World Turned Upside Down?
Rise of the Global South and the Contemporary Global Financial Turmoil

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Signaling a sea-change in world politics, at the close of the Chinese National People’s Congress in March 2009, Premier Wen Jiabao implored the United States to remain a “credible nation and ensure the safety” of the $1 trillion his country had invested in US Treasury bills.¹ This reversal of the usual practice of Western policy-makers lecturing leaders of Asia, Africa, and Latin America to follow ‘prudent’ economic and financial policies was echoed by the Brazilian president Luiz Inacia da Silva who told the visiting British prime minister, Gordon Brown, that the contemporary financial crisis “was caused by no black man or woman or by no indigenous person or by no poor person [but] by irrational behaviour of some people that are white, blue-eyed. Before the crisis they looked like they knew everything about economics, and they have demonstrated they know nothing about economics.”² Further criticism of the global financial system based on the dollar was voiced by an advisory committee set up by the United Nations General Assembly, and chaired by the Nobel-prize winning economist, Joseph Stiglitz. Its report noted that the current system compelled poorer countries to lend their foreign exchange reserves to rich countries at virtually zero interest rates and this dampened global aggregate demand and locked up trillions of dollars which could have


been used to lessen the impact of the financial crisis (Vasudevan 2009). This pattern of financial flows had attracted so much capital to the US that its imports in 2006 exceeded its exports by the magnitude of India’s GDP (Wade 2009b)! Cumulatively, these instances added weight to calls by China and Russia to replace the dollar as international reserve currency by expanding the International Monetary Fund’s Special Drawing Rights based on value of the dollar, the pound, the euro, and the yen.\(^4\)

The proximate cause for widespread demands for an overhaul of the global financial system—the third since the end of the Second World War—was a breathtaking collapse of world financial markets: by one estimate stock markets across the world lost some 3000 euros per every person on earth in the last nine months of 2008 (Wade 2009b). Based on a series of financial innovations since the late 1970s, banks had developed a complex system of selling their credit risks to third-party investors, trading them on the basis of computer models. Shedding their credit risks by selling them to other investors enabled banks to make more loans and to extract the savings of low-income households by loaning them money to buy commodities, and especially houses, that they could not afford. The opacity of the system meant that neither regulators nor the bankers themselves could comprehend the scale of the concentration of risk. Once default rates of subprime mortgages began to rise in June 2007 and credit ratings agencies began to downgrade the ratings of mortgage-linked products, investors became far more cautious and this led to a sharp fall in investment funds, further accelerating the rates of mortgage defaults. By early 2009, the Bank of England estimated that the losses stemming from banks having to write down their assets to market prices was about $3,000 billion, equal to Britain’s annual GDP. In March 2009, the Asian Development Bank similarly estimated the losses worldwide of the write down of assets to $50,000 billion, the value of the global economic output.\(^5\) The impact of this decline was most marked in the United States—where the financial quicksand swallowed up five of the most hallowed of investment banks on Wall Street.\(^6\) Conversely, reflecting China’s enormous trade

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6 In March 2008, the US government backed the purchase of Bear Stearns by J.P. Morgan Chase, but allowed Lehman Brothers to go bankrupt six months later. In September 2008, at the collapse of Lehman Brothers, Bank of America purchased Merrill Lynch in a rescue sale and the two remaining big
surpluses, five Chinese banks are in the top 20 financial institutions in the world by market capitalization including the three largest—the Industrial and Commercial Bank of China, China Construction Bank, and the Bank of China—when there were no Chinese banks in the top 20 just ten years ago. Correspondingly the number of US banks in the list decreased from eleven to three.

Financial collapse led to precipitous declines in manufacturing output and to a corresponding rise in unemployment. By January 2009, industrial production in the United States was 10 percent below its level a year earlier and in 2008, some 3 million homes had been foreclosed at a rate of 10,000 a day leaving 10 million people homeless or living in rented accommodation, tents or in their vehicles (Sassen 2009; Wade 2009b). By the end of May 2009, the US unemployment rate that risen to 9.4 percent and if those who had given up the search for jobs or had settled for part-time employment were factored in, the rate was estimated to be 16.4 percent.7 Reverberations of the collapse of the US market were felt across the Pacific as Japan’s economy contracted by 12.1 percent on an annualized basis in the fourth quarter of 2008 and exports of cars and automobiles dropped sharply with major industrial houses cutting production and closing factories across the country.8 South Korea’s industrial production in the last quarter or 2008 fell at an annualized rate of 21 percent (Wade 2009b). Exports from India in January 2009 were 15.9 percent lower than in January 2008 (Nachane 2009: 116). By early February 2009, the Chinese government announced that one in seven rural migrant workers had been laid off or unable to find work—and the specter of some 20 million workers being unemployed raised fears of massive labor unrest especially since labor disputes in the first 10 months of 2008 was double the number in the same period a year earlier.9 A survey of the top 15 exporters across the globe indicated that total value of their exports in February 2009 were a third less than in the same month the previous year—and that independent investment banks—Goldman Sachs and Morgan Stanley—transformed themselves into bank holding companies, Chris Hughes & Francesco Guerrera, “A week that shook the system to its core,” Financial Times, 20 September, 2008.

level of world trade was falling faster than in 1929-30.\textsuperscript{10} Finally, the International Labor Organization estimated that between December 2007 and the end of 2009, job losses across the world could amount to 50 million—and even could be a gross underestimate as some Chinese estimates suggest that that country’s unemployment alone could be in the 40-50 million range by year’s end (La Botz 2009: 185).\textsuperscript{11}

Precisely because the present crisis was triggered by the collapse of financial markets across the world, efforts to revive the world-economy has centered on re-regulating financial and non-financial institutions and curbing speculation in the derivatives market. Yet, what the mainstream debate on the contemporary crisis misses is that financial speculation itself is a manifestation of a far deeper structural crisis. In his longitudinal survey of historical capitalism, Fernand Braudel (1984: 246) observed that financial expansions have followed waves of economic expansion so regularly that they could be interpreted as signals indicating the maturity of one world-scale system of accumulation and the beginning of the transition to another, “a sign of autumn.” Lending the theoretical power of Karl Marx’s formula for capital (M-C-M\textsuperscript{1}) to Braudel’s observation, Giovanni Arrighi (1994) demonstrated that financial expansions are caused by competitive pressures which inevitably result in an accumulation of capital in excess of that which can be plowed back into the purchase and sale of commodities without sharply curtailing profit margins. This recurrent tendency for capital to withdraw from production and trade to financial speculation has been a means both to redistribute income and wealth from workers, peasants, and other strata to agencies that control mobile capital—and thereby further the process of financial expansion—and to transfer surplus capital from declining to rising centers of capital accumulation. Thus, as Dutch power waned, capital from Amsterdam flowed towards London and as British power declined, capital from London flowed towards the United States.

Each successive systemic cycle of accumulation was based on an expanded scale of production, led by new patterns of partnerships between states and enterprises required to access strategic industrial raw materials (wood, coal, iron, oil) of progressively higher grades and with more precisely specified chemical and physical properties from

increasingly distant locations and thereby transforming socio-spatial relations across the globe. The construction of ever larger transportation capacities and extensive infrastructures, the harnessing of more energy, and the employment of more labor increased economies of scale, reduced unit costs, and thereby expanded the market making investments in ever larger projects lucrative. Secular increases in technology and the creation of ever larger economies of scale require access to greater amounts of capital and more expansive extractive economies and greater concentration of production. At the same time, as older centers of production become less competitive, capital flows to the rising centers (Bunker and Ciccantell 2005).

If this has been a recurrent tendency in historical capitalism, as Arrighi has noted, one of the peculiarities of the present situation is that capital continues to flow from the rising centers in East Asia—especially from China—to the United States. In this context, the significance of the current financial crisis is that it signals a reversal of this recent trend. Economic crisis has led both to a significant fall in Chinese exports—and hence of its current account surpluses—and in the flows of foreign direct investments to China. In turn, there has been a spike in Chinese unemployment rates and its stock market has plummeted leading in turn to currency flight as enterprises and even households evade strict capital controls to send their funds overseas. Of course, China cannot easily stop the recycling of its trade surpluses as that would raise the value of its currency when its exports are already falling and any rapid sale of its dollar assets would lead to a plunge in their value.

At the same time, in a bid to secure reliable supplies of strategic raw materials and energy, China and other emerging powers in the Global South have been forging new alliances and reshaping supply networks across the world. These new networks may well form the scaffolding of a new system of partnership between state and enterprises in creating a new system of accumulation on a world scale. However, in order to achieve this it would have to circumvent two enormous hurdles: first, due to the high capital intensity of production, the ability of economies to absorb labor has been steadily diminishing and this trend would have to be reversed. The inability of economies to

absorb labor has also resulted—and this is the second major obstacle—in growing inequalities in income and wealth which has not only constrained the growth of markets but is also fuelling massive social unrest, especially in China and India.

From this perspective, the next section outlines the implications of the rise of China and India for the global economy. It argues that the steady downgrading of manufacturing in the global divisioning of labor and the growth of inequalities in wealth and income on a global scale, and particularly in the fast-growing economies of the Global South, has made economic growth in these countries reliant on markets in the Global North. In turn, the recycling of their trade surpluses, above all to the United States, deepened an ongoing financial expansion that has now ricocheted across the world.

By reducing the flow of foreign direct investments to China, India, and other emerging powers and by constraining the markets for their exports, the next section suggests that the flow of capital from the rising powers to the declining ones will ebb and bring to a close the US cycle of accumulation. Whether a new economic and political armature for a new cycle of accumulation can be constructed from the increasing density of South-South linkages remains to be seen. Most notably, it would require a means to reverse the increasing inequality of incomes and wealth and the more difficult task of absorbing millions of new laborers when a secular growth in the organic composition of capital is reducing the need for labor.

**Being Bangalored and the China Price**

The relentless transfer of manufacturing operations to China that *Businessweek* said made “the China price…the three scariest words in US industry” (quoted in Harney 2009: 2) and the equally relentless transfer of information technology jobs to India that made “being Bangalored” synonymous with outsourcing represent a seismic shift in the trajectory of the world-economy and has radically transformed the conditions of production everywhere. This shift in the center of gravity of the world-economy has often been attributed to the maintenance of artificially low exchange rates, especially by China, and the vast demographic size of these two continent-sized states. Wage-rates in China are, however, in historical and relative terms so low as indicated by Table 1 that no mere
manipulation of exchange rates can undermine their competitiveness.

Table 1 about here

Average wages in the Chinese manufacturing sector are, in fact, much lower than wages in the handloom sector in England during the early Industrial Revolution or those in mid-nineteenth century lumber yards in Chicago (Kynge 2006: 30-31), or as indicated by Figure 1, in Japan and the “Asian tigers”—Hong Kong, Singapore, South Korea, and Taiwan—at the time of their rapid industrialization.

Figure 1 about here

China and India also possess massive reservoirs of cheap scientific and engineering talent. Some estimates indicate that collectively these two states graduate some 950,000 engineers every year while the US graduates only 70,000 and the wage disparities are such that 11 Indian engineers could be hired for the price of one in the US, or five Chinese chemists.13 As a result, of the 120 large chemical plants, each costing more that a billion dollars, being built across the world, only one is in the United States and 50 are in China (Zakaria 2006).

Low wages alone do not account for the magnetic pull that China and India exert towards manufacturing and service jobs—as wages are lower in several other jurisdictions in Asia and Africa. Both countries have stable political systems and their governments provide access to land at low prices and several important incentives and in the case of China, an impressive transport infrastructure while India has a large pool of English-speaking graduates. As the phrase “being Bangalored” implies, in both cases, services and manufactures are centered around specific cities and regions. Bangalore has become a hub of information technology related services—and has been called India’s ‘Silicon Valley.’ In China, just as in the English Industrial Revolution, Marshallian

13 The number of engineering graduates in India in 2005 was about three times as high as in the US in 2005 and based on current enrolments, the numbers of engineering graduates in India are slated to be double by 2009. The rapid expansion of private engineering colleges to meet this demand for engineering qualifications, however, suggests that the quality of many of these graduates are suspect (Palat 2008: 725).
‘industrial districts’ specializing in the production of components for specific products have emerged: 5000 factories in Zhili township in Zhejiang province make clothing for children, 1000 factories in Shengzhou in the same province produces about 40 percent of the world’s neckties, one factory in southern Guangdong province alone makes half the world’s microwaves, and most of the world’s computers are assembled in the city of Dongguan in the same province. Such industrial districts imply that potential rivals have to compete not only against specific manufacturers but also against the entire production chain (Harney 2009: 10). On another register, while the Indian software firm, Infosys spends $65 of every $1000 it earns in training its workers, IBM spends a mere $6.56.\footnote{Anand Giriharadas, “India’s Edge Goes Beyond Outsourcing,” \textit{New York Times}, 4 April 2007.}

Just as artificially low exchange rates and low wages do not provide sufficient reasons for the continued transfer of production and services to China and India, the significance of their demographic size also needs to be qualified. The entry of hundreds of millions of low-waged workers from China and India have, of course, vastly expanded the available pool of labor and dampened labor militancy elsewhere as employers threaten to relocate their operations to China and less significantly to India (Li 2008: 70-71). Current projections estimate that some 20-25 million workers from China and India alone enter the world labor market each year and if this rate continues over the next 20 years, an estimated 200-300 million workers from these economies—equivalent to the entire labor force of North America and the European Union—will enter the world market. Notably, though the Chinese population will age rapidly in the next 10 to 15 years, fully 50 percent of India’s population of over 1.1 billion is under the age of 20. By 2012, India is projected to have a working-age population of 762 million (Asher 2006: 6).\footnote{Jo Johnson, “Insurgency in India--How the Maoist Threat Reaches Beyond Nepal,” \textit{Financial Times}, 26 April, 2006.}

FDI-driven growth and the focus on export markets have most importantly not solved the problem of labor absorption in China or India. Since competitive pressures entail a steady improvement in the quality of manufactured exports Chinese producers have to constantly increase the organic composition of capital—the mechanization, automation, and computerization of operations—to increase labor productivity, and resort to informalization of production processes, so that despite an almost 12 percent annual
rise in manufacturing output over the last several years in China, there was also a 15 percent fall in manufacturing employment in China (Patnaik 2007; Zoubir 2004). A report by the Asian Development Bank indicated that in the 1980s, for a 1 percent increase in employment in Chinese industries, output had to grow by 3 percent but in the 1990s, to achieve the same increase in employment, output had to rise by 8 percent (Hart-Landsberg and Burkett 2007: 20, 31).

Far from absorbing labor, the International Labor Organization reports that regular wage employment in the formal sector declined at an annual average rate of 3 percent between 1990 and 2002 while irregular employment (casual work and self-employment) grew at an annual rate of 18.5 percent on average during the same period. In absolute numbers, state and collective enterprises laid off some 59.2 million people during this 12 year period and foreign and private enterprises in the formal sector hired 24.1 million people, leading to a net job loss of 34.1 million (Hart-Landsberg and Burkett 2007: 20, 28-29; Hung 2008: 161-62; Banerjee-Guha 2008: 56).

By some other estimates unemployment in China—euphemistically referred to as ‘waiting for work,’ ‘early retirement,’ and ‘taking a long vacation’—has grown from 3 million in 1993 to 25 million at the end of 2001, with some sources putting it as high as 60 million. Unemployment has been especially devastating for middle-aged women as they were often the first to be laid off—though as a percentage of laid-off women declined from 60 percent in 1993 to 45 percent by 1999, it still exceeded their representation among employees of state-owned enterprises which stood at 37 percent—and unemployment was associated with the loss of welfare entitlements and by 2002, the pool of urban poor had grown to between 15 and 31 million people, or about 4 to 8 percent of the urban population (Lee and Selden 2005: 15-16; Lee and Selden 2007). Precisely because industrial growth has been disproportionately based on assembling parts manufactured elsewhere, employment prospects for young graduates has been dismal: 60 percent of new graduates in 2006 were found to have not secured jobs and a survey in 2005 showed that 20.3 percent of new graduates earned a starting salary of less than $129 a month (Rocca 2007). This has exerted enormous downward pressure on wages and a study by Anita Chan (2003) has indicated that the legal minimum wage

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between 1993 and 2002 did not change when adjusted for inflation despite significant economic growth—and even worse that as the determination of legal wages are highly decentralized, in many areas these wages actually declined and that this was especially notable in the two cities most closely linked to the world market: Guangzhou and Shenzhen.

These conditions continue to worsen after China’s entry into the WTO in 2001—especially since this involved dismantling barriers against the imports of agricultural products subsidized by high-income states. Imports of subsidized cotton from the United States alone is said to have led to a loss of some 720,000 jobs in the poorest provinces of Gansu and Xinjiang.17 As rural distress mounted, many migrants from the interior—estimates range between 60 and 120 million—were drawn to the coastal regions and through the hukou system, the government can control the flows of people. Since migrants have no right of residence in the city, their passes could be revoked when demand subsides and this especially impacts adversely on workers who suffer industrial accidents or become physically unable to keep up with the furious pace of work in export industries. Often these migrants have to pay relatively large amounts for a job that may pay less than the legal minimum wage and even this is not guaranteed as unscrupulous employers promise to pay a part of the wages at the end of year. Twenty percent of the respondents of a survey conducted by the All-China Federation of Trade Unions (ACFTU) in 1997 reported arrears in wages—and 46 percent of these had three months’ or more of wages owed to them. In these conditions, the longer an employee has been at an establishment, the greater the hold the employer has on him (Blecher 2002: 284; Chan 2003).

Given the much smaller share of manufactured goods destined for exports, the organic composition of capital increased at a much more modest rate in Indian industry. Between 1993 and 2003, India’s industrial production grew at an annual average rate of almost 6.7 percent but factor productivity contributed only about 1.1 percent whereas in China, its contribution was 11 percent annually with the output per worker increasing by 9.8 percent a year of which 6.2 percent was generated by rising factor productivity.

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Hence, while formal sector industrial employment by this measure grew by only 1.2 percent in these ten years in China, it grew by 3.6 percent in India. Nevertheless, the number of workers in organized sector units employing more than 10 people in India remained stable at just over 6 million since the reforms began in 1991 out of a total employment in the manufacturing sector of some 48 million. This suggests, that the share of manufacturing employment in the informal sector increased from 80.5 percent in 1993-94 to 83.3 percent in 1999-2000 (Hart-Landsberg and Burkett 2007: 32; Banerjee-Guha 2008: 56-57). The current economic crisis aggravated employment conditions as it disproportionately affected labor-intensive sectors like gems and jewellery, textiles (especially handlooms), leather and leather products, cotton yarn, tea, and marine products (Nachane 2009: 116). Finally, over two million people may be working in information technology related sectors in India, but they constitute only about one-half of 1 percent of the country’s working population and hundreds of millions do not share in the boom—some 40 million were employed in the construction industry in 2008 earning a daily wage of some 50 US cents despite the official minimum wage being $2 a day.

For all its prominence in information technology and related sectors, India has the largest pool of illiterate people in the world and Piramal, a non-governmental organization in education, reports that 35 percent of the children in the fifth grade cannot write or read (Bardhan 2006: 3).

Some may credit China for single-handedly reducing the incidence of poverty in the world, but the World Bank still estimates that 1.5 billion of the 2.3 billion people in these two countries live on less than US$2 a day (Palat 2008; Li 2008: 88). Moreover, increasing per capital GDP figures in China mask the consequences of the abrogation of rights to free education and health care, and other social services including pensions, as well as of increased costs for housing, energy, and other essential services. This is particularly evident in healthcare—which was once almost free—as the World Health

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18 Wolf, “Asia’s other giant.”
20 The World Bank’s 2007 Report reckons that the number of people living with less than US$1 a day has decreased by 260 million since 1990, but the numbers who rose from desperate poverty in China alone during this period was 300 million implying that conditions elsewhere, especially in sub-Saharan Africa worsened.
Organization now ranks China 188th out of 191 states in terms of equality of financial access to medical care and medical personnel have been subject to attacks for denying treatment to patients who could not afford to pay (Petras 2006: 427; Watts 2007; Li 2008: 88). As a result, though export-oriented growth has created a ‘middle class’ of over 100 million people in China, it has also lead to a widening chasm of inequality—and the Gini coefficient for China shows a more skewed pattern of income inequalities that for the United States which itself registers the highest levels of inequality since the 1920s (Palat 2008).\(^2\)\(^1\) India may have a marginally better Gini co-efficient but there are more people living below $2 a day in India than in all of sub-Saharan Africa.\(^2\)\(^2\) India may rank eighth in the number of billionaires but only 127th in the Human Development Index—China ranks at number 89.\(^2\)\(^3\)

Growing disparities in income and wealth and the lack of labor absorption despite exceptionally high rates of growth in production has meant that growth of domestic markets in the emerging powers remain constrained. Hence, China, India, and the raw materials exporting states recycle their current account surpluses to the Global North—especially to the United States to help fund its trade deficit and keep its domestic interests low and thus provide a market for goods and services from China, India, and the raw materials exporting states. Over the last five years, Chinese purchases of foreign debt,

\(^2\)\(^1\) In 2005, the top 10 percent of the US population accounted for 48.5 percent of all reported income according to the Internal Revenue Service (IRS). They had only accounted for 33 percent in 1970 while in 1928, they had accounted for 49.3 percent. The very wealthiest 1 percent accounted for 21.8 percent of total reported income which was double their share in 1980. In 1928 they had accounted for 23.9 percent. There was not only a relative increase in equality, but the poorer suffered an absolute deprivation as well. In 2005, while total income in the United States increased by 9 percent over the previous year, it dropped by 0.6 percent for the bottom 90 percent. The decline may be even greater since the IRS estimates that while it captures 99 percent of wage income, it captures only 70 percent of business and investment income which accrue disproportionately to the rich. Additionally, the poor rely more on welfare and fringe benefits which suffered cuts—especially in health care, child care, and education, David Cay Johnson, “Income Gap is Widening, Data Shows,” New York Times, 29 March, 2007.

\(^2\)\(^2\) According to new poverty estimates by the World Bank, there were 828 million people—75.6 percent of the population living below $2 a day in India and only 72.2 percent of the population at that level in sub-Saharan Africa. About 456 million people of 42 percent of the Indian population were estimated to live below the new international poverty level of $1.25 and these amounted to one-third of the world’s poor estimated to be 1.4 billion. These new revised estimates also suggested that the rate of poverty reduction in India was faster between 1981 and 1990—that is before the economic reforms were implemented—than between 1990 and 2005. The number of those below the new international poverty line had dropped from 59.8 percent of the population in India in 1981 to 51.3 percent in 1990. Between 1990 and 2005, the numbers had fallen to 41.6 percent (Ravallion 2008). For critiques which suggest that the current estimates are too low because of untenable assumptions, see Himanshu (2008) and Reddy (2008).

\(^2\)\(^3\) Louise Williams, “For Richer, For Poorer: India’s Economic Curse,” Sydney Morning Herald, 29 October 2005.
mainly US Treasuries, accounted for one-seventh of China’s economic output and in 2008, it lent the US the equivalent of 10 percent of the Chinese GDP. Cumulatively, some 70 percent of China’s foreign exchange reserves of $1.95 billion are invested in dollar assets, and overseas investors now hold some $3000 billion of US Treasuries, about half that is publicly available. By 2006, foreign exchange holdings of low- and middle-income economies amounted to about $2.7 trillion, 60 percent of which were held in US dollars (Vasudevan 2009: 28). Though China is the largest official holder of US dollars, Japanese official and private investors may hold two or three times as much as China since almost all of China’s foreign exchange holdings are on the books of official institutions whereas if the external currency holdings in private hands are included, Japan’s holdings are estimated to be about 6 trillion dollars according to Akio Mikuni, the head of Japan’s only independent investor supported ratings agency (Murphy 2009).

The massive deflationary pressures exerted by cheap imports even helps displaced US blue- and white-collar workers, facing lower-paying jobs, economize on their means of livelihood. If the emergence of China—and of India to a lesser extent—as a low-cost producer has led to a hollowing out of manufacturing sectors, especially in high-income states, the ‘China price’ of goods has exercised a major deflationary impact all over the world. Wal-Mart has been able to hold down prices in the United States primarily by shifting its supply-chain to factories based in China. Between 1996 and 2003, the share of imports in the merchandise sold by the discount chain store rose from 6 percent to 60 percent and 80 percent of the 6,000 factories supplying products to the chain are located in China. Wal-mart alone imported 12% of Chinese goods in 2004 and it would have been China’s sixth largest trade partner were it a nation (Palat 2004; Palat 2008; Bach, Newman, and Weber 2006: 502)! By another estimate, imports of products made in China saved the ‘average American family’ $500 in 2004 (Harney 2009: 2).

This pattern of capital movements—flowing from rising centers of manufacture to declining centers—stands in stark contrast to previous patterns when capital moved from Amsterdam to Britain as the latter declined, and again from London to the United States in earlier transitions from one systemic cycle of accumulation to another. It is due in large

part to technological changes in the production process that permits enterprises to fragment manufacturing operations to take advantage of cost and wage differentials (Harney 2009: 36-37; La Botz 2009: 183). Hence, figures for the massive increase in Chinese manufacturing are somewhat misleading. Lower wages in China and the availability of a large and pliant labor force meant that enterprises in East and Southeast Asia increasingly shipped parts and components to China for final assembly—between 1992 and 2003, exports of parts and components accounted for half the incremental increase of exports from the Association of Southeast Asian Nations and China (including Hong Kong) posted a deficit of $17.6 billion in its trade in these items with its regional trade partners (Hart-Landsberg and Burkett 2007: 23-25). Since products pass through many hands in different places, only a fraction of the profits remain in China.

Though China produces 75 percent of the world’s toys, for instance, one estimate suggests that only 1/70th of the profit is retained in China. In 2006, the New York Times reported that though a Barbie doll retails for US$20, China receives only 35 cents (Sheng Lijun 2006; see also Li 2008: 71). ‘Foreign-owned’ or ‘foreign-invested’ corporations accounted for 55 percent of China’s exports between 2000 and 2004 and 77 percent of the top 200 exporters in China, or 62 percent of top 500, were foreign corporations.

Though the Chinese government has championed a few ‘national leaders’—Lenovo, Haier, Huawei, TCL, Baosteel—foreign firms account for the bulk of exports in the electronics sectors: they accounted for 90 percent of computers and 75 percent of telecommunications products in 2003 for instance. Foreign firms even increased their share of the domestic Chinese market in electronics from 32 percent in 1998 to 45 percent in 2002 (Hart-Landsberg and Burkett 2007: 20-21). Moreover, in 1999, it is reported that 60 percent of all FDI in China was devoted to mergers and acquisitions—and like mergers and acquisitions elsewhere in the world, the takeover of state and collective enterprises resulted in extensive layoffs of workers and in many instances, promised severance packages were unpaid (Lee and Selden 2007: 11).

China’s move up the technological ladder in manufacturing is also exaggerated by taking indices such as the share of electronics in its exports because the bulk of its exports in the high-technology sector—laptop computers, DVD players, and mobile phones—are mass produced commodities rather than products at the technological
cutting edge. In the case of DVD players, to take one instance, though factories in China make 90 percent of all such players, royalty payments to the European, Japanese, and US holders of key patents constitute almost one-third of the retail price of these machines, even when they are produced for sale in the domestic Chinese market (Bach, Newman, and Weber 2006: 504).

While the continuing pressure on wages exerted by the entry of large pools of low-wage labor, has led to a downgrading of manufacturing and service activities in the global divisioning of labor, leading corporations in high-income states try to control and shape the development of their respective industries by asserting their rights to intellectual property in fields such as information technology, communications, and biochemistry and genetic engineering, and continue to reap huge benefits from royalties. Or as a contemporary Chinese proverb puts it: “Third-class companies make products; second-class companies develop technology; first-class companies set standards” (quoted in Bach, Newman, and Weber 2006: 504). By capitalizing on its large internal market, low cost structure, and the continued relocation of research and development activities to India and China, business and government elites in the two states have adopted several strategies to substantially reduce royalty payments. Given its large internal market, by promoting (or threatening to promote) the development of alternative technology standards such as the EVD or Enhanced Versatile Disc standard for DVD players, or by supporting open-source standards like Linux in software (Bach, Newman, and Weber 2006), the Chinese government has helped its domestic corporations to significantly lower their royalty payments and help in the creation of new standards world-wide.

Similarly, as loose patent laws and large reservoirs of low-cost scientific labor in India enabled local pharmaceutical companies—Cipla, Dr Reddy, Ranbaxy, Nicholas Piramal, and Wockhardt—to copy drugs made by large Western companies and sell them at a fraction of the cost. As a result, foreign pharmaceutical companies are now entering into partnerships and transfer molecules they have patented to Indian companies who undertake all developmental costs including clinical trials. To be sure, this is in part due to changes in the pharmaceutical industry: as easier “blockbuster” drugs (treatments for

26 Apart from economizing on royalty payments, in key sectors the Chinese government’s sponsorship of home-grown technological standards is a security measure to lessen its dependence on US-controlled standards.
major diseases like cardiac arrests and cancer)—the ‘low-hanging fruit,’ as it were—have already been developed and the costs of developing additional drugs have soared and because large US and European pharmaceutical companies have extensive libraries of patented molecules, more than they could conceivably develop on their own. If licensing molecules hence helps lower development costs—developing a new drug in India is estimated to cost about $100 million compared to $1 billion in the United States—and helps Western companies reap royalties without significant outlays, the extensive experience Indian companies have in reverse-engineering drugs makes the development of copy-cat generics all the more likely (Wolf 2007; Overdorf 2007).

The inability of rapid expansion of FDI-led manufacturing to generate adequate employment opportunities in China, and the relatively low pace of industrial growth in India, has stymied the growth of consumption in these economies. Consequently, they have been over-reliant on the US market at a time where large-scale retrenchments and ‘jobless recoveries’ have widened income and wealth differences to a level greater than at any time since the depression of the late 1920s. In these conditions, states dependent on exports have cast the United States as a market of last resort. Bluntly put, power and wealth may have shifted east, but the creation of ‘three billion new capitalists’ remains a pipe-dream (cf. Prestowitz 2005).

Unaccustomed Earth

The recycling of trade surpluses in low- and middle-income economies above all to the United States, was seen by some economists in the early part of this decade was seen by some economists as being a new infrastructure for world trade—a Bretton Woods II. By this reasoning, the only way China and other fast-growing economies of the Global South could absorb tens of millions of new laborers each year was to buy low-yielding US Treasuries with their ballooning export surpluses. In other words, steady economic growth in the periphery was predicated on a transfer of their earnings to high-income states to finance a market for their products and services—it was not a self-sustaining process (cf. Palat 2004: 3624).

Yet, as we have seen continued reliance on export-led growth has led to a sharp increase in the organic composition of capital in China and to a corresponding inability to absorb labor in the formal sector where there has been, in fact, a contraction of employment. Information technology in India was even less able to absorb labor. Meanwhile, large inflows of capital to the Global North, and especially to the United States, led to an unprecedented financial expansion that aggravated existing inequalities in income and wealth and thereby further constrained markets for commodities and services. In turn, the bursting of the financial bubble as we shall see, impacted on the real economy and by shrinking markets for commodities shrank export markets for China and other East Asian states and thereby limited their ability to finance US deficits. At the same time, industrialization on an unprecedented scale in China and to a lesser extent in India and elsewhere have led states and enterprises in these jurisdictions to forge denser relations with states with large endowments of strategic industrial raw materials and energy. The resulting density of South-South relations could provide a new armature for the world-economy. In this context, the fragmentation of manufacturing operations and the outsourcing of production that had enabled large American and European corporations to pressure their suppliers to steadily lower their prices is also being turned on its head as these original equipment manufacturers begin to market their products under their own brands rather than under better known American and European brands. We examine these issues in turn.

Large and steady inflows of capital to the United States where a progressive loosening of regulations over the banking and financial sectors since the late 1970s had already led to a series of innovations led to a new spurt of financial innovations. In the present context, the most salient of these were efforts to extract the savings of low- and modest-income households in high-income economies by extending credit to them in the form of credit cards to fuel a consumption boom and even more significantly to lure them to buy houses that they could not afford. Once credit and mortgages were extended as much as it was possible, these were sliced and diced into complex credit instruments—especially the ‘collateralized debt obligations of asset-backed securities’ (CDO-ABS,

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28 Between October and December 2005, new mortgage borrowings amounted to $1.11 trillion and outstanding mortgage debt totaled $8.66 trillion, or the equivalent of 69.4 percent of US GDP (Foster and Magdoff 2009: 97).
henceforth CDOs) created in the middle of the present decade. These CDOs were then combined with other equally complex credit derivatives which were then sold, with scant reference to the ability of individuals’ capacity to repay loans or mortgages, to banks’ off balance-sheet entities called ‘structured investment vehicles’ (SIVs). Since these CDOs were not traded in an open market their values were determined by computer models and were rated highly by credit agencies (Foster and Magdoff 2009: 94-95). By mid-2008, the global derivatives market topped $530 trillion. To place this in perspective, the New York Stock Exchange was valued at $30 trillion at its peak at the end of 2007! By July 2007, as defaults of subprime mortgages in the US began to spiral upwards, the financial house of cards began to crumble—and by the spring of 2008, Citigroup, Merrill Lynch, and UBS had written off $53 billion of CDOs, two-thirds of which had triple-A credit ratings. As the banks were unable to stem the rot, confidence in their models and in the banks themselves evaporated as investors shied away from all complex investment instruments and when the US government let Lehman Brothers fail, the collapse in confidence became irreversible. Financial deregulation had similar impacts elsewhere—especially in Iceland, Ireland, and in the United Kingdom. In the case of Iceland, where the central bank did not have the resources to socialize the debts of banks—short-term foreign debt was almost 1000 times foreign exchange reserves in 2007—the impact was staggering: its three major banks had to be nationalized in September 2008; its currency, the krona, fell from 90 to the euro to 190 signaling a massive cut in purchasing power; stock market values collapsed by 98 percent in 2008, and unemployment shot up from 1.5 percent to 8 percent (Wade 2009a). If the Icelandic case was the most extreme, the tightening of credit everywhere as a result of the financial meltdown adversely impacted on both producers and consumers and accelerated the pace of economic decline.

Global economic contraction has, in turn, constrained the flow of capital to the United States to fund its current account deficits and to finance its power pursuits. First, the economic crisis has led to sharply cut inflows of foreign investment to China as large

29 Gillian Tett, “Lost through destructive creation.”
31 Tett, “Loss through destructive creation.”
corporations seek to curtail expenditures—and foreign investments to China in the second half of 2008 were down a third from the previous year. Similarly, in contrast to a net inflow of foreign investments to India in 2007-08, there was a net outflow between April and December 2008 (Nachane 2009: 116; Rakshit 2009: 101). Second, economic contraction has reduced China’s trade surplus—in the first quarter of 2009, China’s foreign exchange reserves grew by a mere $7.7 billion compared to $153.9 billion in the corresponding period in 2008. Third, a housing bust and a two-thirds fall in the Chinese stock market have led enterprises—and even households—to move their funds overseas despite strict capital controls: the heavy influx of Chinese money to Hong Kong led to the latter’s monetary authority having to issue an additional US$1.6 billion worth of currency in December 2008 alone. Additionally, central government revenues, which had soared by 32 percent in 2007, began to decline substantially as a result of falling demand for Chinese exports caused by the economic crisis. As this coincides with a $600 billion stimulus program announced by the Chinese government to counter the impact of the crisis, it further constrains China’s ability to finance US debt.\(^{32}\)

To compensate for a steep fall in exports—in May 2009, exports fell by a record 26.4 percent from May 2008—the Chinese government sharply increased stimulus spending, especially on infrastructure. By some estimates, investment spending increased by 50 percent between May 2008 and May 2009 in real terms, with spending on railroads soaring by 110.9 percent in the first five months of this year over the corresponding period in the previous year. The Chinese government had also directed banks to increase lending to small- and medium-sized enterprises, and restored export tax rebates for garments that it had been phasing out and municipal governments have stopped raising minimum wages. Retail sales have also increased in China by 14.8 percent in April 2009 and by 15.2 percent in May 2009—which, given the fall in price levels signals a substantial rise.\(^{33}\) It is, of course, too soon to tell whether this represents a final break from its dependence on the US as a market of last resort.\(^{34}\)

\(^{34}\) Paradoxically, high shipping costs, a low US dollar, and incentives offered by state and local governments have led to a small relocation of manufacturing to the United States, Larry Rohter, “Shipping
Industrialization on a gigantic scale and at an historically unprecedented scale in China—and to a lesser extent in India—has also led to greater demands for strategic raw materials and energy, and from middle- and high-income states, intermediate and capital goods. Voracious demands for energy and raw materials by Chinese and Indian industries have propped up commodity prices. Between January 2003 and January 2008, the index of world energy prices increased by 170 percent and the index of world metal prices by 180 percent. In 2006, Chinese enterprises accounted for the consumption of one-third of the world’s steel—and in the spring of 2004, its resource hunger was so immense that the price of steel rose by 20 percent and several Japanese automobile factories were idled because of steel shortages—as well as a quarter of the world’s aluminum. It is now the second largest importer of oil, and between 2002 and 2005, accounted for 40 percent of the world’s incremental growth in demand for oil (Li 2008: 90; Srinivasan 2008: 61; Bach, Newman, and Weber 2006; see also Ross 2006: 9).

Low technological quality and product lines meant that existing plants, typically small in scale and located in the interior for security reasons, were ill-suited for the expanded scale and sophistication of manufacturing in China. Similarly, rather than utilizing domestic supplies to economize on costs even though they were of lower quality as was the practice earlier, the newer steel mills located in Greenfield sites along the coasts like Tangshan in Hebei province using the latest technology sourced higher-grade iron ore from Australia, Brazil, India, and Peru. As China emerged as the world’s largest producer of steel in 1995, state- and private firms sought to secure access to these supplies of high-grade ore by replicating the Japanese strategy of entering into long-term contracts with these states and negotiating joint-venture projects to minimize import costs and risks while transferring the burden of most of the costs and risks to states and firms in the exporting states.  

Typically, this involved setting up infra-structural projects to facilitate the excavation of energy and minerals and their transport to the coasts for transshipment (Bunker and Ciccantell 2007: 201-07).


Joint venture facilities in aluminum, copper, iron ore, oil, and other raw materials were set up in Australia and New Zealand; Papua New Guinea, the Philippines, and Vietnam; Brazil, Canada, Chile, Peru, Jamaica, and Venezuela; and in Zambia (Bunker and Ciccantell 2007: 206).
Typical of such investments was a project to mine manganese in Gabon which is estimated to have deposits of some 330 million tons with an average content of 50 percent manganese—the purest natural deposits in the world. The Chinese National Machinery and Equipment Import-Export Corporation bested the Brazilian Companhia Vale do Rio Doce (CVRD) to develop a 175 million-tonne manganese reserve by agreeing to construct a 200 km railway from Belinga to Booué, a deep-water port at Santa Clara, a hydroelectric dam at Mayibout, and agreeing to buy all the output from Belinga whereas the Brazilians only agreed to construct a branch line between the mine and the already existing Transgabonais railway line (Yates 2008: 215-16). Chinese appetites for aluminum, nickel, copper, and steel has led to a project to construct the world’s second largest dam to provide electricity to the mines in the Amazon basin on the Xingu River. In another variant, when international financial institutions were reluctant to advance developmental loans to the Angolan government, the Chinese Export-Import Bank offered a more than $4 billion loan for which the Angolan government had to put up a much lower quantity of oil as collateral and at a very low rate of interest in return for an agreement that 70 percent of the contracts would be awarded to Chinese enterprises approved by Beijing (Corkin 2008: 110-12). The Chinese government and state-owned enterprises are also cooperating to develop a transportation hub in Tanzania for commodities mined in Africa’s Copperbelt and linked through the Chinese-built Tanzania-Zambia Railway’s (TAZARA) terminal to Kapirimposhi which is connected to Angola’s Benguela railway—creating the first functioning east-west transport corridor in Africa (Baregu 2008: 160).

As India did not have China’s large reserves of foreign exchange—and because its manufacturing base was much smaller—Indian efforts to secure supplies of energy and strategic raw materials revolved around a different strategy. To secure access to energy—and current estimates suggest that by 2025, India would have to import 90 percent of its petroleum needs—the Indian government has been encouraging its private pharmaceutical firms to provide low-cost generic drugs, particularly anti-retroviral drugs, to African states as well as to set up production facilities in the continent (Haté 2008).

The Indian government has also helped set up information technology centers such as the Ghana-India Kofi Annan Centre for Excellence in Information Technology in Accra and the Cyber Towers Information Technology Park in Mauritius as well as provide technological and financial help in upgrading oil fields and laying gas pipelines in Sudan, building steel mills, power plants, and oil refineries in Nigeria and agricultural support initiatives in a host of countries (Habib 2008: 265-66).

To upgrade the technological quality of steel production, Chinese firms sought foreign partners—Mitsubishi Heavy Industries, Mitsui, Nippon Steel and Nisshin Steel from Japan, Posco from South Korea, Thyssen-Krupp from Germany, and Mittal Steel among others—in joint-venture projects as steel production rose almost nine-fold between 1980 and 2005. The social cost of this strategy however, was the decommissioning of old steel mills with antiquated technologies and the further widening of inter-regional disparities in China as unemployment in its northeast regions ranged from 30 to 70 percent by the turn of the millennium (Bunker and Ciccantell 2007: 201-18).

In a third development, as American, European, and Japanese corporations sought to pressure their subcontractors—especially in electronics—to lower their prices, Taiwanese subcontractors who were also original design and/or original equipment manufacturers have begun to extend their own supply chains to China and to market their products under their own brands. A case in point is Acer, poised to become the second largest computer company in the world. After decades of producing computers for Hewlett-Packard, Dell, and Apple and selling products under its own brand name only as a sideline, Acer started in 2000 to aggressively promote its own line of computers.

Another Taiwanese computer manufacturer, Asutek, pioneered the marketing of netbooks—the slimmed down laptops that have emerged as the fastest growing segment of the computer market—while HTC which used to manufacture cellphones for other firms became the first one to market a cellphone using Google’s operating system.37 After the Taiwanese government loosened restrictions on investment in the Chinese mainland in 2001, Taiwanese original design manufacturers shifted their production across the

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Taiwan Straits to take advantage of lower cost land and labor and virtually all production is now in China whereas before 2001, only 4 percent of Taiwanese computer production was on the mainland. This suggests the emergence of an integrated production zone in East Asia.

A similar increase in manufacturing may be developing in South Asia. Between the enactment of the Special Economic Zones Act in 2005 and May 2008, some 462 such zones comprising 126.077 hectares were formally approved in India. In these areas, the government was empowered to exempt enterprises from central laws and workers typically worked 5.3 more hours than workers in non-SEZ areas and earned 34 percent less (Banerjee-Guha 2008). Bangladesh, meanwhile, has been receiving low-waged work in the garment sector as the Chinese government seeks to get enterprises there to move up the technology ladder.

While it is too soon to tell, there are signs that the current financial crisis may indicate the end of the US cycle of accumulation. In the first instance, by contracting the US market, the crisis has irretrievably damaged the United States’ role as a market of last resort. In turn, this has reduced the pressure on China, and other East Asian states to recycle their current account surpluses to the United States to fund its trade deficits and to finance its power pursuits. Second, the unprecedented pace and scale of industrialization in China, and to a lesser extent in India, has led these states to forge new networks of supplies for raw materials and energy and the increasing density of South-South relationships could provide a new armature for the revival of the world-economy. Finally, the move by Taiwanese original design manufacturers to market products under their own brand names and move their production facilities to the Chinese mainland may suggest the emergence of an integrated production region in East Asia. Whether these issues will address the problems raised by growing inequalities in income and wealth that could undermine the new arrangements, and indeed even political stability in China and India, remains to be seen.

Conclusion

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38 Tom Miller, “Manufacturing that doesn’t compute,” Asia Times Online, 26 November 2006.
The financial crisis enveloping the globe has crystallized the decline of the US-centered system of accumulation that had been partially prolonged by the flows of capital from China, Japan and other East Asian states as well as from the Oil and Petroleum Exporting States and other economies in the Global South. As Braudel had observed financial expansions regularly follow phases of economic expansion as an intensification in competition generates more capital than could profitably be invested in the production and sale of commodities. The deployment of technologies to fragment manufacturing operations into part processes and the relocation of these across the globe to take advantage of cost and wage differentials. A focus on export markets also meant that measures to keep wages competitive in China led to a growth in levels of inequality and a greater dependence on markets in the United States. This had compelled China, and other states in the Global South to recycle their current account surpluses to the United States to fund its trade deficits and finance its power pursuits.

The continued inflow of capital encouraged banks and non-banking financial institutions to implement a series of financial innovations that even sought to extract savings from low-income households and fueled an unparalleled bout of financial speculation. When the bubble burst in 2008 with the collapse of Lehman Brothers and economies around the world spiraled downward, it adversely impacted exports of China, India, and other states. This constrained their ability to continue to recycle their current account surpluses to the United States and led to at least a partial unraveling of their export-led economic strategy.

At the same time, rapid economic growth in China, India, and elsewhere in the Global South had led to an increasing density of South-South economic relations as the emerging powers sought access to reliable supplies of high-grade strategic industrial raw materials and energy. This reconfiguration of spatial relations provides a framework for the emergence of a new cycle of accumulation. Relatedly, movements by original design manufacturers in Taiwan to market products under their own brand-names and move their production to the Chinese mainland suggests the emergence of an integrated production region in East Asia. The Indian economy, which had not been as exposed to the financial meltdown because of its lower dependence on exports and its tighter financial regulations also appears as an increasingly strong player in the world-economy.
However, the emergence of a new system of accumulation is crucially predicated on reversing growing inequalities in income and wealth globally, and particularly in China and in India. Their movement up the technological ladder has meant a steady increase in the organic composition of capital and an inability to absorb labor. High rates of growth has been accompanied by high rates of unemployment and widening inequalities in income and wealth magnifies the possibility of political instability and threatens to fragment the world market and hence dislocate socio-economic and political structures worldwide.
**Table 1**

Manufacturing Worker’s Wage Rates in Selected Countries (monthly wage in US$ in 2005 or the latest available year)

<table>
<thead>
<tr>
<th>Country</th>
<th>Monthly Wage (in US$)</th>
<th>As percentage of US Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2898.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Japan</td>
<td>2650.2</td>
<td>91.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>2331.4</td>
<td>80.4</td>
</tr>
<tr>
<td>Argentina (2001)</td>
<td>837.5</td>
<td>28.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>732.7</td>
<td>25.3</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>612</td>
<td>21.3</td>
</tr>
<tr>
<td>Poland (2004)</td>
<td>585.9</td>
<td>20.2</td>
</tr>
<tr>
<td>Chile</td>
<td>432.4</td>
<td>14.9</td>
</tr>
<tr>
<td>Turkey (2001)</td>
<td>427.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Mexico (2004)</td>
<td>341.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Brazil (2002)</td>
<td>308.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Peru</td>
<td>237.8</td>
<td>8.2</td>
</tr>
<tr>
<td>China (2004)</td>
<td>141.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Thailand (2003)</td>
<td>133.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Philippines (2004)</td>
<td>98.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Indonesia (2001)</td>
<td>54.1</td>
<td>1.9</td>
</tr>
<tr>
<td>India (2003)</td>
<td>23.2</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Figure 1

References:


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financial-capitalism-0).


