HISTORICAL CAPITALISM, EAST AND WEST

by

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East-West relations over the last 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 national 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 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 in 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 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 a new Western Civil War--as Samuel Huntington (1993: 23) has aptly characterized 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 region 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 constitutes a major challenge for the historical social sciences.

The purpose of this chapter is to provide at least partial solutions to these puzzles by focusing on the role that world capitalism has played in shaping East-West relations since early modern times. In section I, we specify the premises and conceptual apparatus on which our subsequent analysis is based. In section II, we seek a solution to the first puzzle through a comparative analysis of the still distinct but related dynamics of the East Asian and European regions in early modern times. In section III, we seek a solution to the second puzzle through an analysis of the dynamic and contradictions of the single global system that emerged out of the nineteenth century globalization of the European system of states. Finally, in the fourth and concluding section, we discuss the implications of the analysis for an understanding of the present tendencies and likely future trajectory of the East Asian dynamic.

I. CONCEPTS FOR ANALYSIS

R. Bin Wong (1997) and Andre Gunder Frank (1998) have recently challenged the still dominant view that the rise of the West to global supremacy in the nineteenth century was somehow due to a prior Western superiority in the creation of a market economy. Both authors remind us of what Adam Smith already knew but Western social thought subsequently forgot--namely, that throughout the eighteenth century the Chinese national market far surpassed in size and density any Western national market. It follows from this forgotten fact that primacy in the formation of a national market cannot be taken as a reason, let alone "the" reason, why in the nineteenth century Europe became the new center of the global economy. Indeed, for Wong and Frank, as for us, the backwardness of Europe in creating national markets well into the eighteenth century is one of the reasons why its global supremacy in the nineteenth century is so puzzling.

China's High-Level-Equilibrium Trap and Europe's Industrial Revolution

Wong and Frank seek the solution of the puzzle in the industrial revolution that took off in England at the end of the eighteenth century and in their view soon became the prime mover of the rise of the West to global supremacy. This solution immediately raises two distinct questions: first, why did the industrial revolution not occur in China, where the market economy and the division of labor were most developed? And second, why did it occur in Europe? In answering the first question, Wong and Frank both rely on Mark Elvin's idea that China was caught in a Smithian "high-level equilibrium trap," although they both situate the entrapment in the eighteenth rather than in the fourteenth century as Elvin did. Rapid growth of production and population had rendered all resources <u>except labor</u> scarce and this, in turn, made profitable invention increasingly problematic. In Elvin’s words,

> With falling surplus in agriculture, and so falling per capita income and per capita demand, with cheapening labor but increasingly expensive resources and capital, with farming and transport technologies so good that no simple improvements could be made, rational strategy for peasant and merchant alike tended in the direction not so much of labor saving machinery as of economizing on resources and fixed capital. Huge but nearly static markets created no bottlenecks in the production system that might have prompted creativity. When temporary shortages arose, mercantile versatility, based on cheap transport, was a faster and surer remedy than the contrivance of machines. This situation may be described as a 'high-level equilibrium trap." (1973: 314)

The second question then arises of why is it that England, followed by a growing number of Western countries, escaped this high-level equilibrium trap? In answering this second question, Wong and Frank part company. Wong emphasizes the common "Smithian dynamic" of the European and Chinese economies before the industrial revolution--a dynamic, that is, in which productivity gains were due primarily to greater division of labor and specialization among productive units, both limited by the extent of the market. Although the productivity gains attending division of labor and specialization could and did increase the extent of the market, and thus engender a virtuous circle of economic expansion, the Smithian dynamic could not account for the profound rupture of possibilities initiated by the development of mineral sources of energy.

Following E.A. Wrigley (1988, 1989), Wong conceives of this development as an historical contingency largely unrelated to previous developments. Its main feature were productivity gains based on coal as a new source of heat, and steam as a new source of mechanical energy, that far surpassed what could be achieved under the Smithian dynamic. "Once this fundamental break took place, Europe headed off along a new economic trajectory." But the break itself remains unexplained: "technologies of production," we are told, "do not change according to any simple and direct economic logic." Like "forces of production" in Marxist accounts, they are "the exogenous variable that drives other economic changes" (Wong 1997: 48-52).

In contrast to Wong, Frank emphasizes the opposite outcomes of the common Smithian dynamic in England/Europe versus China/Asia, and traces the occurrence in England/Europe and the non-occurrence in China/Asia of the industrial revolution to these opposite outcomes. In Asia in general, and in China in particular, economic expansion created the labor surplus and capital shortage that underlie Smithian high-level equilibrium traps. In Europe, in contrast, economic expansion created a labor shortage and a capital surplus. It was this opposite outcome that according to Frank after 1750 led to the industrial revolution.

> In Europe, higher wages and higher demand, as well as the availability of capital including that flowing in from abroad, now made investment in labor-saving technology both rational and possible. The analogous argument holds for power-generating equipment. Relatively high prices for charcoal and labor in Britain provided the incentive for the accelerated switch-over to coal and mechanically-powered production processes .... [W]orld economic market competition between Europe and China, India, and other parts of Asia rendered such labor-saving and energy-producing technology economically rational for Europeans, but not for Asians. (Frank 1998: 304)

The intensive burst of technological innovations that remains exogenous, that is, unexplained from within Wong's reconstruction of the European and Chinese dynamics thus becomes endogenous in Frank's reconstruction. This endogenous explanation of the industrial revolution, however, presents a major problem: Frank has no satisfactory explanation of why a common dynamic had opposite effects in the West and in the East.

The demographic explanation that looms large in his account of the emergence of differential regional comparative costs and advantages--namely, that "higher population growth in Asia impeded technological advance generated by and based on demand for and supply of labor-saving and power generating machinery," while "lower population growth in Europe generated the incentives for the same--in competition with Asia!" (Frank 1998: 289, 300)--does not stand up to Frank's own evidence. In table I, we have calculated for different periods ending in 1750 the comparative increases in the population of different regions on the basis of the two estimates reported by Frank (1998: 168, 170). As the table shows, whether Europe's demographic growth was higher or lower than that of China and India depends entirely on the particular period and estimate we select, and no matter which period or estimate we select, it is about the same or higher than that of Japan. More important, in the half century preceding 1750 the gap between the lower European and the higher Chinese rates of growth is narrowing rather than widening. On strictly demographic grounds, Wong's contention that on the eve of the industrial revolution the Smithian dynamic was yielding similar outcomes in Europe and China is more consistent with the evidence than Frank's contention that it was yielding opposite outcomes.

[Table I about here]

It remains nonetheless true, as Frank maintains, that according to all available evidence (including Adam Smith's own assessment) wages and demand were higher and capital more abundant in Europe than in Asia. If the demographic explanation does not hold water, we need an alternative explanation. European overseas expansion would seem to be the obvious direction where to look for such an alternative explanation.

Wong himself quotes approvingly Eric L. Jones' view that expansion in the New World gave Europe an "unprecedented ecological windfall" (Jones 1981: 84). In Wong's opinion, this windfall created for the Europeans a "resource base... superior to that created by the Chinese in their land-based frontier expansion." This, in turn, "postponed the classical economist's end of growth" in Europe, and might even have made "the Smithian dynamics... stronger in parts of Europe than in any part of China." No matter how much stronger, however, "those contrasts alone are unlikely to be adequate to explain the persistence of the constraints of the classical economist's world in China and their destruction in Europe" (Wong 1997: 49).

In Frank's account, overseas expansion plays a far more crucial role in determining Europe's fortunes than in Wong's account. In his view, American silver and its reinvestment in overseas ventures was the key that opened the doors of the Asian-centered global economy to the otherwise uncompetitive Europeans. Having dug "money" out of the gold and silver mines they found in the Americas, the Europeans "`made' more money.... [by using it] in a variety of other profitable businesses they ran in--and to--the Americas.... first and foremost the slave plantations... [and] the slave trade itself to supply and run the plantations." Equally important, "they also used both the American silver money and their profits to buy into the wealth of Asia itself." This they did by buying Asian commodities which they resold at a profit not just in Europe, Africa and the Americas but in Asia as well (Frank 1998: 277-82; emphasis in the original).

> So the Europeans were able to profit from the much more productive and wealthy Asian economies by participating in the intra-Asian trade; and that in turn they were able to do ultimately only thanks to their American silver. Without that silver--and, secondarily, without the division of labor and profits it generated in Europe itself--the Europeans would not have had a leg, or even a single toe, to stand on with which to compete in the Asian market. Only their American money, and not any "exceptional" European "qualities," which, as [Adam] Smith realized even in 1776, had not been even remotely up to Asian standards.... provided the Europeans with their one competitive advantage among their Asian competitors, for these did not have money growing on American trees. (Frank 1998: 282)

According to Frank, this one competitive advantage enabled the Europeans to hold out in Asia for three centuries but not to gain a commanding position in a global economy that remained centered on Asia, because the flow of American silver benefitted Asian economies more than the European. Throughout the eighteenth century European manufactures in Asia remained uncompetitive and China remained the "ultimate sink" of the world's money (Frank 1998: 283, 356-7). But if this was the case, why was China affected by a shortage and Europe by a surplus of capital? And why was Europe experiencing greater demand for labor and higher wages than China?

By not answering, indeed, by not even asking these questions, Frank undermines his case of an endogenously determined industrial revolution. Ultimately, this event remains as exogenously determined in Frank's account as it is in Wong's. Wong says so explicitly and seeks an explanation in historical contingencies. Frank does not realize that his search for endogenous determination has failed and is thus left with no explanation at all.

We have dwelt on these two accounts of the rise of the West and their limitations because they provide a good starting point for our own account. On the one hand, we share two of their main premises, which we shall take for granted. One is that through the eighteenth century the Smithian dynamic had gone farther in Asia in general, and in China in particular, than in the West; and the other is that in the second half of the eighteenth century China was entering (or had entered) a high-level equilibrium trap. We also share, but will restate in our own terms, the premise that overseas expansion rather than any autonomous change in productive organization within Europe was the main force sustaining the Smithian dynamic in Europe. On the other hand, we depart from both accounts by privileging a different unit of analysis; by distinguishing a capitalist dynamic from the (Smithian) market dynamic; and by underscoring the key role that military competition has played in forming the modern world and in shaping East-West relations right up to the present. Let us look at each departure in turn.

Regional World Systems, Capitalism and Interstate Competition

Wong and Frank privilege very different units of analysis. Wong privileges individual states. His entire construct is based on a comparison of the Chinese state on the one side, and European states on the other. Frank adopts instead what he calls a "globological perspective" and privileges an allegedly "single global economy" as the most relevant unit of analysis. His entire construct rests on the claim that as early as the fifteenth century a single global economy encompassing the whole of Afro-Eurasia (and after 1500 the Americas as well), not only actually existed, but was an intensely competitive system exercising a decisive influence on the dynamics of all its regions. While Frank hardly mentions states, Wong explicitly denies that a global economy actually existed before the nineteenth century (see in particular Wong 1997:150).

In contrast to both, we assume that at least up to the middle of the nineteenth century "regional world systems", rather than individual states or the global economy, are the most relevant units for the analysis of the East-West dynamic. Our notion of "regional world system" broadly corresponds to Fernand Braudel's and Immanuel Wallerstein's notion of “world-economy”--an expression which they hyphenate to underscore that it "only concerns a fragment of the world, an economically autonomous section of the planet able to provide most of its own needs, a section to which its internal links and exchanges give a certain organic unity" (Braudel 1984: 22). We prefer the expression regional world system to eliminate a major source of confusion about the spatial scope of the entities in question and to downplay the economistic aspects of Braudel's definition. Thus, we use the term "regional" to convey less ambiguously than a hyphen the idea that we are talking about a “section of the globe.” And while we retain the term “world” to convey the idea that we are talking about a (relatively) autonomous and organic entity, we use the term “system” instead of “economy” lo leave open the possibility that the autonomy and organic unity of the entity in question rest on political and/or cultural rather than merely economic foundations.

Indeed, for the purposes of this chapter, the easiest and least ambiguous way of identifying distinct regional world systems is to focus on political organization. Historically, the idea of an inter-state system was developed to describe the European system that was eventually institutionalized at Westphalia. Wallerstein (1974a; 1974b) made this interstate system one of the two main constituents of his “modern world system” or “capitalist world-economy”--the other constituent being the axial division of labor that encompasses the system’s separate political jurisdictions. The great contribution to world-systems analysis of the Japanese scholars who have reconstructed the structures and mode of operation of the China-centered tribute trade system (see Ikeda 1996 for an overview of the contribution) is to have brought to our attention the existence in East Asia of an interstate system different from but comparable with the European. Peter Perdue (1996 and this volume) has suggested that the East Asian interstate system may have gravitated more towards Central Asia than this reconstruction implies (see also Fitzpatrick 1992 for a similar interpretation). But this alternative interpretation strengthens rather than weakens the assessment of a broad comparability of the East Asian and European interstate systems.

One of our contentions is precisely that the most relevant units for a comparative analysis of the East Asian and European dynamics are neither individual states (as in Wong’s analysis), nor geographically-defined world regions (as in Frank’s analysis) but the two distinct, if interacting, interstate systems into which the states of the two world regions were organized. By choosing interstate systems as the units of our comparative analysis, we are not rejecting Frank’s claim that Europe and East Asia were interacting in a wider system of commercial exchanges and financial flows--his “single global economy.” What we are rejecting is his stronger claim that this global interaction was more important than interaction within each regional interstate system in determining the regional and the global dynamics.

Nor does our choice of unit of analysis reject Wong's implicit claim that both global and regional dynamics can ultimately be traced to the actions of individual states. What we reject is the idea that these actions and above all their intended and unintended consequences can be best understood by focusing on the inner structures of the states themselves rather than on the regional and global contexts in which they unfold. As Wong (1997: ch. 6) himself underscores, one of the distinguishing features of European states in comparison with China is the intense competition that historically has set them against one another and has recurrently led to the displacement of one state by another in the role of regional leader. But the scope and intensity of interstate competition are systemic properties that have a dynamic of their own and therefore cannot be inferred from the properties of the system's units--let alone from an ideo-typical European nation-state that, as we shall see, bears little resemblance to the states whose actions have been most critical in shaping the regional and global dynamic.

This brings us to our second departure from Wong and especially Frank, that is, the importance that we attribute to a capitalist as a opposed to a strictly Smithian dynamic. Frank denies the very existence of such a dynamic. Focusing on the idea of capitalism as a "mode of production" that allegedly spread from Europe to the rest of the world, he finds the quest, not just for the origins, but for the very existence and meaning of "capitalism" no better than the alchemist's search for the philosopher's stone that transforms base metal into gold. "So," he concludes, "best just to forget about it, and get on with our inquiry into the reality of universal history" (1998: 330-2).

Frank's "reality" of world history is that no fundamental change characterizes the modern era; that before and after 1500, or indeed 1800 or 1900, one single global economy exercised an overwhelming influence on the determination of local trends and events. Like Frank, we find the definition of capitalism as mode of production not very useful to an understanding of global and world regional trends and events. Unlike him, however, we maintain that there is an alternative definition of capitalism that is not just useful but essential to answering the first of the two key questions that we have seen to remain unanswered within Frank's scheme of things--the question, that is, of why China was affected by a shortage and Europe by a surplus of capital, in spite of the fact that through the eighteenth century China remained the "ultimate sink" of the world's money, including and especially the silver that Europeans extracted from the Americas.

This alternative definition of capitalism focuses not on modes of production but on the hierarchy of world trade. It 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 existence and 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." While 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), "it 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 form 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 differs from Wong's in several respects. Some of the differences are due to the difference between his and our units of analysis. As previously noted, the intense interstate competition (or lack thereof) to which both Wong's and our own account attribute the greatest importance in driving the capitalist dynamic is a systemic property that cannot be inferred from the properties of individual states--Wong's privileged unit of analysis. In contrast to Wong's account that leaves regional variations in the intensity of such competition unexplained, our account will trace them to different properties not of individual states but of the European and East Asian regional world systems.

Partly related to the above, in our view Wong's characterization of Braudelian capitalism as "commercial" is too narrow and misleading. Braudel himself underscored how the essential feature of historical capitalism over its *longue dure*, that is, over its entire lifetime, has been its "flexibility" and "eclecticism" rather than the concrete forms (commerce included) it assumed at different places and at different times.

> Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and <u>adaptation</u>. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to the present-day West [and, we would add, present-day East Asia], it is here above all that such unity must be located and observed. (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, today just as much as in the days of Jacques Coeur (the fourteenth-century tycoon) consisted precisely of <u>not</u> 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; 1997).

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 European states (or at least some of them) came to be affected by a surplus of capital, in comparison with China's shortage, in spite of their chronic balance of payment deficit vis-a-vis the East.

In itself, however, this difference tells us nothing of why some European states in comparison with China came to be affected, not just by a surplus as opposed to a shortage of capital, but also by higher wages and greater demand--the second key question that remains unanswered in Frank's scheme of things. In order to answer this second question, we must focus on the peculiar form that interstate competition assumed in the European regional world system from early modern times through its nineteenth century globalization and beyond. This brings us to our third departure from Wong and Frank--that is, to the key role that in contrast to both of them, Frank in particular, we attribute to political-military competition in forming the modern world and in shaping East-West relations right up to the present.

By Frank's own admission, all political-military considerations are left out from his account of the global economy in the early modern period (1998: 340-1). In the passage quoted earlier and elsewhere, Wong does acknowledge the importance of state- and war-making activities in differentiating the political economy of European states from that of China. He nonetheless falls short of acknowledging the role played by these activities in preparing and eventually bringing about the re-centering of the global economy on Europe, both directly and through the industrial revolution.

Our account, in contrast, underscores how the successive spurts of geographical expansion through which the European regional world system eliminated or incorporated within its own structures all other regional world systems can only be understood with reference to the intense political-military competition that from the start set European states against one another. This competition, we shall argue, was essential to the enlarged reproduction of the (Braudelian) capitalist dynamic that recurrently engendered an ever growing surplus of capital within the European regional world system. Equally important, directly and indirectly (that is, through its effects on wages and demand) it was the primary source of those technological and organizational innovations ("industrial revolutions" included) that eventually moved the European system to dominion globally.

In sum, our attempt to solve the double puzzle of the rise of the West within the Asian-centered global economy and of East Asia within the US-centered global economy, is based on a comparative and relational analysis of the different dynamics of the East Asian and European regional world systems. The analysis will be carried out from a particular angle of vision that distinguishes a capitalist from a market dynamic and underscores the centrality of political-military competition in sustaining the first dynamic and in shaping its relationship to the second. This, of course, is not the only angle of vision from which to compare the East Asian and

Western/European dynamics over the last half millennium. The different angles adopted by Kaoru Sugihara and Ken Pomeranz in the next two chapters are just as legitimate and illuminating. But they are no substitutes for the angle adopted here. Rather, they supplement and complement it.

II. THE EUROPEAN AND EAST ASIAN DYNAMICS COMPARED

In comparing the structures and dynamics of the European and East Asian regional world 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, to diverge radically from one another. The divergence materialized fully 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 for us 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 Braudellian capitalist dynamic in interstate and intrastate 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: 109-122).

The outcome of the “Italian” Hundred Years War was complemented and supplemented by the outcome of 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 interstate 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 interstate 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 Germans, and to a lesser extent the Lucchese and the English (Boyer-Xambeu, Deleplace, and Gillard 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-a-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: 109-126).

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 1983: 47). This service did not come for free. 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). According to Nils Steensgard (1974, 1981, 1982), the VOC inaugurated a new era in business history, and indeed in the history of European overseas expansion. In the light of the small number of success stories among the many joint-stock chartered companies formed in the seventeenth century this claim may seem questionable. Nevertheless, at least in two respects the claim is fully justified.

For one thing, 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. Throughout that period Amsterdam recycled surpluses from profitable but stagnant to still unprofitable but expanding trades and companies, both Dutch and foreign. This function of central financial entrepot put in the hands of the Dutch capitalist oligarchy a power vis-a-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, chs. 1-2).

Closely related to the above, 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

As previously noted, the European and East Asian world 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 with one another. Although this 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,

> 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)

We can even detect analogies in the interstate competition that characterized the two regional world 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 integration that nonetheless was loose enough to endow its peripheral components with considerable autonomy vis-a-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 (Hamashita 1994: 92; 1997: 114-124). 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 interstate system in Europe” (1996: 38).

Moreover, the Chinese center itself recurrently came under pressures analogous to those that fueled interstate 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 the northern minorities 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 a large part of the northern territories (Zhuang 1989: 19; Lin and Zhang 1991: 13; Tian 1987: 143).

Finally, these same wars provoked major north-south migrations towards 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, so did the mastery of the techniques of wet-rice agriculture leading to what Elvin (1973: ch. 9) has called the “revolution in farming.” The efficiency of wet-rice cultivation in guaranteeing sufficient food supplies enabled the farmers to increase the quantity and variety of products that they cultivated and marketed. It created also a surplus population that could 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 that outlasted the fall of the Song in 1276. Under the Yuan (1277-1368), continuing support for private sea trade and Chinese migration to southeast 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 (Zhuang 1989: 8-12, 21; Chen 1989: 36-40; Yang 1985: 32-4, 40-4).

The main tendencies that were characterizing the capitalist transformation of the European world system can thus be detected also in the East Asian world system. These tendencies were especially strong in Song and Yuan times (see, for example, Yang 1952 and Elvin 1973: ch. 14). Christopher Chase-Dunn and Thomas Hall go as far as saying that capitalism “nearly occurred first” in Song China (1997: 47). Under the Ming, 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 interstate competition towards the formation of overseas commercial and territorial empires. On the contrary, they were brought under control through governmental policies in the region's Chinese center oriented towards a strengthening of domestic relative to 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, wet-rice cultivation continued to expand. Moreover, 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 (Dannoue 1995). It also induced the Ming government to repair and extend the canal system connecting the rich 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: 83-86, 269-272; Wei 1988: 51-2; Dannoue 1995). 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 (Wu 1965: 230-3).

While promoting the formation of a national market, the Ming government imposed bureaucratic restrictions on sea trade and on Chinese migration to Southeast Asia in an attempt to contain the power of the Overseas Chinese and the Japanese. To the same end, between 1405 and 1433 it sponsored Admiral Zheng He's seven great voyages to Southeast Asia and across the Indian Ocean. These expeditions, however, turned out to be exceedingly expensive, among other things because the Chinese Court had to subsidize heavily tribute-trade operations. They were therefore discontinued, while bureaucratic restrictions on foreign trade remained in place until the 1570's (Zhang 1991: 49-51; Hui 1995: 34-8, 53).

The eventual lifting of trade restrictions occurred at an advanced stage of dynastic decline. Since about 1500 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 increasing external pressure, in the north from the expansion of the Jurchens and along the southeastern coast from the expansion of illegal trade. Carried out by armed Chinese and Japanese traders (wo-kou, 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 (Lin 1987: 85-111; He 1996: 45-7; Tong 1991: 115-29; Wakeman 1985: ch. 1; Huang 1969: 105-23; Wills 1979: 210-11). Since the Ming were increasingly incapable of sustaining the high administrative costs of tributary trade, private trade outgrew the latter and became once again the main form of economic exchange in the region (Yuan 1993: 133-4; Zhang 1991: 48-50; Hung and Selden this volume).

These various tendencies reinforced one another and led to the explosive growth of social disturbances in the mid sixteenth century. Faced with the growing ungovernability of the empire, the Ming government decided to solve the crisis by meeting some of the peasants' grievances through tax reforms and the exploitation of the flourishing private trade. Labor services--one of the main causes of peasant hardship and unrest--were replaced by a silver tax. The crippled paper currency was abandoned in favor of a silver standard, and in order to expand the silver influx from overseas, restrictions on foreign trade were relaxed and licensed seafaring merchants were taxed (Quan 1996; 1987; Atwell 1986; Chao 1993; Flynn and Giraldez 1995; Wills 1979: 211).

The expansion of Chinese foreign trade under the late Ming boosted the fortunes not just of the coastal areas 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 and consolidate, in spite of restrictions on private overseas trading and on Chinese migrations to Southeast Asia. For the Chinese government's attempts to control sea trade clashed with the reality that such a trade was the principal means of livelihood for 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). Under these circumstances restrictive Ming trade policies had the unintended consequence of transforming the overseas Chinese into more stable and permanently settled communities (Wang 1991: 85-6).

The power of these communities in the maritime economy was further consolidated by the arrival of the Europeans who boosted trade throughout the region by supplementing the Japanese supply of silver, and unlike local rulers had little restraint in challenging the authority of the Chinese imperial court. They thus provided political and military support for the resistance of Chinese traders against 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 of the indigenous trading classes and networks. 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: 184-87, 191-95; Reid 1990: 652-4; Curtin 1984: 147, 162-8; Blusse 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. It was at this time that the Zheng merchant families brought into existence a maritime empire in many ways comparable to the contemporary Dutch empire in South East Asia. By the 1620s, the military and commercial power of the Zheng families was such that it terminated whatever maritime supremacy the Portuguese had managed to establish in the region. Over the next half-century, the Zheng also kept at bay the rising power of the Dutch, ousting them from, and taking over all their properties in Taiwan in 1662. As Chumei Ho has observed, “[t]he 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” (1994: 44).

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 Zheng families reached new heights until their downfall in 1683 (Hung 1998: 33-51).

The Divergence of the European and East Asian Dynamics

It may seem from the foregoing account of the European and East Asian dynamics that there were no significant, let alone growing, differences between the two. The expatriate business networks that constituted the preeminent capitalist organizations of sixteenth century Europe were not all that different from the Chinese and other ethnic networks that constituted the preeminent 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 Gujerati 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, he does so elsewhere by drawing a parallel between the merchants and bankers of Shansi province and the overseas Chinese originating from Fukien and other southern provinces on the one side, and Florentine, Genoese, and Lucchese merchants on the other (1982: 153). Moreover, as we have just underscored, the seventeenth-century Zheng empire had 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 the same kind of capitalist organizations that existed in Europe could and did emerge in East Asia as well. As William Rowe has underscored, "[w]hatever 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 analogous capitalist organizations, however, did not make the development of the two regional systems equally capitalist in orientation. Thus, in 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 <u>market economy</u> and <u>capitalism</u>" (1982: 588; emphasis in the original).

> 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 <u>at upper levels</u>, 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, <u>when it is the state</u>. 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 but it does point to an aspect of the capitalist transformation of the European world system that has no parallel in the dynamic of the East Asian world system. This is the growing size and complexity of the 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. It is this sequence, more than anything else, that evinces the capitalist transformation of the European world 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 and of greater advances than in Europe in the formation of market economies, the East Asian regional world system itself was not in the process of becoming capitalist.

In pinning down the difference between a world 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 world system the capitalist virus spread rapidly from its original focus in tiny city-states and expatriate 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 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 world system, in contrast, capitalism did not become identified with the system's more powerful states. For what we know the capitalist virus might very well have been as widespread as (or even more widespread than) in Europe. But 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 ever more exclusively in the Overseas Chinese diaspora whose influence on the region's main seats of power remained insignificant. Hence, at the level of the system capitalism was "externalized" in the sense that it became less rather than more dominant.

There were two partial and temporary exceptions to this tendency. One 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: 435-61) has noted, this fragmentation of polities and growth of towns made the Japanese scenario comparable to the European.

The second exception to the tendency towards 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 balance of power among Europe's territorial states, the empowerment of 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-a-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 system but did not catch on in East Asia or anywhere else. 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?

Is 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 interstate system. Without this more balanced and decentralized power structure, it would have been difficult, if at all possible, 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 interstate 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 the East Asian system, where the huge territorial and demographic size of China, combined with its long established economic, political and cultural leadership, created a fundamental underlying imbalance and centralization of power in the region. As this imbalance and centralization of power was consolidated under the Ming, the formation of capitalist city-states capable of becoming models of state-and-war-making for the larger territorial states (as was the case in fifteenth-century Europe) became in East Asia an even less likely occurrence that 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.

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. 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 underlay 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).

The accidental `discovery’ of the Americas by Columbus on his way to China changed the terms of the asymmetry by providing European governments and businesses with new means to seek entry in the 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 interstate power continued to be situated at the very center of the system's larger territorial state. Once the overambitious attempt of Zheng's Taiwan regime to fight back on the Mainland imploded, the Qing succeeded in establishing themselves firmly as the region's preeminent power until their own defeat in the Opium Wars.

The Re-centering of the Global Economy on Europe

With the consolidation of Qing rule in China, the trend towards national-economy-making initiated by the Ming resumed with greater vigor. Its ultimate result was the remarkable peace and prosperity that China experienced for much of the eighteenth century, as well as the unprecedented demographic explosion that 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). The most striking contrast with European states was the Chinese empire's size and population. In Francois 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 tranquillity 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). 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 side, and war and scientific progress on the other, was symptomatic of an ongoing fundamental divergence between the trajectories of the China-centered and the European-centered world systems. For the same interstate competition that propelled the capitalist transformation of the European system was relentlessly prompting its globalization as well. As William McNeill 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. Towards 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. As Wong points out, the logic of political economy emphasizing competition with foreign states had little in common with China's emphasis on domestic exchange expected to benefit all parties.

> The Chinese state supported the expansion of production and trade but could not imagine, let alone approve, of a scheme in which competitive zero-sum game pitted provinces against one another. Chinese officials expected commerce to be generally fair and effective in distributing goods according to supply and demand. Where commerce was poorly developed, the state invested money to promote production and 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)

As previously noted, the separate political jurisdictions of the East Asian interstate 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 (1603-1867): 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 Kawakatzu (1994: 6-7) put it, "Japan was trying to become a mini-China both ideologically and materially." In this endeavor Japan was highly successful, matching and eventually overtaking Qing China in agricultural productivity and in the general welfare of its population. Nevertheless, this kind of competition drove the East Asian developmental path not closer but further apart from the European: towards a territorial deepening rather than widening of national- economy-making, towards state-making rather than war-making, towards short-distance rather than long-distance trade.

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 and scope. As a result of these activities, trade not just between European states and the extra-European world, but among the European states themselves, expanded far more rapidly than in the seventeenth century. 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).

Under these circumstances, capitalism in the East Asian system became even more an interstitial formation than it had been under the Ming. As William Skinner notes, the scorched earth policy through which the Qing denied mainland resources to Zheng's Taiwan regime between 1661 and 1683 destroyed the prosperity of China's southeast coast. 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. Gradually, the void was filled by European states, companies and merchants whose capacity to outcompete or 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 (Cushman 1993: 136; Tian 1974: 281; 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. Like Wong, and unlike Frank, we do not see this great leap forward as the outcome of any simple and direct "economic" logic, that is, of a Smithian dynamic of widening and deepening divisions of labor and competition in global commodity markets. Unlike Wong, however, we do not see it as the outcome of mere historical contingencies largely unrelated to previous developments. Rather, we see it as 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. As McNeill himself 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. To dismiss this feature of British economic history as "abnormal" surely betrays a remarkable bias that seems to be widespread among economic historians. (1982: 211-12)

Equally remarkable is the bias that still prevents many historians from detecting the multiple linkages that connect backward and forward the British-centered industrial revolution to the formation of a British empire in India. It has been authoritatively stated that "Plassey plunder 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). As far as it goes, this is as accurate an assessment as any other. But it does not go far enough. Had Plassey plunder not enabled Britain to start the Napoleonic Wars nearly free of foreign debt, the astronomical increase in British public expenditure to which McNeill attributes the launching of the industrial revolution in the capital goods industries would have been unimaginable (cf Arrighi 1994: 210-11).

More important, Plassey plunder initiated the process of conquest of a territorial empire in India that, as we shall presently see, 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 world 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 world system within the structures of the globalizing European system. To this new dynamic we now turn.

III. EAST ASIA IN A 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. Massive tribute extracted from India, rather than any special competitive advantage in commodity markets, is what enabled Britain to occupy and retain for more than a century the position of political and economic center of the globalizing European system. The need to facilitate the transfer of this massive tribute to the British center was indeed the primary motivation of the British-led onslaught on the East Asian world system.

The onslaught transformed but did not destroy the legacy of the China-centered system. On the contrary, in key respects that legacy was strengthened and continued to influence developments in East Asia as decisively as the Western intrusion. 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 the conditions for 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. This was less a reflection of conservatism than a strategy to ameliorate the worst effects of uncertainty. Once established... a peculiarly British type of familial capitalism persisted and evolved through the nineteenth century and into the twentieth. (Rose 1994: 63-63)

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, Barr and Hisaeda 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 the same is true of British capitalism as long as it remained globally dominant. Throughout the nineteenth century, if anything, British capitalism experienced vertical disintegration rather than integration. Thus, in the early stages of the industrial revolution leading London and provincial industrialists had ventured into overseas trade. But after the end of the Napoleonic Wars they found more profitable to specialize in production at home, leaving the procurement of inputs and disposal of outputs in the hands of equally specialized accepting houses that promoted and financed the formation of truly global networks of commission agents and small general merchants (Chapman 1984: 9-15; 1992: 116). 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, Barr and Hisaeda 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 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).

> The tentacles of the Manchester trade reach out to all corners of the world, and whatever form of manufactured cotton is sought, whatever accommodation is desired, some one can be found in Manchester ready to accept the commission. Of all the assets which make it possible for the cotton industry to attain its largest dimensions in a country which does not produce the raw material, and which consumes only ten or twenty per cent of the yarn and cloth manufactured in its mills, none is more significant than the adaptability of the commercial organization. (Copeland 1966: 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 entrepot 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 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 clearinghouse. And the world's clearing house "will always be where there is the greatest ownership of capital." The British "are 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 Hugill 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 <u>rentiers</u> 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 <u>a fortiori</u> 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 Mathieson 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 overabundant 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 1840's through the 1860's 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 entrepot of world commerce and finance that underlay 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 <u>unilaterally</u>. 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 was 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 entrepot 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. 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 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, 72 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).

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 manoeuvre 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 short, 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 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, 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 only 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 (Gao 1993: 1-78).

The human and material resources that Britain extracted from India, in contrast, were and remained a coercively imposed tax obligation. 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 problems of difficult solution. It was precisely the search of such a solution 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 Esherick's words, "the West's only feasible entree into the China market" (1972: 10). More fundamentally, sales of Indian opium to China were an essential mechanism in the transfer of Indian tribute to Britain. As the head of the statistical department at the East India House put it,

> 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 by any means 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 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 <u>without heavy losses through exchange depreciation</u> (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 L6 million yearly. (Quoted in Greenberg, 1951: 106-7)

The "Honourable Company" was soon squeezed out of this highly beneficial 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 (Hung and Selden this volume).

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). 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 world 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 British government's cooperation--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 one 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.

The East Asian Dynamics under Western Dominance

In a famous statement, Marx and Engels once 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. In 1850, cotton goods accounted for a mere 6 percent of British exports to China and in 1875 for just 8 percent (Woodruff 1966: 309). As late as 1894, China's indigenous handicraft industry still supplied 86 percent of the Chinese market for cotton cloth (Wu 1987: 148). 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; see also Hamilton and Chang, this volume).

The competitiveness of Western firms that set up production in 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 silk industry, for example, foreign ventures incurred major losses, while local business prospered--the number, workers employed and exports of modern, Chinese-owned filatures increasing by a factor of 10 between the 1880's and the 1890's. "Foreigners"--lamented a British consul in Canton--"had little left to them other than the export trade" (So 1986: 103-116; So and Chiu 1995: 47). Western products and businesses did triumph in a few industries. But 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, 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 (Hui 1995: 91, 96-8; Hao 1970: 110-11; Murphey 1977: 192-3).

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. 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 imperial political economy inflated the surplus population in China and undermined the capacity of the Qing 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).

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. 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 (Hui 1995: 127-38, 142-5, 149-53; 1997: 118; Peng 1981: 196-200; Lin and Zhang 1991: 173; Headrick 1988: 259-303).

As in earlier periods of strengthening, the capitalist stratum of the Overseas Chinese benefitted 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 to turn to the Overseas Chinese for financial assistance. The fact that anti-Qing forces, from the Taiping to Sun Zhongshan, were very active in Overseas Chinese centers was a further reason for seeking closer ties with the Overseas Chinese capitalist stratum. 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 (Lin and Zhang 1991: 180-90; Huang 1974: 251-2; 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 (Tsai 1993: 82, 90; Tate 1979: 22). Nevertheless, up to the final collapse of the Qing in 1911 the Overseas Chinese capitalist stratum managed to turn to its advantage the intensifying competition that set governments in the region, both indigenous and colonial, against one another (Hui 1995: ch.3).

The revitalization of Chinese family capitalism in China and overseas was not the only result of the intensification of interstate 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. Kawakatzu has maintained that, in so far as Japanese industrialization is concerned, it "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, were indeed a continuation by new means and in a new systemic context of the centuries-long attempt of Japan 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 completely the nature of the interstate 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, interstate competition within East Asia was inseparable from attempts to catch up with Western proficiency in the capital goods industries, the modernization of which (in East Asia no less than in Europe) was primarily a military affair.

For 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 modernization much faster and more effectively than cheap Western commodities could have ever done. 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 <u>armaments</u> to control the barbarians--an idea that caught on not just in China but in Japan as well (Tsiang 1967: 144). In China the idea became central to the Self-Strengthening Movement that took off after the second Opium War. In justifying to Beijing the establishment of arsenals to make guns and gunboats and of a machine factory, a provincial leader of the movement argued that the foreigners' domination of China was based on the superiority of their weapons and China could strengthen itself only by learning to use Western machinery (Fairbank 1983: 197-8; So and Chiu 1995: 49-50). A few years later the Meiji Restoration propelled Japan along the same path of rapid modernization aimed at using barbarian armaments (and machines) to control the barbarians. The armament race that had long been a feature of the European interstate 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 modernization drive on the social and political fabric of the two countries. In China, the main agency of the modernization drive were provincial authorities, whose power vis-a-vis the central government had increased considerably in the course of the repression of the rebellions of the 1850s, and who used modernization to consolidate their autonomy in competition with one another. In Japan, in contrast, the modernization drive was an integral aspect of the Meiji Restoration that centralized power in the hands of the national government and disempowered provincial authorities (So and Chiu 1995: 53, 68-72).

The outcome of the war, in turn, transformed the underlying divergence in the trajectories of Japanese and Chinese modernization into an unbridgeable chasm. On the one hand, defeat in the war weakened further national cohesion in China, leading to half a century of political chaos marked by further restrictions on sovereignty, crushing war indemnities, the final collapse of the Qing regime, the transformation of provincial governors into semi-sovereign warlords, 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." The acquisition of Chinese territory, most notably, Taiwan, as well as China's recognition of Japanese suzerainty over Korea (later annexed as a colony), endowed

Japan with valuable outposts from which to launch future attacks on China, as well as with more secure overseas supplies of cheap food. At the same time, Chinese indemnities amounting to more than one-third of Japan's GNP helped Japan to finance the further expansion of heavy industries 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 (Duus 1984: 143, 161-2; Feis 1965: 422-23).

This bifurcation of the Japanese and Chinese developmental paths culminated in the 1930's in the eclipsing of Britain by Japan as the dominant power in the region and in the Japanese occupation of a vast swath along China’s coast from north to south. Japan had finally succeeded in re-centering upon itself the East Asian regional system. But the success was short-lived. The Japanese bid for regional supremacy soon collapsed. As the massive destruction inflicted on Japan by the US strategic bombing campaign demonstrated even before Hiroshima and Nagasaki, Japanese advances in Western military technology could not keep up with the West's own further advances. But the Japanese bid collapsed also because it called forth in China countervailing forces as firmly opposed to Japanese as to Western military supremacy. Once the Japanese had been defeated, these countervailing forces remained in place to face the new Western hegemonic state in a struggle for centrality in East Asia that has shaped trends and events in the region ever since.

Throughout the 1950's and 1960's there was very little that the PRC could do to prevent the United States from becoming the dominant power in East Asia as elsewhere in the world. 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 dependencies 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 interpenetration of tribute and trade relations between an imperial center whose domestic economy was of incomparably greater size than those of its vassal states made this unilateral US regime resemble more closely the old China-centered tribute trade system than the nineteenth-century UK-centered global capitalist system. As we have seen, three closely related features characterized the latter: the global entrepot 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 at the end of the Second World War differed radically from its UK-centered predecessor. At the height of its hegemony, the United States exercised no entrepot 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, continent-sized 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).

The main similarities between this US-centered system and the early modern East Asian system centered on China were, first, the disproportionately greater size of the central state's domestic market relative to all other domestic markets and, second, the relationship of political vassalage vis-a-vis the central state that other states had to comply with in order 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. 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 and technological sophistication, 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.

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, "[f]reed 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).

[Figure 1 about here]

The process is described in figure 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 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 rapid economic growth. To this we add our own contention that this greater density and intensity of the East Asian space-of-flows has been based on and has tended to consolidate key features of the region's historical heritage.

Lineages of the East Asian Economic Renaissance

The growing importance of the East Asian historical heritage 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 snowballing process of concatenated, labor-seeking investments. This succession has been 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 subcontracting networks came to encompass the entire East Asian region, the Chinese capitalist diaspora was revitalized and the Chinese government was offered unique opportunities to mobilize this diaspora in the double pursuit of economic advancement for mainland China and of national unification for Greater China. In the incipient third stage, it is precisely the Chinese government acting in concert with the Chinese capitalist diaspora that seems to be emerging as the leading agency of expansion. (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 latest "Western Civil War" (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 U.S.S.R. Even at this stage, however, Western supremacy was more precarious than it seemed, and the United States could overcome this precariousness only by unwittingly revitalizing 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 regime of Pax Americana" to which Ozawa (1993: 130) traces the origins of the snowballing process of regional economic integration and expansion reproduced in figure 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, 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 Western 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 political 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 highly capital intensive US military apparatus was ineffectual in enforcing US commands against the determined resistence of one of the poorest peoples on earth. 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 1970's with the Iranian Revolution, the Soviet invasion of Afghanistan, and a new serious crisis of confidence in the US dollar (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 Mainland 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).

In 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. At the same time, however, the gradual substitution of Japanese business for the US government as the leading agency of regional economic expansion marked the re-emergence of a pattern of interstate relations in the region and beyond that resembled more closely the indigenous (East Asian) than the transplanted (Western) pattern of interstate relations.

In the indigenous East Asian pattern, centrality in the interstate system was determined primarily by the comparative size of the domestic markets of the system's national components. In the transplanted Western pattern, in contrast, centrality had come to be determined primarily by the comparative size of the military-industrial apparatuses of the system's national components. One of the most consequential (and disastrous) effects of East Asia's incorporation within the structures of the Western system was the "internalization" of industrial militarism in the struggle for centrality. Japan's attempt to center upon itself the East Asian regional system by industrial military means failed. 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 in the 1960's through the 1980's, and the expansion of Japanese business networks in the region and beyond in the 1970's and 1980's, that jointly demonstrated the increasing effectiveness of economic relative to military means as a source of regional and global power. Regionally, the seemingly irresistible rise of Japanese power was based almost exclusively on its role as "recycler of market and industry," to use Ozawa's expression. Globally, the growing Japanese influence in world politics was based primarily on the role that in the 1980's 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-a-vis the United States into a relationship of mutual vassalage. Japan continued to depend on the United States for military protection. 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 1980's 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, Barr and Hisaeda 1999). In the words of Manuel Castells and Alejandro Portes (1989: 29-30),

> 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.

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).

Integral to the claim of an ongoing reversal of the century-long tendency towards the formation of centralized, formally regulated and rigidly specialized business structures has been a revival of interest in Alfred Marshall's (1919: 283-8) notion of "industrial districts" as the locus of "external economies" (external, that is, to individual business units). Thanks to these economies, small business is said to be able to survive and prosper without any need to exploit the "internal economies" of scale and scope available to big business (Becattini 1989; 1990; Brusco 1982; 1986). "The trend of a century is being reversed"--editorialized the Economist in 1989--"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 (1994: 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 towards the bureaucratization of business through vertical integration that had made the fortunes of US corporate business since the 1870's, thus began to be superseded one hundred years later by a tendency towards informal networking and the subordinate revitalization of small business (Arrighi, Barr and Hisaeda 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 semipermanent trade agreements and intergroup shareholding that enable management to concentrate on long-term rather than short-term performance (Eccleston 1989:

31-4). Starting in the early 1970's, 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, Ikeda and Irwan 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 ethnic Chinese were a minority but 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 and Vietnam 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, "[w]e 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 US business to influence to its own advantage the policy decisions of third countries. Equally important, it meant that Japan's own policy decisions were far more susceptible to being influenced 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 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 1980's and 1990's 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 1990's East Asia emerged as one of the most favored destinations of US-centered "buyer-driven commodity chains" (cf Gereffi 1994).

As Hamilton and Chang (this volume) underscores, 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 towards East Asian patterns. Just as the US government adopted practices towards its East Asian vassal states reminiscent of interstate relations in the indigenous tribute trade system, so too US business has tended to adopt in the region practices that are closer to the Chinese model of vertical disintegration than to the US model of vertical integration. This convergence of US business practices towards the Chinese model of buyer-driven commodity chains is an aspect of the reversal of the secular trend towards 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, it was following in the footsteps of Japanese business rather than replacing Japanese business in the role of leading agency of the regional economic expansion. If the process of snowballing labor-seeking investments not only continued but gained momentum in the 1990's 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 1980's 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 after the formal reestablishment of diplomatic relations between the United States and the PRC, this giant "container" of human resources already seemed poised to become again the powerful attractor of means of payments 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, the "matchmaker" that has facilitated the encounter of foreign capital and Chinese labor is the Overseas Chinese capitalist diaspora (Lardy 1992: 37-82; Fukasuku 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 1994: 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 1980's 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, 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 the attempt failed in the face of escalating political chaos, the takeover of China’s coastal regions by Japan, and the eventual defeat of the GMD by the CCP.

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 (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 traditional role of 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 (cf Baker 1981: 344-5).

Moreover, through the 1950's and 1960's 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. As Leo Suryadinata sums up,

> the objectives of the indigenous government policy [were] two-fold: to make the ethnic Chinese less Chinese and to reduce their economic strength. Various policies have been adopted by the Southeast Asian governments, ranging from exclusion, genocide, assimilation, accommodation, and cultural pluralism. (1989: 122)

In spite of this unfavorable environment, Overseas Chinese business networks managed to hold their own and develop further. By the mid 1970's, 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 multi-layered subcontracting system, the growing demand by US corporation for business partners in the region and, above all, the reintegration of Mainland China 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. Suffice it to mention that by the mid 1990's 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. Chinese businessmen who were often discriminated against by the colonial government in Hong Kong not only received lucrative business privileges in the PRC. In addition, they were appointed to represent Hong Kong in the PRC's highest political organ (the National People's Congress) and were invited to draft Hong Kong's mini-constitution. A close political alliance was thus established between the Chinese Communist Party and Overseas Chinese business.

As Chinese entrepreneurs began moving from Hong Kong into Guandong almost as fast as (and far more massively than) they had moved from Shanghai to Hong Kong forty years earlier, the Chinese government decided to redouble 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 1994: ch. 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, p.12). 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, p. 12, and June 9, 1994, p. 44). An unknown but by all accounts significant portion of the investment from Hong Kong 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.

As we have underscored throughout the chapter, the fortunes of the Overseas Chinese in the indigenous East Asian regional world system went through considerable ups and downs over the centuries. What is remarkable about the present upturn in their fortunes is that it is occurring in a radically transformed regional and global system. As such, it is one of the clearest signs that these transformations have reorganized and restructured rather than destroyed the pre-existing regional world 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.

IV. CONCLUSIONS

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 interstate 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 a particularly favorable environment for the combined development of capitalism and militarism--a development that sustained and was in turn sustained by economic and political expansion at the expense of other peoples and polities of the earth.

In the East Asian system, in contrast, the unbalanced structure of interstate power and the insignificance of profits from trade with the non-East Asian world in determining the outcome of interstate competition created an unfavorable environment for the combined development of capitalism and militarism along the European path. At certain times--as under the 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 Tokogawa 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 world system did not vanish in a generalized convergence towards Western practices and patterns of political and economic interaction. There was convergence but through a process of hybridization that preserved or eventually revived important features of the East Asian world 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 towards Western practices, as both China and Japan engaged in major industrialization drives aimed at strengthening themselves militarily in competition with one another in the context of escalating inter-imperialist rivalries. Interstate competition in East Asia thus converged towards the European pattern with most disastrous results for China and Korea but eventually for Japan as well.

In the second stage, in contrast, a more 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 resembled more the China-centered tribute trade system than 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 vertically disintegrated or informally integrated networks of Chinese enterprises than the vertically integrated and bureaucratically managed structures of US enterprises.

As we noted in the Introduction to this volume, the main beneficiaries of the regional economic renaissance that ensued from this process of hybridization have been Japan and the three main “containers”of the wealth and power of the Overseas Chinese (Singapore, Hong Kong and Taiwan). Lesser but still considerable benefits have accrued to South Korea as well. Some of the ASEAN countries follow at a distance and so does China. Other ASEAN countries have hardly benefitted at all. 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. 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.

These tendencies constitute a major departure from the pattern of even development typical of the indigenous East Asian world system in favor of the Western pattern of uneven development. It constitutes also a major limit to further expansion. For growing inequalities do not just engender social and political tensions. 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 uneveness nationally and internationally. If such ways and means are found, East Asia may well become once again the center of the global economy.

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