China in the Crash Lane

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Take-off on Anti-communist Steroids

- World history, per capita GDP growth over 6 percent for an extended period has occurred only *three* times with each episode taking place in post WWII EA
- Japan’s spurt, averaging over 8 percent annually from 1955 to 1973, is the first
- Second, South Korea and Taiwan’s growth in GDP per capita in the period 1982-1996, averaged 7.4 percent and 7.1 percent respectively
- Third, there is China’s post 1978 trajectory averaging near 7 percent GDP growth per capita to 2005 which is the longest in history

China Paradox

- Paradox is that US anti-communist booty flooded region to prevent spread of communist revolution
- China's subsequent exclusion from "Free World" comparative advantage predicated international economic intercourse forestalled what was surely the fate of a country in its predicament
- Without socialist revolution – given China's poverty, legacy of imperialism, huge subsistence agrarian population, parasitic landlord/gentry ruling class (Nationalist power base) – it would be another "Bangladesh" today
- As China turned outwards at the outset of the Deng Xiaoping era it did so with a healthy disciplined workforce imbued with industrial skills, a rate of literacy over two thirds of its population + in region marked by advanced network of trading and technology linkages

Contagion

- Deng Xiaoping supported creation of special economic zones (SEZs) as “windows to the world” – garner foreign exchange + support industrial modernization
- 1984 – opening 14 coastal city regions for FIE (joint ventures)
- 1986 wholly foreign owned FIE’s permitted
- Paralleled “stripping” of state sector + “dual track” pricing = orgy of military/provincial elite corruption
- 1992 Deng endorses “socialist market economy”
- 1992/93 massive FDI flow into China – $10B, $30B
- Accompanied by increased state macroeconomic planning + fixed investment leaping to over 30% GDP
- 1995 – 2004 foreign capital generated over 30% China’s growth + 2004 70% FDI to 100% foreign owned business
- Estimate by 2004 foreign capital controlled 76% China’s industry

Why China (Domestic constituent 1)?

- First in contrast with third world countries on the erstwhile “Free World” membership roster (with comparably low GDP per capita), Maoist policies of primary and secondary education as well as good basic health care for China’s vast peasantry offered up a literate and disciplined workforce
- This topped up by an authoritarian polity ensuring broad social stability

Why China (Domestic constituent 2)?

- Low wages – BUT this NOT just a matter of seemingly inexhaustible work force:
  - "household responsibility" system guaranteeing land to rural households created a fallback subsistence option for off-farm laborers which lowered the cost of labor as it simultaneously rendered part-time and short term employment contracts palatable to the burgeoning off-farm cohort
  - The *hukou* household registration system fostered a social divide in China between "legal" urban resident permit holders and those from registered rural households
  - Rural residents swarming to China's factories excluded from urban entitlements.
  - Cannot sell their land or rural homes, ultimately anchoring their and any offspring's future in rural villages
  - This further represses real wages below subsistence levels and constitutes a de facto subsidy to foreign capital

International Constituents 1

- From 1980s into 1990s MNCs moved from relocating production and assembly to export platforms toward the wholesale *disarticulating* of global production into "value chains"
- Estimated that 60% of global trade is now constituted by trade in sub-products in "intermediate goods"
- ICT revolution in *logistics* empowered MNCs to exercise Stalinist-like centralized suzerainty over vast geospatially dispersed networks of suppliers
- Lynchpin of this is *non-equity mode* (NEM) of MNC global control
- By 2010 NEM control employed a global labor force of around 20 million accounting for 90% of production costs in toys and sporting goods, 80% in consumer electronics, 50 to 60% of automotive components world-wide

International Constituents 2

- Simultaneously manufacturing activity exploded across the third world
- By 2000 third world share of global manufacturing value added rose to 24%
- By 2001 share of manufacturing exports in third world exports as a whole was 70%
- Total value of third world manufacturing exports increased 4 times between 1980 and 2002
- Developing EA share of global GDP rose from below 10% in 1980 to over 28% by 2010
- EA share of global exports leaped from 8% in 1980 to near 26% by 2009
- EA export dependency (export/GDP ratio) predicated upon intermediate goods trade jumped from approximately 15% in 1982 to 45% by 2006
- Sub-products over 50% interregional import/export
- China’s imports of manufactures – share of intermediate goods grew from under 24% in 1992-1993 to over 59% in 2006-2007

Flying Goose?

- Vitiates Akamatsu's "dynamic comparative advantage" where Japan to export "product cycle" and transplant production processes among middle-income "geese"
- Under current conditions where manufacturing disarticulated – not clear how such might ever come to pass
- Not only has the export dependence of low and middle income countries in EA leaped – as low and middle income countries proportion of global sub-product exports grew – growth in those economies of capital and consumption goods exports remained stable since the late 1980s
- As for Japan, 29% of its imports were being drawn from *low* income countries, by-passing the middle income "geese" where industrialization was to have taken-off

US at the Center

- Trade deficit with China in 2007 was the biggest the US had with any country. It exploded from $11 billion in 1990 to $274 billion by 2007
- 2007 China’s share of US total trade deficit was 32.1%
- China’s trade with the US increasingly shifted to ICT products. These composed 37.6% of total US manufactured imports from China in 2005-2006 giving the impression that China was moving up the high tech ladder
- But bilateral and country based figures can be tremendously misleading
- As China’s share of the US trade deficit exploded, over the same period Japan’s share shrank from 21.1% to 10.2% and the share of EA as a whole plummeted 16% to 7.9%
- Hence, while China’s trade surplus with the US bloated, China was running a trade deficit with EA as a whole.

Chimerica?

- One estimate has the US-China nexus contributing over 45% of global growth in 2005
- Another sees it accounting for more than 60% of cumulative growth in global GDP in the period 2002-2007
- But this actually the US-anticommunist showcase EA nexus in new garb

Debt

- US consumption sufficient to foment China's meteorically high growth rates based on debt
- Spiking from the close of the 1970s to 2007 total US credit market debt skyrocketed from 170% of US GDP to 360%
- Skyrocketing in tandem with total credit market was US household net worth
- Expansion of credit increased the value of both major household sector assets – real estate + equities
- The median price of a single family home in the US more than quadrupled between 1980 and 2007
- Dow Jones Industrial Average surged from 1,000 in 1982 to 14,000 by 2007
- Rising asset values fuelled a household spending spree largely financed by using homes as ATMs
- The latter saw consumer credit increase 6 times. As US consumption as a proportion of GDP jumped to over 70%, US household debt bloated to 98% of US GDP

Meltdown 2008

- China, with an economy cushioned by a large current account surplus and swelling foreign exchange reserves pumped the equivalent of $570 billion at end 2008 into a spate of infrastructure projects, eliciting the refrain “China saved the world”
- Refrain rings true as behind direct linkage of US debt- driven consumption serviced by MNC value chains in EA directing final assembly through China has been instigation of a global raw material resource supply boom

Recovery?

- Injection into China’s economy of an amount equal to 15% of its GDP made it largest relative economic stimulus of all the meltdown bailouts
- Accompanied by government admonition to state banks to ramp up lending
- China recovered rapidly from the US originated crisis
- Recovery saw fixed investment in China jump to a whopping 46.2% of GDP by end 2010
- Investment driven growth in China dampened adverse effects of the 2008-2009 meltdown in EA
- China’s demand for raw materials maintained growth trajectories among resource exporters in Latin America and Sub-Saharan Africa
- Estimated that China’s growth contributed over 40% of global growth between 2008 and 2010

Three Narratives

- Rebalancing = right policy adjustments China will consume in a fashion which induces high domestic growth rates while pulling in US and other advanced country exports in a fashion which engenders mutual prosperity and remedies the US external deficit
- Decoupling = rise of BRICS led by China signals gestating of a new orientation for the global economy
- Reform = China’s growing middle class will compel economic and political change in line with historical experience of previous developers

Rebalancing

- China's per capita GDP just above Jamaica and just below Timor-Leste
- Such GDP per capita ensures China's growth remains resource intensive for some time
- Little in the way of direct demand for particular goods and services exported by the US and high income EU economies
- Nature of consumption differs sharply from that shaping global value chains
- MNCs catering to US consumers structured value chains around things like brand recognition, product diversity, quality control and environmental/energy impacts of production
- China's demand turns on low cost, standardized goods with scant concern with quality, pollution or energy intensity which factor into the division of labor constituted by MNCs and NEM contract networks

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- No replacement for US consumption
- 2007 and 2008 US household annual consumption averaged around $10 trillion
- Household consumption in Japan and Germany during the same period averaged only $2.5 trillion and less than $2 trillion respectively
- By mid 2011 US household debt as a percent of disposable income had only fallen from close to 130% to around 110%
- Even if US households successfully deleverage over the next decade their spending will be considerably reduced in the absence of the home-ATM connection

Decoupling

- From dawn of neoliberal era world economy characterized by burgeoning capital flows into the US and US dollar denominated assets
- Trend punctuated by brief episodes of capital outflow, such as that preceding the Asian Crisis, only to see monies stream back to the US as bubbles burst.
- Period from the beginning of the 21st century when the acronym BRICS is coined – as capital inflow to the US and dollar denominated assets spiked, a parallel sustained capital flow to third world so-called emerging markets occurred
- This flow entailed increased volumes of securitized "lending" to private borrowers
- When the meltdown hit – emerging market flow temporarily halted as money retreated to the "safety" of dollar holdings

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- As US “quantitative easing” liquidity injections kicked in under largely zero interest rate conditions, speculative flows into the third world trailing the China driven “real” investments spiked
- China’s investment it amounts to “half-empty” high speed trains, “three-quarters empty” stations, “three-quarters empty” highways with each competing with new airports for non-existent traffic to nowhere
- There is no rationale for a country at that level of economic development to have not just duplication but triplication of those infrastructure projects

Reform

- China one of the most unequal societies on earth in line with the usual suspects in Sub-Saharan Africa
- Recent alternative data show inequality worsened considerably from the pre-meltdown period giving China a GINI measurement not of .46 as widely noted for 2006, but a GINI of .61
- That is, China's top 20% command almost 70% of all income, the bottom 20%, 0.5%
- The respective figures for the US are 50.3% and 3.4%

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- China has the world's most billionaires. Recent estimates put their number at 408. US billionaires number *only* 317
- China's potential middle class is wedged between the billionaires and 700 million peasants
- Projected to grow from 13.7 million households as of 2010 to 167 million, or 40% of the population, by 2020
- US, according to the OECD, currently has the biggest middle class, 73% of the population
- Like in US what now translates as "middle class" life is dismal + China's middle class unhappiness claimed to be "the biggest risk in the world"

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- Talk by China's political class of genuine reform is theater
- Of China's 1,024 *über rich* identified by Hurun's Rich List – 160 with a total net worth of $221 billion have seats in the current CCP Congress and associated bodies
- To compare, combined wealth of all 535 members of the US Congress is estimated at only between $1.8 billion and $6.5 billion in 2010
- Control by the state of major investment projects, land, commanding heights banks, feeds corruption by China's elite

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- But what is hastening China's maneuver into the crash lane is the seething discontent throughout the vast expanse of the country
- The annual number of mass incidents of protest and social unrest jumped from 50,000 in 2002 to around 80,000 in 2006. In 2010 the number surged to around 180,000
- My prediction: As the world economic crises deepens China decomposes into provincial fiefdoms from whence it began at the dawn of the 20th century