

*ADAM SMITH IN BEIJING: THE
MARKET, THE STATE AND SOCIETY*

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Adam Smith in Beijing: the Market, the Political Authority and Society¹

Abstract: This article looks to expand the theoretical grounding of the ‘Smithian-dynamic’ espoused by Giovanni Arrighi through which he attempts to understand the macro-historical economic experience of China. It is done through the political economy of Adam Smith, where the interaction between the market mechanism and the state is an important factor. as we articulate how the market mechanism and political authority are theorized to interact. It is this analytical framework that is extended towards understanding the Chinese experience in its historical context and its post-reform era. In the historical context, then, we argue that the incomplete institutionalization of the market process results in the functional incapacity of the state. This adds a level of complexity to Arrighi’s argument specifically, when the ‘Smith’ in the ‘Smithian-dynamic’ is emphasized and additionally, when contextualized into the Chinese societal process. Furthermore, in the post-reform era, continuing upon the political economy of Smith, we argue that understanding China’s success as understood from the viewpoint of the Smithian-dynamic does not articulate that the more complete institutionalization of the market process results in contradictions for the Chinese state, emanating from the interaction of the market and political authority.

Introduction

Who is Adam Smith? The answer would always be with regard to the ‘Invisible Hand’ that has “evolved into a veritable faith in man’s secular salvation through a self-regulating market.” (Polanyi 2001, 135) This ‘myth’ that Adam Smith was an “economic determinist of an optimistic disposition, believing in Progress and preaching a simple doctrine” of self-regulating “laissez-faire market behavior” (Winch 1978: 81) is vindicated by Giovanni Arrighi. This vindication is because the arguments made by him reassert Smith’s maxim for the required “existence of a strong state” (Arrighi 2007, 43) instead of believing in the self-regulating market mechanism.ⁱ It is through this maxim; the existence and importance of the state, that he looks to analyze the macro-historical experience of the Chinese economy. Throughout this analysis when we speak of the Smithian-dynamic we are referring to this specific aspect of Adam Smith’s political economy as understood and extrapolated upon by Giovanni Arrighi.

In the historical context of China, his analysis focuses on the “real puzzle” as to why the industrial countries could avoid the “high-level equilibrium trap” in the mid-19th century, even though the *industrial* countries (the Occident) as well as the *industrious* countries (the East Asian countries) developmental paths were characterized by the “high-level equilibrium trap.” (Arrighi 2007, 70) This high-level equilibrium trap is in reference to the argument that any economy is limited by the “extent of the market”ⁱⁱ (Arrighi 2007, 25; Smith 1723-1790 1987)) It is here, in the required extension of the market, that the failure of the East Asian economies to propagate military intervention through the state is argued to be the primary reason for their failure to come unstuck from the high-level equilibrium trap. On the other hand, the industrial countries in the Occident could overcome the high-level equilibrium trap precisely due to the successful military

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intervention for foreign trade-based development. (Arrighi 2007, 309- 350) The importance of the nonexistent role of the state for the East Asian economies (industrious countries) is further emphasized when it is argued that these industrious countries were in a relatively better economic position to overcome the problem of high-equilibrium trap. This was because it was the East Asian economies that were on the path of ‘natural progress to opulence’ⁱⁱⁱ as understood within the Smithian-dynamic. (Arrighi 2007, 57) When this added dynamic of the better economic positioning of the East Asian economies (industrious countries) relative to the Western economies (industrial countries) is noted, the importance of the needed military intervention through the state becomes starkly evident.

On the contrary, contemporary China is presented as a prime example of the ‘gradualist approach’ to economic development (Chow 2004; Stiglitz 2002), where the functional role of the state became paramount. (Arrighi 2007) In the post reform era, the propagation of the Household Responsibility System and the TVEs are viewed as the “heir to ‘Sugihara’s thesis of the East Asian Industrious Revolution’”^{iv} because China “mobilized human rather than non-human resources and protected rather than destroyed the economic independence and welfare of agricultural producers.” (Arrighi 2007, 365; Sugihara 2003) It is here that the three aspects of the functional role of the state are specified. Firstly, to “create and reproduce the conditions for the existence of the market”, secondly to make the market an “effective instrument” of the government and lastly, to regulate the market “to correct and counter its socially or politically undesirable outcomes.” (Arrighi 2007, 43) In the following sections we will look into in some detail as to how the state has been functionally successful in the post-reform China. However, also attendant are contradictions that emanate from that very success story of making the SOEs the effective instrument via which the important component of human resources was mobilized. Arrighi’s analysis (2007) does not look into the above dynamic but in this essay, we will look into the *hidden abodes of production* (within the SOEs) and argue that it presents certain contradictions with particularistic Chinese characteristics.

Before we proceed towards the deep end of the arguments there are two issues that must be cleared right at the outset. The first is that the primary focus of this analysis will be on understanding the two-way causal interactions between the market mechanism and the state, its structural and functional aspects both, in the Chinese context. It must be kept in mind that Arrighi’s analysis is based on *first of the two* Schumpeterian conceptions of “market based development” where “given (a) social framework; it exploits (or is retarded by) the hidden potential of that framework for economic growth, but it does not alter the framework itself in any fundamental way.” (Arrighi 2007, 41) Inherent in this argument is the assumption that the social framework is independent of the market mechanism. There can be changes to that social framework but those changes “originate in processes and actions of a non-economic nature *rather than from within the process of economic growth* [emphasis not added].” (Arrighi 2007, 41) This is along the lines of what Karl Polanyi (2001) characterizes as the ‘disembedded’ nature of the market based developmental process. To better illustrate what this means consider the following. In the case of historical China, the failure of the Chinese economy is hinged on the incapacity of the state to undertake foreign-based trade through gun-boat diplomacy. Instead, in this work, the argument will be that the incapacitated functional role of the state in history emanates from a deeper non-realization of the market mechanism itself. That is the changes to the social framework and the market mechanism are very closely related for the market mechanism is ‘embedded’ within the social framework of any society. (Polanyi 2001) For example, in the Western countries, the full institutionalization of market mechanism within the economic sphere had been undertaken by the creation of fictitious commodities (Polanyi 2001), which resulted in the formation of the “three great, original and constituent orders of every civilized society.” (Arrighi 2007, 47) It was this needed institutionalization of the market mechanism that

resulted in/was a result of the formation of a class of profit seekers who were to become the main proponents of the idea of foreign trade as the needed impetus for the *wealth of the nation*. (Lindgren 1973; Winch 1978; Williams 1944) This is important because when the dynamic shifts over to the class of profit seekers the foundational understanding of the economics behind it changes to a large extent. (Smith and Cannan 2003; Smith 1723-1790 1987; Ricardo and Sraffa 1951; Marx et al. 1990; Resnick and Wolff 1989) For the purposes of this essay, the important thing to note is that the explanatory foundations of economic theory that underlies this needed foreign trade has an *internal theoretical component* to it. In the case of China, the economic argument stands on the *incomplete* institutionalization of the market mechanism and is exemplified in the overt dependence of the system on the “non-producing part of the population, that is the official, the military, and the leisure class”. (Polanyi 2001, 52) This is the reason as to why Wang is adamant on the need to decontextualize imperialism:

(T)he crux of the issue lies not in whether to affirm that expansion, expropriation, and colonization actually occurred during the Qing dynasty (*of this there is no question*), but whether to affirm that it is necessary to distinguish between similar phenomena that occur both under capitalism and noncapitalism (sic)- or between a traditional form of empire and the imperialism produced by the process of nineteenth-twentieth-century European industrialization. [emphasis added] (Wang 2009, 23)

The complete institutionalization of the market mechanism was not planned/could not be undertaken/was not undertaken, which is the very basis for differentiating between capitalism and economies categorized as non-capitalist (Marx et al. 1990; Resnick and Wolff 1989; Olsen 2017) This is the *internal theoretical component* that we have referred to earlier. Wang (2009) is relatedly, and obviously, emphasizing more upon the difference between Empire and nation-state (Wang 2009). Hence, the needed class dynamics for the full realization of the Smithian-dynamic for the propagation of foreign trade-based development spruced on military interventionism was non-existent.

Secondly, as the above argument shows, this essay is looking to broaden the horizon and depth of understanding the macro-historical context of the Chinese story of development as the market mechanism does not solely exploit the hidden potential of the (social) framework but in fact is ‘embedded’ in the society. (Polanyi 2001) But this extension and broadening is limited in its scope for we will be concentrating only on the interaction of the market mechanism and the state. This does not mean that the importance of other ‘non-economic’ social processes should be ignored. Consider this: the Confucian ideology *at that time* made the structural components of the state averse towards modernization through its influence on the Ming and Qing dynasties and the bureaucratic system. (Lippit 1978) The Confucian ideology has implications for understanding the structural aspect of the state but then again this philosophical ideology that is considered to be the ‘other’ has itself undergone a “secular trend and cyclical rhythm” throughout Chinese history. (Hu 2007, 138) For example the aversion towards modernization was changed to a more accommodating maxim: “Chinese learning for the fundamental principles and Western learning for practical application” (Hu 2007, 138) in lieu of replicating the modernization drive undertaken under the Meiji Restoration. The example of Confucian ideology isn’t the only ‘other’ but in fact further complications arise when we consider the rise nationalist movements, and the interlinked understanding of the problem of Qing Imperialism. (Hu 2007, 138) To avoid the complications that will arise the following section will leave the ‘others’ out, and instead hone in on the interaction of the market and the state.

Adam Smith's Political Economy and the Society

The Interaction of the Market Process and Political Authority

The basis for the argument that the state, with its structural characteristic and functional roles, is dependent on social institutions is not a claim of my own. (Lindgren 1973; Winch 1978) In the political economy of Smith, the fundamental question of as to "why should anyone obey anyone else" was based on the argument that "political economy is a branch of natural jurisprudence which is in turn a branch of ethics." (Lindgren 1973, 63) This basing of the political authority in ethics was the driving principle of understanding the "sociological basis of politics, the enforcement of morals and *the rise of government through a division of labour* [emphasis added]". (Lindgren 1973, 60) Smith understood political obligation to be a special case of "moral obligation" and that civil government is a particular form of organizing the political authority of the community and that "both moral obligation and political authority vary according to the mode of social stratification which prevails within a community." [Lindgren 1973, 63] The important thing to note here is that the enforcement of morals comes from a very specific understanding of the individual. This understanding of the individual comes from a specific social context and is socially determined through an Impartial Spectator. (Heilbroner 1982; Smith 1723-1790 1987; Forstater 2008; Sen 2002; Sen 2009) Without going into much detail, what this achieves for Smith's political economy is that a deference structure becomes institutionalized, and it qualifies as to what the preferences and aversions of the society will be considered to be inviolable and hence, legitimizes the "moral basis of political obligation." (Lindgren 1973, 63)

Furthermore, Smith's formulation of political authority is based on the conception of the moral obligation and the deference system emanating from the social process of diversification of roles/division of labour dependent on the existence of markets. (Reisman 1998) The important thing here is that the "diversification of productive roles" is based on a hierarchical social spectrum; that is already fixed through the construct of the Impartial Spectator, where the "rich maintain the poor out of their excess, while the poor perform the labour and provide the service required of them by the rich." (Lindgren 1973, 71) The role of the construct of the Impartial Spectator is very important as it justifies that the rich are to be maintained out of the labour performed by the poor. This does not mean that there is a theoretical component of *exploitation* that is realized by Smith in his evaluation but rather, Smith assumes that the labour of the poor is provided its due. (Marx et al. 1990) This division of labour, however, is not created by the market but rather the market becomes the avenue for the realization of the in-bred and instinctual drive to "truck, barter and exchange one thing for another" (Smith 1723-1790 1987, 168). The argument thereby being that the institutionalization of the market mechanism was the important component for the realization for this instinctual drive to be realized: quid pro quo nexus, thus established. (Polanyi 2001, 357-383; Reisman 1998) From the viewpoint of this essay how do we try and understand this contorted interaction between the market mechanism, the deference structure and political authority? It makes it simpler if we again break it into structured components. First, in the case of China's historical context, we understand as to "what that political power will be used to secure (the hierarchy within the preferences)" [emphasis added] (Lindgren 1973, 64). We had briefly looked at this issue when arguing that the Chinese economic sphere in history was characterized by protecting the hierarchy of preferences of the non-producing population. We will expand upon it in the following section. In the case of post-reform China, we assign the problematic of evaluating the question of: "how it will be deployed and by whom" [emphasis added] (Lindgren 1973, 64)

The Interaction of the Market Process and Political Authority in the Chinese Historical Context

In the case of Qing dynasty's China, its economic sphere was *not solely* and definitely not dependent on the market process. (Polanyi 2001, 31-55) The market mechanism had not been institutionalized within the social sphere of China and the economic sphere of the Chinese society was not characterized by a market mechanism, dependent on the institution of market prices. (Polanyi 2001) Instead, the economic aspects of the society were still dependent on social mechanisms of "redistribution" that were founded on social institutions of "centrality". (Polanyi 2001, 43-55) This is a re-iteration of the argument that the economic sphere was not characterized by an impersonal market mechanism. We have already argued that situating Arrighi's (2007) arguments of the functional failure of the state in propagating foreign trade can then be based in this process of incomplete institutionalization of the market mechanism. This was due primarily due to the reason that the incomplete institutionalization of the market mechanism in the Chinese context means that the "three great, original and constituent orders of every civilized society" (the class dynamics) (Arrighi 2007, 47) needed for the propagation of the foreign-based trade development was non-existent (Lindgren 1973). What this means is that the *required deference structure that was to be realized through the market mechanism could not be realized.*^{vi} The political structure was bent on protecting another deference structure that emphasized upon the "non-producing part of the population, that is the official, the military, and the leisure class" (Polanyi 2001, 52).

In the political economy of Smith, the deference structure is important given that 'the revolution wrought about by commerce' would be "favorable to liberty because it destroys a source of arbitrary power and a particularly degrading form of dependence" (Winch 1978, 78). In the economic sphere, strictly, the degrading and the arbitrary form of dominance were to be replaced by an economic form of dependence. (Winch 1978, 78) This was with regard to the economic transformation of the society, from feudal to commercial. This deference structure with the introduction of the commercial revolution was to be protected by the state as understood earlier. However, we must not commit the fallacy of compartmentalizing Smith to be a believer of 'laissez faire' mechanism taking care of the *other* forms of 'oppression and social conflict' that arose with the commercial revolution. It is here that Smith had talked about the functional role of the state in overcoming the social and political problems associated with the introduction of the commercial revolution- the specialization of labor resulting in their intellectual incapacitation and the 'harmony of egoisms' issue related to the wealth and power dynamic within the society. (Arrighi 2007, 69-98; Winch 1978; Smith 1723-1790 1987) Furthermore, it was the extent of the market that was to be another constraining factor (Lindgren 1973; Winch 1978; Smith 1723-1790 1987) and that was to be solved through the functional role of state in undertaking foreign-based trade (Arrighi 2007).

Yet again, there are complicated issues that further arise when contextualized in the Chinese context. For example, the required economic modernity so espoused has been argued to have had existed in historical China and has been extensively analyzed by three different theorizations of 'discover history in China': East Asian modern age, the Kyoto School and the theory that evaluates the 'sprouts of capitalism' in the Ming and Qing dynasties. (Wang 2009, 3-29) An additional question that arises here is explaining and understanding the "external factor" of the invasion of the Qing dynasty as the primary reason for the premature demise of Chinese modernity. (Wang 2009, 11-12) In the Chinese context then the market mechanism seems to have been expunged from the societal process or at least the transition to the market mechanism was not continued upon- resulting in the non-fruit of the required deference structure?

Furthermore, what has been kept aside, at least in this analysis, is that inherent in Smith's economic transformation is the Hegelian idea of political transformation. (Wang 2009) Not, mind you in the same context as the current debate revolving around authoritarianism and participatory democracy (Winch 1978, 86) but instead in Smith's understanding of the concept of liberty with the advent of commerce resulting in the structural transformation of the political authority characterizing the "degree of civilization attained". (Winch 1978, 86) This is where the portrayal of Asian historicism as 'figures of lack' (Chakrabarty 2000, 40) holds sway and it is here that "Asia and Europe are positioned at utterly different stages of this process of historical development" of their respective civilizational time line. (Wang 2009, 62; Ani 1994; Chakrabarty 2000) The 'figure of lack' characterization arises due to the "universalization of the nation-state as the most desirable form of political authority." (Chakrabarty 2000, 41) Remember that the difference in the "degree of civilization" between the Occident and the Orient is dependent on both the political forms (empire and nation-state) and economic forms (agrarian economies [non-capitalistic] and industrial or trade-based economies [capitalistic]). (Wang 2009, 41)

From the perspective of the question of the structure of the Chinese state the opposition between an empire and a nation-state arose not due to *structural political homogeneity* but rather in the *structural aspects* that are steeped in the social processes of "its multiple center of power, multinational ethnic make-up, and limitlessness (this concept is understood relative to the clear boundaries of community established by the nation-state in terms of territorial borders and population)". (Wang 2009, 37) The following excerpt should clarify the argument that is being made by Wang:

(T)he political independence of a nation or people points to an exclusive sovereign power to self-determination; this is a direct expression of monarchical states' rejection of the domination of the Holy Roman Empire. The combination of the nation and sovereignty created the conditions under which members of the nation could obtain equal rights as citizens because new trends in the nineteenth century defined a people or nation as an entity with an existence based on "natural characteristics" such as language, race, religion, faith, culture, and history; and yet the natural existence of the nation also possessed the power to establish a state and government with its own sovereignty. Under these conditions, the universal empire, with its vast territories and multiple nationalities, became a symbol of despotic political power that violated the laws of nature. (Wang 2009, 37)

It was in this characterization of the nation-state that a "deep suspicion" of the Qing Empire resulted in it being termed as the pinnacle of "Oriental Despotism". (Wang 2009, 37) Within this framework then, the structural characteristic of the state can also be considered to be a reason for the failure of the Chinese society to transform from the 'beginning point of history' to its 'end' when considering that inherent in this formulation is also the transition of the economy from an agrarian (non-capitalistic) to a commercial society (capitalistic). Remember that Smith had articulated the commercial revolution to bring about an *end to sources of arbitrary powers* (Winch 1978) but such a formulation of achieving modernity is done so by "invoking certain categories and concepts, the genealogies of which go deep in to the intellectual and even theological traditions of Europe." (Chakrabarty 2000, 14) How deep do these entanglements go? As a digression two examples are succinctly provided here. First is the idea of progress, where the requirement that these figures of lack are meant to and have to progress towards a defined position is dependent on a specific philosophical construct of the Occident (Ani 1994) and the incidental effect of how progress is defined is dependent on that same philosophical construct, such as the idea of 'development' (Escobar 1995). Secondly, within the political economy of Smith the deference structure attained depends on the already persistent stratification of the society, personified in the 'Impartial Spectator' (the idea of the 'individual'). For example, even though

Smith's articulation of political economy was based on the idea of the impersonal market mechanism, yet still a fisherman's son successful in wealth accumulation could not transcend the 'figure of lack' characterization of his birth. (Smith and Cannan 2003; Smith 1723-1790 1987) Furthermore, this socialization of the individual (Heilbroner 1982), as understood in Smith's articulation of the Impartial Spectator (Smith and Hanley 2009), has now been purged and its stead stands a homogenized mathematical function that is based on a specific Western philosophical tradition (Davis 2003; Rosenberg 2016).

When these concepts of modernity, strictly speaking of the structure of the state, are compared to the intellectual underpinning of the Chinese society, it becomes a problematic issue. The inconsistencies arise with regard to understanding *diguo* (empire) from the Western conceptions of the same (Wang 2009, 30-8) and when we try to assimilate "appropriately the relationships between the concept of empire and other historical Chinese political concepts- enfeoffment (*fenjian*), "grand unification" (*da yitong*), centralized administrative system (*junxian*), tribute" within the Empire/Nation-State debate. (Wang 2009, 36-7) Furthermore, the transition from the Empire to Nation State when contextualized becomes a mammoth task in itself given the failure of the transition towards a nation-state with the advent of nationalism in the early 20th century, the philosophical debates involved, the World Wars, the Russian Revolution, Civil War in China and finally, the successful social revolution in 1949 (Skocpol 1976) and the continuation of the Qing dynasties political formulations in to Modern China. (Wang 2009, 101-147, 175-210) Coming back to the primary concern of this essay, these arguments create problems for the Smithian-dynamic as understood by Arrighi (2007). The reference here to the Smithian-dynamic is with regard to the aspects of Smith's political economy that Arrighi's analysis of the Chinese experience focusses upon *the functional role of the state*. What is the specific issue that arises for the Smithian-dynamic? The answer is that the assumption of the market and the social parameters being independent from one another is questioned. This is because the Smithian-dynamic is understood in a constrained embedded framework, which fails to historicize the Smithian-dynamic within the European intellectual tradition and ignores the attendant problem of 'disembedding' the concept of the Smithian-dynamic, itself. (Chakrabarty 2000: 3-26)

So, the great divergence cannot be fully understood without situating the political aspect within the Chinese society, of which the interaction between politics and economy is but only one aspect of the interaction that is defined as the societal processes by Polanyi (2001). This analysis has been framed with the beginning being the incomplete institutionalization (disappearance?) of the market mechanism under the Qing dynasty and how the functional incapacity can be related to this phenomenon. Furthermore, this dynamic of the market mechanism and the functional role of the state was further complicated when we introduce the questions revolving around 'structural' aspects of the state. Primarily, we emphasized the issue of understanding the distinction between Empire and Nation-state and the attendant philosophical issues involved.

The problem that we now turn to is starting with the successful creation and recreation of the market mechanism under the aegis of 'socialism with Chinese characteristics' and the associated problem of the functional role and the structural characteristic of the Modern Chinese state. As has been stated previously the deference structure is used to grade the 'moral obligations' of the society as a whole, of which the 'rich' with a clear consciousness (rationality assumed?) is the primogeniture of such a society that is skewed against the less fortunate. It is the deference structure that becomes important in characterizing the political authority in terms of "*what that (political) power will be used to secure (the hierarchy within the preferences).*" (Lindgren 1973, 64) In the case of post-reform China, we return to the question of 'how' is the deference structure deployed. Here, we will talk about the functional role of the state and its effective instrument of State-Owned Enterprises. Secondly, we take-off from the former point and look at the complex

questions it throws up for the structure of the state in the contemporary context- thereby looking at the issue of deference structure is deployed by 'whom'. Succinctly put, we will see that the human resources that is understood to have been behind the success of China (Arrighi 2007) does explain why it *cannot* be economically characterized as a 'figure of lack' (answers the question 'how') but such is not the case when considering the political context of China (Wang 2009) (thereby problematizing the question of 'whom'). Can this duality be juxtaposed within the political economy of Adam Smith with particularistic Chinese characteristics? If so, then how do we explain the Chinese scenario and further expand on understanding the economic transformation within the political construct of the state? What are the problems that arise? To these concerns and issues we now turn to.

The Interaction of the Market Process and Political Authority in the post- 1979 Reform Era

According to Arrighi (2007, 43), there are three functional roles of the state: 1) to "create and reproduce the conditions for the existence of the market", 2) to make the market an "effective instrument" of the government and 3) to regulate the market "to correct and counter its socially or politically undesirable outcomes." With regard to the first functional role of the state the technical term used by the economists is the gradualist approach. The gradual approach was underlined with 'pragmatism over ideology' and the process of experimentation that has resulted in China becoming the second largest economy in the world. This pragmatist policy was underlined by the household responsibility system, the contract responsibility system for state run industries, the free economic zones and the establishment of share-holding companies. (Chow 2004; Arrighi 2007) This economic process is understood as the successful implementation of the Smithian-dynamic: "to develop a national market economy is to start with the expansion and improvement of agriculture and domestic trade (household responsibility system), which creates the 'opportunities' for industrial development, ably exploited by the interventionist state (contract responsibility system)." (Arrighi 2007, 60) The agricultural growth in tune with manufacturing capacity "generate a surplus of commodities" that can be profitably traded and it is this process that generates the capacity for an economy to accumulate capital over and above what is required for consumption purposes and in bulwarking the productive labor of the country. (Arrighi 2007, 60) The common dynamic throughout this large scale, prolonged and unexpected economic upsurge has been the introduction of the market mechanism, albeit gradually. (Brandt, Loren and Rawski 2008)

We begin in the post-reform era as the market mechanism has been institutionalized and the question of 'what' becomes an interesting point of analysis. Smith formulates that "political authority" is conditioned to protect the "hierarchy within the preferences." (Lindgren 1973, 64) An example of the change in the form of the hierarchy of preferences in the post-reform China era can be gauged through the transition from 'politics in command' to 'economy in command' introduced through the Resolution on Certain Questions in the history of Our Party since the founding of the People's Republic of China. (Joseph 2014) This document released by the CCP in 1981 provides the bifurcation of the economic line from the Mao Zedong Thought ("Building Socialism with Chinese Characteristics") and its continuation within the political ideology on which the party has been institutionalized ("Four Cardinal Principles"). (Joseph 2014, 149-192) For Smith, the introduction of commercial activity provided the basis for stipulating a deference structure and the role of the political authority is to protect this deference structure. (Winch 1978, 73) However, when considering the case of post-reform China, the deference structure is hinged on the assimilation of the market mechanism within the state and not just in its functional capacity of facilitating the market process and in making the market process just an effective

instrument. Given that we have just looked at ‘what’ deference structure was to be institutionalized, we now turn to evaluating to ‘how’ was it achieved.

We begin this section with this question: what is the primary instrument for the state in post-reform China? The answer is the State-Owned Enterprises (SOEs). Such an assertion can be made because even though the National Bureau of Statistics defines SOEs as enterprises in which all assets are owned by the state and are business entities established by central or local governments whose supervision is under the control of the respective governments. (Lee 2009) This definition, however, leaves out the share-holding cooperative enterprises, joint-operation enterprises, limited liability corporations, or shareholding corporations whose majority shares are owned by the government, public organizations, or the SOEs themselves. (Lee 2009) Secondly, have they been *effective*? At the micro level, the conventional argument has, however, been that the SOEs are inefficient due to the issues of principal-agent problem and issues revolving around soft-budget problem. (Zhang 1995; Zhou 2000) The primary issue with this literature has been that how is this micro problem any different in a private enterprise and a state-owned enterprise. (Qi and Kotz 2020) At the macro level, the importance of the SOEs have been viewed in the negative, on the one hand, where SOEs are understood to be negative to economic growth (Chen and Feng 2000), larger share of private enterprises in the economy is shown to be better for economic growth (Lin and Liu 2000) and that entrepreneurship is positively affected by the share of private enterprise’s share in the total employment and thus positively impact economic growth (Li et al. 2012) On the other hand, SOEs have been shown to contribute towards social stability (Huang, Li, and Lotspeich 2010; Qi and Kotz 2020), SOEs have made major technological innovations that have fostered economic growth (Qi and Kotz 2020) and lastly, internal efficiency means greater profitability but the macro concerns of economic growth, stability and long-term growth are better served by SOEs (Qi and Kotz 2020)

Overall, there is no consensus within the literature on SOEs about its effectiveness. Arrighi (2007, 356) argues that SOEs are an effective instrument because they have bulwarked the growth experience of China due to the “exposure of state-owned enterprises (SOEs) to competition with one another, with foreign corporations, and above all, with a mixed bag of newly created private, semi-private, and community-owned enterprises”. (Arrighi 2007, 356) Furthermore, his emphasis is on the word ‘private’ when analyzing the role of enterprises and this has been buttressed by the promotion of development through Export Processing Zones (EPZs). (Arrighi 2007) But in this milieu his initial contention that the usage of human resources was the foundation upon which the success of China was built upon is not looked into in great depth. It is precisely here that the contradictions arise. What are those contradictions? Let us look at the intersection of effective instrument (the SOEs) and the human resources that were utilized.

The Hidden Abodes of SOEs

Under the aegis of state capitalism with Chinese characteristics (Xing and Shaw 2013), the deference structure so produced results in an inherent conflict of interest, for the state is not only the enforcer of the moral obligations of the society at large but also shapes the deference structure through its role in the economy. According to Lindgren (1973, 78), “Smith allowed that political authority can be legitimately exercised in whatever ways are necessary to secure the deference structure of the community.” Till what extent would be the question? If we were to bypass the debate about the *direct importance*, the *instrumental role* and the *constructive role* of political freedom (Sen 2000) and look into this Chinese system through the political economy of Adam Smith then a problem arises. This problem is with regard to the assumption of the deference system hinged on the workers being maintained out of the excess of the profits, exemplified through the functional failure of the state: “to correct and counter its socially or

politically undesirable outcomes” (Arrighi 2007, 43). Has the state-led deference structure encountered such a problem? This question is best understood in the post-liberalization phenomenon of the dismantling of the iron rice bowls through the reform in the labour laws (which, started with the Law on Joint Ventures, signed on 8 July 1979) (Lewis and Ottley 1982), the introduction of the ‘labour-contract system’ in tandem with the planned employment system and the eventual institutionalization of the contractual system through the Labour Law of the People’s Republic of China, with nation-wide implementation, effective on 1 January 1995. (Gu 2001) If it were to be argued that a commercial society based on the idea of Adam Smith would not have a similar problem is a fallacy of sorts. Even if we were to consider that China, had not transcended the ‘figure of lack’ with regard to its political construct, then this problem in the *hidden abodes of production* has been persistent in other civilizations that seem to have overcome the ‘figure of lack’ from the political viewpoint but have continued on a similar economic trajectory: emphasizing *capitalism* in the word *state-capitalism*. An example in this regard would be the Taft-Hartley Act that was propagated to quell the discord in the labor-capital accord essential to the Social Structure of Accumulation (SSA) in the U.S., during the Golden Age of capitalism, whereby the corporate prerogatives were codified in the management rights with the unions now playing the role of policing its own members and not enabled to challenge the employer control of enterprises, let alone challenge the system of capital class process. (Bowles, Gordon and Weisskopf 1992) In the case of China, a similar process has happened, albeit within a *labor-state accord* instead of a *labor-capital accord*. (Qi and Li 2014) This became important as the political elite looked to curb and stymie the frustrations; due to the creation of the new Three Mountains, of the laborers. (Li 2014, 24-66) An example of the labor discord was seen in the venting of frustrations through ‘bargaining-by-riot’ by the laborers in the Honda plant in Guangdong. (Lau 2012) In this case too, the labor-state accord (Qi and Li 2014) becomes evident in that the collective bargaining process was morphed towards a *party state-led collective bargaining* that is unlikely to reach the stage of *worker-led collective bargaining* (Chan and Hui 2014). In fact the right of the Chinese worker to strike has been suppressed by the party-state government and the companies are forced on to the negotiation table through the direct intervention of the state and not the worker’s union (Chan and Hui 2014; Lau 2012) for the legitimate labour union in China exists within the government machinery. (Chan and Hui 2014) This has to be the case when the system of governance has changed from ‘party-state’ to ‘state-party’, whereby the party has only a ‘structural-functionalist relationship to the state apparatus.’ (Wang 2009: 1-18) Arriving at the junction of the state-led deference structure was done through the creation of a large and cheap labour force to exploit the comparative advantage and undertake accumulation through export promotion. (Li 2008) It seems that the Chinese deference structure is no different from those that seem to have transcended the figurative political connotation of the ‘figure of lack’ when we peer into the hidden abodes of production.

The problem, however, arises when considering that such an economic system goes against the recent historical structural characteristic of the Chinese modern state. This internal compact was started, not only with the “rejection of the radical thought and practice of the Cultural Revolution” but a vindication of the whole Chinese ““revolutionary century””. (Wang 2009: 4) This process of *de-politicization* was carried through the propagation of the idea that an unsuccessful de-politicization would revert the Chinese economy back to the state it was in during the Cultural Revolution. (Wang 2009; Li 2008) The process of de-politicization of the political scenario in China can be bifurcated in to two branches. Firstly, the ideological sphere had to be put through *the process of de-theorization*. What this meant was that there was a change in the kind of theoretical discussions that were undertaken. For example, up until the mid 1970s the theoretical discussions were about issues such as the market, labour compensation, civil rights and other questions within the party and the society at large.^{vii} (Wang 2009: 8-9) By the end of the 1970s the theoretical discussion turned towards the problems of “socialism, humanism,

alienation, the market economy and the question of ownership". (Wang 2009: 8-9) Secondly, the making of economic reform became the "sole purpose of the party", where the word "construction" replaced the former "two line" goal of "revolution and construction". (Wang 2009: 8) The aforementioned change can also be explained through the gradualist approach followed within the SOEs, where, the effective instrument of the state (SOEs) were made efficient through the fostering of human resources instead of non-human resources. Qi (2020) has meticulously shown that in the post-reform era the 'Maoist incentive system' within the SOEs have been progressively dismantled, with the first phase characterized by the introduction of bonuses and piece wages for the workers while maintaining the benefits system of housing and job security. There were obviously problems of profitability, though the role of SOEs should not be microeconomic concerns of profitability (Qi and Kotz 2020), as the workers were still provided with benefits. (Qi 2020) The second phase, much more importantly, resulted in the cadres becoming the capitalist managers along with the dismantling of the social benefits that had previously accrued to the workers and in the last phase, the state-owned enterprises began a policy of "increasing efficiency by reducing employment" (Qi 2020, p. 418-422) which meant that the migrant workers were to replace the urban workers. (Qi 2020; Li et al. 2013)

The question of legitimacy of this state-led initiative is more often than not is hinged on the economic performance of the Communist Party of China. Quite understandable given that according to Smith, whenever a society undergoes division of labor "it becomes impossible for anyone to judge whether the entire function is being exercised in accordance with that complex moral sentiments which is the very bond of the community" and the political authority undergoes a process of "value displacement" whereby the function of the state to administer its duties must "rely upon considerations of utility rather than propriety." (Lindgren 1973: 60-83) In the context of China, however, this would amount to a simplified analysis of the question of legitimacy given the historical process that continued from the Qing Dynasty; and through the Modern China under Mao Zedong, till the present and in limiting the understanding of this deference structure on its *economic utility only*. For e.g. in the case of Modern China under Mao Zedong the question of 'whom' can be better understood through the 'self-concept based motivational theory' that delves in to the reasons for 'self-sacrifice' (collective action) emanating from the complex array of inter-relationships between the 'symbolic-leader', the follower and the motivational processes that give rise to the myth/reality of the charismatic leader. (Shamir et.al. 1993) The motivational mechanism used by the leader is by increasing the 'intrinsic valence' of the effort, in effect, translating the effort into a moral statement. (Shamir et.al. 1993) This can be considered true not only for the Cultural Revolution but also the initiative of 'socialism with Chinese characteristics' that tended to use the need to overcome the debacle of the Cultural Revolution as a moral statement that was to be economically achieved by fostering a bifurcation of the functional role from the structural aspect of the state. (Wang 2009; Li 2008) This 'binding' between the leader and his followers is dependent on two motivational mechanisms of role modeling and frame alignment. (Shamir et. al 1993) Particularly important is the *frame alignment* whereby the follower's interests, values and beliefs and the leader's activities, goals and ideology become congruent and complementary. (Shamir et.al. 1993) The important question that arises here is whether the transition towards 'market socialism' has been congruent and complementary to whose utility, with the term utility inclusive of interests (economic) and values and beliefs (social) parameters? Can this transformation from 'Cultural Positioning' to 'Cultural Patronage' be assimilated within the economic and the political underpinning of the Chinese social growth experience? If not, then will it result in China transcending its political figure of lack characterization?

Conclusion

In this analysis, we have tried to look a little deeper into the 'real puzzle' as to why, in the historical context, the industrial countries could escape the high-level equilibrium trap and the industrious East Asian countries could not, specifically, taking the case of China. This closer look at the real puzzle was done by extending Arrighi's analysis beyond the assumptions he works with. This extension of the set of assumptions that Arrighi's begins his argument with is done by depending on the political economy of Adam Smith; an extension beyond the idea that Smith promulgated a role for the state, and argued that the interaction of the market mechanism and the functional role of the state are intimately interlinked. Breaking down the levels of the argument, firstly, we argued that the functional incapacity of the Empire (Chinese Empire) to overcome the high-level equilibrium trap was hinged on the incomplete institutionalization of the market process. The explanation for which, is provided in the social process that did not happen in the Chinese context, in particular the required class dynamics and the importance of the deference structure that was to be crystallized through the market mechanism as theorized by Adam Smith. Secondly, complications arose when the structural composition of the state is de-contextualized from its Smithian connotations and its applicability is tested in the Chinese context. Particularly important in this regard is the debate revolving around the empire/nation-state binary (Wang 2009) that has been emphasized in this essay.

The second portion of this essay looked to analyze the economic resurgence of the Chinese economy in the post-reform era. The argument that was made was that the relatively *more complete* institutionalization of the market process has resulted in the bifurcation of the functional role of the state and its specific structural characteristic. This was done so by looking into hidden abodes of production, where the two components; deemed important for the Chinese success (Arrighi 2017), the effective instrument of the state (the SOEs) and needed mobilization of human resources (labour) collided. This is an important point of analysis for the required class dynamics that had been deemed to be the reason for historical China's 'natural path to opulence' becoming stuck at the high-level equilibrium has in the case of post-reform China resulted in a 'de-politicization' of the state apparatus in its functional role while continuing the legacy of being a 'figure of lack' in structural terms. (Wang 2009; Chakrabarty 2000) The objective of this isn't to formulate the answer to the question of what next? Some might assume that given the inherent conflict between the structure and function of the Chinese state there could be a conflict between labor and state-capital. There are complexities involved in such assertions that go beyond the scope of this essay. To titillate the senses few of the involved issues are pointed out here. Firstly, the question of handling the issue of class interests arises not 'why' does it arise, for it most definitely has, but rather 'how' will it be solved. As presented above this is a complex issue in China and we have not even touched upon the theoretical debates. The second issue is the obvious conflict between the social institutions of the ripple effect theory^{viii} (Fei, Hamilton, and Wang 1992) and the propagation of individualism through the market mechanism. Think of this concern this way. The ripple effect theory is dependent on institutions of filial piety and fraternity that must be undergoing changes given the role of migration in the Chinese success story. The proof is in the law that every force has an equal and opposite reaction but in the context of societal processes the formulaic relation (read mathematical) can be questioned on the basis of what is the 'entry point' (Resnick and Wolff 1989). That 'entry point' could be the labor process (Marx et al. 1990; Resnick and Wolff 1989) or/and how the individual is understood/structured (Smith and Hanley 2009; Davis 2003; Fei, Hamilton, and Wang 1992). We shall see, elsewhere, if we can articulate the issues involved.

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ⁱ It is interesting to note that such arguments have not been made exclusively for the case of post-reform China, but also arguments of the same vein have been forwarded even for the case of the Soviet Union by Walter Adams and James W. Brock (1993), in their book *Adam Smith Goes to Moscow*. The other interesting read for the case of South Korea will be Amsden's book (1989) titled- *Asia's next Giant: South Korea and Late Industrialization*. where the argument is hinged on the role of the state intervention in fostering a collaborative economic expansion through the "modern industrial enterprise".

ⁱⁱ The "essence" of the Smithian-dynamic of market-based growth is in the "process of economic improvement driven by productivity gains attending a widening and deepening division of labor limited only by the extent of the market. As economic improvement raises incomes and effective demand, the extent of the market increases, thereby creating the conditions for new rounds of division and economic improvement." (Arrighi 2007, 25) This virtuous circle, however, comes up against limits imposed by the "spatial scale and institutional setting of the process." (Arrighi 2007, 25) When this limit is reached then the virtuous economic process enters a *high-level equilibrium trap*.

ⁱⁱⁱ "China is repeatedly mentioned as the exemplar of a country that had followed the path to economic maturity that Smith calls "the natural course of things" or "the natural progress of opulence." In such a "natural" course of things, "the greater part of capital ... is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce." The extension and improvement of cultivation create a demand for investment in manufactures, and the expansion of agricultural and industrial production, in turn, generates a surplus of goods that can be exchanged abroad for goods of greater value.Holland, in contrast, is taken as the most extreme (ideal-typical, in Max Weber's language) exemplar of a country that had followed the European path to economic maturity, which Smith calls "unnatural and retrograde." (Arrighi 2007, 57) By unnatural and retrograde Smith was referring to the fact that, the natural order of things as followed by China was completely inverted in the case of industrial countries. (Arrighi 2007, 57-58)

^{iv} Sugihara's thesis claims that between the 16th and 18th century, the East Asian countries were undergoing an Industrious Revolution that was dependent on utilizing the human resources ["labor-absorbing and labor-intensive technologies" (Arrighi 2007, 32)], which was opposed to the Western path that was dependent on the non-human resources. (Sugihara 2003) This is similar to the ideas that are understood to be the reason for China's success, evidenced in the utilization of the human resources within the pathway of natural progress. That is the economy moves from agriculture to industry to producing for commercial activity as understood by Arrighi (2007) to be the 'Smithian-dynamic'.

^v "The second kind of market-based economic development, in contrast to the first kind, is one that tends to destroy the social framework within which it occurs and to create the conditions (not necessarily realized) for the emergence of new social frameworks with a different growth potential. The social framework can change also for reasons other than the inner dynamic of the economic process." (Arrighi 2007, 41)

^{vi} One must remember at this moment that we briefly delved into the theoretical debates involved when considering the three original constituents of any society: the rentiers, the profit-seekers and the workers.

(Smith and Cannan 2003, Ricardo and Sraffa 1951, Marx et al. 1990) There are two issues that must be kept in mind here. The first is that there were theoretical debates within the tradition of Classical Political Economy about the issues of production and distribution that we cannot delve into in this essay. Secondly, Arrighi's understanding of the functional role of the state as a requirement to overcome the 'high-equilibrium trap' does not seem to differentiate between trade that is known as Triangular Trade [based on slavery/mercantilism] and trade of material produced through industrial production [labor process/capitalism].

^{vii} Another example is provided by Qi (2020, 421-422), where he emphasizes the economic debates that took place during the 1977 conferences between the Marxian economists Xu He, Su Shaozhi, and Feng Lanrui.

^{viii} According to Fei Xiaotong, the Chinese society is represented by the ripples that flow out from the splash of a rock thrown into water and the Western society is characterized by "straws collected to form a haystack". (Fei, Hamilton, and Wang 1992, p. 21) "Like the ripples forms from a stone thrown into a lake, each circle spreading out from the center becomes more distant and at the same time more insignificant." (Fei, Hamilton, and Wang 1992, p. 21) What is being referred to here is that these ripples are understood to be extending out from the self. This extension out from the self is then characterized by one's personal relationships. From the point of view of evaluating the importance of the Impartial Spectator in Smith's political economy, the important difference that could be forwarded from Fei's argument that "moral behavior depends on the situation and on the social categories of the actors, rather than on abstract standards pertaining to autonomous individuals" (Fei, Hamilton, and Wang 1992, 25) such as an Impartial Spectator.