

How Emerging Forms of Capitalism Are Changing the Global Economic Order

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I S S U E S

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S U M M A R Y The US model of free-market capitalism has been a dominant force in the post-communist world order, setting the agenda for economic governance and development. That supremacy, however, was severely tarnished by the 2008 global financial crisis, increasing the potential for new challenges from alternative economic models. Now, models of capitalism espousing more state involvement as practiced in Brazil, Russia, India, and, especially, in China are contenders on the political economic landscape of the world. They are engineering rapid growth by adapting core tenets of the free-market capitalist model and embracing globalism. At the same time, they maintain state ownership of key enterprises and varying degrees of state control over the financial sector. While these practices certainly challenge the free-market status quo, the mentality that views free-market vs. state-controlled capitalism as a zero-sum game appears unrealistic. Instead, a productive course would be to view these new systems as viable ways to organize capitalist production and market institutions, triggering over time measured shifts in the global policy consensus.

Today a new dynamic is playing out between different models of capitalism

In the aftermath of the global financial crisis of 2008, the future of the world economic order does not seem as clear as it once did. The Cold War was in essence a competition between capitalism and communism. The defeat of communism seemingly established the supremacy of free-market capitalism. Today, however, a new dynamic is playing out—this time between different models of capitalism.

Up until fairly recently, free-market capitalism remained dominant in setting the agenda for global economic governance and development. This model holds that markets should be responsible for the allocation of all goods, services, labor, and finance, with the state taking a highly limited role in economic governance. Although also based on a market system, the models of capitalism prevalent in continental Northern Europe and Japan have been seen as traditionally distinct from the neoliberal model. They are based on governing labor and capital markets not only by market-based means, but also with the aid of central coordination among the interests of capital, the state, and, in Europe, labor.

More recently, a third model of capitalism has come to the fore. Espousing a more state-centric form of development in emerging market economies, especially the economies of Brazil, Russia, India, China, and South Africa (together known as BRICS), the state here takes an activist role in managing economic development, including the employment of industrial policy, financial and regulatory tools to foster industrial catch-up, and technological upgrading. These models are referred to as new forms of state capitalism or refurbished state capitalisms.

Over the past thirty years, free-market capitalism or the neoliberal model of capitalism profoundly influenced the agenda for governance and reforms in developing countries. Known in the international arena as the Washington Consensus, due to its embrace by the World Bank, International Monetary Fund, and other institutions promoting economic reforms, many claimed that this model would be triumphant in bringing development and prosperity to all.¹ Confidence in this consensus was badly shaken, if not shattered, by the financial collapse of 2008. Today, the future of the world economic order seems more uncertain than at any time since

the 1980s. Already some argue that the Washington Consensus is rapidly fading. For example, the Nobel Laureate in economics, Joseph Stiglitz, contends that the Washington Consensus and its underlying ideology of market fundamentalism are “dead.”² Others, though, are less convinced.

The political economist Colin Crouch insinuates that declaring the death of neoliberalism is premature, since the neoliberal order relies on the power and persistence of large multinational corporations domiciled in advanced economies. Even in the aftermath of the global financial crisis of 2008, these corporations have sustained their deep influence over governments and the global political economic order.³

In answering the question of whether the neoliberal global economic order is actually in decline or not, three distinct questions must be analyzed: First, is there a politico-economic system that actually challenges the neoliberal model at present? Second, if so, what is this system? And, finally, what is the exact nature and logic of how this rival system is challenging the neoliberal global economic order?

The analysis concludes that, yes, there are at present rival politico-economic systems. Moreover, refurbished forms of state capitalism are, indeed, the most likely challengers to the Washington Consensus. However, refurbished state capitalisms differ from earlier forms of state capitalism in that they have adapted many aspects of the neoliberal model and deeply integrated with the global economic system. China’s example is used to illustrate how such new forms of state capitalism are pragmatic in nature. The emergence of refurbished state capitalisms is therefore producing a dynamic mix of mutual dependence and competition with the still dominant neoliberal model of capitalism.

To emphasize, the nature and logic that underlie how refurbished state capitalisms challenge the neoliberal global economic order are fundamentally different from those underlying the Soviet challenge during the Cold War. The competition between new forms of state capitalism and neoliberal free-market capitalism is not zero-sum. Practitioners of refurbished state capitalisms own immense amounts of global financial assets and are dependent on open-market access to advanced economies for their

industrialization and technological upgrading. In this sense, refurbished state capitalisms represent an “in-system” challenge. Their emergence does not imply that the neoliberal global economic order will become unhinged, but rather that the gradual and measured shift in the global consensus that is ongoing will continue.

Global Convergence, Capitalist Variation

The conception that there are fundamentally different models of capitalist development dates back at least to the 1960s, later giving rise to comparative capitalism approaches, especially the “Varieties of Capitalism” framework.⁴ These approaches hold that, despite convergent pressures emanating from globalization, fundamental differences can be found among national (and local) capitalist institutions. There is a duality shaping the global capitalist system in that it can impose considerable constraints and influences on individual political economies, yet it is also populated by political economies with substantially different historical legacies and institutional arrangements. This duality, moreover, means that diverse formations of capitalism on the national and regional level have to be seen as codependent on the global level.⁵

The comparative capitalisms literature makes clear that there are, indeed, rival political economic systems globally. This has become even more apparent with the demise of communism. As capitalism’s ideological competitor faltered, a previously neglected problem was brought to the fore: the divergence and potential competition among capitalist political economies themselves. There are varieties of capitalism, and these shape innovative performance, the nature of welfare systems, and social equity, as well as economic governance philosophies.

Several generic varieties have been distinguished, especially the neoliberal free-market model, as in the United States and Great Britain, and models of coordinated capitalism, as in Germany and Japan.⁶ Advanced industrial economies espouse different models of capitalism. And while coordinated models of capitalism have challenged the neoliberal model over the past three decades, none of these challenges was fundamental. Rather, a true challenge to the Anglo-American

neoliberal model might emanate from the refurbished state capitalisms of emerging market economies, especially from China, which seems to be producing a truly monumental alternate model of capitalism.

Refurbished State Capitalisms

State capitalist systems have been conceived of in many different ways. The concept has been associated with a range of political economic frameworks, ranging from communism, Stalinism, and socialism to neo-corporatism, mercantilism, and fascism. Generally, state capitalism denotes a political economy in which the state directs and controls key productive forces in an economy, yet employs capitalist practices such as market competitive pressures, stock market listings, and material incentives for corporate executives. Neoliberal free-market principles contrast most visibly with state capitalist practices. It must be noted that twenty-first-century state capitalism is not derived from socialist central planning, but, rather, represents a form of state-coordinated capitalism particular to each government that practices it. Refurbished state capitalisms, as a result, encompass a rather diverse range of capitalist systems.

Despite this variety, the central feature of refurbished state capitalisms is that the state dominates the economy not due to some ideological principle, but for purely practical political gain. These systems, therefore, do not imply a purely state-owned economy. Refurbished state capitalisms can incorporate large, privately owned productive forces, although the state tends to exert considerable control over the allocation of credit and investment that affects the private sector. And all of these models include a large swath of state ownership in industry, finance, and other key sectors.

In contrast to earlier forms of state capitalism, however, refurbished state capitalisms are not traditional mercantilists relying on a closed economy. All the leading practitioners of this model today, including China, Brazil, Russia, Saudi Arabia, South Africa, and India, are deeply enmeshed in the international trading system and practice different degrees of open trading and investment relations.

Given the differing fundamental views regarding markets, the role of the state, and the ultimate goals

The state dominates the economy not for ideological principle but for practical political gain

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of economic governance, some argue that refurbished state capitalisms are likely to generate a formidable challenge to the neoliberal global economic order led by the United States. The economist Pat Choate, Ross Perot's vice-presidential running mate in 1996, holds that the battle in the twenty-first century will be state versus market capitalism. In his view, market capitalism is losing badly to state-owned enterprises, most notably in China.⁷

Ian Bremmer, the president and founder of Eurasia Group, likewise argues that the neoliberal model of organizing the international political economy will come under increasing duress due to a proliferation of state capitalist practices in the developing world and beyond. In contrast to the neoliberal model, refurbished state capitalisms do not employ markets primarily for efficiency gains, but for political purposes, especially to enhance national power.⁸ And Joshua Cooper Ramo, the former senior editor and foreign editor of *Time* magazine, who coined the term Beijing Consensus, believes that this new potential global consensus consists of authoritarian governments that resist the neoliberal mantra, particularly that of privatization and free trade.⁹

All of these analysts see refurbished state capitalisms as espousing starkly different ideas, interests, and institutions from the ideal, typical neoliberal model. State capitalist practitioners share a belief in state power, including the use of industrial policy tools and state-sponsored corporate interests. They also view markets with more skepticism than neoliberal models of capitalism, often actively "managing" markets for specific policy ends.

The prominent role of the state in these emergent forms of capitalism places them largely outside the varieties of capitalism that the rules-based international order has so far accommodated in the post-World War II era. Consequently, their emergence could lay bare highly differing perspectives on economic governance, challenging the existing global economic order. Yet, refurbished state capitalisms have adopted various capitalist practices, including monetary incentives, capital markets, and economic internationalization. These are hybrid systems, relying on material incentives, market competitive pressures, and other capitalist institutions, while also using strategic trade

tools, state ownership, directed finance, and a host of industrial policy approaches. China exemplifies this new breed of refurbished state capitalism in the early twenty-first century and is often seen as the world's leading practitioner of it.

**Illustration: China's Refurbished
State Capitalism**

China's refurbished state capitalism represents a complex fusion of Western, Asian, socialist, and Chinese historical and modern elements. In particular, China's historical background as both socialist and imperial frames its state-centric approach to economic management. Most fundamentally, China's emergent capitalism encompasses a unique duality of state-led capitalism juxtaposed with entrepreneurial network capitalism. Top-down, state-guided development dominates, but bottom-up a myriad of medium- and small-sized private firms have used entrepreneurial strategies to create highly flexible production and knowledge networks with global reach.

This is not to imply that China is an economic monolith without regional variation. Quite the opposite: China represents a heterogeneous political economy with considerable local variation. However, throughout China various arrangements that enable bottom-up networks of private entrepreneurs to coexist with a powerful and intrusive local and central state apparatus persist. This somewhat paradoxical combination of state guidance with vibrant private entrepreneurship relies, in part, on informal personal relations (*guanxi*) that enable private Chinese businesses to link up with each other and with state officials, building trust and compensating for institutional uncertainty and a lack of impartial legal mechanisms.¹⁰ This networked element is most apparent in China's small- and medium-sized private enterprise sector, where myriads of companies can collaborate to create economies of scale, access technology and finance, and penetrate world markets.¹¹

China's capitalism also incorporates several neoliberal economic elements, such as openness to foreign investment and trade. This has allowed China to integrate global manufacturing into its economy, especially in terms of exports and technological innovation.

Many Chinese policies thus stand in marked contrast to East Asia's earlier developers, especially Japan, Taiwan, and South Korea. In other respects, though, China has followed quite closely in the footsteps of its East Asian forerunners, using programs of subsidized investment in key leading industries, an export-led growth strategy, and the suppression of domestic consumption to encourage high savings and investment rates. Perhaps most significantly, China uses exchange rate controls to maintain an undervalued currency that fosters export performance, just as Japan, Taiwan, and South Korea did before it.

Despite some liberal impulses, therefore, China's development policies feature a substantial role for the state and have emphasized the development of domestic industry and technology. Crucial sectors ranging from telecoms to airlines, oil and gas, and all mineral exploitation and processing tend to be majority state-controlled. China's refurbished state capitalism also has combined indicative state-centered planning with localized economic experimentation and vibrant market competition. It incorporates, from top-down, a large and powerful state enterprise sector; from bottom-up, entrepreneurial networks with considerable flexibility and global reach; and, from outside-in, a significant openness to the forces of globalization, including high levels of foreign trade, direct investment, and knowledge transfers.

China represents a hybrid that is now the leading form of refurbished state capitalism. However, this does not imply that the present Chinese model is fixed or sustainable into the indefinite future. Rather, it merely elucidates that China's emergent political economy represents a form of refurbished state capitalism that is already the second largest global economy. As with the refurbished state capitalisms of Russia, India, and others, China's puts less trust in markets and more trust in state guidance. It thus distinguishes itself from the neoliberal model not only in terms of institutional arrangements, but also in terms of its economic governance philosophy.

China's state capitalism has created a deep symbiosis with the US economy

Barack Obama warned him that he wanted to make sure "everybody is working by the same rules of the road when it comes to the world economic system."¹² US Vice President Joseph R. Biden Jr. was somewhat blunter in his criticism, declaring that the United States and China could cooperate "only if the game is fair."¹³ Xi acknowledged these US concerns and stressed that China had taken active steps to meet concerns over intellectual property rights protection and trade imbalances. Yet he also stressed that Washington should "provide a level playing field for Chinese enterprises to invest in the United States."¹⁴

Both sides argued that the "playing field" is not level and the "game" not fair. This sense of mutual blame is not surprising given the rather differing natures of Chinese and American capitalism. China's refurbished state capitalism has undoubtedly created increasing concerns over the vast amounts of subsidies and cheap capital that can rapidly be deployed to foster new industries in potentially leading sectors. Conversely, Xi is correct in noting that the US investment environment has not been exactly welcoming for Chinese firms. Often based on national security grounds, US authorities have hampered large-scale Chinese investments in America. For example, the US House Intelligence Committee noted in October 2012 that Chinese telecom equipment makers Huawei and ZTE are a risk to US national security, and recommended that the government block acquisitions by the two firms and that American companies avoid doing business with them.¹⁵

One could argue that both systems clash because they employ somewhat mercantilist measures to foster new leading sectors, though with differing institutions and governance philosophies. However, on closer inspection, China's state capitalism encompasses features that have created a deep symbiosis with the US economy. China's vibrant and globally enmeshed private sector has allowed its economy to become a key component of the Western-led economic system. China's capitalism, thus, has assimilated multifirm, multinational global production and knowledge networks. According to the political economist Edward Steinfeld, this perhaps indicates

The Blame Game

When Chinese Vice President Xi Jinping visited Washington, DC, in February 2012, US President

that China's refurbished state capitalism is not a fundamental threat to the neoliberal order.¹⁶

Undoubtedly, the way China's state capitalism challenges the US-centered neoliberal global economic order is fundamentally different from the Soviet challenge during the Cold War. China is deeply enmeshed in the global political economy and owns immense amounts of global financial assets, most significantly US Treasury debt. Both models of capitalism are simultaneously codependent and in rivalry.¹⁷

**Analytical and Policy Implications:
Codependent Competitors**

China's reemergence is creating a powerful, new, and dynamic form of capitalism. Yet China is merely at the leading edge of the world's emerging practitioners of refurbished state capitalism. Other such systems in India, Russia, Brazil, and beyond also have experienced healthy economic growth. This shift in economic and financial power away from the advanced economies of Europe, the United States, and Japan that has been ongoing throughout the 2000s seems to have accelerated. Since 2006, for example, both China and India emerged as the top two contributors to global economic growth.¹⁸ Ultimately, the rapid rise to prominence of refurbished state capitalisms implies a powerful shift in the forces shaping the geo-economic landscape of globalization.

Despite the dominance of the Washington Consensus over global economic governance for the last thirty years, refurbished state capitalisms have been able to prosper. They clearly lack an adherence to the ideology of market fundamentalism. Rather, they tend to employ market forces pragmatically, and often for specific policy ends such as fostering new, technologically advanced leading sectors. In the Chinese model, for instance, markets have been given a greater role over time in the allocation of goods and services, as well as in introducing competitive pressures. However, an emphasis on retaining state control over key aspects of the economy, including the allocation of finance, has remained intact.

A new and messier reality is emerging. China's refurbished state capitalism, in particular, points to

how a more state-centric and controlled approach to global economic governance is gaining in prominence. In this respect, China's emphasis on close control over finance and active state support for developing new leading sectors, such as renewable and alternative energy, is providing enticing models to emulate in developing countries. Moreover, the Chinese government under the Twelfth Five-Year Plan is attempting to build comprehensive social and medical insurance systems, thereby altering and rebalancing the nature of China's domestic political economy while striving for more social equity.

To come back to the three analytical questions posed at the outset: First, there are clearly rival political economic systems at present. Refurbished state capitalisms as practiced in China, Brazil, and India constitute a new global competitive force. Second, refurbished state capitalisms are the most likely challengers to the Washington Consensus. They are already confronting the existing international architecture much more directly than they did before 2008, as seen in the deliberations of the G-20 (Group of Twenty).

However, to address the third question—the nature and logic of how refurbished state capitalisms are challenging the neoliberal global economic order—it is important to understand how they are fundamentally different from the communist challenge during the Cold War. Refurbished state capitalisms differ from earlier forms in that they have adapted many neoliberal tenets and are deeply integrated with the global economic system. Refurbished state capitalisms are consequently producing a mix of codependence and competition with the still dominant neoliberal global order.

To reiterate, refurbished state capitalisms are not outside of the neoliberal global economic order. They are, to a considerable extent, “in-system” players. They are not purely state-driven systems in which the state controls all aspects of the economy. Rather, refurbished state capitalisms are somewhat paradoxical, often appearing ambiguous and contradictory. While they have adapted highly liberal and quintessentially capitalist elements of economic governance, they also retain crucial state powers to intervene in major economic affairs.

The shift in economic and financial power away from advanced economies seems to have accelerated

The smart response is to acknowledge the fundamental trend of refurbished state capitalisms and adapt

There is, thus, a real danger in taking the neoliberal conception of capitalism on which the Washington Consensus is based as the only acceptable form of capitalism. A level-headed view must acknowledge that there are a variety of ways to organize capitalist production and markets. Capitalism is a heterogeneous force, coming in many shapes and hues. Refurbished state capitalisms all differ from the established neoliberal and coordinated models of capitalism, yet there are also substantial differences among the political economies of China, Brazil, India, Russia, and beyond. What binds these state capitalist practitioners is that they have to varying degrees embraced competitive markets and open investment and trading systems, while experimenting with a multitude of pathways to economic success utilizing different institutional arrangements and policies.

The view that refurbished state capitalisms are engaged in a zero-sum struggle with the neoliberal global order for economic power is, therefore, imprecise. Even worse, this perspective could bring about exactly the fraying consensus that it predicts. As the “blame game” illustrates, this is becoming a distinct danger as new economic players stake out fresh positions and perspectives that are complicating international economic coordination.

It would be futile to attempt to hold back these monumental changes and bolster the neoliberal global economic order as it exists. Rather, the smart response for developed economies, especially the United States and Europe, is to acknowledge the

fundamental trend of refurbished state capitalisms and adapt. Major economic powers, both new and old, must recognize that, yes, there are deep differences concerning the nature and logic of capitalism. However, all forms of capitalism have benefited from the openness and expansiveness of the neoliberal global economic order. The large doses of cooperation and shared authority that emerged as globalization accelerated have to be nurtured while recognizing differences.

The desired outcome is, thus, gradual and measured shifts in the global policy consensus. Already, this consensus has started to move away from the pure neoliberal stance of the 1990s to embrace more state-managed solutions.¹⁹ All major economic players are, for example, rethinking financial liberalization and starting to reemphasize aspects of financial regulation and the control of credit flows.

In the final analysis, the continued success of refurbished state capitalisms is likely to alter the international political economy. Hopefully, this reality does not hinder efforts at better understanding both practically and theoretically that capitalism is not a single set of economic policies and principles, but a heterogeneous force offering a variety of institutional solutions to the challenges facing the global economic system. A focus on what works, rather than a set of ideological principles, could facilitate international cooperation and strengthen international governance mechanisms such as the International Monetary Fund and the G-20.

Notes

¹ The original formulation of the Washington Consensus was presented by John Williamson and prescribed ten broad sets of orthodox economic policy recommendations. See John Williamson, “What Washington Means by Policy Reform,” in *Latin American Adjustment: How Much Has Happened?* ed. John Williamson (Washington, DC: Institute for International Economics, 1990), ch. 2.

² Joseph Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: W.W. Norton, 2010), 296.

³ Colin Crouch, *The Strange Non-Death of Neoliberalism* (Cambridge, UK: Polity Press, 2011).

⁴ See inter alia, Peter A. Hall and David W. Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, UK: Oxford University Press, 2001); Bruno Amable, *The Diversity of Modern Capitalism* (Oxford, UK: Oxford University Press, 2003).

⁵ Wolfgang Streeck, “E Pluribus Unum? Varieties and Commonalities of Capitalism,” MPIfG Discussion Paper 10/12 (Köln: Max-Planck-Institut für Gesellschaftsforschung, 2010).

⁶ Hall and Soskice, *Varieties of Capitalism*; for an excellent critique of the shortcomings of this literature and its limited classification of varieties of capitalism, see Jonas Pontusson, “Varieties and Commonalities of Capitalism,” in *Varieties of Capitalism, Varieties of Approaches*, ed. David Coates (Basingstoke, UK, and New York: Palgrave Macmillan, 2005), 163–188.

⁷ Aaron Task, “U.S. Is ‘Losing Badly’ But Can Win War vs. State-Sponsored Capitalism, Pat Choate Says,” Daily Ticker (Yahoo Finance), September 8, 2010, <http://finance.yahoo.com/tech-ticker> (article removed). Pat Choate, *Saving Capitalism: Keeping America Strong* (New York, N.Y. Vintage Books, 2009).

⁸ Ian Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* (New York: Portfolio, 2010), 5.

⁹ Joshua Cooper Ramo, *The Beijing Consensus* (London: The Foreign Policy Centre, 2004), <http://fpc.org.uk/fsblob/244.pdf> (accessed October 12, 2012).

¹⁰ This aspect of China's emergent capitalism is sometimes referred to as Chinese "network capitalism" or "guanxi capitalism." See Christopher A. McNally, "China's Changing Guanxi Capitalism: Private Entrepreneurs between Leninist Control and Relentless Accumulation," *Business and Politics* 13, issue 2 (August 2011): doi:10.2202/1469-3569.1339.

¹¹ Peter J. Williamson and Ming Zheng, "The Global Impact of China's Emerging Multinationals," in *China's Emergent Political Economy: Capitalism in the Dragon's Lair*, ed. Christopher A. McNally (New York and London: Routledge, 2008), 83–101.

¹² Mark Lander and Edward Wong, "With Edge, U.S. Greets China's Vice President," *New York Times*, February 15, 2012, 1.

¹³ Lander and Wong, "With Edge."

¹⁴ Chris McGreal, "Obama Friendly but Firm with Xi Jinping on White House Visit," *Guardian*, February 14, 2012, <http://www.guardian.co.uk/world/2012/feb/14/obama-friendly-firm-xi-jinping> (accessed February 21, 2012).

¹⁵ Tom Orlik, "No Way for Huawei in U.S.," *Wall Street Journal* (online), October 11, 2012.

¹⁶ Edward S. Steinfeld, *Playing Our Game: Why China's Economic Rise Doesn't Threaten the West*, (Oxford, UK: Oxford University Press, 2010).

¹⁷ For further development of this argument, see Christopher A. McNally, "Sino-Capitalism: China's Reemergence and the International Political Economy," *World Politics* 64, issue 4 (October 2012): 741–776.

¹⁸ Arvind Virmani, "Global Economic Governance: IMF Quota Reform," IMF Working Paper WP/11/208, (International Monetary Fund, July 2011): 12, <http://www.imf.org/external/pubs/ft/wp/2011/wp11208.pdf> (accessed August 15, 2012).

¹⁹ Miles Kahler, "Asia and the Reform of Global Governance," *Asian Economic Policy Review* 5, no. 2 (2010): 178–193.

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