Now it is certainly true that one of the main causes of rapid economic growth had been the rapid expansion of production and export of cheap manufactured consumer goods to the US following the opening up of the Chinese economy in the early 1990s. In less than ten years China had been transformed from having a negligible share of world trade into being one the major exporting nations in the world. This had allowed the Chinese economy to escape from the narrow confines of domestic demand.

However, although it had cut back on import tariffs and other protectionist measures, and in signing up to the World Trade Organisation rules was committed to go further in promoting free trade, the Chinese government could still be accused of pursuing ‘neo-mercantilist’ policies in order to prolong export-led growth by ‘manipulating’ the foreign exchange market. By intervening on the foreign currency markets to keep the dollar price of the Yuan low, the Chinese monetary authorities could be accused of giving Chinese exporters an unfair advantage over their competitors in the US and other foreign markets. This was allowing an increasing range of Chinese products, first to gain a foothold in foreign markets, and then rapidly expand their market share. As Adam Smith would no doubt argue, such ‘neo-mercantilist’ efforts to sustain export-led growth would be detrimental to the general interest of both China and the rest of the world.

China, it could be argued, was becoming far too dependent on exports. First of all, China’s rapid growth of exports was resulting in a fast growing trade surplus and corresponding growth in trade deficits in the US and elsewhere. These trade imbalances caused by China’s export-led growth risked provoking demands for protectionist retaliation against China’s ‘neo-mercantilist’ policy of manipulating the currency markets. This could then lead to trade wars and thereby undermine free trade and globalisation upon which China’s export-led growth depended. Secondly, even if protectionism could be warded off, soon or later China’s exporters would run into the limits of demand for cheap manufactured consumer goods in the US and elsewhere.

If China was to avoid provoking a trade war or running into the limits of foreign demand, then the Chinese government should wean itself off from trying to artificially prolong its export-led growth. The Chinese monetary authorities should restrict its intervention on the foreign exchange markets to simply smoothing out violent short term fluctuations of its currency and allow the markets to push up the dollar price of the Yuan to its ‘natural’ level.

This of course, would curb the growth of Chinese exports by making them less competitive in foreign markets but it would make imports into China cheaper. Lower prices for imported food and other necessities would give the Chinese consumer more purchasing power to buy the manufactured consumer goods that would have
previously been exported. The import of consumer goods might increase, but this would not only increase the choice of the Chinese consumer, but also such foreign competition could be expected to increase the efficiency and customer service of domestic producers and their lower prices.

The key next step in economic liberalisation and its ‘transition to a consumer based’ economy was therefore the reduction in the Chinese intervention in the foreign currency markets – a market reform that it was argued would be in the general interests of everyone but particularly the Chinese. This point was repeatedly made in the trade talks between the US and China during the last decade, and, of course backed up by those who stood to gain from the potentially lucrative business opportunities offered by exporting goods and services to the vast Chinese market.

Up until 2008, China’s exports continued to soar at a rate even greater than the rate of growth of the Chinese economy as whole. It had then seemed almost self-evident to most bourgeois commentators that China’s economic expansion was principally fuelled by export-led growth.

However, this notion took a sharp knock with the financial crisis and the subsequent ‘great recession’ in the old capitalist heartlands. If it was the case that China had been dependent on export-led growth then it might be expected that the sharp slowdown and recession in its principal export markets should have brought the Chinese economy to an abrupt halt, and its recovery would depend on economic recovery in the US and Europe. Now it is true that the sharp slowdown that immediately followed the near meltdown of the global financial system in late 2008 did see a sharp fall in China’s exports and a marked slowdown in the Chinese economy as a whole. But by the end of 2009 China’s economy was already well on the way to recording double digit growth rates even though the West remained mired in recession.

This prompted a major revision in what was thought as the nature and causes of China’s prodigious sustained economic expansion. This revision resulted in an increased emphasis on the importance of investment; and thus for the neo-liberals’ longstanding alternative line of argument for the necessity for further economic liberalisation, overinvestment, and its corollary, underconsumption. It is this line of argument that Chuàng takes as their own.

Overinvestment
Of course, the necessary precondition for economic growth is productive investment. Thus, although it is true that the rapid growth of exports played a major role in sustaining China’s high rates of economic growth, such export-led growth could not have been sustained without exceptionally high levels of investment both directly and indirectly into the expansion of China’s productive capacity.

Following the lifting of prohibitions on large scale foreign investment in 1992 there had been a flood of foreign investment into China. As a consequence, in less than ten years, the annual inflow of foreign investment had grown from being less than $5 billion to more than $50 billion. This foreign investment mainly took the form of joint ventures between the Chinese state and American transnational corporations. The American transnationals provided precious US dollars to buy component parts and raw materials from abroad, modern technology and methods of production, and access to the distribution networks in the US in order to sell the goods produced. On its part, the state provided a supply of compliant and cheap labour, together with construction of the roads, railways, harbours, housing for the workers, and other social infrastructure necessary for to support venture. As a result the flow of foreign investment was accomplished by large scale state investment.

However, neo-liberal ideologists could argue that in order to artificially prolong the impetus to economic growth by act of economic liberalisation of lifting prohibitions on large-scale foreign investment, the Chinese state was attempting to maintain state investment at too high a level. As they have repeatedly warned since late 1990s, this overinvestment, and hence underconsumption, was unsustainable and could only lead to a crisis of overproduction and excess productive capacity.

Now it is certainly true that for or more than two decades more than 40% of China’s GDP has been made up investment. This is an exceptionally high proportion by international standards. But while it may be said that China has maintained extremely high levels of investment relative to consumption, why does this amount to overinvestment and underconsumption? Grounded in elementary neoclassical monetary theory, neo-liberal ideologists have a ready-made answer (even if Chuàng do not).

Financial markets and institutions are merely a means to transfer the savings of individual households to firms and businesses that are seeking to borrow funds for investment. Individual households choose to divide their income between that which they wish to spend on current consumption and that which they are prepared to save to spend on consumption at some point in the future. Saving is therefore an abstinence from current consumption. Now on the assumption that most households will prefer to consume now rather than later then to induce them to save it is necessary to offer them the
course there are plenty of Western financial companies that would be more than willing to offer their expertise in developing such a system – ‘for a modest fee of course’.

We do not proposal to digress into a critique of neoclassical monetary theory here. Suffice it say that volumes have been written on such matters from both a Keynesian and a Marxist perspective.

The obvious point to make here is that if was the case that there has been overinvestment in China for nearly twenty years, why is it only now that the chickens are finally coming home to roost? After all, there have been repeated warnings by neo-liberal commentators that the Chinese economy was facing an imminent ‘hard landing’, but all, up to now, have turned out to be wrong.

The moments of truth in both the ‘overinvestment’ and ‘export-led growth’ propositions

Now it could be argued that although there may have been overinvestment with regard to consumption within China itself, this had been offset through the growth of exports. Hence, constrained home demand for China’s output for ‘consumption goods’ had been counterbalanced by foreign demand in the US and elsewhere. Overinvestment only became apparent in the aftermath of the financial crisis of 2008 when the growth of exports slowed down and the Chinese authorities attempted to maintain high rates of economic growth through a major state investment programme, financed through bank lending.

By combining ‘overinvestment’ with ‘export-led growth’ explanations, Chuàng could have at least gone a long way further in explaining the current situation in China. But by rashly dismissing ‘export-led growth’ in favour of ‘overinvestment’ they certainly missed a trick. But even if they had taken this trick, they would still be locked within the narrow perspective of the Garden of Eden. To find a way out it is necessary to explore further the clues offered by the logical complementarity of these explanations.

If were to reject both the definition and determination of investment offered by neoclassical economic theory, and instead take it to correspond to what Marx would term the transformation of surplus value into additional capital, then investment, or at least productive investment, can be seen as vital moment in the process of the accumulation of capital. Overinvestment could be seen as a manifestation of the tendency towards the overaccumulation of capital. Chuàng’s emphasis on overinvestment could then be seen as at least implicitly pointing beyond the neo-liberal presumption that China is in transition to ‘a consumption-based economy’.
Although neo-liberal economics sees China’s dependence on the export of cheap manufactured consumer goods as simply a result of misguided attempts to intervene in the foreign exchange markets, it does raise the issue of China’s position in the world market. It therefore points to the possibility of considering Chinese economy as being constituted as a specific moment of global accumulation.

But by dismissing the notion of ‘export-led’ growth Chuáng are constrained to considering China itself in isolation from its relation to the global accumulation of capital of which it is a part. Overinvestment in China is seen entirely in terms of underconsumption in China – capital accumulation in China is seen as being constrained by restricted consumption in China – therefore the only solution is to increase consumption relative to investment. Chuáng end up by falling back into accepting the neo-liberal presumption that China is in transition to a ‘consumption based economy’.

But why can’t ‘overinvestment’ in China be resolved by investing abroad? Why can’t China shift from export of commodities to the export of capital?

**The crisis of capital accumulation in China and the shift towards the export of capital**

We do not propose here to elaborate in detail our understanding of the crisis of capital accumulation in China and its possible resolution through the export of capital, nor do we propose to consider the implication this may have for the structure of the global accumulation capital. We shall confine ourselves to setting out a brief summary.

The Chinese economy started to become integrated into the global accumulation of capital following its opening up to large scale foreign direct investment by US transnational corporations in the early 1990s. US capital had been attracted by China’s vast supply of cheap labour-power, which equipped with modern technology, offered the prospect of a high rate of surplus value and hence a high rate of profit.

Profits were either directly ploughed back into expanding production or else appropriated by the state through taxation and then used to finance state investment in infrastructure necessary to export this expansion of production. As such, a large proportion of the surplus value was transformed into additional capital and hence a high rate of capital accumulation resulting in an exceptionally high rate of economic growth.

Yet this rapid accumulation of capital could only be sustained on three conditions. Firstly it was necessary to maintain an increasing supply of cheap labour-power. Secondly China needed to import increasing amounts of relatively cheap food to feed the growing numbers of workers, and cheap fuel and raw materials necessary for the rapid expansion of production and the construction of infrastructure. And thirdly, it required a growing demand for its exports.

For more than a decade there had been little difficulty in maintaining these conditions for rapid capital accumulation. China, with a fifth of the world’s population, had a vast number of peasants and small farmers who could be proletarianised. Following the shift to the ‘weightless economy’ and less energy-intensive growth in the West in the 1980s, there had been substantial overcapacity in many of the extractive industries producing raw materials and fuel such as oil. As a consequence, the prices of fuel and many raw materials were at rock bottom, and production could be increased with a relatively small amount of investment. As far as exports were concerned, Chinese manufactured consumer goods were so cheap that they could easily undercut any competition. By opening up new markets, not only in the US but in Europe and elsewhere, and by expanding their market share, had been able to sustain rapid growth.

However, over the last few years the prospects of maintaining these three conditions of rapid economic growth have become less favourable. Of course it is true that almost half of China’s population still live and work in the countryside. However, a large part of this untapped reserve of labour China’s aging population means a substantial number live in inaccessible areas far from the urban and industrial centres of China’s east coast. What is more, with China’s aging population a growing proportion of Chinese are too old to go to work in factories. Difficulties in maintaining a growing supply of labour power has meant the strengthening of the bargaining position of workers, making it more difficult hold down wages.

But perhaps the more pressing constraints on China’s economic growth have arisen from difficulties in maintaining its external conditions. Firstly, the enormous growth in the Chinese economy has meant that China has become one of the world’s largest, if not the largest, importers for a wide range of raw materials, fuel and food-stuffs. Growth in China’s demand therefore has a major impact on the total world demand for such commodities. Rapid economic growth in China has therefore tended to push up prices. Higher prices have pushed up the profits made by exporters of such commodities but often insufficient investment has been made into expanding their production or into opening up new sources or developing viable alternatives.

Secondly, the growth of the financial sector, in part caused by China’s supply of short term money-capital to buy up US treasury bills, has
meant a fall in productive investment in the US and Europe. Lack of investment, exacerbated in Europe by austerity measures, has meant slow capital accumulation and slow economic growth. As a result, unemployment has remained high, wages have been stagnant, if not falling and consumer demand has remained depressed. As a result the growth of China’s exports of consumer goods has become increasingly difficult.

Thus the necessary conditions for sustaining its current ‘model’ of capital accumulation based on the export of cheap manufactured consumer good are ultimately constrained by a lack of investment in the US and old capitalist heartlands on the one side and by lack of investment on the part of producers of foods, fuel and raw materials in emerging economies of the global south. It could therefore be said that overinvestment in China is not due to underconsumption in China but by underinvestment elsewhere in the world. The logical answer is therefore not to increase consumption relative to investment but invest abroad; to become an exporter of capital on such a scale as to transform the global accumulation of capital.

**Conclusion**

In order to bolster their assertion that China’s only way forward is to make the transition to a ‘consumption-based economy’ Chuanq claim that this has been long recognised by the Chinese state itself. They then echo the standard neoliberal complaint of the tardiness of the Chinese authorities in translating words into action.

Now of course, there is no doubt many Chinese intellectuals who are keen to see China hasten along the road to ‘economic and political freedom’ so as to become a new America (presumably with sufficient Chinese characteristics necessary to protect their ‘cultural capital’). There also may be members of the party-state, particularly those connected with finance and industry, which envy the commercial freedoms of their western counter-parts. There is little doubt Fabian neo-liberalism has influential adherents in China, as neo-liberals in the West are all too keen to point out.

But what of the higher echelons of the party-state, who determine China’s long-term economic strategy? It is true that pronouncements from senior party and state officials have underlined the importance of giving more emphasis in economic planning on expanding consumption, and that such shift in emphasis was included in the most recent five year plan. But does this mean that Chinese Communist Party is a convert to Fabian neo-liberalism? For us this this shift in emphasis towards consumption is more likely to due to concerns about the need to buy off social discontent rather than a recognition of the economic necessity for China to make the long awaited ‘transition to a consumer based economy’.

After all, action speaks louder than words. Taken together, the efforts that are currently being made by China’s monetary authorities to establish the Yuan as a reserve currency, the setting up of the Asian Infrastructure Investment Bank as a rival to the World Bank, the implementation of China’s ambitious plans for establishing the New Silk Roads through large scale joint ventures in central and southern Asia, the rapid expansion of Chinese direct foreign investment, not only in Africa and South America but also in Europe, and the fact that China has already overtaken Germany to become the largest exporter of ‘capital goods’ (particularly plant and machinery), all represent a concerted effort on the part of the Chinese state to overcome the constraints on the accumulation of capital in China through the export of capital. Such is the colossal scale of these efforts towards the globalisation of Chinese capital that they will lead, if successful, to a major restructuring of global capital accumulation.

As we have pointed out previously, there is no guarantee that the Chinese State will succeed in such efforts. Chuanq could no doubt find strong reasons why they might not succeed in making this transition so they could claim we were wearing ‘rose-tinted spectacles’. But to do this they would need to see what critical transition China was facing; and to see this they would have to get rid of their neo-liberal spectacles.

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23 For example, in the UK China has entered into a joint venture with the state-owned French company EDF and the British government to build a nuclear power plant at Hinkley Point in Somerset. This is viewed as a means of opening up Britain’s nuclear power industry to further Chinese investment and the future possibility of Chinese designed nuclear reactors being built in the UK.