

THE RELATIONSHIP BETWEEN MULTINATIONAL COMPANIES,  
STATE OWNED ENTERPRISES AND STATE CAPITALISM: THE CASE  
OF CHINA

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INTERNATIONAL POLITICAL ECONOMY GRADUATE PROGRAM

Academic Advisor: Assistant Professor Mehmet Ali Tuğtan

March,2017

Title of the Thesis in English:

The Relationship Between Multinational Companies, State Owned Enterprises and State Capitalism: The Case of China

Title of the Thesis in Turkish:

Çin Örneğinde Çok Uluslu Şirketler, Devlete Ait İşletmeler ve Devlet Kapitalizmi arasındaki İlişki

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Tezin Onaylandığı Tarih :

25 March 2017

Toplam Sayfa Sayısı **86**

Anahtar Kelimeler (İngilizce)

- 1) State owned enterprises
- 2) Chinese Communist Party
- 3) Multi-national companies
- 4) International Relations
- 5) International Political Economy

Anahtar Kelimeler(Türkçe)

- 1)Devlete ait İşletmeler
- 2) Çin Komünist Partisi
- 3) Çok uluslu şirketler
- 4) Uluslararası İlişkiler
- 5) IPE:Uluslararası Ekonomi Politik

## Abstract

The rise of neoliberal policies in the last century have influenced the whole world, sectors of society in the balance of supply and demand dynamics have been completely changed. The increasing effects of the transnational companies in this context have discovered its role in relation to the nation states.

This thesis has focused on the change that caused the transfer of multi-national capital from nation states to the state owned enterprises in the case of China. Private actors have come to the forefront when the transnational capital become the global power in the international arena. In the case of China, multinational corporations have changed their directions to the East Asia which includes some of the world's most significant and various political economies.

From 1970's to the 2000's the world witnessed the increasing power struggle between the United States and its rivals China and USSR. The relation between multi-national capital, Chinese state owned enterprises and state capitalism in China will be discovered through depth journal exercises; articles, academic books and graphs.

Without understanding the concepts of hegemony, historic bloc, cooptation and the passive revolution it is very difficult to analyze and grasp the international political economy. The study claims we can only find the detail explanations of power struggle in the theory of Gramsci and Neo Gramscians such as Robert Cox and Stephen Gill. Neo Gramscian approach will only be used to explain the relationship between state owned enterprises, multi-national companies and state capitalism in China as it figures out the transnational historical materialism which is a method to understand the three elements.

In that case the main objective of this thesis is to underline two points. First one is there is a lack of leadership and legitimated global power in the international arena and Chinese state owned enterprises may fill this space if it has sufficient technology and resources. Second the continuing expansion of markets caused the global shift in power structure and transfer of global resources from nation states to the state owned enterprises. These points out a situation where all power blocs can achieve less but the actor that benefits profit most is the transnational capital itself. This process brings global chaos as it creates both the several opportunities and the disasters as well.

## **Özet**

Neoliberal politikalar son yüzyılda tüm dünyayı etkisi altına aldı. Her toplumun içinde pek çok sektör kar ve zarar dengeleri içinde radikal bir değişim sürecinden geçmek zorunda kaldı. Bu bağlamda çok uluslu şirketlerin artan etkisi ulus devletlerle ilişkilerinde kendi rollerini bulmaları açısından belirleyici oldu. Bu çalışma ulus devletlerden devlet hakimiyetinde olan şirketlere ve kurumlara geçen sermayenin değişimini Çin örneğinde incelemektedir. Çok uluslu sermaye küresel arenada global bir aktör haline geldikten sonra özel kuruluşlar ve şirketler ön plana çıkmıştır. Çok uluslu şirketler bünyesinde en önemli ekonomik ve siyasi güçleri barındıran Doğu Asya bölgesine yönelmişlerdir.

1970'lerden 2000'lere kadar Dünya, Amerika Birleşik Devletleri ve onun rakipleri olan SSCB ve Çin'le yaşadığı sürekli yükselen güç mücadelesine tanıklık etti. Çok uluslu şirketler, Çin devletinin hakimiyetinde olan kuruluşlar ve bu bağlamda Çin'in rolü bu çalışmada Neo Gramscici analizlerle değerlendirilecektir çünkü hegemony, tarihsel blok, atama ve pasif devrim gibi kavramların üzerinde durulmadan uluslararası ekonomi politiği anlamamız oldukça zordur. Bu projede güç mücadelesinin ayrıntılı akademik açıklamalarını ancak Robert Cox ve Stephen Gill gibi Neo Gramscici uzmanların yaklaşımlarıyla açıklayabileceğimiz vurgulanmaktadır. Neo Gramscici yaklaşımın bir diğer adı da ulus-ötesi tarihsel

materyalizmdir ve bu analiz devlet kontrolünde olan şirketler ve kurumlar(SOE), çok uluslu şirketler ve devlet kapitalizmi arasındaki ilişki hakkında bize çok detaylı inceleme olanakları sunmaktadır.

Bu bağlamda projenin temel hedefi aslında iki stratejik noktayı belirlemektedir. Birincisi uluslararası arenada meşru global bir gücün ve liderliğin yokluğu söz konusudur. Çin teknoloji ve kaynak sıkıntısını çözebilirse büyüyen ekonomisinin avantajlarını kullanarak bu boşluğu doldurabilir. İkincisi, pazarın genişlemesi yeni oluşan güç dengeleri içinde küresel bir değişime sebebiyet vermiştir. Bu değişim küresel kaynakların ulus devletlerden devlet kontrolünde olan şirketlere ve kurumlara geçmesine sebebiyet vermiştir. İşte bu durum belli sınırlar içinde tanımlayabildiğimiz küresel blokların tamamının gelişen süreçte daha az kazanmasının yolunu açarken çok uluslu sermaye ve onu kısmen kontrol etmeyi başaranlar egemen güç haline gelmişlerdir. Bu süreç beraberinde küresel krizi getirirken pek çok taraf içinde fırsatları ve çeşitli felaketleri yaratmaktadır.

List of Acronyms:

SOE: State owned enterprises

CCP: Chinese Communist Party

CITIC: China International Trust and Investment Corporation

EBRD: European Bank for Reconstruction and Development

ECB: European Central Bank

EU: European Union

FAW: First Automobile Works

FDI: Foreign Direct Investments

Fed: Federal Reserve

G7: Group of Seven

IMF: International Monetary Found

IPE: International Political Economy

WTO: World Trade Organization

TC: Transnational Capital

PRC: People's Republic of China

WB: World Bank

USD: United States Dollar

MNC: Multi-national Companies

IR: International Relations

Keywords

Transnational Capital, Historic Bloc, Nation State, Multinational Corporations, Hegemony, Gramsci, China

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## CHAPTER 1: INTRODUCTION

### 1.1 Main Context:

This thesis firstly will analyze the link between three concepts and their relationship with each other: transnational capital, nation states and historic bloc. Stephen Gill proposed to emphasize and explain features of the new world order created after 1945 by giving importance to the elements of geopolitical and political economy elements, and to point out the central role of American power. He claims the concept of ‘new world order’ should not be confused with the usage of President George H. Bush who used the term to describe the nature of international relations after the 1991 Gulf War. As will become clear later he means the post-1991 situation as a third stage in the change of a new world order that results from the ruins of the Second World War.<sup>1</sup>

The main goal of this thesis is to analyze the deep relationship between transnational capital; multi-national companies, Chinese state owned enterprises and state capitalism with the changing balances of global world in the case of China.<sup>2</sup> A transnational capitalist class (TCC) has appeared as that subdivision of the world bourgeoisie which characterize transnational capital, the proprietors and landlords of the leading worldwide means of production as expressed in the private institutions and transnational corporations.

The increase of TNCs, the harsh escalation in foreign direct investment, the abundance of unions and gaining across national borders, the advance of a global financial system, and the expanded, connected positions within the global commercial arrangement, are some empirical signs of the transnational integration of capitalists. From 1970’s to the 1990’s transnational capital become a main tool in politics and economy because it focused on global arena rather

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<sup>1</sup> Stephen Gill: Power and Resistance in the New World Order 2nd Edition, Fully Revised and Updated:page1-32  
<sup>2</sup>William Robinson and Jerry Harris: Towards A Global Ruling Class? Globalization and the Transnational Capitalist Class, page 11-54

than accumulation of money on the national borders and it created a new elite class composed of objective and smart philanthropists such as Jacques Maisonrouge, David Rockefeller, Jacop Rotshchild, Percy Barnevik, Helmut Maucher, Akio Morita and Rupert Murdoch.

In that case East Asia includes some of the world's most significant and various political economies. It seems that East Asia's strong strategic and economic center is rapidly being institutionalized in new local institutions which have the potential to change the international distribution of dominance and impact. This is happening as part of a multipart regulation and modification while domestic actors attempting to alter the national policy of the states making them more connected to the global capital.

So on the one hand states actively making cooperation each other to protect their hegemonic status on the other hand, some important Chinese state owned enterprises such as five largest Chinese multi-nationals; Sinopec, China national petroleum, State Grid Cooperation, State Grid Cooperation, Industrial and Commercial Bank of China, China Construction bank merging to avoid the integration of other nation states by making investments in the local companies which want to conflict with their host countries and play active roles in the international arena.<sup>3</sup>

Taking these facts into consideration in the first chapter main context will be defined and thesis will seek the answer of the research question. In the second chapter we will look through the philosophical outline based on the arguments of neo-gramscian approach.(It will be explained in the chapter 2; 2.1,2.2). The notion of hegemony developed by Neo Gramscian theorist Cox out of Gramsci's fragmentary Prison Notebooks (Gramsci, 1971) is located within the discourse of 'transnational historical materialism'. This affords a structural concept

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<sup>3</sup> Beeson Notes pdf chapter 1: conceptualizing East Asia from local to the global, page 1

Saroj Upadhyay: Effective Business Strategies of Multinational Corporations in an Emerging Market Economy: page 2-6

William Robinson and Jerry Harris (-Towards A Global Ruling Class? Globalization and the Transnational Capitalist Class, page 11-54)

of power wherein the constitution of a stable order is the result of a manufactured compatibility between dominant ideas, institutions and material capabilities.

In a move evocative of the Parsonian model of dyadic interaction structured around ‘pattern variables’, Cox theorises that all structure is the outcome of interaction between these three variables (ideas, institutions and material capabilities) each of which possesses a real autonomy- ‘no determinism need be assumed’ (Cox, 1986 p.218). The acquiescence is strengthened if the controllers make concessions to the dominated and express their leadership in terms of a universal general interest. Whilst the power basis of hegemonic structures is thus implicit, the management of power relation <sup>4</sup>

Third chapter will be regarding the historical road of deriving new class of trans-capital which has a capacity to influence economy policies. For that we are going to look at the basic ideologies such as Marxism and Realism along the way as well as China’s background in economical concept as a nation state. In that case description and classifications which constitute nation states and the actors are significant.<sup>5</sup>

Until 1978, China used to have a “closed economy”, where private enterprises were not supported, and additionally foreign trade and investment were not allowed at all. At those times, capitalists were also counted as “class enemies”. However, after 1978, a big alternation period has been started in this fast growing economy. Since the end of 1970s, many market-based reforms have been changing the nature of the economy and brought it into a very different point, which was impossible to imagine during those times. And today, this attractive economy, which is the main power for the international trade, for foreign investors, is the world’s second biggest national economy.

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<sup>4</sup> Antonio Gramsci: Selections from the Prison Notebooks of Antonio Gramsci, International Publishers, New York, 1971, page; 787-817

Peter Burnham: Neo Gramscian Hegemony and the international order

<sup>5</sup> William Robinson and Jerry Harris: Towards A Global Ruling Class? Globalization and the Transnational Capitalist Class, page 11-54

Beside development in the private sector; private entrepreneurs, who were the “class enemies” in 1978, are now welcomed to be a member of the Chinese Communist Party (CCP). As is known, there are two stock exchanges in China, where the local companies (including the ones had by the government) raise funds in international capital markets. The state-owned enterprises (SOEs) have reorganized and some have become the world’s biggest firms.<sup>6</sup> They will be examined in the chapter 4.

China’s breathtaking economic reform, including the rise of private enterprise, has often led observers to assume that the country’s economic system has been transformed into a capitalist economy dominated by private enterprise.<sup>7</sup>

The main topic of this paper that was applied for the US-China Economic and Security Commission is SOEs. In the last chapter it will be shown with the deep analysis of China which based on the facts and realistic approach in discussion regarding the ruling function of trans-capital. Given that China is described in the same way as the apparent next brilliant world power, this essay adopting financial attitude in order to illuminate crucial factors of the roots in transnational capital vis-a-vis Chinese financial development.<sup>8</sup>

As mentioned before, results of many statistics demonstrate that after the late 1970s, there is a sharp increase in the number of ostensibly private enterprises, which proves that the economy

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<sup>6</sup> Aad Boot: Leading Multinational Companies: Three Significant Changes in the Role of Senior Leaders posted on February 28, 2012;page 1-2

Andrew Szamosszegi and Cole Kyle: An Analysis of State-owned Enterprises and State Capitalism in China, October 26,2011;page 1-20

<sup>7</sup> Saroj Upadhyay: Effective Business Strategies of Multinational Corporations in an Emerging Market,Engardio,2005; page 2-6

<sup>8</sup>Liu Mingfu: The World Is Too Important to Be Left to America, Jun 4,2015; page 1-27

Lyric Hughes Hale: Why China Will Not Surpass the U.S, 2012; page 1-25

Helena Holodny: China's GDP is expected to surpass the US' in 11 years, June 24, 2015; page 1

have become more focused to the market. In addition to the two stock exchanges located in China, the local companies are also taking place under exchanges outside the country.<sup>9</sup>

China`s closed economy in 1978 had \$10.5 billion import, while today, as one of the most preferable market for foreign investment, it has more than one trillion dollars import. The local companies (both the government and private ones) are powerful rivals for the developed countries` export markets and big investors of the global market.

Now in China, the economy has been relying more on private sector, the market focused encouragements have been increasing and the CCP`s attitude to the private sector becoming different than before. As central planning economies are almost disappeared in the rest of the world, it is normal to witness the government, so the Chinese Communist Party, to leave “the communist minded foundations” such as SOEs. However, it wouldn`t be the right attempt to passivation the presence of the government and the CCP in the domestic and global economic activities or to devaluate the SOEs, which are the signs of China`s Maoist past.<sup>10</sup>

Even though the private entities are known as the apparent responsible for increase in size of economic activities, the government and the SOEs are still powerful and effective forces in the economy, as some of the SOEs are among the biggest companies in the local and global economy and also strong investors in other countries. Also, they are among the biggest initial public offerings, so that they stay as controlling owners of a number of large companies under the local and foreign stock exchanges, which shows that SOEs are still important.<sup>11</sup>

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<sup>9</sup> Jan Selby: Beyond Hydro-Hegemony: Gramsci, the National, and the Trans-National; page1-13  
Cedric Durand and Razmig Keucheyan: Bureaucratic Caesarism a Gramscian Outlook on the crisis of Europe, Paris; page 2-5

Tsai: Capitalism without Democracy: The Private Sector in Contemporary China, 2007; page 44

<sup>10</sup>Andrew Szamosszegi and Cole Kyle;An Analysis of State-owned Enterprises and State Capitalism in China, October 26,2011;page 1-20

<sup>11</sup> Peter Burnham: Neo-Gramscian Hegemony and the International Order; page 1-20  
Andrew Szamosszegi and Cole Kyle: An Analysis of State-owned Enterprises and State Capitalism in China, October 26,2011;page 1-20

This paper aims to find certain information about SOEs such as their function and importance in the China`s economy and policy (both domestic and foreign). Here are some of the questions gathered under major groups;

- 1) What are SOEs and what is their importance for the China`s economy?
- 2) How do the CCP and the government affect SOEs, their subsidiaries, and other economic entities that don`t completely belong to them?<sup>12</sup>
- 3) What are the characteristics of the relationship between SOEs and the Chinese government?
- 4) What are the economic ramifications of Chinese state capitalism?

Every section below coincide with the individual subjects and questions focused by the Commission in its RFP data February 7, 2011. Most of the data on SOE`s were gained from the China Statistical Yearbook 2010, which contains extensive data through 2009 on SOEs and state-holding enterprises.<sup>13</sup>

In addition, some industry-related data were gained from Chinese industry associations through Haver Analytics. Financial information on SOEs was gathered from the Chinese web sites of the SOEs and from disclosure documents created by SOE-subsidiaries to the U.S. Securities and Exchange Commission. Interviews and informal face to face discussions with people from the public and private sectors Any information in this study would be considered as a state secret, even sono individuals are identified by name.<sup>14</sup>

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<sup>12</sup> David Rosenberg: Why China won`t be the next great power; Haaretz newspaper, Jul 16, 2015

<sup>13</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State-owned Enterprises and State Capitalism in China, October 26,2011;page 20-40

<sup>14</sup> William Robinson: Gramsci and Globalization: From Nation--State to Transnational Hegemony, page 1-19

### **CHAPTER 1.3: Restrictions:**

The qualitative research method will be used in this project by focusing on depth journal exercises; articles, academic books, discussions on academic papers regarding International Political Economy, newspapers, various kinds of videos, materials. Internet sources and lots of links will be deeply examined. Quantitative research method in this project was very difficult to use as it includes so many mathematical datas and complicated graphs. As a student of social sciences I would rather concentrate on the political hegemony part of the economy which is the combination of production, consumption, trade and distribution of all goods and services and their changing activities. As a matter of fact it will be better to focus on macro-economic datas than the micro economic details which may attract attention from another topic keeping away from the real issue that is the transnational capital and its changing dynamics. (All sources will be written in the bibliography part just after the conclusion see the references)

## **CHAPTER 2: PHILOSOPHICAL OUTLINE**

### **CHAPTER 2.1 Background:**

The importance of Gramscian and Neo-Gramscian model might be understood in how it justifies significant notions brought about in this paper. First, it does add to the description of the function of the nation-state and its shifting importance in terms of legitimization and arbitration. Second, it concerns about the race and competition among social groups arising in the early 17<sup>th</sup> century in relation to the changes in economy. Finally, Gramscian theory gives

explanation about the crisis of global governance after Bretton Woods system and its consequences in terms of inter-state rivalry.<sup>15</sup>

Before defining the main concepts written above, it is very important to explain the relationship between transnational capital and the Gramscian approach. To evaluate the significance of the nation states with regard to authorization and intermediation, it is vital to remember the difference and similarities between several states: industrialized economies and developing countries. Legitimization is anticipated as the capability and facility of the state to set and sustain its legislative power. In this context, peripheral forces, such as groups of international lobby or international communities seeking out less state intervention may be more or less influential, depending on the single state and its government.

To emphasize the diverse effects, this paper makes reference to the vigorous stratification framework differentiating between people and macro-structural dominant groups.<sup>16</sup>

The stratification network is constructed on the case of India but it may be enlarged to the vast majority of developing countries. Ranking different groups in the Indian society in the dominant foreign groups (mostly multi-national companies in this paper's perspective) the highest factor in the grid. Along with dominant diverse factions, these are the two groups (transnational capitalist class and macro structural dominant groups) uniting the elite.<sup>17</sup>

Thirdly and outside the elite, at a regional and local level, there are the dominant indigenous groups. In terms of labor, the interest of foreign dominant groups can determine local legislation. The intent of lobbying can be identified in the willingness to push for a legislation

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<sup>15</sup> Antonio Gramsci: *Selections from the Prison Notebooks of Antonio Gramsci*, International Publishers, New York, 1971, Lorenzo Fusaro: Gramsci's concept of hegemony at the national and international level, King's College London, August 2010; page 312-441

Arne Rückert: *Producing Neoliberal Hegemony? A Neo-Gramscian Analysis of the Poverty Reduction Strategy Paper (PRSP), Nicaragua*; page 10-20

Stefano Guzzini: *Marxist Geopolitics: Still a Missed RendezVous?* page 2-7

<sup>16</sup> Paulo Freire: *Pedagogy of the Oppressed*, Herder & Herder, New York; page 300-400

<sup>17</sup> Lorenzo Fusaro: Gramsci's concept of hegemony at the national and international level, August 2010; page:40  
Andrew Heywood and Macmillan: *Political Ideas and Concepts: An Introduction*, London, 1994; page 30-60

more favorable to the corporate interests of multi-national companies. It is possible to sustain a different strength of nation-states in their capacity to regulate and affirm their legislative power so fourth group will be composed of people and subaltern classes. Reinforcing the idea of a declining power and influence for the majority of the nation-states can determine the interest of foreign dominant groups. To go on, the process of intermediation is seen as the function of the state to mediate between diverse social communities. In that case this paper justifies nation states is failing and losing its power to control the intermediation process. Gramsci defines this situation as passive revolution<sup>18</sup>

Passive Revolution is some kind of compatible attempt to provide people socio-economic reforms by the progressive class which is expected to increase the possibility of revolution. One of the usage of passive revolution is *Caesarism*, a condition of competition where none of the public parties and fractions are appropriately effective to gain consent over the others.

In that case, the paper discovers the hypothesis which a single-state can no longer turn out to be hegemonic. In other words, the effect, power and pressure of the transnational capital goes beyond national borders for the reason that its role and function of making arrangement and compromises can reach national governments as well as private actors and international institutions.<sup>19</sup>

So the reason I've chosen the Gramscian approach is to make extensive analysis of the historic bloc, hegemony, passive revolution and cooptation process. In the gramscian neo realist approach the elements of Marxism and Realism should be evaluated together(it will be explained in the chapter 3.1) because the choice of using a Gramscian theory requires a

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<sup>18</sup> Antonio Gramsci: History of the Subaltern Classes; The Concept of "Ideology"; Cultural Themes: Ideological Material, page1-5, Martin Wolf: Will the nation state survive globalization? January 2001;page 1

<sup>19</sup> Peter Thomas: Modernity as "passive revolution": Gramsci and the Fundamental Concepts of Historical Materialism, Journal of the Canadian Historical Association / Revue de la Société historique du Canada, vol. 17 n° 2, 2006, page 61-78.

definition of concepts from inter disciplinary approach which may form the balance between transnational capital, nation states and multi-national institutions.<sup>20</sup>

Before explaining a selection of significant Gramscian conceptions that this paper concerns about, it is crucial to make clear the components explained above in terms of Gramscian relevance for the study of transnational capital .To underline the significance of the nation state as mediation and legitimization, it is important to make the discrepancy between distinctive states: developing countries and the industrialized economies.

Legitimization is a very important element in the international arena as the international lobbies seeking their interest in terms of power in the single state according to their systematic infrastructure. In this context some of them benefit from the weaknesses of the nation states and some of them using this sensitive point in order to sabotage them and the intervention of lobbies to the states depending on this situation. They look at this issues as “which one is more influential”. At this point a crucial separation between macro structural dominant groups and people must be made to clarify their status in the world economy. In order to see them properly main conceptions of Gramscian and Neo Gramscian theory are vital.

## **CHAPTER 2.2: Questions:**

This study disputes for the significance of a Gramscian method in the answer to its core subject because transnational capital can only be clarified through the extensive description of

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<sup>20</sup> Andreas Bieler and Adam David Morton: Theoretical and Methodological Challenges of neo-Gramscian Perspectives in International Political Economy, International Gramsci Society Online Article, June 2003; page 1

Andreas Bieler and Adam David Morton: A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations”, Capital & Class, vol. 82, 2004;page 22-44

Adrian Budd: Gramsci’s Marxism and international relations issue, 10th April 2007, page 1-15

the historical bloc. The question is: “how did the transnational capital transfer from nation states to the state owned enterprises and institutions?”

About the presentation of the character and the functions comprising transnational capital, this work does set the elements and aspects which pinpoint in transnational capital the primary actor.<sup>21</sup>The central issue which this composition recommends to respond is the consequence of four matters and their sense of categorization henceforth demonstrated.

The primary component is a re-examination of the position of the nation states. Throughout the demonstration of the information on the role of nation states, this thesis contends for a difference between states where transnational capital plays a characteristic role and states where policy makers even now have significance on financial actions.

In this context, consideration is going to be concentrated on the position of the United States as the final hegemonic nation and on the reasons of its causes of its fractional deterioration and fall.<sup>22</sup>

Secondly, the division is based on the incompatibility between capitalistic and territorial balance of power. A territorial sense of control indicates that the position of transnational capital is still depend on legitimization of state while the capitalistic sense of control justifies how transnational capital has been able to isolated itself from the ground that derived it and, accordingly the logic of power obtained self-sufficiency and ability to affect people who are policy makers. Beginning from the control of USA to influence the transnational capital this paper making a general assumption of the so many countries which face the dreadful face of capitalist power logic.

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<sup>21</sup> Stephen R Gill and David Law: Global Hegemony and structural power of capital, page 1-26

Leslie Sklair: Democracy and the Transnational Capitalist Class, May 2002, page 144-151

William I.Robinson and Jerry Harris: Towards A Global Ruling Class? Globalization and the Transnational Capitalist Class, published in Science & Society, Vol. 64, No. 1, Spring 2000; page 20-30

<sup>22</sup> M. Talalay, C. Farrands and R. Tooze: Technology, Culture and Competitiveness: Change and the World Political Economy, London: Routledge, 1997, p. 111.)

David Swanson: Decline and Fall of The United States, May 04 2015; Page 1-6

Alfred W. Mccoy: The Decline and Fall of The American Empire; page 1-8

So the second function will be regarding the incompatibility started from this process. The structural advancement programs and the end of colonization especially taking place in the United States causes this discord. Paper justifies the process of incompatible structure can only be explained by the Gramscian method saying that the United States is counting on the multinational companies and financial institutions/international lobbies to expand its hegemonic power. However since the multi-national companies gained strength and use its capacity as much as it can The United States started to fail controlling them all and lost its stable hegemonic power. By this way this situation makes us think that all production and consumption activities must be reconsidered as it is impossible to look at China and USA nor as the developed countries neither industrialized nations while the multinational companies getting in front of them in the international arena.<sup>23</sup>

Thirdly the position of China must be considered in the international system not as an isolated country but as tool of multi-national companies while China tries to change the status-quo using its international power. The purpose is to explain how China deals with this situation and uses its economy and military in order to beat USA.

The argument is that rising power of China has nothing to do with its claim to become an alternative model of the current capitalist system, on the contrary it is all about the profit logic that makes China important and key player. China becoming important actor because transnational capital tries to make an achievement for itself by benefiting from the biggest market ever in both financial and population levels of this country.<sup>24</sup>

In the case of China this paper making definitions of three components in the new economic system as the logic of power is dramatically changed: 1) Switch from a planned economy to

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<sup>23</sup> D. Archibugi and J. Michie: *The globalization of technology: a new taxonomy*, Cambridge University Press, Cambridge, 1997; page 172

J. Mathews: Power shift, *Foreign Affairs*, January/February 1997, page:76(1): 66),

S. Hoffman: Clash of Globalizations, *Foreign Affairs*, July/August 2002,page: 81(4): 107,)

<sup>24</sup> Bill Blunden: China's Political Elite Take the Money and Run, *Truthout News Analysis*, Sunday, 13 September 2015; page 1-4

international market, 2) the position of multi-national companies, 3) Transformation in the arrangement and configuration of international production<sup>25</sup>

Fourthly, an historical alliance does not manage the whole community but it is stronger and tougher than others in financial expression. It manufactures commodities and trade them to receive income. From the end of Second World War to the early seventies, the USA was the key manufacturer of products and services and this aided financially to the formation of an historic alliance although at the beginning of the twenty-first century, China is turning out to be the industrial plant of the world.

For that reason, the consideration in terms of rise and fall is economically driven since the skirmish is regarding achievement in a financial competition. Thesis project sides with the observation of transnational capital and its geographically, multi-ethnic, infrequent and scattered capitalist elite as the new elite of hegemony. Within this state of matters, China does develop re-positioning itself within the dominance of neoliberalism.<sup>26</sup>

## **2.3: SELECTION OF GRAMSCIAN MODELS:**

### **2.3.1: Historic Bloc**

First of all transnational capital creates historic bloc which is shaped between global and business actors. Gramsci underlines that material forces are evaluated as content while the ideologies are seen as just a method in the historic unification.<sup>27</sup> Gramsci justifies that forces

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<sup>25</sup> Michael Marien: *New and Appropriate Economics for the 21st Century: A Survey of Critical Books, 1978-2013*; page 20-40

<sup>26</sup> Chrystia Freeland: *The rise of the new global elite*, January, February 2011; page 1-20  
Donald M. Nonini: *Is China Becoming Neoliberal?* 2012; page 2-10  
Peter Kwong: *The Chinese Face of Neoliberalism*, October 7-2006; page 1-9  
J Masterson: *Neorealism and Neoliberalism and China's Rise*, 2003; page 15-20

<sup>27</sup> Andreas Bieler and Adam David Morton: *Theoretical and Methodological Challenges of neo-Gramscian Perspectives in International Political Economy*, *International Gramsci Society Online Article*, January 2003; page 1

Andreas Bieler and Adam David Morton, *A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations*, *Capital & Class*, vol. 82, 2004; page 22-44

of material elements would be historically unthinkable without method and procedure. This may be realized as Gramsci's historical materialism where the elements of material powers should be located in their context.

Hegemony and historic bloc; these two concepts cannot be separated each other because hegemony can only be formed in a historical bloc. Both of them first appeared in the South Problem defined by Gramsci. In that case the South problem defined in the light of the principle of proletarian revolution as well as the domination and governance. Gramsci uses this notion of "historical bloc" both in Lyon thesis and Risorgimento.<sup>28</sup>

He makes an analysis that the revolution takes place in the bloc between the Northern industrialists and the Southern landowners and this determines the bourgeois revolution among them. In the context of Mezzogiorno which point out the South problem Gramsci underlines that there is a big social dissolution and villagers have not a tendency to unite for the revolution. South community was the agricultural group composed of three strata. They were the middle landowners, feudalists and the great intellectuals.

<sup>29</sup>The Southern villagers wanted to rebel but they were so afraid that they would protest the other classes and the middle landowners were getting their all power from the weakness of this poor stratum. Great intellectuals and landowners were the main center class which unites both of them and ideology was the main element in that political process. In the Prison notebooks, Gramsci makes a crucial definition for the historical bloc which he claims it should be composed of infrastructure and superstructure.<sup>30</sup>

The complicated, inconsistent and separated integrity of the superstructure is the reflection of the social production relations. These infrastructure and superstructure in the historical bloc is

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Adrian Budd: Gramsci's Marxism and international relations issue, 10th April 2007; page1-15

<sup>28</sup> Thomas R Bates: Gramsci and the theory of Hegemony; June 1975, page 351-366

<sup>29</sup> Thomas R Bates: Gramsci and the theory of Hegemony; June 1975, page 340-374

Antonio Gramsci: Selections from the Prison Notebooks of Antonio Gramsci, International Publishers, New York, Page 250-300

Andrew Heywood: Political Ideas and Concepts: An Introduction, London, 1994; page 20-47

<sup>30</sup> Thomas R Bates: Gramsci and the theory of Hegemony; June 1975; page 351-366

completely connected to the complex background which is called the material and ideological forces. Material forces are seen as the content while the ideological forces accepted as the forms and this separation can only be made through the didactic goals.<sup>31</sup>

According to Gramsci material forces cannot be identified without the historical components and ideologies would be meaningless without the material forces as well. For this reason we can't only think that the historical bloc as product of social and class relations but it is rather complicated as the new ruling elite class has the capability to control the historic bloc and suggest solutions for it. They even claim the national problems and intervene it very quickly. Gramsci claims that infrastructure and superstructure process are related to the consciousness and thought mechanism of the masses.

The actions and reactions of the middle class are important but even the masses are able to rebel and oppose the sovereignty, the hegemony of the ruling class, their conscious can still be manipulated by elite forces and the opposite political fractions. Because the masses are educated not for their own interests but the interests of the opposing political forces and the ruling elite according to Gramsci.<sup>32</sup>

Component of interest for this study is the significance of harmony, contention and dialectic. As Cox justified, dialectic is a definition taken at two stages to alter neo-realist methodology.<sup>33</sup> First, the feature of rationality in historical materialism points out the effort of discourse for searching paradoxes among social forces.<sup>34</sup>

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<sup>31</sup> Antonio Gramsci: Selections from the Prison Notebooks of Antonio Gramsci, International Publishers, New York, 1971; Page 300-320

<sup>32</sup> Thomas R Bates: Gramsci and the theory of Hegemony, June 1975; page 351-366)

<sup>33</sup> Robert Cox: Gramsci, Hegemony and International Relations, page 49-53

<sup>35</sup> Andreas Bieler and Adam David Morton : Theoretical and Methodological Challenges of neo-Gramscian Perspectives in International Political Economy, International Gramsci Society Online Article, January 2003 ;page 1

<sup>36</sup> Andreas Bieler and Adam David Morton: A Critical Theory Route to Hegemony, World Order and Historical Change: Neo-Gramscian Perspectives in International Relations, Capital & Class, vol. 82, 2004;page 22-44

Adrian Budd: Gramsci's Marxism and international relations issue, 10th April 2007; page 1-15

Secondly, in past, dialectic looks for “the possibility and capability for different methods of development resulting from the clash of opposed social powers” therefore, it might be shown how the transnational capital, understood as a social dynamism and potency, has pursued dialogue throughout international organizations such as the IMF and World Bank. These organizations as a result of this process operated as the formal organizers of a dialogue marking the development of substantial circumstances for rising countries via the accomplishment of structural adjustment program.<sup>35</sup>

This points out the process that transnational capitalist class tries to show themselves as world citizens along with their residences and/or nations of birth.. In that case Jacques Maisonrouge, David Rockefeller, Percy Barnevik, Helmut Maucher, Akio Morita, Rupert Murdoch are good examples as they rise in their society very quickly.

Maisonrouge was the chief manager in the World Trade IBM. His friend Percy Barnevik made a lot of Works on electronics and infrastructure, Helmut Maucher was also able to become the CEO of Nestle as it becomes the global empire in time. David Rockefeller who was born in USA is still seen as the most powerful businessman in the US.

We should also take Akio Morita into consideration as he is the founder of Sony entertainment. He made important contributions on the economic and infrastructure projects in Japan and seen great businessman over there. Australian Rupert Murdoch also accepted a big boss and supervisor in the Global Media all over the world.<sup>36</sup>

As the international capital flows very quickly new technologies have been introduced in the global economy in a historic bloc. The four criteria have appeared in this new balance of power; Benchmarking, Global Vision, Foreign Investment and the corporate citizenship which is evaluated in a global sense rather than the national identity. So the ideologies is still

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<sup>36</sup> Thomas R Bates: Gramsci and the theory of Hegemony; June 1975; page 351-366)  
Steve Schaefer: The World’s largest Companies, May 25/2016; page 1-3

shaped in the same discourse as the consumerism and neoliberal approach keeping its position against the isolationist and localization tendencies of the masses.<sup>37</sup>

Free market economy determines the actions and reactions of the specific corporations as some of them rise and some of them falls down in the Global Market. Thus the new historic bloc is formed by the Globalization process that is ruled by the shareholders and their global policies. It is very difficult to earn a lot of money in domestic firms for the shareholders as the market goes global in every aspect. So the national economies getting weaker and more dependent to the ruling elite as the transnational capitalist class does abolish the national barriers by making investments for the big corporations which has so many shareholders in the market.<sup>38</sup>

Ruling Elite has almost the same lifestyle; going to luxury restaurants, getting higher education, consuming luxury services and goods and living in a well guarded and secured areas which protected by the elite special forces. From Los Angeles to Istanbul they have special hidden places where nobody can easily reach them.

The economic activities of these members are completely global, they rarely interested in local and national markets unless it has some connections with the global integrated corporations or market and this approach creates lots of contradictions with the nation state dynamics. The properties and shares of the ruling elite is completely based on the Globalization and Neoliberal policies.<sup>39</sup>

Though, it is claimed in this paper that the discourse for probable change seems like more one-sided option of measures of political economy which the social powers that advanced

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<sup>37</sup> Antonio Gramsci: Selections from the Prison Notebooks of Antonio Gramsci, International Publishers, New York, 1971; Page 220-260

Anup Shah: The Rise Of Corporations: December 5 2002; page 1-7  
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Anup Shah: The Rise Of Corporations, December 5 2002; page 1-7  
<sup>39</sup>

Anup Shah: The Rise Of Corporations, December 5 2002; page 1-7

the most are these behind transnational capital and this group is mentioned above in detail. The evidence of that might be found in the many financial crises that influenced developing countries from Mexico in 1982 to South East Asia in 1997. The Mexican Financial Crisis was a good example for the influence of transnational capitalist class as the ruling elite increasing the dollar-denominated debt burden, mainly to US commercial banks which resulted with the sharp decline in international reserves forces the Mexican government<sup>40</sup>

So briefly, Gramsci explains ideologies can only become meaningless without material elements and factors. This is what neoliberal approach trying to impose people; to dream with material forces. Without economic measure the ascendancy of neoliberal theory represents nothing but a fairytale because in the beginning of 80's it is seen that the material fractions determined the marketization process instead of ideology and larger sectors of business benefited from the debt of the weak countries which is claimed they were about to rise. However no progress recorded since the analysts claim there will be something positive about them.<sup>41</sup>

### **2.3.2 Hegemony**

The concept of hegemony first seen in the articles of Cox in 1981,1983.<sup>42</sup> They were explained in IR theory and new world order. Cox says the structure of dominance according to the Gramsci constitutes a big part of the hegemony as the concepts are so elastic to use.

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<sup>40</sup>Gary L. Springer and Jorge L. Molina: The Mexican Financial Crisis: Genesis, Impact, and Implications, *Journal of Inter-American Studies and World Affairs* Vol. 37, No. 2 (Summer, 1995); page 57-81

Ramon Moreno: What caused East Asia's financial Crisis? August 7, 1998; page 1-6

<sup>41</sup>Antonio Gramsci: Selections from the Prison Notebooks of Antonio Gramsci, International Publishers, New York, Page 300-350

<sup>42</sup>Chrystia Freeland: The rise of the new global elite, January, February 2011; page 1-20

Donald M. Nonini: Is China Becoming Neoliberal? 2012; page 2-10

Sezai Özçelik: Neorealist And Neo-Gramscian Hegemony In International Relations And Conflict Resolution during the 1990's, page 91-95

Robert Cox: Gramsci, Hegemony and International Relations; page 49-53

There is no universality and basic pattern of thought process when it comes to economic and social relations because every period of time has its own thought mechanism which all of a sudden alters.

This concept called elastic is used by Cox to justify the historical materialism of Gramsci as he says “the historical materialism is a continuing process of remaking history”. So the form of thought is shaped within the limited borders of specific time, place and social and economic relations.<sup>43</sup>

The basic element for the hegemony theory is very unpopular. It justifies the man is ruled by ideas rather than force alone in that case every age has its own theoretical model based on its ruling class. This is the observation that Marx and Gramsci have made in common. But Gramsci goes further to it by adding the economic background because he believed that without economic base ideology would be worthless.<sup>44</sup>

So the economic background of England influenced Marx as the economic background of Vico and Southern Italy influenced Gramsci this paved the way for the differences between the approaches of Marx and Gramsci as the conditions were not so similar. In that case Gramsci invented a concept that “ideological unity of a whole social bloc” by adding the material and economic fractions on the ideas of the specific period of time and only both of them material and ideological components were able to eliminate the class struggle.<sup>45</sup>

Taking one of them without the other was insufficient for the proletariat revolution against bourgeoisie. The survival of Western civilization is dependent on these two functions. Gramsci and Marx had different opinions when it comes to the regime of the nation state. According to Marx every state was a dictatorship which should be taken over by working class but Gramsci brought a different conception about it. He doesn't agree with Marx that

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<sup>43</sup> Robert Cox: Gramsci, Hegemony and International Relations; page 49-53

<sup>44</sup> Robert Cox: Gramsci, Hegemony and International Relations; page 49-53

<sup>45</sup> Sezai Özçelik: Neorealist And Neo-Gramscian Hegemony In International Relations And Conflict Resolution during the 1990's, page 91-95

“every states is the dictatorship” because dictatorships are not just about the state but the political elite which rules them. In that case even the state is abolished political elite remains strong and the infrastructures and superstructures linked to them sustain their existence.<sup>46</sup>

For this reason it was the hegemony which must be eliminated beyond the state for the revolution of the working class. Eliminating state alone was just making the nation state logic stronger. When it comes to hegemony it means the whole ideological materials such as civil societies, state officials, secondary firms, corporations, secret societies that makes the whole body. Without these secondary imperative components the body of the hegemony can't be formed as it remains as arms and legs or disconnected parts of the whole organization. According to Gramsci hegemony means political leadership based on the consent of the leading ruling class. So without eliminating this ruling class eliminating state can't help the working and the middle class.<sup>47</sup>

Gramsci by this way brought a new concept to the Marxism which he thinks it is no longer useful to analyze the superstructure. His concept of “hegemony was the first reaction to Marxist approach as Gramsci underlined the working class formed harmony with the consciousness process. As a matter of fact it is inevitable to see the conscious middle class that has some contradictions with the positivist approach of Marxism.<sup>48</sup>

By that way working class began to be careful for their actions and reactions as they may serve the interests of the ruling class. He defended Italian Revolution against positivism and divided superstructure into two fractions; one of them was civil society and the other one was the political society. On the one hand civil society included journals, clubs, schools, churches and all private organisms and parties contribute the transformation for political and social

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<sup>46</sup> Sezai Özçelik: Neorealist And Neo-Gramscian Hegemony In International Relations And Conflict Resolution during the 1990's, page 91-95

<sup>47</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 351-366

<sup>48</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 351-366

consciousness on the other hand political society included the government, public institutions, police, courts and army which may have direct influence on the political structure of the communities. The ruling class was using both the civil and political societies to pursue their own agenda. When they want to control a nation with a simple way, they manipulate the intellectuals who has the same or similar ideas with them. <sup>49</sup>

Firstly they use these intellectual's mind and then actively exploit the media channels to confuse the masses. If they succeed, they complete their mission but if they not ruling class starts using the second option which is an army who has the capability of direct domination over the societies. So they manage the socio-political situation by sending their intellectuals into the society they want to rule or playing a difficult and dangerous game through the army. This process called "the law and order" for the transnational capitalist class. <sup>50</sup>

We can't talk about the independent intellectual groups as every community has its own intellectuals for a specific political aim. However intellectuals coming from the progressive class trying to make a cooperation with the other intellectuals and serve the people as much as they can while the mind controlled intellectuals serve the ruling elite for a political and economic gain. Gramsci's main prototype in indicating this notion -was the position of intellectuals in Risorgimento. The gradual philosophers in other words the organic intellectuals of Italy's new ruling class were the small moderate group of people, who used this "unplanned" and instinctive supremacy and authority of fascination over all other academic and scholar fractions and, most remarkably, over the Mazzinian Party of Action. Absurdly, the victory of the Moderates was at the same time the fiasco and catastrophe of the Risorgimento. <sup>51</sup>

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<sup>49</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 351-366

<sup>50</sup> Sezai Özçelik: Neorealist And Neo-Gramscian Hegemony In International Relations And Conflict Resolution during the 1990's, page 86-117

<sup>51</sup> (Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 351-366

Here I'd like to argue Gramsci's concept where he noted "In the Prison's Notebooks", He mentioned that "every social group has its own stratum of intellectuals" but it is the progressive class in the second stage of the process of passive revolution that succeed in "subjugating the intellectuals of other groups" because of its power of attraction. I believe this definition can be applied to the current situation with TC and its caste of organic intellectuals. In short it may not be wrong to state that it is the private actors who contribute most to the foundation of new order.

The notional segment of it might be demonstrated throughout Gill's definition (1993).<sup>52</sup> These players operate for the raise of the liberal economy and the advancement of the strategies associated to it. A model of the Gradual Philosophers which may also called "organic intellectuals" is the Trilateral Commission (Trilateral Commission 2008), an institution established in 1973 by privileged inhabitants of the Europe, Japan and USA, to promote closer collaboration.

It is combined of about 350 worldwide managers and heads in several subdivisions of academia, labor unions, business and media and public service.<sup>53</sup> Overseas assets and commerce are highly boosted by these players. Despite China is recently not fraction of the Trilateral Group and it is nevertheless faraway behind, in total duration, from the stages of assets and shares running to industrialized countries, it is currently the fastest growing economy where the raise of free commerce and business has turned out to be vigorous to the country's advantage and gain, in contra-location to the increasing burden in the West for safeguard. In this standpoint reclines what may be expressed as the enigma and inconsistency of the cooptation of China as the country is now urging for the rise of these plans and strategies which were nourished by industrialized countries and are at the center of the

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<sup>52</sup> Stephen Gill: Gramsci, Historical Materialism and International Relations: February 1993, page: 230-240

<sup>53</sup> Patric Wood: How the trilateral Commission converted China Into a Technocracy? April 22-2016- page 1-9

principal character of transnational capital while the discourse of fortification and safety argument is escalating in the countries endangered by the Chinese export. <sup>54</sup>

Transnational Capitalist Class wished for "control," not to "guide or escort" and in addition they wished for their profits to command in that case people were completely simple tools. They needed a new drive to turn out to be the leader of the nation: this power was the Monarchy and Piedmont According to Gramsci. The outcome was a "passive revolution," representing that the fight was managed not by a class but by the state, that caused the dictatorship without hegemony. <sup>55</sup>

Hegemony can be defined as a dominance of one or more powers over a society or groups with private actors or states. In that case nature of power must be explained in terms of Gramscian methodology saying the main concepts and words are described changeable.<sup>56</sup> Historic process as a continuing way has contradictions with Neo Realism which describes the international system as a result of Anarchy, uncertainty and doubts. This research focusing on the global world, its order and actors in the international arena while taking hegemonic dynamics into consideration. In order to form the hegemony firstly dominant ideology must be accepted by the huge crowd not as a concept but as way of life but the thing is dominant ideology may not be successful in the eyes of people. This paper claims current system is based on an in fierce hegemonic formation which will explained in this study. <sup>57</sup>

Gramsci's theory of hegemony clashes with the neorealist approach because of its claim that "superiority of material force over a consensual utilization of powers. According to him "hegemony should be like one group has to affect, motivate, shape, change and guide the

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<sup>54</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 340-374

<sup>55</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2, Apr. - Jun., 1975, page 351-366

<sup>56</sup> Jr. Valeriano Ramos: The Concepts of Ideology, Hegemony, and Organic Intellectuals in Gramsci's Marxism- March-April 1982-page 2-10

Giovanni Ariggi: Hegemony Unravelling, New Left Review, March, April 2005/page 10-20

Ravi Arvind Palat: Pacific-Asia and the Future of the World-System, 1990: page 20-40

<sup>57</sup> Giovanni Ariggi: Hegemony Unravelling, New Left Review, March- April 2005/page 10-20)

other, they should make cooperation with each other for the leadership in a society”. The formational base of transnational capital can be outlined in neoliberal approach. For example Thatcher government used the concepts of “private owning democracy” that justify ownership improvement, stabilize and creates the community.<sup>58</sup>

This paper portrays the notion that the public community can affect the rest of the people in society may be defined in the proprietors of transnational capital. Examples of this impact are the growing marketization of the economy, endorsement of private property, and maintaining private interests over public interests as a reaction to the crisis of organizations that is being inclined to uncover private solutions for public goods, legitimizing this way a marginalization of the role of the state in the economy.<sup>59</sup>

Neoliberalism, Mercantilism and Keynesianism are connected each other in the capitalist system. The counter hegemonic force of the transnational capital has completely changed and transformed the Keynesian structure of economy. This counter element firstly abolished the illusions of previous structure where stagflation was seen as one of the failures. During 70’s economic crisis become a decisive tool by letting multi-national companies dominate and surround the socialist countries and this was completely a fragmented scenario. Wan der Pijl in worth made a further clarification about the passive revolution divided it into two parts.<sup>60</sup> These parts actually composed of two stages. In the first stage policy makers implementing reforms where mass participation is not needed and it may be defined as the “revolution from above”. In second stage progressive class making cooperation with other groups so it includes social transformation.<sup>61</sup>The idea of transformation is one hegemonic order is challenged and replaced by another within the capitalist society where there is no room for discussions. Here

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<sup>58</sup> George Kennard: The realities of Margaret Thatcher's property-owning democracy: Guardian, 11 April 2013, page 1-5

<sup>59</sup> Rubens R. Sawaya: Relations between State and Transnational Capital: The Case of Controls and Multi-polarity, 2002

<sup>60</sup> Kees Van Der Pijl: Soviet socialism and passive revolution, 1993; page 237-258

<sup>61</sup> Ravi Arvind Palat: Pacific-Asia and the Future of the World-System, 1990; page 20-40)

I would argue the idea that the progressive class is identifiable in the transnational elite that managed to reach the compromise of instilling the values of market worldwide. China of course in that context becomes a good example as more and more people recognize and appreciate the virtues of market.<sup>62</sup>

(Yang 2007).<sup>63</sup> Referring to Yang's point which he made in October 1992, defining People's Republic of China (PRC) as a 'socialist market economy', this was marked at the first time in history as a ruling Communist party in a socialist state has decided to follow the market.

It is also advisable to look at the Japan example to understand the position of China in the world order. Because Japan is a very important country which has so many shareholders in Chinese multi-nationals without understanding the Japan example it is very difficult to understand the flow of money in Chinese market. Considering the fact that every power that emerged in the market is a potential threat to stability where the purpose of the hegemonic order is to protect status quo, it creates the dilemma. The tool of cooptation is at the centers of an international hegemonic order.

Thanks to the attempts and endeavors of imperialism and colonialism, the Pax Britannica and Pax Americana have been in conflict with the last two centuries the non-Western majority of world's population. As argued Japan's participation into the global domination was a required extent functioned by the Western powers. Gill suggests that the Japanese cooptation remains "a key element in world order today" (Stephen Gill-1993).<sup>64</sup> After World War II, Japanese properties were given authorization to US market to maintain the enlargement and improvement of market economy in the country.

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<sup>62</sup> Ravi Arvind Palat: Pacific-Asia and the Future of the World-System, 1990: page 20-40)

<sup>63</sup> Yang Jinhai: The Future of China's Socialist Market Economy, 2007; page 61-79

<sup>64</sup> Stephen Gill: Gramsci, Historical Materialism and International Relations: February 1993; page: 208-220

When the Japanese economy advanced to the range to cause a threat to US hegemony, the counter-measure was the Plaza contract in order to settle the order. The Plaza Contract was the key agreement signed between Lenovo corporation in China and the American corporation of General Electronics it aimed to stop the Japanese economic domination in Asia Pacific region. <sup>65</sup>

### **CHAPTER 3: HISTORICAL ROAD TO MULTI-NATIONAL CAPITAL IN CHINA**

After the fall of the Soviet system in 1990, old foundations that had provided society within a certain degree of financial and economical stability have been overturned quickly and new market adjusted principles were slow to spread in the economic environment of the old Soviet Union. However, by the end of 1990's many parts of a market based formal system had been established, the practice was not strong. <sup>66</sup>

The imposition of new regulations has been strained by the presence of old informal institutions – powerful bureaucracy, a low level of respect for law, unofficial networking and different social elements, which historically rooted in the behaviors of Soviet community. Therefore, a consequent, the speed and sequencing of the economic reforms, which were important at the starting point of the passage, seems to be less necessary than the necessity of institutional renewal.

Economic progress of China has been interrupted on a number of different incidents during the last century. The Chinese Economy was nearly broken at the end of the Civil War in 1940's. In addition, both of the Great Leap Forward (1958-1960) and the Cultural Revolution (1966-1976) movements actively damaged the Chinese Economy. But beginning of 1970's, Chinese government began the gradual transformation of its Stalinesque centrally planned

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<sup>65</sup> Ravi Arvind Palat: Pacific-Asia and the Future of the World-System, 1990:page 20-40)

<sup>66</sup> Seung Ho Park and Wilfried R. Vanhonacker : The Challenge for Multinational Corporations in China: Think local act Global, July 1- 2007; page 1-6

Thomas Hirst: A brief History of China's economic Growth, Thursday 30 July 2015; page 1-4

system, as a result the Chinese economy has grown extremely rapidly. In the reform era since 1978, China has been one of the world’s fastest-growing economies. Since then China’s real GDP has grown at an average of annual rate of almost 10%.<sup>67</sup>



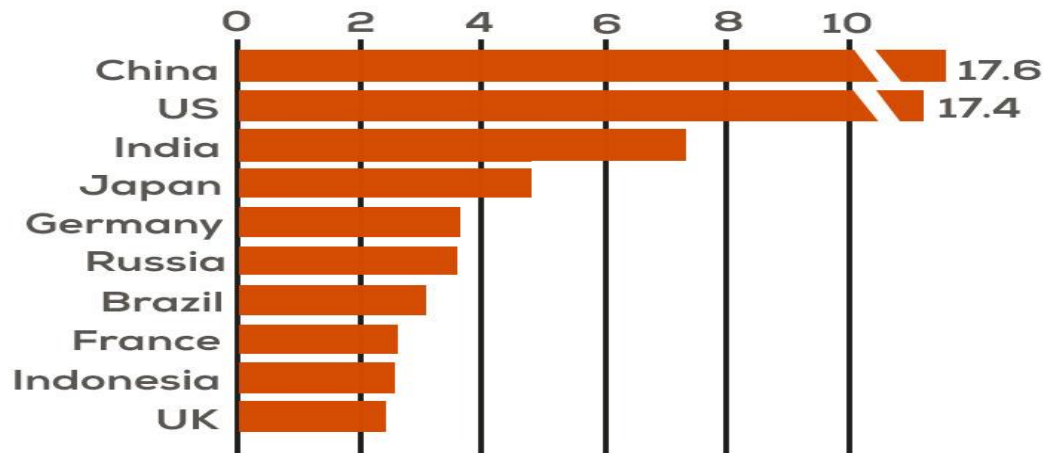
Using nominal exchange rates China’s GDP was about half that of Japan and only one quarter of USA. However nominal exchange rates underestimate the size of the Chinese economy because Chinese prices are much lower than those found in developed countries. Moreover, many intellectuals and international observers think that, using the PPP measurements, China could have exceeded the United States as the world’s number one economy although China’s per capita GDP would still be quite deep.<sup>68</sup>

<sup>67</sup> Thomas Hirst: A brief History of China’s economic Growth, Thursday 30 July 2015; page 1-4

<sup>68</sup> Thomas Hirst: A brief History of China’s economic Growth, Thursday 30 July 2015; page 1-4

## The new top 10

Countries ranked by GDP at Purchasing power parity, 2014 (\$tn)



Source: IMF

CEOWORLD Magazine

Existing administrative system in China was founded in 1949 and it is even now based on the control of the Communist Party of China. Though, its communal formation of enlargement experienced steady adjustment. When the inter-class and class connections taken into consideration, the last three epochs embodied mechanical and essential transformations such as forms of lifecycle, configuration of the workforce, legitimate order of labor to a lesser magnitude, the governmental establishment.<sup>69</sup>

To arise from its recessive position, China started to copy the West with Deng's statement of an alteration to market socialism (Van Der Pijl-2008)<sup>70</sup> To realize the skirmish between the diverse groups and divisions of Chinese people, it is significant to focus on how the change was a top-down resolution; actually, "it was the choice of party to bring to market the Chinese economy. There were no tangle drives pursuing to overcome the China's social and economic situation by supporting the dynamisms and potencies of the market." (Hart-Landsberg and Burkett 2006)<sup>71</sup>. It is crucial to see the cooptation process may be used with the domestic

<sup>69</sup> Stephan Gill: China's Soft Balancing. Strategy and The Role of Resource Investment, Yonsei University Graduate School of International Studies, 2010; page 1-9

<sup>70</sup> Kees Van Der Pijl: China's challenge to the West in the 21th Century: April 2008;page 20-30

<sup>71</sup> Martin Hart-Landsberg and Paul Burkett: China and the Dynamics of Transnational Accumulation: Causes and Consequences of Global Restructuring, 2006; page 15-40

politics of China as well as the indication to the authoritarian position of the Chinese communist party over the rest of society.

Considering the transformation taken place in the country, there are many and various motives for uncertainty (Financial crisis, Bribery, exploitation, enlargement of a new middle-class, relegation of the poorest amount of populace, lobbying influence of rising multi-national companies) and it is significant to distrust whether or not the present condition is maintainable.<sup>72</sup>

It is very important to comprehend when China decides to accelerate and choose liberalization: a crossroad might be explained in the painful incidents of Tiananmen Square in 1989. Repression and control resulted in destruction and troubles inside the Party requested for a profound study of what position and function the Communist party should perform. Accompanied by the terminated cost improvements of 1988 and collapse of Communism in the Soviet Union, those three components endorsed the inherent and extreme Chinese dedication for the understanding of a financial communist market system.

Even though the conviction of the West across the 1989 incidents was stable and spectacular, it did hold the leadership of party improvised nevertheless, all at once, for Far Eastern witnesses and speculators, the doubts were that response of West for the disaster which was more positioned regarding the discouragement of Chinese transformation rather than stating worries about ruin of human rights (Dennis Hickey-2010)<sup>73</sup>.

It might be claimed that the Chinese type of growth is entrenched in a mixture of robust governmental and constitutional control and neoliberal strategies; however, it is growing in magnitude as an ideal that other emerging nations may be lured to duplicate and this process in the case of China caused the transfer of international capital from nation states to multi-

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<sup>72</sup> Thomas Hirst: A brief History of China's economic Growth, Thursday 30 July 2015; page 1-4

<sup>73</sup> Dennis Hickey: Dancing with the Dragon: China's Emergence in the Developing World (Challenges Facing Chinese Political Development), April 30 -2010; page 20-40

national companies across the accomplishment of a new accord of Beijing. (Beijing Convention 2016).<sup>74</sup>

### **3.1: Basic Ideologies:**

In the beginning of the thesis project, Marxist and Realist perspectives have been explained in the second stage Gramscian view have been put into context in order to explain the social groups in relation to the international system. This was important to clarify the process started from the British domination to the deterioration of USA. Up to now it is witnessed that one hegemonic power trying to overcome another but this paper figures out the new domination which is no longer effective as a nation state dynamics. Transnational capital came in front with the deterioration of US hegemony in the 70's.<sup>75</sup>

Gramsci underlines that transnational capital becoming more powerful in consistency and solidity of the new society than the previous historic unification. It is significant to realize this project is to replace transnational capital with the nation state and its grid theories and it claims it may become a leading actor in a new historic bloc.

There are significant methodologies when it comes to International political economy. This paper takes the two of them which characterize the main poles in international arena; Marxism and realism. Firstly it explains the realist methodology then adding Marxist theory on it which is a background for the Gramsci's point of view but the point is to show both the realist and Marxist approaches are not sufficient when it comes to appearance of new historic alliance.<sup>76</sup>

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<sup>74</sup> International Technical Convention 2016: Beijing, Monday 10th October to Friday 14th October 2016

<sup>75</sup> William I Robinson and Jerry Harris: Towards A Global Ruling Class? Globalization and the Transnational Capitalist Class, Spring 2000; page 11-54

Micheal Mann: Has the Globalization ended the rise of the nation state? Autumn 1997; page 13-24

<sup>76</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2 (Apr. - Jun., 1975); page 351-366

Marxism justifies bourgeoisie as a dominant class determining the structure of international system as a result of class war while realism defends nation state as a dominant actor.<sup>77</sup> Truth is none of them but a more complicated illusion which Gramsci identified as the superstructure and structure progress. In that case whatever the leading actor is should coordinate and cooperate with the subordinated groups at least their interests should not conflict with the subordinated factions and paper argues that subordinated groups can be superseded or dominated by the transnational capital.<sup>78</sup>

Gramsci also claimed that the capitalist system should be overthrown by working class but he knew that this should be done by taking the hegemony dynamics into consideration. Without examining this process truly any revolution might cause another dictatorship The Neo Gramscians like Robert Cox help the theories of International Marxism develop rapidly.

In the articles of Cox we become a close witness for the events taking place in the Italy during 1920's. In the prison notebooks Gramsci says the Italian revolution failed because of the dilemma between West and East. In the East state was powerful and it was a leading actor in shaping all the events so when the possibility of revolution appeared state was trying to make everything it can to prevent it from spreading all over the country. In these times, if the state was weak the possibility of revolution was so much connected to the abolishment of state mechanism in the East but West was so different. State influence was so limited there and the spaces which nation states left was filling by the civil societies. At this point we should talk about the contradiction between state and civil society mechanisms. In this dilemma state is used to impose the working class hegemony against the capitalist structure by Marxist approach but Gramsci doesn't agree with this logic.

Gramsci doesn't use the civil society as Marx did. Marx evaluated civil societies as the mode of production relations while Gramsci defined it as the non-state actors which composed of

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<sup>77</sup> Hans G.Ehrbar: The relation between Marxism and Critical Realism, 2007; page 3-23

<sup>78</sup> Joseph V.Femia: Gramsci's Political Thought: Hegemony, Consciousness, and the Revolutionary Process-1987; page 20-40

superstructure and infrastructure network. So the civil society is an infrastructure according to Marx but superstructure for Gramsci. If the states collapse civil societies formed by the middle class could fill the space and play a major role in the revolution. In Russia civil societies were weaker than the state while they were stronger than state in the West with a more organized structure.<sup>79</sup>

When something unexpected happens it was the civil societies directing the middle class and working class and make them together to revolt. In the important cases like depressions and crisis, civil societies become a resisting force to unite people against oppression. For Gramsci it was the church and gradual intellectuals who determined the attitude of civil society. For this reason the strategies and revolution tactics of the working class in the West should have been different from the East where civil society is not organized and under the hegemony of nation state.

Gramsci figures out the state is a tool for the absolute oppression while civil society is regarding the arrangement, understanding and collective consciousness. The civil society is linked by cooptation, hegemony and consent. In that case it is stressed that hegemony is a concept which working class show their interests as if they are all interests of all classes and society as Gramsci makes a distinction between political society that is the state power and civil society which is composed of unity of organism dynamics like people resistance associations, trade unions, lobbies. So hegemony was about taking consent of the other classes and convince them to overthrow the bourgeoisie and ruling authority for the proletariat. Hegemony on the one hand was the struggle for working class to unite people under its umbrella on the other hand it was a political tool and mechanism helping proletariat getting rid of bourgeoisie ideologies.<sup>80</sup>

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<sup>79</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2 (Apr. - Jun., 1975),page 351-366

<sup>80</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, Journal of the History of Ideas, Vol. 36, No. 2 (Apr. - Jun., 1975), page 351-366

Gramsci have achieved to make fantastic political analysis regarding the conditions of working class especially in Southern Italy. He divided proletariat into two fractions; one of them was the conscious working class who were able to discard the sovereign bourgeoisie ideologies and one of them was the peasantry that should be convinced to revolt. They were the ignorant masses denying the enlightenment process which could pave a way for the revolution damaging the ruling power and in the end overthrow the state successfully. According to Gramsci, the revolution in Italy have just failed just because peasantry couldn't be educated to organize with the other classes expected to form a hegemony against the power elite. <sup>81</sup>

Intellectuals of the society also plays an important role in the theory of Gramsci. He divided these fractions into two parts. On the one hand there is classical intellectuals who arrange their actions with the sovereign structure of state. In this group people can't move independently and decisions are taken in accordance with bourgeoisie class on the other hand there is organic intellectuals who take actions in favor of middle and proletariat classes. When we look at their attitude, it is witnessed this group of intellectuals do not think of themselves following the interests of the working class. Classical intellectuals are the organizers of the peasants, they are responsible for the agricultural society having central role between the bourgeoisie and the peasants. Classical intellectuals accept the ideas of the class who dominated the modes of production in the past but they are no longer effective in the new world order. <sup>82</sup>

Organic intellectuals as opposed to the classical intellectuals try to extinguish the traditional bourgeoisie ideologies of the society and force them to compromise with their own potential.

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Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 360-380

<sup>81</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 370-380

<sup>82</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 351-366

Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 374-387

These intellectuals are playing the key roles to make whole society enlightened, they are the leading force for the intellectual and moral reform in the society.

According to Gramsci this fraction can make important contribution to the society by leading the revolutionary party that should be ruled by “modern prince” Gramsci evaluates the modern prince as the collective consciousness which revolutionary party must have to compromise their interests with the different groups and classes of the society. Gramsci claims that working class should have a group of organic intellectuals that may form the hegemony for the interests of proletariat otherwise it just follows and serves the sovereign discourse of the bourgeoisie and their interests to oppress the workers and peasants.<sup>83</sup>

Gramsci uses his concept of “passive revolution” as the process of rebuilding and restoration. It opens the political road for the bourgeoisie revolution so it focuses on the internal change in the sovereign ruling power and authority. It can also be examined as the political reaction by the ruling class for the changing structure and conditions of the whole society. In that case when we look at the current articles of the Robert Cox, he makes a point that in the 21st century the ruling class is the transnational capitalist class who have the half of world’s wealth. At this point Gramsci develops a new concept called “Caesarism”. It figures out the hegemony situation where no power is able to defeat each other like “zero sum game” The struggle must appear a third force between the fighting fractions and establish a balance of power among them. The theory of Caesarism might be reactionary or progressive in the changing infrastructure and superstructure of the society. It depends on the roles of significant actors coming the fore ground. According to Gramsci historic bloc means the integrity of the infrastructure and superstructure in specific period of time.<sup>84</sup>

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<sup>83</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 400-450

<sup>84</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 500-550

Infrastructure represents the social classes and the relations of production while the superstructure represents the ideological and political constituents. Unlike the other Marxists, Gramsci takes the importance of superstructure into consideration. He thinks that the power elite which is examined today as transforming multinational capitalist class creating a new historic bloc whereas working class should establish their own historic alliance by compromising their own interests with the secondary groups, civil societies, trade unions, international lobbies. Gramsci justifies that organic intellectuals who have tendency to transform the whole society might play a major role in creating the proletariat hegemony in their countries but this kind of hegemony may only take place in a historic bloc.<sup>85</sup>

### **3.2: Globalization Process**

Globalization today is both interconnection where the boundaries abolished in every aspect and non-communication which nobody see each other's face but just chatting on the internet. The lack of communication and miscommunication also including this process as there is so many misinformation flowing in the international production. False flag operations and stock manipulations are just few examples of the interconnectedness while just awake people realize what's going on in the world.<sup>86</sup>

New economy being put on a global scale. Today we have a descending mode of accumulation which is the old nation centric market mode of accumulation being challenged and replaced by an ascending mode of accumulation which is what we call globalization. In fact the contradictions between two modes of accumulation shaped by political and economic struggles and central dialectic of the world.

This paper believes that nation states are still more important and national markets still exists however that state is repositioned by the trans-nationalist class to function for and serve the

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<sup>85</sup> Thomas R. Bates: Gramsci and the Theory of Hegemony, *Journal of the History of Ideas*, Vol. 36, No. 2 (Apr. - Jun., 1975), page 420-440

<sup>86</sup> Arturo Guillen: *Globalization and The New Economy*, 2000; page 1-15

patterns of global accumulation so that transnational capitalist class is working to serve every national economy into these new patterns but the global patterns not national so the nation state is redefined for the current mode of re-accumulation.<sup>87</sup>

There is a struggle between national forms of capitalistic and transnational forms of capitalism. This paper would like to bring to your attention recent real historical examples helping to compare Chinese economical actors with other countries.

Bush administration represented a more nationalistic military industrial complex rather than a transnational capitalist which Clinton and Obama represented more and get involved. How is this characterized the descending nation centric and global accumulation forms? In the nation centric form of accumulation employment and sales when looking at the industrial national market the majority of assets the majority of employment and the majority of sales will be based in the national market itself and it is good for GM, good for America and for their assets, employers and sales. US has a large international economy but it is mainly based on the exports of goods flown in the national base so you would have international competition through the exports of each other's economies. That's the difference between Gramsci's global perspective from the realists and neorealist when he stressed "the subordinated class should be interconnected with the transnational capital and its ruling elite." There are new social contracts in US as well as the old contracts and social democratic new deal in Europe.<sup>88</sup>

The Logic of Globalization:

In the "Wealth of Nations" (1776) Adam Smith analyzed both the critical role that market played in the relocation of nation's resources and the nature of the social order that Applying his ideas about economic activity within a country to specialization and exchange between countries, Smith resulted that states should trained and export those products in which the

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<sup>87</sup> Liu Chuanzhi: Chinese Multinationals; page 19-29

<sup>88</sup> Jeffrey E.Garten: From New Economy to Siege Economy: Globalization, Foreign Policy, and the CEO Agenda,2002; page 2-20

Gao Shangquan: Economic Globalization: Trends, Risks and Risk Prevention, 2000; page 1-10

trading partners had an exact benefit. All countries should export those commodities it produced more adequately because the absolute labor need per unit was less than that of the prospective trading partner. According to Smith, there is a principle for trade because countries are clearly better off to specialize in their lower cost goods and to import those commodities that can be produced more cheaply another countries. <sup>89</sup>

China's foreign economic points have not been guided by "laissez-faire" approach even since the implementation of the outward-oriented development strategy in 1980s. Intervention in the form of trade restrictions for example traffic and licensing, subsidies, tax incentives and active contract with the world economy exist on the sides of both imports and exports. China used to manage foreign trade by a policy of high tariff rates. This policy had effectively promoted the development of China's immature domestic industries. However, it also had a adverse result for the Chinese economy.

During the 1980s and especially 1990s, China's economic liberalization inhibited by both "super-national remuneration" and "sub-national remuneration. But, the foreign funded foundations were satisfied by a series of favorable policies such as tax exemption and low tax rates; but they also covered some uneven treatments and economic distinctions in areas for example communication, transportation, housing and advertising. Laws regarding the entry of foreign sales companies and joint ventures of stock exchange are being drawn up. However further measures are still needed to ensure compliance with the rules of the WTO on intellectual property, foreign investment and information transmission. <sup>90</sup>

Since the beginning of the opening up policy 30 years ago, Chinese enterprises have been exploiting their comparative advantages in production and market potential, thereby attracting multinationals from developed countries to invest in China. Investments have also raised

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<sup>89</sup> Liu Chuanzhi/Jean Paul Larçon: Chinese Multinationals; page 19-29

<sup>90</sup> Rongxing Guo and Palgrave Macmillian: How the Chinese Economy Works, Third Revised Edition, , page 268-276)

Chinese, industries, products and markets to international standards, enabling China to become an actor in the global economy.<sup>91</sup>

In 2005, we witnessed that China has almost reached 12.3 billion US\$ investment as a result of foreign resources on the other hand the investment of overseas prices was just 57million US\$ so this derived from the “bringing in” policy of China as a global power in the world. This is important because foreign firms and multi-nationals are very strong in China as they restrict the economy of Chinese state and the corporations linked to it. Nowadays “bringing in” policy doesn’t work because Chinese multi-nationals are under the influence of the foreign companies enter to its market.

In order to achieve something good they should follow these foreign enterprises to survive in the international market. Foreign firms are very successful in comparison to Chinese corporations and the firms like Jiangsu electronic company, Haier and 999 group are trying to balance these foreign fractions in order to compete fairly. Chinese corporations must make some innovation to overcome this situation otherwise they could be removed from the international market as the news firms replace them very quickly.<sup>92</sup>

However with the help of foreign investments China can still improve the businesses focusing on export. Because of the protection of government against the foreign firms China can’t use its benefit to the other companies even if they are opened to international market. After the membership of world trade organization, foreign companies made a lot of investments to China in order to benefit from the cheap labor. huge market potential can be discovered by these groups if they make a better coordination and solve the disputes among them. China should be with harmony when it comes to globalization.

If it doesn’t follow the market this process could harm its economy as government take some measures regarding protection and limitation to restrict the influence of foreign companies

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<sup>91</sup> Jean Paul Larçon: Chinese Multinationals, page: 40-70

<sup>92</sup>Liu Chuanzhi: Chinese Multinationals, page 19-29

domination in the country. In that case adapting globalization process should not be seen as selling products or bringing services to international customers, Chinese companies need new global strategy and management techniques to challenge its rivals and only few companies are able to do this. Haier, Sichuan electronic company and TCL are just three of them which compatible with the process of Globalization logic. They are open and flexible. Korean Hyundai, Lenovo and IBM are more experienced than these firms as they have so many shareholders and investments in the Shanghai Automotive industry sector.<sup>93</sup>

Chinese multi-nationals should open up its domestic market as there are sufficient places and rooms for both Chinese and foreign companies in the global market of China. Multi-national companies should firstly accumulate the necessary funds to enter the international market. There are opportunities for both development and expansion when it comes to Chinese enterprises and its domestic market and Chinese multi-nationals should make a cooperation with these foreign firms even in its domestic market to keep its rising economy in the global world or these strength may be occupied by the transnational capitalist elite.<sup>94</sup>

### **3.3 Definition of Transnational Capital and Multi-National Companies**

Trans-national corporation is an enterprise that has its capacities, capabilities and other advantages as well as resources in at least one country other than its home country. Such firms have offices and factories in diverse countries and usually has centralized head office where they organize global managing and administration. Multi-national corporations are one of the most significant forms of non-state actor in world politics today. There are so many of them and many are large these organizations exert a significant economic and political influence around the world.<sup>95</sup>

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<sup>93</sup> Liu Chuanzhi: Chinese Multinationals, page 19-29

<sup>94</sup> Liu Chuanzhi: Chinese Multinationals, page 19-29

<sup>95</sup> Jed Greer and Kavaljit Singh: A Brief History of Transnational Corporations, 2000: page 1-10

The 10 largest transnational companies all over the World, as of 2015 revenue, are “Wal-Mart (\$485.65 billion), Sinopec (\$433.31 billion), Royal Dutch Shell (\$385.63 billion), PetroChina (\$367.85 billion), Exxon Mobil (\$364.76 billion), BP (\$334.61 billion), Toyota Motors (\$248.95 billion), Volkswagen (\$244.81 billion), Glencore (\$209.22 billion) and Total (\$194.16billion).<sup>96</sup>

Multi-national companies are for profit enterprises that conduct business in more than of country. A fairly common experience is for company like company x which operates inside a state to have retail outlets and have production facilities as well in state and many companies stay this way for their entire existence they always operate within their home country but in some cases companies like to expand their operations abroad and company x might wish to do business in state B and one way it can do that is to open up production facilities in state B and open retail outlets in state B as well. Another possibility is company x may wish to open up operations in state C and it can do that actually starting a company a wholly owned company inside the state C which is called a subsidiary.<sup>97</sup>

So company x owns this subsidiary and subsidiary have retail outlets and production facilities inside state C. Another possibility is that company x may decide it wants to expand production in the state D but when it looks at state it sees another company in state D by looking at the company it may say “ they actually have production facilities and retail outlets already in state D rather than establishing wholly own subsidiary inside state D they claim they just try to purchase company so company x may purchase another company in state D and control both the production facilities and the retail outlets of that company in that case

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United Nations Conference on Trade and Development Division on Investment and Enterprise/UNCTAD: Transnational Corporations, Volume 17-Number 3-December 2008:United Nations New York and Geneva, 2008

<sup>96</sup> Jed Greer and Kavaljit Singh: A Brief History of Transnational Corporations, 2000: page 1-10  
United Nations Conference on Trade and Development Division on Investment and Enterprise/UNCTAD: Transnational Corporations, Volume 17-Number 3-December 2008:United Nations New York and Geneva, 2008

<sup>97</sup> Liu Chuanzhi: Chinese Multinationals; page 77-97

they will become a part of company x. The company is very large about the same size let's say the company x the two might form a merger and this is where the term merger and acquisitions come from.<sup>98</sup>

Company x can expand abroad by either acquiring other companies or merging with them and as result what we have in this part in the form of company x is a multinational corporation a for profit enterprise that conducts business in more than one country and there are many companies like this. There are over 80.000 multinational corporations in the world today and they control over 800.000 subsidiaries.<sup>99</sup>

Some of these companies are also very big and dozens of them have annual revenues of over 100 billion dollars US. Today multinational companies account for about one third of world exports. What's really striking about multinational corporations is the intensity of debate around them. Advocates of multi-national corporations say multinational companies can do lot of good things in global economy they provide investment to other countries around the world to create jobs in other countries.<sup>100</sup>

They encourage the development of infrastructure roads, bridges, energy infrastructure. They can bring technology to other countries and they create access to world markets for companies operating other countries but the critics of multinational companies say that multinational companies on balance have a negative impact and they say this because they argue that multinational corporations serve to de-capitalize other countries what they mean by that is they take profit, money and resources out of other countries and bring it to the home country the headquarters country. They also argue that multi-national corporations can create

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<sup>98</sup> Liu Chuanzhi: Chinese Multinationals, page 77-97

<sup>99</sup> An overview by STWR: Multinational corporations, 19 May 2008; page 1-10

Felix Kramer-Daniel Kammen: How a single multinational corporation could light up the world, 24 September 2014; page 1-10

Pankaj Ghemawat Niccolò Pisani: Are Multinationals Becoming Less Global? October 28-2013; page 1-9

<sup>100</sup> Teivan Pettinger: Multinational Corporations: Good or Bad? May 30, 2008; page 1-6

inequality around the world. Because some countries will pay very well and that will lead to income inequality in other countries around the world.<sup>101</sup>

They also argue that multi-national corporations exploit poor workers, poor communities and poor countries. They also create dependence as multi-national corporations in some parts of the world become increasingly exploitative these other countries may depend increasingly on company x for example.

Finally there is the argument that multi-national companies stifle domestic innovation and economic activity. By virtue of the fact that they expand around the world and makes it very difficult for companies in any of these countries to actually get going to establish market share because the big companies can take advantage of economies of scale and dominate the market place so for all these reasons companies like company x are very controversial and big part of the debate about global politics.<sup>102</sup>

That was multi-national corporations now obviously with so many of these corporations around the world and with so many of them are being very large, these organizations are increasingly being thought of this even potential challengers to the state. Many multi-national corporations provide pension funds to their employees. They provide a sense of identity to the point where some of them even begin to question whether or not more of our identities are being wrapped up with our employers than they are with our sense of being citizens of the state well that time maybe a long time in the future but it is still the case multi-national corporations today are among the most important and contentious non-state actors in global politics.<sup>103</sup>

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<sup>101</sup> John Stopford: Multinational corporations., Foreign Policy, Winter 1998, page 1-7

Mahmood Monshipouri, Claude E. Welch, Jr, Evan T. Kennedy: Multinational Corporations and the Ethics of Global Responsibility: Problems and Possibilities, The Johns Hopkins University Press, 2004, page 10-20

<sup>102</sup>Liu Chuanzhi: Chinese Multinationals, page 77-97

<sup>103</sup> Florian Wettstein: Multinational Corporations and Global Justice Human Rights Obligations of a Quasi-Governmental Institution, 2009; page 35-50

David Levy and Aseem Prakash: Bargains Old and New: Multinational Corporations in Global Governance Business and Politics, Vol 5: No 2, August 2003; page 13-20

### **3.4: The Effects of Multi-National Companies in China:**

This part of the study would like to draw your interest to an interview with Andy Molinsky who was conducted by KPMG; an international firm the author of Global dexterity and the articles of Tony Edwards, Paul Marginson and Anthony Ferner as well as the KPMG study by Silk Road associates <sup>104</sup>They have interviewed 15 c level executives, some of the world's largest multi-nationals; Unilever, Pepsico and Basf. China's GDP is still larger than Brazil, Russia and India combined. But they are also more pragmatic they recognize the consumers are demanding competitors appear in digital technologies that changing the way business is done. In short China might be big but it's also increasingly complex. There were three specific issues that worry CEO's.

The first is the opportunity and challenge is selling smaller cities. China has over 150 cities with million plus populations each to the city's is a potential market; how to tap them multinationals are recognizing just how challenging it is to build outside the past marketing and distribution networks so to recruit staff in so many cities CBRE that property services company is rethinking its strategy for tapping smaller cities and rather than spreading itself too thinly is instead consolidating its business lines around five key hubs. The second opportunity is the challenger, the digital revolution, e commerce social media and big data lowering the barriers to entry for local competitors and they no longer have to invest in expensive stores or TV spot. <sup>105</sup>

Chinese companies with deep inside into the local market can rapidly launch new products and can take on established companies. E-bay talks about the way the Chinese traders are

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<sup>104</sup>An Interview with Andy Molinsky by Sarah Cliffe: Companies Don't Go Global, People Do, October 2015  
Tony Edwards, Paul Marginson and Anthony Ferner: Multinational Companies in Cross-National Context: Integration, Differentiation and the Interactions between MNCs and Nation States : Leicester Business School-De Montfort University Revised Draft, March 2012; page 20-40  
A KPMG Study in partnership with Silk Road associates: The Future of MNC's in China, page 13-24

<sup>105</sup> Liu Chuanzhi: Chinese Multinationals, page 77-97

investing in big data in order to understand the customers; they are adapting that past is a look for new competitive advantage. The final challenge is labor and talent shortages. This was an issue when interviewed with CEO'S in 2012 and it remains an issue today. China's youth population will fall by 100 million over the coming decade. Universities are not producing the quality of graduates that needed. It was yet wage levels for senior managers, a similar to those in the US or Europe. UTC; the building industrial multinational offers a glimpse at how leading multi-nationals are responding having agreements with 25 colleges to help train employees. This may all mean that The China is still a vast and growing opportunity but we need to segment up the markets in smarter ways to work in focus relentlessly on value proposition. The new China is bigger but more complex.<sup>106</sup>

Chinese companies are still relatively new on the global stage but they are growing fast and they also becoming much more diverse in terms of what they do, what they are after and why they are operating and where they are operating. If we think about why the companies to invest overseas, the first one is the natural resources.

China has relatively short of natural resources so one motivation by Chinese companies invest overseas is to get oil, gas, coal and minerals. These sort of policies encouraged by the Chinese government so they are backing financial support for that investment. When looked at the largest investments in terms of capital investment they are very often natural resources investment but in terms of the number of projects, we get a completely different pictures because all small investors and individual entrepreneurs so on like for any other country, most investors are market seeking so as second motive for investors go for markets which holds true Chinese companies.<sup>107</sup>

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<sup>106</sup> A KPMG Study in partnership with Silk Road associates: The Future of MNC's in China, page 24-40  
Tony Edwards, Paul Marginson and Anthony Ferner: Multinational Companies in Cross-National Context: Integration, Differentiation and the Interactions between MNCs and Nation States : Leicester Business School-De Montfort University Revised Draft, March 2012; page 15-30

<sup>107</sup> Robert Pearce: China and the Multinationals: International Business and the Entry of China into the Global Economy, New Horizons in International Business series, 2011; page 10-20

There are lots of different companies for local markets elsewhere. The third motive to talk about is acquisition of GA assets; technology and brands and these assets are important for Chinese companies not only to build them a bridgehead into foreign markets but because those assets help them to develop their own business globally also in China. For Chinese companies the most important market is still China which is the largest and fast growing market and their most important competitor are the local ones since both the foreign and Chinese multi-national operating in the country together. Thus acquiring technology and brands overseas may help the groups like Basf, Unilever and Pepsico in China. Finally the fourth motive of foreign investment is lowering the cost and getting access to cheaper labor. It is traditionally a very important motive for companies from Europe, from North America but for Chinese companies at this point this is not important but it will become significant in the future.<sup>108</sup>

One interesting consideration of China is many multi-national companies in China are state owned that means government or some entity of government has an equity stake in the company which means the company is not just reported to private shareholder or a family owner but to a political actor. That can be a central governmental level or it can be a local government level. Both options exist.<sup>109</sup>

If the company is state-owned it has potentially access to certain resources, government supports these companies, especially government control factions but it also underlines the pressures on it for the political objectives. Question is how to host foreign countries react to having state companies coming in. In some countries we are familiar with the state-owned enterprises like in Europe some countries have this function although usually limited to certain sectors and utilities. In other countries the idea of state enterprises is totally unfamiliar especially for the Anglo-Saxon nations. State enterprises have to make extra efforts to earn

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<sup>108</sup> Liu Chuanzhi: Chinese Multinationals, page 77-97

<sup>109</sup> Robert Pearce: China and the Multinationals, 2011, page 20-40

the legitimacy and to respect of the host society. Challenge of a Chinese companies have overseas is that they have very ambitious goals and they have on a strategic level pretty clear ideas about what they want to achieve.<sup>110</sup>

They are looking very specific assets, they want to combine with the operations but making those operations work implementation is still a major challenge. In international business, companies need to build competences in engaging international environments, they need knowledge in their organization about the host setting and environment and Chinese companies are still in an early stage of the process of internationalization. What's particularly interesting about Chinese companies investing in Western Europe is the strategic asset seeking mentioned in the first paragraphs. For that reason Chinese companies may be large state companies in acquiring small German machine to accompany that has a brand which is known in particular industry as the market leader.<sup>111</sup>

In Europe we see less opposition or suspicion to its Chinese companies; NBC for example in US or in Canada and Australia has to do with the best sectors among others. If Chinese companies establishing a manufacturing operation or even taking over medium sized manufacturing companies that is not so politically sensitive as if the Chinese companies setting up telecom operation or if they acquire major mines, natural resources, It's global reach to the top in ten years might be possible but for Chinese companies some of them will crash and some of them will be spectacularly successful.<sup>112</sup>

The reason is that strategies of current companies recently pursued is actually very high risk strategies and they have very big commitments with a relatively little experience in international relations. High risk mean some fail and some succeed. For foreign investors of

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<sup>110</sup> Robert Pearce: China and the Multinationals, 2011; page 40-60  
Natalie Tong, The rise of Chinese Multi-Nationals, 2005/ page 1-3

<sup>111</sup> Sara Hsu: Multi-Nationals in China feel the heat, diplomat publisher, August 20- 2014; page 1-6  
Forbes Klaus E. Meyer: Chinese Multinationals: Ambitious Challengers Taking High Stakes:2014- page 1-6  
Sara Hsu: Multinationals: Enduring China's Slowdown? February 2016, page 1-2

<sup>112</sup> Robert Pearce: China and the Multinationals,2011; page 60-80  
Natalie Tong: The rise of Chinese Multi-Nationals, 2005; page 1-3

China, they would learn from the first wave in 90's especially the failures, they were drawn a strong human capital base in China. People have management experience overseas and therefore they are better prepared to address the challenges operating overseas in ten years some of the Chinese multi-national companies will disappear, we will have other names and Chinese companies are going to play an important role in global economy. <sup>113</sup>

Chinese companies developing an international approach for its clients. The process of integrated network production is a very important example. In that case international marketing and network marketing become the strategic tools for all multi-national companies in order to increase their profits in the global market. It also good for the competitiveness as the companies struggle each other to invent something new to enlarge the market as much as they can.

In this context we are witnessing that Huawei company has so many marketing network locations in almost 40 countries. It created so many job opportunities for many people as it caused the economic growth over there. TCL; the Chinese electronic multinational company has also formed the integration network with Philips and Panasonic companies. This is significant because the foreign companies like Philips and Panasonic could not enter the Chinese market without the help of TCL. <sup>114</sup>

Together they established the distribution network channels which help their customers and shareholders to rise in the market very quickly as they are more integrated with the globalization process. China's comparative advantage is also very important as they use consumer electronics for its enlargement policy. We see that there are different methods and strategies between Chinese and foreign multi-national companies.

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<sup>113</sup> Sara Hsu: Multi-Nationals in China feel the heat, diplomat publisher, August 20- 2014; page 1-6  
Forbes Klaus E. Meyer: Chinese Multinationals: Ambitious Challengers Taking High Stakes, 2014; page 1-6  
Sara Hsu: Multinationals Enduring China's Slowdown, February 2016; page 1-2

Liu Chuanzhi: Chinese Multinationals, page 77-97

<sup>114</sup> Liu Chuanzhi: Chinese Multinationals, page 70-90

Chinese companies trying to control and manage the internationalization process of acquisition but in the end they fail on the other hand western and other foreign companies becoming successful to control the internationalization process of production and marketing. Chinese companies trying to develop their main strategies on research and development but West based companies have enough experience about this issue in comparison to China.<sup>115</sup>

Chinese companies have so many productive facilities, network stores and reputation as well but they should put their employees into the host countries to become more effective in the global arena as competition reached its peak in the 21th century. They may also bring a local stuff, local cultures and law to balance the rivalry. For China localization is the key point for the globalization because if it doesn't localize its strategy on production, marketing and research/developing issues the foreign enterprises might jeopardize its existence on the global/economic scale.<sup>116</sup>

China exporting goods overseas and it earns a lot of money from there to reduce tariff barriers, trade limitations this also makes her to sell domestic products which may strengthen the local factories to control the transportation cost and reduce it very quickly. This process can be defined as the localization of manufacturing. Localization of management follows this process. Wanxiang company; automotive parts manufacturer is a great example for this method as it is a leading actor in localization of production. It is very popular and effective in the US car industry. Wanxiang is based on American model. Localization of research and development centers is also a strategy for the Chinese companies as it brings them benefit for the global knowledge for competition. The foreign companies like Microsoft, Bell are also implementing local policies for the enlargement in the Chinese market. Up to now according to the statistics of American commerce institution 375 transnational corporations set up highly

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<sup>115</sup> Liu Chuanzhi: Chinese Multinationals, page 85-110

<sup>116</sup> Liu Chuanzhi: Chinese Multinationals, page 77-97

developed research and development centers by giving importance to the localization process in order to grow rapidly.<sup>117</sup>

Multi-nationals have also 35 million employees by controlling the process of localization of human resources this could be seen as the main point of localization. In that case local staff must be the central point for the Chinese companies to invest as they pay less and foster its development seriously. So these four strategies; localization of manufacturing, localization of management, localization of research and developments centers and localization of human resources are significant both for the Chinese companies like Waxiang, Huawei and Sichuan electronic company and foreign companies like Microsoft, Bell and Hyundai Motor company to increase their profit as leading multi-nationals by merging their interests with a strict coordination.

There were over 6000 global subsidiaries owned by Chinese companies in over 160 countries and regions including Macau and Hong Kong. These two regions alone constitute the 35 percent of the developing markets of China. The rest of them are distributed different parts of the world, especially South America and Asia Pacific. For instance Huawei has established subsidiaries in developing countries which has potential for emerging markets to grow. Large multinational companies first making a lot of investments in developing countries when they have enough experience and reputation they begin scattering around the developed markets to rise their influence both in a local and global scale. Japan, Europe and America are the best places they can reach to show their power. However these companies can't move alone so

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<sup>117</sup> Liu Chuanzhi: Chinese Multinationals, page 99-130

Rugman, AM Nguyen, Q,T,K and Wei, Z: Chinese Multinationals and Public Policy. International Journal of Emerging Markets, 2014 page 205-215

David Shambaugh: Are China's multinational corporations really multinational? July 10-2012; page 1-6

Stephen Booshart, Thomas Luedi and Emma Wang: Past Lessons for China's New Joint Ventures, December 2010; page 1-6

they form strategic alliances to minimize the difficulties they face in the global competition.<sup>118</sup>

Sharing resources, profits and even risks of going bankrupt including this alliance. This is a way for the exploration of the international specialization which is known a global implementation model. For this reason Chinese companies firstly making investments to the countries where they have similar cultural backgrounds like Vietnam and Philippines and then they proceed to the developed countries for the large scale multi-nationals.

This is very effective solution for these transnational corporations because it brings high profits with low risks by accumulating experience for global production and it also makes Chinese multinationals to learn the foreign trade rules and international business. Avoiding the waste of resources during the international business is also a part of this suitable strategy.

This model worked and benefited these companies as we see the positive results.<sup>119</sup>

The global sales of Chinese multinationals with the coordination of leading foreign transnational corporations increased from 716 million\$ to the 1.16 billion \$ in 2002. To follow this international coordination model requires a strong brand, capabilities of innovation and strong financial resources so not all Chinese companies are able to do this. For example Haier had significant claims in United States and Europe it was operating its subsidiaries there and opening the factories in Italy until it faced the intense competition. Haier failed to defeat its rivals and it was beaten by them in 2002 as result of insufficient financial resources.

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<sup>118</sup> Liu Chuanzhi: Chinese Multinationals, page 112-146

<sup>119</sup> Liu Chuanzhi: Chinese Multinationals, page 100-160

Rugman, AM Nguyen, Q,T,K and Wei, Z: Chinese Multinationals and Public Policy. International Journal of Emerging Markets, 2014 page 205-215

David Shambaugh: Are China's multinational corporations really multinational? July 10-2012; page 1-6

Stephen Booshart, Thomas Luedi and Emma Wang: Past Lessons for China's New Joint Ventures, December 2010; page 1-6

All multinationals without having enough financial resources may face serious losses in the global market this is golden rule and inevitable. Only the multinationals like Haier with high technological capabilities could succeed if it follows a suitable strategy because European and US companies are very competitive. As Gramsci underlined in its hegemony model, multinationals should form alliances to survive in the market by following noble strategies otherwise more experienced and capable companies could replace them by penetrating the markets of developing and developed countries.<sup>120</sup>

Internationalization process including acquisitions, exporting, licensing and entering strategic alliances as we see in the theory of hegemony claimed by Gramsci. Most Chinese companies prefer to focus on the developing markets which is an easy way; low risks and low profits. But leading ones like Haier, Lenovo, Huawei, Wuxi as mentioned above are concentrating on making profits with high risks.

This paper highlights any small company can now play on the global stage and this situation is called –micro-multi-nationals. It means that before on the loss, companies can play in a global supply chain. Today even a small company can source from emerging markets, can sell into the developed markets, can think of learning through online platforms, can think of hiring people around the world through online collaboration tools. All of these things is incredibly powering for small companies which makes flows at this whole globalization. More connected as a small company, the more micro multi-national company better opted it is better to find cheaper supplies and customers on the other hand it means a big challenge for

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<sup>120</sup> Liu Chuanzhi: Chinese Multinationals, page 170-203

Rugman, AM Nguyen, Q,T,K and Wei, Z: Chinese Multinationals and Public Policy. International Journal of Emerging Markets, 2014 page 205-215

David Shambaugh: Are China's multinational corporations really multinational? July 10-2012; page 1-6

Stephen Booshart, Thomas Luedi and Emma Wang: Past Lessons for China's New Joint Ventures, December 2010; page 1-6

the MNC's that previously dominating in these playing fields because today competition can come from anywhere.<sup>121</sup>

A small micro multi-national company coming from nowhere can go and become dominant in any setting up business. Therefore this whole connectedness can really liberate a lot of small companies and it brings a lot of challenges for large ones. This is the power that brings so many people together in the playing field for everyone it brings opportunities for the major challenges. It is getting more difficult for foreign companies in China to get business in the world's second largest economy.<sup>122</sup>

For many foreign firms in China the business environment is not what it used to be; companies like Nestle slowing Chinese economy and playing active roles in Beijing's sales. There is also a perception that international businesses are being targeted by the county's regulators. American fast food giant McDonalds was exposed in a food scandal, luxury car makers like Audi were penalized under anti-trust regulations and British company GlaxoSmithKline vaccines found guilty of corruption so many multi-national companies have faced government's punishment and executives are seeking advice how to cope with the shifting business climate from organizations like European Union Chamber of Commerce. President of that commerce Joerg Wuttke says Chinese authorities marching into offices but it has reached level.

There has to be a legal department for processors not to hide anything from government officials. Approaching and reaching out for these authority is very important because executives of multi-nationals trying to mislead them for their interests there is no transparency

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<sup>121</sup> Marcia Stepanek: Micro-Multinationals Rising, March 14-2010; page 1-2  
Bennett Voyles: The age of Micro Multinational Companies, May 22-2014; page 1-5

<sup>122</sup> Hal Varian: Micro Multinationals will run the world, August 15 2011; Page 1-6  
Karen Reddington: Micro-multinationals will redefine the world of business, FedEx Express Asia Pacific, 2015; page 1

in that case. Chinese government think these people are criminals to deal with instead of thinking these are the companies that must be making investment.<sup>123</sup>

Expert Michael Pettis underlines that we are going to see surprises over the next few years because it is true that the slowing economy increases the tendency to blame foreigners at the same time we have to remember that Chinese companies like SunTech has unlimited access to loans whose interest rates may be negative. This part of the re-balancing process, many of these hidden subsidies will be reversed so some foreign companies will do quite badly in China but other foreign companies will do quite well.<sup>124</sup>

According to Victor Gao; director of China national association of international studies “for many years foreign investments in China has enjoyed better treatments than local Chinese companies but those years are behind us. Companies like Nestle is already a target for the government. Therefore foreign companies operating in China face today very different regulatory landscape compared with country 20 years ago they need to readjust to the changing circumstances in China.”<sup>125</sup>

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<sup>123</sup> Joerg Wuttke: China will be the factory of the world, June 28 2011; page 1  
Liu Chuanzhi: Chinese Multinationals, page 80-117

Rugman, AM Nguyen, Q,T,K and Wei, Z: Chinese Multinationals and Public Policy: International Journal of Emerging Markets, 2014; page 205-215

David Shambaugh: Are China’s multinational corporations really multinational? July 10-2012; page 1-6

Stephen Booshart, Thomas Luedi and Emma Wang: Past Lessons for China’s New Joint Ventures, December 2010; page 1-6

<sup>124</sup> Michael Pettis: Rebalancing, wealth transfers, and the growth of Chinese debt, June 22-2016; page 1-6  
Michael Pettis: China’s rebalancing timetable, November 29 2015; page 3-5

Micheal Pettis: If we don’t understand both sides of China’s balance sheet, we understand neither, September 1 2015; page 3-7

<sup>125</sup> Dr Victor Gao: Deng Xiaopings’s interpretation from Yale to the world, November 15,2015;Presentation

## CHAPTER 4: STATE CAPITALISM IN CHINA

Public sector in the country composed of “state owned enterprises”, which reports to central, provincial, and local state institutions. The government describes this term as enterprises that the government has their entire possessions.<sup>126</sup> As mentioned, these enterprises can be centrally, or provincially, or local governmentally owned. The ones owned by the central have units controlled by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC); state-owned financial councils directed by the China Banking Regulatory Commission (CBRC), China Insurance Regulatory Commission (CIRC), and China Securities Regulatory Commission (CSRC); and units controlled by other general ministries like the Ministry of Commerce, Ministry of Education, Ministry of Science and Technology, and some more.<sup>127</sup>

The importance of the relation between state owned enterprises that managed centrally and the ones managed by locally is improving..<sup>128</sup> At first, state held SOEs` shares but now, similar with holding firms, they are holding by The SASACs. The State Council established The SASACs in March 2003 via Decree 378 (2003). Amended legislation in 2009 formally “assigned SASACs the legal liabilities and rights of investors holding SOE shares on behalf of the state and the responsibility of guiding and supervising further SOE reforms.”<sup>129</sup> Totally, China has around 300 SASACs. In additive to the central government SASAC, approximately 30 provincial SASACs overseeing provincially managed state owned enterprises, and scores of municipal SASACs directing these enterprises owned locally.<sup>130</sup> It can be seen the status of SASACs among the state and state owned enterprises hierarchy in the Figure III-1.

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<sup>126</sup> National bureau of statistics in China,2002

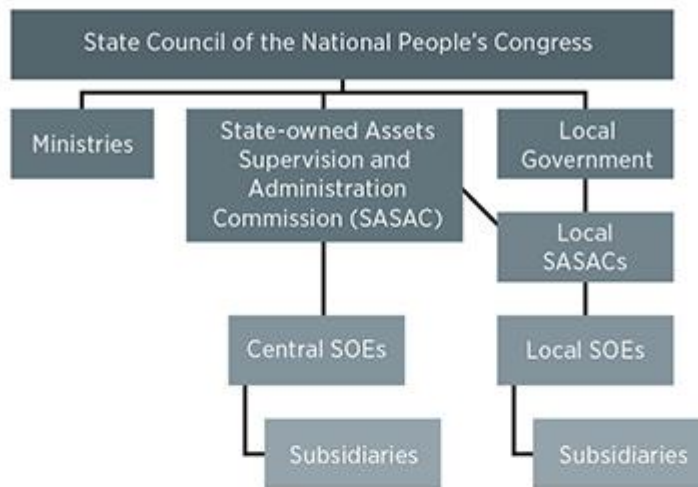
<sup>127</sup> Lee Notes: National bureau of statistics in China,2009

<sup>128</sup> Lee Notes: National bureau of statistics in China ,2009

<sup>129</sup> Deng et al notes: National bureau of statistics in China 2011

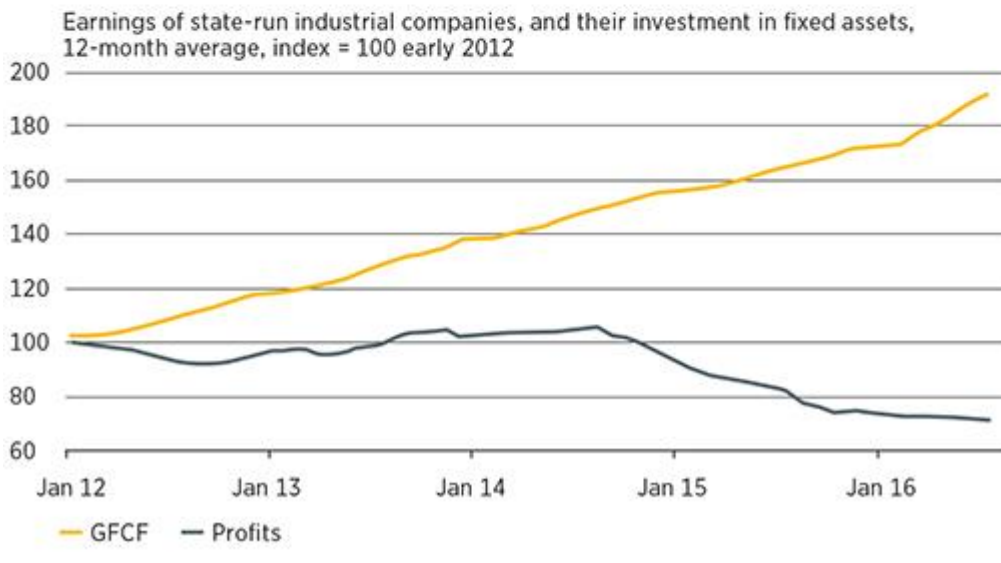
<sup>130</sup> Deng et al notes: National bureau of statistics in China 2011)

**Chart 1: Structure of relationships among SOEs, SASACs and central and local governments**



Source: Commerzbank Research

**Chart 2: Chinese state-owned enterprises investing more despite slump in earnings**



Source: WIND, Commerzbank Research

How large is the government sector in the country? And, how large is the private one? Surprisingly, given volatility of China's private sector, nobody knows the exact answer. Previously, giving the right answers was easier since the country had completely central based

economy. However, considering the last thirty years of privatizations, restructuring, joint ventures, mergers and acquisitions that involves state owned enterprises, its getting harder to find clear answers.<sup>131</sup>

This section provides an explanation to the first question. By using data about the stated owned enterprises and others, this part exhibits that the government sector keeps its power in the economy of China. The information is used to calculate the share of GDP belong to government owned or directed entities as well as comparison to the data showing the power of the private sector. However before we start to proceed, it is worth reviewing the groups of business entities.<sup>132</sup>

Enterprises owned by the government are the ones created and supervised centrally and locally.<sup>133</sup> In official data, this group of companies solely contains entirely government-funded companies. This explanation disregards share-holding cooperative entities, joint-operation enterprises, limited liability corporations, and shareholding corporations. Their largest shares belong to the state, public organizations, and the state owned enterprises as well. Here, the comprehensive title is “state-owned and state-holding enterprises.” This group also contains SOEs and companies whose largest share is owned by the state or state owned enterprises.<sup>134</sup>

This second group, which is known as state-controlled enterprises (SCEs), contains companies in which the government-or state owned enterprises’ share should be no more than

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<sup>131</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 1-20

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China’s reform of state owned enterprises, page 1-18

<sup>132</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 1-20

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China’s reform of state owned enterprises, page 1-18

<sup>133</sup> Lee Notes: National bureou of statistics in China,2009

<sup>134</sup> Lee Notes: National bureou of statistics in China,2009

fifty percent, as long as the government or state owned enterprises has power on the management and operation.<sup>135</sup>

Various groups of business registration classification`s descriptions are shown under Table III-1. China`s National Bureau of Statistics (NBS) supplies information in 2 groups for industrial entities: enterprises funded inside China and abroad. Industrial entities contain extraction; agricultural processing; manufacturing; and maintenance of industrial product.<sup>136</sup>

According to the descriptions supplied by NBS, every entities funded by outsiders is taken out from the group of funded by the insiders.

The state-holding enterprise (SHE) assignment has superior over the rest of registration groups. The NBS`s China Statistical Yearbook for 2010 (CSY-2010) gives data about government existence in the other groups without determining the each entities that the government able to control directly or indirectly based on its share. As is exhibited in Table III-2, identified groups in the CSY-2010 for industrial companies, at least half of the industrial SOE universe is disregarded.<sup>137</sup>

Table III-1: Business registration categories defined in CSY-2010(Source: National Bureau of Statistics of China-2006)

Registration status Definition

Domestically Funded Enterprises

State-owned enterprises: Non-corporate economic entities, whose entire values belong to the government.

State-holding enterprises: Enterprises where the percentage of state assets (or shares by the state) is larger than any other single shareholder of the same enterprise.

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<sup>135</sup> (World Trade Organization) 2016-54 fn 84

<sup>136</sup> National Bureau of Statistics of China 2010)

Andrew Szamoszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 20-40

Collective-owned enterprises: Economic entities where assets are owned collectively. Ownership is considered to be public.

Cooperative enterprises: Economic units set up on a cooperative basis, with funding partly from employees of the enterprise and partly from outside investment, where the operation and management is decided by all the members who also participate in the production. Foreign Funded Enterprises: Enterprises with Funds from Hong Kong, Macao and Taiwan All industrial enterprises registered as the joint-venture, cooperative, sole (exclusive) investment industrial enterprises and limited liability corporations with funds from Hong Kong, Macao and Taiwan.

It is clear that shareholding companies are, to a large extent, controlled by SOEs. For instance, data gathered from the China Securities Regulation Commission shows the government-owned shares cannot be traded consists of around 1/5 of the state owned enterprises` whole shares which had rippled shares in national markets.<sup>138</sup>

Besides, central and local state owned enterprises have shares via legal entities.<sup>139</sup> Based on an OECD report, SOEs occupy most of the listed companies, under Figure III-2.<sup>140</sup> Limited liability corporations (LLCs) have a similar story.<sup>141</sup> Official information has a different group for “state-sole funded” LLCs.<sup>142</sup> However, other LLCs are partly owned by state owned enterprises or by subsidiaries belong to SOEs.<sup>143</sup>

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<sup>138</sup> Lee Notes: 2009) The denominator includes A, B, and H shares.

<sup>139</sup> According to an OECD study of Chinese SOEs, consistent data sets that distinguish between state--owned and non--state--owned legal entity shares are difficult to find. (Lee 2009) 18.

<sup>140</sup> See also, (J. Wang 2010) 25. “To ensure state control, the government limits individual shares to less than one third of the total. In other words, the state still controls more than two--thirds of most listed companies, either through the holding of state shares by {government agencies} and SOEs, or indirectly through legal--person shares.”

<sup>141</sup> Testimony of Derek L Scissors: State--owned Enterprises in China, 2011

<sup>142</sup> For example, a review of the form 20--F for 2010 for the China Telecom Corporation Limited, which is fully owned by the SOE China Telecommunications Corporation, indicates that the firm has 5 wholly--owned subsidiaries in China, each of which is a joint stock company with limited liability.

<sup>143</sup> For example, a review of the form 20--F for 2010 of Aluminum Corporation of China Limited, which is fully owned by the SOE Aluminum Corporation of China, indicates that the firm has 10 partially owned subsidiaries, each of which is a joint stock company with limited liability.

According to the recent version of the CSMAR, even after changed shareholder structure, SOEs keep its presence in the list. Following such trades, state share was 51% from 2005 to 2009.<sup>144</sup>

The analysis between SOEs and non-SOE bodies as well as SOE in service sector is far from complete. The construction industry data, for instance, contains information on SOEs, but do not on SHEs.<sup>145</sup>

Briefly, together with the SOEs, there exists large number of mixed ownership entities in China. In these entities, SOEs as well as the state takes stage. Some of these entities take place in official economic data but it is not true for the others.<sup>146</sup>

### **The role of SOE'S in Chinese Government:**

Along with the economic growth, state procurement has been increasing as well. As improving the infrastructure, interest to businesses has directed to government procurement in China. Reviews below discuss the remarkable issues about procurement, and shows statistics of procurement made by SOEs in China. The focus is on China's SOEs due to limited availability of SOE share in the US system.<sup>147</sup>

#### **A. Issues in China's procurement market**

China plays, by almost all measures, an undeniable role in procurement process. However measuring the size of this dominance is a formidable task due to a lack of data.

Only goods and services under the Government Procurement Law (GPL) are recognized as procurement by the Chinese Ministry of Finance and government procurement market is defined as the sum of services, projects, works, and goods.

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<sup>144</sup> Lee notes 2009: According to an OECD study of Chinese SOEs, consistent data sets that distinguish between state--owned and non--state--owned legal entity shares are difficult to find.

<sup>145</sup> Lee notes 2009: According to an OECD study of Chinese SOEs, consistent data sets that distinguish between state--owned and non--state--owned legal entity shares are difficult to find.

<sup>146</sup> Testimony of Derek L Scissors: State--owned Enterprises in China, 2011

<sup>147</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Barry Naughton: State--owned Enterprises in China,2011

It is claimed that the market is thin (2% of GDP) by Chinese government, a recent study from the European Chamber of Commerce tells different story as estimates public procurement account for more than 20% of GDP (i.e., \$1.07 trillion). But it does not change the fact that SOE share in the procurement process is tough task.<sup>148</sup>

As part of its accession to the WTO in 2001, China committed to participating the WTO Government Procurement Agreement (GPA), but China's membership is still under negotiation. First offer to join the GPA presented in December 2007 but it contains high threshold of national content as well as rejection of sub-central government bodies inclusion on the procurement system. So the proposal made in 2007 was declined on the ground that it is found insufficient. China, therefore, committed to apply with a revised offer at a Sino-U.S. summit last year.

It is told that there is a blank part under the title "sub-central government entities" which should draft government levels that must be obeyed. Though offer in 2010 was rejected again, China has pledge to submit new offer, to join the WTO agreement in which detail regarding the sub-central bodies will be provided by 2011<sup>149</sup>

Since offering an acceptable GPA does mean that China would be an open market to the foreign companies, China did not present satisfactory and fast offer. SOEs, national champions, and incumbent firms (*zizhu chuangxin*) are utilized the procurement system in China. Known as MLP, the National Medium- and Long-Term Plan for the Development of Science and Technology (2006-2020), was issued by the State Council on February 9,

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<sup>148</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

<sup>149</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

2016.<sup>139</sup> China's willingness to reduce foreign intellectual property dependence and creation zizhu chuangxin via "enhancing original innovation through co-innovation and re-innovation based on the assimilation of imported technologies."<sup>150</sup>

Of the components, 16 mega projects form the major parts of the MLP. The mega projects are aimed at "absorbing and assimilating" technologies imported so that the country can "develop a range of major equipment and key products that possess proprietary intellectual property rights." These projects have key role in the procurement process. Creation a buy-China policy in the procurement process and enlarging the generating technology standard for China to get rid of license fees and royalties are stated in the Plan.

Besides, both de facto and de jure situations also support SOEs over competition. Chinese has a law system accordingly so that state can procure services, goods, and projects.<sup>142</sup> Considering the project funded by the government are large by nature, they are so large that only SOEs can implement them. Besides, in the procurement process some major problems such as lack of transparency and communication, decentralization, and fragmented market have not been mentioned.<sup>143</sup> Furthermore, there exists other barriers that restrain competition in the market, i.e., including technical barriers, domestic content requirements, non-competitive implementations, troubled certification system.<sup>151</sup>

According to the GOC, local governments take an active role in procurement process, by which local SOEs contributing revenues to local currency may be tended to favor. But SOEs

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<sup>150</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

<sup>151</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

have much more favorable conditions than the foreign counterparts considering the taxes, strong ties with local government etc.

SOEs take advantage of procurement opportunities in many fields such as power industries. Despite of the fact that these bidding process are open to every competitor, SOEs have favored in nature since they have mutual interest with the national/local governments. After winning the tender process, procurement should be based on market consideration but, in practice, it is not the case. There are some mechanism that likely to prevent the involvement of foreign competitor.<sup>152</sup>

When a procurement contains, a good or service that exists in the state, the state owned enterprises are forced to get that product from a national manufacturer. If the local state monitoring the procurement aims to improve the economic outlook of a local state owned enterprise, or to promote local economic environment, it is likely that there is a force to make procurement decisions without market considerations. Finally, since government/Party officials and SOE management have close relations (i.e., *guanxi*) would play an important role, as well.<sup>153</sup>

Even though these factors affect the decisions of SOEs during purchasing and subcontracting process, it does not mean that foreign and private Chinese firms are excluded from the market. American and other foreign companies have had some remarkable accomplishment in shaking the state purchasing market, in a direct and/or indirect way. In addition, the elements that support state owned enterprises purchasing might have impact on procurement decisions at

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<sup>152</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

<sup>153</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

even though American companies and can result in investing in the country by American located companies in order to enhance connection to China's domestic market.<sup>154</sup>

In consequence of the global financial turmoil in 2008-2009, the state put into force a number of incentive measures amount at RMB 4 trillion corresponding to 13 % of GDP.<sup>149</sup> State owned enterprises have taken advantage out of proportion from this incentive measures.<sup>150</sup> In addition, state owned enterprises were invited to invest large projects, which might have detrimental effect on their financial activities.<sup>155</sup>

## **B. Measuring the SOE share of government procurement in China**

There are two methods in order to estimate the SOEs' function in China's procurement market. A "bottom-up" approach would examine information on contractor data to figure out if an SOE got an award or sub-award. This information cannot be obtained in China and, even if it were, there wouldn't be any need to have such information regarding to the final source of the product being supplied. Corporate and government press releases could provide some information; however, providing these information to state procurement could cause big challenges.<sup>156</sup>

The other method is "top-down" since it is based on gathered information on industry output and investment, state procurement by industry, imports, and state owned enterprise manufacturing. In order to calculate the SOE share of government purchases, rational

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<sup>154</sup> Huang: Socialism with Chinese Characteristics, 2007-2008, page 239-240

<sup>155</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26, 2011; page 70-105

Alan M. Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

<sup>156</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26, 2011; page 70-105

assumptions, simple math and input-output analysis would be enough. This approach will be used below.<sup>157</sup>

The 2007 data was applied to this analysis-. The results show the calculated state owned enterprise and its shares were 43% for investment-based purchasing made through state-owned-or-controlled enterprises and 79% for state consumption expenditures. On an integrated version, the calculated state owned enterprises share was 61%. These high shares demonstrate the level of state owned enterprise output in the procurement sectors.<sup>158</sup> During the last couple of years, there has been a common ground that consists of China watchers where the role of Centrally-controlled state owned enterprises (120 companies) have become greater and that the country followed a *guojin mintui* policy (“the state advances as the private sector retreats”) to encourage national champions in the certain (important) industries. The government`s share of assets have been raising among the following industries: steel, chemicals, coal, petroleum, mining, electricity generation, civil aviation, highways, water, finance, brokerage, insurance, real estate, posts, etc.<sup>159</sup>

SOEs are used as instruments in order to perform/apply government policies. They are generally partners of choice for FIEs that aim to exist in the Chinese market, which is consisted of entities that are entirely owned by only foreign ones. State owned enterprises known as the only partners who have state relations and scale economies request main projects.

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<sup>157</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 60-105

<sup>158</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105  
Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

<sup>159</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105  
Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Foreign executives, who afraid of expressing their thoughts in China, shared their worries about the market. At a business conference located in Rome in July 2010, GE's CEO Jeffrey Immelt expressed, "I really worry about China. I'm not sure that in the end they want any of us to win, or any of us to be successful".<sup>160</sup>

China is very sensitive about the targeted advanced technology and eight areas of advanced technology and sixteen major projects required to promote as a technologically advanced country by the MLP. Biotech Information Technology Advanced Materials, Advanced Manufacturing Advanced Energy Technology, Marine Technology, Laser Technology, Aerospace Technology SOEs are the eight areas of technology. These are important for China as well as CCP since both China's and CCP's benefit put SOEs into danger. U.S. and other countries might encounter limits trade in China. This conflict with the benefit of the ruling Party or detrimental to the financial interest of SOEs.

Despite the fact that SOEs make the impact of the Party and the government obvious, it is not true to say that private businesses in China disregards the state as well as the CCP and look forward to collapsing current political and economic system. Nevertheless the romantic ancient image from locating at the Tiananmen Square, most capitalists people favoring capitalism in China are not trying attempting to bring about give a birth to democracy a transition to democracy in China.<sup>161</sup>

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<sup>160</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

<sup>161</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18

Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

As Kelle S. Tsai puts his own words, In the words of Kellee S. Tsai, “instead, most are working eighteen hour days and struggling to stay in business. Others are saving their profits to educate their one child, pay for medicine, buy a house, or retire. Quite a few entertain local officials as necessary business expense, and many are members of the Chinese Communist Party.”

During last few decades, in order to reach the government’s goal which is expanding the markets for Chinese goods and services, enable and secure to raw materials, gathering high technologies, and increasing worldwide awareness of Chinese brands.

“Going-global strategy” which is Chinese equivalent of *zouchuqu* was suggested in 2000 at the 5th session of the 15th Central Committee.<sup>162</sup>

Thanks to the total foreign exchange reserves at \$3.2 trillion half of which is in then U.S. Treasuries, corresponding to nearly 50% of GDP and approximately three times as high as any other nation’s reserves, China has a huge amount of cash in reserves.<sup>277</sup> China’s foreign holding needs to be diversified, overseas investment, energy and minerals, which has the strategic importance to the China is a good alternative. Considering the magnitude of the natural resource projects and their contribution to China’s economic development. As for the foreign investment, SOEs have a main role in China.

In 2006, large proportion (four fifths) of the of outward FDI was emanating from SOEs; 66 percent of outward FDI belong to the central SOEs alone.

As of 2005, China has allocated so much of its fund by which nearly 90% of this activity is financed and thereby SOEs are supported by inexpensive government financing. This is a part of Chinese foreign policy.<sup>163</sup>

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<sup>162</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 60-105

<sup>163</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Fast and sustainable development path of China create a room for excess demand of natural resources. Because of this, foreign investment of China tends to be weighted more natural resources such as coal, gas, and oil, metals like steel, aluminum, copper, and iron ore and agriculture.

According to the International Energy Agency China turns out to be one of the biggest energy consumer in 2009. This high investment on natural resources is anticipating to grow.<sup>164</sup>

Australia has an attractive foreign country to invest for China, its investment consists of coal, gas, iron, steel and aluminum sectors. Second largest trade partner is the United States, unlike Australia, Chinese investment based heavily on the financial instruments by CIC. Latin America countries, in particular Brazil and Argentina, have growingly attracted the Chinese investment in the areas of energy, minerals and foodstuffs despite the attempts of Brazil to restrict the foreign investment in landholding. Similarly, particularly after China-Africa summit-2016, Africa is another rising trade partner of China in mineral and energy investment. Agreements amounted nearly \$2 billion were signed and China officials promise to offer \$5 billion in loans and credit and make the aid to Africa double by 2009.<sup>165</sup>

SOEs are the biggest player in foreign investment and because of that they are called as “National Champions”. Some of the companies placing on the top of the lists are:

National oil giants China National Petroleum Corporation (CNPC), Sinopec and the China National Offshore Oil Company (CNOOC), as well as metal conglomerates the Aluminum

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Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

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Barry Naughton: State--owned Enterprises in China, 2011

<sup>164</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

<sup>165</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

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Corporation of China (Chinalco), China Metallurgical and Minmetals, Shipping and construction groups, the China State Construction and Engineering Corp., China Ocean Shipping Group (COSCO), China Communications Construction, ZTE Corp (telecoms), Lenovo (IT) and Haier (household goods).<sup>166</sup>

Together with the Singapore's Temasek and Abu Dhabi's Investment Authority, the China Investment Corporation (CIC), the sovereign wealth fund, has nearly \$200 billion assets as well as financial investments.

Chinese spending has been consisted of CNPC and Sinopec, CIC, and metals conglomerate Chinalco since 2005. Table below indicates Chinese multinationals' (non-banking) foreign assets.<sup>167</sup>

To a former official, It is not certain whether SOEs decides and acts independently or it is part of Chinese government. Government owns SOEs partially or completely so that their actions de facto represents their shareholder's interest. According to the China, SOEs have a plenty of opportunities but it completely depends on the SOEs to benefit from it. However once an agreement is made by SOE, government should be notified and it is clear to them that SOE will get all the approvals and sources to implement the deal only when it is approved. This monitoring process serves a risk dissemination across the bodies, thereby it is kind of cushion for the SOE when something goes wrong.<sup>168</sup>

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<sup>166</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

<sup>167</sup> Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18  
Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240  
Barry Naughton: State--owned Enterprises in China, 2011

<sup>168</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105  
Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18  
Wendy Leutert: Challenges ahead in China's reform of state owned enterprises, page 1-18  
Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240  
Barry Naughton: State--owned Enterprises in China, 2011

This kind of relation between government and SOEs does not necessarily mean that, SOE completely disregard the market mechanism. Ultimate aim of the SOEs is to make money no to lose. So to some extent their decision making process follows the market principles.

Short-term profits of the SOEs are not on the top of the agenda since SOEs reflect long-term perspective about stakeholders' ((the Chinese government)) controls by their decisions and investments. The bottomline is that SOE managers are not only encouraged to invest according to the economic dynamics but also they consider the Chinese government policy particularly in Africa in which ODA infrastructure projects are utilized for SOE investment.<sup>169</sup>

Chinese companies required to get approval for any big overseas project projects from the Chinese government. Same approval process holds for SOE's as well but they, at least, need 4 officials which are the NRDC, Ministry of Commerce, State Administration of Foreign Exchange and the SASAC. These official behave as economic and political consultants for these big overseas projects. Monitoring project feasibility and coordination of investment with government policy are undertook by the NRDC. MOFCOM is in charge of making sure if investment undertakes in economic consideration and coordination between economic and political environment is ensured. As for the SAFE, source of funding and confirmation of the conversion of RMB into foreign currency are its main responsibility. In this regard, SAFE holds the key as without its approval on the foreign exchange, no investment can be undertaken. After triggering effect of the financial crisis began in the US, China's overseas investment and its support of national champions has accelerated.<sup>170</sup>

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<sup>169</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

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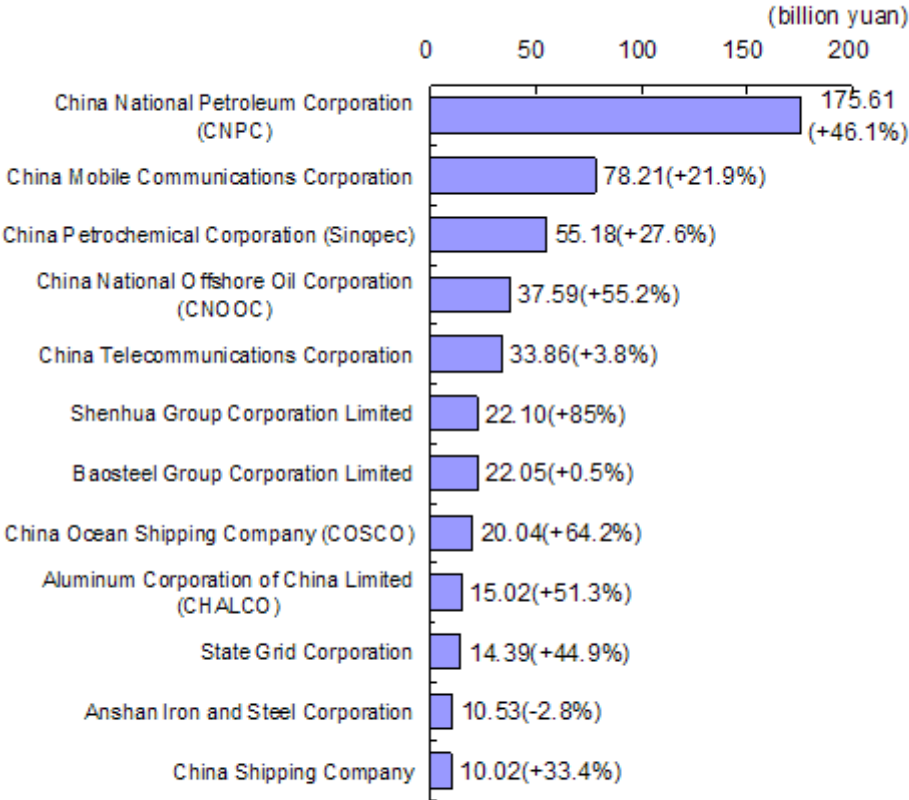
Huang: Socialism with Chinese Characteristics,2007-2008, page 239-240

Barry Naughton: State--owned Enterprises in China, 2011

<sup>170</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

As is stated by Prime Minister Wen Jiabao in a July 2009 speech to Chinese diplomats: “We should hasten the implementation of our ‘going out’ strategy and combine the utilization of foreign exchange reserves with the ‘going out’ of our enterprises”, high Chinese official has denoted that SOEs will keep being the main element in China’s foreign investment and that its foreign exchange reserve will be utilized to support foreign trade expansion particularly in the areas of energy and natural resources.”<sup>171</sup>

Figure 1: Top 12 central government-controlled SOEs in profits (2005)



Note: All amounts listed above are pretax and percentage figures in parentheses represent year-on-year changes.  
 Source: "Zhongyang qiye caiwu tongji nianbao" [Financial statistics of central government-controlled SOEs for fiscal 2005], SASAC

<sup>171</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State-owned Enterprises and State Capitalism in China, October 26, 2011; page 70-105  
 Alan M. Rugman: Chinese Multinationals and Public Policy, page 1-18  
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Table 1: Chinese enterprises ranked among Fortune Global 500 companies (2006)

Ranking	Company	Revenues in 2005 (in million dollars)	After-tax profit in 2005
23	China Petrochemical (Sinopec)	98,784.9	2,668.4
32	State Grid	86,984.3	1,073.5
39	China National Petroleum	83,556.5	12,950.0
199	Industrial and Commercial Bank of China	29,167.1	4,113.5
217	China Life Insurance	27,389.2	25.0
202	China Mobile Communications	28,777.8	5,053.8
255	Bank of China	23,860.1	3,851.6
266	China Southern Power Grid	23,105.0	367.1
277	China Construction Bank	22,770.6	5,748.8
279	China Telecommunications	22,735.8	2,376.3
296	Baosteel Group	21,501.4	1,395.2
304	Sinochem	21,089.0	260.2
377	Agricultural Bank of China	17,165.6	127.4
441	China Railway Engineering	15,293.7	82.7
463	COFCO	14,653.8	198.6
470	China First Automotive Works	14,510.8	116.1
475	Shanghai Automotive	14,365.2	21.4
485	China Railway Construction	14,138.9	53.2
486	China State Construction	14,122.4	166.4

Note: Revenues figures for financial institutions refer to operating revenues.

Source: Global 500, *Fortune*, July 24, 2006

As is indicated earlier that private sector had a huge extension and in parallel foreign investment had expansion through this market; however, still the government based sector keeps its authority in the economy. SOEs and enterprises, which compose the observable state sector, are responsible for about forty percent of the output of the Chinese market. If some more institutions (for example urban collectives, public TVEs, and FIEs associated with SOE) were included into this assumption, the percentage would rise up to fifty percent.<sup>172</sup>

Deng Xiaoping, as well as the existing leader, would never like to decrease the power of the state in the economy. In 1984 Xiaoping stated, “the socialist sector is the mainstay of our economy”. Having the controversies between the ones that would like to have sharp reforms and the ones that prefer to keep the power of the state sector; the existing political aim is “socialism that shaped based on China’s features”. The meaning of this is a multi-ownership

<sup>172</sup> Andrew Szamoszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

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based system where public share keeps the power.<sup>173</sup> The fundamental essence of these economy based reforms since Xiaoping era, which also contains being open to foreign investment, and larger share of private sector, as well as capital markets` fund support to SOEs, have been helping to development of economic activities and higher performance. Reforms, firstly, started to be applied in rural areas in order to arouse the weak economies in those regions. The foreign capital`s entrance to the economy give more than desired of foreign money, management skill and technology. While SOEs have been considered as appropriate for becoming more active and respondent to market forces, the government is restricting SOEs existence in some fields.<sup>174</sup>

Although having reforms that shape the economy market based doesn`t mean that the government sector is disappeared or the private one is more powerful than the state sector. Chinese Communist Party never supports a wholly free market economy where only market forces identify the economy. As shown in this study, the government sector reacts to economic based policies and incentives. China`s economy can be considered as “state-guided capitalism”. In such a system, whole economy (both the state and private sectors) are directed by the government.<sup>175</sup>

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<sup>173</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

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<sup>174</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

<sup>175</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105

Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

## CHAPTER 5: CONCLUSION

All the outcomes are reached according to a broad study that includes large amount of data about China`s economy and SOEs. As mentioned earlier, a number of interviews were conducted. The overall results gained after this study is summarized below;<sup>176</sup>

The state sector in China consists of three main components. First, there are enterprises fully owned by the state through the State-owned Assets and Supervision and Administration Commission (SASAC) of the State Council and by SASACs of provincial, municipal, and county governments. Second, there are SOEs that are majority owners of enterprises that are not officially considered SOEs but are effectively controlled by their SOE owners. Finally, there is a group of entities, owned and controlled indirectly through SOE subsidiaries based inside and outside of China. The actual size of this third group is unknown. Urban collective enterprises and government-owned township and village enterprises (TVEs) also belong to the state sector but are not considered SOEs.<sup>177</sup>

On the other hand, non-state sector`s GDP share is fifty percent too. This percentage isn`t high as other estimates; however, till non-state sector shows a big expansion from the time of 1978. Even possibility of the state GDP share keeps increasing, -considering today`s power of the policies in the Chinese economy- the government sector would keep its dominance. Couple of reasons support this statement;

First of all; as mentioned, the Chinese Communist Party doesn`t have any tendency to reshape the economy based on free market capitalism. Instead, the Party supports `*socialism with Chinese characteristics*` that still means state has dominant power.

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<sup>176</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105  
Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

<sup>177</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 1-20

Secondly, as SASAC declared that some of the sectors and national security are essential for the economy, so those important industries have to be kept entirely or vastly under the state's management.<sup>178</sup>

Even though state will not have majority, it will keep its importance ownership in pillar industries in other pillar industries. Thirdly, “national champion” will be supported as an important government strategy which is stated in the China's five-year plan which covers both emerging and strategic industries. Considering the recent Chinese economy, SOEs or other entities on which they have direct control are the most likely national champions candidates. For instance, this contains private firms taken over by SOE in the steel industry. Fourth reason is the key role of SOE in the government's plan to stimulate national innovation by which dependence on foreign technologies reduces. SOEs, together with joint ventures and licensing agreements, serve as entities which transfer foreign technologies such as high rail speed in the past. In the civil aviation industry, same policy seems to be adapted by the government.

Since SOEs take advantage of favoring by the government, they are strong competitors in China. According to the US regulatory filings, SOEs take advantage of capital injection, access to capital, reasonable interest rates from state-owned banks, suitable tax conditions, and policies generating an good competitive environment for SOEs. Moreover, SOEs seem to be a powerful player in China's government procurement market as well.<sup>179</sup>

Together with these, there are institutional causes which make SOEs a possible important economic player. First of all, given the importance of bank lending in China and the dominance of the state banking sector which tend to support SOEs against private firms, this

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<sup>178</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 1-20

<sup>179</sup> Andrew Szamosszegi and Cole Kyle: An Analysis of State--owned Enterprises and State Capitalism in China, October 26,2011; page 70-105  
Alan M.Rugman: Chinese Multinationals and Public Policy, page 1-18

is a huge advantage for SOEs. Second reason is that SOEs are utilized as an instrument to facilitate structural change including acquiring technologies and securing raw materials in China. For instance, SOEs and state-owned banks are used to provide incentive to the national economy in 2009.

Thirdly, the CCP and SASAC have a remarkable impact on the high-ranked officials of SOEs. These officials have two categories of incentives. One is to create profitable entities. So according to their financial performance, they get rewarded. The other is about the appointments of high officials of SOE management and their post-SOE period career are specified by the Central Organization Department of the CCP. So this facilitates high-ranked officials to obey policy guidance composed by the government. Financial documents and applications show that SOEs stick to the goal of the state in the case of possible conflicts with the aim of state.<sup>180</sup>

It is promised by China that SOEs' commercial decisions will be independently taken as China joined the WTO in 2001. It seems that China does not keep its commitments because the state has an effect on the SOE's decision process and more change is envisaged in the current 5-year guidance. On the contrary, SOE's role is growing at a faster pace in attaining the goals of the state. According to some people, participation of the US firms makes it easier for the government to achieve its goals and China will keep its profitability. For the others, particularly in the strategic emerging areas, China turns out to be a less hospitable country.<sup>181</sup>

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<sup>180</sup> Andrew Szamosszegi and Cole Kyle: *An Analysis of State-owned Enterprises and State Capitalism in China*, October 26, 2011; page 1-40

Alan M. Rugman: *Chinese Multinationals and Public Policy*, page 1-18

Wendy Leutert: *Challenges ahead in China's reform of state owned enterprises*, page 1-18

<sup>181</sup> Andrew Szamosszegi and Cole Kyle: *An Analysis of State-owned Enterprises and State Capitalism in China*, October 26, 2011; page 70-105

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