

Historical capitalism, East and West

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East-West relations over the past 500 years present two main puzzles. The first concerns the extraordinary geographical expansion of the European system of states. By 1850 or shortly thereafter, that system had come to encompass the entire globe, thereby reducing the China-centered tribute-trade system to a regional subsystem of a now European-centered global economy. What is most puzzling about this tendency - which is what we shall understand by "the rise of the West" - are its modest origins. On the eve of its first major expansion across the Atlantic and around the Cape in the late fifteenth century, the European system of states was a peripheral and chaotic component of a global economy that had long been centered on Asia. In spite of this first expansion, two centuries later no European or American state had managed to create within its domains a national economy that could match the size, complexity and prosperity of the Chinese economy. And yet, within the short span of another century, tiny "Great" Britain was poised to incorporate within its domains the entire Indian subcontinent, and then, in cooperation and competition with other Western powers, to turn China from the center into a peripheral component of the global economy. How can we explain this turnaround? The second puzzle concerns the extraordinary vitality of the East Asian region in the 150 years since its subordinate incorporation in the European- and later North American-centered global economy. By 1970 or shortly thereafter, this vitality translated into a crisis of Western hegemony that has yet to be resolved. Integral to this crisis has been an acceleration of economic growth in the East Asian region that has made a re-centering of the global economy on East Asia a distinct historical possibility, recent setbacks notwithstanding. This tendency - which is what we shall understand by "the rise of East Asia" - is no less puzzling than the first. The peripherality and chaos that had been emblematic of Europe on the eve of its overseas expansion came to characterize East Asia throughout the last half of the nineteenth and first half of the twentieth century. The results were devastating. By 1950, China had become one of the world's poorest countries; Japan had been reduced to a vassal state of the United

States; and the Cold War was creating a seemingly unbridgeable gulf between maritime East Asia and Mainland China. And yet, less than half a century later the gulf was bridged by a dense web of commercial exchanges; Japan and other lesser "islands" of East Asia's "capitalist archipelago" had replaced the United States as the world's leading creditor nations; and Mainland China's weight in the global economy was increasing far more rapidly than that of any other entity of comparable demographic size. Whether this turnaround is the preamble to a re-centering of the global economy on East Asia is too early to tell. But whether it will or not, explaining the dynamic of the turnaround and how the turnaround relates, if at all, to the legacy of the China-centered tribute-trade system and the East Asian regional economy constitutes a major challenge for the historical social sciences.

In seeking at least partial solutions to these puzzles, we shall begin by recasting the contentions of previous chapters in an analytical framework that focuses on the dynamic of systems of states. Next, we use this framework to seek a solution to the first puzzle through a comparative analysis of the still distinct but related dynamics of the East Asian and European inter-state systems in early modern times. Then, we analyze the dynamic and contradictions of the single global system that emerged out of the nineteenth-century globalization of the European system of states. Finally, we seek a solution to the second puzzle by investigating the relationship between the economic vitality of East Asia under US hegemony and the historical legacy of the China-centered tribute-trade system.

Concepts for analysis

In their contributions to this volume, Sugihara, Pomeranz, and Hamilton and Chang present new evidence and arguments in support of the view that economic development in East Asia through the eighteenth century was in most respects at least as advanced as in Europe. Indeed, as R. Bin Wong (1997), André Gunder Frank (1998) and Pomeranz himself (1999, 2000) had previously argued, in the late eighteenth century the Chinese national market far surpassed in size and density any Western national market. This greater size and density of the Chinese national market were not just due to China's much greater population. It was due also to levels of commercialization, agricultural productivity, sophistication of manufactures and per capita incomes as high as, or higher than those of Europe's wealthiest countries. Implicitly or explicitly, the proponents of this view argue further that the nineteenth-century "great divergence" between the economic and political fortunes of Europe and East Asia *cannot* be traced to a prior technical and organizational edge of European institutions *vis-à-vis* their East Asian counterparts.

The strongest claim in this respects is Hamilton and Chang's

contention that the buyer-driven organization of textile production and distribution that emerged in late imperial China constituted a highly efficient alternative to the producer-driven, "Fordist" type of organization that emerged in the early twentieth century in the United States. More generally, as Sugihara argues in his chapter, the eclipsing of the East Asian industrial revolution by the European industrial revolution in the course of the nineteenth century was not due to a lesser economic efficiency of the East Asian developmental path. Rather, it was due to a bifurcation of the two paths and a gradual exhaustion of the potential for efficient growth along the industrious revolution path.¹

Most of these accounts limit themselves to describing rather than explaining the divergence in question. Pomeranz (2000) does provide an explanation by tracing the divergence to differences in resource endowments and in core-periphery relationships – to the fact, that is, that the Americas provided core regions of Northwest Europe with a far more abundant supply of primary products and demand for manufactures than East Asian core regions could obtain from their own peripheries. As he puts it in his contribution to this volume, this difference

allowed European technology and investment to develop in labor-saving, land and energy-gobbling directions at the very moment when the intensification of resource pressures previously shared by all core regions were forcing East Asian development along ever more resource-saving, labor absorbing paths.

This explanation of the divergence of the European and East Asian developmental paths is compelling in so far as it goes but begs a number of questions that bear directly on the two puzzles that we set out to solve in this chapter. For one thing, it does not tell us why starting in the fifteenth century European states showed a much stronger disposition than East Asian states to expand territorially overseas and to create the kind of core-periphery relations with their overseas domains that eventually enabled Britain to open up the path of the industrial revolution. What forces drove European states to build overseas empires and to establish the kind of core-periphery relations with their overseas domains that enabled European economies to develop in land-and-energy-intensive and labor-saving directions? To this we should add that the great nineteenth-century divergence between the East Asian industrious-revolution path and the European industrial-revolution path was premised on a greater European command not just over natural and energy resources but over financial resources as well. Where did that greater command come from bearing in mind that, as Frank (1998: 283, 356–7) has convincingly argued, China remained through the eighteenth century the "ultimate sink" of the world's money?

Another set of questions arise from the fact that the onset of the "first" industrial revolution in Britain was associated with a sharp contraction of European empires in the Americas and a quickening of the pace of British territorial expansion in Asia. What was the connection between this geographical shift of European colonialism and the subsequent diffusion of the industrial revolution from textiles to railways, steamships and an increasing number and variety of capital goods? And how did this diffusion affect political and economic relationships between Europe and the rest of the world in general and East Asia in particular? Finally, what forces promoted the eventual *fusion* of the industrious and industrial revolution paths that Sugihara sees emerging first in Japan and then in the East Asian region at large? Why did the fusion start in Japan when it did, and what are the chances that it will decrease income inequalities worldwide, as Sugihara envisages?

Our contention in this chapter is that, in order to answer these questions, we must focus on two related aspects of the comparative and relational dynamic of the European and East Asian regions. One concerns the role of inter-state relations within and between the two world regions and the other the role of capitalism in shaping regional and global processes.

On the first aspect little needs to be added to what has already been said in the Introduction. The comparison of particular institutions or developmental processes as they operate or unfold *within* different world regional systems is essential to an understanding of the macro-dynamic of those systems. There are nonetheless aspects of that dynamic that emerge out of the *combination* and *interaction* of the systems' units and, therefore, can only be grasped by comparing the combinations and interactions themselves rather than the units that combine and interact. An especially important instance of such systemic aspects of regional macro-dynamics is a feature of early modern European states that is widely recognized to distinguish them from East Asian states in general and China in particular. This distinguishing feature is the intense competition that set European states against one another and recurrently led to the displacement of one state by another in the role of regional leader. As we shall see, although East Asian states also competed with one another, the nature of their mutual competition was very different from the European, as witnessed among other things by the fact that through the eighteenth and into the early nineteenth century China occupied a far more stable hegemonic position in the East Asian inter-state system than any state did in the European system. As Takeshi Hamashita has shown, during often protracted periods of stability, the China-centered tributary-trade system frequently provided a basis for mediating inter-state relations and articulating hierarchies with minimal recourse to war, certainly by comparison with Europe.

Be that as it may, the scope and intensity of inter-state competition are typical systemic properties that can only be grasped by paying due attention to other systemic properties, such as the number and variety of states that interact in a given setting, the distribution of power and resources among the interacting states, the existence and nature of complementarities among the interacting states, the rules and norms that inform the interaction, and so on. As our analysis will show, the identification of systemic properties must pay special attention to the strategies and structures of specific states. The states that are singled out for analysis here are chosen not because of their significance as representative examples of a region's states but because of their significance in shaping systemic structures and processes.²

Turning now to the role of capitalism in regional and global developmental processes, we concur with Frank (1998: 330–2) in not finding at all useful the notion of capitalism understood as a mode of production. Unlike him, however, we find an alternative notion of capitalism essential to answering several of the questions we raised earlier, and especially the question of why money capital accumulated more rapidly and massively in European than in East Asian core regions even when China was the ultimate sink of world money. This alternative notion of capitalism is based on Braudel's characterization of the world of trade as a three-layered structure. In this structure, "capitalism" occupies the top layer and consists of those participants in trade who systematically appropriate the largest profits, regardless of the particular nature of the activities (financial, commercial, industrial or agricultural) in which they are involved. This layer presupposes the existence of a lower (intermediate) layer – the "market economy" – consisting of regular participants in buying and selling activities whose rewards are more or less proportionate to the costs and risks involved in these activities. Finally, at the bottom of the hierarchy there lies the "non-market economy" of barter and self-sufficiency, consisting of individuals and organizations that participate only intermittently (or not at all) in buying and selling but whose activities are directly or indirectly an important source of vitality for the upper layers (Braudel 1981: 23–5; 1982: 21–2, 229–30; see also 1977: 39–78).

The usefulness of this definition has not escaped Wong who uses it to distinguish "between a Braudelian commercial capitalism and the operation of a Smithian dynamics of economic expansion." In his view, China had gone farther than any European state in the creation of a *market economy* (that is, in promoting and experiencing a Smithian dynamics of economic expansion) but "did not have some of the organizational forms and financial institutions of early modern Europe that promoted the creation of [Braudelian] commercial capitalism" (1997: 50–1). More specifically:

Much European commercial wealth was tapped by needy governments anxious to expand their revenue bases to meet ever-escalating expenses of war ... Amidst the mercantilist competition among European merchants and their governments for wealth and power, maritime expansion played a role of particular importance. Both European merchants and their governments benefited from their complex relationship, the former gaining fabulous profits, the latter securing much-needed revenues. The late imperial Chinese state did not develop the same kind of mutual dependence on rich merchants. Lacking the scale of financial difficulties encountered in Europe between the sixteenth and eighteenth centuries, Chinese officials had less reasons to imagine new forms of finance, huge merchant loans and the concept of public as well as private debt. Not only did they depend little on mercantile wealth to support the state, they also feared the potentially disruptive consequences of both concentrated wealth and the *pursuit* of such wealth.

(Wong 1997: 146; emphasis in the original)

As we shall see, there is a close correspondence between this and our own assessment of the comparative East Asian and European dynamics in early modern times. Nevertheless, our distinction between a (Smithian) market dynamic and a (Braudelian) capitalist dynamic does not confine the latter to commercial activities, as Wong does. Braudel himself underscored how the essential feature of historical capitalism over its *longue durée*, that is over its entire lifetime, has been "its unlimited flexibility, its capacity for change and *adaptation*," rather than the concrete forms (commerce included) it assumed at different places and at different times (Braudel 1982: 433; emphasis in the original). This conceptualization explicitly includes "industry" as one of the "specializations" that came to characterize historical capitalism at a certain stage of its development. This specialization led many "to regard industry as the final flowering which gave capitalism its 'true' identity." But this is a short-term view.

[After] the initial boom of mechanization, the most advanced kind of capitalism reverted to eclecticism, to an indivisibility of interests so to speak, as if the characteristic advantage of standing at the commanding heights of the economy ... consisted precisely of *not* having to confine oneself to a single choice, of being eminently adaptable, hence non-specialized.

(Braudel 1982: 381; emphasis in the original; translation amended as indicated in Wallerstein 1991: 213)

As these passages show, the distinguishing feature of a Braudelian capitalist dynamic is not the undertaking of commercial rather than industrial or

agricultural activities. It is instead the continual switching of resources from one kind of activity to another in an "endless" pursuit of monetary profit. As in Karl Marx's "general formula of capital" (M-C-M'), the investment of money (M) in a particular combination of commodities ((C)), be it purely commercial or commercial-industrial or whatever, is strictly instrumental to an increase in the monetary value of the investor's assets from M to M' (1959: 146-55). Indeed, in a strictly capitalist dynamic the transformation of money into commodities may be skipped altogether (as in Marx's "abridged formula of capital," M-M'), whenever systemic circumstances allow the capitalist stratum to reap greater profits in the credit system than in the trade and production of commodities. This has been recurrently the case in all the leading centers of capitalist accumulation, from early fifteenth-century Genoa, Florence and Venice to late twentieth-century United States, Western Europe, Japan, Singapore and Hong Kong (Arrighi 1994).

If the Braudelian capitalist dynamic is best symbolized by a mixture/alternation of Marx's general and abridged formulas of capital (M-C-M' and M-M', respectively), the Smithian market dynamic is best symbolized by Marx's formula of commodity exchange, C-M-C', in which money (M) is mere means in the transformation of a set of commodities C into another set C' of greater use value. Ideo-typically, the main difference between the two dynamics is that, other things being equal, the first tends to generate surpluses of means of payment (the accumulation of such surpluses being pursued as an end in itself), whereas the second does not (money being just a means of transforming one set of commodities into another of greater use value). This difference, as we shall see, helps in explaining why in the seventeenth and eighteenth centuries the leading capitalist states of Europe came to be affected by a surplus of capital, in comparison with China's shortage, in spite of the latter's persistent balance of payment surplus *vis-à-vis* Europe.

In the analysis that follows we shall show how the intense political-military competition that from the start set European states against one another was an essential ingredient in the enlarged reproduction of the (Braudelian) capitalist dynamic that recurrently engendered an ever growing surplus of capital within the European regional system. This ever growing surplus of capital, in turn, provided both the means and incentives of new rounds of political-military competition on an ever expanding geographical scale. Directly and indirectly, this self-reinforcing cycle of capital accumulation and territorial expansion was the main driving force of those technological and organizational innovations ("industrial revolutions" included) that eventually moved the European system to dominion globally.

Our analysis will nonetheless also show that this self-reinforcing cycle attained its limits once it resulted in the incorporation of the East Asian

regional system within the structures of the globalizing European system. In the short-to-medium run, the impact of the incorporation proved highly disruptive for the East Asian system. Over time, however, the incorporation created regional and world-systemic circumstances favorable to the fusion of the industrial and industrious revolutions paths that constitutes the mainspring of the recent East Asian economic renaissance.

The European and East Asian dynamics compared

In comparing the structures and dynamics of the European and East Asian regional systems, we may begin by noticing the almost exact correspondence between the period of European history that Braudel has called the "extended" sixteenth century (1350–1640) and the Ming period in East Asian history (1368–1643). In the course of these three centuries the two regional dynamics came to influence one another to an unprecedented degree and, at the same time, the seeds for the subsequent divergence began to germinate. The divergence materialized only in the two centuries following the Peace of Westphalia in the West and the demise of the Ming in the East. But its origins can be traced to the different responses of the two regions' leading governmental organizations to the fourteenth-century collapse of the Mongol empire and the consequent disintegration of the thirteenth-century Afro-Eurasian world trading system reconstructed by Janet Abu-Lughod (1989). Let us look at each of these two regional responses in turn.

The European dynamic

The European response was characterized by long wars that went far toward launching a Braudelian capitalist dynamic in inter-state and intra-state relations. One such war pitted the main intermediaries and beneficiaries of European trade with the East, the Italian city-states, against one another in what Braudel has called the "Italian" Hundred Years War (1976, I: 331, 388). The outcome of this secular struggle influenced the subsequent transformation of the European world system in three main ways. First, the Peace of Lodi that at the end of the war in 1454 institutionalized the northern Italian balance of power, provided a model for the institutionalization of the European balance of power by the Westphalia treaties two centuries later (Mattingly 1988: 178). Second, the state that emerged victorious from the confrontation (Venice) became the prototype of the strong capitalist state in the double sense of "perfect example" and "model for future instances" of such a state – a model that was still advocated by leading members of the British business community at the end of the Napoleonic Wars (Ingham 1984: 9). Finally, least recognized but most important, the great loser of the war (Genoa or more precisely

the expatriate Genoese business diaspora) became the main capitalist driving force behind the subsequent overseas expansion of the Iberian states (Arrighi 1994: 109–22).

Equally significant were the better known Anglo-French Hundred Years War (1337–1453) and the subsequent Castilian-Aragonese expulsion of the Moors from the Iberian peninsula. These wars jointly consolidated the formation in the European subcontinent of competing national states of approximately equal capabilities in a condition of permanent struggle for power in peace and war. Integral to this condition was the intense inter-state competition for mobile capital that, as Max Weber noted (1961: 249), created unique opportunities for the take-off of a capitalist dynamic in Europe.

These unique opportunities were created in two complementary ways. On the one hand, intense inter-state competition for mobile capital inflated the profits as well as the "invisible" but nonetheless substantial power of the transnational ethnic business communities that had come to control the most prolific sources of mobile capital in Europe – that is, the Florentine, the Genoese and the German, and to a lesser extent the Lucchese and the English (Boyer-Xambeu *et al.* 1994). On the other hand, it created extraordinary incentives for the rulers of the territorial states of Europe to tap directly the main sources of mobile capital through an "internalization" of capitalism within their domains, that is, by themselves undertaking, or by encouraging their own merchant classes to undertake, the lucrative business of long-distance trade with the East.

For most of the sixteenth century the first tendency was predominant. The history of the European overseas expansion of this period has largely been written in terms of Iberian leadership, both in the rounding of the Cape and in the conquest of the Americas. That the Portuguese and the Spaniards were themselves following in the footsteps of Venice in their attempts to appropriate the largest share possible of European trade with Asia is a widely acknowledged fact. What remains to be acknowledged is what we may call – to paraphrase Alan Rix (1993) – the leadership "from behind" that the Genoese capitalist diaspora exercised *vis-à-vis* the Iberian states. This leadership was largely invisible because of the particular relationship of political exchange through which it operated. In this relationship, the Iberian rulers specialized in the highly visible pursuit of power and organization of overseas expansion, while the Genoese capitalist diaspora specialized in the less visible pursuit of profits and transformation of the products of overseas expansion into money and credit (Arrighi 1994: 109–26).

Thanks to this relationship, in the seventy years that Braudel calls the "Age of the Genoese" (1557–1627), Genoese merchant-bankers came to exercise a rule over European finances comparable to that exercised in the twentieth century by the Bank of International Settlements at Basel –

"a rule that was so discreet and sophisticated that historians for a long time failed to notice it" (Braudel 1984: 157, 164). For most of this period according to Richard Ehrenberg, "it was not the Potosi silver mines, but the Genoese fairs of exchange which made it possible for Philip II to conduct his world power policy decade after decade" (quoted in Kriedte 1988: 47). By 1617, Genoese capitalists had squeezed so much out of their Iberian connection as to turn Spain and Portugal, in Suárez de Figueroa's words, into "the Indies of the Genoese" (quoted in Elliott 1970: 96).

Increasingly, however, the tendency for the ruling groups of Europe's emerging national or proto-national states to tap directly the main sources of mobile capital became predominant. The chief instrument in this endeavor was the launching of joint-stock chartered companies. Although England was the first to launch several of these companies, throughout the seventeenth century by far the most successful (and the model that all others sought to replicate) was the Dutch *Verenigde Oost-Indische Compagnie* (VOC). The VOC inaugurated a new era, not just in business history, as Nils Steensgard (1974: 1981, 1982) has maintained, but also in European and world history. Without the large and steady cash flow generated by the activities of the VOC in Southeast Asia, Amsterdam may have never become the site of the first stock exchange in permanent session with a volume and a density of transactions that outshone all previous stock markets (Braudel 1982: 100-6; 1984: 224-7; Israel 1989: 75-6; 256-8). Once established, and until it was displaced by London in the late eighteenth century, the Amsterdam stock exchange became the central clearing house of European high finance. This function of central financial entrepôt put in the hands of the Dutch capitalist oligarchy a power *vis-à-vis* the larger territorial states of Europe that bore no relationship to the limited (and shrinking) political-military capabilities of the Dutch state (Arrighi and Silver *et al.* 1999: Chapters 1, 2).

The success of the VOC in Southeast Asia, and the lesser success of the *West-Indische Compagnie* (WIC) in the Atlantic, initiated a race among European states to form exclusive overseas commercial empires. This race gained momentum after the European balance of power was institutionalized by the Treaties of Westphalia (1648) - an institutionalization largely due to Dutch leadership "from behind." The Atlantic soon became and remained throughout the eighteenth century the main arena of the competitive struggles engendered by this race. But Asia remained the unwitting arbiter of the European struggle. As Charles Davenant observed in the late seventeenth century, whoever controlled the Asian trade was in a position to "give law to all the commercial world" (quoted in Wolf 1982: 125).

The East Asian dynamic

The European and East Asian regional systems in early modern times were sufficiently similar to make their comparison analytically meaningful. Both consisted of a multiplicity of political jurisdictions that appealed to a common cultural (i.e., civilizational) heritage and traded extensively within their region. Although cross-border trade was more publicly regulated in East Asia than in Europe, since Song times (960-1276), private overseas trade had flourished and transformed the nature of tribute trade itself. As Takeshi Hamashita notes of the tributary-trade system:

Although the categories and quantities of goods to be traded were also officially prescribed, the volume of private trade gradually increased over time. As a result, the main purpose of the tribute trade came to be the pursuit of profits through the unofficial trade that was ancillary to the official system. (1993: 75-6)

Equally important for our purposes was the flourishing of trade networks linking central and southern coastal China and Southeast Asia that were entirely independent of the tributary system, and often directly flouted imperial edicts.

We can even detect analogies in the inter-state competition that characterized the two regional systems. The separate domains that were held together by the tribute-trade system centered on China were "close enough to influence one another, but ... too far apart to assimilate and be assimilated." The tribute-trade system provided them with a symbolic framework of mutual political-economic interaction that nonetheless was loose enough to endow its peripheral components with considerable autonomy *vis-à-vis* the Chinese center. Thus, Japan and Vietnam were peripheral members of the system but also competitors with China in the exercise of the Imperial title awarding function, Japan establishing a tributary type relationship with the Ryukyu kingdom, and Vietnam with Laos (Hamashita 1994: 92; 1997: 114-24).³ Sugihara goes even further in maintaining that the diffusion of the best technology and organizational know-how within East Asia makes it "possible to think of the presence of an East Asian multi-centered political system, at least with regard to China and Japan, with many features analogous to the inter-state system in Europe" (1996: 38).

Moreover, the Chinese center itself recurrently came under pressures analogous to those that fueled inter-state competition for mobile capital in Europe. Pressures of this kind contributed to the great expansion of Chinese private sea trade during the Southern Song period (1127-1276). The heavy military expenditures and reparations involved in the wars with

Mongol and Tungusic peoples on China's northern frontiers induced the Song court to encourage private sea trade as a source of revenue—a source that became all the more essential with the loss of control of the North and the silk route, and the weakening state capacity to sustain such profitable government monopolies as salt, iron and wine production (Tian 1987: 143; Zhuang 1989: 19; Lin and Zhang 1991: 13). Particularly significant was the Southern Song administration's encouragement of Chinese navigation technology through the provision of financial and technical support to shipbuilders. Chinese junks then became the most advanced vessels in the world. Their sharp-head, flat-rear and sharp-base design allowed them to navigate with high speed in turbulent seas and Chinese pioneered the use of the compass in navigation (Lo 1969: 77–91; Chen 1989).

Finally, military pressure and territorial losses in the north provoked a major increase in north–south migrations toward the regions south of the Yangzi River. These warmer regions were the most suitable for high yielding wet-rice cultivation (Bray 1986: 119). As the population of these regions increased rapidly, achieving densities far higher than those in Europe, so did the mastery of the techniques of wet-rice agriculture leading to what Mark Elvin (1973: Chapter 9) has called the “revolution in farming.” The efficiency of wet-rice cultivation in guaranteeing sufficient food supplies enabled farmers to increase the quantity and variety of products that they cultivated and marketed and to engage in non-agricultural activities. As Ravi Palat observes:

Since the productivity of fields could be achieved through additional inputs of labor, areas under wet-rice cultivation could support increasingly greater densities of population. The demographic growth made possible by intensive farming both facilitated an expansion in non-agricultural occupations and exerted a downward pressure on labor costs.

(1995: 59)

Under the impact of state encouragement and the development of wet-rice cultivation, the maritime trade and the market economy of the coastal regions entered a long upswing characterized by advances in navigation technology, the consolidation of the “sea silk route,” and the flourishing of Guangzhou, Quanzhou, and smaller port cities on the Southeastern coast as centers of tributary trade. At the same time, private sea trade linking China's coastal regions and the South China Sea, spurred by the formation of Chinese communities throughout insular Southeast Asia, soon surpassed official or tributary trade to become the dominant mode of economic exchange between China and maritime Asia (Lo 1969: 57–8; Quan 1991a: 405–8; Hui 1995: 29–30). This “commercial revolution

outlasted the fall of the Song in 1276. Under the Yuan (1277–1368), continuing support for private sea trade and Chinese migration to south-east Asia led to the formation of overseas Chinese trading networks across the Southern Seas and the Indian Ocean as extensive as any of the contemporary European networks (Shiba 1983: 106–7; Yang 1985: 32–4, 40–4; Chen 1989: 36–40; Zhuang 1989: 8–12, 21; Guan 1994: 57–60).

The main tendencies that characterized the capitalist transformation of the European system can thus be detected also in the East Asian system—tendencies that were especially strong in Song and Yuan times (see, for example, Yang 1952; and Elvin 1973: Chapter 14). This lends credibility to Christopher Chase-Dunn and Thomas Hall's contention that capitalism “nearly occurred first” in Song China (1997: 47). Under the Ming (1368–1644), however, the tendencies in question did not become stronger as they did in Europe, where they subjected even the most powerful states to a capitalist logic thereby propelling inter-state competition toward the formation of overseas commercial and territorial empires. On the contrary, they were brought under control through governmental policies that prioritized security and the strengthening of domestic trade and at times banned or proscribed foreign trade.

This reorientation of Chinese policies originated in the serious deterioration of economic conditions and financial crisis that characterized the transition from Yuan to Ming rule. Once the Ming regime consolidated, the capital was shifted from Nanjing to Beijing in order to protect more effectively the northern part of the empire from the threat of Mongolian invasions. The shift led to the further extension to the north of the circuits of market exchanges that had formed in the south under the Song with a consequent consolidation of the national economy (Dannou 1995). The Ming repaired and extended the canal system connecting the prosperous rice growing southern regions to the northern political center, in order to guarantee the supply of food to the capital and the surrounding region. The further growth of the market economy and “canal cities” like Hangzhou in the lower Yangzi region was thereby facilitated (Xu and Wu 1985: 83–6, 269–72; Wei 1988: 51–2; Dannou 1995; Hung 2001a: 491–7). Also important in this respect was the early Ming's promotion of cotton growing in the north. The ensuing specialization of the north in the production of raw cotton and of the lower Yangzi in the manufacturing of cotton textiles fostered north–south trade along the grand canal, promoting further the expansion of the national market (Wu 1965: 230–3).

While promoting the formation and expansion of a national market, the Ming government imposed administrative restrictions on sea trade and on Chinese migration to Southeast Asia in an attempt to maintain central control over revenues and contain the power of Overseas Chinese and Japanese merchants. Between 1405 and 1433 it further sought to

extend the reach of the Chinese state by sponsoring Admiral Zheng He's seven great voyages to Southeast Asia and across the Indian Ocean. With ships that probably displaced 1,500 tons, compared to the 300-ton flagship of Vasco Da Gama, China's seaborne capacity at this time had no peer (McNeill 1982: 44). While strengthening political and commercial relations, manifesting China's military and seafaring power throughout a large region, thereby extending the borders of the East Asian regional system, the Zheng expeditions asserted Chinese suzerainty, extended tributary-trade relations, and sanctioned and encouraged Chinese migration and trade throughout maritime East Asia and as far as the East coast of Africa. These expeditions, however, turned out to be exceedingly expensive. They were therefore discontinued, and the Ming regime turned inward, restricting the number of tributary missions, circumscribing private maritime commerce and even banning the building of seagoing ships. The Ming became more preoccupied with immediate military threats, notably but not exclusively those on its northern frontiers. Suspicious of unofficial external trade, it strengthened internal trade and cracked down on unauthorized external trade with maritime Asia (McNeill 1982: 47; Zhang 1991: 49-51; Hui 1995: 34-8, 53; Wang 1998: 316-23).

The eventual lifting of trade restrictions in the 1560s occurred in the midst of a serious political, economic and social crisis. By the early sixteenth century, the capacity of the Ming regime to rule effectively was seriously undermined internally by widespread corruption and increasing budget deficits. Internal degradation was accompanied by mounting external pressure, in the north from the expansion of the Jurchens and along the southeastern coast from the expansion of illegal trade which bypassed Ming tax collectors. Carried out by armed Chinese and Japanese traders (*wokou*, or "Japanese pirates," in the Chinese government's characterization), the illegal trade was actively encouraged by local Japanese warlords who sought to use the profitable trade in Chinese products to finance their mutual struggles (Huang 1969: 105-23; Wills 1979: 210-11; Wakeman 1985: Chapter 1; Lin 1987: 85-111; Tong 1991: 115-29; He 1996: 45-7; Hung 2001c: 12-18). But with the financially strapped Ming cutting back on the costly tributary trade, and unable to exercise effective military control over southern coastal areas, private trade became once again the main form of economic exchange in the region (Zhang 1991: 48-50).

These various tendencies reinforced one another resulting in the explosive growth of social disturbances in the mid-sixteenth century (Tong 1991). Faced with the growing ungovernability of the empire, the Ming rulers sought to solve the crisis by easing peasants' grievances through tax reforms and the exploitation of the flourishing private trade Corvée labor, one of the primary causes of peasant hardship and unrest

together with taxation in crop form, were largely replaced by the "Single Whip Tax" payable in silver. The crippled paper currency was abandoned in favor of a silver standard, and in order to expand the silver influx from overseas, restrictions on sea trade with Southeast Asia were relaxed and licensed seafaring merchants were taxed (Wills 1979: 211; Atwell 1986; Elisonas 1991: 261-2; Chao 1993; Flynn and Giraldez 1995; Quan 1996; 1987; Hung 2001a: 498-500).

This important shift in fiscal, monetary and trade policies was made possible and encouraged by the massive silver influx from overseas trade, principally initially the trade with Japan, the major silver supplier in the region, and subsequently with Europe and the Americas (Atwell 1998: 403-16). At the same time, restrictions on sea trade to Southeast Asia were relaxed and the Ming began to tax licensed seafaring merchants (Wills 1979: 211; Chao 1993; Flynn and Giraldez 1995; Quan 1996, 1987). It is no historical accident that the shift coincided with the Spanish conquest of the Philippines in the late 1560s and the opening of the Potosi silver mines (in present-day Bolivia) in the 1570s (Brook 1998: 205). Spanish shipments of much of their South American silver to their base in Manila to pay for Chinese exports helped ease the Ming fiscal crisis and growing pressure on the peasantry. At the same time they established a new firm trade link between the European and the East Asian regions. From the sixteenth until well into the eighteenth century, fully three-quarters of new world silver found its way to China, a product both of China's highly competitive exports of silk, porcelain and tea, and a Chinese thirst for silver that drove silver prices to levels twice those prevailing in other parts of the world (Flynn *et al.* 1999: 23-4).

The expansion of intra- and inter-regional trade under the late Ming boosted the fortunes not just of China's coastal areas and maritime East Asia but of the Overseas Chinese as well. During the first two hundred years of Ming rule the trade networks of the overseas Chinese had continued to expand, despite restrictions on private overseas trading and on Chinese migrations to Southeast Asia. Trade and the associated migration became the principal means of livelihood for significant parts of the population of the southeast coastal regions of China, the source of extraordinary profits for merchants, and the primary source of revenue for local governments (Hui 1995: 35-6). "Chinese merchants, craftsmen and sailors," in John Wills' words, "became extremely vigorous participants in building a new world of trade and settlement around the South China Sea" (1998: 333). From the fifteenth century forward, despite Ming restrictions, periodic reverses and challenges from Muslims and others, Chinese were the dominant traders throughout the East Asian region, some establishing business, commercial, and financial networks extending to the village level across Southeast Asia. They linked China with a wide array of partners embracing a kaleidoscope of peoples and cultures across East

Asia, and provided a steady flow of remittances back to the southeastern coastal villages that spawned the migration and which in turn became among the wealthiest, most productive, and commercially expansive regions of East Asia (Wang 1991: 85-6; 1998: 320-3; Hui 1995).

The power of the Overseas Chinese was consolidated by the arrival of the Europeans, who, far from curbing the activities of Chinese traders boosted trade throughout the region and beyond by supplementing the Japanese supply of silver and linking regional trade to global networks. Unlike local rulers, moreover, they had little restraint in challenging the authority of the Chinese imperial court. They thus provided political and military support for Chinese traders who circumvented the restrictions imposed by the Chinese government. This resulted in an increasing involvement of Chinese merchants in highly profitable smuggling activities with active European encouragement (Chang 1991: 16; Flynn and Giraldez 1994: 71, 74-5, 79-83; Hui 1995: 67-8; see also Chang, 1969: 69-85).

Europeans also destroyed many indigenous trading classes and networks in an effort to consolidate their control over local resources and populations. They thereby strengthened the capacity of the overseas Chinese, who escaped the onslaught, to monopolize the role of commercial intermediaries between the Europeans and the region's polities and societies (Alatas 1977: 184-7, 191-5; Curtin 1984: 147, 162-8; Reid, 1990: 652-4; Blussé 1991: 334). And the more valuable and exclusive Chinese trading networks became in their intermediary role, the more Europeans were induced to compete with one another in securing the cooperation of the overseas Chinese. The formation of a large merchant community in seventeenth-century Batavia, for example,

was the result of the deliberate Dutch policy, which sought to gain a total monopoly of eastern and southeastern Asian trade through making use of the Chinese trading networks already established throughout the Malay archipelago, the Indo-China coasts and Japan ... They welcomed Chinese cooperation and tried to woo them wherever possible away from the Portuguese and the Spanish. In that way, a Dutch supported chain of Chinese communities grew up between Batavia and areas like the Moluccas to the east, Siam to the north and China and Japan to the northeast.

(Wang 1991: 88)

The wealth and power of Chinese merchants attained new heights in the course of the seventeenth-century transition from Ming to Qing rule. Despite the injection of trade revenues and taxes in the form of silver, Ming financial difficulties skyrocketed with the costly Chinese military campaign to oust Hideyoshi's Japanese forces from Korea in the 1590s.

the outbreak of full-fledged warfare with the Manchus in the 1610s, and mounting corruption at court and throughout the administration. Japanese, trade restrictive policies imposed in the 1630s, combined with the sharp decline in European silver supplies in the 1630s and 1640s, interrupted silver inflow into China and increased peasant burdens by driving up the price of silver. The result was a resurgence of empire-wide turbulence culminating in the collapse of the Ming in 1644 (Atwell 1986 and 1998: 407-15).

It was at this time that the Zheng merchant family created a maritime empire in some respects comparable to the contemporary Dutch empire in Southeast Asia. By the 1620s, their military and commercial power, centered in Fujian and Guangdong on the South China coast and extending to Taiwan, was such that it eliminated whatever maritime supremacy the Portuguese had managed to establish in the region. In the 1630s, Zheng Zhilong, styling himself "the King of South China," had seized control of the extensive trade networks that linked coastal China and lucrative Southeast Asian markets. Utilizing resources and contacts he had gained when working for the Dutch VOC and trading with the Portuguese and Spanish, Zheng deployed European-style warships and firearms to dominate maritime trade, defy Ming tax collectors and naval forces, and defend his kingdom. At its zenith, the Zhengs monopolized the silk and ceramics trade and built a sphere of influence that stretched from Guangdong and Fujian to Japan, Taiwan, and Southeast Asia. By 1650, the Zhengs had created a rebel state on the southeast coast. But, failing to defeat the Manchus, in 1662 they retreated to Taiwan, expelled the Dutch and founded the kingdom of Taiwan. A former Dutch governor of colonial Taiwan in 1675 compared the rise of the Zhengs as a seaborne power to the rise of the Dutch in Europe a century earlier (Coyett 1903 [1675]; Wills 1979, 1998; Struve 1988; Wong 1983; Hung 2001c). After observing that in marketing Japanese wares abroad the VOC was following in the footsteps of the Zhengs, Chumei Ho (1994: 44) has claimed with some reason that

The Zheng networks of commercial and political intelligence must have been at least as effective as those of either of its main enemies, the Manchus and the Dutch ... Arguably, the Zheng organization had some of the same traits as the VOC.

Equally important, the Zheng maritime empire was from the start a key player in the ongoing dynastic struggle in mainland China. A respected ally of the Ming in the early stages of the struggle - when many members of the Zheng family became officers and generals of the Ming army - Zheng Zhilong attempted to switch sides after the Qing army entered Fujian in 1647. The attempt failed, as the Qing responded to Zheng

Zhilong's overtures by jailing and eventually executing him. But under Zheng Chenggong, the power of the Zhengs reached new heights until their downfall in 1683.⁴

The divergence of the European and East Asian dynamics

The expatriate business networks that constituted the pre-eminent capitalist organizations of sixteenth-century Europe invite comparison with the Chinese and other ethnic networks that constituted the pre-eminent capitalist organizations of sixteenth-century East Asia. As Braudel pointed out:

Everywhere, from Egypt to Japan, we shall find genuine capitalists: wholesalers, the rentiers of trade, and their thousands of auxiliaries, the commission agents, brokers, money-changers and bankers. As for the techniques, possibilities or guarantees of exchange, any of these groups of merchants would stand comparison with its western equivalents. Both inside and outside India, Tamil, Bengali and Gujarati merchants formed close-knit partnerships with business and contracts passing in turn from one group to another, just as they might in Europe from the Florentine to the Lucchese, the Genoese, the South Germans or the English.

(1984: 486)

Although in this passage Braudel does not refer explicitly to Chinese business networks, elsewhere he draws a parallel between the merchants and bankers of Shanxi province and the overseas Chinese originating from Fujian and other southern coastal provinces, on the one hand, and Florentine, Genoese, and Lucchese merchants on the other (1982: 153). Moreover, as we have just underscored, the seventeenth-century Zheng empire had some traits in common with the VOC, the half-governmental and half-business organization that in the seventeenth century displaced expatriate business networks as the leading organization of European capitalism. There can be little doubt, therefore, that capitalist organizations comparable to the European could and did emerge in East Asia as well. As William Rowe has noted, "whatever the reason, the divergences between Chinese and Western social histories since 1500 are not due to the fact that the progressive West discovered capitalism and the modern state and China did not" (1990: 262).

The presence of comparable capitalist organizations, however, did not make the development of the two regional systems equally capitalist in orientation. For capitalism to become dominant at the level of the system, an additional ingredient was required. While acknowledging the presence in China and in the surrounding region of business networks as capitalist as

those of the Genoese and the Florentine, Braudel himself underscores how "the Chinese example most opportunely supports my insistence on separating the *market economy* and *capitalism*" (1982: 588; emphasis in the original; cf. Wong 1997: part 2; Hung 2001a: 497-505):

For contrary [to the] argument - no capitalism, no market economy - China did have a solidly-established market economy ... with its chains of local markets, its swarming population of small artisans and itinerant merchants, its busy shopping streets and urban centers. So at ground level, trade was brisk and well-provided for, encouraged by a government primarily concerned with agricultural production; but *at upper levels*, the state ... expressed unmistakable hostility to any individual making himself "abnormally" rich ... So there could be no capitalism, except within certain clearly-defined groups, backed by the state, supervised by the state and always more or less at its mercy.

(Braudel 1982: 589; emphasis in the original)

In Braudel's scheme of things, this situation contrasts sharply with that obtaining in the European states in which capitalism did triumph.

Capitalism only triumphs when it becomes identified with the state, *when it is the state*. In its first great phase, that of the Italian city-states of Venice, Genoa, and Florence, power lay in the hands of the moneyed elite. In seventeenth-century Holland the aristocracy of the Regents governed for the benefit and even according to the directives of the businessmen, merchants, and money-lenders. Likewise, in England the Glorious Revolution of 1688 marked the accession of business similar to that in Holland.

(Braudel 1977: 64-5; emphasis added)

The contrast is undoubtedly exaggerated. Nevertheless, Braudel's hyperbole does point to an aspect of the capitalist transformation of the European regional system from the fifteenth through the eighteenth centuries that has no parallel in the dynamic of the East Asian regional system. This is the *sequence* of states with which capitalism became identified - the Italian city-states, the Dutch proto-nation-state, and eventually a state, the English, that was in the process of becoming not just a nation-state but the center of a world-encircling maritime and territorial empire. In this sequence, each state is larger and more complex than its predecessor, and it is this sequence, more than anything else, that evinces the capitalist transformation of the European regional system. And conversely, the absence of anything comparable to such a sequence can be taken as the clearest sign that, in spite of the existence of capitalist organizations analogous to the European varieties and of greater advances than in

Europe in the formation of market economies, the East Asian regional system itself was not at this time in the process of becoming capitalist.

In pinning down the difference between a regional system that was and one that was not becoming capitalist, it may be helpful to conceive of the transformation as an epidemic, or more precisely, "a rash of epidemics" (Jameson 1998: 139–40). In the European system the capitalist virus spread rapidly from its original focus in tiny city-states and exportate business networks to larger and ever more powerful territorial states. These more powerful states "internalized" capitalism by following in the footsteps of the city-states in seeking to promote and reap the profits of long-distance trade, and by encouraging their own nationals to undertake the activities previously monopolized by foreigners organized in transnational business networks. As a result, capitalism as mode of accumulation and rule turned from an interstitial into a dominant property of the system.

In the East Asian system, in contrast, capitalism did not become identified with the system's more powerful states. For all we know the capitalist virus might very well have been as widespread as (or even more widespread than) in Europe. But if so the "immune" system in East Asia was stronger, so that no rash of epidemics ensued. Under the Ming and especially the Qing, capitalism became even more an interstitial formation than it had been under the Song or the Yuan. It became embodied even more exclusively in the Overseas Chinese diaspora and was marginalized in Southern Chinese coastal areas, with the result that its influence on the region's main seats of power remained insignificant, despite its importance in linking the Chinese coast to Southeast Asia. *At the level of the system*, that is, capitalism was "externalized" in the sense that it developed most fully on the outer rims rather than at the center of the region's most powerful states.

There were three partial and temporary exceptions to this tendency. One was insular Southeast Asia after the Ming's disengagement from the area.⁵ Although many Southeast Asian states continued to recognize Chinese suzerainty formally and symbolically, their political and economic dependence on the Ming court decreased while their connections with private traders strengthened. Many of these states were autonomous port states, commercial nodes that thrived on the profits of trade. Their number increased considerably during the commercial boom of the sixteenth century. When the Portuguese arrived in 1509, Southeast Asian trade was concentrated on Melaka. Within half a century of the Portuguese conquest of Melaka in 1511, trade had dispersed among the rising centers of Patani, Johor, Pahang, Aceh and Banten, and in the course of the next century, as Anthony Reid (1993: 208–14) observes, at least fifty-five such political and commercial centers emerged including Manila, Hue, Champa and Palembang.

This formation of autonomous port-states presents many similarities with contemporary and earlier formations of port- and city-states in the Mediterranean, North and Baltic Seas. In Braudel's sense, at least some of the Southeast Asian states were as capitalist as their European counterparts. Nevertheless, individually and collectively they never became "models" for the larger East Asian states, as the Italian city-states did for the larger European states. On the contrary, in some cases they were absorbed by the region's larger states (as in the case of Champa's absorption by Vietnam). In a few other cases they themselves became sub-regional powers within the China-centered tribute-trade system as in the case of Siam. For the most part, however, they were incorporated within the domains of European colonial empires, thereby contributing to the further spread of the capitalist virus within the expanding European system and to its containment in the contracting East Asian system.

The second exception was Japan in the Ashikaga period (1368–1573). In that period, Japan lacked a centralized authority and was in a chronic state of war among warlords. Cities and long-distance trading communities thrived not only because there was no central authority capable of containing capitalism as in Ming China. They thrived also because the competing warlords sought the assistance of cities and merchants in their attempts to secure revenue (Braudel 1982: 589–94). As Perry Anderson (1974: 440) has noted, this fragmentation of politics and growth of towns made the Japanese scenario comparable to the European. Nevertheless, the subsequent unification of Japan by Toyotomi Hideyoshi and the latter's defeat in the war with China on Korean soil from 1592 to 1598 prevented the Japanese variety of the capitalist virus from spreading to the entire region.

The third exception to the tendency toward the externalization of capitalism in East Asia was the growing power of the Zheng commercial empire in the transition from the Ming to the Qing. As we have seen, not only was this commercial empire comparable to that of the Dutch. For a while at least, it also wielded non-negligible influence on the dynastic struggles that were being waged on mainland China. Nevertheless, the very comparability of the Zheng and the Dutch commercial empires makes their opposite fates particularly instructive. In the European context, the Dutch became the leaders of the institutionalization of the capitalist strata within these same states, and the intensification of their mutual competition in building overseas commercial and territorial empires. In the East Asian context, in contrast, the downfall of the Zheng cleared the way for the demilitarization of the Chinese merchants, the consolidation of national economy-making both in Qing China and Tokugawa Japan, and the precipitous decline of the power and influence of the Overseas Chinese *vis-à-vis* the region's territorial states and the

consolidating European colonial outposts. As Pomeranz (2000: 204) notes, the Zheng empire "stands as an illuminating example of a kind of activity that successfully paralleled European armed trading and colonization but was not a normal part of the Chinese state system."

Braudel does not answer, indeed, does not even raise the question of why in early modern times capitalism spread like an epidemic in the European world but did not catch on in East Asia. All he says, more implicitly than explicitly, is that the difference cannot be traced to a prior greater development of a market economy, because a market economy was more developed in many parts of Asia, East Asia included, than in Europe. But if, as we also think, the prior development of a market economy does not explain the difference, what does?

It seems to us that the most plausible and economical explanation is both structural and relational. The structural explanation has to do primarily with the more balanced and decentralized structure of power in the European than in the East Asian inter-state system. Without such a power structure, it would have been difficult, if not impossible, for capitalist organizations that were either territorially insignificant or without a territorial foundation at all to wield the kind of power and influence that the Italian city-states did in the fourteenth and fifteenth centuries, the Genoese diaspora in the sixteenth century, and the Dutch Republic in the seventeenth and early eighteenth centuries. Nor would inter-state competition for mobile capital among the larger territorial organizations of the European system have been as intense as it was throughout these centuries. And in the absence of these conditions, it is hard to imagine how the capitalist epidemic would have spread in the European system as fast as it did (cf. Arrighi 1994: 27-47).

Counterfactual evidence in support of this contention comes precisely from East Asia, where the huge territorial and demographic size of China combined with the power it exercised through the tributary-trade system created a fundamental underlying imbalance and centralization of power in the region. As this imbalance and centralization of power were consolidated first under the Ming, and after an interlude under the Qing, the possibility that capitalist city-states would become models of state-and-war making for the larger territorial states (as was the case in fifteenth-century Europe) became in East Asia even more remote than it already was. The same imbalance and centralization did not prevent expatriate ethnic networks of merchant-bankers comparable to the European from forming in East Asia. But they did prevent these networks from gaining the upper hand in relationships of political exchange with the rulers of the region's most powerful territorial state, as the Genoese network did with Imperial Spain in the sixteenth century. And finally, for all its similarities with the Dutch maritime empire, the Zheng empire really never had a chance to lead "from behind" the larger territorial organizations of East Asia to

institutionalize the balance of power as the principle regulating their mutual relations (as the Dutch Republic did with the European states at Westphalia), for the simple reason that in East Asia there was no such balance of power to institutionalize (Hung 2001a: 501-3; Hung 2001c).

This (comparative) structural explanation of the divergence of the European and East Asian developmental paths in early modern times can be seriously misleading unless it is combined with a relational explanation, namely with the fundamental asymmetry of East-West trade as a source of wealth and power in the two regional systems. For throughout early modern times, East-West trade was an incomparably more important source of commercial wealth and power for the governmental and business organizations of the West than of the East, most notably in the case of China. It was this fundamental asymmetry that made the fortunes of Venice and induced the Iberian states, instigated and assisted by Venice's Genoese rivals, to seek a direct link with the markets of the East. And it was this same asymmetry that underlaid the low returns, relative to costs, of Zheng He's fifteenth-century expeditions in the Indian Ocean. Were it not for this asymmetry, Zheng He might very well, in Paul Kennedy's words, have sailed "around Africa and 'discover[ed]' Portugal several decades before Henry the Navigator's expeditions began earnestly to push south of Ceuta" (1987: 7).

Columbus' accidental "discovery" of the Americas while seeking a shorter route to the wealth of Asia changed the terms of the asymmetry by providing European governments and businesses with new means to seek entry in Asian markets, as well as with a new source of commercial wealth and power in the Atlantic. But almost two centuries after the discovery, the Dutch were still in a position - to paraphrase Davenant - to lay down the law to the commercializing European world by monopolizing one of the most profitable of the Asian trades. In the East Asian system, in contrast, the primary source of inter-state power and legitimation continued to be situated at the very center of the system's largest territorial state, China. Once the overambitious attempt of Zheng's Taiwan regime to fight back on the mainland imploded, the Qing succeeded in establishing itself firmly as the region's pre-eminent power.

The re-centering of the global economy on Europe

With the consolidation of Qing rule in China, the trend toward national economy-making initiated by the Ming resumed with greater vigor. Its ultimate result was the remarkable peace, prosperity, and demographic growth that China experienced for much of the eighteenth century - what Sugihara (this volume) aptly calls the "Chinese miracle." By world-historical standards this was a remarkable achievement and a source of inspiration for leading figures of the European Enlightenment. Leibniz,

Voltaire, and Quesnay, among others, "looked to China for moral instruction, guidance in institutional development, and supporting evidence for their advocacy of causes as varied as benevolent absolutism, meritocracy, and an agriculturally based national economy" (Adas 1989: 79; Hung 2000: 5-10; Hung 2001b: 3-7). The most striking contrast with European states was the Chinese empire's size and population. In François Quesnay's characterization, the Chinese empire was "what all Europe would be if the latter were united under a single sovereign" - a characterization which was echoed in Adam Smith's remark that China's "home market" was as big as that of "all different countries of Europe put together" (Quesnay 1969: 115; Fairbank 1983: 170).

Equally impressive was the peace and tranquility of these huge and populous domains which European visitors and residents of China, Jesuit missionaries in particular, contrasted with Europe's social strife and incessant warfare (Adas 1989: 80-1; Hung 2000: 12-17). To be sure, in the early eighteenth century Qing China expanded its borders dramatically into Inner Asia through various military campaigns, and in 1788-9 it was at war also in the south with Vietnam. In comparison with contemporary Europe, and indeed with East Asia itself in the sixteenth and early seventeenth centuries, inter-state relations in eighteenth-century East Asia were nonetheless remarkably peaceful. Even the most convinced proponents of China as a model for Europe qualified their enthusiasm by acknowledging the stagnation of scientific learning in China relative to European advances in the preceding century or two. Nevertheless, neither Leibniz and Voltaire, nor the Jesuit writers whose accounts inspired them, saw any contradiction between relative stagnation in the sciences and excellence in the art of government and in moral philosophy. After all, European advances in the sciences had occurred in the context of generalized warfare, state breakdowns and social strife, and had done little to produce stable government and tranquil lives (Adas 1989: 81-9).

The contrast between peace and stable government, on the one hand, and war and scientific progress, on the other, was symptomatic of an ongoing fundamental divergence between the trajectories of the East Asian and European regional systems. For the same inter-state competition that propelled the capitalist transformation of the European system was relentlessly prompting its globalization as well. As William McNell sums up with specific reference to the period 1600-1750:

Within the cockpit of western Europe, one improved modern-style army shouldered hard against its rivals. This led to only local and temporary disturbances of the balance of power, which diplomacy proved able to contain. Toward the margins of the European radius of action, however, the result was systematic expansion - whether in India, Siberia or the Americas. Frontier expansion in turn sustained an

expanding trade network, enhanced taxable wealth in Europe, and made support of the armed establishment less onerous than would otherwise have been the case. Europe, in short, launched itself on a self-reinforcing cycle in which its military organization sustained, and was sustained by, economic and political expansion at the expense of other peoples and polities of the earth.

(1982: 143)

No self-reinforcing cycle of this kind could be observed in East Asia. Qing China did expand its frontiers north and west, but the economic benefits of expansion fell far short of what would have been required to sustain the costs of an armament race, European-style. As Wong points out, the logic of political economy emphasizing competition with foreign states had little in common with China's emphasis on the mutual benefits of domestic exchange:

Rather than extract resources from peripheries, the Chinese state was more likely to invest in them. Political expansion to incorporate new frontiers committed the government to a shift of resources to the peripheries, not extraction from them. Late imperial Chinese political economy obeyed a set of principles very much at odds with those of [European] mercantilism.

(1997: 148)

The same principle that Wong notes for China's domestic peripheries to a large extent applied also to peripheral regions of the tributary-trade system.

As previously noted, the separate political jurisdictions of the East Asian inter-state system did in a sense compete with one another. Sugihara (1996: 37-8), for example, detects a competitive relation in two complementary tendencies typical of Tokugawa Japan: its attempt to create a tribute-trade system centered on Japan instead of China, and its extensive absorption of technological and organizational knowledge in agriculture, mining and manufacturing from Korea and China. In other words, as Heita Kawakatsu (1994: 6-7) put it, "Japan was trying to become a mini-China both ideologically and materially." In this endeavor Japan was eventually highly successful, matching and eventually overtaking Qing China's industrious revolution (see Sugihara, Chapter 3, this volume). Nevertheless, this kind of competition drove the East Asian developmental path not closer but further apart from the European: toward a deepening of the division of labor within households and micro-regions rather than toward metropolitan core regions and overseas peripheral regions; toward short-distance (intra-regional) rather than long-distance (inter-regional) trade; toward state-making rather than war-making.

The extent of this divergence can be gauged by the opposite trends of foreign trade in the two systems in the eighteenth and early nineteenth centuries. In this period, a growing number and variety of European states and business organizations built overseas commercial empires of growing scale, scope and sophistication. As a result of these activities, European trade not only expanded far more rapidly than in the seventeenth century, but it expanded so as to promote a division of labor with the Americas that enabled European core regions to specialize in labor-saving and land- and energy-intensive directions. East Asian states, in contrast, showed no tendency whatsoever to build overseas commercial empires. Even trade contacts among Asian countries, as Sugihara acknowledges, "shrank sharply from the early-18th century and did not recover until the West forced China and Japan to open their ports to foreign trade in the middle of the 19th century" (1996: 38-9). As a result, the very success of the industrious revolution both in China and Japan intensified the shortage of natural resources, forcing development in both countries along ever more resource-saving, labor-intensive paths.

Under these circumstances, capitalism in the East Asian region continued to expand but remained an interstitial formation. As William Skinner notes, the scorched earth policy through which the Qing denied mainland resources to Zheng's Taiwan regime destroyed the prosperity of China's southeast coast:

for periods of varying lengths between 1661 and 1683, the population of the coastal strip from Zhejiang to Guangdong was forcibly removed inland, and most settlements - villages, market towns, and cities - were burned to the ground. In 1717 Chinese were forbidden once again to go privately overseas, and in 1757 the fate of the whole Southeast Coast region was sealed for nearly a century by the designation of Guangzhou as the sole legal port for foreign trade.

The economic decline and then stagnation of the southeast coast over the next 150 years, in turn, provoked dramatic centrifugal effects:

Millions emigrated permanently and tens of thousands left the region to spend their productive years elsewhere ... By 1800 Hakkas from the Han Basin subregion were settled in permanent enclaves in Sichuan, Taiwan, West Borneo, and Bangka, and merchants from Zhangquan subregion were firmly established in great commercial centers throughout Southeast Asia and in every other macroregion of China. (Skinner 1985: 278-9)

These migrations further expanded the scale and scope of Chinese trading networks on the outer boundaries and interstices of the East Asian

tribute trade system. The main beneficiaries of this expansion, however, were neither East Asian states nor the overseas Chinese. The inward-looking developmental policies of Qing China and Tokugawa Japan left a political void in the maritime regions of East and Southeast Asia that the demilitarized Chinese merchants were ill-equipped to fill.⁶ Gradually, the void was filled by European states, companies and merchants whose capacity to subordinate to their own ends the Overseas Chinese increased rapidly at the turn of the eighteenth and nineteenth centuries. Critical in this respect was the continuing decline of Chinese shipbuilding industries and navigation technologies at a time of rapid European advances in both (Tian 1974: 281; Cushman 1993: 136; Hui 1995: 79-80).

Rapid improvements in shipbuilding industries and navigation technologies were but one aspect of the great leap forward of European capabilities that ensued from the so-called first industrial revolution. This was not the outcome of greater European advances along the industrious revolution path and the formation of market economies, since in both respects the East Asian region was equally if not more advanced, as Sugihara, Pomeranz and Hamilton and Chang (this volume) argue from different perspectives. Rather, it was the culmination of three-to-four centuries of operation of McNeill's "self-reinforcing cycle" of escalating intra-European military competition sustaining, and in turn being sustained by economic and political expansion at the expense of other peoples and polities of the earth. This self-reinforcing cycle did not just create the kind of core-periphery relations between Europe and the Americas that according to Pomeranz enabled Britain to open up the land- and energy-intensive industrial-revolution path. It played also a decisive role in creating the conditions for the "take-off" of the revolution in the capital goods industries. As McNeill underscores:

both the absolute volume of production and the mix of products that came from British factories and forges, 1793-1815, was profoundly affected by government expenditures for war purposes. In particular, government demand created a precocious iron industry, in excess of peacetime needs, as the postwar depression 1816-20 showed. But it also created the condition for future growth by giving British ironmasters extraordinary incentives for finding new uses for the cheaper products their new, large-scale furnaces were able to turn out. Military demands on the British economy thus went far to shape the subsequent phases of the industrial revolution, allowing the improvement of steam engines and making such critical innovations as the iron railway and iron ships possible at a time and under conditions which simply would not have existed without the wartime impetus to iron production.

This wartime impetus to production in Britain's capital goods industries was associated with a massive expansion of British public expenditure from £22 million in 1792 to £123 million in 1815. Such an expansion was out of all proportions to Britain's tax revenue, resulting in a three-fold increase in the sum needed annually to service the British public debt from £9 million in 1783 to £30 million in 1815 (Jenks 1938: 17; Dickson 1967: 9; Ingham 1984: 106). It is hard to imagine how this massive expansion of British public expenditure and debt could have occurred. (It alone boosted British wealth and power, instead of undermining them) were it not for the fact that prior to the start of the Napoleonic Wars Britain had bought back the national debt from the Dutch, and London had displaced Amsterdam as the main financial entrepôt of Europe, and the Americas (Arrighi 1994: 108–12; Arrighi and Silver *et al.* 1999: 51–6).

It is in this connection that the contemporaneous shift of British territorial expansion from North America to South Asia acquires its full world historical significance. It has been authoritatively stated that the plunder perpetrated by the East India Company following its military victory at Plassey "did not start the Industrial Revolution, but it did help Britain to buy back the National Debt from the Dutch" (Cain and Hopkins 1980: 471). More important, Plassey plunder initiated the process of conquest of a territorial empire in India that, as we shall see in the next section, was an essential ingredient of the nineteenth-century globalization of the UK-centered system of rule and accumulation. This globalization radically changed the relationship between the European and East Asian regional systems. The two systems' interacting but separate dynamics of previous centuries began to merge into a single dynamic – the dynamic, that is, of the subordinate incorporation of the East Asian regional system within the structures of the globalizing European system. To this new dynamic we now turn.

East Asia in the UK-centered global capitalist system

In analyzing the subordinate incorporation of East Asia within the structures of the globalizing European system, we shall begin by underscoring the Asian foundations of British global supremacy in the nineteenth and early twentieth centuries. Our argument will be that tribute extracted from India, rather than any special competitive advantage in commodity markets was central to Britain's ability to occupy and retain for more than a century the position of political and economic center of the globalizing European system. We shall further argue that the need to facilitate the transfer of Indian tribute to the British center was the primary motivation of the British-led onslaught on the China-centered tribute-trade system. The onslaught transformed but did not destroy the legacy of that system.

At first, the resulting dynamic had disastrous consequences for the power, wealth and welfare of the region's states and peoples. Over time, however, it created conditions conducive to the East Asian economic renaissance of the late twentieth century.

The Asian foundations of the UK-centered global capitalist system

Contrary to widespread opinion, Britain's nineteenth-century global supremacy was not based on any kind of superiority in the way in which its business enterprises were organized. In Britain no less than in China, family enterprise was the rule in most branches of manufacturing, commerce and finance:

The popularity of family-oriented enterprise in eighteenth- and nineteenth-century Britain was a product of a complex array of legal, economic and cultural forces. With the spectre of bankruptcy ever present, a combination of the common law partnership and unlimited liability meant that many businessmen preferred to be associated with their family connections than outsiders ... Once established ... a peculiarly British type of familial capitalism persisted and evolved through the nineteenth century and into the twentieth.

(Rose 1994: 63–4)

To this we should add that in the West "familial capitalism" became even more dominant in the nineteenth century than it had been in the preceding two centuries. By the end of the eighteenth century joint-stock chartered companies had become an endangered species, with its remaining specimen – the English East India Company – leading an increasingly precarious existence until the abolition of the Company's China trade monopoly in 1833 sounded its death knell. As this early form of Western corporate capitalism withered away, first in the Atlantic and later in Asia, "the more flexible system of competitive enterprise emerged triumphant" (Davies 1957: 46; see also Arrighi 1994: 244–50; Arrighi *et al.* 1999: 104–6, 114–16).

This more flexible system of competitive enterprise consisted of networks of family businesses. It is often stated that Chinese capitalism did not experience the kind of vertical integration that gave rise to the multi-divisional, multi-national corporation typical of twentieth-century US capitalism (see, for example, Faure 1996: 26 and Wong 1997: 57–8). What is just as often forgotten is that throughout the entire period of British hegemony British capitalism also failed to experience vertical integration. Indeed, if anything, British business seems to have been more vertically integrated at the beginning than at the end of the nineteenth century.

Thus, in the early stages of the industrial revolution, leading London and provincial textile manufacturers had ventured into the direct procurement of raw cotton in the United States and the West Indies. After the end of the Napoleonic Wars, however, they found it more profitable to specialize in production at home, leaving the purchase of inputs and sale of outputs in the hands of specialized firms that promoted and financed the formation of truly global networks of commission agents and small general merchants (Chapman 1984: 9–15; 1992: 116; see also Farnie 1979: 83). In manufacturing itself, an early tendency toward the vertical integration of spinning and weaving was reversed after 1850. As a result, at the turn of the nineteenth and twentieth centuries, the British system of business enterprise was more than ever an ensemble of highly specialized family firms held together by a complex web of commercial transactions—a web that was centered on Britain but spanned the entire world (Copeland 1966: 371; Tyson 1968: 119; Hobsbawm 1968: 47–8; Gattrell 1977: 118–20; Crouzet 1982: 204–5, 212; Arrighi *et al.* 1999: 126–8).

The global competitiveness of British business was due not to any peculiarity of its units but to the world-encompassing nature of British commercial networks. As Melvin Copeland has underscored with special reference to the cotton industry, the fragmented structure of British business involved very high transaction costs. Nevertheless, these high transaction costs were more than compensated for by the advantages of being located at the center of dense networks of specialists connected to the markets of the entire world by a highly flexible commercial network (1966: 327–9; 371).

As foreign competitors developed techniques of production, procurement and distribution more efficient than the British, either through vertical integration (most notably in the United States) or horizontal combinations (most notably in Germany), British business could meet the challenge by specializing more fully in the high-value-added activities associated with Britain's role as the central entrepôt of world commerce and finance. It was precisely at the time of waning industrial supremacy that

[Britain's] finance triumphed, her services as shipper, trader, insurance broker, and intermediary in the world's system of payments, became more indispensable. Indeed, if London ever was the real economic hub of the world, the pound sterling its foundation, it was between 1870 and 1913.

(Hobsbawm 1968: 125)

As Halford Mackinder told a group of London bankers at the turn of the century, the industrialization of other countries enhanced the importance of a single clearing house. And the world's clearing house "will always be where there is the greatest ownership of capital." The British share

essentially the people who have capital, and those who have capital always share in the activity of brains and muscles of other countries" (quoted in Huggill 1993: 305). This was certainly the case on the eve of the First World War, when nearly one-half of Britain's assets were overseas and about 10 percent of its national income consisted of interest on foreign investment (Cairncross 1953: 3, 23).

As Peter Mathias (1969: 329) noted, British foreign investment "was not just 'blind capital' but the 'blind capital' of *rentiers* organized by financiers and businessmen very much with a view to the trade that would be flowing when the enterprise was under way." British railway building in the United States, and *a fortiori* in countries like Australia, Canada, South Africa and Argentina "was instrumental in opening up these vast land masses and developing export sectors in primary produce ... for Britain" (see also Chapman, 1992: 233ff.). Capital lending was no less "blind" in creating outlets for Britain's own exports:

The complex of activities into which capital lending fitted can be most clearly seen in such a case as China where the British firm Jardine Matheson was in the lead. They organized the raising of loans to Chinese provincial governments (on which they took the margin). They supplied the railways at a profit, sometimes shipped the equipment on their own shipping lines, which brought in freight charges, and supplied equipment and arms to the contestants in the wars whose strategy was being shaped by the railways.

(Mathias 1969: 328)

The abundant liquidity that accumulated in, or passed through, British hands was a powerful instrument in the competitive struggle not just in commodity markets but in the armament race as well. From the mid-1840s through the 1860s most technological breakthroughs in the design of warships were pioneered by France. And yet, each French breakthrough called forth naval appropriations in Britain that the French could not match, so that it was "relatively easy for the Royal Navy to catch up technically and surpass numerically each time the French changed the basis of the competition" (McNeill 1982: 227–8).

Britain's role as the central entrepôt of world commerce and finance that underlaid the competitiveness of British business was the outcome of a long drawn-out process. It originated in Britain's growing supremacy in European colonial and overseas trade in the eighteenth and early nineteenth centuries but became truly global in scope only when Britain liberalized its trade *unilaterally*. In the twenty years following the repeal of the Corn Laws in 1848 and of the Navigation Acts in 1849, close to one-third of the exports of the rest of the world went to Britain. Massive and rapidly expanding imports cheapened the costs of vital supplies in Britain, while

providing the means of payment for the rest of the world to buy British manufactures. A large and growing number of states and territories were thus "caged" in a world-scale division of labor that strengthened each one's interest in participating in the British-centered global market, the more so as that market became virtually the sole source of critical inputs and sole outlet for remuneratively disposing of outputs.

But if unilateral free trade enabled Britain to consolidate and expand its role as the central commercial and financial entrepôt of the world, it was its overseas empire that provided Britain with the flexibility and resources needed to keep expanding the sway of the British-centered global market and to practice free trade unilaterally in spite of persistent deficits in its balance of trade (see, among others, Frank 1978). Critical in both respects was Britain's Indian empire. India's huge demographic resources buttressed Britain's global power both militarily and financially. Militarily, in Lord Salisbury's words, "India was an English barrack in the Oriental Seas from which we may draw any number of troops without paying for them" (Tomlinson 1975: 341). Paid for entirely by the Indian tax-payer, these troops were organized in a European-style colonial army and used regularly in the endless series of wars (by one count, seventy-two separate campaigns between 1837 and 1900) through which Britain opened up Asia and Africa to Western trade, investment and influence. They were "the iron fist in the velvet glove of Victorian expansionism." The major coercive force behind the internationalization of industrial capitalism" (Washbrook 1990: 481).

Military manpower was not the only kind of tribute that Britain extracted from India. Equally important, the infamous Home Charges, and the Bank of England's control over India's foreign exchange reserves, jointly turned India into the "pivot" of Britain's global financial and commercial supremacy. India's balance of payments deficit with Britain and surplus with the rest of the world enabled Britain to settle its deficit on current account with the rest of the world. Without India's forcible contribution to the balance of payments of Imperial Britain, it would have been impossible for the latter "to use the income from her overseas investment for further investment abroad, and to give back to the international monetary system the liquidity she absorbed as investment income." Moreover, Indian monetary reserves "provided a large *masse de manœuvre* which British monetary authorities could use to supplement their own reserves and to keep London the centre of the international monetary system" (de Cecco, 1984: 62-3).

In sum, the nineteenth-century UK-centered global capitalist system rested from beginning to end on tribute from India. It was tribute from India that made possible the sixfold increase in British public expenditure that in 1792-1815 laid the foundations of British supremacy in the capital goods industries over the next half century. And it was tribute from India

that consolidated Britain's centrality in world-scale processes of capital accumulation when its industrial supremacy began to wane. Tribute and trade were thus as closely interwoven in the UK-centered global system as they were in the China-centered regional system. The difference is that the tribute that India paid to Britain - at first as sheer plunder and then, increasingly, in the form of military manpower and means of payments - was a form of coercively imposed taxation that had no counterpart in the East Asian system. Substantively, it corresponded more closely to the original meaning of the Chinese term for "tribute" (*chao-gong*) than did relations in the China-centered tribute-trade system. In this term, *chao* means the act of submission through which vassal states sought recognition from the central state, while *gong* means the valuable offerings of the vassal states to the central state - a coercively imposed tax. Ever since the establishment of a unified taxation system under the Qin and Han dynasties more than two thousand years ago, however, tributary relations between the Chinese imperial court and its vassal states no longer included the collection of a tax. On the contrary, especially after the Tang dynasty, and with the sole exception of the Yuan dynasty, vassal states offered the imperial court only symbolic gifts and received in return much more valuable gifts. What was nominally "tribute," was in fact a two-way transaction motivated by the symbolic or material interests of the vassal and central states - a two-way transaction in which the vassals often benefited economically far more than the central state (Gao 1993: 1-78).

The human and material resources that Britain extracted from India, in contrast, were and remained a coercively imposed tax. Moreover, they were essential to Britain's capacity to hold the center of the global capitalist system. The mobilization and deployment of Indian tribute on the scale required to reproduce and consolidate this capacity, however, presented difficult problems. It was precisely this challenge that drove Britain to clash with China in the two mid-nineteenth century Opium Wars.

Throughout the first half of the nineteenth century, opium was, in Joseph Escherick's words, "the West's only feasible entree into the China market" (1972: 10). More precisely, it was the only commodity that could contain the hemorrhage of silver from the West to China. From a British perspective, the main significance of British sales of Indian opium to China lay in the role that such sales played in facilitating the transfer of Indian tribute to the metropolis. As the head of the statistical department at the East India House put it in explaining the triangular relationship: "India, by exporting opium, assists in supplying England with tea. China by consuming opium, facilitates the revenue operations between India and England. England by consuming tea contributes to increase the demand for the opium of India" (Thornton 1835: 89).

The need to expand the India-China trade in order to facilitate the revenue operations between India and England had been from the start

the main stimulus behind the expansion of the opium trade. As early as 1786, Lord Cornwallis, then Governor General of India, saw the expansion of the India-China trade as essential to paying at least in part for Chinese exports of tea and silk to Britain and other European countries and, above all, as the only way in which the vast tribute of Bengal could be transferred to England *without heavy losses through exchange depreciation* (Bagchi 1982: 96; Greenberg 1951: Chapter 2). When the abrogation of the India trade monopoly induced the East India Company to redouble its efforts in promoting opium smuggling into China, shipments expanded rapidly (more than threefold between 1803-13 and 1823-33) and the soundness of Cornwallis' advice was fully vindicated. In the words of a contemporary account, from the opium trade:

The Honourable Company has derived for years an immense revenue and through them the British Government and nation have also reaped an incalculable amount of political and financial advantage. The turn of the balance of trade between Great Britain and China in favour of the former has enabled India to increase tenfold her consumption of British manufacture; contributed directly to support the vast fabric of British dominion in the East, to defray the expenses of His Majesty's establishment in India, and by the operation of exchanges and remittances in teas, to pour an abundant revenue into the British Exchequer and benefit the nation to an extent of 16 million yearly.

(Quoted in Greenberg 1951: 106-7)

The "Honourable Company" was squeezed out of this lucrative branch of British commerce by the abrogation of its China monopoly in 1833. But the abrogation further emboldened the forces of free trade, which went on to agitate for "the strong arm of England" to bring down the restrictions that the Chinese government imposed on their freedom of action. The Chinese government for its part, far from yielding to British pressures, moved swiftly to suppress a trade that was as baneful for China as it was beneficial for Britain. Beyond the deleterious impact on the fabric of Chinese society of a growing number of addicts, the opium trade had highly disruptive political and economic effects on the Chinese state.

The proceeds of opium smuggling trickled down to Chinese officials whose corruption seriously impaired the execution of official policy in all spheres and directly and indirectly fed social unrest. At the same time, the trade caused a massive and growing drain of silver from China to India: 1.6 million taels a year in 1814-24; 2.1 million taels a year in 1824-37; and 5.6 million taels a year in the two years preceding the first Opium War (Yen *et al.* 1957: 34). Taking the period 1815-50 as a whole, 150 million Mexican Silver Dollars flowed out of China (Lin 1991: 11). As the imperial

edict of 1838 emphasized in announcing the decision to destroy the trade, the effects of the drain on the financial and fiscal integrity of the Chinese state (and, by implication, on its capacity to hold the center of the East Asian regional system) were devastating. "If steps not be taken for our defence," declared the edict, "the useful wealth of China will be poured into the fathomless abyss of transmarine regions" (quoted in Greenberg 1951: 143) - a "pouring," we may add, which is precisely what the British were after.

In putting the vigorous and incorruptible Lin Zexu in charge of the suppression of opium smuggling, the Chinese government had no intention of thwarting commercial opportunities in other branches of China's foreign trade, such as silk, tea and cotton goods, which it continued to encourage. Lin himself was careful in drawing a distinction between the illegal opium trade - which he was determined to suppress with or without the cooperation of the British government - and other, legal forms of trade, which he invited the British government to encourage as a substitute for the illegal traffic (Waley 1958: 18, 28-31, 46, 123; Hao 1986: 113-15). But having failed to persuade the British government to cooperate in the suppression of the traffic in the name of international law and common morality, he proceeded to confiscate and destroy smuggled opium and to incarcerate some smugglers. This police operation was denounced in the British Parliament as "a grievous sin - a wicked offence - an atrocious violation of justice, for which England had the right, a strict and undeniable right," by "the law of God and man," "to demand reparation by force if refused peaceable applications" (quoted in Semmel 1970: 153; see also Owen 1934).

Evidently, two quite different views of international law and common morality held sway in Britain and China. But while the Chinese view claimed a right to lay down and enforce the law only at home, the British view claimed a right to lay down and enforce the law not just at home but in China as well. To paraphrase Karl Marx (1959: 235), between equal rights force decides, and Britain had all the firepower it needed to make its view of right and wrong prevail over the Chinese. China had no answer to the steam-powered warship that in a single day in February 1841 destroyed nine war junks, five forts, two military stations, and one shore battery (Parker 1989: 96). After a disastrous war, an explosion of major rebellions, and a second, equally disastrous war with Britain (now joined by France), China virtually ceased to be the center of a "world in itself" (the East Asian system) to become a subordinate member of the UK-centered global capitalist system.

East Asian dynamics under Western dominance

Marx and Engels famously claimed that cheap commodities were the "heavy artillery" with which the European bourgeoisie "batter[ed] down all Chinese Walls" (1967: 84). Contrary to this claim, even after British gunboats had battered down the wall of governmental regulations that enclosed the Chinese domestic economy, the British variant of family capitalism had a hard time in out-competing the Chinese variant both in China and throughout the East Asian region. From the 1830s imports of British cotton textiles did devastate some sectors and regions of the Chinese economy, most notably Jiangsu which had long been a base of nankeen production, re-processing, and exports. With the newly invented power loom enabling British manufacturers to quadruple output and halve price, and with world cotton prices falling as a result of widespread introduction of the cotton gin, the textile industries of the Lower Yangzi had a hard time surviving the competition of foreign-made cotton yarn (Johnson 1993: 171-4). Yet British cotton cloth was never able to compete in rural markets with stronger Chinese cloth. As late as 1894 indigenous handicraft industry still supplied 86 percent of the Chinese market for cotton cloth. By then, foreign imports were rapidly displacing handicraft spinning of cotton yarn, which suffered an estimated 50 percent contraction between 1871-80 and 1901-10. But the use of cheaper, machine-produced foreign yarn gave new impetus to the domestic weaving industry, which managed to hold its own and even expand (Feuerwerker 1970: 371-5; Wu 1987: 148; Xu *et al.* 1992: 155-7; see also Sugihara, Chapter 3, this volume, and Hamilton and Chang, Chapter 5, this volume).

The competitiveness of Western firms that set up production facilities within China was even less impressive. They could never penetrate effectively the vast interior of the country and had to rely on the indigenous Chinese traders for the supply of the raw materials and the marketing of their products (Kasaba 1993). In the case of silk and tea, as with opium, Chinese merchants made huge profits by cooperating with the Europeans, while others established their own businesses, gaining the upper hand in competing with foreign businesses (Chen 1984: 58-61; Xu *et al.* 1989: 75-81). In the silk industry, for example, foreign ventures incurred major losses, while local business prospered - the number of workers employed and exports of modern, Chinese-owned filatures increasing by a factor of 10 between the 1880s and the 1890s. "Foreigners" - lamented a British consul in Canton - "had little left to them other than the export trade" (So 1986: 103-16; So and Chiu 1995: 47). Western products and businesses did triumph in a few industries. But outside of railways and mines the triumph was limited to such products as cigarettes, which did not compete with any indigenous product, and kerosene, which replaced local

vegetable oil. Generally speaking, it is hard to dispute Andrew Nathan's observation that "the China market spelled frustration for foreign merchants. Foreign goods made but a superficial mark in Chinese markets" (1972: 5).

Opium, of course, was the great exception, leaving as it did a deep and long-lasting mark. But while the predominance of opium among Chinese imports throughout the nineteenth century may be taken as a measure of the continuing lack of competitiveness of most other foreign goods in the Chinese market, in the final analysis even the opium trade spelled frustration for foreign merchants. Access to the final consumers of the drug could be gained only through Chinese intermediaries organized in groups and networks on the basis of language, residence, kinship and political patronage. The "squeeze" that these intermediaries exercised on foreign merchants was the subject of recurrent complaints. Even when formally employed by foreign merchants, Chinese middlemen, in all trades, often made more money than their Western principals; they were quick to learn what there was to be learned of Western business techniques; and in competing with foreign firms they had the great advantage of much lower overheads and of not being "squeezed" by a middleman (Hao 1970: 110-11; Murphey 1977: 192-3; Hui 1995: 91, 96-8). By the end of the nineteenth century, these advantages had enabled Chinese traders to develop their own domestic supplies of opium, cutting imports sharply and destroying Britain's grip on the opium trade. Between 1870 and 1900 opium fell from 43 percent to 15 percent of Chinese imports (Feuerwerker 1980: 9, 489).

Far from destroying indigenous forms of family capitalism, the subordinate incorporation of China within the structures of the UK-centered global capitalist system led to a renewed expansion of the Chinese merchant networks and communities that over the previous millennium had developed in the coastal regions of China and in the interstices of the China-centered tribute-trade system. As the capacity of the Qing government to control channels between the Chinese domestic economy and the outer world declined in the wake of the Opium Wars and intervening domestic rebellions, profitable opportunities for Chinese merchants operating within these networks and communities proliferated. Many of these merchants made their "first tank of gold" in the opium trade. But the greatest expansion of the Overseas Chinese capitalist stratum was based on the "coolie trade," the procurement and transshipment of indentured labor for service overseas and bank profits on their remittances home. The transformation of much of the "periphery" of the China-centered system into a major source of raw materials for European countries created a sudden expansion in the demand for cheap labor in the region. At the same time, the ongoing disintegration of the political economy of the Qing inflated the surplus population in China and undermined the

capacity of the regime to interfere with the resettlement of the surplus overseas. As a result, between 1851 and 1900, more than two million "contract laborers" were shipped off from China, two-thirds of them to Southeast Asia (Hui 1995: 108-9, 115, 138-41; Northup 1995). From another perspective, we can locate this resettlement as the latest phase in the long-term expansion of Chinese laborers and merchants into Southeast Asia, the basis for the deepening economic bonds linking the region.

The boom in the coolie trade boosted the expansion of the Overseas Chinese trading diaspora in several related ways. Although transportation was in the hands of European shipping companies, most other branches of the trade were controlled by Chinese secret societies in the major ports of China and Southeast Asia. Profits were high and became the foundation of many new fortunes among Chinese merchants. Besides making the fortunes of individual merchants, the coolie trade also made the fortunes of the port-cities of Singapore, Hong Kong, Penang and Macao, all of which to varying degrees became major seats and "containers" of the wealth and power of the Chinese business diaspora, and all of which became home to large overseas Chinese populations even as these localities became key nodes of European colonialism in the region. Equally important, the coolie trade, like earlier migrations, left a legacy of Chinese settlement throughout Southeast Asia that strengthened the capacity of the Overseas Chinese to profit from one form or another of commercial and financial intermediation within and across jurisdictions in the East Asian region (Peng 1981: 196-200; Headrick 1988: 259-303; Lin and Zhang 1991: 173; Hui 1995: 127-38, 142-5, 149-53; 1997: 118).

As in earlier periods of strengthening of their position, the capitalist stratum of the Overseas Chinese benefited from the fiscal and financial pressures faced by the late Qing as a result of wars, rebellions, worsening trade conditions, and natural disasters. These pressures forced the Qing court not only to relax controls on their activities but to turn to the Overseas Chinese for financial assistance. The fact that anti-Qing forces, from the Taiping to various organizations associated with Sun Zhongshan, were very active in Overseas Chinese centers was a further reason for seeking closer ties with Overseas Chinese business networks. In exchange for assisting the Qing court, the Overseas Chinese obtained offices, titles, protection for their properties and connections in China, and access to the highly profitable arms trade and government loan business (Huang, 1974: 251-2; Lin and Zhang 1991: 180-90; Tsai 1993: 63). These closer ties were not an unmixed blessing for the Overseas Chinese. From the start, they were the cause of tension with the governments in which they resided or did business (Tate 1979: 22; Tsai 1993: 82, 90). Nevertheless, up to the final collapse of the Qing in 1911 the Overseas Chinese capitalist stratum managed to profit from the intensifying competition among the regional governments, both indigenous and colonial (Hui 1995: Chapter 3).

The revitalization of Chinese family capitalism in China and overseas was not the only result of the intensification of inter-state competition that ensued from the subordinate incorporation of East Asia within the structures of the UK-centered global system. Its most important result for at least one century was the launching of major industrialization drives both in China and Japan. Kawakatsu has maintained that the strongest motivation for Japanese industrialization "was not so much a process of catching up with the West, but more a result of centuries-long competition within Asia" (1994: 6-7). Similarly, Hamashita has argued that Japanese industrialization was a response to Japanese difficulties in successfully competing with Chinese rather than Western business networks:

The main reason why Japan chose the direction of industrialization was its defeat in attempts to expand commercial relations with China. Japanese merchants faced the well-established power of overseas Chinese merchants built through the Dejima trade in Nagasaki during the Edo period. Chinese merchants monopolized the export business for sea-foods and native commodities and Japanese merchants simply could not break their hold.

(1988: 20)

Japanese industrialization, and the territorial and commercial expansion of Japan that went with it (including the imposition of unequal treaties on China and Japan's colonial acquisition of a range of territories in East Asia) were indeed a continuation by new means and in a new systemic context of the centuries-long Japanese attempt to re-center upon itself the East Asian tribute trade system. And as we have ourselves just argued, in most consumer goods industries Chinese business networks were hard to out-compete not just by Japanese but by Western business networks as well. Nevertheless, the change in systemic context transformed radically the nature of the inter-state competition that had characterized the East Asian system since the consolidation of the Tokugawa and Qing regimes and made competition in the capital goods industries far more important politically and economically than competition in the consumer industries. In the new context, inter-state competition within East Asia was inseparable from attempts to catch up with Western proficiency in the capital goods industries, whose modernization (in East Asia, no less than in Europe) was intimately associated with the enhancement of military capabilities.

The Opium Wars revealed brutally the full implications of Western military superiority, and thereby awoke the ruling groups of China and Japan to the imperatives of accelerated military modernization. The awakening led the scholar-official Wei Yuan to develop the old idea of using the barbarians to control the barbarians into the new idea of using barbarian

armaments (and the means to produce them) to control the barbarians (Tsiang 1967: 144). In China the idea became central to the Self-Strengthening Movement that took off after the second Opium War (cf. Fairbank 1983: 197-8; So and Chiu 1995: 49-50). A few years later the Meiji Restoration also embraced the idea and propelled Japan along the same path of rapid modernization. The armament race that had long been a feature of the European inter-state system was thus "internalized" by the East Asian system.

For about twenty-five years after they were launched, industrialization efforts yielded similar economic results in China and Japan. On the eve of the Sino-Japanese War of 1894, in Albert Feuerwerker's assessment, the disparity between the degree of modern economic development in the two countries was not yet flagrant" (1958: 53). Nevertheless, Japan's victory in the war was symptomatic of a fundamental difference in the impact of the industrialization drive on the social and political fabric of the two countries. In China, the main agency of the drive was provincial authorities, whose power *vis-à-vis* the central government had increased considerably in the course of the repression of the rebellions of the 1850s and who used industrialization to consolidate their autonomy in competition with one another. In Japan, in contrast, the industrialization drive was an integral aspect of the Meiji Restoration that centralized power in the hands of the central government and disempowered provincial authorities (So and Chiu 1995: 53, 68-72).

The outcome of the Sino-Japanese war, in turn, deepened the underlying divergence in the trajectories of Japanese and Chinese industrialization. On the one hand, China's defeat weakened national cohesion, initiating half a century of political chaos marked by further restrictions on sovereignty, crushing war indemnities, the final collapse of the Qing regime and the growing autonomy of semi-sovereign warlords, followed by Japanese invasion, and recurrent civil wars between the forces of Nationalism and Communism. On the other hand, victory over China in 1894, followed by victory over Russia in the war of 1904-5, established Japan — to paraphrase Akira Iriye (1970: 552) — as "a respectable participant in the game of imperialist politics," a position perhaps best substantiated by the Anglo-Japanese alliance from 1902. The acquisition of Chinese territory, most notably, Taiwan in 1895, followed by the Liaodong peninsula and the securing of all Russian rights and privileges in South Manchuria in 1905, and culminating in China's recognition of Japanese suzerainty over Korea (annexed as a colony in 1910), provided Japan with valuable outposts from which to launch future attacks on China, as well as with secure overseas supplies of cheap food, raw materials and markets (Peattie, 1984: 16-18).⁷ At the same time, Chinese indemnities amounting to more than one-third of Japan's GNP helped Japan to finance the expansion of heavy industry and to put its currency on the gold standard. This, in turn,

improved Japan's credit rating in London and its capacity to tap additional funds for industrial expansion at home and imperialist expansion overseas (Feis 1965: 422-3; Duus 1984: 143, 161-2).

This bifurcation of the Japanese and Chinese developmental paths culminated in the 1930s in the eclipsing of Britain by Japan as the dominant power in the region. With the Japanese seizure of Manchuria in 1931, followed by the occupation of North China in 1935, full-scale invasion in an undeclared war on China from 1937 and the subsequent conquest of parts of Inner Asia and much of Southeast Asia, ousting European powers originally occupying these areas, Japan seemed to be finally succeeding in re-centering upon itself the East Asian region. The Japanese bid for regional supremacy, however, could not be sustained, not only because of the failure in the course of a fifteen-year war to subjugate China, but also because Japan, following the Pearl Harbor attack, simultaneously fought the United States and its allies. Both fronts would exact heavy burdens on an overburdened Japan, leading to a rollback of its advances in Southeast Asia and the Pacific as early as 1942. As the massive destruction inflicted on Japan by the US strategic bombing campaign in the final months of the war demonstrated even before Hiroshima and Nagasaki, Japanese advances in Western military technology could not keep up with the most powerful military-industrial complex of the era, the USA. But the Japanese bid collapsed also because it called forth in China countervailing forces as firmly opposed to Japanese as to Western domination. Once the Japanese had been defeated, the formation of the People's Republic of China would contest Western hegemonic drives in a struggle for centrality in East Asia that has shaped trends and events in the region ever since.

US hegemony and the East Asian economic renaissance

The establishment of US hegemony at the end of the Second World War thoroughly transformed inter-state relations within the East Asian region and the world at large. The transformation involved a foreign military presence in East Asia that had no precedent even at the height of late nineteenth- and early twentieth-century imperialism. At the same time, however, it involved the emergence of hybrid forms of inter-state relations that combined features of the historic European and East Asian regional systems. It was in this context that the East Asian region began to experience an economic renaissance that recent setbacks have slowed down but not reversed. In this section, we shall first sketch the change in the regional political economic context that ensued from the establishment of US hegemony and the trajectory of the subsequent regional economic expansion. We shall then show how this expansion has deep roots in the multiple historical legacies of the region.

The context and trajectory of the East Asian economic renaissance

The US military occupation of Japan in 1945 and the division of the region in the aftermath of the Korean War into two antagonistic blocs created, in Bruce Cumings' words, a US "vertical regime solidified through bilateral defense treaties (with Japan, South Korea, Taiwan, and the Philippines) and conducted by a State Department that towered over the foreign ministries of these four countries."

All became semisovereign states, deeply penetrated by U.S. military structures (operational control of the South Korean armed forces, Seventh Fleet patrolling of the Taiwan Straits, defense dependences for all four countries, military bases on their territories) and incapable of independent foreign policy or defense initiatives . . . There were minor demarches through the military curtain beginning in the mid-1950s, such as low levels of trade between Japan and China, or Japan and North Korea. But the dominant tendency until the 1970s was a unilateral U.S. regime heavily biased toward military forms of communication.

(Cumings 1997: 155)

The militaristic nature of this unilateral US regime, strengthened by its rigid ideological commitments, had no precedent in the East Asian region, with the partial exception of the Yuan regime in the late thirteenth and early fourteenth centuries and the aborted Japanese regime in the early twentieth century. And yet, the interpenetration of tribute and trade relations between an imperial center whose economic might was incomparably greater than that of its vassal states invites comparison between the US regime and the old China-centered tribute-trade system. The contrast with the nineteenth-century UK-centered global capitalist system is clear. As we have seen, three closely related features characterized the latter: the global commercial and financial entrepôt functions exercised by Britain; Britain's unilateral free trade regime, which widened and deepened those functions; and massive tribute from India, which made Britain's unilateral free trade possible. In all three respects, the US-centered global capitalist system instituted after the end of the Second World War differed radically from its UK-centered predecessor. At the height of its hegemony, from the late 1940s through the 1960s, the United States exercised no entrepôt functions of global significance; nor did it practice free trade *unilaterally*; nor did it have an empire from which to extract coercively military manpower and means of payments. It was instead the "container" of a self-centered, largely self-sufficient, continental economy. This giant state did promote the liberalization of trade but

not through the unilateral opening up of its domestic market to the exports of the whole world, as Britain had done. Rather, it did so through a combination of bilateral and multilateral agreements with and among states that for all practical purposes were its vassals in the politico-military confrontation with the USSR (cf. Arrighi 1994: 67-72, 274-95).

At the same time, this US-centered system presented two important similarities with the early modern East Asian system centered on China. One was the disproportionately greater size of the central state's domestic market relative to all other domestic markets. And the other was the relationship of political and military vassalage *vis-à-vis* the central state that other states had to accept in order both to receive regime legitimation and to gain access to its domestic market. In this respect, we may well say that US supremacy in East Asia after the Second World War was realized through the transformation of the periphery of the former China-centered tribute-trade system into the periphery of a US-centered tribute-trade system, a transformation that was predicated on breaking their trade and other bonds with China. The US-centered system, however, was far more militaristic in structure and orientation than its China-centered predecessor. Not only was it based on a military-industrial apparatus of incomparably greater size, technological sophistication and destructive power, rather than on a culturally shared notion of a hierarchical world order. More important, the US-centered system also fostered a functional specialization between the imperial and the vassal states that had no precedent in the old China-centered system. As in the Iberian-Genoese relationship of political exchange of sixteenth-century Europe mentioned earlier, the United States specialized in the provision of protection and the pursuit of political power regionally and globally, while its East Asian vassal states specialized in trade and the pursuit of profit.⁸

This relationship of political exchange between the United States and Japan played a decisive role in launching the first and most spectacular of the late twentieth-century East Asian economic "miracles." As Franz Schurmann (1974: 143) wrote at a time when the "miracle" was still in the making, "freed from the burden of defense spending, Japanese governments have funneled all their resources and energies into an economic expansionism that has brought affluence to Japan and taken its business to the farthest reaches of the globe." Japan's economic expansion, in turn, generated a "snowballing" process of concatenated, labor-seeking rounds of investment that promoted and sustained a region-wide economic expansion (Ozawa 1993: 30-1; Arrighi 1996: 14-16).

The process is described in Figure 7.1 by means of successive descending flows of labor-seeking investment from higher- to lower-income jurisdictions and ascending counter-flows of labor-intensive exports. In this regional space-of-flows, labor-seeking investments mobilize the cheaper or more abundant labor supplies of lower-income locales to contain costs of

share of the global market. The Gross National Product (GNP) of a particular state or group of states converted in US\$ at market exchange rates measures the income or value added that accrues to the residents of that state or group of states. Expressed as a percentage of world GNP, it constitutes the best available measure of the share of the world market (or effective world demand) controlled by the residents of that state or group of states. Table 7.1 shows this percentage for different regions of the world from 1960 to the latest year for which data are available.⁹

The most striking feature of the table is the doubling of the East Asian share of world GNP between 1960 and 1999, in sharp contrast with the stagnant or declining share of most other regions. The only other regions whose share experienced a significant increase are the Middle East and

Table 7.1 Regional shares of world GNP (and population)

Region	1960	1970	1980	1990	1999
East Asia	13.0 (38.2)	19.5 (38.3)	21.8 (38.0)	25.9 (37.1)	25.9 (35.9)
Australia and New Zealand	1.7	1.6	1.5	1.5	1.6
North America	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
South and Central America	35.1	30.6	29.2	29.2	29.8
Western Europe	(7.9)	(7.4)	(6.8)	(6.2)	(6.1)
Sub-Saharan Africa	5.8	5.7	7.0	5.6	5.8
Middle East and North Africa	(8.2)	(8.8)	(9.3)	(9.5)	(9.7)
South Asia	40.5	38.7	36.4	33.5	32.3
Total	(12.4)	(10.9)	(9.5)	(8.1)	(7.7)
	1.3	1.3	1.2	1.0	1.0
	(6.8)	(7.2)	(7.8)	(8.8)	(9.4)
	1.2	1.3	1.7	1.7	1.7
	(4.0)	(4.2)	(4.5)	(4.9)	(5.1)
	1.3	1.3	1.2	1.5	1.9
	(22.0)	(22.7)	(23.8)	(24.8)	(25.7)
	100.0	100.0	100.0	100.0	100.0
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: Our calculations based on World Bank (1984, 2001).

Notes

Countries included: East Asia: China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, North America: Canada, United States. South and Central America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela. Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, Greece, Ireland, Israel, Italy, Portugal, Spain. Sub-Saharan Africa: Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Rep. of Congo, Congo Dem. Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Togo, Uganda, Zambia, Zimbabwe. Middle East and North Africa: Algeria, Arab Rep. of Egypt, Morocco, Saudi Arabia, Sudan, Syrian Arab Rep., Tunisia, Turkey. South Asia: Bangladesh, India, Nepal, Pakistan, Sri Lanka.

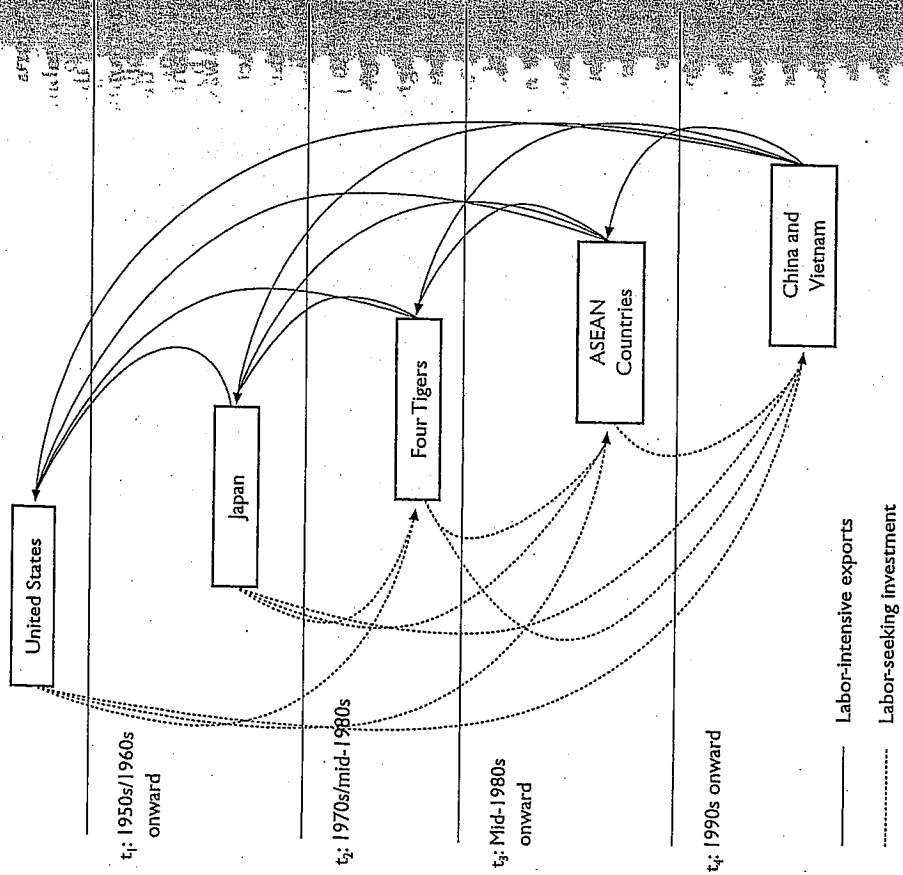


Figure 7.1 The snowballing effect in the rise of East Asia

Source: Adapted from Ozawa (1993: 143).

production and consumption in higher-income locales, while labor-intensive exports tap the wealthier or larger markets of higher-income locales to boost the prices fetched by the productive combinations of lower-income locales. Analogous spaces-of-flows have of course been in operation in other regional economies and in the global economy as a whole. We nonetheless concur with Terutomo Ozawa's contention that in East Asia the density and intensity of such a space have been greater than elsewhere and provide a good part of the explanation of the region's exceptionally good economic performance over the last half century. This exceptional performance is perceived most clearly in the region's ascent in the global hierarchy of wealth and in the rapid increase in its

North Africa, broadly corresponding to the lands of the former Ottoman Empire (with an increase of 39.5 percent) and South Asia (with an increase of 47.7 percent). In both instances, however, the increase was less than half the increase in the East Asian share. More important, the share of both regions, unlike the East Asian share, was and remained rather insignificant, still accounting for less than 2 percent of world GNP at the end of the period. In the 1990s, the increase in the East Asian share tapered off. It is nonetheless noteworthy that the combination of the East Asian crisis and the North American resurgence contained rather than reversed the earlier trend toward a rise in the East Asian share and a decline in the North American share.

The nature and extent of the East Asian expansion can be brought into sharper relief by examining other indicators. An increase (decrease) in a region's or country's share of world GNP (or share of the world market) in itself does not tell us anything about that region's or country's rise or fall in the global value-added pecking order, because it may be due primarily or even exclusively to an increase (decrease) in that region's or country's share of world population. In order to gauge such a rise or fall, we must examine changes in relative GNP per capita (GNPPC). Thus, Table 7.2 shows the GNPPC of different regions as a percentage of "world" GNPPC and Table 7.3 shows the GNPPC of the different jurisdictions of the East Asian region also as a percentage of "world" GNPPC.

Table 7.2 highlights even more clearly than Table 7.1 the exceptionally strong economic performance of the East Asian region. Over the four decades recorded here, the region's ascent in the global value-added ranking surpassed by a wide margin that of any other region, its GNPPC rising more than twice as fast as the world average. The next best performing regions by this criterion (Western Europe and South Asia) improved their position relative to the world average by less than one-fourth the East

Table 7.2 Regional GNPPC as percentage of "world" GNPPC

Region	1960	1970	1980	1990	1999
East Asia	34.2	51.0	57.4	69.8	72.1
Australia and New Zealand	339.4	330.5	321.0	317.1	356.9
North America	442.9	415.7	432.8	468.9	489.4
South and Central America	70.7	65.0	75.7	58.9	59.9
Western Europe	327.6	353.4	384.2	411.4	417.4
Sub-Saharan Africa	18.8	17.4	15.5	11.8	10.5
Middle East and North Africa	31.2	31.1	37.5	35.5	33.9
South Asia	5.8	5.6	5.0	6.1	7.4
Weighted Average	100.0	100.0	100.0	100.0	100.0

Source: See Table 7.1.

Note

Countries included: see Table 7.1.

Table 7.3 Breakdown of East Asian GNPPC as percentage of "world" GNPPC

Jurisdiction	1960	1970	1980	1990	1999
China	3.3	2.7	3.5	6.4	12.4
Hong Kong	103.8	148.5	236.2	346.5	372.9
Taiwan	20.9	31.3	70.6	159.3	211.3
Singapore	105.9	152.0	236.3	369.6	461.7
Japan	281.9	500.3	577.8	715.2	703.8
South Korea	45.4	54.2	77.1	146.6	196.7
Malaysia	32.7	33.9	47.4	56.1	70.8
Thailand	15.5	19.0	23.3	36.4	43.7
Indonesia	8.6	7.5	10.1	13.7	14.9
Philippines	24.1	20.7	24.3	19.5	19.8
Weighted Average	34.2	51.0	57.4	69.8	72.1

Source: See Table 7.1.

Asian improvement.¹⁰ Thanks to this exceptionally strong performance, East Asia was the only lower-income region that improved significantly its position relative to all three higher-income regions (North America, Western Europe and Australasia).

Despite its sustained character, the East Asian ascent has been a highly uneven process. As Table 7.3 shows, not only did the degree of overall advancement (or decline) in the course of the four decades vary considerably from jurisdiction to jurisdiction. In addition, the speed of the advance (or decline) varied from period to period. Taking the period as a whole, the best performers were Taiwan, Singapore, South Korea, China and Hong Kong, in that order – all but South Korea primary sites of residence of the Overseas Chinese. Table 7.3 also shows that the general advance of the region's jurisdictions (except for the Philippines, which lost ground relative to the world average) had only a minor impact on the huge income gaps that separate the wealthier from the poorer countries within the region. Thus, in spite of their advances, the two most populous countries in the region (China and Indonesia) remain low-income countries by world standards, while Japan has surpassed by a good margin the average GNPPC of the world's wealthiest regions. As a result, income inequalities among countries within the region not only continue to mirror income inequalities in the world at large, but are larger than in any other region of the world.¹¹

A further dimension of the East Asian economic renaissance is the comparative success of the region's industrialization. The success can be gauged from Table 7.4, which shows regional shares of world value added in manufacturing for 1960, 1980 and 1998 (the latest year for which a minimally complete set of this kind of data is available). As Table 7.4 shows, East Asia was not the only region that increased its share of world

Table 7.4 Regional shares of "world" value added in manufacturing

Region	1960	1970	1980	1990	1998
East Asia	16.4	27.8	28.8	35.6	35.2
Australia and New Zealand	1.4	1.4	1.4	1.1	1.2
North America	42.2	33.4	29.6	26.9	29.9
South and Central America	6.0	6.0	8.7	6.9	6.6
Western Europe	32.4	29.3	29.0	25.9	23.4
Sub-Saharan Africa	0.7	0.8	0.9	1.0	0.8
Middle East and North Africa	0.5	0.6	0.8	1.3	1.3
South Asia	0.4	0.7	0.9	1.3	1.6
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Our calculations based on World Bank (1984, 2001).

Notes

Countries included: East Asia: China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, South Korea, Thailand, Australia and New Zealand: [No New Zealand in 1960 and 1970]. North America: Canada, United States. South and Central America: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay. Western Europe: Austria, Belgium, Denmark, Finland, France, Luxembourg, Netherlands, Norway, Sweden, United Kingdom, Greece, Italy, Portugal, Spain [No Netherlands in 1970]. Sub-Saharan Africa: Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Dem. Rep., Congo Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Lesotho, Malawi, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, South Africa, Togo, Zambia, Zimbabwe. Middle East and North Africa: Algeria, Egypt, Arab Rep., Morocco, Oman, Saudi Arabia, Tunisia, Turkey. South Asia: Bangladesh, India, Pakistan, Sri Lanka.

value added in manufacturing. Indeed, taking the period as a whole, all low-income regions did, while the share of all high-income regions declined. There are nonetheless two important differences between the increase of the East Asian share and that of all other low-income regions. First, the share of all other low-income regions remained very small, their combined share at the end of the period being only 37.5 percent of the Western European share and 29.4 percent of the North American share. The East Asian share, in contrast, by 1990 had surpassed both the Western European and the North American share by a good margin. Second, and most important, East Asia was the only region for which the increased share in industrial output was associated with a major upgrading in the global value-added pecking order measured by relative GNPPC. The upgrading of South Asia and the Middle East and North Africa was far less significant, while South and Central America and Sub-Saharan Africa experienced a downgrading (see Table 7.3).

It follows that rapid industrialization in East Asia was not just (or even primarily) a product of the relocation of low-value-added manufacturing activities to low-income regions. There was, of course, plenty of relocation of low-value-added manufacturing activities to East Asia, indeed, far more than anywhere else. Nevertheless, the fact that East Asia improved its

position in the global value-added ranking *vis-à-vis* the high-income regions so significantly is indicative of the fact that its rapid industrialization was the expression of competitiveness not just at the lower end of the value-added chain but also at the middle and higher ends. This has been true not only in such obvious cases as Japan, Taiwan, Singapore and South Korea, but also for China and to a lesser extent Thailand and Malaysia. In view of this more balanced competitiveness, it is no exaggeration to say that by the 1990s East Asia was well on its way to regaining the industrial supremacy it had held for so long in early modern times.

Last but by no means least, is the financial dimension of the East Asian economic renaissance. The "financialization" of the global economy in general, and of the economies of high-income countries in particular, is a widely acknowledged phenomenon of the 1980s and 1990s. Indeed, the explosive growth of world financial markets in the course of these two decades is the strongest piece of evidence in the armory of advocates of the thesis that we have entered a new phase of deepening "globalization" (cf. among others, Harvey 1995; Cohen 1996; Sassen 1996; Arrighi and Silver *et al.* 1999; Held *et al.* 1999; Rowley and Benson 2000). Most accounts of this tendency focus on the centrality of the US government and business in promoting and benefiting from the financial expansion of the 1980s and 1990s. Just as important, however, is the underlying tendency toward the demise of the United States and the rise of Japan and "Greater China" as the world's leading creditor nations. Tables 7.5 and 7.6 starkly illustrate this change of guard with the period since 1980 displaying the turnaround.¹²

Focusing exclusively on US-Japanese relations, Eamonn Fingleton (2001: 6; cf. Fingleton 1995) has recently noted that Japan's continuing advance in manufacturing activities relative to the United States in the 1990s had a major impact on their respective balances of payments, for the simple reason that manufacturing generates eleven times more exports per unit of output than service businesses. Large and persistent

Table 7.5 Current account surplus (+) or deficit (-) (million US\$, annual average)

Jurisdiction	1960-1	1970-1	1980-1	1990-1	1998-9
United States	+3,320	+440	+3,495	-37,515	-279,740
United Kingdom	-367	+2,352	+10,495	-24,415	-10,870
Germany	+925	+895	-8,410	+15,315	-12,730
China	n.a.	n.a.	n.a.	+12,635	+23,570
Hong Kong	n.a.	n.a.	n.a.	n.a.	+6,091
Singapore	n.a.	-684	-1,516	+4,001	+21,139
Japan	-420	+3,895	-2,990	+56,140	+138,755

Source: Our calculations based on International Monetary Fund (1990 and 2000).

Table 7.6 Regional shares of the ten largest official foreign exchange reserves

Region	1980	1990	1999
East Asia	9.72	32.30	78.12
North America	10.31	14.72	7.13
Western Europe	65.62	52.98	14.75
Others	14.35	0.00	0.00
Total	100.00	100.00	100.00

Source: Our calculations based on *Japan Almanac* (1993: 89) and (2002: 112).

surpluses in the Japanese balance of trade and deficits in the US balance, in turn, have deepened the reversal of positions between the two countries in the international credit system:

Japan is now exporting more capital in real terms than any nation since America's days of global economic dominance in the 1950s. [As a result,] in the first nine years of the 1990s Japan's net external assets jumped from \$294 billion to \$1,153 billion. Meanwhile, U.S. net external liabilities rocketed from \$49 billion to \$1,537 billion. In the long run this changing balance of financial power will be about the only thing that historians will remember about U.S.-Japanese economic rivalry in the last decade. Yet it was the one thing that Western observers generally overlooked.

If we broaden the picture to take into account the rapidly growing capital outflows from the "China Circle" (as shown only in part in Table 7.5 because of the lack of data for Taiwan) – combined with the large and growing East Asian share in world value added in manufacturing (as shown in Table 7.4) and the continuing upgrading of the region in the global value-added ranking (as shown in Table 7.3) – Fingleton's warning about a fundamental Western misreading of the 1990s begins to ring true (cf. Yeung and Olds 2000). As we have seen, by some indicators the East Asian rise does appear to have slowed down in the 1990s, especially in Japan. But persistent recession in Japan has been accompanied by unabated expansion elsewhere in the region, most notably in the PRC raising the possibility that we may indeed be – as Gills and Frank (1994: 6–7) put it – "at the beginning of a return [to a global economy] in which parts of Asia play again a leading role ... as they did in the not so distant past." Be that as it may, the question that concerns us here and to which we must now turn is whether we can detect any connection between the region's ongoing economic renaissance and its multiple historical heritages.

Lineages of the East Asian economic renaissance

The importance of East Asia's multiple historical heritages in shaping and sustaining the region's economic integration and expansion is best perceived by focusing on the succession of agencies that have played a leading role in the process of labor-seeking investments depicted in Figure 7.1. This succession can be likened to "a three-stage rocket" – a process, that is, in which the leading agencies of each stage created the conditions for the emergence of the leading agencies of the next. In the first stage, the main agency of expansion was the US government, whose strategies of power propelled the upgrading of the Japanese economy and created the political conditions of the subsequent transborder expansion of the Japanese multilayered subcontracting system. In the second stage, Japanese business itself became the main agency of expansion. As the catchment area of its investment and subcontracting networks came to encompass the entire East Asian region, Overseas Chinese business networks were revitalized. In the new climate provided after 1970 by the US-China opening, the fortunes of these networks became linked with the double pursuit by the Chinese government of economic advancement and national unification, creating the basis of a grand Chinese economic circle. In the incipient third stage, it is precisely the Chinese government acting at times in concert with the Chinese capitalist diaspora in Taiwan, in Hong Kong, throughout Southeast Asia and in North America that seems to be emerging as a leading agency in the expansion of the Chinese and East Asian economies, at a time when Japan's economy has experienced a decade of stagnation (cf. Arrighi 1996: 36–7).

From the perspective adopted in this chapter, these three stages of the East Asian economic renaissance can be interpreted also as stages of a process of revival of key features of the East Asian tribute-trade system in a radically transformed global context. The initial stage was one of seemingly absolute Western supremacy. The Cold War had split the region into two antagonistic camps and reduced most East Asian states to the status of "vassals" of one or the other contending "imperial" center – the United States and the USSR. As the Korean War demonstrated, however, even at this stage Western supremacy was more precarious than it seemed. It was indeed this precariousness that induced the United States to revive unwittingly a typical feature of the seemingly defunct East Asian tribute-trade system – that is, a regime of "gifts" and trade between the imperial and the vassal states that was very favorable economically to the vassal states. This was "the 'magnanimous' ... early postwar ... trade [and aid] regime of Pax Americana" to which Ozawa (1993: 130) traces the origins of the process of regional economic integration and expansion reproduced in Figure 7.1.

In spite of US "magnanimity," the fault-lines between the US and Soviet

spheres of influence in the region started breaking down soon after they were established – first by the Chinese rebellion against Soviet domination in the late 1950s, and then by the US failure to split the Vietnamese nation along the Cold War divide. The breakdown can ultimately be traced to the lack of legitimacy of US and Soviet pretensions to remake the political geography of East Asia in almost complete disregard of the region's historical heritage of state formation and civilizational integration. Attempts to enforce coercively this anti-historical strategic geography backfired, both politically and economically. Politically, US defeat in Vietnam demonstrated that, for all its effectiveness in reproducing a balance of terror with the USSR, the high-tech and capital intensive US military apparatus was ineffectual in enforcing US commands against the determined resistance of the Vietnamese people backed by Chinese and Soviet support. Economically, massive US spending at home and abroad to sustain the war effort in Southeast Asia precipitated a major fiscal crisis of the US warfare-welfare state and contributed decisively to the collapse of the US-centered, Bretton Woods world monetary system. As a result, US global power fell precipitously, reaching its nadir at the end of the 1970s with the Iranian Revolution, the Soviet invasion of Afghanistan, and a new crisis of confidence in the US dollar (Brodine and Selden 1972; Arrighi 1994: 321–3).

In the midst of this crisis, the militaristic US regime in East Asia began to unravel as the Vietnam War destroyed what the Korean War had created. The Korean War had instituted the US-centric East Asian regime by excluding Mainland China from normal commercial and diplomatic intercourse with the non-communist part of the region, through blockade and war threats backed by “an archipelago of American military installations” (Cumings 1997: 154–5). Defeat in the Vietnam War, in contrast, forced the United States to readmit China to normal commercial and diplomatic intercourse with the rest of East Asia. The scope of the region's economic integration and expansion was thereby broadened considerably but the capacity of the United States to control its dynamic politically was reduced correspondingly (Arrighi 1996; Selden 1997).

It was in this context that the Asian economic renaissance entered its second stage – the stage of Japanese-driven regional economic expansion and integration. As previously noted, Japanese leadership in regional economic expansion and integration was based on a division of labor between the US pursuit of power and the Japanese pursuit of profit that had no precedent in the indigenous East Asian tribute-trade system. Nevertheless, the gradual substitution of Japanese business for the US government as the leading agency of regional economic expansion marked the emergence of a pattern of inter-state relations in the region and beyond that resembled more closely the indigenous (East Asian) than the transplanted (Western) pattern of inter-state relations.

In the historic East Asian pattern, centrality in the inter-state system was determined primarily by the relative size and sophistication of the system's national economies. In the transplanted Western pattern, in contrast, centrality had come to be determined primarily by the relative strength of the system's military-industrial complexes. One of the most consequential (and disastrous) effects of the mid-nineteenth-century incorporation of East Asia within the structures of the Western system was the “internalization” of industrial militarism in the struggle for centrality. In the 1930s and 1940s Japan's attempt to center upon itself the East Asian regional system by industrial military means had been a failure. But its unintended result was the establishment of a US-centered regime in maritime East Asia that marked the apogee of industrial militarism in the region.

The limits of industrial militarism as a source of power were laid bare by the defeat of the United States in Vietnam. But it was the prodigious upgrading of the Japanese national economy from the 1950s through the 1980s, and the expansion of Japanese business networks in the region and beyond in the 1970s and 1980s, that jointly demonstrated the increasing effectiveness of economic relative to military means as a source of world power. Japan's growing influence in world politics in the 1980s was based primarily on the role that the Japanese government and Japanese business played in supplying the credit and cheap commodities that enabled the United States to reverse the precipitous decline of its power. Without this credit and commodities, the Reagan Administration's combination of a drastic reduction in domestic taxation and a major escalation of the armament race with the USSR, if at all possible, would have resulted in an increase instead of a decrease in inflationary pressures at home, and in a further weakening instead of a strengthening of the US dollar in world financial markets. This tendency transformed the previous relationship of Japanese political and economic vassalage *vis-à-vis* the United States into a relationship of mutual dependence. Japan remained in the grip of US military power. But the reproduction of the US protection-producing apparatus came to depend ever more critically on Japanese finance and industry.

Japan's growing economic power in the 1980s was not based on any major technological breakthrough. Rather, it was due primarily to a reversal of a secular trend in business organization that Japan was particularly well positioned to turn to its own advantage. For the very expansion of the US system of multinational corporations created conditions favorable to the revitalization of nineteenth-century forms of business organization (Arrighi *et al.* 1999). In the words of Manuel Castells and Alejandro Portes:

The large corporation, with its national vertical structure and the separation of its functions between staff and line, does not appear any more as the last stage of a necessary evolution toward rationalized

industrial management. Networks of economic activities, networks of firms, and coordinated clusters of workers appear to comprise an emergent model of successful production and distribution. (1989: 29-30)

The main feature of this emergent model is its "informality," in sharp contrast with the "formality" of the previously dominant model of corporate capitalism based on the regulatory powers of big business, organized labor and big government (Castells and Portes 1989: 27-9; for similar claims, see Piore and Sable 1984: 4-5, 15, 19-20). "The trend of a century is being reversed" - *The Economist* editorialized in 1989 - "as now it is the big firms that are shrinking and small ones that are on the rise" (quoted in Harrison 1994).

As Bennett Harrison has pointed out, there is much exaggeration in these claims. But as he himself acknowledges (*ibid.*: 244-5), it is nonetheless true that the worldwide intensification of competition among corporations that ensued from the proliferation in their number and variety has forced them to subcontract to small businesses activities previously carried out within their own organizations. The tendency toward the bureaucratization of business through vertical integration that had made the fortunes of US corporate business since the 1870s, thus began to be superseded, one hundred years later by a tendency toward informal networking and the subordinate revitalization of small business (Arrighi *et al.* 1999).

The strategy of big business, operating transnationally, to turn the advantages of small business into an instrument of the consolidation and expansion of its own power has been in evidence everywhere. But nowhere has it been pursued more consistently and successfully than in East Asia. Without the assistance of multiple layers of formally independent subcontractors - notes JETRO (Japan's External Trade Organization) - "Japanese big business would flounder and sink" (Okimoto and Rohlen 1988: 83-8). Close relationships of cooperation between large and small firms are buttressed by informal arrangements among the parent companies themselves in the form of semi-permanent trade agreements and inter-group shareholding that enable management to concentrate on long-term rather than short-term performance (Eccleston 1989: 31-4). Starting in the early 1970s, the scale and scope of this multilayered subcontracting system increased rapidly through a spillover into a growing number and variety of East Asian states (Arrighi *et al.* 1993: 55ff.).

The spillover was an integral aspect of the snowballing process of regional economic integration and expansion that strengthened the competitiveness of Japanese big business regionally and globally. Japanese business was the leading agency of the spillover. But the spillover could occur as rapidly and extensively as it did only by relying heavily on the business networks of the Overseas Chinese. Overseas Chinese were from

the start the main intermediaries between Japanese and local business in Singapore, Hong Kong and Taiwan - where ethnic Chinese constituted the majority of the population - and, later on, in most ASEAN countries, where the ethnic Chinese minority occupied a commanding position in local business networks. The region-wide expansion of the Japanese multilayered subcontracting system was thus supported, not just by US political patronage "from above," but also by Chinese commercial and financial patronage "from below" (cf. Hui 1995; Irwan 1995).

Over time, however, patronage from above and below began to constrain rather than support the capacity of Japanese business to lead the regional economic expansion. For the incorporation in the snowballing process of politically and militarily autonomous states like China changed radically the nature of the process. "For the first time in a very long time" - notes Jonathan Friedland - "there [was] open discussion of Japan's growing economic vulnerability to political forces beyond its control and just what to do about it." As a representative of Japanese big business explained: "We don't have military power. There is no way for Japanese businessmen to influence policy decisions of other countries... This is a difference with American business and it is something Japanese businessmen have to think about" (Friedland 1994: 42). This difference between US and Japanese business did not just mean that Japanese business could not match the capacity of a US government-business nexus to influence the policy decisions of third countries. Equally important, it meant that Japan's own policy decisions were far more susceptible to being shaped by US interests than US policies were of being influenced by Japanese interests. The very specialization in the pursuit of profit that had propelled the Japanese ascent, in other words, also limited the extent to which the ascent could go on eclipsing the United States as the center of the regional political economy.

Equally important is the fact that US business began restructuring itself to compete more effectively with Japanese business in the exploitation of East Asia's rich endowment of labor and entrepreneurial resources. This development is portrayed in Figure 7.1 by the three flows of labor-seeking investment that connect the United States to the Four Tigers, the ASEAN countries, and China and Vietnam. In Ozawa's original model these flows were missing, presumably to emphasize the fact that the main role played by the United States in the process of East Asian economic expansion has been as a destination of labor-intensive exports. While this is undoubtedly true, in the 1980s and 1990s a growing number of US corporations have been involved in tapping the region's labor supplies, not just through direct investment, but also and especially through all kinds of subcontracting arrangements. Indeed, in the 1990s East Asia emerged as one of the most favored destinations of US-centered "buyer-driven commodity chains" (cf. Gereffi 1994).

As Hamilton and Chang (Chapter 5, this volume) underscore, vertically disintegrated or loosely integrated, buyer-driven commodity chains were a distinctive feature of business organization in late imperial China and still are in contemporary Taiwan and Hong Kong. We may therefore interpret the formation and expansion in East Asia of US-centered chains of this kind as another instance of Western convergence toward East Asian patterns. This convergence of US business practices toward the Chinese model of buyer-driven commodity chains is an aspect of the reversal of the secular trend toward the formation of centralized, formally regulated and rigidly specialized business structures noted earlier. But the fact that the convergence has been particularly strong in the East Asian context is due primarily to the presence in the region of the extensive and strategically positioned business networks of the Overseas Chinese – that is, to the same condition that facilitated the transborder expansion of Japanese business.

By mobilizing these networks, US business could and did recoup some of its competitiveness both regionally and globally. In so doing, however, Japanese business in the footsteps of Japanese business rather than replacing expansion. If the process of snowballing labor-seeking investments not only continued but gained momentum in the 1990s in spite of a weakening of Japanese leadership, it was because the process had entered a third stage – the stage of Chinese-driven integration and expansion. For the reincorporation of mainland China in regional and global markets in the late 1970s and in the 1980s brought back into play a state whose demographic size, abundance of entrepreneurial and labor resources, and growth potential surpassed by a good margin that of all other states operating in the region, the United States included. Within less than twenty years after Richard Nixon's mission to Beijing, and less than fifteen years after the formal re-establishment of diplomatic relations between the United States and the PRC, this giant "container" of human resources already seemed poised to become again the powerful magnet of means of payment it had been in early modern times.

If the main attraction of the PRC for foreign capital has been its huge and highly competitive reserves of labor from the perspective of its cost and control – along with the actual and potential markets created by the mobilization of these reserves – the "matchmaker" that has facilitated the encounter of foreign capital and Chinese labor is the Overseas Chinese capitalist diaspora (Lardy 1992: 37–82; Fukasaku and Wall 1994: 26–42).

Drawn by China's capable pool of low-cost labor and its growing potential as a market that contains one-fifth of the world's population, foreign investors continue to pour money into the PRC. Some 80% of

that capital comes from the Overseas Chinese, refugees from poverty, disorder, and communism, who in one of the era's most piquant ironies are now Beijing's favorite financiers and models for modernization. Even the Japanese often rely on the Overseas Chinese to grease their way into China.

(Kraar 1993: 40)

In fact, Beijing's reliance on the Overseas Chinese to ease Mainland China's re-incorporation in regional and world markets is not the true irony of the situation. The true irony of the situation is that one of the most conspicuous legacies of nineteenth-century Western encroachments on Chinese sovereignty emerged in the 1980s as a powerful instrument of Chinese and East Asian emancipation from Western dominance. As we have seen, the Overseas Chinese diaspora had for centuries been the primary locus of the seeds of capitalism that sprouted in the interstices of the China-centered tribute-trade system. But the greatest opportunities for the growth of this interstitial capitalist formation came with the subordinate incorporation of East Asia within the structures of the UK-centered global system in the wake of the Opium Wars. In the early twentieth century, significant parts of the capitalist stratum of the diaspora attempted to transform its growing economic power into political influence over mainland China by supporting the 1911 revolution and the GMD in the warlord era. But in the face of escalating political chaos associated with warlordism and civil war, the takeover of China's coastal regions by Japan, and the eventual defeat of the GMD by the CCP, the diaspora was marginalized.

The Communist victory replenished the entrepreneurial ranks of the diaspora by generating a new spurt of Chinese migration to Southeast Asia and especially Hong Kong and Taiwan as well as the United States (cf. Wong 1988). Shortly afterwards, the price boom associated with the Korean War revived the flow of interregional trade and created new business opportunities for the Overseas Chinese. And so did the withdrawal of the European and US colonial-era large-scale enterprises and the arrival soon after of new multinational corporations seeking capable joint-venture partners (Mackie 1998: 142). Nevertheless, under the US unilateral regime that emerged out of the Korean War the Overseas Chinese role as commercial intermediaries between Mainland China and the surrounding maritime regions, was stifled as much by the US embargo on trade with the PRC as by the PRC's restrictions on domestic and foreign trade – restrictions that became particularly crippling during the Cultural Revolution of the 1960s (cf. Baker 1981: 344–5).

Moreover, through the 1950s and 1960s the expansion of Overseas Chinese capitalism was held in check (both directly and indirectly) by the spread of nationalism and national development ideologies and practices

in Southeast Asia. It was held in check indirectly by the privileging of economic links and connections within rather than across national boundaries. And it was held in check directly by anti-Chinese campaigns that restricted the freedom of action of the Overseas Chinese politically, economically and culturally (Suryadinata 1989: 122).

In spite of this unfavorable environment, Overseas Chinese business networks managed to hold their own and develop further. By the mid-1970s, a rough estimate of Chinese assets in Southeast Asia was US\$10-16 billion - an amount that in real terms was equal to two or three times the 1937 figure and placed the Overseas Chinese at the commanding heights of most Southeast Asian economies (Wu and Wu 1980: 30-4; Mackie 1992: 165; Hui 1995: 184-5). The Overseas Chinese were thus eminently well positioned to seize the highly profitable business opportunities that were opened up by the transborder expansion of the Japanese subcontracting system, the growing demand by US corporation for business partners in the region and, above all, the reintegration of the PRC in regional and global markets. As soon as these opportunities arose, they quickly seized them to become one of the most powerful capitalist networks in the region, in many ways overshadowing the networks of US and Japanese multinationals, and the leading force in foreign investment in China and regional economic and financial integration. Suffice it to mention that by the mid-1990s their assets were estimated to be in the order of US\$1.5-2.0 trillion (Lin 1996: 236).

This extraordinary expansion was not due solely to the entrepreneurship of the Overseas Chinese. It was just as much due to the determination with which the PRC under Deng sought their assistance in the upgrading of the Chinese economy and in seeking national unification in accordance with the "One Nation, Two Systems" model whose twin goals were China's economic expansion and the reunification of China including the recovery of Hong Kong, Macau and, eventually, Taiwan. A close political alliance was established between the Chinese Communist Party and Overseas Chinese business, one that would be strengthened following the 1997 reversion of Hong Kong and the further integration of Hong Kong and other overseas Chinese business interests through their role in governing Hong Kong and their participation in China's National People's Congress.

As Chinese entrepreneurs began moving from Hong Kong into Guangdong almost as fast as (and far more massively than) they had moved from Shanghai to Hong Kong forty years earlier, the Chinese government redoubled its efforts to win the confidence and assistance of the Overseas Chinese. In 1988, many of the privileges previously granted to Hong Kong's residents were extended to Taiwan's residents as well (So and Chiu 1995: Chapter 11). The response of Taiwan's capitalists was as enthusiastic as that of Hong Kong's. Taiwanese investments in mainland China shot up from US\$100 million in 1987 to US\$1 billion in 1989, and to US\$2 billion

in 1990, doubling again over the next two years (*Far Eastern Economic Review*, September 19, 1992: 12; see also Selden 1997: 324-32). By 1990, the combined investments of US\$12 billion from Hong Kong and Taiwan accounted for 75 percent of the total of all foreign investment, almost 35 times more than Japan (calculated from So and Chiu 1994 and *Far Eastern Economic Review* September 19, 1992: 12, and June 9, 1994: 44).

An unknown but by all accounts significant portion of the investment from Hong Kong and to a lesser extent Taiwan was in fact Japanese capital invested through the intermediation of Chinese businesses. It is nonetheless unlikely that any correction of the figures to take this fact into account would change substantially the overall picture of an expansion of foreign investment in China increasingly driven by the activities (including activities of intermediation) of the Overseas Chinese operating in close alliance with the PRC's ruling elites. These activities were also instrumental in promoting the rapid growth of the foreign trade of the countries out of which the Overseas Chinese operated. Suffice it to mention that in 1993 the \$613 billion combined exports and imports of China, Hong Kong and Taiwan already surpassed Japan's total trade of \$569 billion, and by 1998 they accounted for \$900 billion compared with Japan's total of \$668 billion (Japan External Trade Organization 1999: 7).

As we have underscored throughout the chapter, the fortunes of the Overseas Chinese in the indigenous East Asian regional system went through considerable ups and downs over the centuries. The present upturn in their fortunes is one of the clearest signs that the transformations of the global system in recent decades have reorganized and restructured rather than destroyed the pre-existing regional system. While some features of the pre-existing system did not survive the restructuring, others have been revitalized. It was only to be expected that so fertile a seed-bed of capitalism as the Overseas Chinese would be revived by the incorporation of East Asia in a global system that provided a far more favorable environment than the indigenous system for the unfettered development of capitalism. So far, this revival has been associated with a widening and deepening of the regional economic expansion. But how far this synergy can go, and whether it can go far enough to bring East Asia back to the center of the global economy, remain for now entirely open questions.

Conclusion

Our analysis started out with two puzzles - one concerning the rise of the West in early modern times and the other the rise of East Asia in our own times. The solution we have proposed to the first puzzle is that the extraordinary geographical expansion of the European system of states from the late fifteenth through the nineteenth century can be traced to two major features of that system: a balance of power that continually

reproduced inter-state competition within the system on the one side, and the critical role that profits from trade with the non-European world (Asia in particular) played in determining the outcome of that competition on the other. Taken jointly, these two systemic circumstances created an environment conducive to the combined development of capitalism and militarism – a development that sustained and was in turn itself sustained by economic and political expansion at the expense of other peoples and polities.

In the East Asian system, in contrast, the unbalanced structure of inter-state power and the insignificance of profits from trade with the non-East Asian world in determining the outcome of inter-state competition created an unfavorable environment for the combined development of capitalism and militarism along the European path. At certain times – as under the Southern Song and the Yuan – the environment was more favorable than at other times. But the further development of national markets under the Ming and the Qing in China and in Tokugawa Japan tended to externalize rather than internalize capitalism. Capitalism did thrive in the East Asian world system, but primarily as an interstitial formation embedded in the business networks of the Overseas Chinese.

In the short-to-medium run – bearing in mind that in these matters, to paraphrase Joseph Schumpeter (1954: 163), a century is a “short run” – this bifurcation of the European and East Asian developmental paths resulted in the further expansion of the market economy in China and Japan and in a condition of peace and stable government in the East Asian system that contrasted sharply with the situation of generalized warfare and state breakdowns typical of the European system. In the longer run, however, the bifurcation resulted in a strengthening of the capacity and disposition of Western states to pursue the subordinate incorporation of East Asian states within the structures of their own system on the one side, and in a decreasing capacity of East Asian states to prevent such an incorporation on the other. But once the incorporation actually occurred, as it did in the wake of the Opium Wars, the historical heritage of the East Asian system did not vanish in a generalized convergence toward Western practices and patterns of political and economic interaction. There was convergence but through a process of hybridization that preserved and eventually revived important features of the East Asian system. In our view it is precisely in this process of hybridization that we can find a good part of the solution to our second puzzle – the puzzle, that is, of the extraordinary vitality of the East Asian region after its subordinate incorporation in the globalizing Western system.

More specifically, our argument has been that the East Asian dynamic under Western dominance has gone through two distinct stages, one

broadly corresponding to the transition from British to US world hegemony and the other to the period of US hegemony. In the first stage, convergence was predominantly toward Western practices, as both China and Japan engaged in major industrialization drives aimed at strengthening themselves militarily in competition with one another and with the Western powers in the context of escalating inter-imperialist rivalries. Inter-state competition in East Asia thus converged toward the European pattern with most disastrous results for China and Korea but eventually, in the Second World War for Japan as well.

In the second stage, in contrast, a hybrid pattern of political and economic interaction combining features of the Western and East Asian systems began to emerge. Politically, the United States could exercise its hegemonic functions in the region only by adopting a trade regime that on close inspection had more in common with the China-centered tribute-trade system than with the nineteenth-century UK-centered system. Economically, rapid regional integration and expansion could occur only through the mobilization and revival of forms of business organization that resembled more closely the informally integrated networks of Chinese enterprises than the vertically integrated and bureaucratically managed structures of US enterprises.

As the data presented earlier show, the benefits of the regional economic renaissance that ensued from this process of hybridization have been distributed very unevenly among the region's jurisdictions. Moreover, in most countries but especially in China (where almost two-thirds of the region's population is concentrated) the economic upgrading of the national economy has been accompanied by a sharp increase in income inequalities and the specter of large-scale unemployment. The renaissance has thus been an extremely uneven process that has magnified inequalities among and within the region's political jurisdictions and brought palpable benefits to no more (and probably less) than one-fifth of the region's population, while sharply raising expectations of the benefits of prosperity for all.

These tendencies constitute a departure from the pattern of more even development characteristic of the historic East Asian system during the era of Chinese preponderance in favor of the Western pattern of uneven development. They constitute also a major limit to further expansion. For growing inequalities do not just engender social and political tensions and resistance (Perry and Selden 2000). They also restrain the growth of the regional market thereby reproducing the dependence of the expansion on the willingness and capacity of the United States and other Western countries to absorb ever increasing labor-intensive imports from East Asia. This willingness and capacity cannot be taken for granted in view of the growing foreign indebtedness of the United States and the near economic stagnation of the EU. Ultimately, the fate of the East Asian economic

renaissance depends on whether East Asians can find effective ways and means of moderating its unevenness nationally and internationally. If such ways and means are found, East Asia may well become once again the center of the global economy.

Notes

1 This exhaustion is what Mark Elvin (1973: 314) calls a (Smithian) high-level equilibrium trap. We would like to emphasize, as Sugihara (this volume) also suggests, that this "trap" should not be confused with traps of the Malthusian low-level equilibrium type. A Smithian, high-level equilibrium trap refers to a situation in which the potential for efficient growth of an economy with a particular endowment of resources has been fully exploited. Although in such a situation production, trade and income cannot grow further, they are at historically high levels. A Malthusian, low-level equilibrium trap, in contrast, refers to a situation in which an increase in incomes calls forth an increase in population that depresses returns to labor and brings income back to historically low levels.

2 This methodology introduces two kinds of asymmetry in our comparative analysis, one concerning early modern times and the other the nineteenth and twentieth centuries. In comparing the interacting but still distinct European and East Asian dynamics of early modern times, a greater number and variety of states will enter our story of the European dynamic than our story of the East Asian dynamic, the latter being focused primarily on China and only secondarily on Japan. This asymmetry is due to the fact noted above that in early modern times China's hegemonic position in the East Asian region was far more stable than that of the several states that became hegemonic in the European region. This situation changed in the nineteenth century, as the European regional system became global and the East Asian system became a regional sub-system of the globalized European system. From then on, the distinct stories of the two regional systems merge into a single story. In this single story non-East Asian states (most notably, the United Kingdom in the nineteenth century and the United States in the twentieth century) join East Asian states as protagonists in the structuring and re-structuring of the East Asian region.

3 Japan doubly challenged China's position as the unique tributary center in the region, first by not sending tribute missions to China beginning in 1549, and continuing throughout the entire 268-year Tokugawa reign (Lee 1999: 8; Wills 1979; Flynn and Giraldez 1995), and second by exacting tribute from the Ryukyus through the Satsuma domain, even as the Ryukyus preserved their tributary relationship with China (Hamashita 1988: 14-15). Vietnam, for its part, in the Qing era required tribute missions from Laos and Cambodia although, in contrast to Japan, it continued to send tributary missions to China (Reid 1993: 234-40).

4 In the 1660s and 1670s, their regime in Taiwan remained a de facto independent kingdom exacting tribute and conducting trade with the Spanish Philippines, the Ryukyus, and various kingdoms of Southeast Asia. While Zheng Chenggong aspired to oust the Manchus and restore the Ming, his successor Zheng Jing repeatedly rejected Qing offers of a semi-autonomous status in negotiations in the 1660s and 1670s, and proposed recognition as a tribute vassal of the Qing based on Korean and Ryukyuan precedents. The Kangxi

Emperor, however, insisted that "the thieves in Taiwan are Fujianese, Taiwan is not comparable to Korea and Ryukyu" (Hung 2001c: 33-7).

5 The number of Southeast Asian tributary missions to China peaked at 52 from seven states in the 1420s. In the 1450s there were only ten missions from four states, and by the first decade of the sixteenth century, only Siam, Champa and Melaka sent a total of five missions (Reid 1993: 15-16).

6 Though the Qing regime lifted the sea ban in 1683, it imposed strict regulations on the shipbuilding industry, restricting the size and weight of all trading junks, and outlawed bringing firearms on board (Tian 1987: 12-16). A new era was thus inaugurated in which "trade was legal, but maritime China had lost its fragile political autonomy" (Wills 1979).

7 Japan's territorial expansion in the 1890s and 1900s was a continuation on a much enlarged scale of its previous incorporation of the semi-autonomous Ainu homeland of Hokkaido in 1869, and Okinawa in 1879 (Howell 1997: 612-13; Rabson 1997: 640-1; Elisonas 1991: 299-300).

8 The United States did nonetheless require of its vassals subordinate military and paramilitary functions. These included Japanese supplies of material in the Korean and Vietnamese wars; a large Korean troop contingent in Vietnam and the support for the US military effort of various Laotian tribes and Tibetan exiles.

9 We use GNP instead of GDP data because they include the incomes that the residents of the state or group of states derive from transfers from abroad (such as repatriated profits or worker remittances) and exclude the incomes transferred abroad. We do not adjust data for differences in costs of living not just because prior to the 1980s "purchasing power parity" (PPP) data for many countries either do not exist or are extremely unreliable. We do not make such an adjustment also because here we are interested mainly in the relative command of the residents of different countries/regions on one another's resources in the world market, rather than in their comparative command over resources in their respective national markets. While PPP-based GNP data are better indicators of the second kind of command, GNP data converted into US\$ at market exchange rates (FX-based data) are better indicators of the first kind of command (cf. Korzeniewicz and Moran 2000 and Firebaugh 2000). We have excluded from the calculations of world GNP and regional shares thereof the former USSR and Eastern Europe, along with some African, Asian and Latin American countries, because of lack of comparable data for one or more of the years shown in the table. Nevertheless, in 1999 the states included in the calculation accounted for about 96.7 percent of world GNP. The percentages of Table 7.1 thus constitute very close approximations to the actual shares of the world market controlled by the residents of the different regions. To this we should add that in 1990, when comparable data first became available, the former USSR and Eastern Europe accounted for 4.6 percent of world GNP. By 1999 their share had dropped to 2.6 percent. That was the worst performance of all regions, including Sub-Saharan Africa. It follows that the inclusion of the former USSR and Eastern Europe in our data set would improve proportionately the performance of all the regions, East Asia included (all the above figures have been calculated from World Bank 2001).

10 More specifically, over the four decades 1960-99 the GNPPC of both Western Europe relative to the world average increased by 27 percent, while that of East Asia increased by 111 percent.

11 Income inequality in East Asia is larger than in any other region of the world because, unlike any other region, East Asia includes both a country (Japan) with one of the highest per capita incomes in the world and countries (like

Vietnam) with some of the lowest per capita incomes. China's actual position in the ranking of countries by GNPPC has been a highly controversial issue. The controversy is partly due to a major discrepancy between China's PPP-based and FX-based GNPPC (see note 9 for the difference between the two kinds of measurement). Since this discrepancy had been instrumental in denying China "developing nation" status in the negotiations over its entry into the WTO, it is hard to tell whether the discrepancy reflects an extraordinary capacity of the Chinese social system to squeeze high levels of material consumption out of a low income, or a politically motivated statistical exaggeration of that capacity by the officials of the World Bank and other international institutions. The issue is further complicated by the rapid growth of income inequality within China – an inequality that is estimated to have become among the largest in the world (Riskin *et al.* 2001). If this is indeed the case, and the evidence is compelling, the upward mobility of the PRC in the global value-added hierarchy would in fact reflect a far greater upward mobility of a limited number of (predominantly coastal) areas on the one side, and a lesser upward mobility (or even downward mobility) of much of the rest of the country. As we underscore in the chapter's concluding section, this domestic unevenness of China's economic expansion has important social and political implications. Nevertheless, it has no bearing on our present concern with the comparative performance of different countries and regions in generating national wealth.

¹² Leaving aside "errors and omissions," the current account surpluses shown in Table 7.5 are indicative of net outflows of capital and deficits of net inflows.

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