Historical Structures, Social Forces, and the Constraints on China's Economic Power

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Introduction

China's rise, or resurgence, has been one of the main sources of the changing balance of power in the international political economy. The underpinning bedrock of China's ascent is its rapid and steady economic rise over the past several decades. Given that China's economic model has long been featured as "Chinese characteristics" and the contemporary world economy has undergone significant transformations, can we still view China's economic rise the same as the past rising stories? As a late-late industrializer, does China's development model in the context of globalization pose any new challenges to its pursuit of economic power?

According to the basic tenets of structural realism in the field of international relations (IR), as primarily represented by the works of Kenneth Waltz (2010) and more recently of John Mearsheimer (2001), history repeats itself. Because it is not the particular patterns of political economic structures, but the international distribution of power, namely the distribution of material resources, that matters in determining state behaviors. While some scholars (Breslin 2005, 2007, Nolan 2012, Starrs 2013, 2014), adopting the perspective of political economy, attempted to investigate China's actual economic influence by attaching emphasis on the changing nature of the global economy or the particular characteristics of China's political economy.

This paper is an effort to build on the contributions by the political economy approach on China's economic rise, and to investigate how the historical specificities of the China model and the global economy have generated impacts on its power status. Theoretically, this paper seeks to advance the inquiry by drawing on the critical theory of international political economy proposed by Robert Cox (1981, 1987), with the aim of mapping out the interactions of major social forces at play, as reflected in the changing historical structures of "state/society complexes" and world order.

Generally, the paper argues that although the statist nature of the China model and China's embrace of globalization have facilitated its rapid economic rise, several structural constraints on its economic power have also been formed during the very same process. More specifically, the argument of the paper is two-fold. Firstly, the historical structure of China's economic rise has been characterized by a strong Leninist party-state with state-owned enterprises (SOEs) controlling the commanding height of the Chinese economy, the dependent and weak capitalist class, and the significant influence of powerful global capital. Secondly, the interactions of the above three major social forces in the Chinese economy have generated three set of structural contradictions that limit China's economic power, which are respectively: 1) the contradiction between the state's priority of regime survival and the more efficient private sector; 2) the contradiction between China's statist SOEs and the rise of transnational corporations (TNCs); 3) the contradiction between China's decentralized political authorities and global mobile capital.

By delineating the structural interactions between various social forces and the structural contradictions, this paper transcends both the agent-level power assessment of material resources, and the “outside in” structural power approach that downplays the domestic specificities. One caveat perhaps necessary to be noted is that despite the paper’s focus on the constraints on China’s economic power, it does not intend to deny its general increasing trend over nearly the last four decades. The purpose, however, is to analyze what kind of tensions and contradictions have been generated in this process. More broadly, the basic implications of the research are that 1) when assessing a country’s economic power, it has to be historicized; 2) and the discussion should take domestic factors more seriously.

In order to make the historical specificities “visible”, the two-fold arguments will be aided by conducting a historical comparison of economic rises between contemporary China and the US in the second half of the 19^{th} century. Another caveat to note is that the intention of this historical comparison is not to produce explanatory generalizations of any sort, but to contrast the historical structures and emphasize the contextual specificities of these two rising economic powers. Following Skocpol and Somers’s terminology (1980), the method used in the paper is essentially a “comparative history as the contrast of contexts”, rather than a “comparative history as macro-causal analysis”.

The remainder of the paper is divided into four sections. I will first briefly and critically introduce the related literatures on China’s economic rise, which I summarize as three stances on China’s economic power. In the second, Robert Cox’s framework of historical structures will be first introduced, and then materialized by contrasting the economic models and international contexts of contemporary China and the late-19^{th} century America. In the third section, I will analyze how the historical structure of the Chinese case has generated contradictions refraining the translation of economic resources into power, thus posing special challenges to China unseen for the late-19th century US. The final section will be a discussion of implications of this research.

Three Stances on China's Economic Power

IR scholars have certainly taken the rise of China very seriously in their works. Their debating issues are wide-ranging, like China's impact on global governance (Ikenberry 2008, Beeson 2013, Breslin 2013), whether China is a status quo or a revisionist power (Johnston 2003, Kastner and Saunders 2012), whether there will be a power transition in the near future (Nye 2011, Starrs 2013, Brooks & Wohlforth 2016), etc. With regard to China's economic power, three major tackling stances can be detected within the broad field of international studies.

First of all, with the predominant concern with "high politics" of war and peace, leading IR scholars usually take China's rising economic power as a default position of their analysis, a theoretical stance that has been prevalent in IR discourse. Many leading scholars, like John Mearsheimer (2006) and Stephen Walt (2011), adopted this stance which theoretically functions as a stepping stone to their major concerns of great power politics. As well exemplified by Barry Buzan's explication (2010: 5), "I take China's continued rise as given, and explore whether its peaceful rise is possible within contemporary international society". An implicit assumption of this stance is to equal economic power rise with growth of economic output, or GDP. Despite the importance of gross economic output, it falls short of dissecting the economic structures beyond the superficial aggregated account of resources, thus being blind to the changing nature of global capitalism (Starrs 2013).

The second stance toward China's economic power is to go one step further to disaggregate the entirety of China's economy into different aspects in a comparative perspective. The latest contribution of this stance is Brooks and Wohlforth's assessment (2016) of China's economic power by examining indicators like GDP per capita, productivity, public debt, R&D expenditures, human capital level, and so on. Their research echoes with Joseph Nye's long standing thesis (2011, 2015), which is also backed up by manifold indicators of economic power and primarily by American strength of science and technology, that China's economic challenge to the US has been exaggerated and the American century is well positioned to be continued in the 21st century. Similarly, David Shambaugh (2013) concerns with to what extent China, both the its government and corporations, has actually exerted influence in the global production and market. Again, it shows that China's global reach of economic power has been merely "partial" and disproportionate to its economic size. This stance of manifold examination of economic power presents a much more accurate and comprehensive picture of China's economic power status, clearly goes beyond the aggregated account of resources.

The third stance is the stance of what Susan Strange (1987, 2015) called "structural power", which consists of international power structures of military, production, finance and knowledge. By adopting this stance to analyze China's economic power, scholars started their analysis from the vantage point of the structural whole of global capitalism. Starrs' analysis of economic power (2013) predicated upon the transformed nature of global production, arguing that in the age of globalization, due to the rise of transnational corporations (TNCs), national economic power has accordingly transcended beyond national borders thus making national account of economy less relevant than in previous eras. This argument entails that China's ascent of GDP is not the best indicator to assess China's actual economic power. Similarly, yet from another theoretical enterprise, Shaun Breslin (2005, 2007) and Pan Chengxin (2009) assessed Chinese corporations' positions in global production networks (GPNs) and argued that China's relative competitiveness still lags far behind when comparing with advanced capitalist countries. In addition to the system of global production, the global system of finance has been firmly dominated by Anglo-American corporations (Fichtner 2016), despite that Chinese state-owned banks have topped the corporate rankings of Forbes in recent years. In the aspect of the global system of knowledge and rules, Mastanduno (2009) emphasized the privileges and bias inherent in the US-led international institutions, hence indicating the limits of China's economic challenges. Similarly, Steinfeld (2012) claimed that China's economic rise has become reality only through playing the game (globalization) by the western rules, which in turn benefits the West.

Despite transcending the agent-level discussions of the first two stances, the structural power stance is not without its own limitations. Firstly, by emphasizing the global structure of power, the domestic specificities are easily to be dismissed by this "outside in" approach, or at least not to be placed with equivalence to international forces. This tendency is reflected in Susan Strange's own words (1997: 1983), "I am more interested in the webs of structural power operating throughout the world system than in comparative analysis of discrete parts of it…" and she went on and accused comparativists of being "not to see the wood for the trees, to overlook the common problems while concentrating on the individual differences" (Strange 1997: 184). Though not without certain element of truth, Strange's criticism presupposes that comparativists never look beyond national systems, which is true in most cases. But the distinction between seeing-forest herself and only-seeing-tree comparativists is more misleading than contributing to breaking the artificial boundary between domestic and international dichotomy, which is itself an obstacle to seeing the forest. The limitations of the "outside in" approach is especially distinct in China's case, if we agree that China's system of capitalism has followed a relatively different route compared to other leading powers.

Therefore, in order to add "domestic" factors without sacrificing the virtues of global structural power, I borrow Robert Cox's framework of historical structures of state forms and world order into the debate on China's economic power, which I turn to explicate in the next section.

Changing Historical Structures: The Late 19th-Century US VS Contemporary China

Robert Cox's framework of historical structures was proposed as a holistic and historical approach of critical IR theory, an antithesis to the dominant canon of the realist tradition. Cox located his analysis "in the realm of social forces" (1981: 141), of which the interactions and transformations shape and reshape the structure of history. Thus he viewed power as "*emerging* from social processes rather than taken as a given in the form of accumulated material capabilities, that is the result of these processes" (Cox 1981: 141). The actual social processes are theorized by differentiating three levels of historical structures, which are the *social forces*, *state/society complexes*, and *world orders*. Following this framework, both the domestic (state/society complexes) and international (world order) configurations of power can be theorized by examining the interactions between various groups of social forces at work. In other words, theoretically this framework focuses on the actual social processes without attaching an *a priori* preferential status to either an internationalist or a comparativist perspective, thus opening space for combining global structural power analysis with domestic factors.

As historical structures change, the configurations of and interactions between social forces also change. The historical structure in which China has risen is different from those in which previous powers rose. Seeking to make the historical structure more "visible" and highlight the special constraints on China's economic power projection, this paper conducts a historical comparison of economic rises between contemporary China and the US in the second half of the 19th century. Many similarities and clear contrasts between these two countries in their historical backgrounds make this comparison useful and illuminating. Both countries were rising economic stars in their own take-off eras by their own historical standards, with much larger population and vaster territory than those of their catching-up target countries. Moreover, both countries experienced high economic growth, again by their own historical standards, over a long period of time. By 1885, the US surpassed the UK in terms of manufacturing output (Zakaria 1999), while China, according to consultancy IHS Global Insight, took over that laurel from the US in 2011. However, two countries contrast sharply with each other when it comes to their economic models, with the US as nearly the ideal type of liberal capitalism and China as state capitalism. Furthermore, these two rising stars grew out of rather different, and in some aspects totally contrasting, international economic systems.

1) State/Society Complexes: Liberal Vs State Capitalism

The reason that the label "liberal" is used to describe the US model is due to a blunt fact: it is the capitalist class, and increasingly big capitalists, that formed the dominant social force leading the process of American industrialization. In the first half of the century, the US was still largely an agrarian country, while at the end of the century, the US had been transformed into an industrial power. As an early industrializer, the US government had relatively limited role in the country's economic take-off. The capitalist class started their businesses where they saw profits without constraints from active state directions like industrial policies. The power of the capitalists in the North had been only strengthened in the wake of the Civil War, when the strong southern opposition to protective tariffs on foreign industrial products was further thwarted. The period from the end of the Civil War to the turn of the 20th century is a golden age for American capitalists (of course only for those who succeeded) to accumulate wealth.

One feature of the then American economy is that the really big and profitable businesses were those at the frontier of technological innovations in the second industrial revolution, like railroad construction, oil refinery, steel production, electricity, etc. In addition, the expansion of US territory and the establishment of a continent-wide national market had significantly fueled the booming businesses in those industries. As American industrialization moved toward the late 19th century, the industrial tycoons started waves of mergers, resulting in a much greater concentration of economic power in a few hands unprecedented in US history. The representative figures are those like John D. Rockefeller, Andrew Carnage, and J. Pierpont Morgan, who made their enormous fortunes, at least partly, by merging competing corporations and monopolizing the market. Due to rapid rise of technological sophistication and expansion of industrial urbanization, the US surpassed the UK in terms of productivity in the 1890s (Broadberry and Irwin 2006). As a result, the American model of development was characterized by an economic structure dominated by advanced manufacturing sectors (Engerman and Gallman 2000). Thus the American capitalist class was not only the driver of industrialization, but also the agency pushing for technological advancement.

The booming and lucrative businesses in those technologically intensive sectors have attracted tremendous amount of capital from domestic and overseas financiers (Engerman and Gallman 2000). The federal government also involved in the funding of railroad construction. The infusion between industrial and financial capital have further facilitated the mergers of companies. The increasing power of big business had further biased the US state's inherent preferences toward the capital. Despite the central role played by the capitalists during American industrialization, the US state was far from a truly "laissez fair" night-watch government, as being debunked by many scholars (Chang 2002, Panitch 2012). As pointed by Leo Panitch (2012: 32), "apart from protective tariffs, there was a host of federal, state, and city public works infrastructure projects, and widespread financial aid directly provided to new industries." Panitch (2012: 32) went on and further argued that "legislation in all jurisdictions was lenient on business declaring bankruptcy, and harsh on workers resisting exploitation." Toward the late 19th century, class struggle intensified and the state played a crucial role in protecting the interests of the capitalist class through legislation and its monopoly of violence. In spite of the relatively democratic political system, the alliance of the republican party and the big money (Bensel 2000) protected the interests of the capital from the masses. Thus it is safe to argue that though not without tensions, the operation of the US state is subjected to the logic of capital accumulation. The relatively un-regulating market and un-checked private power had only been challenged at the state level during the progressive era.

Coming out of the 19th century, the American economy was the largest and the most productive in the world. The capitalist class, especially those giant industrial corporations, had become the formidable force in the American political economy. Though labor movement in the late 19th century started to be prevalent and militant, the capitalist class held firmly on power. As a result, the industrialization led by the capitalist class in the 19th century laid the solid material foundations for US global projection of power in the 20th century.

While for China's state capitalism, the formation of the state/society complexes since the "reform and opening up" has been featured by more complex social processes of transforming the state sector, creating a new private sector, and bringing back the foreign capital. At the beginning of the reform, the capitalist class was nearly nonexistent and the state sector dominated every corner of the economy. The first move of the reform was in agriculture to dissolute the communes and adopt the household-responsibility system. The rise of township and village enterprises (TVEs), most of which were actually *de facto* private-owned, absorbed abundant labor forces liberated by the agricultural reform. The reconstituted capitalists in urban areas remained small and restrained throughout 1980s. But as the private sector boomed, the state-owned enterprises were troubled with inefficiency and formed a serious financial burden for all levels of governments. As Lardy (2014: 43) indicated, "profits of state-owned firms declined steadily in the 1980s and well into the 1990s." Although the state sector remained large, the tendency of the retreat of the state made Huang Yasheng (2008) hail the 1980s as a "rural capitalist" era, in contrast to the policy reversal in the early 1990s.

To be sure, the strategy of adopting capitalism by the party was ultimately for the survival of regime. This entails that it is the political logic of survival, instead of capitalist logic of profit accumulation, that underlies the agenda setting at the top of the ruling elites. The strategy of "grasping the large, releasing the small" (Zhuada Fangxiao) proposed in 1995 was such a step of utilizing capitalist measures to reverse the retreat of the state, so as to strengthen the material base of the party. With helps from Wall Street and other professional agencies

(Walter and Howie 2011), SOEs had been restructured into modern corporations through "corporatization" (Lardy 2014). It is true that, due to "releasing the small", the share of the state sector in GDP has continued to decline in the following years, but the profitability and efficiency of restructured giant SOEs had been greatly increased. Big SOEs like Sinopec and China Mobile had been restructured and listed in the stock markets in the US and Hong Kong. Though listed overseas, those SOEs are still firmly controlled by the government as the dominant shareholder (Lardy 2014).

Under Hu-Wen administration, the establishment of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and an empowered National Development and Reform Commission (NDRC) have greatly consolidated the party's command and leadership over SOEs (Lardy 2014). As a result, despite their decreasing share in the total number of corporations, a large team of "national champions" of SOEs led by SASAC has made their names in global corporate rankings of Fortune and Forbes magazines. But if we compare Chinese SOEs with the US corporate giants at the turn of the 20th century, like US Steel, General Electric or AT&T, apart from the obvious difference in ownership structures, it is clear that while the US corporations specialized in industries that were at the frontier of industrial innovation of the age, Chinese SOEs largely concentrate in those politically strategic sectors (Hsueh 2011). From the standing point of the party-state, the basic strategy of "grasping the large, releasing the small" has been a success, even the state sector has a much less share in the national economy compared to that in the early 1990s. As argued by Naughton (2015: 67), "the Chinese political leadership, which in the 1990s viewed the SOEs as a problem to be fixed, now increasingly views the same firms as convenient instruments that can help in the achievement of national goals."

The extraordinary rise of giant SOEs would not have been possible if there were no systemic policy preferences towards them at the expense of the private sector, which has been the real sources of China's economic boom (Huang 2008, Hung 2015). No one would doubt that the Chinese capitalists have obtained the power unimaginable at the beginning of the reform, but when it comes to confronting with the state, they nonetheless have been weak and dependent. The private sector suffered from higher rate of taxation, higher cost of land, less financial channels, the risk of being preyed by government officials, and the danger of being embroiled into political struggles between party factions. In spite of many constraints put in place by the state, the private sector has still steadily increased their share in the national economy. Capitalists have also been allowed to join the party since 2001 (Dickson 2007). Some of their vested interests have been preserved by the party through institutionalizing their informal activities (Tsai 2006). Clearly the power of the Chinese capitalist class has increased absolutely, but its relative power compared to the state or the foreign sector is a much more complicated issue, due to the firm control over the strategic sectors by SOEs and fierce competitions from competitive foreign corporations in especially mid- and high-tech sectors.

In addition, the much larger population of the working class and the increasing tendency of labor unrest (Lee 2007) have furthered the capitalist class's reliance on the party-state to protect their privileges (Chen 2002, So 2003), which has to some extent strengthened the party's alliance with and control over the reconstituted capitalist class. Due to the persistent asymmetrical power relations between the state and the private sector, it is highly unlikely that China's reconstituted capitalist class would capture the state and challenge the fundamental political logic of regime survival in the near future.

2) World Orders: British Vs American Economic Hegemony

For the US in the 19th century, the international forces mattered much less compared to China's industrialization. In the middle of the 19th century, the UK was at peak of its industrial power. The international system at the time revolved around the UK domination of naval power, the gold standard and the ideology of free trade. However, when compared with the the world order in which China has risen, two important distinctions stand out.

The first distinction lies in the nature of world production. In the 19th century, production activities still largely remained within a country's national borders. The era of the UK-led global free trade was characterized by global exchanges of products, rather than globalized productions. Thus there were far less international forces exerting pressures on and intervening into American indigenous process of industrialization. While for contemporary China, its industrialization paralleled with the emergence of neoliberal globalization that is featured by fragmented and globalized value chains (Gereffi, Humphrey& Sturgeon 2005, Gill 2008), accompanied by the rise of TNCs (Gilpin 2001). The emergence of the globalized capital forces has thus further complicated the intricate relations between the state and the capitalist class in China. As analyzed by Gallagher (2002), the large inflow of foreign direct investment (FDI) has changed the balance of power among various social forces in China. This logic is also true in economic terms. Since the initiation of the open door policy, and especially since 1990s, China has been increasingly integrated into global value chains with specialization in providing cheap labors and good infrastructures for the global capital. The surge of FDI since 1993 is not only a result of Deng's southern trip to reassure China's direction to capitalism, but also a concomitant of the global trend of increasing FDI in the 1990s (Lemoine 2000).

The surge of FDI has led to a Chinese exporting structure that foreign-owned enterprises has occupied the largest share of values since 1990s. As indicated by many scholars (Huang 2003, Hung 2009, Tsai and Naughton 2015), the extensive presence of FDI constitutes one feature that distinguishes the China model with other modes of state capitalism. And this feature has further shrunk the breathing room for the private sector, which had been treated with unfavorable government policies compared with their foreign peers.

The second distinction is that the US-dominant world order is featured by formal international institutions (Ikeberry 2008), which has stronger confining effect on sovereign states than the UK-led informal international system. Though the UK was the dominant country in international relations in the 19th century, it could do little to stop the adoption of protectionist policies from the US. As shown by Chang Ha-Joon (2002), the US was one of the most protectionist countries in the 19th century. By controlling the state, northern industrialists effectively protected their domestic market share from the then more efficient UK competitors.

What China faces is a well-institutionalized international economic system, under the supervision of western powers and international organizations. These formal institutions aim at facilitating free flow of products and capital globally, implicitly benefiting powerful global players. The structural power inherent in those organizations has generated pressures on China's domestic players. For example, China's conditionality to join the world trade organization (WTO) was harsher than other developing countries and even some developed countries. As China's former premier Zhu Rongji claimed in the press conference after his meeting with the US president Clinton in 1999, China has to play by the rules if China wishes to integrate into the global economy. In addition, Zhu Rongji also facilitated internalization of the international economic norms by conducting study seminars with party cadres. China's active integration into the status quo of the international institutions led Seinfeld (2010) to declare that China is "playing our game". China's efforts to access to WTO resulted in an explosion of trade volume since the end of 1990s, which has gradually constituted as China's engine of economic growth (Hung 2008).

Table 1. Historical Structures of Contemporary China and the Late 19th-Century US

	Late 19th-Century US	*Contemporary China*
State/Society Complexes	Liberal Capitalism	State Capitalism
Economic World Order	Global Products Exchange Under Informal Institutions	Globalized Productions Under Formal Institutions

The basic contour of historical structures of two ages is schematically presented in Table 1. To further sum up, it shows that at the end of the 19th century, the American model of development was featured by a powerful capitalist class that dominated the economic activities within the domestic market, wielded tremendous power on political agenda settings, and engaged in technologically competitive sectors of the age. While for China, the party-state has firmly retained the commanding height of the economy through controlling powerful SOEs, constituting the dominant force of China's economy. The private sector has boomed and steadily increased their share of national economic output, but has remained too weak and dependent. Foreign corporations have exerted strong influences on China's export and domestic market. This complexity of social processes, as reflected in multiple contending forces in the Chinese political economy, has generated a number of special contradictions that limit the reach of China's economy's global influence, thus distinguishing China's economic rise with that of the US in the late 19th century.

Three Contradictions on China's Economic Power

The resulting American economic structure of ownership and competitiveness in the late 19th century is rather "pure". Private ownership was the sole form of ownership. American economy was dominated by its own nationals. The competitiveness of the American economy was at the frontier in the world. And importantly, the US state served the interest of the domestic capitalist class. In contemporary China, multiple contending forces of the powerful state, the newly rising domestic capital, and the well established globalized capital have made Chinese political economy a hybrid of ownership structures and diversified levels of competitiveness across sectors. In this section, I argue that the Chinese economic structure, as a reflection of the interests of the multiple contending forces, has generated three sets of contradictions, which were largely absent in the American case, structurally confining the global reach of China's economic power.

(1) The Regime Survival VS The Profit Accumulation

It is not to argue that the American capitalist class and the government had totally common interests and they never went into conflicts. Far from it, the relatively democratic institutions of American political system always reined back and constrained the power of the supposedly unfettered self-regulating market, as the government most obviously did during the progressive and the new deal era. But two factors stand out in the Chinese case compared to the US. Firstly, as Susan Shirk (2008: 9) argued, "what distinguishes China, however, is that the survival of the regime, not just the next election is at stake". Indeed, for the party, if there is a conflict between political logic of survival and capitalist logic of profit accumulation, the former undoubtedly prevails due to the party's absolute domination over the capitalist class. According to Alexander Gerschenkron (1962), a late-late industrializer like China should have a very strong state to effectively endorse the catching-up industrialization. But since economic growth only serves as one part of the whole project of maintaining the party's rule, the state may well form the obstacle to economic development when it deems necessary. The dilemma between the political logic of survival and the capitalist logic of profit accumulation lies intrinsically at the core of China's development model. The party's strategy of reform is to empower the market so as to save itself, hence creating a tricky game of keeping balance between the newly rising capital and the absolute control of the party.

The second factor is concerned with China's historical legacy of SOEs. As one of the keys of CCP's ruling instruments, SOEs have long been accused of being inefficient, and it seems to be true since SOEs have lagged behind the private sector in terms of returns on assets (ROA) and productivity. However, the profitability of SOEs had kept rising and surpassed that of the private sector in the early 2000s, thanks to the strategy of "grasping the large, releasing the small". The good time for SOEs did not last long, the trend of rising profitability started to be reversed and SOEs were once again surpassed by the private sector since 2008 (Lardy 2014). In the post-financial crisis era, SOEs were required to to shore up economic growth through massive investments due to their political commitment to the party, hence giving rise to China's soaring debt and resulting in a large number of zombie SOEs. In terms of profit making, once the advantage of SOEs, they have constantly lagged behind in recent years as shown in Table 2. In addition, according to my calculation of data (Table 3) from NBS, in 2014 there was a less share of loss-making corporations in the private sector than in the state sector in 39 out of 42 industries.

Table 2
The Profit Rate of State-owned Enterprises and the Private Sector, 2012-2016

	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)

State-owned Enterprises	5.84	4.8	5.47	4.64	5.03
The Private Sector	6.43	7.09	6.04	6.01	5.94

Source: Author's Compiling of data from National Bureau of Statistics

Table 3
The Share of Loss-making Enterprises in SOEs and the Private Sector, 2014

	SOEs (%)	The Private Sector (%)	Gap (%)
Mining and Washing of Coal	47.54%	24.35%	23.19%
Extraction of Petroleum and Natural Gas	13.92%	25.00%	-11.08%
Mining and Processing of Ferrous Metal Ores	32.08%	20.26%	11.82%
Mining and Processing of Non-Ferrous Metal Ores	25.56%	12.98%	12.58%
Mining and Processing of Nonmetal Ores	20.59%	4.50%	16.09%
Mining Auxiliary Activities	20.00%	8.51%	11.49%
Mining of Other Ores	0.00%	7.14%	-7.14%
Processing of Food from Agricultural Products	24.16%	4.96%	19.20%
Foods	16.78%	5.54%	11.24%
Beverages	26.91%	4.45%	22.46%
Tobacco	7.77%	0.00%	7.77%
Textile	35.75%	7.64%	28.11%
Textile Wearing Apparel Footware and Caps	16.07%	7.11%	8.96%
Leather Fur Feather and Related Products	6.90%	4.75%	2.15%
Processing of Timber Wood Bamboo Rattan Palm and Straw Products	20.37%	3.63%	16.74%
Furniture	15.79%	6.02%	9.77%
Paper and Paper Products	28.32%	8.45%	19.87%
Printing Reproduction of Recording Media	20.32%	7.90%	12.43%
Articles For Culture Education and Sport Activities	17.72%	4.84%	12.88%
Processing of Petroleum and Coking	42.86%	20.28%	22.58%
Raw Chemical Materials and Chemical Products	31.29%	8.03%	23.26%
Medicines	14.18%	8.11%	6.07%
Chemical Fibers	25.00%	16.22%	8.78%
Rubber, Plastics	23.62%	6.91%	16.71%
Non-metallic Mineral Products	23.31%	7.93%	15.38%
Smelting and Pressing of Ferrous Metals	41.03%	14.58%	26.45%
Smelting and Pressing of Non-ferrous Metals	40.28%	13.26%	27.02%
Metal Products	23.04%	7.82%	15.23%
General Purpose Machinery	25.86%	7.36%	18.49%
Special Purpose Machinery	27.72%	6.84%	20.87%
Automobile	26.75%	7.23%	19.53%
Transport Equipment	21.19%	9.16%	12.03%
Electrical Machinery and Equipment	22.34%	8.68%	13.66%

Communication Equipment Computers and Other Electronic Equipment	18.62%	9.81%	8.81%
Measuring Instruments and Machinery for Cultural Activity and Office Work	13.62%	7.23%	6.38%
Artwork and Other Manufacturing	12.70%	6.48%	6.22%
Recycling and Disposal of Waste	16.00%	17.43%	-1.43%
Metal Products, Machinery and Equipment Repair Industry	19.28%	13.48%	5.80%
Production and Supply of Electric Power and Heat Power	25.68%	20.57%	5.12%
Production and Supply of Gas	15.78%	11.31%	4.47%
Production and Supply of Water	33.99%	12.84%	21.16%

Source: Author's Calculation from National Bureau of Statistics.

Unlike its neighbors of the developmental states, which channeled finance to the private sector so as to nurture them into globally competitive enterprises, Chinese government has to prioritize those relatively inefficient SOEs. As Huang Yasheng (2011) shows, in the early 1990s there was a policy reversal in the state-owned banking system that redistributed financing from the private to the state sector. Almost since then, the Chinese version of state capitalism has been stabilized and gradually took its basic shape in the early 2000s (Tsai & Naughton 2015). The lack of financing has long been an unresolved concern for the private sector, which has led to the emergence of a large scale informal financial institutions. Given that the private sector has been more efficient, from a pure logic of capital accumulation, the financial advantages SOEs enjoy form a sort of misallocation of national resources, which is a crucial factor for late industrializers. And there is still no clear sign, except for official rhetoric, that either SOEs will enhance their efficiency and become really competitive national champions, or the financing priority will be reoriented to the private sector. As Hellman (1998), Tsai and Naughton (2015) reminded us, the gradual strategy to reform may well end up with a "partial reform equilibrium", in which the powerful state sector becomes an insurmountable barrier to unleashing the power of capital accumulation.

(2) The Statist National Champions VS The Globalized TNCs

The second contradiction originates from the nature of contemporary TNCs and China's national champions. As argued in the previous section, the global economy has been increasingly featured by fragmented mode of productions and the rise of giant TNCs, which operate and coordinate in the web of global value chains. Peter Nolan (2012) argued that in this wave of globalization, the power of giant TNCs have been more and more concentrated in the hands of a few firms, usually two to five, in almost all sectors. He identified the powerful "systems integrators" as leading corporations controlling the whole industry. These "systems integrators" from high-income countries have penetrated deep into middle- and low-income countries. Thus for Nolan, the power of those giant TNCs have been so entrenched and well established that it becomes extremely difficult for other players to catch up. In addition, TNCs' power has been institutionalized during the past several decades, with the help of their home governments and international economic institutions. The complex patches of multilateral and bilateral trade agreements, formal economic organizations like WTO, The North American Free Trade Agreement (NAFTA), and European single market, have all contributed to the operation of TNCs at the global and regional levels.

So unlike the US in the 19^{th} century, when there were no external giant corporations coordinating and organizing global productions, Chinese corporations have to be confronted with entrenched global TNCs and obey the rules of the game that were made on their behalf. Moreover, because most national champions are SOEs controlled by the communist party, it easily raises suspicions among foreign governments when SOEs try to "go global". This concern seems to be quite reasonable, since "the Organization Department of the party appoints the top three executives… in 53 of the most important state-owned enterprises under the purview of SASAC" (Lardy 2014: 51). The sectoral features of national champions would only further raise concerns from foreign regulators. The devastating combination of the communist party personnel control and strategic sectors has made western government officials reluctant, if not outright refuse, to Chinese SOEs' efforts of mergers and acquisitions (M&As) of their countries' enterprises. By far, among a few successful cases of Chinese overseas M&As, most of them are less state-owned and in less-strategic sectors, as shown in Lenovo's acquisition of IBM's PC division and Geely's acquisition of Volvo's passenger car production (Shambaugh 2013).

Despite the policy of "go global", Chinese companies are still largely domestic oriented at the moment. This point can be well detected by examining Chinese companies' score of transnational index (TNI), which is calculated by companies' shares of overseas assets, sales and personnel through weighted calculation. As Table 4 indicated, top 10 Chinese firms in TNI rankings are all SOEs in 2016, and their TNI lags far behind their global competitors. There is only one Chinese firm, namely SinoChem, that scores above 50 in terms of TNI, while none of the top 10 global TNCs are below 50 in 2015.

Table 4
A Comparison of Transnational Index between Chinese and Other Global Enterprises

Rankings	Top 10 Chinese Enterprises, 2016	TNI (%)	Top 10 Global Enterprises, 2015	TNI (%)
1	CNPC	24.26	Royal Dutch Shell plc	74.0
2	Sinopec	19.92	Toyota Motor Corporation	59.1
3	CNOOC	30.23	General Electric Co	56.5
4	CITIC Group	9.70	Total SA	81.0
5	China Mobile	14.56	BP plc	68.9
6	COSCO	37.05	Exxon Mobil Corporation	60.7
7	SinoChem	56.62	Chevron Corporation	53.7
8	Aluminium Corporation of China	15.18	Volkswagen Group	59.5
9	ChemChina	47.98	Vodafone Group Plc	81.2
10	Minmetals	32.81	Apple Computer Inc	58.0

Source: Author's Compiling of Data from China Enterprise Confederation (for Chinese enterprises) and UNCTAD (for global enterprises).

However, the argument is not that Chinese corporations will not “go global”, but their ability to do so, at least for SOEs, is expected to be held back by their ownership structures and statist background. On 2 December, 2016, US president Obama signed an order to block Fujian Grand Chip Investment Fund’s (FGC) acquisition of a US firm, AIXTRON, under the advice of Committee on Foreign Investment in the United States (CFIUS). This is only the third time in US history that a president blocked the foreign company’s acquisition under the advice of CFIUS. In the first two times, both of them were involved with Chinese companies too. Though global financial institutions and the sellers greeted the emergence of Chinese M&A players as new sources of business, it is unlikely that the Chinese state-owned national champions can overcome their statist background and gain trust from western government regulators, unless they are willing to accept special conditionality to ease the concerns about their statist background.

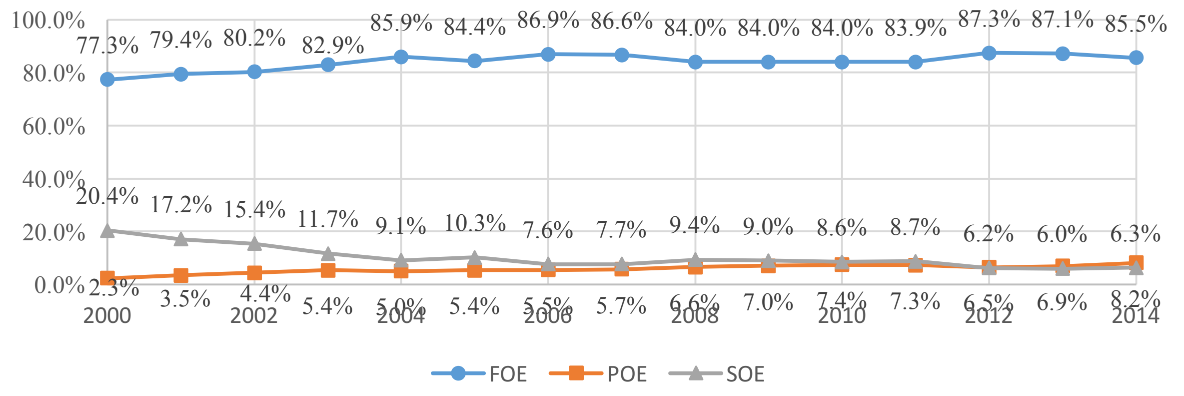
(3) The Global Mobile Capital VS The Decentralized Political Authorities

For the US in the 19th century, its domestic market was well protected by the pro-industrialist federal government. Machines imported from Europe were heavily taxed and foreign economic forces were largely kept limited in the US. But in the age of globalization, the well entrenched TNCs have not only constrained Chinese corporations’ ability to “go global”, their own ability to “go into” China has been enhanced by capital mobility on the one hand (Gill and Law 1989), and China’s decentralized political structures on the other. As the dominant force in contemporary China, the state power, especially for local and provincial governments, could be diminished when facing those TNCs that generate large amount of employment, huge volume of trade, and ultimately the growth of GDP. The local governments, usually in fierce competitions with each other, tended to provide favorable policies to entice those foreign investors. In doing so, the foreign sector has been provided with favorable "business climate" within China, in contrast to what happened in the 19th-century US.

According to the special report by the New York Times in December, 2016, in order to entice Foxconn, the Taiwanese manufacturing supplier for Apple, to set up manufacturing facilities in Zhengzhou, the local government made huge concessions to subsidize Foxconn through "preferential policies" in construction, energy, finances, worker recruitment, and logistics, which saved Foxconn trillions of dollars and helped Apple to keep the price of its products low. Every time Foxconn decided to move or set up facilities, a number of governments would vie for the bid and struggle to provide it with favorable "business climate". And Foxconn itself also consciously played around local governments so as to obtain the best cost-saving bid. As Pun Ngai (2012: 389) pointed, "Foxconn, like other leading investors, is moving energetically to take advantage of lower wages and local government incentives to build new production facilities in central and western regions." While for the private sector, the decentralized structure of political system has, on the contrary, formed barriers to market expansion due to local protectionism (Wank 2001, Gilboy 2002).

Partly as a result of local governments' promotion and "preferential policy", foreign companies have constituted themselves as major players in China's economy. According to Michael Enright (2016), foreign companies, directly and indirectly, accounted for one third of China's economy. Foreign companies also dominated the high-end exporting industries. According to the data from Ministry of Commerce, 8 out of top 10 exporting companies in 2016 are foreign-owned electronics companies, of which the background is either Taiwanese or Korean. In addition, according to my calculation of China's export sales in high-tech industries[1], as shown in Figure 1, the domination of the foreign sector has been overwhelming and steady over the last decade, with its share of export value occupying more than 80% ever since 2002.

Figure 1. Shares of China's Export Sales in High-tech Industries



Source: *Author's Calculation from National Bureau of Statistics (NBS).*
Note: FOE: foreign-owned enterprises; POE: domestic private-owned enterprises; SOE: state-owned enterprises.

In summary, due to the historical specificities of China's statist capitalist system with socialist legacies and the context of globalization, special challenges have been posed to China's economic power, which were largely absent in the American experience of industrialization. However, these contradictions are not negative in themselves. Despite various challenges and tensions being generated, the dynamics and strengths of the Chinese economy have also been related to them. For example, multiple authorities have facilitated local experientialism and boosted regional economic dynamics. The state sector controlling the strategic sectors has undoubtedly strengthened the party's power. Thus the logic of this

[1] High-tech industries include the general device manufacturing, the specialized device manufacturing, the automobile industry, the electric and equipment manufacturing, the computer, communication and other electronic manufacturing, and the manufacturing of measuring instruments and machinery.

paper is not a single-minded denial of China's (or the party's) increasing economic power, but to expose its internal tensions and constraints accompanied with the rise of its power.

Implications

When assessing China's economic power, the conventional way is to directly compare China with contemporary America in terms of GDP, trade, military and even the number of PhD students in science and engineering, etc. The historical comparative approach adopted in this paper follows essentially another underlying logic, which is that history does not simply repeat itself. As historical context changes, the forms of power (agential or structural power?), the holders of power (state or non-state actors?), and the structures of power (national or globalized/de-territorialized?) also metamorphose alongside. In order to make the historical specificities of contemporary China more "visible" and contrasting, the late 19th century US was selected as a subject of comparison. Through conducting this comparison, the constraints generated by the very same system that boosted China's economy have become clear, thus adding more complexities and nuances to the whole picture of China's economic rise. This paper also shows that China's economic power is worth being scrutinized more rigorously due to China's catching-up experience as a late-late industrializer, its socialist legacies under the broader dynamics of global capitalism. Social processes in domestic arenas are causally related to a country's power projection and translation in the global stage.

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