The Challenge of Refurbished State Capitalism: Implications for the Global Political Economic Order

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Abstract
Will the global financial crisis of 2008 represent a symbolic juncture in the geo-economics of globalization? There are differing views, with some arguing that the Washington Consensus is dead, while others holding that the fundaments of the neo-liberal global order remain intact. This article engages with this debate by putting three distinct questions analytically prior: First, is there a political economic model that actually stands in contradistinction to the Washington Consensus and the neo-liberal global order? Second, if there is a potential challenge to the neo-liberal order, what exactly is it? And third, if such a challenge exists, what precisely is its nature and logic as it interacts with the neo-liberal global order? This article argues that there is, indeed, a challenger: refurbished forms of state capitalism. However, the nature and logic of the state capitalist challenge to the U.S.-centered neo-liberal system is fundamentally different from the Soviet challenge during the Cold War. Diverse formations of capitalism are co-dependent on the global level in the present era. Refurbished state capitalism is no exception. It represents an "in-system" challenge, since it does not attempt to actively undermine and supplant the neo-liberal order, but rather to gain influence over it. New forms of refurbished state capitalisms are thus simultaneously in symbiosis and in rivalry with the neo-liberal global order.

Key words: State capitalism, Neo-liberal Order, Washington Consensus, China, Economic Development

1. Introduction

Will the global financial crisis of 2008 represent a symbolic juncture in the geo-economics of globalization? Many pundits argue that the Washington Consensus is rapidly fading. The Washington Consensus is largely based on the principles of free-market capitalism, also termed the neo-liberal model of capitalism. The Consensus remained dominant ideationally and practically in setting the agenda for global economic governance and development.[1] However, as *Joseph Stiglitz* put it in the aftermath of the global financial crisis, "The rules of the game have changed … The Washington Consensus policies and the underlying ideology of market fundamentalism are dead" (*Stiglitz* 2010, p. 296).

Certainly, the shift in economic power away from the advanced economies of Europe, the United States, and Japan that was ongoing before 2008 seems to have accelerated after the crisis. Most dramatically, since 2006 both China and India have emerged as the top two contributors to global growth (*Virmani* 2011, p. 12). Emerging market economies have become key drivers of global growth for the first time since the end of World War Two.

Others are less convinced that the neo-liberal Washington Consensus and its global influence will rapidly give way to a new order (*Crouch* 2011; *Nair* 2011). *Colin Crouch* argues that declaring the death of neo-liberalism because of the dislocations caused by the financial crisis of 2008 analytically misunderstands the issue at hand. Neo-liberalism is based on the power and persistence of large multinational corporations domiciled in advanced economies. These favored institutions continue to deeply influence their governments and the global political economic order. It is not about the dominance of market forces, but about the dominance of large corporations that favor deregulation, low taxes, privatization, and liberalization in developing economies (*Crouch* 2011). Large multinational corporations undergird the Washington Consensus, and, as a result, the consensus remains intact (*Nair* 2011, p. 55).

In answering the question of whether the age of neo-liberal globalization is coming to an end, three distinct questions must stand analytically prior. First, is there a coherent set of institutional arrangements and ideational precepts that actually stands in contradistinction to the Washington Consensus and the neo-liberal global order in general? Second, if there is a potential challenge to the neo-liberal order, what exactly is it? Is it the Beijing Consensus (*Ramo* 2004), the Rhine model of capitalism (*Albert* 1993), or new forms of state capitalism (*Bremmer* 2010)? And finally, if such a challenge exists, what exactly is its nature and logic in rivaling the neo-liberal global order? Is its challenge one of proactively attempting to undermine the neo-liberal order as the communist bloc attempted to do during the Cold War? Or are rival models of political economic order co-dependent and in symbiosis in the early 21st century?

By addressing these three questions, a better analytical grasp can be attained regarding the question of how the global political economic order might evolve in coming years. Each of the three questions leads to a distinct argument. First, I draw on the literatures analyzing comparative economic systems, especially comparative capitalisms, to argue that there are, indeed, rival political economic systems on the national level. The perspective taken here is not one of narrowly constructing ideal-types of capitalism, as in the "Varieties of Capitalism" literature (cf. *Hall/Soskice* 2001).[2] Rather, the focus is on the duality of a global capitalist system that can impose considerable constraints and influences on individual political economies, yet that is populated by political economies with substantially different historical legacies and, therefore, institutional arrangements. Global capitalism is conceptualized as being constituted by an internationally variegated capitalist world system (cf. *Jessop* 2011; *Streeck* 2010). This view incorporates the possibility of considerable diversity among national and regional forms of capitalism, but emphasizes that these diverse formations of capitalism have to be seen as co-dependent on the global level.

Second, the most likely challenger (though not the only one) to the neo-liberal global order is refurbished state capitalism. I define what exactly the nature and logic of this new political economic phenomenon is, and draw attention to the considerable variety among different national variations of refurbished state capitalism. Most importantly, refurbished state capitalism differs quite fundamentally from earlier instances of state capitalism. Although the state dominates the economy, this is not due to some ideological principle, but for practical political-economic objectives. This pragmatism means that refurbished state capitalism has incorporated a host of neo-liberal principles: considerable privately-owned productive forces (both domestic and foreign) are tolerated; economies are deeply enmeshed in the international trading system; and a host of capitalist practices have been adopted, including in the state-owned or -guided sectors of the economy.

As a result, to answer the third question, the nature and logic of the state capitalist challenge to the U.S.-centered neo-liberal system is fundamentally different from the Soviet challenge during the Cold War. It also is dissimilar to the fascist challenge before World War Two, which ultimately collapsed an already teetering global capitalist system (*Frieden* 2006). In contrast to these two 20th century challengers, 21st century refurbished state capitalism is deeply integrated with the global political economic order. Practitioners of state capitalism at present 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 capitalism represents an "in-system" challenge. It does not attempt to actively undermine and supplant the present order, but does attempt to gain influence over the neo-liberal order as its global economic weight increases. Contemporary variants of state capitalism are thus simultaneously in symbiosis and in rivalry with the neo-liberal global order.

To recap, the global financial crisis of 2008 crystallized a profound challenge: powerful structural forces are reshaping the geo-economic landscape of globalization. The age of a relatively united (though it never was quite complete) agreement on basic global economic governance principles under the Washington Consensus is increasingly in doubt (*Kahler* 2011). The growing prominence of the G-20 summits, for instance, expresses how emerging market economies such as China, Brazil, Russia, and India are able to challenge the existing international architecture much more directly than before.

Emerging market economies espouse different perspectives on how to govern the global political economy, the origins of which can be traced back to differing institutional arrangements and ideational precepts underlying their domestic politico-economic systems. There are thus deep differences concerning views on the nature and logic of capitalism that are becoming more prominent on the global level. Nonetheless, refurbished state capitalism is much more an in-system challenge than prior instances of state capitalism. It is not a 21st century reincarnation of traditional mercantilism, but rather a new variant of capitalism that aims to take advantage of the neo-liberal global economic system by deeply integrating with it while keeping state control intact.

I proceed by first introducing insights from literatures on comparative capitalisms, including a brief introduction to established national varieties of capitalism. I then elaborate the nature and logic of refurbished state capitalism and use the case of China, the most significant new economic power, and its form of state capitalism as illustration. Finally, I attempt to address the question of how modern refurbished forms of state capitalism challenge the existing neo-liberal order. I briefly focus on perspectives that paint new refurbished forms of state capitalism as a threat to the present order, noting that increased friction between refurbished state capitalism and neo-liberal market capitalism is to be expected. However, I also point to how these two forms of capitalism are deeply co-dependent in the present era. The concluding remarks provide analytical pointers as well as speculate on the future of the global political economic order.

2. Capitalist Variety

The conception that there are fundamentally different models of capitalist development and accumulation dates back at least to the 1960s (*Gersckenkron* 1962; *Shonfield* 1965). It later gave rise to approaches on comparative capitalisms (cf. *Hall*/*Soskice* 2001; *Amable*

2003; *Jackson/Deeg* 2006). These approaches hold that, despite convergent pressures emanating from the global capitalist system, fundamental differences can be found among national, regional, and local capitalist institutional arrangements. This has become even more apparent with the demise of communism and central planning. As capitalism's ideological competitor faltered, a previously neglected problem was brought to the fore: divergence among capitalist political economies themselves

Capitalism is in this view not a monolithic, impermeable block that is ideologically coherent, but rather a complex socio-economic system that adjusts to the various ways of different nations, cultures, and times (*Albert* 1993). There are different types of capitalism, and these shape innovative performance, the nature of welfare systems and social equity, as well as global competitiveness (cf. *Hall/Soskice* 2001; *Amable* 2003). Most importantly, it is not that one set of institutional arrangements is superior to the other, but rather that different sets of institutions create dissimilar competitive advantages that nevertheless can be equal in terms of economic performance.

Several generic varieties have been distinguished, especially liberal market economies, as, for example, observed in the United States and Great Britain, and coordinated market economies, such as those present in Germany, Switzerland, the Scandinavian countries, and Japan (*Hall/Soskice* 2001). Liberal market economies or Anglo-American models of capitalism can be seen as representing a generic type of capitalism that shaped the two primary phases of globalization: the classical era ruled by Great Britain from 1850 to 1914; and both the "embedded liberalism" (*Ruggie* 1982) and neo-liberal phases of globalization in the post-World War II period under U.S. dominance (*Frieden* 2006). Contemporary Anglo-American capitalism now espouses for the most part neo-liberal economic precepts based on "free markets" and "free flows of capital." Markets, in this conception, should constitute the main force responsible for the allocation of all major economic inputs, including finance, labor, and land.

The present shape of neo-liberal Anglo-American capitalism is in conception quite closely aligned with the Washington Consensus (*Williamson* 1990). Although some of the policy prescriptions espoused by the Washington Consensus (e.g., fiscal policy discipline) are widely accepted, the consensus has been most clearly identified with privatization, deregulation, and liberalization, especially of global financial flows. In other words, the Washington Consensus is based on the principles of the neo-liberal Anglo-American model of capitalism. As such, it shaped the process of globalization over the past thirty years by setting the agenda for global economic governance and development. A caricature of its ideational precepts would simply say "the market is good, the state is bad" (*Albert* 1993, p. 253). It is, in another colloquial rendering, a "leave it to the market and get the state's hands out" (*Cohen/DeLong* 2010, p. 119) ideology of economic governance that has in particular benefitted large multinational corporations (*Crouch* 2011).

In contrast, coordinated market economies (present in Germany, Austria, Switzerland, Scandinavian countries, the Netherlands, and non-European Japan) rely much more on the coordination of peak interests (capital, the state, and, in Europe, labor) rather than pure market allocation. Such coordination frameworks are absent in Anglo-American capitalism, including in Britain, where there is no effective framework for dialogue between government and producer interests (*Hodges/Woolcock* 1993). What have also been termed Rhineland or Alpine models of capitalism thus tend to emphasize regulated labor markets and the continuous development of labor skills and technology within firms. Nonetheless, these systems also incorporate a strong belief in neutral government regulation and market competition.

Advanced industrial economies clearly espouse different forms of capitalism, each carrying a different set of institutional arrangements and ideational precepts. The comparative capitalism literature stresses this point, thereby going against the grain of neo-liberal economic theory which posits that only one model of a purely efficient market system can exist. Quite the opposite, capitalist political economies have taken many different political, institutional, and ideational shapes despite the convergent force of neo-liberal Anglo-American capitalism in the form of the Washington Consensus on the global level.

Evidently, differences in domestic political economic arrangements have given rise to differing viewpoints on global economic issues. Continental European and Japanese models of capitalism have challenged the Anglo-American global consensus on various occasions. Yet, in the 20 years from 1990 to 2010 none of the coordinated models could rival the economic heft of the United States. Their emphasis on regulated labor markets and welfare systems also created the perception that they were not flexible enough to adjust to economic change and weighed down by expansive welfare systems and high taxes.

As a result, their challenge to the Anglo-American brand of capitalism never became definitive, and the Washington Consensus informed most aspects of global governance. Indeed, differing precepts and institutional arrangements on the domestic level among capitalisms have not fundamentally challenged the global neo-liberal consensus. Rather, if there ever will be a true rival to the Washington Consensus, it 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.

3. Refurbished State Capitalism

In recent years several analysts have noted how a novel form of capitalism – refurbished state capitalism – is poised to challenge the established neo-liberal Anglo-American order (*Cohen/DeLong* 2010; *Choate* 2009; *Bremmer* 2010). In fact, since the end of the Cold War, the world's economic powers, including practitioners of coordinated models of capitalism, have generally agreed on the wisdom of letting market competition and private enterprise shape economic outcomes (*Kahler* 2011). But now the rapid rise of powerful state capitalist systems in China, Russia, India, and Brazil could undermine the established global economic consensus. In this section, I attempt to provide a clear conceptualization of refurbished state capitalisms, highlighting their internal variety, exposure to the forces of neo-liberal globalization, and their often hybrid institutional nature. I then focus on institutional features that all forms of contemporary state capitalism share in common, leading over to an analysis of the by far largest practitioner of refurbished state capitalism: China.

State capitalist systems have been conceived of in many different ways.[3] Traditionally, state capitalism has often been identified with Stalinist economic planning. The state here owns most productive assets, controls the economy, and essentially acts like one single giant corporation. It uses central planning tools to manage the economy and create big spurts of industrialization, as in the Soviet Union during the 1930s (*Kornais* 1992). Yet, state capitalism has in reality been associated with a range of political economic frameworks, ranging from communism, Stalinism, and socialism to neo-corporatism, mercantilism, and fascism. More precisely, state capitalism denotes a political economy in which the state directs and controls key productive forces, yet follows capitalist principles. This can even occur in a nominally socialist system such as China's.

Contemporary state capitalism is often conceived of as standing in direct contradistinction to liberal free market principles, such as those associated with the Washington Consensus (*Bremmer* 2010). However, 21st century refurbished state capitalism has little to do with Stalinism and socialist central planning. It encompasses a rather diverse range of capitalist systems in which the state continues to perform key economic functions.

First and foremost, therefore, refurbished state capitalism is itself a variegated force. There are considerable differences in the role of the state, the reach of state-owned enterprises and parastatals, and degrees of openness to foreign investment and capital flows. "It is a form of bureaucratically engineered capitalism particular to each government that practices it" (*Bremmer* 2010, p. 23). Resource exporters such as Saudi Arabia and Russia, for instance, tend to have a more state-dominated economy. Moreover, there can be considerable differences within national economies in terms of the role of the state and degrees of international integration. The large emerging market economies - Brazil, Russia, India, and China - are all continental or at least sub-continental sized. They contain distinct sub-national economic units, some primarily dependent on one resource or industry, while others are deeply integrated into international trade and production flows.

Second, refurbished state capitalism has emerged in an era of intense neo-liberal globalization. No economy that desired rapid industrialization could afford to shut itself out from globalization's accelerating trade, knowledge, and capital flows. Incentivized to open their economies, practitioners of refurbished state capitalism in turn absorbed many neo-liberal precepts, from liberalizing labor markets to opening up capital markets. In the case of China this generated a market-liberal form of state capitalism (cf. *ten Brink* 2010; *ten Brink* 2011a; also *Chu/So* 2010). Perhaps most important is the fact that even in the management of state-owned enterprises and sovereign wealth funds, governments have introduced capitalist practices, such as performance incentives for top managers, mergers and acquisitions, advisory services by international fund managers, international accounting standards, stock market listings, and other efforts at restructuring and improving corporate governance. Although not always successful, governments have also been at pains to shield such institutions from overt political interference.

State capitalism is therefore not a 21st century creature of traditional mercantilism. All the leading practitioners of state capitalism in the world today, including China, Brazil, Russia, Saudi Arabia, and India, are deeply enmeshed in the international trading system and practice different degrees of open trading and investment relations. They host multinational corporations and attempt to take advantage of global production and knowledge networks.

Finally, modern state capitalist systems are in many ways hybrids. They have mixed economies with often substantial domestic private sectors. For example, Reliance Industries, a family-held conglomerate in India, is the largest corporation in India by market capitalization and the second largest company by revenue after the Indian Oil Corporation (*CNBC-TV18* 2012). It is an important player in the petrochemicals, infrastructure, telecommunications, life sciences, and retail sectors. Contemporary state capitalism therefore does not imply a purely state-owned economy and can incorporate large privately-owned productive forces.

So, what are the defining characteristics of refurbished state capitalism in the early 21st century? Since there is no single definitive model at present, I will focus on aspects that all practitioners of state capitalism share in common. The primary distinction with neo-liberal market capitalism is that in refurbished state capitalist systems there is a considerable distrust of markets and full-out economic liberalization. This does not mean that markets are unimportant. To the contrary, practitioners of refurbished state capitalism are fully aware that experiments with socialist central planning failed. Markets are needed to set prices, direct supplies of scarce resources, and create competitive pressures. However, this is a pragmatic use of markets. Ultimately, state capitalist systems share a strong belief in the potential benefits of state power, a belief that undergirds their economic management philosophies. Market forces are good, as long as state control over key economic aspects remains intact. Economic development has to be carefully managed by statist measures, rather than left to unpredictable and fickle market forces.

This economic management philosophy has created a set of institutional arrangements that in variations can be found in all refurbished forms of state capitalism. First, all state capitalist systems use industrial policy tools to foster national innovation systems. Industrial policy tools and the structure of government bureaucracies in charge of them can vary widely. Pilot agencies to centrally steer industrial development have been set up in China, as well as in Japan, Taiwan, and South Korea during their earlier spurts of industrialization. In other cases, the bureaucratic structure is more diffuse. However, all state capitalist systems tend to actively employ industrial policy tools, including the strategic use of foreign investment, measures to foster technology transfers, various trade tools, government-guided mergers and acquisitions, competition policy, preferential access to credit, and the setting up of designated zones with preferential policies to develop new industrial sectors and technologies.

Industrial policy tools are, moreover, applied to foster national champions. These can be either state-owned (in full or, more commonly, as a majority share in a listed corporation) or privately-owned entities. Privately-owned national champions are especially common in sectors with fast moving technological and/or market changes, such as telecoms equipment makers in China (Huawei and ZTE) or IT services in India (Tata; Infosys; HCL, etc.). State-owned national champions are clearly most prominent in the very large resource corporations that emerging market economies have created over the past 30 years. A list of the top global corporations in the oil and gas sector is now dominated by national oil corporations such as Saudi Aramco (Saudi Arabia), Petrobras (Brazil), Petronas (Malaysia), China National Petroleum Corporation, Sinopec, and CNOOC (China), IndianOil and ONGC (India), and Rosneft and Gazprom (Russia) (*PetroStrategies* 2012).

Similarly, large national champions have emerged in mining and processing, including entities such as Vale S.A. in iron ore (Brazil; mostly privatized) and Chinalco in aluminum (China; state-backed holding company with one major listed subsidiary). In essence, national champions are most common in industries that compete over scarce resources and that have the potential to successfully capture shares of the next leading sector (*Modelski*/*Thompson* 1996). There are, however, substantial variations in the types and amounts of state support available, as well as in terms of ownership structures and corporate forms.

Thirdly, besides the use of industrial policy tools and the fostering of national champions, sovereign wealth funds have become the third major plank of contemporary state capitalism. Sovereign wealth funds are state-owned and -managed investment funds that invest in a variety of domestic and global financial assets, including foreign currency, stocks, bonds, real estate, precious metals, and other financial instruments. Some take strategic stakes in corporations; others are only interested in small minority shares for capital appreciation. Most sovereign wealth funds are either funded by foreign exchange assets or excess income from national resource exports (especially oil). Some of these funds, such as Norway's Government Pension Fund, are highly transparent and in political economies that cannot be considered state capitalist. Most sovereign wealth funds, though, have strategic long-term goals to maximize returns with little regard for transparency, such as those in Saudi Arabia and China. In these cases, there is a fear that political goals could influence their investment decisions, making them strategic tools to foster national security goals (*Bremmer* 2010). Certainly, as the large pool of assets under their management continues to grow, sovereign wealth funds are likely to have a greater impact on all types of asset classes.

Finally, all practitioners of state capitalism have in some way harnessed domestic financial systems to support industrial policy goals and the building of national champions. This can happen directly via state-controlled banking systems, as in China, or with less directed credit and a smaller presence of state-owned banks as in Brazil's financial system. The state, though, tends to exert some control over the allocation of credit and investment that affects the private sector.

In sum, refurbished state capitalisms view markets with more skepticism than other models of capitalism, including the coordinated models of Northern Europe and Japan. They often actively "manage" markets for specific policy ends. In these systems the state dominates the economy not due to some ideological principle, but for purely pragmatic reasons: to build national economies and capture shares of future leading sectors. As a consequence, all state capitalist systems actively employ industrial policy tools and include a large swath of state-ownership in industry, finance, and other key sectors.

Evidently, modern state capitalism has adopted various liberal capitalist practices, including monetary incentives, capital markets, and economic internationalization. But it differs in its ideas, interests, and institutions from the ideal-typical neo-liberal conception of capitalism. This is a hybrid system, relying on material incentives, market competitive pressures, and other measures, while also using strategic trade tools, state ownership, directed finance, and a host of industrial policy methods. China exemplifies this new breed of state capitalism in the early 21st century and is often seen as the world's leading practitioner of it.

4. The Case of China's State Capitalism

The view that China's political economy has evolved over the past 30 years into a form of state-led capitalism has gained increasing prominence (*Huang* 2008; *Bremmer* 2010). However, as with other forms of refurbished state capitalism, China's employs market practices, capitalist incentives, and prudent macro-economic regulation, while performing quite well in aggregated economic terms. So, what is the nature and logic of China's refurbished state capitalism?

As with most modern forms of state capitalism, China's model encompasses substantial internal variety, has been deeply exposed to the forces of neo-liberal globalization, and represents a hybrid in terms of its institutional arrangements (*McNally* 2012). I therefore first stress that China is not an economic monolith guided by ultimate and comprehensive central state forces. Quite the reverse: China represents a heterogeneous political economy with considerable local variation. There are considerable differences in the role of the state, local governance arrangements, and degrees of openness to foreign investment and capital flows. Coastal areas such as Guangdong and Shanghai are deeply integrated into international trade and production networks, while some interior provinces such as Shanxi and Inner Mongolia resemble resource exporters like Russia and Saudi Arabia with large state conglomerates dominating economic activity.

Secondly, as with all contemporary cases of refurbished state capitalism, the influence of globalization has allowed neo-liberal market practices to enter China (cf. *ten Brink* 2010, 2011a; *Chu/So* 2010). Therefore, in terms of policies, China has adopted more free-market practices than earlier developers in East Asia (*Lee/Hahn/Lin* 2002; *Chu/So* 2010). These include substantial access by foreign capital to China's manufacturing and retail sectors; the relatively rapid development of stock markets and intensive use of international capital markets; and a relatively flexible domestic labor market. As a result of these factors, China has emerged as a massive global trading power and manufacturer with a highly internationalized export sector. China's adaptation of neo-liberal market strategies has perhaps created one of the world's highest "absorption capacities" for global manufacturing capital among developing economies (*Edmonds/La Croix/Li* 2008).

In other respects, however, 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 (*Edmonds/La Croix/Li* 2008). Maybe most significantly, China has been using exchange rate controls to maintain an under-valued currency that fosters export performance, just as Japan, Taiwan, and South Korea did before it (*McNally* 2012).

Finally, China represents a hybrid, combining Western, Asian, socialist, as well as Chinese historical and modern elements. Especially China's historical background, both socialist and imperial, frames its state-centric approach to economic management (cf. *Gates* 1996; *Jacques* 2009). Despite some neo-liberal impulses, therefore, China's development policies feature a substantial role for the state and have emphasized the development of domestic industry and technology. The Chinese party-state retains control over the commanding heights of the economy via large state firms and state research institutes. Crucial sectors ranging from telecoms to airlines, rail, oil and gas, and all mineral mining and processing tend to be majority state-owned or state-controlled.

In essence, China's emergent capitalism encompasses a unique dialectic of state-led capitalism juxtaposed with entrepreneurial network capitalism (*McNally* 2008; 2012). 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 bottom-up network character of China's capitalism relies in part on informal personal relations (*guanxi*) that enable private Chinese businesses to link up with state officials as well as each other to build trust and compensate for a lack of institutional certainty (*McNally* 2011).[4]

This networked element is most apparent in China's small- to medium-size private enterprise sector, where myriads of companies can collaborate to create economies of scale, and access technology, markets, and finance (*Williamson/Zheng* 2008). These vibrant and globally enmeshed networks of producers and traders have in fact allowed China to become a key component of the Western-led economic system, assimilating multinational production and knowledge networks into China (*Steinfeld* 2010).

And as with other refurbished state capitalisms, China's contains elements of industrial policy, national champions, and sovereign wealth funds. The harnessing of its domestic financial systems to support industrial policy goals is also prominent. China's refurbished state capitalism thus incorporates top-down a large and powerful state enterprise sector; bottom-up entrepreneurial networks with considerable flexibility and global reach; and outside-in influences from the forces of neo-liberal globalization, including high levels of foreign trade, direct investment, and knowledge transfers (*McNally* 2012). It ultimately constitutes a refurbished form of indicative planning that combines localized policy experimentation with vibrant market competition (*Heilmann* 2010).

Because of its economic heft, China is often viewed as the leading edge of new forms of state capitalism in emerging market economies. To be sure, China's model of capitalism still remains subordinated to neo-liberal Anglo-American capitalism in globally systemic terms. Yet, the nature and logic of China's emergent state capitalism is beginning to have an increasing impact. In essence, China's state capitalism puts less trust in free markets and more trust in state guidance. Market forces are utilized, as long as state control over key economic aspects remains intact. And as can be found in all variations of refurbished state capitalisms, the prevailing economic management philosophy is that economic development has to be carefully managed by statist measures to foster the conditions for national economic development and industrial catch-up. China's state capitalism, as that of Brazil, India, and others, distinguishes itself not only in terms of institutional arrangements, but also in terms of ideational precepts on how economic affairs should be managed (*McNally* 2012; *ten Brink* 2011b).

5. The Challenge of Refurbished State Capitalisms

In his classical analysis of capitalist variation right after the fall of the Berlin Wall, *Michel Albert* argues that after the no-holds-barred confrontation between capitalism and communism during the Cold War, capitalism emerged victorious and seemingly unrivaled in the 1990s. But within the capitalist camp, two dominant models of capitalism were evident: the neo-American model and the Rhine model centered on Germany. These differing models gave capitalism "two faces, two personalities" (*Albert* 1993, p. 18) with each variety having "an inner logic which contradicts the other" (*Albert* 1993, p. 19). According to *Albert*, these divergent currents of capitalism are unlikely to ever converge or meld, but rather are poised to challenge each other for global influence.

Following in the footsteps of *Michel Albert*, several recent analyses have envisioned a pitched struggle for leadership among different forms of capitalism. However, the rival to the neo-liberal global capitalist order led by the United States is not the European coordinated model, but refurbished state capitalism, especially the brand practiced by China. *Joshua Cooper Ramo* coined the term Beijing Consensus and argued that China's international reemergence is "already reshaping the international order by introducing a new physics of development and power" (*Ramo* 2004, p. 2). In his view, the Beijing Consensus eschews aspects of the neo-liberal mantra, such as privatization and free trade, while pursuing a development approach that is flexible and "does not believe in uniform solutions for every situation" (*Ramo* 2004, p. 4). Accordingly, the Beijing Consensus denotes unconventional approaches to economic policy-making, including "a combination of mixed ownership, basic property rights, and heavy government intervention" (*Yao* 2010). It also relies on a disinterested government that is authoritarian in nature and "not permanently beholden to certain groups or regions" (*Yao* 2010).

While *Ramo* thinks that the Beijing Consensus is "flexible enough that it is barely classifiable as a doctrine" (*Ramo* 2004, p. 4), the term has come to denote that China is attempting to supplant the Western-led neo-liberal global order with its brand of state capitalism, including an entirely different conception of how the international community should function (*Halper* 2010). Going beyond the Beijing Consensus *per se*, the possibility of a struggle between the established Washington Consensus and refurbished state capitalisms has become quite prominent. *Pat Choate*, for instance, holds that while the great economic conflict of the 20th century pitted capitalism against Marxism, the battle of the twenty-first century will be characterized by state versus market capitalism (*Choate* 2009). In his view, market capitalism is "losing badly" to state-sponsored enterprises in the developing world. "What we have seen in industry after industry where the U.S. comes up against these corporations … a privately-owned firm cannot compete with what is a state-owned firm" (*Task* 2011).

Ian Bremmer likewise argues that the Anglo-American 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 neo-liberal models, state capitalist systems do not employ markets primarily for efficiency gains, but for political purposes, especially to enhance national power and state elites' chances of survival (*Bremmer* 2010, p. 5). Further following this line of reasoning, the U.S. Chamber of Commerce and the Coalition of Services Industries in a 2011 joint-report noted that the ascendance of state-owned and state-sponsored enterprises in the world economy "threatens the competitiveness of American companies and workers in world markets and undermines our country's core belief in (*sic*) market-based economy" (*Palmer* 2011).

According to these perspectives, the global neo-liberal order is facing a possibly fatal challenge; and the challengers are refurbished state capitalisms in emerging market economies, like China, India, Saudi Arabia, Russia, Brazil, South Africa, Turkey, and others. These perspectives express a worldview that takes the struggle of competing systems or empires as central, drawing historically on liberal capitalism's battles with communism and fascism during the 20th century. Given the nature and logic of refurbished forms of state capitalism, however, it is doubtful whether perspectives based on a clear-cut struggle among two highly differentiated political economic systems for global dominance captures the state capitalist challenge properly.

Certainly, emerging market economies espouse new global perspectives based on the institutional arrangements and ideational precepts underlying their domestic politico-economic systems. They, for the most part, advocate different views regarding markets, the role of the state, and the ultimate goals of economic governance. No doubt, refurbished state capitalisms are likely to generate a challenge to the neo-liberal global capitalist order (*McNally* 2012).

Perhaps the most prominent example of this regards differing views on openness to capital flows and currency management. For instance, Chinese policy-makers do not share the view advocated by the United States and other advanced industrial economies that exchange rates are prices to be determined by the market. Quite the reverse, the exchanges rate is perceived as subordinate to China's broader development strategies (*Kroeber* 2011). This is not unlike earlier instances of industrial catch-up, during which economies such as Germany, France, South Korea, and Japan utilized undervalued exchange rates to their advantage.

In a similar fashion, all forms of refurbished state capitalism espouse industrial policy to foster new leading sectors, ranging from pebble bed reactors to aviation. Armed with ever larger war chests of foreign cash, these economies can afford such policies, even if they sometimes end in failure. As *Cohen* and *DeLong* argue, the "real danger has to do with where the spillovers of innovation go" (*Cohen/DeLong* 2010, p. 124). If emerging market economies can use industrial policy tools to foster innovation and harness its spill-over effects, the United States with its lack of well-established bureaucratic capabilities to undertake effective industrial policy would likely fall behind. Induced growth that result-ed from the great inventions of the 19^{th} and 20^{th} Centuries and propelled U.S. economic development (e.g., from railways to the Internet) might then be a thing of the past (*Co-hen/DeLong* 2010).

Nevertheless, the rapid rise of powerful state capitalist systems in China, Russia, In-dia, and Brazil is unlikely to rapidly overturn the established neo-liberal global economic order. The capitalist world system is internationally variegated (cf. *Jessop* 2011; *Streeck* 2010), and thus incorporates considerable diversity among national and regional forms of capitalism. But this variation occurs in "a context of economic and political interdepend-ence" (*Streeck* 2010, p. 39) on the global level. The neo-liberal global economic order will therefore continue its influence, including deepening global market integration and financial flows. Moreover, it is likely that the Bretton Woods institutions, such as the In-ternational Monetary Fund and the World Bank, will have considerable staying-power while gradually undergoing changes in the composition of their major stakeholders.

The international reemergence of large political economies such as China and India has highlighted the international variegation of capitalism and crystallized the nature and logic of refurbished state capitalisms. Yet, emerging market economies have not created models of capitalism divorced from global currents. Rather, they have taken advantage of the neo-liberal project of globalization. As a result, the individual national economies of emerging market economies have since 1980 all become embedded in the global political economy to varying extents, benefitting from regional and global economic integration. For example, overseas Chinese capital lead the way in the 1990s to create a new interna-tional division of labor and value creation that transformed China into the globe's fore-most production platform (*Steinfeld* 2008; *Hsing* 1998; *Zweig/Chen* 2007).

On closer inspection, therefore, China's state capitalism encompasses features that have created a deep symbiosis with the American, Japanese, and European economies (*McNally* 2012; *ten Brink* 2011b). China's extremely vibrant and globally enmeshed pri-vate entrepreneurial sector has allowed its economy to become a key component of the neo-liberal global economic system, assimilated multi-firm, multinational global produc-tion and knowledge networks. According to *Edward Steinfeld* this could indicate that China's form of state capitalism may not be a fundamental threat to the neo-liberal Anglo-American order (*Steinfeld* 2010).

Undoubtedly, the way refurbished state capitalisms challenge the U.S.-centered neo-liberal order is fundamentally different from the Soviet challenge during the Cold War. Refurbished state capitalisms are deeply enmeshed in the global political economy and their practitioners own immense amounts of global financial assets, most significantly U.S. treasury debt. Both models of capitalism are thus simultaneously co-dependent and in competition.

6. Concluding Remarks

Powerful structural forces are generating a shift in the global geo-economic landscape. Financial and economic power is gradually moving away from the United States, Japan, and Western Europe. Emerging market economies are beginning to generate the bulk of global economic growth, becoming new dynamic centers of economic activity (*Virmani* 2011). The prominent role of the state in most of the emerging market economies, however, places them largely outside the varieties of capitalism that the rules-based international order has accommodated so far in the post-World War II era (*Kahler* 2011). Refurbished forms of state capitalism hold profoundly different views on the roles of the state, markets, and society. Consequently, their emergence could lay bare highly different perspectives on economic governance, challenging the existing global political economic order, especially the Washington Consensus.

This is reflected in how emerging market economies such as China, Brazil, Russia, and India are testing the existing global institutional architecture much more directly than before the 2008 financial crisis. Major economic powers, both new and old, must acknowledge that, while they are growing ever more closely intertwined economically they champion different forms of capitalism. The Western system, especially in its neo-liberal Anglo-American form, is built on specific principles for how capitalism should function. Refurbished forms of state capitalism do not fully share these principles. For sure, all forms of capitalism have benefitted from the openness and expansiveness of the Western-led postwar order (*Ikenberry* 2008). But with the liberalization of international finance in the 1980s, the system has developed yet again (as before 1914) deep contradictions that undermine its stability (*Frieden* 2006).

In particular, the financial crisis of 2008 has provided the leaders of refurbished state capitalisms with new evidence that enlightened state management can offer protection against the natural excesses of free markets. And it also convinced these emerging market economies that adopting all the precepts of the Washington Consensus can be dangerous. Following *Colin Crouch's* understanding of neo-liberalism, this is a system that relies on and maximizes the power of large corporations, especially multinational corporations domiciled in advanced industrial economies (*Crouch* 2011). If emerging market economies want to compete globally, they face several handicaps: technological levels are lower; often enterprise institutions are weak; financial systems are not as efficient in channeling capital; and, most importantly, indigenous corporations lack the organizational and market reach on a global scale that their multinational competitors possess. This last facet has been accentuated by the present phase of neo-liberal globalization that opened much of the world to multinational manufacturing capital. Multinational corporations therefore can take advantage of lower labor, land, regulatory, and resource costs in emerging market economies, while retaining their organizational advantages and access to advanced industrial markets.

Refurbished state capitalisms, one therefore might interpret, are the logical institutional answer for weaker players in the global system to withstand the sheer power of multinational corporations and the increasingly destabilizing force of international finance (*McNally* 2012). By protecting domestic financial markets and actively building national champions, they can successfully compete over scarce resources in the global race to capture shares of the next leading sector (*Modelski*/*Thompson* 1996).

This analytical interpretation is certainly not unproblematic. The growth of refurbished state capitalisms might ultimately create large protectionist pressures in advanced economies and hence undermine the neo-liberal economic order. Conversely, as long as large multinational corporations benefit from globalization, protectionist pressures might be kept at bay in advanced economies. And as long as refurbished state capitalisms can gain sufficient advantages to capture some shares of future leading sectors, they could continue to support major aspects of the neo-liberal order. Perhaps an alliance between the corporate forces of neo-liberalism and refurbished state capitalisms could underpin global capitalism in coming decades.

Certainly, so far, refurbished state capitalisms have produced a dynamic mix of mutual dependence, symbiosis, competition, and friction with the still dominant neo-liberal model of capitalism. The neo-liberal order does therefore not necessarily have to become unhinged due to the state capitalist challenge. Large doses of cooperation and shared authority over the global capitalist system exist among the major economic powers at present. Rather than an all-out struggle, the more likely outcome is a gradual shift in the global consensus (*McNally* 2012). Already, the international policy accord has started to move away from the pure neo-liberal stance of the Washington Consensus to embrace more state-managed solutions (*Kahler* 2010). All major economic players, for example, are rethinking financial liberalization and starting to reemphasize aspects of financial regulation and controls over capital flows.

This is a new and messier reality. A more state-centric and state-controlled approach to global economic governance is undoubtedly gaining in prominence. If the successes of refurbished state capitalism in China, India, Brazil, Russia, and beyond are sustained, their models of capitalism are likely to alter the global political economic order. But these are pragmatic systems of state capitalism. They have as much to loose from the collapse of the neo-liberal political economic order as their competitors in advanced economies.

Notes

1 The original formulation of the Washington Consensus was presented by *John Williamson* and prescribed ten broad sets of economic policy recommendations. See *Williamson* (1990).
2 For critiques of the "Varieties of Capitalism" approach see *Pontusson* (2005), *Streeck* (2010) and *Becker* (2009).
3 An alternate term would be "state coordinated economy." However, the term state capitalism is used so prominently with regard to emerging market economies that there is analytical validity in trying to precisely define it as a contemporary phenomenon and apply it to the political economic systems of large emerging market economies.
4 This aspect of China's emergent capitalism is sometimes referred to as Chinese "network capitalism" or "*guanxi* capitalism."

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