

“Poverty’s Fall”/China’s Rise: Global Convergence or New Forms of Uneven Development?

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ABSTRACT *This article critically assesses the relationship between the claimed fall in global poverty and the rise of China in recent years. It questions the mainstream “pro-globalisation” argument, which suggests that there is a causal link between neo-liberal, “pro-globalisation” policies, and falling poverty and rising China. It is argued instead that the evidence concerning poverty reduction is ambiguous, and it is not the case that the most successful developers have adopted pro-globalisation policies. This latter contention is examined through consideration of the relationship between Chinese development and globalisation, with particular emphasis on the “transnationalisation” of capital and the rise of global commodity chains, and how this has produced new forms of uneven development in the global economy.*

KEY WORDS: Globalisation, poverty, China, commodity chains, uneven development

This article critically examines the claims made for poverty reduction in recent years, alongside the rise of China. It suggests that the two claims are closely linked and that, within the mainstream debate, an alleged causal link exists between them and neo-liberal and/or “pro-globalisation” economic policies. This article takes issue with this argument, based on three broad contentions: (1) that there are some grounds for scepticism concerning claims made for poverty and inequality reduction; (2) that even if there has been some poverty reduction, this has not been the result of neo-liberal or unambiguously “pro-globalisation” policies, both generally and in China; (3) the Chinese economic “miracle,” while undoubtedly a reality, has had far more contradictory effects, both within and beyond China, than is usually acknowledged. Rather than focusing in detail on the domestic sources of Chinese growth, this final contention is examined in relation to debates on globalisation, and is used to draw some wider implications, including a questioning of the claims made for neo-liberalism and (actually existing) globalisation, and to emphasise continued uneven development in the global economy.

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The argument is outlined in four sections. The first section outlines briefly the claims made for poverty and inequality reduction and how these are said to be causally linked to globalisation. This is followed by a section that outlines briefly the rise of China and how this has been interpreted by many advocates of globalisation. The contentions of these two sections are then challenged through a re-consideration of the claims made for poverty reduction and globalisation-friendly policies, with some reference made to how China's rise relates to these debates. Finally, an alternative approach is suggested, which attempts to explain the relationship between China and globalisation through consideration of the role of global commodity chains, and how these relate to uneven development and inequality in the contemporary global economy.

Reducing Poverty and Inequality through Globalisation

Recent upbeat assessments claiming that global poverty has declined in recent years are now well established. The World Bank has argued that poverty and income inequality have fallen in the last twenty years. In 1980, there were 1.4 billion people living in absolute poverty, and by 1998 this had fallen to 1.2 billion (World Bank, 2002a: 30). More recent figures suggest that the number of people living in absolute poverty has fallen by 400 million (Chen and Ravallion, 2004). Another set of figures translate to the claim that the proportion of the world's population living in absolute poverty has fallen from 28% to 24% (World Bank, 2001). Some observers are even more upbeat, with Bhalla (2002) suggesting that the proportion of people living in absolute poverty has fallen from 46% in 1980 to 29% in 1990 and 18% in 2000, and the latter figure may even be as low as 13%. This amounts to a fall in total numbers (based on the 18% estimate) from 1.58 billion in 1980, to 1.2 billion in 1990, and 899 million in 2000.

In terms of inequality, neo-liberals argue that this has also been reduced in the years from 1980 to 2000. As one of the leading sceptics, Robert Wade (2004) pointed out, relevant variables for measuring inequality include: (1) the use of market or Purchasing Power Parity (PPP) exchange rates; (2) distribution between countries and within countries; (3) distribution weighted by population; (4) distribution measured as an average across the distribution (such as the Gini coefficient) or the ratio of the top to the bottom (say, 20% or 10%). The contention that inequality has fallen is based on a measurement that combines PPP incomes, average GDP, weights population per country, and averages out distribution within countries (Wolf in the debate in Wade and Wolf, 2002).

The overwhelming reason given for poverty and inequality reduction is said to be that an increasing number of countries have adopted "globalization-friendly" policies. The World Bank (2002a) report, *Globalization, Growth and Poverty: Building an Inclusive World Economy* (also Dollar and Kraay, 2002), is perhaps the most prominent example. Although the report makes frequent qualifications, the general conclusions and recommendations claim to establish a causal case between globalisation and poverty reduction. Based on a study of 92 countries over four decades, the report differentiates more and less "globalised" countries. This is measured by examining trade tariffs from 1985 to 1997 and trade volumes (based on trade/GDP ratios) from 1975-97. The top third of countries are designated as more

globalised, and the bottom two-thirds as less globalised. The key argument is that the more globalised countries had higher rates of growth than the less globalised, with the former having annual average growth rates of 5% and the latter rates of growth of just 1.4% per year. The report therefore reaches the conclusion that growth is good for the poor, and that market-friendly, pro-globalisation policies are good for growth.

The evidence for these assertions relies heavily on the rapid growth of, and poverty reduction, in China. Indeed, as Milanovic (2003: 674) pointed out:

Since the catch-up is defined in terms of mean *population* – weighted income of the globalizers, and since China is among these, and since China has had such a remarkable growth record over the last two decades, the authors [Dollar, Kraay and fellow Bank economist Paul Collier] should not have even bothered to include other countries. All that is needed to obtain the desired conclusions is that China's growth accelerates.

The clear implication is that if China is excluded, or countries are measured on a one-to-one basis, then the upbeat assessment would have to be revised or even rejected outright. Whether or not such exclusion or measurement should occur is an issue discussed further below. First, however, the rise of China must be examined in a little detail.

China's Rise

China's economic growth since the late 1970s has undoubtedly been impressive. From 1978 to 2001 its annual average growth rate was 8.1% and its annual rate of industrial growth was 11.5%. Exports grew from \$US18.1 billion¹ in 1978 to \$266 billion in 2001, reflecting an annual average growth rate of 12%. By 2001, manufacturing exports accounted for 90% of total exports (Nolan, 2004: 3, 9-10). In the years 2002, 2003 and 2004, export volume increased by 25%, 35% and 33%, respectively (UNCTAD, 2005: 8). China's share of world (PPP-adjusted) GDP has increased from 5% in 1980 to 14% in 2005, and its share of world trade is close to Japan's peak in the early 1990s, of around 9% (Glyn, 2005: 16, 20). These impressive figures have coincided with significant shifts in economic policy since the late 1970s, including the abolition of the agrarian commune system, allowing more autonomy from the state and party apparatus for individual enterprises, the (controlled) promotion of the private sector and a greater openness to foreign trade and investment (White, 1993: 42-50).

There was substantial growth in the 1980s, although there was also a marked slowdown at the end of that decade. But it was from the early 1990s that the Chinese miracle was most pronounced. This, in part, reflected a boom in direct foreign investment from the early 1990s. In 1983, inflows were (at constant prices) \$636 million; in 1984, \$126 million; in 1988, \$319 million; in 1991, \$436 million; in 1992, \$1.1 billion; in 1993, \$2.75 billion; in 1993, \$3.37 billion; in 1998, \$4.55 billion; before falling back to \$4.03 billion in 1999 and recovering to \$5.27 billion in 2002 (Harvey, 2005: 124).

Despite some geopolitical concerns, particularly among US neo-conservatives, neo-liberals regard the economic rise of China as an opportunity for others, as

increased exports translate into greater income and therefore enlarged potential for others to export to the expanding Chinese market. Certainly, China's production has relied increasingly on the rising import of inputs and, from 1980 to 1998, the proportion of export revenue that reflected direct imports into production processes rose from 8% to 12%, and the percentage of imports that went into the production of domestically sourced inputs grew from 15% to 23%. Demand for imports has increased particularly in consumer goods, food and metal-based products (Kaplinsky, 2005a: 206). The export value of iron and steel, ores and minerals and non-ferrous metals increased by between 30% and 45% in 2004, which reflected rising demand from China, which is now the leading importer of many commodities (WTO, 2005: 1-2). Some Latin American countries have expanded their food and raw material exports into China at rapid rates, including Brazil, Argentina and oil-exporting Venezuela. In 2004 Latin American exports expanded by 37%, much of which was accounted for by rising demand in East Asia, especially China (Jenkins and Peters, 2006; WTO, 2005: 11). Some African countries, particularly Sudan and Congo, have similarly boosted their sales in the Chinese market. East Asian countries have also benefited, as will be seen below.

It should be clear that China's rise does give some cause for an optimistic assessment of the prospects for development in the era of globalisation. China's rise can be regarded as proof of the opportunities presented by globalisation as long as the correct policies are adopted, opportunities which are further reinforced by the expansion of the Chinese domestic market, a potential source for export expansion for other countries (Lippit, 2005). If these opportunities are tapped further, then the prospects for even greater reductions in poverty and inequality can be fulfilled.

Re-considering Poverty and Inequality Reduction

The claims made for poverty and inequality reduction have been challenged in a number of ways. Absolute or extreme poverty is defined as those people living on an income of less than (approximately) \$1 a day, based on PPP exchange rates. PPP is based on adjustments that attempt to take account of the fact that the cost of living tends to be lower in poorer countries than richer ones. As a starting point, the Bank's chosen international benchmark figure was \$1 a day in 1985, which was then changed to \$32.74 per person a month, for the USA, in 1993. This method is the basis for the generation of upbeat arguments cited above, which all suggest that the number of people living below an international poverty line (IPL) of approximately \$1 a day.² Sanjay Reddy and Thomas Pogge (2003; also Pogge, 2004) argued that the initial benchmark figure chosen by the Bank – \$1 a day in the USA – is too low. According to the US Department of Agriculture, the lowest cost of home-cooking that could meet adequate calorie (and some nutrient) requirements was \$5134 for a family of four in 1999. However, the Bank's international poverty line stood at \$1812 in 1999 (based on the 1985 figure updated through consumer price index changes) and \$2057 in 2004 (based on the 1993 figure). Thus, the source of the IPL underestimates total food requirements for the poor in the USA, let alone for the rest of the world.

Reddy and Pogge went on to argue that PPP is not an accurate measure of what the poor actually consume in a developing country. If one assumes a PPP differential

of ten, for example, the Bank will assume that the annual income of a household in a poor country will be ten times that of a poor household in the USA, measured through PPP exchange rates. This differential will lead to similar levels of consumption by both poor households. But the problem is that this average is not calculated by comparing the consumption patterns of the poor in the two countries. Instead, consumption patterns are *averaged* out; that is, PPP does not actually measure what the poor are consuming, but instead measures what everybody consumes in a poor country. Based on a sample of 56 countries for a benchmark year of 1985 and 78 countries for 1993, Reddy and Pogge suggested that the prices of all foods (and even of bread and cereals) were higher than general consumption PPP. For low income countries (15 of the total in both samples), the price of food was 67% (40% population weighted) higher and bread and cereals 111% (34% population weighted) higher based on the 1985 benchmark year, and 27% (31%) and 51% (40%) higher for the 1993 benchmark (Reddy and Pogge, 2003: 27, 46-7).

These figures are also biased towards showing a downward trend over time. This is because the purchase of food constitutes a falling share in international consumption spending, while services constitute a rising share. In other words, "as average incomes rise, so the proportion spent on food declines". In terms of PPP, the result is that the price of food has a diminishing influence on the calculation of PPPs, while services have an increasing influence. The assumption is that the income of everyone in a country rises equally, which is highly unlikely, and wealthier households are likely to enjoy greater increases in consumption than poorer ones. Moreover, as has been seen, the poor are far less likely to consume services, but the contribution of services to PPP measures will be enhanced as general consumption increases. PPP calculations therefore not only assume a proportionately similar increase in consumption for all households, but they also show a bias towards measuring the consumption patterns of households that are not poor.

Moreover, even if one ignores the problems of counting the poor, and accepts the Bank's figures instead, there remains the question of the arbitrary \$1.08 headcount. This is all the more problematic given that the 1985 and 1993 base years underestimate the income needed to purchase food in the USA (see above). Indeed, despite all its problems, if the poor are re-defined as those living on less than \$2 a day, the Bank's own figures suggest that the numbers and proportion of people in poverty increased from 1981 to 2001, from 2.45 to 2.74 billion (a 12% increase).³ Given that the US Department of Agriculture argues that the one dollar a day starting point is inadequate (see above), then there are significant grounds for using the \$2 benchmark. Moreover, even on the one dollar count, the number of those in poverty has risen by about one-third in Latin America, and one-half in sub-Saharan Africa (Sumner, 2004: 1169), even as most countries have liberalised their economies.

There are also serious problems with the contention that inequality has been reduced in recent years. First, the neo-liberal case leaves out the question of income distribution *within* countries. Secondly, the proportion of the richest to the poorest people, or inequality as measured by *polarisation*, is undoubtedly increasing. Thirdly, neo-liberals focus only on relative inequality between countries, while absolute inequality is still increasing. Thus, a growth rate of 10% a year in a country where per capita income is only \$500 a year means a closing of the relative gap with a country that has an annual growth rate of 2% a year with a per capita income of

\$10,000 a year. But the *absolute* gap continues to rise as 2% of 10,000 is higher than 10% of \$500. The neo-liberal objection to this argument is that this increase in absolute inequality is bound to occur and can change only over a long period of time (Wolf, in Wade and Wolf, 2002). This is true but it ignores the fact that for most countries (and the world as a whole), growth rates were greater in the period 1950-80, before neo-liberalism became globally dominant (Weisbrot et al., 2001).

Moreover, if one draws on market exchange rates, there is no doubt that inequality is increasing. In many respects this is not a good measurement, as fluctuations in exchange rates can have dramatic implications for measuring inequality. However, on the other hand, these wild fluctuations – and market exchange rates themselves – are not without significance, not least because international purchasing power is a reflection of the increased global integration that neo-liberals are otherwise so keen to embrace. Certainly, domestic imports, external debt repayments and attendance at meetings of international institutions are not paid for by PPP dollars.

Thus, there are some grounds for treating the claims made for a decrease in global poverty and inequality with some scepticism. Even more significant problems arise, however, when attempts are made to establish *causal* links between globalisation and poverty and inequality reduction. *Globalization, Growth and Poverty* (World Bank, 2002a) essentially suffers from two problems. First, there is the question of how “openness” is measured, which essentially relies on trade/GDP ratios. Secondly, there is the question of focusing on changes in, rather than amounts of, openness. Trade/GDP ratios measure the volume of trade in a particular economy, but they do not measure trade *policy*. It is quite possible to have high trade/GDP ratios and yet still have relatively closed trade policies, as was the case for the first-tier East Asian late developers. It is, therefore, unclear how trade/GDP ratios are linked to policies of trade or investment liberalisation. Moreover, while there may be countries that experience high rates of economic growth and have high trade/GDP ratios, this correlation does not establish a causal link between the two. In fact, some of the poorest countries in the world actually have high trade/GDP ratios. Thus, in 1997-98, the trade/GDP ratio for 39 of the poorest, least developed countries averaged 43%, around the same as the world average, but their share of world exports from 1980 to 1999 declined by 47% (UNCTAD, 2002a: 103, 112). In the period from 1999-2001, the trade/GDP ratios of the least developed countries averaged 51%, which was actually higher than that in the most developed countries (UNCTAD, 2002a: 3). If one turns to trade policy, over this same period, least developed countries actually went further than other developing countries in dismantling trade barriers (UNCTAD, 2002a: 114), a point returned to below.

In fact, this argument can be expanded further and it relates to the second problem with the high globaliser/low globaliser distinction. Measuring *changes* in the trade/GDP ratio is an even less useful way of measuring trade openness. The most globalised countries tend to be ones that initially had a low trade/GDP ratio in 1977, but whose ratios have increased since that time. This measurement, therefore, excludes countries with high but not rising trade/GDP ratios from the category of more globalised, particularly those very poor countries dependent on the export of a few primary commodities, and which have had very low and sometimes negative rates of growth (UNCTAD, 2002a: pt 2, ch. 3). The effect of excluding such poor,

low growth countries with high but constant trade/GDP ratios from the category of more globalised countries is to underestimate the category of constantly high globalisers with low economic growth.

An exaggeration of the relationship between high growth and growing openness also occurs when critically examining the evidence for China and India, which both make the list of more globalised countries, even though their trade and investment policies remain less open than some of the low globalising countries. This is justified by the assertion that "as they reformed and integrated with the world market, the 'more globalised' developing countries started to grow rapidly, accelerating steadily from 2.9 percent in the 1970s to 5 percent through the 1990" (World Bank, 2002b: 30). But this claim does not conform to the reality of growth in China or India, where the rapid economic growth of these two countries pre-dated their growing openness and, indeed, in India, there was little change in growth rates once liberalisation was implemented in the 1990s (Rodrik, 2001: 24; Rodrik and Subramanian, 2001). Moreover, despite liberalisation, such as the lifting of some restrictions on foreign capital investment, they remain far from open economies. Capital controls remain strong, subsidies still exist and there are still relatively high tariffs on selected imports. Average tariff rates in India did decline from 80% at the start of the 1990s to 40% at the end of the decade, while China's declined from 42.4% to 31.2% in the same period, but the latter figures remain higher than the average for developing countries (Rodrik, 2000: table 1). Milanovic (2003: 674-5) is not alone in noting the irony that the Bank has used China – a communist country where around one-third of output is produced by state-owned enterprises – as supposed confirmation of the validity of neo-liberal policies.

It is clear that attempts to draw conclusions from China and India which support neo-liberal claims are misguided. Indeed, when one does attempt to generalise, the Bank's own data suggest that if openness is measured not by trade/GDP ratios or changes in these ratios since 1975, but instead focuses on trade and investment policies in 1997, reportedly high globalisers had higher average tariffs (35%) than low globalisers (20%) (Sumner, 2004: 1174). The IMF index of trade restrictiveness measures trade policy through quantifying average tariff rates and non-tariff barriers, and there is no evidence of greater trade restrictiveness on the part of the poorest countries. Based on an analysis of 46 of the poorest least developed countries (LDCs), UNCTAD found that in 2002, average tariff rates were less than 25% for 42 of these countries, less than 20% for 36 of them, and less than 15% for 23 of them. In 29 of the 46 countries, non-tariff barriers were absent or minor, and in 28 of the 46 countries, there were no significant non-tariff barriers and average tariff rates of less than 25% (UNCTAD, 2004a: 16-17). UNCTAD thus concluded that "most of the LDCs now have more open trade regimes than other developing countries and as open trade regimes as high income OECD countries" (UNCTAD, 2004a: 17).

Indeed, if nation-states are weighted on a one-to-one basis, and India and China count only as two countries rather than counting more according to their higher population, then the growth rate differentials between high and low globalisers is statistically very small (1.5% a year for the former, 1.4% for the latter) (Sumner, 2004: 1174). Perhaps, above all, if poverty reduction has occurred, then the reason for the downward trend in the last twenty years is economic growth and poverty reduction in China and India. If these are excluded, then all the evidence points to an

upward trend. But, of course, on the face of it, there is no good reason to exclude them, especially as these two countries make up a very high proportion of the world's population (Wolf, in Wade and Wolf, 2002). It is already clear that those arguments suggesting a simplistic causal link between China's (and India's) growth and globalization-friendly policies are misplaced. What then is the nature of the relationship between China and globalisation? This is addressed in the next section.

Globalisation, China and the World Economy

A full analysis of the reasons for the Chinese economic miracle lies outside the scope of this article. It is the case that China's growth has been impressive, but it has already been suggested that it is not sufficient to put this down to the roll back of the state or globalization-friendly policies. Central to understanding its growth has been the specific nature of state "autonomy" and how this has allowed the Chinese Communist Party to direct state investment into favoured sectors (Bramall, 2000). This, however, does not provide a model for other countries to follow, as autonomy was a by-product of political developments in the Maoist era, and the defeat of potentially unproductive, rent-seeking social sectors. But the purpose of this section is not to develop in detail the reasons for China's economic growth compared to other countries. Rather, it is to focus on the limits to this growth and what this can reveal about the nature of "actually existing globalization." The focus of the rest of the article is, therefore, on how the Chinese "miracle" fits into the wider context of global and regional restructuring.

As has been seen already, for all its economic growth, it is very difficult to regard China as a neo-liberal miracle. Certainly, average tariffs fell substantially in the 1990s but, by the end of the decade, they still stood at 25% and were much higher in some sectors, such as vehicle imports (80-100%) and farm products (31%). Moreover, non-tariff barriers (such as technology transfer or joint venture requirements in some sectors) were still in place (Nolan, 2001: 18). In the 1990s, 120 large enterprise groups were selected by the State council as sectors regarded as being of strategic importance. These included electricity generation, coal mining, automobiles, electronics, pharmaceuticals, transport and aerospace; the most cutting-edge sectors within these industries, such as IT hardware, were also included. China's industrial policy, therefore, has been similar to those of both Japan and South Korea, in that the state has deliberately attempted to foster large companies, or "national champions." This strategy has occurred in a different context from that of its East Asian predecessors, which developed in the Bretton Woods era, with far more room for state-directed development, and enjoyed a close strategic relationship with the USA, in many ways facilitating further economic development. In China, while some progress has been made, unlike Japan and South Korea, not one single company has emerged as a globally competitive player. Indeed, as Nolan (2001: 91) pointed out, "in export markets, China's aspiring global giant corporations must content themselves mainly with selling lower end sophisticated products (for example, power stations, steel mills, fighter planes), mainly to other developing countries." Otherwise, these firms concentrate on the domestic market or export in low value sectors, such as bicycles and motorbikes. In 2000, China had just three firms in the *Financial Times 500* (based on market capitalisation). These were the

China National Offshore Oil Company (CNOOC), China Mobile and China Unicom, each of which operates in a protected domestic market. In one category in the *Fortune 500*, China had six of the top ten firms, but this was in terms of number of employees, and each one of these was mainly state owned and protected – something which is likely to change with World Trade Organisation (WTO) membership. For neo-liberals, these failings reflect the inefficiencies of industrial policy and they contend that growth has occurred despite, rather than because of, such a policy. By implication, growth would be even greater if the Chinese state was liberalised further and good governance and market-friendly intervention was extended by an enabling state. At the very least, China's growth is attributable to its market-conforming policies, while future potential problems are attributable to "market-supplanting" policies (Fan and Woo, 1996; World Bank, 2002c).

This then, brings us to the heart of the debate. While China certainly has experienced an economic miracle alongside older "developmentalist" state policies, neo-liberals argue that these policies are largely irrelevant. But this view underestimates the ease with which dynamic firms can break into world markets, ignores the strong tendencies towards capital concentration, and supports the reversal of policies (such as industrial policy) designed to alleviate these tendencies. Thus, if one examines the international context in which China has attempted to promote national champions, one can see some movement towards the transnationalisation of capital, but also continued capital concentration.

High income economies (with 16% of the world's population) account for 91% of stock market capitalisation, 95% of the *Fortune 500*, 97% of the *FT 500*, 99% of Research and Development spending of the top 300 firms, and 99% of top brands. The developing world, including China, with 84% of the population, accounted for just 26 of the *Fortune 500* companies (about 5%), sixteen of the *FT 500* (about 3%), one of the top 100 brands, and none of the Research and Development 300. To get some sort of perspective – and of considerable relevance in discussing US economic hegemony – North America (with 5% of the world's population) makes up 40% of the *Fortune 500*, 50% of the *FT 500*, and 54% of Morgan Stanley Den Witter's "global competitive edge" firms (compared to 6% for the developing world) (Nolan, 2004: 23).

It is in this context that China's industrial policy should be located. Like the East Asian miracles, China has some of the characteristics of a "high household saving, high corporate debt" development strategy (Lo, 2005). Like earlier strategies led by developmental states, this involves a commitment to long-term, industrial upgrading which in turn relies on high intensity investment, rather than simply competing in the world economy based on "static" comparative advantage. Instead, investment is characterised by high start-up costs and slow returns – conditions not conducive to development led solely by the market. This strategy relies heavily on bank-led finance mediated by states who direct credit into certain potentially dynamic and high value sectors. It was successfully employed in South Korea and Taiwan from the 1960s through to the 1980s, but this was in a very different context to that now faced by China. WTO membership was agreed in 1999 and came into effect in 2001, but this has occurred "at the point at which the degree of unevenness of business capability has never been greater" (Nolan, 2001: 187). China was given a five-year adjustment period before fuller implementation of WTO rules, which would include reduction in

average tariff levels from 24.6% to 9.4%, the observation of WTO rules on trade-related investment measures (TRIMS), the elimination of local content requirements for foreign investment, increases in guarantees for intellectual property, and open access for foreign firms to sell to State Owned Enterprises (SOEs). In the automobiles sector, tariffs were to be reduced from 80-100% to 25% by 2006, and quotas were to be phased out, chemicals from 15% to 7% by 2005, and steel from 10.3% to 6.1% by the end of 2002 (Nolan, 2001: 198-205). While these policies were largely (though not completely) implemented, China stalled on liberalization in some areas (see below). Optimists argued that liberalisation would allow China to specialise in its most competitive sectors and shed those high-cost industries that constitute a drain on the economy. In this scenario, upgrading will occur as it did for earlier East Asian miracle economies. Certainly, quota reductions have allowed China to increase its market share in lower value activities – though this was likely to happen whether or not China joined the WTO. This does not, however, mean that a transition to higher value production will necessarily occur. The first-tier newly industrialised countries upgraded and developed in a very different international environment, which gave far more room for the interventions associated with the developmental state.

These problems are likely to be exacerbated by the gradual movement towards trade liberalisation that will result from China's entry into the WTO, leading to cheap imports from overseas competitors, even if the liberalisation processes envisaged by WTO membership have, in some respects, stalled. For instance, as early as 2003 some foreign companies were complaining that China was not meeting its obligations on market access (Breslin, 2005: 739-40). The annual Congressional-Executive Commission Report of 2005, claimed that China was implementing policies that sometimes contravened its WTO commitments, and included practices such as preferential marketing access for Chinese firms, preferential loans from state banks and privileged access to stock markets, and providing tax relief to domestic producers. US Commerce Secretary Carlos Gutierrez claimed in 2006 that "[t]he bottom line is that our companies do not have their rightful access under the terms of China's WTO commitments" and suggested that this "only strengthens those who want to build protectionist barriers around the US market" (see Breslin, 2007: ch. 3).

Moreover, the incidence of rural poverty is likely to have adverse effects on wages for unskilled and semi-skilled workers, including in the towns. This is because declining or stagnant rural incomes make migration to the towns more likely, which puts downwards pressure on wages in those sectors. About 60% of the population still lives in the countryside. However, employment in agriculture has been relatively stagnant, despite substantial population increases. While total population increases at around 16 million a year, and the working age population grew from 679 million in 1990 to 829 million by 1999, employment in agriculture fell slightly, from 333 million in 1995, to 329 million in 1999. It has been estimated that there could be as much as 150 million surplus farm workers. Moreover, employment in township and village enterprises has also stagnated. While the proportion of people living in the countryside has remained more or less constant, the share of the rural population in total consumption has fallen from 60% in the early 1980s to 42% by 2001. This has also occurred in the context of increasing inequality: income distribution in the countryside has also increased, with the rural Gini co-efficient moving from 0.21 in 1978 to 0.4 in 1998. Indeed, some estimates suggest that rural poverty is actually

increasing (Nolan, 2004: 11-13). Thus, Woo and colleagues (2004) argued that the proportion of rural residents with income of less than 50 cents a day rose from 1.8% to 2.9% between 1996 and 2002, while the proportion of rural residents with daily income below \$1 a day (PPP adjusted) has stagnated at 11% over the same period.

These problems have been exacerbated by growing urban unemployment – employment in state-owned enterprises fell from 76 million in 1995 to 35 million by 2002 (Harvey, 2005: 128). Regular employment in the urban, non-state-owned formal sector grew from 21 million in 1995 to 35 million in 2002, but this is nowhere near enough to cope with rural-urban migration and lay-offs in other sectors (Khan and Riskin, 2001; Liu and Wu, 2006; Nolan, 2004: 14-15). The existence of this reserve army is likely to have adverse consequences, not only for Chinese workers, but also for unskilled workers in other countries dependent on a wage in low value sectors where there are low barriers to entry. This applies not only to wages, but work conditions, and China has a very poor record in terms of working hours and safety. Alongside these social problems is China's environmental problems which, insofar as they include declining land fertility, exacerbate the decline of the countryside (Cannon, 2000).

It is true, however, that China has undoubtedly been successful in exporting low value, labour-intensive goods. Thus, in 2003, the US retail company Wal-Mart imported \$15 billion worth of products from China, which accounted for as much as 11% of all US imports from China (Kaplinsky, 2005a: 176). China has also successfully expanded its market share in labour-intensive sectors, such as clothing, and this is likely to expand further as the effect of the phasing out of quotas takes hold. Thus, in clothing sectors where there have been quota removals, China's share has increased enormously. For instance, in 2002, the USA removed quotas in 29 categories of clothing, and China's share in these sectors rose from 9% to 65%, as prices fell by an average of 48% (Kaplinsky, 2005a: 176). Breslin (2005: 742-44) suggested that China's rise itself may be exaggerated, as its economic miracle cannot be divorced from its role in East Asian production networks. In particular, China specialises in completing the production of low value, labour-intensive goods, and relies on technologies produced in other East Asian countries, with whom it has a substantial trade deficit. Moreover, the East Asian region provided over 50% of total foreign investment into China for much of the 1990s. This is central to understanding the relationship between China and globalisation.

China's rise must, in part, be located in the context of the wider restructuring of international capitalism since the 1970s. Particularly important in this respect is the rise of manufacturing industry in the developing world, and the so-called rise of a new international division of labour (Frobel et al., 1980). Although many contributions to the debate exaggerated the extent of relocation of manufacturing from the developed to developing world (for critiques, see Jenkins, 1984; Kiely, 1994; and below), it did at least get to grips with the importance of manufacturing in parts of the so-called periphery. Indeed, if anything, the rise of manufacturing has been more important since the debate first took off in the 1970s, as cheaper transportation and the growing use of information technology has facilitated the codification of manufacturing processes, and thus global sourcing and modularised production networks. In 1980, over 82% of developing country exports to the developed world

were primary products, although it should be stressed that this figure is abnormally high because of high oil prices at the time. In 1990, 43.4% of the share of developing country exports to the developed world was in primary goods, with manufacturing accounting for 56.6%. By 2003, the share of manufacturing had increased to 66%, compared to around just 17% in 1970 (Baker et al., 1998: 7; UNCTAD, 2005: 150). Although the figures from the early 1990s onwards reflect the rapid growth of China, all regions in the developing world have seen an increase in the proportion of their exports that are manufactured: Africa (from 7% in 1970 to 17.8% in 1994), Latin America (from 10.6% in 1970 to 48.7% in 1994) and Asia (from 22.4% in 1970 to 73.4% in 1994) (Baker et al., 1998: 7). Indeed, the share of manufacturing in both GDP and employment is now larger in developing countries than it is in developed countries (Arrighi et al., 2003).

In the 1990s, there was a large increase in global foreign direct investment (FDI), from \$59 billion in 1982 to \$1.2 trillion in 2000, and annual average rate of growth of FDI from the mid-1980s – 23.6% (1986-90), 20% (1991-95) and 40.1% (1996-2000) (UNCTAD, 2002b: 4). Moreover, as well as FDI, many companies have drawn on subcontracting and licensing agreements with local capital in the developing world. The increase in FDI and subcontracting and rise of manufacturing have encouraged a new period of optimism concerning the potential for development in the era of globalisation. On the face of it, this would appear to be a more convincing argument than that concerning trade liberalisation, because clearly China (among others) has received considerable amounts of foreign investment.

However, these processes have not led to anything close to convergence in the world economy. Measured in value terms, capital flows continue to concentrate in the developed world and a few developing countries. The advanced countries continue to receive around two-thirds of FDI in manufacturing⁴ and of the one-third that goes to developing countries, ten countries received 70% of it (UNCTAD, 2004a).⁵ These figures do not take into account subcontracting agreements, but the shares of world trade by the developing world outside of Asia has fallen in recent years. In 1960, Africa's share of total merchandise exports was 5.6%, and Latin America's 7.5%; by 2002, Africa's share had declined to 2.1% and Latin America's to 5.4% (UNCTAD, 2004b: 51). In services, concentration was even greater – in 2002, developed countries accounted for 73.2% of the total value of service exports, Central and Eastern Europe 4.2%, and developing countries just 22.6%. Africa and Latin America's share have both declined since 1980 (UNCTAD, 2004b: 61). It is true that US imports of all goods originating from outside the "developed" countries increased from 23% in 1978 to 44.6% in 2002 (Heintz, 2006: 508), but this rapid increase is overwhelmingly the product of Asia's rise. In the late 1990s, just six developing countries (China, South Korea, Taiwan, Mexico, Singapore and Thailand) accounted for around 50% of total developing country manufacturing exports to the developed world (Sutcliffe, 2001: tables 73 and 74). East Asia's share of global merchandise exports increased from 4.2% in 1970, to 12% in 1990 and 19.4% in 2003. China's share of the global total has increased from 0.7% in 1970, to 1.8% in 1990 and 5.8% by 2003 (UNCTAD, 2005: 133). Moreover, if DFI shares are weighted on a per capita basis, then the degree of concentration in the developed world is even higher. For the years 1995-99, developed countries received \$474 on a *per capita* basis and for 2001 the figure was \$583; for developing countries as a

whole, for 1995-99 the figure was \$37 and for 2001 it was \$41 (UNCTAD, 2002b: 265).

How then does one conceptualise uneven development in the context of the globalisation of production, and how does this relate to the rise of China? A useful starting point is to draw on the increasingly influential literature that focuses on global commodity chains, global value chains and global production networks (Daviron and Ponte, 2005; Dicken et al., 2001; Gereffi and Korzeniewicz, 1994; Gibbon and Ponte, 2005; Henderson et al., 2002; Hopkins and Wallerstein, 1986). Although there are important differences within these approaches, the basic argument is that production processes are no longer confined to national boundaries, but are instead linked through a chain, "a transnationally linked sequence of functions in which each stage adds value to the process of production of goods or services" (Dicken, 2003: 14). Of course, this is not necessarily new, as production processes in the past have drawn on the supply of raw materials from overseas producers. What *is* relatively novel, however, is that now manufacturing production can be located in different parts of the world, so that final products can be made up of industrial components from different parts of the globe. This is part of the restructuring of capitalism that had its origins in the crisis of the 1970s, as Transnational Corporations (TNCs) entered into a number of organisational relationships, some of which are based on in-house, vertical integration, and some of which are based on collaborative relationships with (supposedly) independent suppliers. This has led to the development of at least two kinds of commodity chains, those that are producer driven and those that are buyer driven (Gereffi, 1994). In the case of the former, rents are still generated by economies of scale (and associated high start-up costs), and control over backward and forward linkages such as supplies and retailing. In the case of buyer-driven chains, barriers to entry are generated at more intangible levels, such as marketing and design, as well as economies of scale (Daviron and Ponte, 2005; Dicken, 2003; Gereffi, 1994).

Although much of the literature asserts rather than demonstrates the point, the argument is generally made that production processes that are contracted out and/or relocated to parts of the periphery tend to be concentrated in low cost and lower value sites of production, so that the core recovers most of the value-added at the higher value end of production, distribution and marketing processes, where rents are generated. Therefore, even though these processes encourage the expansion of manufacturing into the periphery, this will still be associated with lower value production. Kaplinsky (2005a: 64; see also Heintz, 2006) has developed this analysis further than most, by first making the important theoretical point that rents are important because

the levels of income arising to any producer or country operating in the global economy will depend on the extent of rents which they command. The lower the barriers to entry and the easier it is to copy a particular activity, the lower the associated rents and incomes which are provided.

It therefore remains the case that not only primary products, but – increasingly in the manufacturing sector too – production in developing countries is disproportionately concentrated in sectors where barriers to entry are low and therefore rents are

far less likely to be generated. This, in turn, reinforces hierarchical relationships between core firms and suppliers, with developing countries concentrating on lower end, labour-intensive sectors of the industry, leaving higher value production to the more developed countries, which reflect the importance of skills, knowledge and infrastructure the further up the production chain (Da Costa, 2002; James, 2003).

This kind of approach can be usefully applied to the rise of China. The shares of TNC manufacturing affiliates in China's exports increased from 17.4% in 1990, to 55% in 2003 (Hart-Landsberg and Burkett, 2005: 125). Crucially, China has increased its exports to the European Union and the USA, while the rest of East Asia (excluding Japan) has seen its share of exports to the EU and the USA fall, while its export share to China has increased. Thus, China's percentage manufacturing exports to the USA increased from 9.1% in 1992 to 22.9% in 2000, and to the EU it increased from 9.5% to 16.7% for the same years. Over the same period, Thai export shares to the USA fell from 26.4% to 22.9% and the EU from 21.3% to 17.7%, and South Korea's fell from 25.9% to 23.9% (USA), although they showed a small increase in shares to the EU, far bigger was the share of exports to the rest of East Asia.

With some small variations, there has been a significant increase in shares by East Asian exporters to the rest of the region, while EU and US shares (either taken together or individually) have generally fallen or stagnated (Athukorala, 2003: 40-1). Even more significant has been the increase in shares in parts and components rather than finished goods. Indeed, between 1992-2000, these accounted for 55% of the export growth of Indonesia, Thailand, Malaysia, Singapore, the Philippines and Vietnam (Athukorala, 2003: 33). There was no clearly identifiable pattern in the share of components and parts in trade to the USA or EU from East Asian countries, with some showing increases and some decreases, but generally the far bigger increases in shares of parts and components were in East Asian countries' trade with China. By 2000, the shares were 50.6% for Malaysia, 54% for Thailand, 50.3% for Singapore, 81.8% for the Philippines, 26.7% for South Korea, and 29.8% for Taiwan. At the same time, parts and components in China's share of exports to the USA (4.3% to 9.1%) and EU (2.9% to 10.9%) increased from 1992 to 2000, but from far lower bases and the total shares remained low (Athukorala, 2003: 48-9). In the period 1992-2003, parts and components accounted for 52% (Taiwan), 44% (Malaysia), 70% (Philippines), 59% (Singapore) and 31% (Thailand) of the total manufacturing export growth for particular countries (Athukorala and Yamashita, 2005: 33). For China, the figure was 17% (Athukorala and Yamashita, 2005: 33). Taken together, these figures suggest that China has increased its role as a manufacturer of final goods produced within the East Asian region, which are exported to the EU and US (and Japanese) market.

But does this necessarily matter? It could be argued that this breakdown and fragmentation of production is merely the latest stage in the increased specialisation that exists in an increasingly efficient world economy. This fragmentation and specialisation of production may not only be good for efficiency (Athukorala, 2003), but in an update of Cobdenite liberalism, it may even be good for international peace (Friedman, 2005). Commodity chains analysis is again potentially useful here, because it suggests that China has developed a niche in manufacturing labour-intensive segments of particular value chains, which are limited in their capacity to

generate high levels of value-added production. As has been seen already, the Chinese state has attempted to develop national champions that concentrate on higher value-added activity, but their success in doing so has been limited. Where there has been more success is in labour-intensive but low value-added activity, either through DFI or joint ventures, including with state-owned enterprises. In this respect, neo-liberals are correct to point to the limited successes of China's national champion policy, but as has been seen, this argument ignores the reasons why the Chinese state has employed such a policy in the first place. The inequalities associated with the oligopolistic competition and buying practices alluded to above are reflected in the fact that firms "focus on activities with low barriers to entry. Once the cost pressures become too intense, rather than moving upward into higher end activities or taking time to develop proprietary skills, the firms diversify into other low entry barrier markets" (Steinfeld, 2004: 1976). Indeed, these tensions reflect a key contradiction in China's miracle, as the national champion policy is

a story about a government claiming as its ultimate policy aim precisely the type of firms that its most high profile restructuring (and trade) policies militate against. In essence, the government is seeking to create the very firms that comparative advantage, not to mention global technological change, militate against (Steinfeld, 2004: 1980-1).

Thus, the rise of China has enormous implications for any would-be followers, not all of which are positive, and which therefore challenge the neo-liberal argument that emphasises the opportunities presented to other developing countries. Based on a (partial and problematic) reading of Ricardo's theory of comparative advantage, the neo-liberal argument assumes that each country has the capacity to switch production from one sector to another in a relatively painless and costless way (thus preserving Ricardo's full employment assumption), and that each country has the capacity to compete in sufficient sectors to find a space in these new markets (thus preserving Ricardo's assumption of homogeneous production capacities). However, in fact, comparative advantage does not necessarily generate competitive advantage, and the result is that dynamic competition between capitalist states leads to uneven development. This is not a zero-sum game precisely because such competition is dynamic and gives rise to accumulation, but neither does it generate the win-win situation envisaged by neo-liberalism. Instead, as seen, it leads to oligopolistic competition in which dynamic producers may enhance their advantages by generating rents in the most dynamic sectors of the international economy, thus leaving others behind. These others are likely to find some export successes, and DFI may further encourage this process, but these are likely to be in sectors where there are low barriers to entry and therefore they may be subject to falling prices which are not sufficiently compensated by increased revenues from increased export sales.

Moreover, this investment is unlikely to facilitate upgrading to higher value production. Given the wider context of China's rise, a massive global reserve army of labour, falling prices and falling barter terms of trade for low value manufactures, many developing countries face a "Catch 22" situation, where they cannot find markets for their products or, if they do, they tend to be at the cost of significant reductions in the prices of their products. Certainly there is a need for greater

empirical work on the price trends of particular commodities, to back up the theoretical argument concerning rents and barriers to entry. But, again, Kaplinsky and others have produced important empirical work that backs up the theoretical argument. Based on a wide-ranging study for the years 1988-2001, using disaggregated data for around 10,000 imports into the EU and focusing on products where developing world exporters were most prominent, Kaplinsky claimed that in almost one-third of these sectors the price of Chinese origin products fell and for other low income countries, the price fell in one-quarter of the cases. Moreover, the higher the per capita income of a country, the less likely unit prices were to fall (Kaplinsky, 2005a: ch.7; 2005b; Kaplinsky and Santos-Paulinho, 2006; also Razmi and Blecker, 2004; UNCTAD, 2002c). Although this applied only to EU imports, given the wide range of products involved, similar patterns were likely to exist in terms of US and Japanese imports as well.

This also leads one to question "how much room is there in the 'market place' for so many countries searching for the same FDI to produce the same goods for exports to the same markets" (Breslin, 1999: 1185). Indeed, since 1990, the absolute growth in China's exports has exceeded that of the rest of the top ten leading manufacturing exporters from the developing world and, since 2000, the latter nine countries' combined export share has fallen whilst China's has risen (Eichengreen et al., 2004). In the first year of quota removal in the clothing sector, the value of African exports to the USA dropped by 17%, while China's increased by 58% (Kaplinsky and Morris, 2006). Furthermore, it is not only a question of China out-competing other developing countries, but the degree of competition that exists *within China*. Drawing on interviews with factory managers, Braunstein and Epstein (2002: 27) reported that a common response to perceptions of competitive threats was that the factory "down the street" was the biggest threat of all.

This discussion, therefore, suggests that developing countries face a problem not because they are insufficiently globalised or integrated into the world economy, but because *the form* that such integration takes serves to reinforce their (relatively) marginalised position. In contrast to the claims made by neo-liberalism, as well as some radical theories of dependency and underdevelopment, capital is attracted to areas of established capital accumulation, where increasing returns can be derived from lower relative costs. Once established, accumulation encourages spatial agglomeration through the development of new technology and tacit knowledge, infrastructural development, local linkages and economic diversification, clusters of skilled activities, including research and development, and the development of systems of credit to finance further rounds of accumulation. This does not preclude some industrial activity in poorer regions, but it does not represent anything like convergence between capitalist countries or the end of uneven development (Arrighi et al., 2003; Henderson et al., 2002; Kiely, 1998: chs. 5 and 9; Wade, 2003).

Furthermore, in the context of a world economy in which there exists high degrees of capital concentration, a massive reserve army of labour, and overcapacity in many sectors, the prospects for simultaneous rapid development for all are not great. While it is certainly true that rising wages can be financed by rising productivity (and this is a major reason for continued capital concentration in the developed world), given the competitive pressures faced by all states, there remain strong downward pressures on wages throughout the world. Indeed, low wage costs in the developing

world may be the main source of competitiveness, but in a world of massive unemployment this can actually facilitate even further downward pressure on wages, or further lowering of standards through tax breaks, lack of environmental regulations or stricter controls on labour. This is reinforced further by the existence of acute trade imbalances in the current world order. Therefore, given that all countries increasingly rely on export markets to maintain and expand domestic employment, this in turn presupposes that other countries will not protect themselves from foreign competition and not resolve trade deficits via policies of austerity. Along these lines, if these countries are less competitive, then they will face a trade deficit and such policies are likely to be implemented. This pressurises sites of production to compete on the basis of lower labour costs, leading to a situation in which each country simultaneously adopts an export strategy and cuts imports, thus leading to a global crisis of overcapacity and oversupply (Albo, 1994). This results in the existence of surplus capacity in a wide variety of sectors, including computers, automobiles, telecommunications, steel, and many others (Brenner, 2002; Crotty, 2002; Kaplinsky, 2005a; Kettell, 2006). Although overcapacity can be generalised to many manufacturing sectors, it is particularly marked in sectors where China has enjoyed considerable export success, with the resultant rapid price decreases identified above. Seen in this way, China's growth is not simply an opportunity for other developing countries and, thus, a potential source of poverty reduction through export-led growth, but actually involves a series of constraints and contradictions.

Conclusion

This article has questioned some of the more optimistic assertions concerning "actually existing globalisation," both in general terms and in relation to China, the most important specific case from which the general arguments of the optimists are derived. The argument that poverty and inequality have been reduced has been problematised, and the case that this is a direct consequence of globalisation-friendly policies has been challenged more firmly. Many of the arguments concerning poverty and inequality reduction derive from the experience of China, but this article has questioned the extent to which it is more "globalisation friendly" than other countries. Neo-liberalism is found wanting in that it either ignores the forms of intervention that run counter to its arguments, or fails to see their rationale in a world of unequal competition.

More specifically, it has been argued that Chinese development must, in part, be analysed in terms of the restructuring of global capitalism, not least in understanding the success of China in attracting investment and subcontracting agreements with foreign capital. But on the whole, this has not led to the kinds of significant technological upgrading and domestic linkages that have characterised the shift to "developed" country status, or indeed the forms of upgrading that characterised the first tier of East Asian newly industrialising countries. This does not, of course, mean that the miracle is a mirage, or that China (given its size and growth) will not achieve economic superpower status. Moreover, domestic social change may have led to the development of new classes who have little concern for upgrading so long as there is continued access to lucrative international circuits of capital. But there are real

concerns among political elites about the need for national champions, and there are contradictions within China's social structures of accumulation. And, perhaps above all, Chinese development in the context of a massive global reserve army of labour and global overcapacity means that the prospects for other developing countries are limited and, therefore, so is the potential for substantive reductions in global inequality.

Notes

- ¹ All dollar figures quoted are PPP adjusted dollars.
- ² The precise figure is \$1.08 a day, based on PPP, but the \$1 a day figure is still drawn on as a headline figure.
- ³ See <http://www.worldbank.org/research/povmonitor> (downloaded 12 July 2007).
- ⁴ In services the figure is higher (see Dicken, 2003: 44).
- ⁵ The top ten countries in 2000 were Hong Kong (still counted separately from China), China, Brazil, Mexico, Singapore, Argentina, Indonesia, Malaysia, Chile and South Korea. See UNCTAD (2001: annex table B3; 2002b).

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