

On the other side

BY STEFANIA TUCCI

China and capitalism is the tricky relation of our time. Is the Red Dragon protecting its economic growth or is Beijing suffocating its animal spirits with a bitter pill? The unconventional reading of the bible of Western capitalism will surprise you.

A man tries to snatch 100-yuan banknotes inside a glass cage during an event at a park in Hangzhou.

In 2008 Giovanni Arrighi, professor of sociology at John Hopkins University in Baltimore, reassessed radically the conventional reading of Adam Smith's "The Wealth of Nations". His approach has been debatable, but it could change the current historical perspective.

In the late 18th century, Adam Smith the father of modern economy predicted an eventual equalization of power between the West and the territories it had conquered by the expansion of market economy, what we currently call globalization. Yet, in his work, Giovanni Arrighi showed how in the early 2000s China's extraordinary rise countered this thinking. Arrighi's thesis lumped together the insights of Fernand Braudel, Adam Smith, Karl Marx, Herni Pirenne, Max Weber and Joseph Schumpeter to introduce a macro-history of capitalism that critically engaged with the current analysis of the Modern World-System. The crux of Arrighi's conceptualization was the assumption that the nature and origins of capitalism should not be looked for in property or institutional configurations but in the changing relationship between the controllers of mobile capital and the political rulers in the emerging European interstate system since the 13th century. From that point on, capitalist history unfolded in a series of systemic cycles of accumulation, each one commanded by the leading business and governmental powers of the time. Arrighi thus distinguished between a Genoese, Dutch, British, and American cycle. Then he examined how recent United States attempts to create the first truly glob-

al empire were conceived to counter China's spectacular economic success.

Already in 1994 Arrighi celebrated the East-Asian coming of age: "Capitalist history would then continue but under conditions that depart radically from what they have been since the formation of the modern interstate system." This thesis identifies the West with capitalism and East Asia with a market society. Capitalism refers to the creation of wealth and ownership of capital, production, and distribution, whereas a free market system has to do with the exchange of wealth or goods and services. A free-market system is ruled entirely by demand and supply from buyers and sellers, with little or no government regulation.

Smith's "invisible hand" in "The wealth of nations" is not only his previous moral theory of self-interest. The idea of trade and market exchange automatically channeling self-interest toward socially desirable ends is a central justification for the *laissez-faire*, especially regarding long-distance trade. Since then, the central disagreement between economic ideologies can be viewed as a disagreement about how powerful the "invisible hand" is. In alternative models, forces that were nascent during Smith's lifetime, such as large-scale industry, finance, and advertising, reduce its effectiveness. Economic competition is the remedy to monopoly and enhancing virtuous economic endeavor. In a nutshell, in order to preserve competition and block capitalist's profligacy the visible hand of state is required.

I fully agree, that our competition climate has to enchain, not unlock capitalism. Competition, in Arrighi's reading of Adam Smith, means low profits. In my opinion, this is exactly what China wants. Its economic growth is an extraordinary, unique event in human

history, but now the Chinese state power wants to correct the excesses of the local capitalists in order not to hamper economic and social development. This is why I appreciate Arrighi's theses.

Some world champion high-tech companies have been founded and thrived in China: Alibaba hosts twice as many e-commerce activities as Amazon, Tencent has one billion and two hundred million users, Didi the chauffeur service similar to Uber capitalized \$4.4 billion dollars with its IPO in New York, Meituan food delivery, Kanzhun's Boss Zhipin recruitment, private tutoring companies such as TAL Education Group and Gaotu Techedu. All these important activities have come under Beijing's scrutiny, even the energy availability of crypto-currency mining companies was blocked.

Many wonder why the Beijing government seems to have reversed course by penalizing "the animal spirits" that were unleashed after Deng Xiaoping's statement – getting rich is glorious – and after having elected entrepreneurs like Jack Ma as national champions to show off abroad and in the Davos Forum, the temple of contemporary capitalism. This new course began with the halting of the listing of Ant (the financial arm of Alibaba) in New York, and continued with a series of requests

especially regarding the protection systems of private companies using Big Data and the algorithms it must follow, to control the precious fuel of artificial intelligence systems.

Analyzing every single reason by which the Chinese government is regulating the activity of its high-tech champions, we can see that these are the same as the ones that guide the action of both American and European governments.

In Washington the Federal Trade Commission (FTC), which protects consumers and protects competition, filed a complaint supplement for the monopoly position in the social network sector of Facebook, Instagram and Whatsapp, asking Zuckerberg to separate its three businesses, even with a forced sale. President Biden has appointed Lina Khan, a law professor at Columbia University, known for its anti-monopoly positions, as president of the FTC.

Similar measures to protect competition are adopted by the European Commission with prohibitions on the acquisition of certain companies (Alstom and Siemens, one of the best known cases). In addition, the European Commission is also very active in ruling on the use and protection of Big Data in compliance with pri-

vacy regulations, especially after the scandal that hit Cambridge Analytica (heavily involving Facebook) with the manipulation of personal data for the purposes to influence the outcome of electoral campaigns. Furthermore, on both sides of the Atlantic, there are strong concerns about leaving the crypto-currency market unregulated. There are many risks associated with both the creation of money outside traditional circuits (with potentially disruptive effects on the credit system) and due to the anonymity, the possible criminal use, such as ransom requests for cyber crimes, or drugs and weapons smuggling. Also on the issue of taxation, Xi-Jinping recently during his Five-Year Plan presentation, argued that those who earn the most must contribute more to the harmony of society even through higher taxation. It seems a sort of Chinese-style assets taxation.

It is the same concept that brought together the powers of the G20 in Venice last summer: a global minimum tax for high-tech companies, some of which particularly benefited from the conditions created by the greater use of digital technologies during the Covid-19 lockdowns.

And yet, the choices of the Chinese Communist Party and of its leaders not democratically elected, are

largely open to doubt. Notwithstanding, I have to highlight that they are ideologically similar to the requirements of a regulated competition, of an income redistribution by taxation, well known also in the West. It's no longer the market society of Adam Smith we live in. Obviously some might say that Western capitalism is becoming too state-controlled. But the myth of free wheeling capitalism without rules has faded both in the East and in the West, especially now, because the challenges for world development are global (pandemics, climate, scarcity of some resources, cyber security, terrorism, etc.) and require a coordinated response to protect every single citizen even if curtailing the freedom of the animal spirits a little.

The goal is a more inclusive society with greater opportunities and protections for all.