



## Cycles and Transformation

### China's State-Capitalism as Adaptive Strategy in the Arc of Capitalist Governance

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#### Abstract

*This article offers a new analysis of China's politico-economic system from a world-systems perspective. My basic argument is that the novelty of China's system is not, as McNally (2020) argues, its hybrid fusion of neoliberal market dynamics with strong centralized political control. China's real historical significance comes from the combination of a centralized, state controlled financial governance structure that is highly insulated from the control of outside actors situated within China's large extended geo-space. I argue that China's intense state control of economic reality, and especially its "internalization" of financial institutions within its state architecture, can be seen as an adaptive strategy that makes sense from the perspective of the long term development of governance within the capitalist system. I then conclude with observations around the possible consequences for established core powers of China's structural separation and power in the financial realm.*

**Keywords:** Capitalism, China, Governance, Transformation



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The nature and consequences of China's meteoric rise to global prominence have been a source of great debate (Acharya 2014; Hamieri 2016; Heilmann 2018; Economy 2018). This article seeks to add to this debate by building on recent IPE analysis that situates China as a hybrid entity where hybridity is understood as the combination of neoliberal economic practices alongside enhanced state centralized power (Breslin 2005, 2013; Soly 2020). I agree with McNally's (2020) analysis regarding existing literature concerning China that tends to see China as either internal to the international liberal order or disconnected from and against it. However, I believe that McNally's (2020) own analysis is somewhat limited and can be enhanced by an even broader analysis that takes from the established world-systems perspectives of Immanuel Wallerstein (2011a, 2011b, 2011c) and Giovanni Arrighi (1994). To do this the article will proceed through three movements. The first section will ground itself by setting out McNally's (2020) own position and limitations within the context of larger debates. In the second section I will lay out why the limitations I highlight in the first section can be addressed in reference to a reading of Wallerstein (2011a, 2011b, 2011c) and Arrighi's (1994) world-systems positions. In the third section I will provide an analysis of the contemporary geopolitical setting, positioning China's "Sino-capitalist" model within both the dynamic world-system and within the longer arc of capitalist development. My basic argument will be that China's state capitalism makes sense from the position of cyclic forms of capital under periods of systemic crisis, where in general states become more active economic agents (Wallerstein 2011a, 2011b, 2011c). China's state capitalism also makes sense within a longer arc of capitalist governance that increasingly internalizes problematic contradictory elements of the system (Arrighi 1994; Arrighi and Silver 1999). The main contribution of this paper is thus to position recent Chinese developments within the longer historical arc of developments in capitalist governance, arguing here that an analysis of the Chinese state's governance over financial institutions is a good place to locate these structural changes within the logic of long-term developments in capitalist governance (Arrighi 1994).

### **McNally's Argument**

McNally (2020) argues that in many academic analyses China is viewed as either systemically linked and internal to the neo-liberal world order; or as a radical systemic challenger (McNally 2020). In McNally's (2020) view these diametric positions are empirically understandable, as they stem from the reality that Chinese "Sino-capitalism" both internalizes aspects of the neoliberal system and also radically alters it by applying those principles alongside intense state control; therefore depending on which aspects of the Chinese space one chooses to focus on, China can appear to be a very different type of actor. McNally's (2020) point is thus to direct us to view the Chinese state as neither one nor the other; but as a "hybrid" politico-economic form. The hybrid form here thus refers to the utilization by China of both neoliberal market driven allocations of capital and strong centralized political control of capital. Now whilst this might appear to be an unworkable contradiction, the problem is more a semantic contradiction than a practical one. Given that there are no states where economic activity is either purely neoliberal market driven or purely

controlled by state apparatus, one could argue that all states are hybrids in that they reside along a continuum—either more neoliberal market based or more politically controlled. Thus, here I am not trying to resolve larger debates around the global diffusion and progression of a neoliberal order (Harvey 2007; Birch and Mykhnenko 2010; Babones 2017; Slobodian 2018; Babones and Aberg 2019). Rather, my point is focused towards understanding alterations in the structure of the Chinese state within long term governance alterations in the world-system.

McNally (2020) argues that the nature of any analysis of China is of consequence for understanding the future shape of global order. Those who perceive China to be structurally bound within various aspects of the established neoliberal order see China as a logical extension of that order moving into the future (Hung 2015; Li 2016; Babones 2017), while those who perceive China as radically different instead see a future of either regional (Arrighi, Hamashita, and Shelden 2003; Arrighi 2007; Ikenberry 2016) or global control centered on China as a new central power (Jacques 2012). McNally's (2020) argument offers more subtlety than these either or positions. What McNally (2020) argues is that currently China's "Sino-capitalism" is a structural answer to the larger issues in the global order, and he specifically articulates the current order as one that operates on two levels. The first of these is a liberal political order, built around institutionalized norms and practices with some form of universal principles (Sorensen 2011). The second is the neoliberal economic order, which is built around the principles of free market access (Slobodian 2018). McNally (2020) sees these two forms as being in tension with each other, and the emergent Chinese "Sino-capitalist" model as a solution to this tension. These two forms of order are articulations of certain actors within the system. The neo-liberal economic order is articulated through what McNally refers to as "global corporate and financial actors" (McNally 2020: 283). The liberal order, on the other hand, is manifest through the activity of states. In reference to globalized capitalist actors, McNally (2020) foresees that China's state heavy capitalist model will become attractive as it provides a good blend of protection (state) and openness (market). In response, other states may themselves be forced to increase the level of state involvement in the economy in order to provide effective counters to China's growing magnetic pull-on global capital (McNally 2020). Regarding this response, there is already a growing literature identifying the emergence of a "neo-statist" resurgence in advanced economies such as the United States, where we are seeing heavier involvement by the state in trying to protect and nurture key industries (Gerbaudo 2021; Weiss and Thurbon 2021; Pearson, Rithmine, and Tsai 2022). In short, McNally's (2020) view is that the transformative capacity of China will be to induce other states to adopt some form of state centered solution to neoliberal capital which would mean that the state becomes more, not less, important in economic decision making. However, there would be no global convergence around replicas of the Chinese model, but instead a patchwork of distinctive national state models. In McNally's (2020) view this patchwork will be "chaotic" and unstable, as various states struggle to survive interstate tension and the capriciousness of international corporate and financial actors.

McNally's (2020) main insight is associated with the idea that China's model is actually adaptive and to some degree optimal under current historical conditions for economic growth and

productive expansion. The key then hinges around the transformative capacity of the Chinese state to somewhat contain, and control globalized economic forces. In McNally's (2020) view, China manages this by fusing neoliberal forces into a neo-state structure; such that the neo-state is "neo" in the sense that it is inclusive of some aspects of neoliberal market economics. The question in the Chinese historical context is how do we understand the rapid transition from decentered, fragmented political economic activity within China, to the more centralized statist control of China in the Xi Jinping era (Economy 2018; Heilmann 2018; Guo 2020; Naughton 2021; Wang and Hou 2022), within the context of neoliberal economics? The problem is that the answer to this question is not easy to provide as, in my view, the premise of the question is based on the assumption that there are concrete agents in the world that operate on the basis of neoliberal dynamics. McNally (2020) tries to make an empirical connection by naming global corporate and financial actors as these agents of neoliberal dynamics, grounding the conceptual idea of deregulated free-market within a locatable agential realm. However, in doing so, these neoliberal globalized agents are ontologically severed from any connection to socio-political formations such as states and interstate institutions. There are two issues here. First, there are distinct issues with both the theoretical application of the term "neoliberalism" (Flew 2014) and with the empirical evaluation of neoliberalism as an extant politico-economic project (Neilson 2020). As Neilson (2020) argues, the point is not to locate a cause external to the state that propagates the neoliberal form, but to understand certain states as locally productive sites for variable expressions of some kind of neoliberal politics. The second issue with McNally's (2020) argument is that it conflates globalized corporations with globalized financial actors. From the perspective of world-systems analysis, we can argue that throughout recent history, corporate actors engaged in embedded activities of material production have a different set of dynamics in relation to states than financial actors (e.g., banks) have (Arrighi 1994, 2007; Wallerstein 2011a, 2011b, 2011c). These relationships are complicated and we should not reduce the distinction between corporate and financial actors to one of categorical similarity based on the idea of neoliberal political desire.

What McNally (2020) fails to do is to understand the state itself as a site through which neo liberalized open market dynamics are produced or restricted. What is needed is a more fine grained analysis that locates actors within a global architecture of relatively more or less open spaces for the movement of capital, goods, and knowledge. By locating neoliberal forces externally to states within a globalized realm, states are seen as reactive to an amorphous power of unknown political origin. This misses the historical production of actors with entangled globalized interests that were produced by state agents, who from a position of structural power saw benefit in opening up externally closed spaces to their control (Neilson 2020). To explore these issues further we move now to consider the basic features of world-systems analysis and how we might unravel some of these issues from a more historically grounded position.

### **History Repeating? Well, Not Quite: A World-Systems Position**

To re-cap, McNally (2020) is probably correct that China's neo-statism will lead other actors either by choice or compunction to follow a similar path towards enhanced state control of economic activity (Gerbaudo 2021; Weiss and Thurbon. 2021; Pearson, Rithmine, and Tsai 2022). However, McNally (2020) misses the actual novelty and progressive form of the Chinese state by getting confused around this issue of external neoliberal forces. As such, McNally's (2020) view of China's novelty comes from its ability to fuse statist forms to what McNally (2020) views as an external dynamic form. As I have argued above this externalized view has two problems. First, there are issues in locating the political force of such an external, non-state dynamic actor in empirical reality; and second, the conflation of financial and productive actors misses the historically differentiated roles that these actors play. Here I will briefly explore how a world-systems analysis position can help to understand China in the long-term development arc of capitalism. Then I will start to formulate the argument that China's novelty comes not from an unusual blend of neo-statist/neoliberal praxis, but instead stems from the extreme political control of external and internal financial agents coupled with China's large geospatial reality.

From a world-systems perspective, the neoliberal moment is connected to periods of intense economic growth during which core states can benefit from open and integrated market economies. The neo-statist moment corresponds to periods of time where market openness becomes, on balance, more damaging than beneficial, and so states intensify activities to protect and nurture internal economic actors (Wallerstein 2004; Hopkins and Wallerstein 2006). However, the observation of this cyclic momentum does not get played out in the same way in the financial realm, and this is why McNally (2020) is wrong to conflate agents concerned with production with financial agents. Arrighi (1994) does perhaps the most work in setting out the different historical dynamics of the financial realm. In principle the financial realm—that is, agents and institutions that control large accumulations of money capital—have not been subject to this cyclic pattern of statist control during periods of systemic contraction and chaos. What we tend to find, especially amongst the core states during periods of systemic chaos, is that there is increased global financial activity and in general this has not been overly regulated by core states. So, during periods of material expansion, finance capital is directed towards investments in the real material economy as investments in productive activity. In periods of systemic contraction, the reduction in opportunities to profit from material expansion means that money capital pulls out of the real economy to be either idle or employed in other uses such as military expansion connected then to securitizing territorial space (Arrighi 1994).

In summary we see that the cyclic progression between moments of capitalist expansion and contraction engender different dynamics in the relationship between state actors and actors that make decisions on how to utilize money capital. Arrighi (1994) marks out the difference between state and capitalist actors as one that revolves around a distinct set of logics of power. The state as a territorial entity responds to a basic logic of power that subjugates capital to questions of territorial security. The capitalist logic on the other hand relates to territory only insofar as territorial space engenders the growth and security of capital. Importantly, Arrighi (1994) argues

that these two logics are not diametrically opposed; instead they move into and out of alignment with each other within the larger processes of systemic expansion and contraction. The freedom of capital to move around between territorial states is however necessary for the process of historic transitions to occur (Wallerstein 2011a, 2011b, 2011c).

Arrighi's (1994) explanation starts with the Genoese period of financial centrality in the sixteenth century, arguing that elites who made up Genoese capital had become "cosmopolitan." This trend was then echoed throughout later phases, where each subsequent hegemonic financial center—Dutch (Amsterdam), British (London), and the United States (New York)—was characterized by a plurality of cosmopolitan actors within each setting. These cosmopolitan actors are not to be confused with McNally's (2020) globalized elites. The cosmopolitan elites did have flexibility to move capital between states but they did so within the context of larger geo-spacings provided by specific state forms. What I am getting at here is the observation that the commonality between the Genoese, Dutch, British, and U.S. geo-spacings was a certain level of liberality and openness. As such, a transnational corporate or financial elite is an illusion created by the liberality and political openness of certain state systems. These elites do not exist in any ontological way externally to states but exist through the larger geo-spacings that states can and do provide. Why then under conditions of interstate rivalry would certain states practice this liberalized political form? Clearly there are benefits for entrenched elites within states to attract the money and knowledge held by elites elsewhere (Arrighi 1994; Wallerstein 2011b). From the view of external elites, any new site for their operations needed more than simply loose restrictions on human movements. The new site for capital had to both provide the conditions to grow capital and provide relative levels of security for life and property. Thus, attracting external elites meant creating governance architectures that could securitize the enlarged geo-spacing required for economic expansion. In the early years of Dutch and British growth this was based on a fairly crude military led expansion of physical empire (Wallerstein 2011a, 2011b, 2011c), and extensive legal structures to protect property rights (Arrighi 1994). The post-World War II U.S.-led order eschewed crude territorial structures of Empire and moved instead to an institutionally legalized formal interstate system. However, the function of each historical moment in the capitalist arc is the same in the sense that both solutions are built around the production of an enlarged geo-spacing. Within these enlarged spacings, network linkages connect centralized elites to potential spaces to make more money within a securitized, governed setting. In summary, the world-systems perspective shows that yes, there are capitalist elites within financial and corporate settings that move their interests around the system to suit themselves. However the key is to recognize that these interests are articulated in and through states and that the appearance of such transnational actors is a product of the open and enlarged governed geo-spacings created by core states.

Before we depart this section there is one further element that I want to bring in with regards to the world-systems perspective and specifically Arrighi's (1994, 2007) views on the transformation of governance within the world-system. The insights provided by Arrighi (1994, 2007) point towards the dialectical nature of cyclic transitions. Arrighi (1994) tries to show that there are two transformative movements operating within the system over time to alter its structural

form. The first moment is the expansion of the scale of the system, and the second moment involves the intensified internalization of systemic activities within more complex governance structures (Arrighi 1994). It is the second moment that concerns us most here. We must begin by clarifying that when speaking of governance, Arrighi (1994) refers broadly to the activity of technical control of processes. Therefore, any actor engaged in the complex technical control of human interactions is engaged at some level of governance. As such financial agents attached to capital allocation (e.g., banks and other institutions linked into stock markets) provide systemic governance functions. The point here is to show that governance should not be conflated with the state. The process of internalization therefore is the point at which complex human interactions are contained within an institutional structure that internalizes processes within a formal governance architecture. Historically both private entities and states have engaged in this process (Arrighi 1994). What Arrighi (1994, 2007) alerts us to is that over time and through subsequent cyclic moments there is a steady increase in the creation of more complex, enlarged governance institutions that emerge to negate structural inefficiencies and contradictions. The question that we must place here as we move to locate this assertion against what McNally (2020) claims to be the operation of globalized corporate and financial actors is this: is there a categorical difference between certain corporate and financial forms that have global governance reach and states that are limited in spatial expanse? In my view we must answer this separately in relation to corporate and financial actors, as they are dynamically different in their relationship to each other and the wider system. However, before we do this we must also point out that despite the fact that the United States does not mirror past spatial empires it has, post-World War II, built up a complex set of institutions with international reach and overseen a general convergence of some states around a relatively coherent transnational governance regime. This claim is recognized from a wide variety of theoretical and disciplinary positions (Hardt and Negri 2001; Hoogvelt 2001; Agnew 2008; Buzan and Lawson 2015; Babones 2017; Babones and Aberg 2019). This leads to the observation that corporate and financial actors are not stateless but operate within a broader trans-state governance regime. Whilst this regime itself does not approximate what we understand as a state in the sense of an integrated sovereign entity, the overall effect is the creation of an enlarged governance zone within which economic and political activity are contained. Having said this, the broadly liberal nature of the U.S.-led system has left large parts of structural governance within private actors' hands.

What does this mean from a Chinese perspective? China faces a U.S.-led regulatory reality that promotes the creation of agents whose interests are served within a larger liberalized transnational business space. This space is neither smooth nor a pure market space, as it is subject to manipulation by state and private actors who seek to extract gains from this environment. So, arguing against McNally (2020), China does not confront both trans nationalized private actors and state entities, but rather confronts a larger geo-spacing within which certain liberal logics operate. This enlarged liberal geo-space may indeed collapse back under the pressure of a renewed neo-state competition, which would reduce the openness of previous periods as is a cyclical occurrence observed by world-systems analysis (Hopkins and Wallerstein 2006). What is more

problematic though in this context is the role of financial actors, who over the entire duration of capitalist expansion have not been as heavily subject to cyclic fluctuations in their containment within statist governance bodies. It is here in the realm of financial governance that China's Sino-capitalism starts to be of interest in the long term development and transformation of the world-system. Since McNally (2020) himself focuses on the realm of China's growing international financial role, it is here that I will start my own analysis of China's position and dynamic influence on the rest of the world-economic system.

### **Structural Adaptation, Internalization, and Conflict**

This final section makes a series of observations and then a series of linked claims. I will argue that China's prodigious rise has been conducted without integration into the liberal open financial geo-space of the U.S.-led order. China's financial geo-space is structurally separated from U.S. geo-space. Further, this space is marked by a radical internalization of financial governance architectures within the CPC controlled Chinese state apparatus. My claim, linked to these observations, is that within the historical arc of capitalist development this internalization can be understood as a logical and historically adaptive response to wider systemic issues caused by financial actors within the system. The consequence of China's system being adaptive and successful has wider systemic consequences derived from the competitive nature of inter-state capitalism. Two factors thus become important: first, the large size of China's geo-space; and second, the large scale but more politically fragmented geo-space of the U.S.-led liberal order. McNally (2020) believes that the effect of Sino-capitalism will be a renewed drive from states to extend state activity to counter Chinese strength. Thus, political elites in core states are faced with two problematic realities. First, the scale of Chinese activity is such that existing state units acting alone would struggle to counter Chinese power. The second reality is that the U.S. liberal geo-space is the product of a long history and as such the states and economic actors that are active within it are heavily entangled and interdependent; and yet, crucially politically fragmented in terms of governance architectures (Agnew 2008).

Let us first situate Chinese development within the larger systemic context. The main historical feature that forms somewhat of a puzzle is the rapid shift from a progressively liberalizing and decentralized China post 1978 into a more centrally technocratic and politically less liberal state post-2008 (Economy 2018; Heilmann 2018). Throughout the entire post-1978 period to the present day the Chinese economy has produced high levels of GDP growth percentages year upon year (Macrotrends 2023). The exponential effects of high yearly GDP growth rates mean that even with slightly lower GDP percentage rises in recent years the Chinese economy is still rapidly growing. Between 1978 and 2004 Chinese GDP grew from a low of \$149.54 billion to \$1.96 trillion; and between 2004 and 2020 GDP rose from \$1.96 trillion to \$17.73 trillion (World Bank 2023), a massive increase despite slightly lower average GDP percentage growth rates post-2012 (Macrotrends 2023). This rapid growth is all the more remarkable as it included an institutional lockout of external capital. When I say that there is an

institutional lockout of foreign capital, I do not mean that foreign capital has no role in the Chinese economy; it clearly does (Chen 2022). The point is made in reference to the fact that foreign capital is only allowed to operate in China in a limited way. As such asset bases are politically controlled, so that foreign actors cannot gain active control of substantial parts of the economy. Entities that perform key distributional and regulatory roles within the Chinese economy are strictly kept within Chinese hands. Internally this gives the CPC massive control of capital accumulations and distributional decision-making power (Ye, Zheng, and Dong 2019).

It is worthwhile here to compare the picture I am trying to draw out regarding contemporary China and the structures that were put in place in both Japan and South Korea whose rapid development models on the surface appear to have similarities with the Chinese case. The key similarity revolves around the ability to create a dynamic core economy without allowing foreign capital access and control of asset bases. Both South Korea and Japan have created powerful economic structures with very little influence from foreign capital (Franks, Mayer, and Miyujima 2014; Mardon 2011). However, we must note a number of issues that separate China from these other cases. First, the internal political realities in both Japan and South Korea are quite different from the reality created by a powerful highly integrated CPC party structure in China. In South Korea and Japan political power is not as centralized, and the private owners of capital have significant leverage over the political systems (Johnson 1985; Lee 1992; Mardon 2011; Holcombe 2013; Franks et al. 2014). The second point is to suggest that China's geo-space is much larger than those of Japan and South Korea and that Chinese geo-spatial activity extends outside of its formal borders such that via its peripheralizing activity China has created an even larger geo-spatial reality. Thus, the intensity of state centralized political control of China is much more institutionally advanced than in Japan and South Korea, and China's geo-spatial reality is also much more extensive. Whilst there are some superficial similarities between China's politico-economic structure and those practiced by Japan and South Korea in the latter half of the twentieth century, the control that the CPC exercises over financial institutions (He 2016; Sun 2020) and corporate bodies in China (Wu 2016) coupled with China's extensive large geo-space makes the Chinese case somewhat different.

There are two somewhat linked explanations for the insularity of China's capital space. First, the desire to intensify China's material development has led to a technocratic state that requires highly centralized planning and the ability to marshal capital distributions to produce desired outcomes such as enhancing Chinese production in key tech areas (Wu 2016; DiPippo, Mazzocco, and Kennedy 2021; Naughton 2021). Second, the role back of liberalizing activity especially in the financial sector can be linked to a severe distrust of the U.S. liberal financial order stemming from the 2007/2008 Global Financial Crisis (GFC) (Economy 2018; He 2018; Heilmann 2018).

I will respond to these two linked observations in the world historical context. In response to the first desire, the intensified use of statist governance regimes to both protect and propagate competitive industries is not an unusual feature. In Wallerstein's (2011a, 2011b, 2011c) analysis the central role of the state is crucial to understanding the creation of highly successful leading industries. Further, the state is also seen to be more prominent in periods of systemic chaos, where

structural stagnation and increased interstate conflict necessitate both protection of core industry and innovation to reproduce growth patterns (Wallerstein 2011a, 2011b, 2011c). It is in the second instance of extreme financial separation that things start to look interesting from an historical standpoint, because in the realm of trade and production China is a key advocate of globalization. Traditionally, advocates of global trade openness have also tied this liberality to open capital markets (Arrighi 1994, 2007; Wallerstein 2011a, 2011b, 2011c). Now in some quarters this historical anomaly is interpreted as a structural weakness linked to China's low position within the world economic structure. The arguments being that China is caught in the "middle income trap" (Glawe and Wagner 2020; Rosen 2021) which necessitates its labor force to be tied into the low end of global value chains, requiring an authoritarian state to control the negative effects placed upon society by a large highly exploited labor force (Li 2008, 2016; Hung 2015). What we have to consider here is what would have been the likely outcome if China had continued its liberalization process and integrated its financial institutions alongside its already highly integrated production structures. World-systems analysis (Wallerstein 2011a, 2011b, 2011c) shows us that in past cases of general systemic slowdown, new sites of dynamic material expansion proved to be magnets for global liquidity in search of returns to investments. If Chinese capital markets had been liberalized, global capital would have moved quickly to buy into large sections of China's productive asset base. The liberality of past core states like the Dutch, British, and United States allowed the rapid infusion of not only external capital, but also actual physical migrations of elites into the new zone of growth (Arrighi 1994; Wallerstein 2011a, 2011b, 2011c). The result was a series of cosmopolitan financial centers (Amsterdam, London, and New York), with strong network linkages to external economic zones (Arrighi 1994). The composition of these cosmopolitan centers combined with the material reality of larger linked financial and commercial networks then had feed in effects to political reality within the core/hegemonic zones. Thus, Chinese political reality would be greatly altered by any significant financial liberalization. This infusion of cosmopolitan finance capital and the necessary connection of actors to space is what Arrighi refers to as the "dialectic of capitalism and territorialism" (Arrighi 1994: 174). Arrighi (1994) thus refers to the idea of containers, where the geo-space (container) of the state is the necessary governance space required by capital to grow and provide security. Prior to U.S. domination post-World War II, enlarged geo-spaces were created by smaller political cores with large and diverse colonial empires. In the post-World War II era the enlarged geo-space was created by U.S.-led regulatory institutions. We come now to the key point that leads from this idea of geo-space as container.

McNally (2020) sees the key historical feature of China's new model of Sino-capitalism being its blend of neo-statist politics and neoliberal market economics. I have tried to show that from a world historical perspective this structure is not unusual given the current climate of systemic chaos. What is unusual is that China has produced a globally integrated trade and production reality without aligning its financial institutions within the corresponding geo-space. This anomaly can be understood via Arrighi's (1994) idea of geo-space as container. The persistent trade surplus China holds with most of the world and an already large rapidly growing internal market, combine

with the unusually high levels of state involvement in financial institutions to give the Chinese state control of a massive asset base and access to large supplies of liquidity. As such the Chinese state has so far faced no real structural need to accept the political consequences of financial liberalization. Using Arrighi's (1994) terminology the spatial container of Chinese finance capital is large enough to serve the expansive purposes of the Chinese state capitalist machine. It is thus the unusually large size of the Chinese geo-space as container that is the foundation point for understanding China as an historical anomaly from the world-systems perspective. Geopolitical size and political coherence have combined to produce a state that has managed to become a key economic rival to existing powers without having to align itself within the larger financial geo-spatial structures of the U.S.-led liberal ordering. Further, we need to recognize that when we are talking about Chinese geo-spatial containers, contemporary developments mean that this does not stop at the borders of China. China has already started to peripheralize external areas, a process that will link other states within the material and financial geo-space of China's making (Brautigam and Tang 2014). This peripheralization is being carried out via projects like the BRI, which inculcates Chinese capital into a dense complex of globally situated infrastructure networks from roads, rail, and shipping to energy production and the development of Special Economic Zones in third party countries (Huang 2016). China thus already has an enlarged geo-space that creates a counterweight to western policies that seek to inhibit Chinese growth via exclusionary practices.

Let me return to the main point I have been trying to develop. The closing of Chinese financial space is conducted in reaction to what the Chinese view as the ungoverned space of international finance (McNally and Gruin 2017; Economy 2018). Chinese elites interpreted the GFC as a sign of a broken global financial system which needed to be fixed by deeper regulatory governance oversight. Despite some regulatory tinkering and more stringent capitalization requirements, established core powers post-2008 mainly left the financial system unaltered (Anginer, et al. 2019). This was problematic for the Chinese who saw the global financial system as unstable and a source of potential harm to the Chinese economy should they become too embroiled within it. The GFC signaled not only Chinese negativity towards international financial structures but produced a drive to increase the CPC's control of financial institutions within China (Economy 2018). The result is that the Chinese state has internalized financial institutions in China and effectively transferred the governance of macro-economic policy and distributional decision making to central state-controlled bodies (Economy 2018, 2022; Naughton 2021). There are two main observations to be made here. The first is that the increased centralization of political control of financial activity in China post-2008 has not massively slowed down Chinese GDP growth and in the context of a general global stagnation, Chinese growth figures are impressive (World Bank 2023). This acceleration of growth is even more interesting as it has occurred during periods of intense global economic turbulence and a prolonged slowdown in general growth rates. The second observation is that the highly globalized production structures of Chinese economic activity are not paralleled by a highly globalized financial architecture. Compared to other advanced economies, China has a very low level of external asset holdings in productive sectors and has a

very low proportion of its internal assets owned by external financial agents (Horn et al. 2021). This unusual architecture means that the Chinese state is able to integrate China deeper within the global economy without losing political control of distributional decision-making processes.

This process of internalizing financial governance can be seen as an adaptive strategy. Furthermore, we can view this type of strategy as congruent with the gradual internalization of economic governance within the formal realm of state structures as demonstrated by Arrighi (1994). Given the socially and economically disruptive problems caused by unfettered global financialized activity post-1970s, the political internalization of financial agency makes sense in the historical arc of capitalist development. This is especially the case with China, which has not sought to negate capitalist accumulation through financial control but to simply subjugate financial governance and decision making to a political center. The dual control of huge asset bases and key decision-making institutions gives the Chinese state massive potential power to shape its own economic reality (Wu 2016). However, we need to be careful here to not misrecognize what is going on with Chinese political control. As McNally (2020) points out, the Chinese space is a hybrid space. This means that the current Chinese model operates both intense marketized dynamics conducted by freely acting non-state agents alongside a state that sets and governs the meta parameters of Chinese economic development (Wu 2016; Naughton 2021). The Chinese state's activity to promote cutting edge semiconductor chip technology illustrates well the integrative aspects of market-based dynamics and centralized political control. Here, the Chinese state sets out development goals such as the recent drive to create market leading computer chip design and manufacturing capacity. The state then provides lines of investment via banks and special funds, but the actual process of creating innovative businesses and production solutions is left to individual actors to work through. Hence, in the chip sector there has been a huge explosion of small start-up companies trying to grow in this new sector (Grimes and Du 2022). Many will not succeed, but the state hopes that enough of the startups will create the right blend of innovative tech and efficient business design to make new global leading companies. Thus, the Chinese state uses the competitive dynamics of liberal capitalism to provide the grounds for creating efficient market winners, but any market winner ultimately remains circumscribed within the Chinese political space.

There can be little doubt that the Chinese model, which now includes the internalization of financial governance within the state, has been a highly effective combination, especially given the context of prolonged global economic turbulence. In my view part of the success of this new model is built upon the large size of the Chinese geo-space. A space that not only includes the large land mass and huge population of China itself but the extensive network of infrastructure and economic ties that China has constructed over the last twenty years through projects like the BRI. Chinese successes have led to a reaction from established core powers who have begun to treat China as a systemic threat. These reactions are most clearly manifested in the dual policy actions to limit China's capacity to develop market leading new generation chip technology (Fuller 2021), and to restrict China's capacity to become a global leader in providing the infrastructure and software in the new of generation communication and data management networks (Friis and Lysne

2021). Conflict is already a reality. As such we need to be realistic in our appraisal of how the future might unfold for all actors. There are two perspectives that we can take from the world-systems position here. First, the hyper statist control of financial activity within China might be a temporary trend. Wallerstein (2011a, 2011b, 2011c) shows that in periods of systemic chaos states adopt more centralized structures to negate global systemic turbulence. In this view, once China has built up a set of global market leading enterprises that can exist as efficient capitalist entities without state support, Chinese elites may then embark on more liberal policies to reduce the presence of state control. The second viewpoint which we draw from Arrighi (1994), would suggest that some adaptive expansions of state control into governance architectures do not revert to the private realm once the general systemic global environment improves. These types of alterations in the governance architecture assume a longer-term significance within the system as the adaptation itself is seen as a key part of the new productive social reality.

These questions are of course speculative and as such we cannot answer them at this moment. However, what they do show us is that whatever the future outlook is from a Chinese perspective, the current Chinese model is providing both stability from external turbulence and the capacity to rapidly develop a highly technical globally competitive productive sector. How others will respond to this Chinese reality in the long run is also a point of speculation. What is clear is that the idealized scenario of a liberalized Chinese economic space that is highly integrated into the westernized geo-space of open, free flowing capital is not a short-term possibility. Thus, established core policy makers will be left with a difficult predicament: that the liberal system is built upon politically differentiated actors divided along state lines, operating an open system with only limited control of financial and productive activity. In general financial and production decision making is left to what are vaguely understood as market based actors. Most modern core states have created structures that are designed to maximize capital freedoms, alongside conditions designed to incentivize the investment of capital within a given space. The logic within the enlarged geo-space that these core states sit within is thus that capital is supposed to move to the most productive and efficient sites, thus specific zones come to specialize in productive activity that then integrates into the productive activities of other states. The principal issue here is that the development of this larger geo-space and the types of productive activity within it are an accumulated organic result of multiple investment decisions issued from a complex variety of financial agents. This is the fundamental historical flaw with the U.S. liberal system. In the past previous strong core states created powerful economic structures that were enabled by larger colonial geo-spacings such that, when systemic challenges emerged, there was slack in the system to enable the state to step into the productive realm and mitigate loss-making activity by finding sources of wealth from other areas of activity (Wallerstein. 2011a, 2011b, 2011c). The problem with the U.S.-led geo-space is that whilst it is large, it contains a plurality of political actors that cannot be easily cohered into a single entity in terms of policy. Hence the mass of activity taking place within it cannot easily be politically organized to mitigate system wide risks, or develop new modes of production with the scale to compete against China. Acting alone, established core states will not have the scale or capacity to absorb the kind of losses necessary to compete long term

with China. Another avenue that established core states could choose might be to deepen political integration and carry out a statist internalization of financial governance architectures. This would give established core capital an extended geo-space alongside the centralized decision-making capacity to produce a structure that could rival that being created by China. Given the historical entrenchment of national identities and the political diversity of established core states, this second option seems quite unlikely. A third option, which appears to be the track that is being followed now, is for the United States to force a limited political consensus around isolating China both politically and economically and hoping that the pressure of these policies will limit Chinese growth (Kang 2023; Luce 2023). The problem with this kind of policy line is that there is a risk that China is backed into a corner and responds with military force to break out of its enclosure. Another possibility is that the West simply underestimates the capacity of the Chinese enlarged geo-space to absorb negative structural forces. It is possible that over time the Chinese state can bear more of the losses caused by a fractious world-system than the established core powers themselves can bear. Here we are brought back again to the question of relative sizes of geo-spacing and the objective structures of governance that operate within each space.

While there is no real way to predict which way any of this will work itself out, what we can say from an historical viewpoint is that there has never been a systemic challenger that is of the relative size of China, was highly integrated in production networks, and that also had a structurally separate financial governance architecture. When the United States rose it did so based on a massive expansion of material activity driven by large capital and physical transfers of people and knowledge from the European continent (Arrighi 1994). As such the United States was financially tied to larger circulations of capital, and politically linked to established European core powers from an early part of its development (Arrighi 1994). When the United States assumed the mantle of systemic hegemon post-World War II, it did so as an ally of the past hegemon and not as a direct competitor (Arrighi 1994, 2007; Wallerstein 2004). The fact that China's geo-space is so large and that its financial realm is so insulated poses a huge strategic problem, not only for core states, but for established financial governance actors in the West.

### **Conclusion**

My argument has unfolded in three parts. In the first part we looked at the work of McNally (2020). I agreed with his view that most contemporary analyses of China tend to have a binary "is China in or out of the system" viewpoint. I also believe that McNally (2020) is right to argue that China has a specific brand of capitalist governance that blends both highly centralized political governance structures with neo-liberal practices in the realm of production. However, I then argued that McNally's (2020) analysis is limited by creating a general category of transnational actors that is both homogeneous and disconnected from any specific geo-spatial reality. In the second section I argued that a world-systems perspective could address these key issues by delinking productive activity from financial agents and situating actors within specific geo-spacings. In the second section I also began to develop the idea from a world-system perspective that China's novelty is

not hybridity (which is not novel from a world-systems perspective), but the fact that the Chinese state has performed the double task of internalizing the governance of financial institutional architectures at the same time as insulating its economy from the control of external capital—from a world-systems historical viewpoint, this is China’s great novelty. In the third section I then went on to try to demonstrate that the Chinese state’s internalization of financial governance can be seen as an adaptive strategy within the longer arc of capitalist development. This is demonstrated in China’s ability to defy long term systemic stagnation and produce a high growth, technically advancing economic system. I then went on to argue that China’s ability to produce this organizational adaptation is linked to the very large size of the extended Chinese geo-space. The size and success of China will provide multiple problems for the U.S.-led enlarged geo-space, which suffers from extreme political fragmentation and ideological limits to the relationship between the state and established capitalist governance structures. China’s large size and growing polarity in the world economy coupled with the distinct disconnect between the established financial agents of the U.S.-led core and Chinese financial assets means that there will be no relatively smooth transfer of hegemony. In this setting escalating conflict and long-term global disruption are the more likely outcomes.

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