



Graduate School of Development Studies

**A study of transnational capital as leading actor in the creation of
a new historic bloc:
the relevance of China.**

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List of Acronyms

CCP	Chinese Communist Party
CITIC	China International Trust and Investment Corporation
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EU	European Union
FAW	First Automobile Works
FDI	Foreign Direct Investments
Fed	Federal Reserve
G7	Group of Seven
IMF	International Monetary Found
IPE	International Political Economy
IR	International Relations
MNC's	Multinational Corporations
OECD	Organization for Economic Co-operation and Development
PBoC	People's Bank of China
PRC	People's Republic of China
r	Interest Rate
SAP	Structural Adjustment Program
SOE's	State Owned Enterprises
TC	Transnational Capital
TVE's	Town and Village Enterprises
USA	United States of America
USD	United States Dollar
WB	World Bank
WTO	World Trade Organization

Abstract

The ascendancy of neoliberal policies and the progressive inclusion of almost the entire world within the logic of capitalist economy characterized the last three decades. The marketization of sectors of society once outside the regulation of demand and supply has been characterized by the rising importance of multinational corporations. In this dynamic, transnational capital finds its legitimization and reinforcement in respect to the nation-states.

The research draws on the changing relevance of nation states in regards to the rising importance of those private actors that this work labels as transnational capital. Illustrating the case of China in the evolution of this neoliberal hegemony originated in the seventies under US tutelage, the paper argues for a process of cooptation that the country is undergoing in respect to transnational capital.

The relation between nation-states, transnational capital and the role of China is explored through the application of Gramscian/Neo-Gramscian analysis. The theoretical framework is based on the application of this analysis to International Political Economy with the explanation of the relevance for key concepts such as historic bloc, hegemony and cooptation.

The aim of this research can be presented in two points. First, showing how the current situation of crisis is due to a lack of a well-established and legitimated world leadership that China will not be able to embody. Secondly, demonstrating that a shift in power structure from nation states to a new transnational elite is caused by the continuing expansion of markets where the actor that benefits the most is transnational capital.

The paper concludes that the role of the state has to be reconsidered in light of discordance between the territorial and capitalistic logic of power. While the nation states are still very necessary in terms of legitimization, transnational capital has been able to detach itself from any sort of territorial logic of power.

Relevance to Development Studies

The quotation from Horace at the beginning of the paper recalls that period of Greek history after the battle of Corinth in 146 BC that signed the beginning of Roman colonization. As the colonizers occupied Greece, at the same time the influence of Greek culture began to influence Roman society. It is in this broad pattern of colonization of the colonizers that this paper seeks to identify the relation between the West and China.

Keywords

Transnational Capital, Nation-State, Historic Bloc, Multinational Corporations, China, Gramsci, Hegemony.

Graecia capta ferum victorem cepit
Horace

Chapter 1 Introduction

1.1 Core concepts

This paper draws on the relation between three core concepts and how they are interwoven. As it can be derived from the title, the argument the paper sustains is that Transnational Capital (TC) has the potential to substitute the nation-state and become the leading actor in the creation of a new historic bloc. The first chapter briefly introduces the core concepts and how this research has decided to focus on them. It finally presents what question the paper will try to answer and the limitations of the work.

The second chapter presents the theoretical framework based on Gramscian and Neo-Gramscian analysis, seeking to illustrate the relevance of this analysis for the paper argument. Since Neo-Gramscian analysis has so far attempted to explain the evolution of historic blocs in term of nation-state, the third chapter seeks to argument how the focus of the research should move to the consideration of a transnational class able to determine economic policies. Hence, the first concept, the retrenchment of the nation-state, is presented with distinction between different types of nation-states. Consequently, the chapter introduces the second core concept: the definition of TC and the actors composing it. Given the current financial situation, it might sound odd to sustain the hypothesis of state retrenchment in favour of TC and its elite. The argument in favour of private actors is based on the power relation between nation-states and multinational corporations (MNC's). First, MNC's have gained a considerable bargaining power towards developing countries' governments. Second, companies' bailing-out and nationalization of banking sector in industrialised economies is conceived as the only options for governments. It means that state intervention doesn't prove any Keynesian coming back of the state in the economy. Conversely, MNC's have gone through almost three decades of moral hazard where their power to act in international markets have been unleashed in order to sustain growing financialization of economy. It will be shown how this can be addressed as the main mistake in the definition of economic policies since the neoliberal ascendancy began. In other words, state intervention proves that states had to intervene in order to avoid the total collapse of the economy since there was no other choice.

The fourth and fifth chapter present the third core concept: the counter-factual analysis of China in the discourse about the hegemonic role of TC. Since it is often the case that China is portrayed as the probable next super power, this paper embraces an economic approach to clarify key elements of Chinese economic growth. It wants to prove that, regardless of the size of Chinese economy, the country is not able to 'counter-hegemonically' redefine the structure of the current economic system. Although the third chapter demonstrates that the attention has to move away from the nation-state, the consideration of China is needed to show that the retrenchment of the state has to be taken into consideration in any further analysis about how to move

on from this situation of global economic crisis and reconsideration of the models at the base of neoclassical economy.

Before moving on, the introduction briefly presents a methodological consideration on how the objectives and the question of this work changed during the research process. The initial idea was to explore the relation in China between economic growth and democratization in the attempt to sustain the case for a benevolent dictatorship. Researching about the Chinese economic growth highlighted its pros and cons, reinforcing the idea that the country is influenced by and subjected to external economic forces that have a global reach. Consequently, the research changed its focus towards the understanding of how these forces, which have been labelled as TC, act on the global level. On this regard, the first consideration, that then became one of the key concepts, is the role of the state vis-à-vis TC. Arguing for the retrenchment of the state in economy, China ceased to be the core of the analysis and became the counter-factual proof of how not even the fastest growing economy in the world has the strength to counterbalance the rise of TC.

1.2 Research Objective

This paper seeks to show the relevance of Chinese economic growth in defining, in Gramscian terms, the rising importance of TC as key element in the definition of an historic bloc. The objective is to utilize the tools elaborated by Gramscian and Neo-Gramscian theory in order to explain the sequence of different leading actors (historic blocs) in an International Political Economy (IPE) perspective. This will be considered in the present international situation, which is characterized by a lack of hegemonic power that could be explained through the definition of the role of TC.

In IPE, the Neo-Gramscian perspective argues that the role of the nation-state is central as the lead actor in the creation of an historic bloc. According to this analysis, last three centuries saw the alternation of different leading countries in the definition of historic blocs. Starting from the fifteenth century, the Neo-Gramscian tradition in IPE identifies four different blocs: Venice, the United Provinces, United Kingdom and the United States. According to Neo-Gramscian analysis, the concept of World hegemony “refers to the power of a state to exercise governmental functions over a system of sovereign states” (Arrighi 1993: 148) where the conceptualization of these World hegemonies is based on the modern inter-state system as a capitalist world-economy (Wallerstein 1974: 348).

This paper argues for a return to a Gramscian analysis in IPE, due to the decline of the economic power of the United States of America (USA) that cannot be substituted by any new emerging nation-state because of a globalizing business environment and the rising importance of financial flows that go beyond the reach of nation-states. Therefore this paper will focus on the role of China and on the reasons why this country, although emerging as one of the leading powers of twenty-first century, will not be able to impose itself as a new hegemonic power.

Neo-Gramscian theory reveals in the state the leading actors for the creation and implementation of an hegemony. Each historic bloc in Neo-Gramscian analysis has been based on a single country leadership. This approach differs from NeoRealism in IPE where the analysis is conducted in terms of war of one against all. Therefore, a return to Gramscian theory means an analysis that no longer looks at the nation-state as the leading actor in the definition of hegemony but it includes new important actors. The answer to the definition of a new historic bloc is to be found in the identification of a transnational class of rentiers, brokers, speculators, CEO's and their MNC's, all connected by TC.

Chinese economy and its MNC's operating worldwide are explained as part of this new hegemonic order where nationalities ceased to be determinant and the *leitmotiv* for the formulation of a new bloc finds its underpinnings in the role of the market and on the search for profit where the capitalistic logic of power prevails on its territorial connotation.

1.3 Question and Arguments

This work argues for the relevance of a Gramscian approach in the response to its main question because the growing importance of TC can be explained as the precondition for the identification of a new historic bloc. Through the presentation of the nature and the elements composing TC, this paper delineates the features that identify in TC the leading actor. The main question that this work proposes to answer is the result of four considerations and their logic sequence hereafter presented.

The first element is a reconsideration of the role of the nation-state. Through the presentation of the literature on the nation-state, this paper argues for a distinction between states where policy-makers still have relevance on economic activities and states where TC plays a determinant role. In this regard, attention will be focused on the role of the USA as the last hegemonic power and on the causes of its partial decline.

Secondly, the distinction is based on the discordance between territorial and capitalistic logic of power. A territorial logic of power means that the role of TC is still subjected to state legitimization whereas the capitalistic logic of power highlights how TC has been able to detach itself from the territory that originated it and, consequently, gained independence and capacity to influence policy-makers. Starting from a still partially relevant capacity of the USA to control and channel TC, this paper presents the argument for the majority of countries being fully subjected to the capitalistic logic of power. Hence, the second element is the identification of where this discordance began. The answer to this discordance is found in a series of events temporally starting from the end of colonization to the imposition of the Structural Adjustment Programs (SAP). Within this lapse of time, it is in the USA that the discordance becomes more evident. This work argues that the consequences of this discordance can be explained in Gramscian terms. Looking at the role of MNC's, financial and then manufacturing ones, it will be shown how the US government relied on them as a way to maintain its own hegemony. However, the unleashing of MNC's undermined the strength of the US hegemony since

the government was no longer able to directly influence their action. This series of changes calls for a reconsideration of the role of the USA and China, and the consequences for developing countries. For its peculiar development, China cannot be *in toto* considered either as a developing countries or an industrialized economy.

Thirdly, the role of China has to be read within a system that is fully interacting. In this network system, China is facing and trying to change the current hierarchy. The purpose here is to give a clearer understanding of how China fits in the discourse of the changing logic of power. The argument is that the Chinese entrance in a capitalist system and its rising territorial importance are not due to the creation of an alternative model. Conversely, it is directly related to the logic of profit that made the Chinese economy more valuable. It means that China is becoming an important actor in International Relations (IR) because of a dichotomous relation between the benefit that TC can achieve from the rise of the country with the potentially biggest market ever and the political economy carried on by the Chinese government. With regards to China, this paper identifies three elements in the discourse of a changing logic of power in favour of TC: the peculiar transition from a planned economy to market, the role of MNC's and a change in the structure of international production.

Fourthly, an historic bloc does not control the whole society but it is stronger than others in economic terms. It produces commodities and sells them in order to get profits. From the end of Second World War to the early seventies, the USA was the main producer of commodities and this contributed economically to the establishment of an historic bloc whereas at the beginning of the twenty-first century, China is becoming the factory of the world. Therefore, the analysis in terms of rise and fall is economically driven because the struggle is about success in an economic competition. This paper sides with the perception of TC and its multi-ethnic, geographically scattered capitalist elite as a new hegemonic elite. Within this state of affairs, China is working on re-positioning itself within the ascendancy of the neoliberal order.

Given these arguments, the question that this work will try to answer is about the logic of power intrinsic in TC. The aim is to show how the decision-making process in economic terms has changed over the last thirty years and the way it can be done is answering how the rising importance of TC permitted a movement from a state-based to a MNC's-influenced logic of power.

1.4 Analytical Framework

In order to demonstrate the relevance of China for this paper argument, this work conceptually looks at the process of cooptation undergone by China where the link between the process and hegemony is TC.

The paper first presents the Realist and the Marxist perspectives about the role of nation-states in IPE in order to take its stand. After having highlighted the importance of the capitalist system of production and exchange in assessing the importance of nation-states, this work argues that the relevance of nation-states has to be read within a system fully interacting. The instruments to explain this framework are found in the Gramscian/Neo-

Gramscian approach to the issue with the following chapter dedicated to presenting the Gramscian theoretical framework.

1.5 Limitations

The importance of TC is presented in relation to nation-states. It means that in order to better clarify the role of states, a simplification was done. States have been roughly divided in two main groups consisting of industrialized countries and developing countries. However, this simplification is beneficial to the argumentation because it reinforces the hypothesis that it is not possible to talk about nation-states as one single entity subjected to the same rules. A distinction between different kinds of states implies that the effect of TC on them will be different.

In a perspective of historical materialism where conflict is seen as a continuing process of remaking history, the evolution of the role of the states constantly undergoes structural changes. These can be considered in terms of external pressures of the current world order (towards China in the case of this paper) or internal pressures of a rising civil society. Although they both have a transnational connotation, this paper will focus on external pressures and the consequent dynamics within the world order.

From the very beginning, it is acknowledged that this work might sound full of contested and ideologically loaded concepts like ‘hegemony’, ‘historic bloc’, ‘capital’ and so forth. In order to clarify their use, the paper will persevere in the attempt to place them correctly in the analysis.

1.6 Research Justification

In line with what is stipulated by Harvey (2001: 121), this paper identifies in capital accumulation the main drive for historical-political transformations in the last two centuries. While these transformations mostly originate in the western world, they reached a point where the consequences of their actions can harm globally.

In light of the events that have been recently shaping the current economic order, this work commits itself to the difficult task of better understanding the role of capital in the dynamic of power. The complex relation between nation-states and the realm of economy is depicted as the key relation in order to assess the rising importance of TC over its legitimizing structure: the state and its government.

Chapter 2 Theoretical framework

2.1 Relevance of Gramsci

The relevance of Gramscian and Neo-Gramscian theory can be found in how it explains important concepts presented in this paper. First, it contributes to the explanation of the role of the nation-state and its changing importance in terms of legitimization and mediation. Second, it refers to the struggle among social groups emerging in the early seventies in relation to the changes in economy. Finally, Gramscian theory explains the crisis of global governance after Bretton Woods and its consequences in terms of inter-state rivalry.

Before presenting a repertoire of important Gramscian concepts that this paper deals with, it is fundamental to explain the elements presented above in terms of Gramscian relevance for the analysis of TC. To assess the importance of the nation-state in terms of legitimization and mediation, it is essential to recall the distinction between different states: industrialized economies and developing countries. Legitimization is intended as the capacity of the state to regulate and affirm its legislative power. To this regard, external forces, such as international lobby groups or international organizations seeking less state intervention may be more or less influential, depending on the single state and its government. To highlight the different influences, this paper makes reference to the dynamic stratification grid distinguishing between people and macro-structural dominant groups (Cain and Harrison 2001: 186). The stratification grid is built on the case of India but it can be expanded to the vast majority of developing countries. Ranking different groups in the Indian society, Cain and Harrison identify in the dominant foreign groups (mostly MNC's in this paper's view) the highest element in the grid. Along with dominant indigenous groups, these are the two elements composing the elite. Thirdly and outside the elite, there are the dominant indigenous groups at a regional and local level. Finally, the forth element in the grid is simply presented as people and subaltern classes. While it is not always easy to identify dominant foreign groups in industrialised economies, these groups are often influential towards developing countries' government through lobbying. The intent of lobbying can be identified in the willingness to push for a legislation more favourable to the corporate interests of MNC's. In light of what has been presented, it is possible to sustain a different strength of nation-states in their capacity to regulate and affirm their legislative power. The interest of foreign dominant groups can determine local legislation in terms of labour, environment and education, reinforcing the idea of a declining power and influence for the majority of the nation-states.

To continue, the process of mediation is intended as the capacity of the state to mediate between different social groups. In this paper's view, the nation-state is loosing its capacity to handle the process of mediation. The loss of this capacity can be identified in what Gramsci defines as passive revolution as it will be further elaborate in section 2.2.3.

Passive revolution is described as an attempt from above to provide reforms to society in order to render it compatible with the socio-economic structure sustained by the progressive class promoting the revolution. One of the forms of passive revolution is *Caesarism*, a situation of struggle where none of the social groups are sufficiently strong to gain consent over the others. In this contest the paper explores the hypothesis that a single-state can no longer become hegemonic. In other words, the influence of TC goes beyond national borders because its capacity of making compromises can reach national governments as well as international institutions and private actors.

2.2 Repertoire of Gramscian concepts

The choice of using a Gramscian approach requires a definition of concepts as used in Gramscian analysis. This section defines them with mention of their application in IR.

2.2.1 *Historic Bloc*

At the basis of the analysis of TC lies its role as a leading actor in the creation of an historic bloc. In the view of Gramsci, the material forces are the content and ideologies are the form (1971: 377) of an historic bloc. Gramsci argues that material forces would be historically inconceivable without form. This can be understood in light of Gramsci's historical materialism where material forces have to be placed in their context. An element of interest for this work is the importance of dialectic. As explained by Cox (1981: 133), dialectic is a term used at two levels in order to correct neo-realist approach. First, the aspect of logic in historical materialism expresses the attempt of dialogue for exploring contradictions among social forces. Secondly, in history, dialectic expresses "the potential for alternative forms of development arising from the confrontation of opposed social forces" (*ibid.*). Consequently, it can be shown how TC, interpreted as a social force, has sought dialogue through international institutions such as the World Bank (WB) and the International Monetary Found (IMF). These institutions have in turn worked as the official promoters of a dialogue aiming at the improvement of material conditions for developing countries via the implementation of SAP. However, it is argued here that the dialogue for potential development resembles more a unilateral choice of measures of political economy where the social forces that benefited the most are those behind TC. A proof of this can be traced back in the many financial crises that affected developing countries from Mexico in 1982 to South East Asia in 1997.

At the same time, Gramsci further states that "ideologies would be individual fancies without material forces" (1971: 378). The neoliberal ascendancy would have been nothing but a matter of 'fancies' without economic measures that since the early eighties represented the material forces able to sustain the marketization of increasingly larger sectors of economy, along with the rising debt of developing countries.

2.2.2 *Hegemony*

The application of the Gramscian concept of hegemony was first introduced by Cox (1981, 1983) and was used to explain the evolution in IR of social forces and world order.

In defining how Gramsci looks at hegemony, the matter has to be addressed in terms of structure of dominance. Cox makes clear that Gramscian historicism is made of concepts that are elastic. They become more precise when in contact with a particular historic situation (Cox, 1983: 50). There is no universality of thought and the application of the concept of hegemony requires the definition of a specific form of thought and the specific structure of social relations deriving from it. Given this incipit, it can be said that according to the Coxian view, each phase in history has its own form of thought and its structure of social relations. This concept as elaborated by Cox is determinant because it sustains Gramsci's historical materialism and its view of conflict as a continuing process of remaking history. In understanding historic context as an ongoing conflict opposed to neo-realism, the definition of hegemony as based on the nature of power can be presented.

Hegemony is about the structure of dominance over a society in a particular structure of social relations. The dominant power can be a state as presented by Arrighi (1993), a group of states or it can be formed by private power.

This research investigates the global order and the prevailing dynamics within the hegemonic structure. Hegemony can be achieved through cohesion and the acceptance of a dominant ideology. It implies that hegemony is not the only possible form of dominance because a dominant ideology could fail to impose itself over a structure of social relations in a society. The aim is to show that the current structure is based on an *in fieri* hegemonic structure that will be defined throughout this work. The peculiarity of Gramsci's definition of hegemony differs from what it is defined (by Neorealist) as dominance because the latter describes a preponderance of material power over a consensual deployment of forces. For Gramsci, "hegemony has to do with the way one social group influences other groups, making compromises with them in order to gain consent for its leadership in society as a whole" (Sassoon in Worth 2005: 16). The ideational base of TC can be traced in neoliberal policies; for instance the Thatcher Government offers an explanation through the concept of a 'property-owning democracy' where it is the feeling of responsibility, that ownership creates, to stabilize and improve the community (Riddell 1989: 113). This paper draws on the concept that the social group able to influence the rest of society can be identified in the owners of TC. Examples of this influence are the promotion of private property, the growing marketization of the economy, and sustaining private interests over public interests as a response to the crisis of institutions that tends to find private solutions for public goods, legitimizing in this way a marginalization of the role of the state in the economy.

2.2.3 *Passive revolution*

The dynamic of passive revolution is intended as one hegemonic order challenged and replaced by another where this replacement happens within the

broad framework of capitalist organization of society. This type of organization is not questioned. Mercantilism, Keynesianism and Neoliberalism are bounded together by the *leitmotif* of capitalist organization of society. The counter-hegemonic force of TC challenged the organization of the Keynesian state and transformed it¹. As such, this transformation began with the disillusionment and the failures of the previous system (i.e. stagflation was the economic failure of Keynesian policies). On the base of a fragmented scenario as the economic crises of the seventies, the unleashing of MNC's' forces created a greater hegemonic project that expanded to encompassing former socialist countries.

A further clarification of the process of passive revolution is offered by van der Pijl (in Worth 2005: 29). According to him, the process has two stages. The first one consists of a "revolution from above" where there is no mass participation. At this stage, the reforms are carried on by policy-makers. The second stage involves social transformations where a progressive class can be identified as the one who makes the compromises with other social groups.

This paper sustains the idea that the progressive class is identifiable in the transnational elite that managed to reach the compromise of instilling the values of market worldwide. This compromise involved China where "more and more people had come to recognize and appreciate the virtues of market" (Yang 2004: 7). Yang makes his point clearer establishing a precise date for the Chinese compromise with market: in October 1992, the XIV Congress of the Communist Party operated a terminological shift, defining People's Republic of China (PRC) as a 'socialist market economy'. It was "the first time in history that a ruling Communist Party in a socialist state had decided to embrace the market" (*ibid.*).

2.2.4 Cooptation

The instrument of cooptation is at the bases of a global hegemonic order. Through colonialism and imperialism, the *Pax Britannica* and *Pax Americana* have been able to co-opt in the last two centuries the non-Western majority of world's population. The most recent and considerable success in cooptation has been achieved with regards to Japan; its inclusion into the global hegemony was a necessary measure operated by the Western powers. In the words of Gills, the Japanese cooptation remains "a key element in world order today" (Gills 1993: 187). To boost Japanese recovery after World War II, its goods were granted access to US market in order to sustain the development of market economy in the country. When the Japanese economy developed to the extent to pose a threat to US hegemony, the counter-measure was the Plaza Agreement. The case of Japan can serve as an example for the role of China in the current world order. The aim for a hegemonic order is to maintain the status quo because the rise of any new power can pose a threat to stability. The dilemma in this case is between accommodating the rise of a new power that cannot be stopped otherwise and trying to preserve stability and the vital interests of the hegemonic order.

2.2.5 Organic Intellectuals

In this paper's view, this is one of the most important concepts from Gramsci. In the Prison's Notebooks, it is stated that "every social group has its own stratum of intellectuals" but it is the progressive class in the second stage of the process of passive revolution that succeed in "subjugating the intellectuals of other groups" because of its power of attraction. The process has "a psychological nature (vanity) and often a caste character (technico-juridical, corporate, etc.)". Despite the time that Gramsci wrote in, his definition can be applied to the current situation with TC and its caste of organic intellectuals. Applied to this paper, the definition of organic intellectuals comprehends the private actors that contribute to the establishment of the new hegemony. The ideational side of it can be shown through Gill's definition (2002: 94). These actors work for the promotion of the liberal economic discourse and the promotion of the policies associated to it. An example of organic intellectuals is the Trilateral Commission (Trilateral Commission 2008), an organization formed in 1973 by private citizens of the USA, Europe and Japan to foster closer cooperation. It is composed of about 350 global leaders in various sectors of business and media, academia, public service and labour unions (see Annex 1). The fact that many of them rank among the richest people in the world is seen in the optic of this paper as a proof of their caste character and their capacity of promoting policies favourable to them².

It is on this basis that they promote the so-called virtues of free trade and foreign investments. Although China is currently not part of the Trilateral Commission and it is still far behind, in aggregate terms, from the level of investments flowing to industrialised countries, it is at the moment the fastest growing economy where the promotion of free trade has become vital to the country's interest, in contraposition to the mounting pressure in the West for protectionism³. In this aspect lies what can be defined as the paradox of Chinese co-optation since the country is now pushing for the promotion of those policies that were sustained by industrialised countries and are at the base of the leading role of TC while the discourse of protectionism is mounting in the countries threatened by the Chinese export.

Chapter 3 From the Nation-State to Transnational Capital

In beginning this paper's assessment, the Realist and Marxist theories in IPE are presented. Second, in order to explain how the current world scenario has been reached, the paper makes use of a Gramscian perspective in order to explain the historic excursus from the British hegemony to the decline of the USA. The events of the last two centuries are explained in terms of different hegemonies prevailing one after the other. Consequently, the paper argues for the identification of a new hegemony, which doesn't focus on the nation-state anymore. Given that the US hegemony began a slow decline since the seventies, the paper identifies in the growing importance of TC the new leading actor in the likely creation of an historic bloc, or at least in a redefinition of it. Third, the definition of TC is presented. The use of a Gramscian perspective is due to the fact that the way TC is becoming powerful implies the use of cohesion rather than coercion in the same way as previous historic blocs were established. It is important to make clear that, according to this paper, TC could be able to substitute the nation-state as the leading actor in an historic bloc.

3.1 Realism and Marxism

There are different theories accounting for the functioning of IPE. This work presents two of the most important approaches that postulate about inter-state relations and world orders: Realism and Marxism. It first presents the Realist approach and then focus on the Marxist approach where the Gramscian analysis can be placed. However, the aim is also to show why neither the Realist nor the Marxist approach fully fit the analysis. Since the focus is on the creation of a new historic bloc, neither the nation-state (Realist), nor the bourgeoisie as leading class (Marxist) are appropriate instruments in the definition of an historic bloc. Conversely, it is the analysis of the relation between structure and superstructure in Gramsci that offers a better understanding of the issue (2007: 455-65). Presenting TC as the social class able to impose its own hegemony follows Gramsci's distinction of the three moments in the relation between structure and superstructure: it is the last moment where the leading class gains awareness of the fact that its own interests have to become the interests of the subordinated groups. In parallel, the hegemony of TC can be explained through the same logic because it is argued that it is able to sustain its own interest over the ones of subordinated groups. Neither Realism nor Marxism offer any instrument to explain the dynamic of an actor as TC that goes behind the borders of the nation-state, influencing each and every class in society. Gill notes that the Gramscian approach is "a critique of the empiricism and positivism that underpin the prevailing theorizations in the field, as well as the cruder forms of mechanical Marxism"(2002: 17).

According to Inayatullah and Rupert, "Neorealism⁴ is the predominant theoretical tradition in the field of IPE" (Inayatullah and Rupert 1994: 61);

however the authors acknowledge that the approach has been criticised in recent years both on political and analytical grounds. Commencing from the theoretical underpinnings of this part of IPE literature, the origin of Neorealist tradition can be placed in Machiavelli's Prince (2004) and Hobbes's Leviathan (1957) with his idea of war of one against all. Its application to IPE doesn't mean that states avoid cooperating with each other. They do, creating common institutions. However, Neo-Realism "insists that the state remains the principal actor" (Gilpin 2001: 17). This view is inadequate in the analysis of current international affairs with the plethora of non-states actors, spacing from international institutions, NGO's and, most importantly to this work, MNC's. The focus on the state as primary actor acknowledges a limit to its action. The rationale of this condition derives from the fact that "the limits on state action result primarily from the power of other states" (Keohane 2002: 42).

According to this view, inter-state relations are dependent entirely on the balance of power between stronger and weaker nation-states. To conclude this introduction of realist theory, this paper uses the words of one of the most relevant realist scholars, Hans Morgenthau. He presents the realist school and its conception of the nature of man, society and politics as a school believing that "the world, imperfect as it is from the rationale point of view, is the result of forces inherent in human nature. To improve the world one must work with those forces, not against them" (Morgenthau 1948: 3). This paper argues that this *homo homini lupus* condition cannot be changed working with these inherent forces. With regards to some of these forces, Robert Gilpin argues for the importance of domestic policies in sustaining economic forces. His work presents the case for emphasizing that states, notably the USA, create positive conditions for their corporations to expand and secure their own interests. The problem arises when corporate and national interest diverge: "the fact that they [MNC's] seek to use their power to influence American foreign policy in directions which benefit them is without doubt" (Gilpin 1975: 142). Whilst he also argues that corporate and political elites often share the same vision of a political and economic liberal order, Robert Cox reminds us of how the Neo-Mercantilists warn "US policy-makers not to continue to operate according doctrines appropriate to the *Pax Americana* when the USA cannot longer afford to act as a guarantor for a universalistic world order" (Robert Cox 1981: 141). In other words, this consideration underlines how a particular nation-state, the USA, moved from a predominant position of power to a condition where it is incapable of maintaining control and channelling the evolution of its own creation: MNC's.

The second approach to IPE is the Marxist one, stating how the current interdependent world has in transnational actors (i.e. MNC's and their use of TC) the autonomous forces able to shape the capitalist system. Keohane notes that one of the manifestations of the impact on capitalist system is "the power of transnational capital, which is expressed both through the operation of transnational corporations and the impact of transnational capital flows, especially capital flight"(2002: 41).

Whilst Marxism in its original formulation is a theory on domestic economy concerned with the capitalist mode of production, it is the work of Lenin (1965) that focused more closely on the international political relations among capitalist states. The colonial powers at the end of the nineteenth

century had divided up the entire planet among them. The establishment of a colonial system permitted the development of capitalism through the export of capital, foreign investment and international finance. At the base of this change, there is the fact that “a steadily increasing proportion of capital in industry ceases to belong to the industrialists who employ it” (Hilferding in Lenin, 1965: 52). The Marxist approach, especially in its Leninist formulation, goes behind the mere role of the nation-state, highlighting the role of bourgeoisie in the capitalist system of production and exchange in IR. Although Marxist theory underwent an evolution since its first formulation, this paper stresses on what it is considered to be Marxism in its most important strand: Revolutionary Marxism⁵. According to this view, the step forward from the role of the colonial powers, and therefore a focus on states as main actors, to the relevance of other actors, can be retraced back to the rising importance of financial capital and banks (Gilpin 1987: 38, Lenin 1965: 52). However, Marxist analysis has still a focus on the bourgeoisie as class leading the evolution of private interest. The added value of Gramscian analysis lies in the problematization of the issue in terms of TC as leading actor substituting the bourgeoisie and in the understatement of the relation between mode of production and political environment that facilitate production (Worth 2005: 17).

This paper starts from these considerations in analysing the rising importance of TC and its transformation as leading element in the creation of a new historic bloc.

3.2 From the *Pax Britannica* to a New Historic Bloc

The paper presents the argument that the analysis of a creation of an historic bloc can no longer be based solely on nation-state. There are other relevant actors influencing the formation of an historic bloc: international organizations, civil society and, in particular, TC on which this paper focuses on. To reinforce the argument of a growing importance for actors different from the nation-state, the paper presents the historical background necessary to understand the current situation. The last two centuries saw the alternation of different historic blocs based on the *Pax Britannica* first, and the *Pax Americana* after. Although there is a shared agreement that this century will be on the Pacific Ocean, it is difficult to foresee the creation of a new historic bloc based on a single nation-state (i.e. China). The reason at the base of this argument is that capital accumulation needs to constantly expand in order for its holders to maintain their power. Since Venice, any hegemonic power has been substituted by a bigger one in size and resources (Arrighi, 1993; Harvey, 2003). This paper sides with Harvey’s doubt on who will be able to substitute the USA in the twenty-first century if this country is no longer able ‘to manage the considerably expanded world economy’ (Harvey, 2003: 35).

The historic excursus begins with the end of the *Pax Britannica*, which can be placed at the onset of World War I. The British liberal and imperialist order was disrupted along with its trade and financial patterns. Along with them, changes in the monetary system and its implications for the structure of power are considered as relevant to the argument of British decline. World War I signed the end of the Gold Standard, which was based on the British

hegemonic financial power. Since the mid XIX century, industrialization was in need of foreign capital to expand and the UK channelled the flow of capital through the monetary stability achieved with a full-fledged gold standard⁶(Eichengreen 2000).

The onset of the war was the beginning of a period of monetary turmoil that led to the weakening of Europe. The interwar period lacked a single dominant power and rivalries between states prevailed over the creation of any alternative to the Gold Standard. It is only with the establishment of the Bretton Woods system that an alternative was created and an alternation of global economic power materializes.

The end of World War II saw the establishment of new international organizations (UN, WB, IMF and GATT) that contributed to the USA fulfilling its hegemonic role. The *Pax Americana* as a product of these events is, in monetary terms, based on Bretton Woods and its system of fixed exchange rates. The end of this system is one of the reasons for the decline of US hegemony. However, it cannot be reduced only to this. There are other elements that contributed to it. What happened in the global scenario is that the sixties represented the end of colonialism, hence the end of direct control of colonial powers over their colonies. While the USA had no direct control on colonies, other industrialized economies had to re-think their capacity to manage and maintain the control on previous colonies. A first answer to the loss of control can be found in the principle of ‘monoeconomics’⁷(Toye 1994: 22) and in the SAP implemented in the eighties where market liberalization and public sector reforms had different effects according to the country of application. This is considering that there are “good reason to be sceptical about sweeping conclusions about the general efficacy of macroeconomic policy measures”(Tarp 1993: 55). Moreover, the oil crises in the seventies and the rising importance of commercial banks in business relations with developing countries’ governments contributed to the unlash of commercial banks’ power⁸.

These events can be ascribed as the geopolitical co-causes of the US decline. In order to narrow down the focus to the economic aspect, the driving element of the US decline is identified in the financialization of the economy (Harvey 2003: 57-74). It means that investors’ preference, intended as profitability of investments, shifted from fixed capital to liquidity. To move back to the dichotomy “territorial-capitalist”, Arrighi characterizes this as the subordination of the territorial principle to the capitalist principle (Arrighi in McMichael 2000: 276).

While there is a shared agreement on the fact that the seventies represented the onset of the US decline, this paper argues for a relativization of this decline. Given the increased power of finance worldwide, the USA is one of the states that have managed to better limit the speed of decline. The USA mistake consisted in allowing MNC’s to gain more power with the conviction of being able to control the de-territorialization they were carrying on.

As in 1929, when the economic crisis was severe because no any state was able to intervene as lender of last resort, or to sustain any policy of international economic management (O’Brien and Williams 2002: 109); in the same way, today there is no single country able to responsibly embark and

promote goals of international economic management. Nevertheless, the capitalist world economy continues in existence today and now comprises geographically (almost) the entire world, including those states ideologically committed to socialism (Wallerstein 1979: 271).

The main point that this section seeks to highlight is the changes occurred in the seventies. The global scenario moved from a situation of uncontested US hegemony in a capitalist world to a challenged US leadership where independent actors have been able to influence and change the role of the state. The 'post 70's' situation is the consequence of conscious political decisions. The Reagan Administration identified in the deregulation of markets, and in the retrenchment of the state, the ideational underpinnings for sustaining the US presence in world markets. Conversely the post 70's scenario sees the entrance of China in a market-based economic system. Although China has rising importance in the world economy, what this paper will further elaborate in the following chapters are the reasons that cannot make China eligible as a leading actor in the creation of a new historic bloc.

3.3 Different perspectives on the evolution of the concept of Nation-State

Since the paper argues that the role of the nation-state has to be reconsidered in terms of creation and development of a hegemonic historic bloc, different perspectives on the strengths and weakness of the nation-state are presented: in terms of sovereignty, the nation-state holds its legitimizing power whereas the discourse on territoriality has been modified by the capitalistic logic of power dominating on its territorial aspect. This paper argues for a compromise between the hypothesis sustaining the declining importance of the nation-state, and the one sustaining that the nation-state is still relevant.

3.3.1 Industrialised Economies and Developing Countries

The first important consideration on the constituency of the nation-state finds its origin in Gramsci's critique of Daniele Halevy's work *Decadence de la Liberté*. Gramsci acknowledges that the main political events in French history during the last decades of the nineteenth century were caused or influenced by private organizations or by powerful individuals unknown to the majority of population, not by the political organisms regularly elected through vote (Gramsci 2007: 801). This broad conception of the nation-state encompasses a large number of actors, who have no duty or need to respond to any electoral body. A first distinction can be drawn from this consideration: looking at the elected bodies of a government as one of the actors opposed to private actors, the argument can be made that the latter has to reach an hegemonic position before becoming dominant (this happens in Gramsci's third moment as espoused in section 3.1). As a result, it is the intention of this work to argue this point in relation to TC: although the role of the nation-state (in its elected bodies) is important in terms of legitimization, the private actors (holders of TC) reached a high level of independence from it.

This is particularly true in many developing countries where the doctrine of neoliberalism imposed free trade, elimination of barriers, privatization and deregulation. This resulted in a diminishing bargaining power for governments in respect to MNC's. In the words of Harvey (2005: 66), "state sovereignty over commodity and capital movements is willingly surrendered to the global market". 'Willingly surrendered' refers to elites in developing countries since its their cooptation that has been achieved through the discourse over the necessity of neoliberal policies. Reflecting on the French Revolution and its profound social and economic changes, Gramsci drawn on the consequences that these changes had on the state and its social relations. This paper applies this line of reasoning to the neoliberal ascendancy and to the undermining changes for the role of the state. Presenting the issue in terms of centre and periphery, Gramsci utters that "when the impetus of progress is not tightly linked to a vast local economic development which is artificially limited and repressed, but is instead the reflection of international developments which transmit their ideological currents to the periphery" (1971: 116), what happens is that new ideas (neoliberalism) are not the result of indigenous groups' development. In other words, in the case of periphery there is no any social element that is challenged in the creation of "a new structure of social relations" (R. Cox 1983: 59). Structure is imported from the centre and applied to the peripheral countries through the help of co-opted local elite.

3.3.2 Weak or strong: what is the nation-state's health at the beginning of the twenty-first century?

The role of the nation-state can be analysed in relation to the concepts of sovereignty and territoriality. This paper sides for a weakening importance of the nation-state in IPE. However, some important clarifications have to be made. First, a presentation of different points of view on the role of the state is introduced. After that, the paper gives its Gramscian explanation for the relevance of the issue in relation to TC.

The view of a powerful state is presented by Linda Weiss who argues for its relevance vis-à-vis "the new global logic of capitalism" (Weiss 1997: 3). According to her, the only globalized aspect of economy is finance since the majority of foreign direct investments (FDI) go to speculative, financial services or non-productive assets. For the rest, FDI are still concentrated in countries part of the Organisation for Economic Cooperation and Development (OECD) (1997: 8) as much as trade and production. It means that globalization is much of an affaire among rich countries and their control over means of production. To this paper, speculation, finance, FDI, trade and production are results of the behaviour of MNC's and they all go where the best business environment is offered. This determined a competition among nation-states in attracting MNC's in different ways: labour-intensive and cheap manpower in developing countries, capital intensive and good infrastructures in industrialised economies. Either way, the balance of power is oriented towards MNC's able to influence socio-economic policies under the menace of leaving the country if their requests are not accepted by governments. MNC's set the rule of the game both in developing countries and in the majority of industrialised economies. The role of China can be placed in this capitalist

archipelago⁹ (Cumings in Arrighi 1994: 22). The Chinese Government is favouring the growth but, as it will be showed later, there is no other option for it rather than going for capitalist development.

Weiss's work reports as well what she defines as a more nuanced view about the role of the state. She presents through the words of Hirst and Thompson (Weiss, 1997: 16) the fact that the "power of states as economic manager is lessening".

Among the sustainers of the weakening role of the nation-states (Ruggie 1993, J.A. Scholte 1997, J. A. Scholte 2005, Werner and De Wilde 2001) there is a shared agreement on a diminishing importance of sovereignty and a reorientation to serve supraterritorial interests.

The fact that Ruggie affirms that "only the state can defend corporate interests over trade, investment and market access" (1993:142) reinforces the thesis of the importance of corporate interests. The state doesn't defend them because it wants to, but because it is forced to do this in a situation of global competition. Defending its own corporations is not a free choice for a state but it is the only option. If a state doesn't do it, its corporations will be out of the market, its economy will suffer and politicians will have to answer to their own constituency. Nation-states are not all the same. It is important to draw a distinction between nation-states where the strength of TC can still be questioned and halted by governments and nation-states where the rationale of government's relations vis-à-vis private actors see the predominance of the latter.

This section wanted to highlight two concepts. First, it makes a clear distinction among states. The big majority of them are forced to serve corporate interests when the opening-up of market abruptly cancelled any bargaining power for them; moreover, it renders them subject to the volatility of speculative capital. The financial crises alternating in the world since the eighties are examples of that: from Mexico in early eighties to the current global financial crisis. The only country partly still immune from this general weakening, and therefore in good health, is the USA. The most important aspect for this work, the economic one, is the role of the US Dollar (USD) as international currency and its seigniorage power. A special case is the European Union (EU) for its politico-economic architecture where the well-renowned definition of 'economic giant and political dwarf' fits with this paper's hypothesis of a declining importance of political actors over economic ones, regardless of whether or not the EU could be defined as a nation-state.

Second is the Gramscian interpretation. If an historic bloc has to be the organic link between political and civil society (Gramsci, 1971: 366), Gill and Law's interpretation (1989: 476) can here be readapted. The emergence of a new historic bloc has to previously engage in a "conscious planned struggle" organized around a set of hegemonic ideas. The Washington Consensus (Williamson 1990) policies can be interpreted as the set of policies at the base of the TC' leading role. The latter has power within civil society and economy (dominant role of capitalism where every sphere of human life is subject to the rule of demand and supply in an ongoing process of necessary marketization in order to sustain profit¹⁰); moreover, TC brings with itself a series of persuasive

ideas and arguments¹¹ in favour of the inescapable necessity for opening-up markets in name of efficiency and proper allocation of resources.

3.4 What is Transnational Capital?

The paper argues for a rising importance of TC in influencing nation-states. Hence, it is important to clearly define what the paper means for TC.

3.4.1 Definition of actors and elements

The importance of TC can be directly related to the neoliberal ascendancy as a consequence of economic changes since the early eighties. Rising competition, pressures on productivity and innovation, SAP determined the rise of a transnational elite bound up together by the role of capital and the process of inclusion in capitalist system of countries that were excluded until that moment. The transformations happened in a vast majority of Third World countries along with the implementation of neoliberal policies and the process of transition from planned economy to market economy in China, Eastern Europe and former Soviet Union.

A definition of TC requires the identification of its holders. Starting with an example, the transition and inclusion into global capitalism of previously planned economies occurred under the surveillance of national, international and private actors where the action of the Group of 7 (G7) and a series of international organizations spacing from the IMF and the European Bank for Reconstruction and Development (EBRD) to a range of organic intellectuals associated with neoliberalism as Paul Volker¹² worked well (S.R. Gill 1993: 247). For a more complete understanding, there are two definitions of TC and its elite. Harvey presents TC as made of a “transnational capitalist class of financiers, CEO’s and rentiers” who is “multi-racial, multi-ethnic, multicultural and cosmopolitan” (2003: 187). This definition looks at the structure and it is centred on the private actors involved in it whereas Gill’s definition has a different connotation. He takes into consideration the agencies involved in it. In his words the “globalizing elites” is defined as “a grouping of organic intellectuals and political leaders within what can be called the transnational fraction of the capitalist classes of the world”(Gill 2002: 194).

Gill’s definition helps to understand how the nation-state, although powerless in respect to the actions of the majority of the globalizing elites, is still important in terms of legitimization. As a matter of fact, these elites have a public and private connotation because “its members, drawn from the private realm of civil society, are intimately related to and form part of political society at both national and international level” (2002: 194). In Gill’s, the strengthening of the links between the private managers, bankers and brokers or the Trilateral Commission on the one hand, and the public international institutions such as IMF or EBRD on the other hand, contributed to the “transnationalization of the state” because the social forces involved are relate to the hegemony of TC (2002: 94).

Once the actors involved in TC have been defined, the following step is to delineate the elements composing it. First, it is the financial capital (through

multinational banks, rating agencies, insurance and financial companies) predominantly in its speculative aspect. Economies that open-up are subjected to the volatility of capital (i.e. Russian and South-East Asian crises in the nineties) and governments can no longer intervene in limiting the flow of capital or speculative attacks to their currencies.

The second element is manufacturing MNC's in their approach to new countries and their markets. In order to attract corporations, governments are involved in a sort of race to the bottom in order to offer the most profitable business environment to corporations. While this tendency is more evident in developing countries and their negligence in terms of labour and environmental policies, the phenomenon is present also in industrialised countries where the competition to attract MNC's is based on creation of better infrastructure and the offer of a skilled labour force.

3.4.2 What is new about Transnational Capital?

On what bases this paper can argue for TC to be the leading actor in the creation of a new historic bloc? The answer is based on Gramsci and his analysis of the role of intellectuals.

Gramsci identifies the origin of the crisis of feudalism in the aristocracy's loss of monopoly of its technico-military capacity (1971: 6). In the same way, nation-states lost monopoly in the management of productive forces. The economic structure preceding the emergence of TC can be identified in Bretton Woods and in the new class of organic intellectuals deriving from the development of this previous structure (Gramsci 1971: 7). It means that TC, along with its elements, contributes to the reproduction of capitalism because it is intrinsically part of it. This thesis is also re-elaborated by Gill (2002) who looks at the alternation of pluralistic forms of capitalism. A new MNC-influenced form of capitalism is substituting a nation-based capitalism, without questioning the existence of capitalism per se.

The capacity of TC to create consent (as form opposed to coercion) can be interpreted in terms of "spontaneous consent given to it by the great masses of the population" (Gramsci 1971: 12). It is about the promotion of a model based on the prestige of the dominant group due to its "position and function in the world of production" (*ibid.*). In the case of TC the prestige is based on the legitimization and shared acceptance of a financial capitalism that doesn't produce manufactured goods, and on the uncontested perception of a necessary economic growth and consumism as intrinsically part of the capitalistic organization of society.

Chapter 4 Historical Background and China

To understand the role of China and sustain the thesis of the impossibility for the country to become the next world hegemony, this paper stresses what the role of the USA has been so far. The hypothesis of TC as the next hegemony does not forget that the origin of MNC's capacity to influence the direction of TC originates in the USA. It is often the case that China is addressed as likely being the next superpower. The next two chapters aim at showing that the economic and political power that China is gaining are not putting the country in the position of becoming the leading actor in the creation of a new historic bloc. The counter-factual analysis of China wants to present the Chinese's mode of integration into the global economy. This paper acknowledges the rising importance of China in the scenario of IPE. Yet, it highlights how the economic strength that the country achieved is small compared to industrialised economies and it is not trying to change the mechanisms of market economy.

4.1 The road towards reforms

The logic of hegemonic powers can be explained as the need to maintain a dominating position in terms of capital accumulation. The tendency of profit rate to decrease requires a constant expansion of market in order to sustain this accumulation. The financialization of US economy during the seventies was due to its incapacity to maintain control over manufacturing capital and, therefore, to benefit from the accumulation of capital generated in manufacturing sector. While a push for a financialization of economy along the trio Wall Street-Treasury-IMF (Harvey 2003: 57-74) was supported as the only manner to maintain the role of hegemonic power, loosening out in terms of manufacturing capital pushed US economy to the brink of decline. Conversely, the importance of China has been growing since that moment. A higher rate of accumulation permitted the Chinese MNC's to expand and challenge the status quo. With 29 MNC's ranking in the Fortune 500 (CNN 2008), China aggressively entered capitalist economy and the process of accumulation. The fact that only five of the 29 MNC's operate in financial sector (bank and insurance) reinforces the view that Chinese economy has been able to absorb the mechanisms of capital accumulation, acquiring a considerable share in management of manufacturing capital. However, the argument is that Chinese MNC's are not challenging the current order but, as in a process of osmosis, they are integrating themselves in the structure of capital accumulation. As it happened with Japanese cooptation, Chinese goods have been granted access to Western markets. However two-thirds of Chinese exports are produced by foreign MNC's; this renders China nothing but a subcontractor to the West (Hutton 26-October-2008). World hegemonies rise "in a system which they have themselves created, expanded and superseded" (Arrighi, 1993: 184). This chapters draw on the rising importance of Chinese economy in channelling capital accumulation and they highlight the fact that China, being the main challenger to the current status quo, it is not working on the creation of a new

system, since it is already under a process of cooptation as Japan underwent in previous decades.

Before exploring the economic implications of Chinese cooptation as operated by TC, a brief picture of the relation between the West and China is required. The rising importance of Chinese economy, its consumers and its demand for primary commodities are some of the elements that generate fear in the view of Western policy-makers. The response to these fears has been so far based on the attempt of cooptation of the Chinese state. However, these two chapters present two points. First, the attempt of cooptation doesn't have a solid bases since the USA can no longer afford to act as defender of the current order. Secondly, a new hegemonic order cannot be found in China since the country is neither proposing an alternative system, nor challenging the subtler cooptation process based on the rising importance of TC.

The current political regime in China was established in 1949 and it is still based on the rule of the Chinese Communist Party (CCP). However, its social structure of accumulation¹³ underwent consistent modification. In terms of class and intra-class relations, the last three decades represented structural changes in terms of modes of life, composition of the labour force, legal regulation of work and, to a smaller extent, the political organization (Stephen R. Gill and Law 1989: 477). To emerge from its backwardness, China began to imitate the West with Deng's announcement of a shift to market socialism (Van Der Pijl 2008: 5). In order to comprehend the struggle between the different classes of Chinese society, it is important to highlight how the shift was a top-down decision; in fact, "it was the Party's decision to marketize the Chinese economy. There were no mass movements seeking to solve China's economic and social problems by strengthening market forces" (Hart-Landsberg and Burkett 2004: 30-31). It is worthy to note how the logic of cooptation can be applied as well to Chinese domestic politics with reference to the hegemonic role of the CCP over the rest of society.

In light of the changes occurred in the country, the reasons for instability are numerous (rise of a new middle-class, corruption, marginalization of the poorest quintile of population, lobbying power of growing MNC's, financial crises...) and it is important to question whether or not the current situation is sustainable.

4.2 Radical change or gradualist approach?

The China of twenty-first century cannot easily be explained within the conventional frameworks of market or planned economy. The peculiar transition, the ascendancy of neoliberalism and the features of Chinese society are shaping the country in terms of social and economic changes. In order to understand this model, an excursus into the elements that shaped such a model is requested. China took the road of privatization with Deng Xiaoping emerging as the new leader after the XI Party Congress in 1977. The Open Door Policy came after the failures of the civil war with the nationalist, the Great Leap Forward and the Cultural Revolution. After decades of chaos, China needed to focus on its economic development and to put politics aside. At the crossroad between a Soviet system and the embracement of market,

China opted for a gradualist approach without a clear consciousness of going towards liberalization of the market. In Deng's words, this eclectic strategy was defined *The Cat's Theory*; it means that any system able to bring stability and growth to the country would have been good. However, the reformers understood that changes towards market would have gone against the official ideology and Deng had the ability "to avoid an ideological confrontation with conservatives in the Party" (Shi 1999: 397). The changes brought by capitalism and the way this system began to perform in the country can be summarized as follow:

As we shall see, while it may have been a party decision to begin marketization, market imperatives quickly proved uncontrollable. Each stage in the reform process generated new tensions and contradictions that were resolved only through a further expansion of market power, leading to the growing consolidation of a capitalist political economy. Thus, rather than "using capitalism to build socialism" as reformers argued would be the case, the reality has been that market socialism used socialism to build capitalism.

(Hart-Landsberg and Burkett 2004: 31)

Given this, it is crucial to understand when China chose to open up and go for liberalization: a turning point can be identified in the events of Tiananmen Square in 1989. Suppression ended in blood and problems within the Party called for a deep analysis of what role the CCP should play. Along with the aborted price reforms of 1988 and the fall of Communism in the Soviet bloc, these three elements signed the deep Chinese commitment for the realization of a socialist market economy. Although the condemnation of the West over the 1989 events was firm and dramatic, it caught the Party's leadership unprepared but, at the same time, in the eyes of Far Eastern observers, the suspicions were that Western reaction for the tragedy was more oriented towards undermining Chinese modernization rather than expressing concerns about human rights violation (Naidu and Mbazima 2008: 3). It can be argued that the Chinese model of development is embedded in a combination of strong political control and neoliberal policies; nonetheless, it is rising in importance as a model that other developing countries could be tempted to imitate (Silk 1995: 155) through the implementation of a new Beijing Consensus (Ramo 2004).

4.3 Nature of the market reforms

The neoliberal reforms embraced by the CCP assumed the form of a political struggle and the Party faced many resistances to the implementation of market. As in any transition, the worries came from those categories afraid of being worse off after the change: the workers afraid of losing their stability, the true believers in the Party who were ardently opposing the market and the bureaucrats afraid of losing power and being pushed away by the new capitalists. In other words, reforms need consensus building because many interests are at stake. The XV Party Congress in 1997 gave its placet to the privatization of several state-owned industries. The CCP managed to maintain its legitimacy throughout the whole process and it responded to the accusation

of underselling socialism to the market. This is because foreign competition was presented as a source of revitalization for domestic industry and the process was posed in terms of Chinese national industry versus foreign industry (Gallagher 2002: 361). Moreover, the CCP managed to achieve an internal cooptation. As a matter of fact, “officials at all levels of government were involved in industrial and commercial development [...] from government conglomerates such as the China International Trust and Investment Corporation (CITIC) to Town and Village Enterprises (TVE’s)” (Yang 2004: 15) where the profitability of asymmetric markets turned to be a bonanza for the Chinese authoritarian capitalism.

One of the first implications in this process of transition is the change in the relation state-society. The creation of wealth and the rise of a middle-class led to a more spread diffusion of power where the interests and the demand of the new educated bourgeoisie shape the status quo. In 2002, the CCP amended the Constitution and it allowed private entrepreneurs to join the CCP. The ideological explanation that was given to it sustains that the CCP doesn’t represent anymore only the proletariat but also the advanced productive forces and the interests of the majority of the Chinese nation (Breslin 2006: 129). Furthermore, in 2005 the CCP elected the basketball star Yao Ming as model worker. It was the first time for a multi-millionaire to receive an award usually reserved to workers in Chinese factories (China Daily 28-April-2005). As a matter of fact, China has undergone a process of market reforms for the creation of a capitalistic economy that at the moment has little room for political liberalization. The gradual reforms are characterized by “the stability of the basic institutional framework of Chinese society (in particular political institutions) and the dominant ideology” (Liping 2008: 107). Moreover, a political opening-up could signify instability for the country and so far the CCP managed to control the ideological change and to accommodate the bourgeoisie. The CCP began to absorb new members among the rising middle-class and the intellectuals in order to respond to two different types of difficulties: internally, the aim was to build a larger consensus involving different categories and, externally, to readjust the revolutionary dictates to an evolving society.

At the crossroad between market and tradition, China is a country of immense contradictions where the CCP took the decision of going for market reforms. However, this is contradictory because a society going towards capitalism will encounter more and more problems to sustain the ideological underpinnings that justify the existence of a Communist Party.

The efficient machinery of government that the CCP has proved to be in the last three decades is now starting to face new challenges in terms of power. The fear of losing out part of their power pushed the cadres of the Party to embrace a process of decentralization because it was clear that not everything could be decided from the top anymore. The China of today has a decentralized system where every level of government is responsible for the economic and fiscal management. Decentralization was made official in the eighties and it has two main problems nowadays: first, a rampant corruption and, secondly, the rise of local protectionism. Every province is protecting the local industry from competition originated in other provinces of China;

moreover, market barriers have been introduced for selling goods manufactured in the rest of the country. The situation that is delineating presents a proliferation of many closed markets.

The entrance in the World Trade Organization (WTO) can as well be read as domestic-driven (Branstetter and Lardy 2006). In fact, respecting WTO is seen as a manner to dismantle local protectionism and discrimination of foreign investors. It can be argued that the process of change undermining the country is amply based on economic issues; economic power has been used in a process of *co-optation* towards the local authorities and the purchase of their support. If, on the one hand, the country is adopting measures for encouraging foreign investors, on the other hand, fiscal and administrative decentralization of decision-making power are becoming incentives for the reinforcement of a predatory state (Minxin 2006: 140-141) where six millions of local government officials are often the right *guanxi* for foreign investors.

Chapter 5 Counter factual analysis: economic implications of the Chinese cooptation by TC

The process of transition undergone by China differs from the “shock therapy” (Kornai 1992) applied to former Soviet Union and the majority of Eastern European countries. The Chinese transition is based on the concept of gradualism where “gradual reform means self-improvement based on the persistence of the fundamental institutions and principles of socialism” (Liping 2008: 107). The peculiarity resides in the fact that the CCP maintained its political power and “preserved its capacity to control and manoeuvre other types of capital” (*ibid.*). There are three pathways leading out of Socialism according to Szelenyi (2008: 167-169) and they can be ascribed to the three regions that moved away from Socialism in the early nineties: Soviet Union, Eastern Europe and China. The three began to differ in economic dynamism and in the organization of society. Limiting the discourse to the Chinese experience, in its early stage the top-down decision to go for the market enlisted among the beneficiaries also ordinary people who benefited from the dissolution of collectives and the reestablishment of family enterprises (Sachs in Szelenyi 2008). While in Eastern Europe and former Soviet Union life conditions declined tremendously, the CCP managed to maintain consensus guiding the country as a developmental state. However, the situation changed consistently after Tiananmen. In the words of Minxin, the CCP turned into a predatory state. This view can be confirmed by the fact that China moved from being one of the most equal countries (in Mao’s time) to having the highest inequality among developing countries (Gresh 2008).

5.1 Ideational and material elements of cooptation

This introduction doesn’t call for a strengthening role of the state. Conversely, it wants to highlight the process of cooptation undergone by the PRC. Labelled with different names, the Chinese neo-authoritarianism (Breslin 2006: 116, Jayasuriya 2000: 319, Ling 1996: 13) has worked in order to upgrade Chinese position in the global structure of capitalism. The internationalization of the state doesn’t make it stronger. The first chapter of this work argued for a return to a Gramscian analysis for this specific reason. The Chinese state is integrating itself in a global system where the actors that shape the rules of the game have a global reach. Although a certain relevance of the USA can still be found, these actors are no longer nation-states but the international structure of production, finance and speculative capital flows, technology and the rising inference of international institutions in domestic affairs. In the words of Beeson, “China has effectively signed up to join an established capitalist international order” (2007: 133).

There are ideational and material elements that will be hereafter presented to sustain the argument for Chinese cooptation operated by TC. Their relevance can be traced back to Gramsci’s distinction between material forces

and ideologies as the two components of an historic bloc as explained in chapter 2.

5.1.1 Ideational

Free market competition can erode the Party's control on the economy but, at the same time, market reforms and increasing wealth need to keep their momentum to legitimize the lack of political freedom, or at least, the middle class's desire to combine economic power with wider political spaces. Private enterprises have a dominant role in Chinese economy where their capital value had an annual growth in the nineties constantly superior to 30%, with a peak of 208.1% in 1993 (Yan in Leong 2006: 145). The impressive growth of private business sustains the idea that the CCP can't do much to change the path of Chinese development. Although public intervention in the economy is still vast, the "party is victim of its own economic success" (Minxin 2006: 183). The problem is that the party and its elite are not willing to face the reality of structural and institutional problems that will erode the momentum of economic growth (*op. cit.*: 167). Corruption is intrinsic to any process of economic expansion and China is not an exception. Economic reformers are aware that halting this phenomenon would be a high political risk; however, there is awareness of the fact that "the cost of state intervention is widespread rent-seeking and corruption" (Ngo 2008: 41).

Corruption, rent seeking, economic growth and political monopoly have to be placed in the broader context of IPE. According to Gramscian analysis, there is "a world-wide convergence in ideas (liberal triumphalism and capitalist ideology), [...] and structures (internationalized production and global finance)" (Ling 1996: 2). On a global level, since the eighties the prevailing pure ideological element consisted in the mere consideration that private sector is better than public (Thrift 2000: 94) and China is being absorbed by this ideological element as the growth of private business shows. It can be stated that the inclusion of China in the "cultural circuit of capitalism" (Thrift 1998: 42) is developing a new managerial discourse where MNC's are rising in importance.

5.1.2 Material

The material elements of the Chinese cooptation take into consideration the economic aspects. As many other developing countries, China is able to offer a convenient recipe for attracting FDI: cheap labour, economic openness and loose environmental legislation. Yet, what makes China preferable over other investment destinations? The size of the internal market can't be a sufficient answer since internal purchasing power is still relatively low. In the words of Thornton, the irresistible offer of China is "commercial openness coupled with Stalinist order" (Thornton 2007: 223).

Political stability is one of China's comparative advantages to be read in combination with economic growth. Rising prosperity has removed the pressure for democratization (Minxin 2006: 19) but growing wealth cannot halt resentment forever; especially when inequality rises constantly.

It is within this oxymoron of ‘unstable political stability’ that the positive and negative material aspects of cooptation can show the weakness of China.

The elements can be divided in two parts. Firstly, economic indicators such as FDI and interest rate which will be introduced below. Secondly, considerations on how the structure of international production has changed with China. The link between the two is identified in MNC’s.

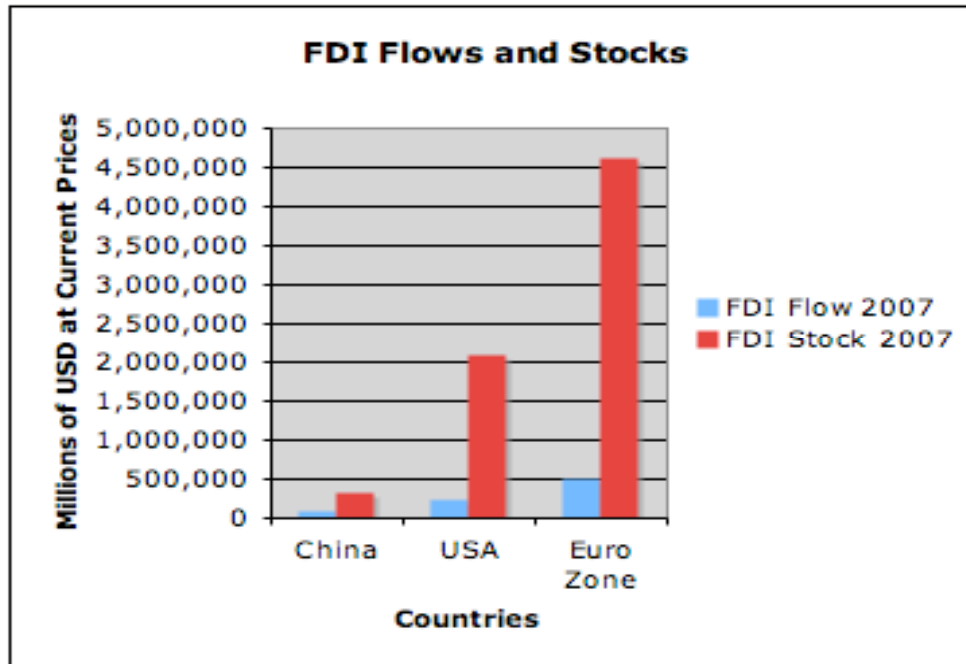
5.2 Foreign Direct Investment

FDI are the most important element in delineating the dynamic of Chinese cooptation. Positively for China, the country wasn’t affected as deeply as neighbouring countries by the 1997 financial crisis because of the nature characterizing its capital inflow. Most of the capital entering China was in the form of Greenfield investment, accounting for 5.23% of GDP in 1996, consistently higher than other countries in the region (Noland et al. 1998: 17), whereas neighbouring countries were subjected to speculative inflows of hot money (Wang 2000: 153).

Moreover, it is relevant to look at the nature of FDI to China compared to South Korea and Taiwan as Gallagher does (2002: 366-372). Foreign participation in South Korea and Taiwan is small compared to China because national industries have been preferred on the bases of the infant industry argument. In China, there has been a minor development of a local private business elite. Consequently, a lesser demand for political independence led to the presence of FDI subjugated to the interests and willingness of foreign MNC’s that could profit of the situation in terms of labour and environmental legislation. This meant that China didn’t develop a local business elite as organized as the Taiwanese or Korean. Moreover, the process can be thought as a race to the bottom where the CCP attracted more FDI than any other countries in the region without particular attention to the quality of FDI for local population. Offering the most profitable business environment for foreign MNC’s has been so far at the core of the rationale driving the attraction of FDI.

Moving on to the comparison with industrialized countries, the graph below presents FDI Flows and Stocks in 2007 for China, USA and the Euro Zone (UNCTAD 2007). As it can be inferred, the difference between China and its two competitors is consistent. China has 12% of the FDI total stock for Asia, ahead of Japan and Singapore but it lags consistently behind USA and the Euro Zone. These data per se would relegate China to a supporting role, wiping away any hypothesis of China able to channel the international flows of investment. As a matter of fact, the core of profitability still resides in Western countries. The situation partly changes looking at the ratio between flow and stock of investments¹⁴ where China has the best ratio (3.91), compared to USA (8.99) and Euro Zone (9.45). It means that FDI are getting more relevant in sustaining the growth of Chinese economy. This is the first proof the paper draws on to sustain the integration of China, and consequently its new dependence, on the pattern of global capitalism.

Figure 1: FDI Flows and Stocks in China, USA and Euro Zone in 2007

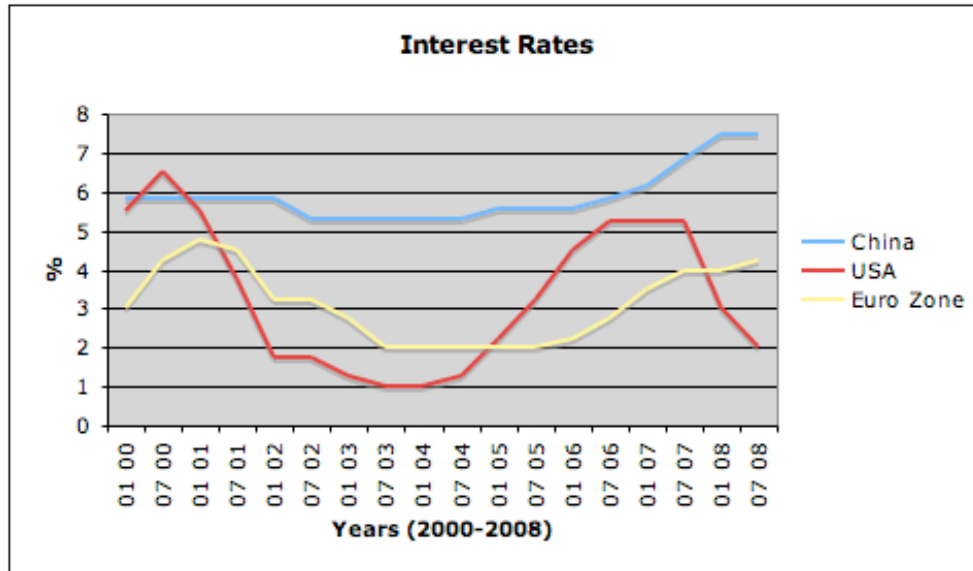


Source: UNCTAD FDI Database On-Line 2008.

5.3 Interest Rate

The second relevant element is the analysis of interest rate (r) where there is a relatively high level of integration with the trend of the USA's Federal Reserve (Fed) and the European Central Bank (ECB). The choice of pursuing lower or higher r is not only an economic measure; it is a political decision as well. As a matter of fact, low r should sustain aggregate demand through increasing investment while high r slows down inflation. The graph below (TradingEconomics 2008) shows that during the last 8 years China has had, on average, higher r in order to contain inflation. Fed's r floats more than the ECB because it is in Fed's policy to make a more consistent use of this instrument. However, it brings some political considerations with it. First, low r promotes households and firms that ask for credit over savers. Second, this policy is encouraged by the so-called supply-siders, especially in the USA where low r allows growth based on debt. This is because payback of loans and mortgages requires lower costs for interests and permit corporations to play moral hazard behaviour since the cost of money is low. On the basis of what has just been shown, it can be argued that MNC's can encounter higher profitability in monetary policies based on low r . Giving more liquidity to the system is a stimulus to the economy on the supply side. Hence, this paper argues for the political importance of monetary policy. Consequently, it can be inferred that MNC's play a consistent role in maintaining low r since they are among the first to benefit from this policy.

Figure 2: Central Banks interest rates in China, USA and Euro Zone 2000-2008



Source: adapted from Trading Economics: Global Economics Research 2008.

The graph above represents central bank r for the banks of major interest: People's Bank of China (PBoC), Fed and ECB. Although PBoC's rate is averagely higher¹⁵ and more constant, it can be seen how the lines follow a similar path. The purpose of this graph is to show how central banks work in a coordinated manner, even though the objectives of national policies might be different like in the case of the USA and China; inflation, exchange rate, trade policies and investments need sometimes opposite types of monetary and fiscal policies.

Since this paper argues for key importance of monetary policies in relations to TC, bringing data about FDI and r serves to show that China is not able to come up with alternatives to the current trends. Although the Fed can't directly influence Yuan's exchange rate, the amount of Chinese reserves (in USD) can easily drop in value if the USD goes down. Moreover, China can't change a financial hegemony still based on US pre-eminence. The USA has been the agent of globalization because of its dominant position, its seignorage power and the financialization of its economy (Dumenil and Levy 2004: 100-101). It is difficult to predict whether or not a new Plaza Agreement will be needed to fully include China into the club of global hegemony. However, it can be stated that, financially speaking, China has not the resources to bring what Rupert defines in Gramscian terms as "a comprehensive transformation and creation of an effective counter-culture" (1993: 79).

5.4 Chinese MNC's

Given the fact that China as a nation-state will not be able to achieve any comprehensive transformation because it doesn't have the resources and because, as argued in chapter 3, analysis can no longer be based on states, the paper moves on to the considerations of some of the most important Chinese MNC's.

When the Open Door Policy began, State-owned Enterprises (SOEs) counted for almost 80% of national output. By 2002 this number reduced to 25% (Cargill et al. 2006: 197). As it can be inferred by this data, most of Chinese growth was in the private sector. While SOEs declined in profitability, in the early nineties private enterprises and firms established through FDI became legal (*ibid.*).

This work presents three corporations acting in key-economic sectors: Sinopec (energy), FAW (automotive) and Lenovo (IT) as examples in the context of Chinese assimilation of the pattern of global capitalism.

Sinopec¹⁶ is the biggest Chinese company per revenues and the 16th biggest in the world. To have an idea of the size, in terms of comparison with countries' Gross Domestic Product (GDP) (World Bank 2008), its revenues are just below Singapore's GDP and before Philippines. This would make of Sinopec the country with the 45th biggest GDP in the world. The company is a leading example of the Chinese state-private understanding¹⁷ in promoting Chinese MNC's abroad. Owned for more than 50% by the Chinese government, Sinopec signed in 2004 a 100 billion USD oil agreement with Iran (Thornton 2007: 223). Being in charge of world's fastest growing purchaser of raw materials, the CCP has no other option but sustaining the expansion of its MNC's abroad.

FAW ranks 15th per revenues among the biggest Chinese MNC's and it would have the 81st biggest GDP between Latvia and Costa Rica. Established in 1953, it employs 133,000 workers, selling its products in over 70 countries (FAW 2008). Although more than 50% of the company is still owned by the government, the leap forward in the company's development happened in 1992 with the establishment of the first plant abroad (in Tanzania for the production of the Jiefang brand trucks) and the obtainment in 1996 of the ISO 9001 Certification. Moreover, the nineties are the decade of the joint ventures that permit FAW to acquire the know-how necessary to global competition. Of particular relevance are the agreements set up with Volkswagen and Toyota. In 2002, the acquisition of 51% of Tianjin Xiali Automobile made FAW the biggest car and truck maker in China.

Lenovo ranks only 499th per revenue but it is the most renowned Chinese brand abroad. With the acquisition of IBM Personal Computer division in 2005 and the entrance in the golden Olympus of Official Olympic Games sponsors in Turin 2006, it is the most successful example of Chinese enmesh in global capitalism. With eight research centres, sales headquarters in three continents and manufacturing capacities spread over China, India, Mexico and Poland (Lenovo 2008), Lenovo is the clearest example of Chinese involvement in the structural and ideological pattern of private capital world hegemony. In the words of Deepak Advani, head of marketing at Lenovo: "We're looking not just for people to know who we are, but to have a special emotional connection to Lenovo, and think of us the next time they buy a PC" (Waldmeir 2008).

The entire new managerialist discourse can be ascribed as one of the ideational aspects of growing TC where the authority of the hegemonic structure of TC is going to be "member led, officer driven, customer focused" (Thrift 2000: 91).

Gramsci's original premise is that hegemony is propagated through the double prism of culture and ideology (in Ling 1996: 5). TC is working on China as on the rest of economically relevant countries with the aim of securing its cultural values based on market and competition. The long process begun in the early eighties has been able to co-opt China involving it in the logic of market. A remark made by Thornton is that "as the world's fastest growing capitalist nation, the PRC is thought to be so deeply enmeshed in global commerce that fears of Chinese realpolitik are groundless"(2007: 228)

This is because MNC's, quality standards, marketing and economies of scales are all elements where governments follow rather than lead. This paper doesn't want to contest the important role of national governments in backing up their own MNCs; however, it wants to highlight how the balance of power has been irremediably shifted towards private entrepreneurship. Governments are no longer able to channel the economic resources of TC. They simply follow companies' behaviour since the latter hold a considerable amount of political and economic power able to influence policy makers.

The examples of MNCs show how China is not an exception in the detached logic of territorial and capital power. MNCs invest and compete for profit and, as US companies have been constantly outsourcing in the last decades without big concerns for the status of US economy, in the same way Chinese companies are learning the rules of the game and find important to obtain quality certifications, reach bigger economies of scale and implement merger and acquisition policies because these are the rules to compete in a market economy. It is probably the case that Chinese government still has a major influence on its own corporations compared to Western ones but this difference is meant to fade away when it comes to competition outside China.

The combination of political stability and economic growth leads to the consideration of MNC's role. This issue goes behind the gradualist approach as explained by Amin (2004). This approach lacks consideration of the link between the political stability due to authoritarianism and the 'go capitalist strategy' (Pei 2006: 29). In fact, Thornton (2007: 214) explains how the authority of the CCP, besides being weakened by the rising power of local governments and their elites, bases its authority on an anti-democratic nature. CCP's power, argues Thornton, is on loan to MNC's for the right price (2007: 214).

To conclude, while financial corporations and speculative capital cannot freely operate in the country¹⁸, foreign MNC's with portfolio acquisition and FDI are benefiting from the CCP being obliged to follow the path of economic growth.

5.5 The changing structure of international production

The Gramscian historic materialism approach in the analysis of the nature of power can be understood in terms of historic dialectic aiming at identifying the potential for alternative forms of development derived from confrontation of opposed social forces. The Chinese rise to the status of super-power does not modify the power structure in production relations but it reinforces it. The Chinese role, observed in a perspective of historic dialectic, does not present

the potential for alternative developments. This section brings evidences focusing on the role played by foreign MNCs in China and Chinese MNCs abroad.

The *Pax Americana* saw a rising role for MNCs in the management of power. The US government didn't base its hegemony on direct interventions to protect economic interests. The legislation within the international economic order allowed MNCs to become more powerful. The pursuit of profits was per se considered enough to sustain the economic order and private capital started to play a consistent role within the framework of the US-based historic bloc. The financialization of the US economy and the loss of control on manufacturing power (Harvey 2003 :62-68) determined a deterioration of the *Pax Americana* along with the rise of new economically powerful states: Germany and Japan in the seventies and China today.

In the complex of social relations, the neoliberal ascendancy meant a rise in power of private capital. This is the first step for the consolidation of a certain type of TC in the struggle for the establishment of an alternative (and more exploiting) form of development. The decline of the USA is not going to be substituted by the rise of China in terms of nation-state as it has been shown in the previous sections. In the last twenty years private profit affected social relations, leading to a more expanded internationalization of production. Consequently, the role played by the CCP has contributed to the definition of the social forces involved into this change.

On the one hand, the transition to a market economy signified the creation of new business opportunity with 1.2 billion of consumers. This affected the global production structure with the rising flow of FDI to China. As explained by Cox (1981: 146-147), with FDIs, "control is inherent in the production process" because it brings the direct possession of knowledge. On this regard, Lenovo is an illustrative case of Chinese MNC's behaviour abroad together with foreign MNC's operating in China.

On the other hand, the PBoC contributed to the maintenance of low inflation worldwide with direct intervention on the Yuan exchange-rate policy. Moreover, the Chinese success in maintaining low inflation is based also on the exploitation of cheap labour force and on the legitimization perpetrated by the Chinese Government of a new form of authoritarian capitalism.

The establishment of an authoritarian capitalism rendered MNCs less dependent on government's policies worldwide. States are still a necessary element in world order dynamics but they are becoming insufficient for explaining the evolution of social forces and the continuing conflicts towards structural changes. TC, represented by MNCs and financial capital, is the new actor contributing to the reshape of social forces vis-à-vis international production. As explained by Cox (1981: 138), the method of historical structures has three levels of activity interrelated with each other: social forces, forms of state and world orders. Changes in the organization of production modify social forces at stake. The incorporation of a consistent mass of exploited workers in the structure of international production means higher profits for MNCs that are able to contain labour costs. Rising profits make MNCs more powerful and their capacity of lobbying towards governments increases. This affects the relations between MNCs as representatives of TC

and states, being their own states or foreign ones. In this contest, particular attention is put on China. The transformation into a market economy meant that roughly one billion of new workers entered the labour market. Cheap labour supply increased consistently. This phenomenon contributed to keep low inflation worldwide during the nineties because at the basis there has been the exploitation of this labour. FDI flow to the country increased constantly because MNCs found investing in China to be the only solution for competing in the market. The main consequence of this process is an assimilation of the global structure of exploitation where the division between insiders and outsiders¹⁹ in the world system deepen. China played a big role in the advent of a phase that can be defined as less conflictual in terms of state relationships²⁰ but more in terms of core-periphery.

The contribution of China to the transformation of international production structure is therefore relevant and it has been so far in the interest of TC to co-opt the country, along with its MNCs, in the emerging of a new global class structure. The incorporation of exploited workers, mostly industrial, has led to their fragmentation²¹. The fragmentation follows two lines. First, it is between insiders and outsiders whereas the second fragmentation is between industrial workers within national and international capital (Cox, 1981: 148). Cox explains that workers employed for international production can be more likely to be allied to international capital because international capital has the ability to create a sort of enterprise corporatism with propensity to co-opt industrial workers. China contributed to the intensification of this phenomenon when looked at it in terms of productivity. International production makes use of outsider workers because the rise in productivity through automatization process in production and the incremental use of capital goods over labour does not need skilled workers. China is offering its considerable mass of unskilled workers to the labour market, contributing to the establishment of a global structure of production in which outsider workers play a more consistent role. In the interest of TC, this creates a problem that could halt its rise as a new hegemonic power. Simply put, the question is whether TC will manage to contain the struggle between exploited outsider workers and insider who feel more under risk of losing out. Cox presents this question in similar terms but here the concern is about the relevance of China in deepening this process where TC is legitimized but it also poses a bigger threat to global stability.

To conclude, it can be stated that the presentation of the economic elements proved the process of Chinese cooptation whereas the impact of Chinese opening-up on the structure of international production is a further proof of the interdependence deriving from deepening economic relations. In other words, China contributed to the change in the international structure of production while being co-opted by the action of TC.

Chapter 6 Conclusion

Conclusion reviews the three core concepts covered in the paper and the relation among them. It has been made clear that nation-states can no longer be considered the only relevant actor in IPE. While this work focused specifically on the role of TC, it was shown how the last three decades have seen the rising importance of several different actors below and above state level. The role of China was presented within the scenario of the struggle between TC and the nation-state where the balance of power has been constantly moving for the last three decades towards TC. The conclusion to this work is articulated over three points that respond to the three core concepts with some considerations for further analysis.

First, the weakening role of the nation-state implies a redistribution of political and economic spaces that rendered power more scattered. A lack of a clear leading power allows more space of action for MNC's that can take advantage to fill these spaces. The state, in its Gramscian connotation, is today the instrument of the transnational ruling class. Through his organic intellectuals, this ruling class promotes the ideational and material elements for the control of the state apparatus. As it has been made clear in the case of China, consumer capitalism brings poor people into consumption, reinforcing the capacity of MNC's to generate profit through expansion of markets. While Thornton explained that the authority of CCP is on loan to MNC's, the discourse on a global level can be depicted as the capacity of corporations to mobilize political resources for their own interests. As a matter of fact, a quick look to the list of members of the Trilateral Commission would be sufficient to realize the magnitude of the hidden economic power that is hold by this selected group of influential individuals.

Secondly, the concentration of power under corporate control is expanding worldwide. Together with the development of authoritarian liberalism, it can turn to create the most suitable economic environment for the defence of corporate business interests. TC proved to be a successful tool of cooptation against alternative forms of economic organization of society and the global reach that financial speculators, rentiers and MNC's have can be ascribed as a proof of their economic power.

Thirdly, it is the Chinese scenario. While the quality of growth (i.e. rising inequality) is often forgot, Chinese MNC's abroad and foreign MNC's in China have weakened political institutions and the developmental capacity of the CCP. This paper didn't mean to be an assessment of Chinese domestic politics; however, the conclusion wants to highlight the nexus between the realm of politics and economics. It is probably the case that the gradualist approach to transition, as intended by Amin, was overestimated since some of its consequences are domestic rising inequality and the Chinese cooptation into the neoliberal system. This paper showed how not even China, often depicted as the only plausible alternative to the Western paradigm of market society, survived the influential power of TC and its organic intellectuals. While going through the fall of Communism in the Soviet bloc, Tiananmen, the domestic bank reform in 1994 and the Asian crisis, the country didn't resist the song of

the Sirens of cooptation. Untied from the mast, China upgraded its position in the context of the neoliberal ascendancy without challenging the structure of market economy, but simply trying to re-position itself in order to gain the most from economic growth.

The final conclusion draws on two interrelated elements. Whereas the first element is the MNC's-influenced logic of power as proved throughout the paper with examples of the Chinese corporations *modus operandi* and references to the financialization of the economy as originated in the USA since the seventies, the second element has to do with the recent financial crisis. The current bailout of the US banking system is a further proof of the fact that the systematic inefficiency of financial market doesn't suffice in halting the MNC's-influenced logic of power. As a matter of fact:

The 700 billion USD "rescue plan" should be regarded as the Bush Administration's final heist. [...] It transfers billions of dollars of public wealth into the hands of politically connected corporations (a Bush specialty).

Klein (6 November 2008)

Therefore, what is largely perceived as the lowest point of Western model of capitalism is in this work's view an high moment of private business interests and the demonstration of TC's capacity to reinforce its position as leading actor in the creation of a transnational historic bloc.

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Annex 1: Main Members of Trilateral Commission

Chairmen, Deputy Chairmen and Directors:

North American Chairman: JOSEPH S. NYE, JR.

University Distinguished Service Professor and former Dean, John F. Kennedy School of Government, Harvard University, Cambridge, MA; former Chair, National Intelligence Council and former U.S. Assistant Secretary of Defense for International Security Affairs

European Chairman: PETER SUTHERLAND

Chairman, BP p.l.c., London; Chairman, Goldman Sachs International; Special Representative of the United Nations Secretary-General for Migrations; former Director General, GATT/WTO, Geneva; former Member of the European Commission; former Attorney General of Ireland

Pacific Asian Chairman: YOTARO KOBAYASHI

Chief Corporate Advisor, Fuji Xerox Co., Ltd., Tokyo

North American Deputy Chairman: ALLAN E. GOTLIEB

Senior Adviser, Bennett Jones LLP, Toronto, ON; Chairman, Sotheby's, Canada; former Canadian Ambassador to the United States

North American Deputy Chairman: LORENZO ZAMBRANO

Chairman of the Board and Chief Executive Officer, CEMEX, Monterrey, NL, Mexico

European Deputy Chairman: HERVE DE CARMOY

Chairman, Almatris, Frankfurt-am-Main; former Partner, Rhône Group, New York & Paris; Honorary Chairman, Banque Industrielle et Mobilière Privée, Paris; former Chief Executive, Société Générale de Belgique

European Deputy Chairman: ANDRZEJ OLECHOWSKI

Founder, Civic Platform; former Chairman, Bank Handlowy; former Minister of Foreign Affairs and of Finance, Warsaw

Pacific Asian Deputy Chairman: HAN SUNG-JOO

President, Korea University, Seoul; former Korean Minister for Foreign Affairs; former Korean Ambassador to the United States

Pacific Asian Deputy Chairman: SHIJURO OGATA
Former Deputy Governor, Japan Development Bank; former Deputy
Governor for International Relations, Bank of Japan

North American Director: MICHAEL J. O'NEIL
European Director: PAUL RÉVAY
Pacific Asia Director: TADASHI YAMAMOTO

Former North American Chairmen:

THOMAS S. FOLEY (2001-2008)
PAUL A. VOLCKER (1991-2001) Honorary North American Chairman
DAVID ROCKEFELLER (1977-91) Founder and Honorary North
American Chairman
GERARD C. SMITH (1973-77)

Former European Chairmen:

OTTO GRAF LAMBSDORFF (1992-2001) Honorary European
Chairman
GEORGES BERTHOIN (1976-92) Honorary European Chairman
MAX KOHNSTAMM (1973-76)

Former Japanese Chairmen:

KIICHI MIYAZAWA, Acting Chairman (1993-97)
AKIO MORITA (1992-93)
ISAMU YAMASHITA (1985-92)
TAKESHI WATANABE (1973-85)

Executive Committee:

-Erik Belfrage, Senior Vice President, Skandinaviska Enskilda Banken;
Director, Investor AB, Stockholm
-C. Fred Bergsten, Director, Peterson Institute for International
Economics, Washington DC; former U.S. Assistant Secretary of the Treasury
for International Affairs
-Georges Berthoin, International Honorary Chairman, European
Movement; Honorary Chairman, The Jean Monnet Association; Honorary
European Chairman, The Trilateral Commission

- Jorge Braga de Macedo, President, Tropical Research Institute, Lisbon; Professor of Economics, Nova University at Lisbon; Chairman, Forum Portugal Global; former Minister of Finance
- Zbigniew Brzezinski, Counselor, Center for Strategic and International Studies, Washington DC; Robert Osgood Professor of American Foreign Affairs, Paul Nitze School of Advanced International Studies, Johns Hopkins University; former Assistant to the President for National Security Affairs
- François Bujon de l'Estang, Ambassadeur de France; Chairman, Citigroup France, Paris; former Ambassador to the United States
- Richard Conroy, Chairman, Conroy Diamonds & Gold, Dublin; Member of Senate, Republic of Ireland
- Vladimir Dlouhy, Senior Advisor, ABB; International Advisor, Goldman Sachs; former Czechoslovak Minister of Economy; former Czech Minister of Industry & Trade, Prague
- Bill Emmott, former Editor, The Economist, London
- Nemesio Fernandez-Cuesta, Executive Director of Upstream, Repsol-YPF; former Chairman, Prensa Española, Madrid
- Michael Fuchs, Member of the German Bundestag; former President, National Federation of German Wholesale & Foreign Trade, Berlin
- Antonio Garrigues Walker, Chairman, Garrigues Abogados y Asesores Tributarios, Madrid
- Toyoo Gyohten, President, The Institute for International Monetary Affairs; Senior Advisor, The Bank of Tokyo-Mitsubishi, UFJ, Ltd., Tokyo
- Stuart Harris, Professor of International Relations, Research School of Pacific and Asian Studies, Australian National University; former Vice Minister of Foreign Affairs, Canberra
- Carla A. Hills, Chairman and Chief Executive Officer, Hills & Company, Washington, DC; former U.S. Trade Representative; former U.S. Secretary of Housing and Urban Development
- Karen Elliott House, Writer, Princeton, NJ; Senior Fellow, Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard University, Cambridge, MA; former Senior Vice President, Dow Jones & Company, and Publisher, The Wall Street Journal
- Mugur Isarescu, Governor, National Bank of Romania, Bucharest; former Prime Minister of Romania
- Baron Daniel Janssen, Honorary Chairman, Solvay, Brussels
- Béla Kadar, Member of the Hungarian Academy, Budapest; Member of the Monetary Council of the National Bank; President of the Hungarian Economic Association; former Ambassador of Hungary to the O.E.C.D., Paris; former Hungarian Minister of International Economic Relations and Member of Parliament
- Lord Kerr of Kinlochard, Deputy Chairman and Senior Independent Non-Executive Director of Royal Dutch Shell; Member of the House of Lords; Director of Rio Tinto, the Scottish American Investment Trust, London; former Secretary General, European Convention, Brussels; former Permanent Under-Secretary of State and Head of the Diplomatic Service,

Foreign & Commonwealth Office, London; former British Ambassador to the United States

-Sixten Korkman, Managing Director, The Research Institute of the Finnish Economy (ETLA) and Finnish Business and Policy Forum (EVA), Helsinki

-Count Otto Lambsdorff, Partner, Wessing Lawyers, Düsseldorf; Chairman, Friedrich Naumann Foundation, Berlin; former Member of German Bundestag; Honorary Chairman, Free Democratic Party; former Federal Minister of Economy; former President of the Liberal International; Honorary European Chairman, The Trilateral Commission, Paris

-Lee Hong-Koo, Chairman, Seoul Forum for International Affairs; former Prime Minister of Korea; former Korean Ambassador to the United Kingdom and the United States

-Marianne Lie, Director General, Norwegian Shipowners Association, Oslo

Cees Maas, Honorary Vice Chairman of the ING Group and former Chief Financial Officer, Amsterdam; former Treasurer of the Dutch Government

-Roy MacLaren, former Canadian High Commissioner to the United Kingdom; former Canadian Minister of International Trade; Toronto, ON

-Minoru Makihara, Senior Corporate Advisor, Mitsubishi Corporation, Tokyo

-Sir Deryck C. Maughan, Managing Director and Chairman, KKR Asia, Kohlberg Kravis Roberts & Co., New York, NY; former Vice Chairman, Citigroup

-Minoru Murofushi, Counselor, ITOCHU Corporation, Tokyo

-Indra K. Nooyi, Chairman of the Board and Chief Executive Officer, PepsiCo, Inc., Purchase, NY

-Yoshio Okawara, President, Institute for International Policy Studies, Tokyo; former Japanese Ambassador to the United States

-Susan Rice, Senior Fellow, Foreign Policy Studies and Global Economy and Development Programs, Brookings Institution, Washington, DC; former Assistant Secretary of State for African Affairs; former Special Assistant to the President and Senior Director for African Affairs, National Security Council

-Luis Rubio, President, Center of Research for Development (CIDAC), Mexico City, DF

-Silvio Scaglia, Founder, Chairman and Financial Backer of Babelgum, London; Chairman, S.M.S. Finance S.A., Luxembourg

-Guido Schmidt-Chiari, Chairman, Supervisory Board, Constantia Group; former Chairman, Creditanstalt Bankverein, Vienna

-Carlo Secchi, Professor of European Economic Policy and former Rector, Bocconi University; Vice President, ISPI, Milan; former Member of the Italian Senate and of the European Parliament

-Tøger Seidenfaden, Editor-in-Chief, Politiken, Copenhagen

-Petar Stoyanov, former President of the Republic of Bulgaria; Member of the Bulgarian Parliament; Chairman, Parliamentary Group of United Democratic Forces; Chairman, Union of Democratic Forces; Sofia

-Harri Tiido, Undersecretary for Political Affairs, Estonian Ministry of Foreign Affairs, Tallinn; former Ambassador of Estonia and Head of the Estonian Mission to NATO, Brussels

-George Vassiliou, former Head of the Negotiating Team for the Accession of Cyprus to the European Union; former President of the Republic of Cyprus, former Member of Parliament and Leader of United Democrats; Nicosia

-Paul Volcker, former Chairman, Wolfensohn & Co., Inc., New York; Frederick H. Schultz Professor Emeritus, International Economic Policy, Princeton University; former Chairman, Board of Governors, U.S. Federal Reserve System; Honorary North American Chairman and former North American Chairman, The Trilateral Commission

-Marko Voljc, Chief Executive Officer, K & H Bank, Budapest; former General Manager of Central Europe Directorate, KBC Bank Insurance Holding, Brussels; former Chief Executive Officer, Nova Ljubljanska Banka, Ljubljana

-Panagis Vourloumis, Chairman and Chief Executive Officer, Hellenic Telecommunications Organization (O.T.E.), Athens

-Jusuf Wanandi, Vice Chairman, Board of Trustees; Centre for Strategic and International Studies, Jakarta

-Serge Weinberg, Chairman of the Supervisory Board, Accor; Chairman and Chief Executive Officer, Weinberg Capital Partners; former Chairman Management Board, Pinault-Printemps-Redoute; former President, Institute of International and Strategic Studies (IRIS), Paris

Heinrich Weiss, Chairman, SMS, Düsseldorf; former Chairman, Federation of German Industries, Berlin

Notes

¹ Gramsci (1971: 333) espouses the progressive self-consciousness where theory and practice will come together as part of an historical process. Applied to TC, it means that the consciousness of the hegemony of TC is based on the economic theory of neoliberalism and on the practice of political economy policies that influenced developing countries since early eighties.

² Further examples of organic intellectuals can be the Bilderberg Group and the Pacific Legal Foundation.

³ This is based on List's argument of nations "preaching to other nations the advantages of free trade" when they don't fear competition (1856: 440)

⁴ Neorealism, as form developed after Realism, is defined as the "ideological form abstracted from the real historical framework imposed by the Cold War" to the new American Realism. For more details, see Cox (1981: 131).

⁵ Revolutionary Marxism is based on Lenin's idea of Imperialism.

⁶ Britain had been de facto on a Gold Standard since 1717 (Eichengreen, 2000: 223)

⁷ Monoeconomics is considered to be one of the ideational arguments of neoliberalism's policy-makers. It calls for economics that can be universally applicable in advanced and developing countries.

⁸ The paper refers here to commercial banks as the first type of MNC's that led the US government to make the mistake the Neo-Mercantilist warned about. Commercial banks are the *longa manu* of the private sector and the first business able to break through and gain bargain power vis-à-vis developing countries' governments in the definition of loans.

⁹ The capitalist archipelago of East and South East Asia refers to the several islands of capitalism from the city-states of Singapore and Hong Kong to the two big Japan and China.

¹⁰ Here the paper refers to the Marxist concept of falling rate of profit in the long term.

¹¹ This is what Gramsci defines as the ethico-political level required to catalyse its political network and organization.

¹² Paul Volker is the former Chairman of the US Federal Reserve. He is presented by Gill as an example of organic intellectual and part of the neoliberal transnational historic bloc.

¹³ For a better understanding of the concept of social structure of accumulation, refer to Lippit (2006) and Diebolt (2002).

¹⁴ Total stock divided by total flow. Lower the value; higher is the flow compared to the total amount already present in a country.

¹⁵ Higher interest rates are the response to an economy that grows fast as it is the case of China in the last twenty years. It is one of the most common measures to curb inflation.

¹⁶ All data about MNC's revenues are taken from Fortune 500, CNNMoney.com.

¹⁷ Other examples are business agreements with Mugabe in the communication sector for phone tapping and internet monitoring; Chinese expertises for internet censorship in Belarus and oil trade with Sudan (Thornton 2007: 222).

¹⁸ Respectively because of the protection that PBoC has over its financial system that is at the moment performing an unsustainable amount of bad loans and of the control of the exchange rate that doesn't permit speculation on the currency.

¹⁹ Insiders and outsiders refer to the actors that are respectively better off and worse off as consequence of structural changes. The ones that have relative stability and security in their jobs and the ones that do not.

²⁰ The reader should consider business relations and the interwoven of MNCs among countries as proof of less conflict. The Olympics have proven to be an example of how business solves many disputes and boycotting the event for political issues would have been economically not profitable. In other words, the modern Lord Macartney of Western capitalism is bowing down to the CCP.

²¹ The concept of workers' fragmentation is taken from Cox (1981).