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Abstract

On the basis of an understanding that the crises of core nations are being transferred to developing countries and thus globalized, this article highlights two issues, the 'sovereignty externalities' borne by developing countries and the 'currency-strategy' of the superpower in financial capitalism. These are the causes of the predicament with which

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developing countries are faced today. Furthermore, to illustrate how manufacturing countries bear the international institutional costs of global financialization, we further elaborate the 'international competition smiling curve'. This article elaborates these theoretical issues with reference to China, South Africa and Venezuela.

Keywords

Sovereignty externalities, currency–strategy, 'international competition smiling curve', development trap

Introduction

On the basis of an understanding that the crises of core nations are being transferred to developing countries and thus globalized (Wen 2012), this article highlights two issues which are at the heart of the development trap today: the 'sovereignty externalities' borne by developing countries and the 'currency–strategy' of the superpower in financial capitalism.

By 'sovereignty externality' we mean the innate institutional defect in sovereignty which results from the international political 'transaction', through non-violent negotiation, by which 'legitimate' independence is obtained. During the negotiation for political sovereignty, a developing country not born of violent revolution often concedes part of its economic or resource sovereignty to its former suzerain, or to transnational capital. A nation–state formed at the price of economic concession suffers an intrinsic institutional defect in its economic sovereignty, or 'sovereignty externality', in terms of its resources or currency. The more a developing country strives to satisfy the requirements of the West in building its institutions, the more likely it is to get caught in the 'development trap', in its economic base, for sovereignty externalities are difficult to resolve.

In this article, we will illustrate how sovereignty externalities have varied between three countries, China, South Africa and Venezuela. Among these, China is the country which obtained complete sovereignty by revolutionary means and a full land redistribution programme which installed a peasant path of development. This has reinforced national sovereignty, and protected it in period of crisis. Venezuela and

South Africa have suffered negative sovereignty externalities, but the Bolivarian Revolution in Venezuela has recuperated national sovereignty by means of restoring control over energy resources and revenues. By contrast, South Africa has conceded its natural resources to transnational capital and compromised its sovereignty in its transition to black majority rule.

By 'currency-strategy' we mean the transfer of mammoth sovereignty debts by the superpower to the global economy. This 'soft power' manoeuvring by the superpower releases excess liquidity into the world's energy and staple foods markets in order to secure its currency as the world's reserve currency. This inevitably results in global inflation and the accompanying crisis. Furthermore, to illustrate how developing countries bear the international institutional costs of global financialization, we elaborate the 'international competition smiling curve'. This represents the contemporary scenario of financial capitalism, which distributes costs differentially to financial, industrial, and resource extraction activities. In this scenario, China, as a manufacturing country, has been prejudiced by financial capital and rising energy prices, which, in turn, benefit countries such as Venezuela that have restored their control over oil revenues. South Africa is the case which continues to suffer the most by conceding control of its natural resources to transnational capital.

Sovereignty externalities and currency-strategic issues are the major reasons why developing countries find it hard to get out of the development trap. Dealing with these issues is the pre-condition of overcoming the historical conjuncture represented by the 'international competition smiling curve' in the stage of financial globalization. China, especially, has to make use of its internal advantages to forge a new eco-friendly development path and also promote development in peripheral regions, which in turn will restore its own currency-strategic security.

China's Land Revolution Bonus

In the contemporary history of national independent movements or civil resistance, China's experience is quite exceptional. It is rare to find a country that has achieved a nearly complete sovereignty through the

mobilization of the peasantry—the majority of the population—for a revolutionary war. A new government built by people through revolution can have the legitimacy to smash the old regime and overthrow the institutions and laws of the alliance between bureaucrat-capitalists and foreign capitalists who have appropriated a major portion of the gains, while transferring the costs to society. The new regime can confiscate all properties and directly control all economic resources to appropriate the gains. These institutional gains of compulsory institutional transition achieved by countless sacrifice by the peasants can be termed as ‘revolution bonus’, free of negative sovereignty externality. This bonus is to be enjoyed by the majority of the people and its future generations, without compensating the original property owners.

After the success of the land revolution in 1949, China launched an agrarian reform which benefitted 85 per cent of the country’s peasants. Every household received a small patch of arable land, although the per capita cultivated land was less than one mu (0.067 hectares). In reality, a majority of the population owned a small amount of property. That is why when Mao Zedong was interviewed by the American journalist Edgar Snow in 1970, he remarked: ‘China is an ocean of small bourgeois’. The small plot of arable land has become the last safety net for the peasants. Accordingly, China has become the world’s largest petty bourgeois country established through agrarian revolution.

The agrarian reform of 1949 was not the only occasion. Whenever China was confronted with economic crisis during its primitive accumulation for industrialization in the urban sector, the government would undertake the political measure of equally distributing land to the peasants. For instance, when the Soviet Union withdrew its investment and technological aid in 1960, the crisis of urban industrial capital broke out. Thus, in 1961, the government proposed the People’s Commune Ordinances, which recognized the peasantry’s entitlement to arable land in various forms. Similarly, the foreign debt crisis that occurred in 1980, due to the large-scale introduction of capital from the advanced countries, was resolved in 1981 by the ‘household contract responsibility system’, by which arable land was once again equally distributed to the peasants. And when the Asian financial crisis burst in 1997, the government once again undertook similar measures to ameliorate the situation: the ‘second household contract responsibility’ in 1998 redistributed arable land according to household size. Thus,

the peasantry's entitlement to land has been formally assured to be permanent (Wen 2010).

After having accomplished its primitive accumulation for industrial capital and formed a complete industrial structure, China moved toward capital expansion. The so-called high growth rate China has achieved is to some extent still based on the revolution bonus of 1949, which is the institutional foundation of the world's largest petty bourgeois society, forged through an agrarian revolution. On the other hand, a dual rural-urban structure has taken shape during the primitive accumulation for industrialization. In this structure, the urban sector constitutes the capital pool, whereas the rural sector is its labour pool. This dual structure constitutes the base of China's so-called economic 'comparative advantage'.

First, almost 100 per cent of the peasants, who comprise the majority of the population, own their house and land. That makes China different from other developing countries. Although there is a poor population, there is not a condition of absolute poverty to be found in China. Furthermore, private home ownership has reached 89 per cent of the population. The number is higher than the advanced countries. However, home ownership is not categorized as a private asset in the rural areas in China. Although radical market reforms since the 1990s have led to an increasing relative poverty rate and the polarization of rich and poor, rural society in China has remained relatively stable.

Second, the 'rural labour pool' during the last two decades of market pricing of excess labour, has for a long time provided the cities with a large-scale flowing labour force whose cost of social reproduction and social security is low. It is also not generally confrontational. Although the peasant workers have been suffering unfair treatment, which has led to many cases of labour-management strife, their innate 'oriental peasant household rationality' has discouraged them from advancing a union movement guided by Marxist theory, unlike the experience of class politics in the West in the nineteenth century. At present, there are about 200 million rural households and over 200 million peasant workers in China. It is only after these people settle in the cities that the peasant workers will emerge as the working class in the real sense.

The above factors are the main reasons why China can manage to escape the development trap on both of the two occasions of extraneous economic crisis since it embraced globalization 20 years ago.

South Africa's Negative Sovereignty Externality

In 1955, after extensive grass-roots consultation, the African National Congress (ANC) announced the Freedom Charter (ANC 1955) which advocated that:

[t]he national wealth of our country...should be returned to the people; the mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole; all other industry and trade shall be controlled to assist the well-being of people.

Other initiatives included free education, accessible drinking water, affordable electricity, inhabitable living conditions and the right to work. For decades the Freedom Charter had been the guideline for anti-apartheid struggle. It was nothing less than a manifesto of a national democratic revolution.

In the early 1990s, the white government negotiated with the ANC and finally agreed to give up the political privileges enjoyed by the white population on the condition that the new government accept a series of neoliberal economic guidelines, such as an independent central bank, free from the government's control, which amounted to depriving the government of power in terms of financial policy. South Africa had to partake of globalization and joined the General Agreement on Tariffs and Trade (GATT, the predecessor of WTO) on unfavourable terms, such as not being allowed to subsidize industry. The government was consequently handicapped in creating employment opportunities. South Africa also accepted the IMF loan conditionalities and had to suppress wages and government expenditure. Under the guidance of the World Bank, the privatization of public services such as drinking water and electricity was advanced.

Furthermore, the new government was made to commit to paying back the foreign debts contracted by the white minority government during apartheid (about US\$25 billion) on the pretext that it would reassure foreign investors and bolster their confidence. The black majority had not benefited from these debts in the past, but was now being made to pay the bill.

A sovereignty formed in this sort of transaction is characterized by substantial negative externalities. The ANC was not able to fulfil the vision of the Freedom Charter by bringing the mining sector under public

ownership. Instead, the government had to privatize national assets in order to repay the debts (US\$4.5 billion per year). At the same time the new government had to maintain a pro-capital policy and relaxed restrictions in the financial sector by allowing South Africa's enterprises to be listed overseas and to move their headquarters abroad. South Africa's economy is highly financialized, having one of the largest real estate bubbles in the world. On 26 February 2009, an article by *The Economist* entitled, 'Domino Theory: Where Could Emerging-market Contagion Spread Next?', ranked South Africa as the riskiest among 17 emerging economies.

Since the ANC took power in 1994, the government has formally succeeded in wresting parliamentary politics from the hands of the whites but failed to really take over economic and resource sovereignty. As a result, the greatest part of the agricultural land and mines are still owned by the white population, which accounts for 14.1 per cent of the total population but owns 87 per cent of the land. By contrast, the black population, which accounts for 74.8 per cent of the population, owns less than 13 per cent of the land. In 2009, merely 8.9 per cent of the mining sector belonged to blacks. In 1990, the average area of farms owned by the white population was 1462.15 ha, while that of the black, only 1.16 ha. There existed a huge difference in terms of population density in the settlements for the white as opposed to the black population. According to Sun Hongqi (2011: 12–13):

In 1985, the population in the black homelands was 14,017,000. The total land size was 16,318,000 ha; the per capita area was only 1.16 ha. In the 90s, the total population of the six homelands that had not claimed independence was 7.01 million, while the total land size was 8.83 million ha; the population density was 86 inhabitants per square km. Even if all of the towns, roads, rivers and deserts are taken into account, the per capita land size was merely 1.26 ha, only 0.34% of that of the white population.

The government aims to transfer 30 per cent of the 82 million hectares presumed to be in the hands of white farmers, amounting to 24.5 million hectares, to black farmers by 2014. However, only 6.7 million hectares had been transferred by early 2012, via redistribution and restitution.

Lacking complete economic sovereignty, the achievements of the ANC since it began its rule in 1994 follows (Bond, Sharife and Hargreaves n.d.; Klein 2007):

1. In 1994–2006, the population in absolute poverty (income less than US\$1) increased from 2 to 4 million.
2. In 1995–2005, the average income of black households decreased by 1.8 per cent, while that of whites increased by 40.5 per cent.
3. The black unemployment rate has risen up to 28 per cent (although the real number should be higher, for in official statistics, begging, living by hunting or planting one's own food are also listed as employment).
4. In 1995–2006, the Gini coefficient rose from 0.56 to 0.73, while in 2009 it was still as high as 0.63, South Africa being the second most unfair country in terms of wealth disparity.
5. The ANC has built 18 million low quality houses as a means to promote the economy, while 2 million people have been homeless.
6. In 2006, over a quarter of the population lives in slums.
7. In the first 10 years of the new democratic rule, a million have been expelled from the farming land.
8. The water supply was cut to 1.5 million households who could not afford the bill, as a result of the privatization of drinking water.

In essence, South Africa had been an internalized colonial economy under apartheid, as the white government was in fact a post-colonial regime. The black population had suffered from super-exploitation for years. Therefore, the aim of the anti-apartheid struggle should have been the economic empowerment of black people. Before the 1980s, South Africa's economic policy was typically mercantilist. Today, although the black population has taken over the political regime through struggle, the ANC has given up most of its economic sovereignty in the negotiations. As a result, South Africa adopted neoliberalism without having gone through liberalism. Politically, the black people enjoy formal civil rights (the right to vote, civil liberties) but in the economic realm, apartheid still persists. What the black government has taken over is in fact an empty political shell.

Under the impact of negative sovereignty externalities, the racial conflict has turned into class conflict after the establishment of black rule. The Marikana Platinum Mine incident is a case in point: on 16 August 2012, police opened fire against striking miners armed with machetes

and clubs, leaving 34 dead and 78 injured. It has been one of the bloodiest police operations since the official abolishment of apartheid.

The problem of sovereignty externalities is quite common in developing countries. Nonetheless, there are instances in which economic and resource sovereignty is taken back through national democratic revolutionary struggle. Venezuela is a typical case.

Venezuela's Bolivarian Revolution

Venezuela was one of the more developed countries in Latin America. In 1960, the per capita income of Venezuela ranked eighteenth in the world. However, with oil as the mainstay of the national economy, the extraction and trading of oil, and its revenues, had been mainly controlled by transnational corporations. The situation was similar to other Latin American countries relying on natural resources, which suffered from innate negative sovereignty externalities.

Consecutive Crises and Regime Rotation

After the oil crisis of the 1970s, Venezuela's per capita income fell to the fortieth place in the world ranking. The 1980s was the lost decade for Latin America, and Venezuela was no exception. The decline of the price of oil caused export revenues to shrink and the foreign debt to increase, thus adding to economic difficulties. At the end of the 1980s, Venezuela was forced to give up the decades-long development model of import substitution, and adopt the market and export-oriented model. In 1990, its per capita income fell further to the seventy-second place. In the 1990s, Latin American economies saw a recovery. In Venezuela, the income gap between rich and poor widened, as the country went through socio-economic adjustment. The living standards of the poor deteriorated. The decade can even be considered as the second lost decade for the country. The average annual growth rate during this period was 2 per cent, not only lower than the regional powers but also the regional average. The unemployment rate remained high (see Table 1), while the poverty rate increased from 40 to 49.4 per cent in 1990–1999.

Table 1: GDP Growth Rate and Urban Unemployment Rate of Seven Latin American Countries, 1981–2000 (per cent)

| Country | Average GDP Growth Rate | | Average Urban Unemployment Rate, 1991–2000 |
|-----------|-------------------------|-----------|--|
| | 1981–1990 | 1991–2000 | |
| Argentina | -0.7 | 4.2 | 12.7 |
| Brazil | 1.6 | 2.6 | 6.0 |
| Mexico | 1.9 | 3.5 | 3.6 |
| Chile | 3.0 | 6.6 | 7.5 |
| Colombia | 3.7 | 2.6 | 12.5 |
| Peru | -1.2 | 4.2 | 8.7 |
| Venezuela | -0.7 | 2 | 10.7 |
| Average | 1.2 | 3.3 | 7.4 |

Source: La Comisión Económica para América Latina (CEPAL) (2008: 85, 89).

Due to the impact of the Mexican financial crisis, dozens of Venezuelan banks were closed down in 1994. The country experienced the most severe financial crisis in its history. In the face of this, the government adopted fiscal retrenchment measures by cutting expenditures, increasing the state revenues, tightening credit, and imposing foreign exchange controls and price regulation. After two years, the crisis was under control, and three consecutive years of negative growth also ended.

In April 1996, the government cancelled foreign exchange controls, began the deregulation of interest rates, and raised the oil price and tax rate. In order to mitigate the negative effects on the public, the government launched a series of social compensation measures at the same time. The new economic plan was accompanied by a preliminary agreement on a US\$3.3 billion loan by the IMF, World Bank and the Inter-American Development Bank.

At the end of 2001, under the domino effect of the Argentine financial crisis, Latin America sank into recession (GDP growth rate in 2001 was 0.4 per cent and in 2002, -0.4 percent), and Venezuela was once again affected. If Latin American countries are described as victims of neoliberalism, then Venezuela was among its most grievous. The total

failure of neoliberal reform in Venezuela and its consequences, such as severe social injustice, contributed to the triumph of the leftist leader Hugo Chávez in the presidential election of December 1998. He was deposed in a military coup, but thanks to the support of tens of thousands of people living in slums, who bravely braced themselves against the military threat, he managed to resume power. As a staunch critic of neoliberalism, he considered the reform to be a form of imperialist exploitation of Latin America. Neoliberal policy and globalization, as advocated by the dominant countries, have debilitated and destabilized Latin American economies. As an alternative to the capitalist system, he embarked upon a new programme which he called 'Twenty-first Century Socialism'.

The major contents of his government have been the advancement of participatory democracy, by mobilizing people at the bottom of society, and the nationalization of the oil industry to strengthen economic sovereignty and state control over revenues. Venezuela today makes use of the premium revenues of a high oil price to expand social investments, promote endogenous development, change the economic development model, reduce the gap between rich and poor, and mitigate social injustice. The country has also initiated the *Alianza Bolivariana para los Pueblos de Nuestra América* (ALBA) as an alternative to the Free Trade Area of the Americas (ALCA) led by the dominant countries in the region. ALBA advocates and promotes solidarity and the cooperative integration of Latin America.

Following the pioneering effort of Venezuela, other leftist governments in Latin America have come up with a similar reform plan, such as Bolivia's Communitarian Socialism and Ecuador's Twenty-first Century Socialism'.

Venezuela Regains the Oil Resources Sovereignty and its Effect on National Welfare

After the approval of the Bolivarian Constitution of Venezuela by public referendum in 1999, the Organic Hydrocarbon Law was enacted. Article 12 of the Constitution of the Bolivarian Republic of Venezuela (MINCI 2006) calls for the following:

Mineral and hydrocarbon deposits of any nature that exist within the territory of the nation, beneath the territorial sea bed, within the exclusive economic zone and on the continental shelf, are the property of the Republic, are of public domain, and therefore inalienable and not transferable. The seacoasts are public domain property.

Oil deposits belong to the Republic, and the Venezuelan state, for its part, grants exploitation rights to joint ventures. This law made it possible to establish joint ventures. Since in such ventures the state retains more than 50 per cent of the shares, it was able to take a leading role in shareholders' meetings and, therefore, influence decisions on the development of its own activities. Two years later, in 2001, the oil extraction royalties were raised from 16 to 30 per cent.

In April 2005, within the framework of the Oil Sovereignty Policy, the Ministry of Oil instructed the Board of PDVSA (Venezuela's national oil company) to correct omissions or faults of each and every operational agreement concerning hydrocarbons, and to evaluate legal mechanisms to extinguish said agreements within a year. In order to achieve this, in March 2006, the National Assembly (National Congress) passed and published in the Official Gazette No. 38410, the terms and conditions for the incorporation and operation of joint ventures, as well as the model contract for the conversion to joint venture that would be signed with the interested private entities (IOCs).

The year 2007 marked the end of the process of formation of new joint ventures within the framework of the nationalization of the Orinoco Oil Belt, as per the Decree-Law on Migration to Joint Ventures of the Association Agreements of the Orinoco Oil Belt, No. 5200, dated 26 February 2007. This was an historic step toward the consolidation of national sovereignty in the oil sector. With the New Legal Framework and the migration of the operational agreements to joint ventures, the nation has regained control over the oil industry, and has increased tax collection for social development programmes. The state receives 23 per cent more in additional incomes, due to the new fiscal regime and legal framework.

All these additional incomes have been invested in several social projects in different sectors, such as infrastructure, transport, education, health, sport and housing, which have had a positive impact on macro-economic and social indicators. Also, there have been improvements in

other economic indicators, such as the unemployment rate and welfare expenditures as percentage of total expenditures, among others.

The social impact is tangible when we analyze the most important social indicators, such as the Human Development Index, the Gini coefficient, and the percentage of people in poverty. Among the achievements that deserve to be mentioned are (Huang 2012; Rivas and Revello n.d.; Wang 2007):

1. In the fight against poverty, the number of people in poverty was reduced by half, one of the UN Millennium Goals, by 2009.
2. In education, the increase in enrolment rates in primary, secondary and tertiary levels; the eradication of illiteracy in 2007, through Mission Robinson, which brought basic education to the people; the creation of the Bolivarian University of Venezuela and strengthening of the Technical University of the National Army, both with several units across the country, to obtain the second place in the ranking of university enrolment rates among Latin American countries, and the fifth worldwide.
3. In health, the strengthening of the health sector by creating primary health centres in poor neighbourhoods, integral diagnosis centres, popular clinics and the building of the Latin American Child Cardiology Hospital, among other initiatives.
4. In transport, the construction of six subway lines in three major cities, three cable car lines in the capital, two railway lines, and the second bridge over the Orinoco River, while a third is in progress.
5. In sports infrastructure, the construction of nine new soccer stadiums, each with a capacity of more than 30,000 people, to host the Copa America in 2007, the oldest soccer tournament in the world.
6. In technology, the launching of a satellite.
7. In power generation, the construction of one hydroelectric plant along the Caroni River, at a total cost of US\$2.5 billion, which added 2,280 megawatts to the national electric system, and a new hydroelectric plant in progress in the Caroni River, which will add 2,000 megawatts by 2014, at a total cost of US\$5.9 billion.

In summary, after Venezuela successfully regained its resource sovereignty, the oil industry has become an engine for the development of the country and its people. While transnational oil companies were exploiting natural resources for profit, the state-owned oil industry is contributing to the country's sustainable development. PDVSA, under the new legal system, has contributed to the improvement of the welfare of all Venezuelan people by building infrastructure and financing social programmes which have resulted in a remarkable improvement in the development of the people's living standards.

We need to go further in understanding the experience of Venezuela in overcoming its economic crisis and political transformation. Venezuela nationalized most of its oil before the 2008 financial crisis, when the advanced countries poured an enormous amount of excess liquidity into the global markets to save the financial system, which caused energy prices to soar. Venezuela therefore seized the historic opportunity to reap the premium of a soaring oil market. Venezuela's national revenues benefit from price-hikes in the international oil markets. The government makes use of these increases in revenues to invest in various social projects. The Bolivarian Movement, which is initiated and sponsored by the government, mobilizes thousands of volunteers to the destitute communities and promotes participatory small-enterprise community-building that lays the economic foundation for people's self-empowerment. In this way, the government increases investment into improving the infrastructure of slums and constructs the social basis for economic autonomy.

The substantial content of Chávez's Bolivarian revolution, which the Western media is eager to indict, essentially involves reclaiming from the hands of foreign capital its economic sovereignty through a peaceful rotation of regime. The state thus appropriates its resources and the related revenues and uses them to improve domestic welfare. This experience can serve as an elaboration of our analysis of the problem of 'sovereignty externalities' of developing countries. This case demonstrates that this externality can be amended by political measures which sometimes involve national and democratic revolution. It also alerts us to the fact that any revolutionary practice to reclaim a nation's economic sovereignty may lead to a confrontation with the national and corporate interests which such an action would jeopardize.

Venezuela's experience is particular in developing countries. It can be contrasted with the case of South Africa mentioned above in which the right to control the nation's economic resources was lost in the 'transaction', seemingly as a quid pro quo for political sovereignty. The different experiences of these two countries therefore constitute a ground for further comparative studies.

Through the above comparative case studies we come to two conclusions. First, whether a developing country can break through the development trap very much depends on whether its people can liberate themselves from Eurocentric dogmas, and whether the respective national governments possess the conditions to absorb by means of internalization the social costs and the externalities caused by the concentration of capital and the subsequent risk.

Second, an independent country which gains a complete 'revolution bonus' through a national democratic revolution—that is, achieves economic and political sovereignty—is free from the predicament of negative sovereignty externalities. However, it must, at the same time, confront the all-around hostility of its former suzerain and political bloc in exile, because the assets previously owned by foreign transnational corporations and the domestic bureaucrat-capitalist class have been confiscated. This confrontation makes it imperative to turn conspiratory manoeuvring into explicit strategy that is being incorporated unquestioningly into discourses of science, education, and culture, among others, in order to maintain its political correctness. What we witness is the ideological confrontation of 'soft power' that not only occurred during the Cold War, but also continues at present.

Nevertheless, we discover in the above case studies that the intellectuals in developing countries who are responsible for the production of knowledge are themselves an interest bloc. They are shaped by colonialist education and cultural edification and thereby enjoy part of the benefits together with the former suzerains or transnational capital. This soft power control is so ingrained in their heart and soul that 'elites capture' is a common situation in developing countries. The intellectual elites of developing countries who are perplexed by the soft power will find it difficult to face up to the fact of their respective country's predicament in the development trap due to negative sovereignty externalities.

If the developing countries are willing to shake off the shackles of Western soft power, they may come to an understanding. East Asia is

the only region in the world that has been impacted directly by China's agrarian revolution, entailing 'compulsory institutional transition' and egalitarian distribution of land to the peasants. This institutional transition, which was influenced and driven by China's revolution bonus, became the pre-condition of the industrialization of East Asian countries, one by one. This has been the case regardless of which kinds of Western ideologies or political systems these countries have claimed to follow.

Accordingly, a rational understanding of the real predicament facing developing countries becomes a great historical task we have to bear.

The International Competition 'Smiling Curve' Under the New Currency-Strategy

During the stage of commercial and industrial capitalism (also the age of colonization), the homogeneous expansion of capital became the crux of an international relationship which was aimed at the geostrategic control of resources. Since the 1970s, financial capital has become the core factor in the creation of a new international division of labour and distribution. Currency power has therefore surpassed geostrategic power as the new pivot of international relations in the age of financial capitalism.

The core nations dominating the globalization of financial capital have been forging their institutional and discursive powers since the Second World War. They can thereby maximize their strategic interest and the profitability of their capital, while transferring the institutional costs, and the costs of the financial crisis generated in the process, to developing countries, as well as to the environment and eco-systems.

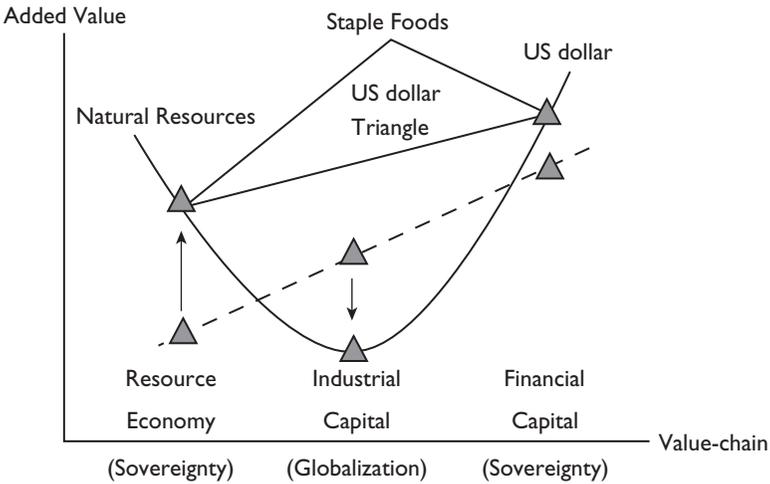
The advanced countries manage to maintain low inflation rates, and, hence, low interest rates, thanks to the massive amounts of low-priced commodities imported from developing countries. With their currency dominance, they can enjoy a competitive edge of low-cost finance, and thereby double their gains in developing countries. On the one hand, low interest-rate investments can earn higher spreads in developing countries, which generally have to maintain higher interest rates in order to attract foreign investment. On the other hand, the relative appreciation of the exchange rate of the investor's currency obliges developing

countries to acquire appreciated foreign exchange to pay off debts. The investments by the countries with currency hegemony therefore render accumulated foreign debts in the developing countries. The investor country can enjoy higher profitability in developing countries. It thus helps the dominant countries to form long-term institutional gains in capital markets and attract great amounts of financial capital into the stock market. A manifestation of this is the Dow Jones Index, which remains at a high level despite a sluggish domestic economy.

The contemporary currency–strategic structure of financial globalization has determined the relationship between the hegemonic–currency nations, the manufacturing countries, and the resource-exporting countries. The hegemonic–currency nations expand their money supply and government bond credit on a massive scale to dilute and transfer their debts. In this way, they can exercise seigniorage, while causing a rising global trend in the prices of strategic commodities, namely, raw materials, staple foods, and energy. This relationship can be represented by the ‘international competition smiling curve’.

In Figure 1, the dashed line represents the traditional yield curve in the stage of industrial capitalism. The solid line represents the contemporary yield curve of financial capitalism. In the contemporary system of financial capitalism, the mechanisms of capital accumulation, earnings, and distribution have profoundly changed. Under speculative fluctuation in financial markets, the mechanism of dovetailing upstream and downstream markets along the industrial value-chain—a mechanism prevalent in industrial capitalism—is seriously weakened. It is the same with the capacity of enterprises to internalize external risk. The international competition among countries becomes a situation represented by a ‘smiling curve’, on which natural resources and financial capital are located on the two top ends of high value added, forming the corners of a ‘smiling mouth’. Industrial capital, which used to occupy the centre of organizing various resources and production factors, is now located at the bottom of the curve.

Meanwhile, those countries that possess resource sovereignty can free-ride to enjoy greater gains, by exporting natural resources and use the revenues for social redistribution. The economic and social risk these countries face is thus reduced. At the same time, however, they are confronted with hostility by the hegemonic–currency countries and demonized by international ideological mouthpieces, such as media and

Figure 1: US Dollar Triangle

Source: Developed by the authors.

academia, by means of various ‘soft powers’, consequently facing the risk of military subversion.

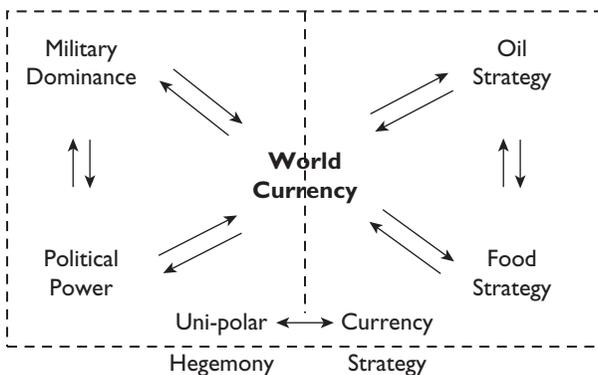
As for the industrial countries relying on manufacturing, they have to bear a double pressure of low exchange rates and high interest rates, due to the extraneous inflation caused by an explosion of global financial liquidity. A manufacturing country has to raise the interest rate under pressure of inflation caused by rising prices of raw materials. As a “result, the domestic price of investment goods becomes higher than that of its foreign counterparts. Domestic capital, therefore, fails to compete with foreign rivals. Its domestic strategic industries are thus conceded to foreign investors. Meanwhile, a massive inflow of foreign currency leads to increasing domestic money supply. On the one hand, it lowers the domestic exchange rate. On the other hand, it creates the pressure of inflation. As a result the cost of paying off foreign debts rises. Accordingly, manufacturing countries face the highest risk coefficient.

On the basis of the smiling curve theory, we may further analyze the above three country experiences. Under the present global crisis, the United States can only watch Venezuela free-ride of the expanding US money supply, regardless of their ideological opposition. The more the

US increases its money supply on a massive scale and pushes up the oil price, the greater fiscal revenues Venezuela can gain from the oil premium yield, thank to its oil resource sovereignty. And it can thereby invest more funds into the initiatives of anti-poverty and Latin America regional integration. It is thus obvious that the United States, a country in the stage of financial capitalism that issues the world currency has the effect of providing positive sovereignty externality to Venezuela, based on its resources. Nevertheless, China, a manufacturing country, is obliged to bear the negative sovereignty externalities simultaneously from these two countries sharing strategic reciprocity. As for South Africa, which has lost part of its resource sovereignty in the transaction for political rights of the black majority, its premium yield in resources exportation is controlled by transnational corporations. Lacking a solid revenue base, the government cannot fulfil its promises to the people, leading to consecutive social conflicts.

The contemporary structure of globalization under the new currency–strategy has become a new development trap for developing countries (Figure 2). In a nutshell, the manufacturing countries occupy the least favourable position in international competition. Under the current system of financial globalization, the less developed countries pursuing modernization (industrialization) are beset with difficulties, but are not clear about the reason.

Figure 2: Currency–Strategy Diagram



Source: Developed by the authors.

Concluding Remarks

To sum up, the current global currency–strategic system of the United States is a new hegemony based on the US dollar, energy (petroleum) and staple foods. It is secured by geostrategic relationships and underpinned by the right of pricing natural resources that provides security for its industrial chain. Its core is the credit system derived from political sovereignty and an unfettered fiscal and monetary policy. Armed with US dollar hegemony, the United States can benefit from the expansion of capital and transfer its cost to others in the global competition of financialization.

As a counter-measure, different developing countries must adopt different strategies according to their respective situation in terms of sovereignty externalities. South Africa, for example, must actively respond to the furious struggle by the oppressed black population against transnational corporations and continue its unfinished national democratic revolution to take back its economic and resources sovereignty. Venezuela must prepare for another optional manoeuvring of currency–strategy with its soft power. If the United States reduces its need to import energy sources, the international oil price may drop. In this case, Venezuela's export earnings may decline. Its domestic anti-poverty and regional integrations initiatives, relying on oil revenues, may then be affected.

China, as the largest physical economy and developing country, has to restore its domestic currency as a sovereignty currency. It must advance two strategic adjustments based on its physical economy. First, it has to strengthen its internal integration by domestic policies in order to implement the nation's will to transit from capitalist civilization toward an ecological civilization. In so doing, it needs to make use of its political condition of collective action and the long-standing dual rural–urban structure. The key is the integration of three strategies, namely vertical industrial integration, regional eco-friendly comprehensive development, and the 'New Principle of People's Livelihood'. It has to expand its domestic space of investment and long-term development to accommodate its excess industrial and financial capital.

Second, in terms of its foreign policy, China should not aim at sea power competition, which it has lost once again in modern history. Instead, it should found its foreign strategy upon land power competition,

which it has never lost. Taking advantage of its complete industrial structure which endogenously tends toward horizontal integration, China should extend its cooperation with Central and South Asia, West Asia and North Africa to promote comprehensive infrastructural development, that is favourable to the countries in these regions in restoring their sovereignty, and accompanying investments that are beneficial to restoring people's livelihood and the social development of the regions. In this way, China can build the external conditions for its domestic currency-strategic security and consolidate the continental strategic depth that enables it, as a continental country, to bring about peripheral regional development.

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