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GIOVANNI ARRIGHI: A Global Perspective

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China and the Global Economy: The Persistence of Export-Led Growth

It is testimony to the centrality that China has achieved in the global economy that one cannot understand the current global economic crisis without taking into consideration the position and role that it has carved out over the last 30 years. From a sleeping giant that was territorially and functionally outside global capitalism as late as 1984, the year the Communist Party leadership adopted the strategy of export-led growth, China became a principal force determining the shape of the global economy over the last three decades. In another twenty years, it is expected to be the world's largest economy, its ascent being seen as just as unstoppable as the descent of the United States.

Toward the end of his extremely productive life, understanding China's ascent and its insertion into the global capitalist economy became the central preoccupation of Giovanni Arrighi (2007). This contribution attempts to address some of the key questions he poses in his insightful efforts to understand this momentous development.

This essay traces and discusses the different phases of China's integration into the global economy. First, it shows that in the context of the crisis of stagflation that gripped the global capitalist economy in the 1970's, capitalism needed China for its continued reproduction as much as the Chinese leadership needed capitalism to launch China into its project of rapid development. Second, it shows the contradictory aspects of China's relationship to global capitalism: how it was both one of its sources of reinvigoration and a central contributor to its crisis of overproduction. Third, it discusses the specific way by which China was integrated into the global economy: as one of the two actors – the other being the United States – locked in a 'chain gang' relationship with each other, with China as producer and the

US as consumer. Finally, the essay discusses whether the current crisis has provided China with the opportunity to 'decouple' its trajectory from that of the United States and Europe.

1. China's initial insertion into the global economy

The first phase of post-communist China's integration into the global economy is often portrayed as a voluntary move by the Communist Party leadership to end what it perceived to be the economic stasis of the Mao period and to promote rapid economic development. This is true, but it tells only half the story. The other half concerns the fact that global capitalism needed China. The fortuitous conjunction of the crisis of socialist stagnation and capitalist stagnation in the 1970s and early 1980s gave birth to the phase of the global capitalist economy that is now ending in crisis.

The roots of the current crisis can be traced back to the stagflation of the 1970s, when something that the orthodox macroeconomic doctrine known as the 'Philips Curve' said would not happen – the coincidence of stagnation and rising inflation – did occur in the United States during the presidencies of Richard Nixon and Jimmy Carter. This was followed by a recession during the first years of the Reagan presidency in the early 1980s.

These almost 15 years of crisis saw the end of the postwar global boom that had been triggered by the release of pent-up global demand from World War II, the reconstruction of Japan and Europe, import-substitution industrialization in Latin America, and export-oriented industrialization in East Asia. The 30-year boom added significant new industrial capacity globally, but growth eventually ran up against the limits of effective demand. This contradiction – the tendency of capital to amass tremendous productive capacity that outstrips the capacity to consume on the part of the population owing to, among other things, persistent economic inequality – is often referred to as the crisis of overproduction or overaccumulation. The best concise explanation of these dynamics is still the one articulated by Marx in *Capital,* "The real barrier of capitalist production is capital itself […] The means – unconditional development of the productive forces – comes continually into conflict with the limited purpose, the self-expansion of existing capital" (Marx 1995: 455). This contradiction between productive capacity and effective demand, to put it in Keynesian terms, leads to the erosion of profitability, recession, and, at certain junctures, even depression.

Many indicators capture this exhaustion of the post-war economic regime, but the figures that best express it are the calculations of Angus Maddison, who is regarded as the premier expert on historical statistical trends. According to Maddison, the annual rate of growth of global gross domestic product (GDP) fell from 4.9 per cent in what is now regarded as the golden age of the post-World War II Bretton Woods system, 1950–1973, to 3 per cent in 1973–1989, a drop in GDP growth of 39 per cent (Angus Maddison cited in Crotty 2002: 25). The United Nations, confirming this trend, notes that world GDP grew at an annual rate of 5.4 per cent in the 1960s, 4.1 per cent in the 1970s, and 3 per cent in the 1980s (ibid.).

2. Three escape routes from overproduction

There were three escape routes that capital took in its effort to surmount the crisis of profitability in the Seventies. The first was neoliberal restructuring, which sought to liberate capital from state regulation and roll back wages by tearing up the capital-labor compromise that had served as the social basis of the Keynesian liberal or social democratic political economy. The second was financialization or the channeling of much investment from the low-growth, low-profit real economy to speculative activity in the financial economy. The third was globalization, or the integration into the capitalism system of semi-capitalist, pre-capitalist, and non-capitalist areas; as the great radical economist Rosa Luxemburg pointed out, subordinating or integrating these areas had the effect of to raising the rate of profit by exploiting new markets, super-exploiting labor, gaining control of natural resources, and providing investment outlets for surplus capital (Luxemburg 1951).

While temporarily alleviating the erosion of profitability, these three routes resulted in dead ends, which is not surprising since capitalism, driven by contradictions, eschews stability and moves from crisis to crisis. Neoliberal structuring, also known as structural adjustment, while rolling back wages and raising profits in the short run, gutted the effective demand that was needed to prop up profits over the long term. Financialization, being dependent on squeezing value out of already created value, created asset bubbles whose explosions periodically unhinged the real economy and triggered the current long stagnation. Finally, globalization might have opened up new markets and accessed cheap labor, but it also added significant new productive capacity that exacerbated the crisis of overproduction.

China was a major actor in all these three ways by which global capital sought to escape the trap of overproduction. The move toward cheap labor areas was the central weapon waged by management against labor in neoliberal restructuring in the North, and, while Mexico and the East Asian tigers were initially the preferred sites for transnational firms, ultimately, no site could match the 'China wage' that translated into 'China price'. Investment of China's earnings as an export-led economy in the North was also a major factor in the financialization of capitalism – the second escape route – but it was principally as a central force in the process of globalization that China became a dominant actor in the international capitalist system.

3. Globalization and the exacerbation of overproduction

China was the most significant market added to the capitalist world economy during the last 30 years. This momentous development stemmed from two complementary interests that emerged, as noted earlier, fortuitously: the desire of China's ruling Communist Party to overcome the stagnation of the Mao period and develop China's productive forces through capitalist mechanisms and global capital's crying need for profitable self-expansion or accumulation.

The result of this process has been double-edged. On the one hand, China's 8-10 per cent growth rate per annum has probably been the principal stimulus of growth in the world economy in the last two decades. On the other hand, China has become a central contributor to the crisis of global overcapacity. Even as investment declined sharply in many economies, particularly in Japan and other East Asian economies, in response to the crisis of excess capacity (Rajan 2005), it increased at a breakneck pace in China. Investment in China was not just the obverse of disinvestment elsewhere, although the shutting down of facilities and sloughing off of labor was significant not only in Japan and the United States but in the countries on China's periphery like the Philippines, Thailand, and Malaysia. China was significantly beefing up its industrial capacity and was not simply absorbing capacity eliminated elsewhere. At the same time, though, the ability of the Chinese market to absorb its industrial output, though not insignificant, was limited.

A major actor in overinvestment was transnational capital. Originally, when TNC's moved to China in the late 1980's and 1990's, they saw it as the 'last frontier', the unlimited market that could endlessly absorb investment and endlessly throw off profitable returns. The authorities, however, had something else in mind: dangling the prospect of ultra-cheap labor, they wanted to use foreign investors to make China an industrial platform not so much to service the local market but to penetrate foreign markets.

Be that as it may, investment by transnationals turned out, in many cases, to be excess investment since in their plan to make China an integrated manufacturing export platform, the authorities pushed transnationals to locate most of their production processes in the country instead of outsourcing only selected number of them. This led to what analysts termed the "excessive internalization" of production activities by transnationals (United Nations 2003: 45). One example of this phenomenon was the case of Philips, the Dutch electronics manufacturer. Philips operated 23 factories in China and produces about US$5 billion worth of goods, but two thirds of their production was not consumed in China but exported to other countries (Leggett/Wonacott 2002: 30).

The other set of actors promoting overcapacity were local governments which invested in and built up key industries. While these efforts are often "well planned and executed at the local level," as analyst Ho-fung Hung notes, "the totality of these efforts combined […] entail anarchic competition among localities, resulting in uncoordinated construction of redundant production capacity and infrastructure" (Hung 2006: n.pag).

The result is that idle capacity in such key sectors as steel, automobiles, cement, aluminum, and real estate has been soaring since the mid-1990s, with estimates that, before the global financial crisis, over 75 per cent of China's industries were already plagued by overcapacity and that fixed asset investments in industries already experiencing overinvestment accounted for 40–50 per cent of China's GDP growth in 2005 (ibid.). The State Development and Reform Commission projected that automobile production would be more than double what the market could absorb by 2010 (ibid.). The impact on profitability is not to be underestimated, if we are to believe government statistics: at the end of 2005, the average annual profit growth rate of all major enterprises had plunged by half and the total deficit of loss-making enterprises had increased sharply by 57.6 per cent during the last decade (ibid.).

Excess capacity could have been overcome had the Chinese government focused on expanding people's purchasing power via a policy of income and asset redistribution. Doing so would have meant a slower process of growth but a more stable one. China's authorities, however, chose a strategy of dominating world markets by exploiting the country's cheap labor. Although China's population is 1.3 billion, 700 million people – or over half the total population – live in the countryside, earning an average of just US$285 a year, thus serving as an almost inexhaustible source of cheap labor. Because of this reserve army of rural poor, manufacturers, both foreign and local, have been able to keep wages down. The negative social and economic impacts of this "post-Tiananmen consensus" of export-led growth with little consideration of the accompanying social polarization are well described by Ho-fung Hung: "Class, urban-rural, and inter-regional inequalities expanded hand in hand with the economic miracle. Poverty spreads and intensifies in the rural inland area and the old bastions of state industry besieged by extensive unemployment. The peasants-turned-workers in the coastal boom towns are not doing much better. Owing to the colossal size of the pool of surplus labor and the 'despotic factory regime' under the auspices of the party-state, industrial wage growth amid China's economic miracle is dismal in comparison with the growth of manufacturing wage in other East Asian NICs during their miraculous moment. During the most explosive phase of takeoff, South Korea and Taiwan remained modestly equalitarian societies [...] In contrast, China's gini-coefficient has ascended from 0.33 in 1980 to more than 0.45 today. The pattern of income distribution in China's development is more reminiscent of the Latin American experiences than the East Asian ones, so much so that some begin to forewarn of the "Latin Americanization of China" (Hung 2006: n.pag).

Aside from being potentially destabilizing politically, this wealth concentration in a few and the relative pauperization of the vast majority "impedes the growth of consumption relative to the phenomenal economic expansion and great leap of investment" (ibid.). This meant, among other things, an exacerbation of the crisis of global overproduction in that a significant amount of China's industrial production was dumped on global markets that were constrained by slow growth.

4. Chain-gang economics and financialization

The dynamics between global production and global consumption featured a special relationship between China and the United States that was fraught with danger. Chinese production and American consumption were like the proverbial prisoners who sought to break free from one another but could not because they were chained together. This relationship increasingly took the form of a vicious circle. On the one hand, China's breakneck growth increasingly depended on the ability of American consumers to continue their consumption of much of the output of China's production brought about by excessive investment. On the other hand, America's high consumption rate depended on Beijing's lending the US private and public sectors a significant portion of the trillion-plus dollars it has accumulated over the last decade from its yawning trade surplus with Washington.

By 2006, China's bilateral trade surplus with the US was US$235 billion. This represented over a third of the US trade deficit, making China by far the biggest country component of the deficit. This translated into a massive accumulation of dollar reserves. The rapid growth of reserves is traced by one analyst: "Between December 2000 and December 2003, foreign exchange holdings of China's central bank more than doubled – from US$166 billion to US$403 billion. In 2006, this figure exceeded US$1.2 trillion, of which US$600 billion was denominated in the US currency, and had reached US$1.7 trillion in 2008" (Lucarelli 2008: 18).

Under a political economic strategy of building up the domestic market, these export earnings could have been reinvested domestically. Under the dominant export-led model, however, the alternative to simply holding on to these assets in state financial institutions was to invest them abroad. And invest China did – along with the other East Asian countries – in a big way. Let us look at this process more closely.

A considerable amount of Chinese savings – transformed into loans to the United States – fueled the speculative mania that rocked the US economy in the last few years – first the technology bubble that burst in 2001, then the even more dangerous sub-prime bubble that collapsed in 2007, bringing the real economy, both in the US and globally, into deep recession.

The flow of Chinese – and more broadly East Asian – credit to the US was not, however, simply a case of dumping financial assets. The US needed those assets to maintain economic growth and expansion in the face of capital's clawing back from labor the latter's income gains during the long post-war boom via neoliberal restructuring. The median wage in the US was flat between 1980 and 2007 (Reich 2010: 52). To keep the economy growing as well as maintain political stability at a time when incomes were becoming more and more unequal as tax rates on the rich were sharply reduced, lending to the working class and middle class became the favored solution to prop up consumption. From around 50-55 per cent of annual after-tax income before 1980, debt skyrocketed to 100 per cent of after-tax income in 2001, and then to 138 per cent in 2007 (Reich 2010: 62-63).

Chinese lending – like other Asian and German lending – was in fact central to the housing sector, which prove to be the detonation point of an overleveraged economy in 2007. The dynamics of this process were laid out by Raghuram Rajan: "Foreign central banks were confronted with vast dollar inflows as exports to the US expanded, and as US investors looked abroad to escape from low US interest rates. As the central banks bought dollar assets in an attempt to keep the domestic exchange rate from appreciating, they looked for a little extra return. Being conservative, they had to invest their dollars in debt, and the implicit protection that Fannie and Freddie's [the two big quasi-public housing finance agencies in the US] debt enjoyed led them to gravitate toward it [...] Knowing that the agencies enjoyed the implicit guarantee of the government, the foreign central banks really did not care about the risks the agencies took" (Rajan 2010: 132).

In short, Chinese funds were central to the financialization of investment that brought down the real economy, and financialization, in turn, was a response to the crisis of overcapacity that was already gripping the global economy, partly as a consequence of the globalization of production, of which China had been the principal beneficiary. The chain-gang relationship was ultimately unsustainable.

5. Chain-gang economics or decoupling?

At this point, it would be important to consider an alternative thesis to chain-gang economics, one which initially gained currency prior to the present financial crisis and is now being revived owing to the strong growth that has marked the Chinese and East Asian economies since late 2009, even as Europe and the United States are sunk in stagnation. At the start of the subprime crisis, there was a notion that East Asia would not be severely affected by the developing crisis in the US because China and East Asia had become 'decoupled' from the central economies.[1] On the surface, there seemed to be much evidence for this, especially in the aftermath of the Asian financial crisis. In the case of Japan, for instance, a decade-long stagnation was broken in 2003 by the country's first sustained recovery, fueled by exports to slake China's thirst for capital and technology-intensive goods; exports shot up by a record 44 per cent, or US$60 billion.[2] Indeed, China became the main destination for Asia's exports, accounting for 31 per cent while Japan's share dropped from 20 to 10 per cent. As one account pointed out, Chinese demand pulled East Asia from the post-Asian financial crisis doldrums: "In country-by-country profiles, China is now the overwhelming driver of export growth in Taiwan and the Philippines, and the majority buyer of products from Japan, South Korea, Malaysia, and Australia."[3]

A close look at the integration occurring in East Asia, however, persuaded other analysts that it was wrong to equate it with decoupling. China was indeed importing raw materials and intermediate goods and parts from these countries but only to put them together mainly for export as finished goods to the US and Europe, not for its domestic market. Thus, as Jayati Ghosh and C.P. Chandrasekar predicted, "if demand for Chinese exports from the US and the EU slow down, as will be likely with a US recession, this will not only affect Chinese manufacturing production, but also Chinese demand for imports from these Asian developing countries" (Chandrasekhar/Ghosh 2008: n.pag).

This forecast became reality in the second half of 2008, as the crisis of the financial sector in the US and Europe spread to the real economy. China's growth in 2008 fell to 9 per cent, from 11 per cent a year earlier; indeed, during the last quarter of 2008, the Chinese economy grew merely by 6.1 per cent. Japan's recovery from nearly two decades of stagnation was cut short, its mighty export-oriented consumer goods industries reeling from plummeting sales. South Korea, the hardest hit of Asia's economies so far, saw its currency collapse by some 30 per cent relative to the dollar. Southeast Asia's GDP growth rate fell from 6.5 per cent to 5.4 per cent. The crisis that overtook East Asia was conveyed by television images of some of the 20 million workers in China's export-oriented coastal region heading back to the countryside where few jobs awaited them.

The unraveling of East Asia's key markets banished all talk of decoupling, at least for a year. The image of decoupled locomotives - one coming to a halt, the other chugging along on a separate track - no longer applied, if it ever had. China and its neighbors were linked to debt-financed middle-class spending in the United States, which collapsed in 2008-2010. As the IMF saw it in hindsight, "The early 2000s marked the beginning of China's rapid integration in Asia's global supply chain and, thus, its growing share in the region's final goods exports. With this process well advanced by the time of this global recession, Asia as a whole is even more coupled to cycles in advanced economies than in the early 2000s" (IMF 2010: 15).

To counter the contraction, which saw its exports fall in volume terms by one third (Dumas 2010: 52), China, in panic, launched what Charles Dumas, author of Globalization Fractures, characterized as a "violent domestic stimulus" of 4 trillion yuan (US$585 billion). This came to about 13 per cent of gross domestic product in 2008 and, by this criterion of its size relative to GNP, constituted "probably the largest such program in history, even including wars" (ibid.: 85). The stimulus not only pulled China back to double-digit growth; it also pushed the East Asian economies that had become dependent on it to a steep recovery even as Europe and the US stagnated. The newly industrializing economies (Hong Kong, Taiwan, Korea, and Singapore) moved from a negative 0.8 per cent growth in 2009 to 5.5 per cent in 2010, while the Association of Southeast Asian Nations went from 1.7 per cent growth to 5.4 per cent (IMF 2010: 29). Noting this trend, the IMF asserted that "This is the first time Asia is leading a global recovery; in all previous global downturns [...] Asia's contribution to global recovery was lower than that of other regions" (ibid.: 4).

6. Decoupling revived

It was this remarkable reversal that led to the renaissance of the decoupling idea. In other words, the contrast between East Asia's rebound and the deepening of the recession in the US and Europe appeared to indicate that China's dependence on northern markets had been transcended and it was now a relatively autonomous pole of regional growth.

The Communist Party leadership has reinforced this notion by claiming that a fundamental policy shift to prioritizing domestic consumption over export-led growth has taken place. The statistics and pronouncements – including the 12^{th} Five Year Plan, which is proclaimed as boosting consumption – have encouraged the view that the Chinese consumer will step into the role formerly filled by the American consumer, becoming in the process the lynchpin of the globalized world economy.

Upon closer examination, however, this contention appears to be more rhetorical than real. In fact, export-led growth remains the strategic thrust, a fact that is underlined by China's continuing refusal to let the yuan appreciate, a policy that is geared to keeping its exports competitive. This is not surprising since in the years leading up to the crisis, "China's exposure to external demand from outside Asia has increased from 15 percent of total value added (1995–2000 average) to over 19 percent (2001–2008 average) while its exposure to external demand from Asia has remained stable at about 6 percent of total value added. These trends mainly reflect China's rapid growth of exports to advanced economies as it has become a hub of the region's supply chain network for advanced economies" (IMF 2010: 56). The push-domestic-consumption phase appears to have ended, with China, as Dumas notes, "in the process of shifting massively from the beneficial stimulation of domestic demand to something closely resembling business as usual, circa 2005–2007: export-led growth with a bit of overheating" (Dumas 2010: 113).

It is not only Western analysts like Dumas that have pointed to this return to export-led growth. Yu Yongding, an influential technocrat who has served as a member of the monetary committee of China's central bank, confirms that it is indeed back to business as usual: "With China's trade-to-GDP ratio and exports-to-GDP ratio already respectively exceeding 60 percent and 30 percent, the economy cannot continue to depend on external demand to sustain growth. Unfortunately, with a large export sector that employs scores of millions of workers, this dependence has become structural. That means reducing China's trade dependency and trade surplus is much more than a matter of adjusting macroeconomic policy" (Yongding 2010: n.pag).

7. The countryside: the drag on transformation

The current export-led economic structure rests on the continuing reliance on cheap labor as China's competitive advantage and thus the marginalization of the countryside. Integrating the countryside as the source of dynamism of the economy is the key to the transformation of China's economic strategy, not a short-term stimulus program. It will mean overturning a structural subordination of the countryside to the city that has been in effect for some 30 years. It is useful to elucidate the structures that would have to be overhauled for China to embark on a different strategy.

Ironically, China's ascent during the last thirty years began with the rural reforms initiated by Deng Xiaoping in 1978. The peasants wanted an end to the Mao-era communes, and Deng and his reformers obliged them by introducing the 'household-contract responsibility system'. Under this scheme, each household was given a piece of land to farm. Of what it produced, the household was allowed to retain what was left over after selling to the state a fixed proportion at a state-determined price, or by simply paying a tax in cash. The rest it could consume or sell on the market. There is consensus among China specialists that these were the halcyon years of the peasantry, when rural income grew by over 15 per cent a year on average, and rural poverty declined from 33 per cent to 11 per cent of the population.

This golden age of the peasantry came to an end, however, and the cause was the adoption of a strategy of coast-based, export-oriented industrialization premised on rapid integration into the global capitalist economy. This strategy, which was launched at the 12th National Party Congress in 1984, was essentially one that built the urban industrial economy on 'the shoulders of peasants', as rural specialists Chen Guidi and Wu Chantao put it (Guidi/Chantao 2006). Primitive capital accumulation was achieved mainly by policies that cut heavily into the peasant surplus.

The consequences of this urban-oriented industrial development strategy were stark. Peasant income, which had grown by 15.2 percent a year from 1978 to 1984, dropped to 2.8 percent annual growth from 1986 to 1991. Some recovery occurred in the early 1990s, but stagnation of rural income marked the latter part of the decade. In contrast, urban income, already higher than that of peasants in the mid-1980s, was, on average, six times the income of peasants by 2000.

The stagnation of rural income was caused by policies promoting rising costs of industrial inputs into agriculture, falling prices for agricultural products, and increased taxes, all of which operated to transfer income from the countryside to the city. But the main mechanism for the extraction of surplus from the peasantry was taxation. Taxes on 149 agricultural products were levied on the peasants by central state agencies by 1991, but this proved to be merely part of a much bigger bite, as the lower levels of government began to levy their own taxes, fees, and charges. Currently, the various tiers of rural government impose a total of 269 types of tax, along with all sorts of administrative charges that are often arbitrarily imposed (Guidi/Chantao 2006: 151-152).

Taxes and fees are not supposed to exceed 5 per cent of a farmer's income, but the actual amount is often much greater; some Ministry of Agriculture surveys have reported that the peasant tax burden is 15 per cent – three times the official national limit.

Expanded taxation would perhaps have been bearable had peasants experienced returns such as improved public health and education and more agricultural infrastructure. In the absence of such tangible benefits, the peasants saw their incomes as subsidizing what Chen and Wu describe as the "monstrous growth of the bureaucracy and the metastasizing number of officials" (ibid.) who seemed to have no other function than to extract more and more from them.

Aside from being subjected to higher input prices, lower prices for their goods, and more intensive taxation, peasants have borne the brunt of the urban-industrial focus of economic strategy in other ways. According to one report, "40 million peasants have been forced off their land to make way for roads, airports, dams, factories, and other public and private investments, with an additional two million to be displaced each year" (Bergsten et al. 2006: 41). Other researchers cite a much higher figure of 70 million households, meaning that, calculating 4.5 persons per household, by 2004, as many as 315 million people may have been displaced by land grabs (Walker 2008: 472).

8. The impact of trade liberalization

But the impact of all these forces may yet be dwarfed by that of China's commitment to eliminate agricultural quotas and reduce tariffs, made when it joined the World Trade Organization in 2001. The cost of admission for China is proving to be huge and disproportionate. The government slashed the average agricultural tariff from 54 per cent to 15.3 per cent, compared with the world average of 62 per cent, prompting the commerce minister to boast (or complain): "Not a single member in the WTO history has made such a huge cut [in tariffs] in such a short period of time" (quoted in Walker 2008: 466).

The WTO deal reflects China's current priorities. If the government has chosen to put at risk large sections of its agriculture, such as soybeans and cotton, this is because the party wants to open up or keep open global markets for its industrial exports. The social consequences of this trade-off are still to be fully felt, but the immediate effects were alarming. In 2004, after years of being a net food exporter, China registered a deficit in its agricultural trade. Cotton imports had skyrocketed from 11,300 tons in 2001 to 1.98 million tons in 2004, a 175-fold increase. Chinese sugarcane, soybean, and most of all, cotton farmers were devastated (ibid.). In 2005, according to Oxfam Hong Kong, imports of cheap US cotton resulted in a loss of US$208 million in income for Chinese peasants, along with 720,000 jobs (ibid.: 467). Trade liberalization is also likely to have contributed to the dramatic slowdown in poverty reduction in the period between 2000 and 2004.

In sum, simply allocating money to boost rural demand is unlikely to counteract the massive weight of the economic and social structures created by policies that subordinated the development of the countryside to export-oriented industrialization. These policies have contributed to greater inequality between urban and rural incomes and stalled the reduction of poverty in the rural areas – the challenge that must be overcome for China to become the engine of sustained growth in the globalized world economy.

The retreat back to export-led growth is not merely a case of structural dependency. Structures pose constraints, but they are not determinative. Interests are, in the final analysis, central in pushing an economy along a certain trajectory, and in the case of China, these are a set of actors from the reform period that, as Yu puts it, "have morphed into vested interests [and] are fighting hard to protect what they have" (Yongding 2010: n.pag). The export lobby, which brings together private entrepreneurs, state enterprise managers, foreign investors, and government technocrats, is the strongest lobby in Beijing. Structures and interests benefiting from those structures are the main forces standing in the way of China's transformation of its political economy.

9. China and global deflation

What analysts like Dumas refer to as China's 'reversion to type' as an export-oriented economy will clash with the efforts of the US and Europe to push recovery through export-led growth while raising barriers to the inflow of Asian imports. The likely result of the competitive promotion of this volatile mix of export push and domestic protection by all three leading sectors of the global economy at a time of relatively less buoyant world trade will not be global expansion but global deflation. As Jeffrey Garten, former US undersecretary of commerce under Bill Clinton, has written: "While so much attention has focused on consumer and industrial demand in the US and China, the deflationary policies enveloping the EU, the world's largest economic unit, could badly undermine global economic growth [...] The difficulties could cause Europe to redouble its focus on exports at the same time that the US, Asia, and Latin America are also betting their economies on selling more abroad, thereby exacerbating already-high currency tensions. It could lead to a resurgence of state-sponsored industrial policies, already growing around the world. And together, these factors could ignite the virulent protectionism that everyone fears" (Garten 2010: 14A).

Given the failure to surmount the interdependence fostered by globalization, what the international economy faces in the coming years, Garten warns, is "exceptional turbulence as the waning days of the global economic order we have known play out chaotically, possibly destructively" (ibid.). He projects a pessimism that is increasingly capturing sections of the global elite that once heralded globalization but now see it disintegrating before their eyes. This resigned fin de siècle mood is not a western monopoly; it is shared by the influential Chinese technocrat Yu Yongding, who claims that China's "growth pattern has now almost exhausted its potential." The economy that most successfully rode the globalization wave, China "has reached a crucial juncture: without painful structural adjustments, the momentum of its economic growth could suddenly be lost. China's rapid growth has been achieved at an extremely high cost. Only future generations will know the true price" (Yongding 2010: n.pag).

1 'Decoupling' is to be distinguished from 'delinking'. The latter referred to a deliberate national policy of radically reducing a country's participation in global trade and capital flows. The former refers to an economy's becoming a pole of growth within the global capitalist economy that becomes relatively insulated from the fortunes of the center economies.
2 "Riding China's Coattails". In: Business Week, 1.2.2004, 50.
3 "China the Locomotive". In: Straits Times, 23.2.2004, 12.

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Abstracts

The article offers an overview over the persistence of China's export-led growth and its problematic implications. It is argued that the integration of China into the global economy was caused by two factors: On the one hand, a voluntary act of the Communist Party, on the other hand a functional need of contemporary capitalism. The global overaccumulation crisis since the 1970s led to three escape routes from overproduction: neoliberal restructuring, financialization and globalization. Although all of them ended up in dead ends, China is playing a double-edged role in all three processes: While China's immense growth rates stimulate the global economy, the strong export orientation of China exacerbates the global overproduction crisis. It is argued that China is only able to dominate the world markets by exploiting its cheap labour and marginalizing the countryside. Instead of reinvesting profits domestically, the Chinese authorities decided to finance US assets to stabilize the foreign demand for Chinese

products. Up to now, the interests of the export lobby in China prevent a real decoupling and transformation of the Chinese economy, which would require integrating the countryside, creating more domestic demand, and hence lower growth rates. Eventually, the strong export orientation of China, the US, and Europe – in addition to (not with) possible import barriers – may lead to global deflation, protectionism, and recession.

Der Artikel gibt einen Überblick über das Fortdauern von Chinas exportbasiertem Wirtschaftswachstum und dessen problematische Implikationen. Bello argumentiert, dass Chinas Integration in den Weltmarkt von zwei Faktoren herbeigeführt wurde: Einerseits durch einen freiwilligen Entschluss der Kommunistischen Partei, andererseits durch eine funktionalen Notwendigkeit des gegenwärtigen Kapitalismus. Die globale Überakkumulationskrise seit den 1970er Jahren führte zu drei Fluchtwegen aus der Überproduktion: neoliberaler Umstrukturierung, Finanzialisierung und Globalisierung. Obwohl alle in Sackgassen führten, spielt China in allen drei Prozessen eine widersprüchliche Rolle: So stimuliert Chinas immenses Wachstum die globale Ökonomie, während die starke Exportorientierung Chinas die globale Überakkumulationskrise verschärft. Es wird ausgeführt, dass das Land nur deshalb in der Lage ist, den Weltmarkt zu dominieren, weil billige Arbeitskraft ausgebeutet und ländliche Gegenden marginalisiert werden. Anstatt die Profite im Inland zu reinvestieren, entschied sich die chinesische Führung dafür, US-amerikanische Wertpapiere zu kaufen, um die Auslandsnachfrage nach chinesischen Produkten zu stabilisieren. Bis heute verhindert die Exportlobby in China eine echte Entkoppelung und Transformation der chinesischen Wirtschaft, die eine Integration der Landbevölkerung, die Schaffung höherer Inlandsnachfrage und niedrigere Wachstumsraten nach sich ziehen würde. Letztlich könnte die starke Exportorientierung Chinas, der USA und Europas, zusammen mit möglichen Importbarrieren, zu globaler Deflation, Protektionismus und Rezession führen.

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