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Abstract: Recent international opinions on China and world development have focused on the Sino-US economic nexus. The neo-liberal theory of "China causing global imbalances" claims that the particular way through which China has integrated itself into the world market is to the detriment of the economies of the advanced countries. The critical theory of "China facing internal and external dependence", in contrast, claims that the real victim has been the economic development of China itself and the majority of developing economies. The objective of this paper is to clarify the analytical efficacy of these two theories, and, on that basis, to assess the validity of their implied policies. The paper also seeks to explore into the construction of an alternative policy line that suits better the needs of the social and economic development of China and the developing world.

Key words: global imbalances, world developmental, China

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1. Introduction

The story of "China causing global imbalances" has been in vogue in the international arena since the outbreak of the financial crisis in the United States of America and other advanced capitalist countries in 2007, which has subsequently resulted in a world-scale recession. This story posits that the particular way through which China integrates itself into the world economy has been responsible for prolonging the world recession – indeed for causing the financial crisis in the first place. The focus of the story is on the relationship of economic inter-dependence between China and the USA, or the so-called "China-US economic nexus". And the central assertion is that this nexus is the product, unilaterally, of Chinese policy. Hence the conclusion that China has to change course, in particular to adopt a range of policy measures for stimulating domestic demand. These include largely appreciating the Chinese currency, the Renminbi (the yuan), as the immediate measure. A further measure to be adopted in the near future is to speed up the liberalization of China's international finance, i.e., moving towards a free-floating exchange rate regime and free cross-border capital flows. Over the longer time span, China must fundamentally reform its economy in the direction of embracing neo-liberalism *in toto*. It is claimed that mass privatization of assets and lands, in particular, will stimulate domestic consumption and correct China's demand imbalances both in the domestic and external fronts.[1]

Meanwhile, parallel to the mainstream opinions, there also exists a contrasting, critical literature that is concerned with the developmental prospects for China itself and for the broader developing world. This literature has been rather sceptical early on of the role of the China-US economic nexus, and has in recent years given rise to an alternative story of "China facing internal and external dependence". The story posits that the Chinese economy has been dependent on foreign trade and inward foreign direct investment in the external front, and on worsening income distribution and exploitation of labour in the internal front. The double dependency has thus been to the detriment of China's social and economic development. It has also via international competition squashed the developmental space for other developing economies, thus reinforcing their predicament of de-industrialization which has persisted over the era of globalization. The general conclusion from the story of double dependency is similar to that of the mainstream story, i.e., the need for China to stimulate domestic demand. Nevertheless, the concrete policies are different. Instead of liberalization and privatization, for promoting domestic consumption, what is needed for China is to strengthen the market position of labour and other social under-classes. This will also have the effect of promoting industrial upgrading and lessening external dependence. [2]

The objective of this paper is to attempt to clarify the analytical efficacy of the above two stories for the understanding of China-and-related economic development. On this basis, the paper further seeks to assess their implied policies and to explore into the construction of an alternative policy line that suits better the needs of the social and economic development of China and the developing world. As will be argued in the subsequent text, both of the two stories suffer from serious flaws in terms of their analyses and policy conclusions. The neo-liberal story's emphasis on the benefits of the China-US economic nexus for Chinese economic development is found to be a gross exaggeration. The critical story's diametrically opposite judgment is also found to be excessively pessimistic. Hence the motivation for the paper to explore into alternative analyses and policy conclusions.

This paper is organized in five sections, of which this introduction is the first. Sections two and three examine the empirical efficacy of the mainstream story of "China causing global imbalances" and the critical story of "China facing internal and external dependence", respectively, and assess the validity of their implied policies. Section four attempts an alternative analysis by means of drawing on a range of relevant theoretical arguments and further empirical evidence. Section five concludes the paper.

2. China in the Face of Global Imbalances and De-industrialization

The "China-US economic nexus" refers to such a structural relationship whereby China exports cheap manufactures to the USA in exchange for US government papers and other dollar-denominated financial assets. This nexus is the accumulated outcome of the particular way through which China integrates itself into the world economy. Specifically, the nexus first took shape in the turn of the century and has since expanded at a tremendous speed. The general background against which this occurred is the transition of world development from the "lost decades" of the 1980s and 1990s to the substantial growth rebound across all regions of the developing world in the period 2000-2007. It is reasonable to believe that the China-US economic nexus has significantly contributed to this growth rebound. At one level, cheap imports from China have helped to hold down living costs in the USA and other advanced countries, and cheap capital from China has supported US investment and consumption. At another level, by absorbing intermediate industrial products from the rest of East Asia and raw materials from a number of developing countries, the nexus has helped to promote economic growth in the developing world. Meanwhile, the standard neo-liberal thesis of export-led growth implies that the nexus has been conducive to China's own economic growth. There is indeed no shortage of claims that Chinese economic development over this period has been mainly export-led.

The story of "China causing global imbalances", which has emerged and gained currency since the outbreak of the financial crisis in 2007, is based on a straightforward observation. This, namely, is the almost symmetric trends of China's expanding current-account surplus and the US's expanding deficits since the turn of the century (Figure 1). These trends reflect the deficiency of domestic investment vis-à-vis savings in China, and the opposite situation in the USA. From this observation, US economic officials and mainstream media commentators assert that China's surplus has been an important cause of US deficits. And China's surplus, it is furthered asserted, has been caused by government exchange-rate manipulation as well as the more fundamental problem of Chinese economic system providing insufficient protection to property rights and therefore investment. There follow the policy demands that China ought to largely and immediately appreciate its currency, and implement systemic reform measures particularly financial liberalization and mass privatization over the longer time span.

[Figure 1]

Is there really a causal relationship between China's current-account surplus and US deficits? Conceptually, as McKinley (2009) has pointed out, the charge that China has caused global imbalances (and thereby the financial crisis) hinges on the theory of the so-called "global savings glut". For this theory to hold, it requires either of the following conditions in the world economy: i.e., either a significant increase in the world savings-income ratio, or a stable consumption rate (and hence savings rate) in the advanced countries. Yet, neither of these exists in reality. According to data from the International Monetary Fund (IMF), the world savings-income ratio has remained basically the same for a long time: 22.7% in the period 1986-1993, 22.1% in 1994-2001, and 22.7% in 2002-2008. During these same periods, the savings-income ratio for the USA is 16.3%, 17.0%, and 13.9%, respectively. And the same ratio for all advanced countries combined is 22.2%, 21.6%, and 19.8%, respectively. Clearly, it is excessive consumption in advanced countries, especially in the USA, that has caused global imbalances. It is also the combination of excessive consumption and deficient financial systems that has caused the financial crisis, as well as the fiscal crisis of the state in a number of European countries. In other words, China's surplus should not be held responsible for US deficits, let alone for causing the financial crisis. For the USA, the logical outcome of reducing trade deficits with China would only result in a re-direction towards trade deficits with other countries (Petras 2009).

This said, however, it remains true that China's massive current-account surplus with the USA has been a problem in the bilateral relationship. The imbalance did time and again cause frictions during the booming years. It is most unlikely that the imbalance can be sustained in the years of crisis and recession. According to statistical data from the US side, China first replaced Japan in 2000 to become the number one surplus country with the US. By 2008, deficits with China accounted for a hefty share of almost one-third in the total of US trade deficits with the rest of the world (Kwan 2009). With the financial crisis, the US economy has suffered from serious problems of demand deficiency and unemployment. Trade deficits with China have thus been injected with increased political sensitivity. No wonder, the imbalance in bilateral trade has become central to the justification for demanding China to appreciate its currency and speed up financial liberalization.

The concern of the story of "China causing global imbalances" is over the economic impact of China on the USA and other advanced countries. In contrast, the alternative, critical story of "China facing internal and external dependence" concerns mainly the impact of the China-US economic nexus on the development of China and the broader developing world. The publications of this latter story do not necessarily deny the contribution of the nexus to world economic growth over the 2000-2007 period. Nevertheless, they are rather definitive in highlighting the negative impact of the nexus on world development over the long term.[3] The emphasis is two-fold. The first is the thesis of under-cutting, meaning that the expansion of Chinese manufacturing exports has through international competition substantially squashed the developmental space for other developing economies. The second is the thesis of excessive (even super) exploitation of Chinese labour during this process of expansion, which has been dominated by the operations of foreign-capital investors.

The thesis of under-cutting first emerged in the studies of the economic relationship between mainland China and the rest of East Asia (Hart-Landsberg and Burkett 2004). The empirical efficacy thereof appears to be very limited, as it is too easy to observe that China has been for a long time persistently running trade deficits with the rest of East Asia. The application of the thesis then turns to the studies of China's large-scale import of primary products from a number of developing countries. It is asserted that this resembles the pattern of the "old" or "colonial" international division of labour. Yet, it is well-known that China's manufacturing exports have been mostly in the lower end of the value-chain of world trade and production. And along with export expansion has been the rapid deterioration of China's terms of international trade: in 1998-2008, the period with the fastest export expansion, the index of net barter terms of trade declined by more than 30%, whilst the developing world as a whole had exactly the opposite performance (Figure 2). It can thus be inferred that the economic relationship between China and the rest of the developing world is in no sense one of unequal exchange. It is very unlikely that the relationship has involved surplus transfer from the latter to the former. Meanwhile, however, the rapid deterioration of China's terms of trade does give support to a different, more recent argument of under-cutting: that Chinese competition has tended to crowd out manufacturing exports from other developing economies in the world market, thus reinforcing the trend of de-industrialization in these economies (Jenkins 2008; Jenkins, Peters and Moreira 2008). This injects further political sensitivity to China's export expansion. In other words, the expansion is liable to affect the relationship between China and other developing countries. The fact that China has become a major target of anti-dumping charges by other semi-industrializing countries, despite its export to their home markets has been limited, is a manifestation of this tension. The same is also indicated in the fact that countries like India and Brazil, which should have been in the same front with China in the international economic orders, have time and again joined the chorus of pressing China to appreciate its currency.

[Figure 2]

From the discussion above it seems appropriate to say that existing evidence does not clearly approve the claim that China has caused global imbalances and thereby the financial crisis. The alternative claim of China squashing the developmental space for the rest of the developing world does seem to have some elements of truth, but this has to be balanced with the positive side of the economic relationship between them. All these said, however, it remains true that for political rather than economic considerations China still need to largely stimulate domestic demand and reduce its external surplus. What needs to be clarified is the appropriate measures for achieving the target. This requires an adequate analysis of the nature of China's prevailing path of economic development, and the role of the China-US economic nexus in the development path.

3. Dependency and Development in the Chinese Economy

Prima facie, the China-US economic nexus as characterized in the preceding section is clearly undesirable for Chinese economic development. The nexus implies the provision of double subsidies from China, a developing economy, to the USA, a developed economy. That is to say, the former supplies first cheap products and then cheap capital to the latter. Moreover, on the Chinese side, the nexus has been dominated by the operations of foreign-capital investors. Yet foreign capital-invested firms have tended to have a slower pace of productivity growth compared with the rest of Chinese industry, and, at the level of distribution, these firms have also tended to apportion an exceedingly large share of surplus to capital (Lo, Li and Hong 2010). It can thus be argued that, for the benefit of China's social and economic development, this nexus needs to be weakened and restructured. The question is how. Has the Chinese economy already become structurally dependent on this nexus? And what will be the cost for breaking away from the dependence?

The critical literature does have an almost-consensus that structural dependence on the nexus is a central feature of the Chinese economy. The China story that this literature has attempted to construct is typically composed of the following three propositions. First, China's expanding current-account surplus is a symptom of the fact that its economic growth is dependent on the demand of the world market. This reasoning also applies to the rapid accumulation of official foreign exchange reserves, i.e., the inability of domestic demand to absorb the economic surplus that underpins the reserves, and hence the need for supporting US consumption as a means for absorbing the economic surplus. Second, the cause of the insufficient domestic demand and structural dependence on the world market is, ultimately, under-consumption in the economy. Third, the cause of under-consumption is the small and still-decreasing share of labour's compensation in the national income, i.e., excessive or even super exploitation of labour. Yet, the critical literature argues, it is precisely this exploitation of labour which has underpinned the competitiveness of Chinese exports – and thereby Chinese economic growth (Fischer 2010; Hung 2009; Petras 2009).

Consider, first, the proposition of export dependence. This is analytically akin to the neo-liberal theory of export-led growth, which implies that the sustainability of economic growth hinges on a comparable pace of export expansion – or even hinges on continuously increasing the ratio of trade surplus to the national output. This judgement is clearly contra to the Chinese reality. As can be seen from Figure 1 above, trade surplus as a share of aggregate demand has not been really large in the long term. It is only since 2004 that the share has become very large by international comparison, reaching the peak level of almost 10% in the year 2007. In the ten years or so before 2004, the share did not exceed 3% most of the time. And trade deficit was pre-dominant even earlier, in most years of the first half of the reform era, i.e., 1978-1992. On the whole, it is reasonable to judge that export dependence is not really a structural feature of the Chinese economy – although one need not go so far as to judge that it is import dependence that is the structural feature (Fischer 2010).

Zhu and Kotz (2010) argue that the gross measure of net export might significantly understate China's export dependence because some of the imports are destined for domestic consumption.[4] This argument might contain elements of truth. Yet, it has to be balanced by a perhaps even more significant counter force. This, namely, is the fact that China's trade surplus has been mainly accounted for by processing trade. Indeed, as can be seen from Table 1, for most years since the early 1990s, surplus in processing trade has even exceeded the total surplus of China's foreign trade. And the contribution of processing trade to the Chinese economy has been rather modest. A rough estimate can be computed by assuming that the domestic value-added ratio of processing trade is equal to the ratio of net-to-gross export. This ratio is 45% at its peak in the year 2009, and the value-added so computed is only 5% of GDP in that year – which is hardly compatible with the proposition of trade dependence. What seems more reasonable to infer from this observation is that the Chinese economy is in fact of a dualistic structure – the sector of processing trade is no more than an enclave, and is not really large enough to lead to export dependence for the Chinese economy as a whole. Why, then, has the sector expanded so fast in recent years, despite its limited contribution to the economy and its surplus causing serious international frictions? The consideration of job creation might be of some importance. But this importance is likely to be secondary, because, as early as 2006, there was already widespread labour shortage in the labour-intensive, export-oriented industries in coastal provinces. A possibly far more important consideration is political. The sector of processing trade in mainland China is predominantly associated with the interests of Hong Kong and Taiwan capital, and is indeed a significant determinant of the economic well-being of the two regions.

[Table 1]

The proposition of under-consumption has more theoretical contents than that of export dependence. In the relevant literature, particularly in the Luxemburg-Kalecki-Baran and Sweezy tradition of Marxist economics, under-consumption refers to the scenario where the sluggish growth of consumption leads to the deficiency in aggregate demand and thereby economic stagnation. The key to this causal chain is that the expansion of investment and net export is insufficient to make up for the sluggish growth in consumption demand. But, is this proposition applicable to the Chinese reality? As indicated above, up until recent years, Chinese economic growth has been underpinned by domestic rather than external demand. Within domestic demand, the growth of consumption has been quite substantial throughout the reform era, but its share in aggregate demand has been decreasing. The share decreased from 60%-plus in the first half of the era (1978-1992) to 50%-plus in the second half (1993-2007), and further to below-50% levels after 2007. Yet, all these do not necessarily imply that economic growth has thereby been bogged down in a state of under-consumption. After all, rapid economic growth has been sustained over the reform era, even in the years 2007-2009 when consumption growth was far slower than the growth of aggregate demand. The crux is that investment growth has more than compensated for the sluggishness of consumption growth. Of course, whether or not this investment-led growth, i.e., an economic growth path that is based on “producing investment goods for producing investment goods” (the so-called “Feldman-Manalanobis-Domar model”), is sustainable in the future is another matter.

Now, consider the proposition of excessive or even super exploitation. No doubt, the phenomenon of super exploitation has been widespread in China, particularly in the labour-intensive, export-oriented industries in coastal provinces. The question is: has super exploitation been the main underpinning of Chinese economic growth? The answer, quite clearly, is “no”. It is easily observable that throughout the reform era, and especially since the early 1990s, labour productivity growth in the Chinese economy has been extremely fast. As can be seen from Figure 3, in the period 1992-2009, the index of real GDP increased from 100 to 528 whilst that of labour employment (in terms of the number of employees) only increased to 118. Conceptually, labour productivity growth can be based on increases in work intensity as well as technological progress. And the waves of enterprise downsizing and mass privatization in the period 1993-1997 probably did lead to substantial increases in work intensity. Yet, it is difficult to conceive a trend of persistently increasing work intensity over such a pro-long period, particularly in the labour-intensive, export-oriented industries which already had high work intensity in the early 1990s. At any rate, it is most unlikely that a magnitude of productivity growth such as that indicated in Figure 3 could be mainly attributed to increases in work intensity. Conversely, the phenomenon of super exploitation that exists in China is mainly an issue of social fairness and justice, rather than an issue of the foundation and sustainability of economic growth. The fast productivity growth indicated in

Figure 1 actually suggests that there is a solid material foundation for largely improving social fairness and justice – it implies that largely increasing labour protection and compensation is feasible.

[Figure 3]

The discussion above suggests that the China-US economic nexus, and more broadly China's connection with the capitalist world economy, is of far-reaching political-economic implications. In a purely developmental sense, the judgement of structural dependence on the nexus appears to be an exaggeration. The crux of the matter is China's fast productivity growth, which can be attributed to the improvement in various kinds of dynamic efficiency generated by the interaction between the prevailing investment-led economic growth path and the reformed economic institutions (Lo and Li 2010; Lo and Zhang 2010). The productivity growth indicates a high degree of independence or autonomy of Chinese economic development. In other words, insofar as there is indeed some degree of structural dependence, it is likely to be bi-directional rather than uni-directional: the dependence of the capitalist world economy on China might be as strong as, or even stronger than, China's dependence on the capitalist world economy. This being the case, there exists an ample scope for China to re-adjust its path of social and economic development. Instead of whole-heartedly pursuing GDP growth and integration into the world market, it is both desirable and feasible for China to embark on an alternative path of development that combines the three objectives of sustaining fast productivity growth, reducing dependence on foreign trade and foreign direct investment (and with it reduced outflows of economic surplus), and improving social fairness and justice.

4. China and World Development Dissociating from Neo-Liberalization

To speculate over the future prospects for Chinese economic development requires investigating into the world background. It is reasonable to say that, as the starting point of the investigation, China's fast productivity growth over the era of globalization owes much to the technology transfer and industrial relocation from the advanced capitalist countries. This judgement, in the sense that it emphasizes the importance of the external condition, is analytically akin to the neo-liberal theory of export-led growth. It is also consistent with the critical theory of under-cutting, which posits that because of the fact that China has absorbed an exceedingly large share of the transferred technology and relocated industry, the rest of the developing world has had difficulty in transcending the predicament of de-industrialization.

In view of the intrinsic contradictions of the world capitalist economy as proposed in the relevant critical literature, however, the indicated technology transfer and industrial relocation are not necessarily conducive to world development – not even to the economies that receive the technology and industry. The crux is that technology transfer and industrial relocation from the advanced countries is motivated by profitability decline, and ultimately by demand deficiency in their home markets. The transfer and relocation are bound to create new productive capacity in the recipient economies. Hence, for the world economy as a whole, the transfer and relocation in effect amount to delaying rather than solving the problem of over-accumulation, and the problem is prone to become increasingly serious in subsequent periods. In this context, late developing economies that integrate themselves into the world market by means of receiving the transfer and relocation will bear the brunt of world economic crises or severe fluctuations once the problem of over-accumulation could no longer be delayed (Harvey 2005, 2010). The so-called global imbalances can be understood as a result of the transfer and relocation. And the cost inflicted on China in the global imbalances and the resulting financial crisis and economic recession, particularly its double subsidies to the USA due to the China-US economic nexus, can be understood as the price for the way through which China integrates itself into the world market.

Central to the transition in the advanced capitalist world from the Golden Age to the era of globalization is the financialization of the economy. This process is characterized by the rising predominance of speculative financial activities, which have engulfed the economy as a whole, including the productive sector. Put another way, financialization is the result of capital increasingly avoiding to be tied up with the productive sector because of the latter's profitability decline. Financialization thus embodies an intrinsic contradiction: the speculative pursuit of profitability tends to crowd out productive activities, therefore resulting in systemic demand deficiency and undermining the sources of profitability (Lazonick 2009; Wade 2006).

Yet, despite the intrinsic contradiction, the paradox is that financialization has actually been sustained for a pro-long period, at least up until the outbreak of the crisis in 2007. Key to resolving the paradox is the concept of "accumulation by dispossession" as coined by Harvey (2005), i.e., cheapening productive inputs by means of neo-liberal policies at both the national and international levels. Put another way, capital accumulation in the era of globalization is mainly based on the incorporation of productive resources that were previously outside the capitalist world economy. The first-generation doctrines of the Washington Consensus focusing on marketization and trade liberalization, the second-generation doctrines focusing on the privatization of public assets, and the third-generation doctrines focusing on the liberalization of international finance, are means to serve this ultimate end of accumulation by dispossession. On the whole, therefore, the sustainability of capital accumulation hinges on the balance between the damages caused by speculative financial activities, on the one hand, and the supports provided by dispossessing activities, on the other hand. But the process of financialization is prone to accelerate over time, just like any other speculative activities. As Lazonick (2009) analyzes in details, over the so-called "New Economy" years, US high-tech firms tended to use the profits they got from globalization in buying back their own outstanding shares instead of investing in productive activities. The rationale behind such behaviour is to boost their stock prices, for the sake of satisfying the demand of shareholder value maximization. Financialization thus requires the acceleration of globalization. And the financial crisis is unlikely to reverse the process of accumulation by dispossession. To the contrary, advanced capitalist countries have the incentives to press for the acceleration of this process. It is conceivable that, even in the circumstance that the financial crisis and the associated economic recession are to persist, assertions such as "we need more globalization, not less" are likely to be back in vogue in the international arena in the future.

But there is no justification whatsoever for China to continue to support such a process of globalization that has inflicted increasing damages to world development. In other words, there is no justification for Chinese workers to continue to sacrifice themselves for the sake of sustaining the hefty profits of Wall Street speculators and their agents or junior partners in various parts of the world including China itself. No justification, that is, the prevailing trend of globalization is not only unfair and unjust but also not necessary. As has been suggested in the discussion of the preceding sections, there is a solid material foundation for China to stop supporting the prevailing trend. There is unlikely to be exceedingly heavy cost for China in rejecting or dissociating from neo-liberalism, such as that suggested by the critical story of "China facing internal and external dependence". By extension, there exists the feasibility for China to improve its economic relationship with the rest of the developing world, while at the same time not scarifying its own development.

At the policy level, the demand for China to accelerate the reform of its external finance, in the direction of liberalizing the capital account and converging towards a free-floating exchange rate regime, is arguably for the purpose of serving the needs of accumulation by dispossession. International experiences in the era of globalization indicate that financial liberalization in this direction has been very harmful to the economy of developing countries, or even most of the developed countries. Their participation in the speculative games of international finance often results in putting them in the position of being disposed, rather than being the dispossessor. The participation also tends to crowd out productive investment in the domestic economy, particularly through capital flights. Meanwhile, of more immediate concern, the demand for China to quickly and largely appreciate its currency also appears to be unreasonable. Such more is likely to invite speculative cross-border capital flows, thereby causing serious instability. More fundamentally, to the extent that the appreciation does have the effect of promoting the substitution of imports for domestic production, the impact on domestic capital-intensive, high-tech industries will be devastating. This is because they mostly infant industries that need time to gradually develop. Yet the development of these industries is necessary for the upgrading and productivity growth of the economy as a whole.

The discussion in the preceding sections indicates that there is some justification for China to reduce its external surplus. Instead of largely appreciating its currency, an alternative policy that has often be suggested in the literature is that China should substantially raise labour compensation with a view of reducing the export of labour-intensive manufactures and promoting industrial upgrading. This policy is precisely what the Chinese government has adopted since 2009. The waves of labour unrest in foreign capital-invested enterprises in the spring of 2010 have given further impetus to the policy. According to media reports, by August 2010, a total of 27 provinces had announced increasing minimum wage rates, of which 20 provinces had increased by more than 20%.[5] Raising labour compensation is of course more than a means for reducing the external surplus. It is an important objective of social and economic development in line with the policy orientation known as "constructing a harmonious society". This orientation has gradually become established since the turn of the century. Related policy measures have included promoting the (re)unionization of the labour force, establishing collective bargaining mechanisms of wage settlement, enforcing the labour contract law, and enhancing labour protection (Lo 2007). In connection with this orientation and the related measures, there has seen a conspicuous change with the trend of the growth of the wage rate. As is shown in Figure 4, before the turn of the century, the growth of the real wage rate was persistently below that of per capita GDP. The reverse has been the case since then. True that what Figure 4 indicates is only the wage rate growth of the formal sector of the economy, rather than the Chinese labour force as a whole. Nevertheless, it is still indicative of the direction and pace of change in China.

[Figure 4]

This change is likely of world-scale importance. It is of note that a major aspect of the process of accumulation by dispossession in the era of globalization has been precisely the very large scale incorporation of Chinese labour into the world market. According to the IMF (*World Economic Outlook*, April 2007), weighing countries' labour force by their export-to-GDP ratio, the effective global labour supply quadrupled between 1980 and 2005, with East Asia contributing about half of the increase. Over this period, there has also been an accelerating trend of massive relocation of industry and jobs from the rest of East Asia and beyond to mainland China. That is to say, more than a half of the increase in the labour force that produces for the world market came from China in the 1980-2005 period. Using the same indicator of employment adjusted by the export-to-GDP ratio, as of 2005 year-end, China's share of the world total of workers producing for the global market reached 25%. Now that Chinese labour is becoming increasingly organized, and the trend of decline in its income share is likely to reverse, the bargaining power of the world working class as a whole is also likely to strengthen. Globalization based on accumulation by dispossession is thus likely to encounter increasingly strong resistance. This will facilitate the re-direction of the world economy towards a path of social and economic development that is more stable, humane and just than what has actually prevailed.

5. Conclusions

Recent international opinions on China and world development have focused on the Sino-US economic nexus. The neo-liberal theory of "China causing global imbalances" claims that the particular way through which China has integrated itself into the world market is to the detriment of the economies of the advanced countries. The critical theory of "China facing internal and external dependence", in contrast, claims that the real victim has been the economic development of China itself and the majority of developing economies. This paper supports the policy conclusion of the critical theory, i.e., that the reasonable orientation is to serve the interests of labour, not speculative financial capital. Nevertheless, this paper also argues that the critical story of "internal and external dependence" is to a significant extent an exaggeration. There is good evidence that Chinese economic development does have a high degree of autonomy. This implies that the indicated policy orientation is not only desirable but also feasible.

Notes

1. Top US financial officials such as Ben Bernanke and Lawrence Summers have asserted that "global imbalances" were crucial conditions for the eruption of the financial crisis, and have implicated that China was a cause of the imbalances. See the summaries and criticisms of these assertions by McKinley (2009) and Petras (2010). In the international media, the most outspoken commentators that blame China for causing global imbalances and thereby the financial crisis are Martin Wolf (*Financial Times*, 17 November 2009 and 8 December 2009) and Paul Krugman (*New York Times*, 31 December 2009 and 14 March 2010).
2. In the analytical sense, the story of "China facing internal and external dependence" had actually been the dominant view in the international opinions and economic literature prior to the eruption of the financial crisis in 2007 and the subsequent world recession. Neo-liberal institutions and scholars tended to view China's performance in a favourable light, taking it as a manifestation of the notion of "the natural path of development", i.e., labour-intensive, export-oriented industrialization. Critical scholars, in contrast, tended to assess the experience in a negative way. Hart-Landsberg and Burkett (2004) and Harvey (2005) contended that the experience can be summarized as "Chinese super exploitation of labour under-cutting the world working class as a whole". Nevertheless, Arrighi (2007) and Glyn (2006), whilst agreeing with the thesis of under-cutting, did not take the thesis of super exploitation as well. They rather tended to consider that the under-cutting was due to much faster labour productivity growth in China than other developing economies.
3. Palley (2006) provides a synthesis of, or a bridge between, the critical and neo-liberal stories of China – in the sense that his analysis is identical to the neo-liberal story whereas his policy conclusions are a mix of the two: currency appreciation, increasing wages, etc.
4. Zhu and Kotz (2010) argue that, conceptually, "the appropriate measure of foreign demand for a country's output is the domestic content of its exports", not gross export minus import as such. This seems valid for conceptualising the production or value-added side, but inadequate for conceptualising the demand side. It begs the question as to what is the relationship between the change of export and that of import destined for domestic

consumption. After all, on the demand side, the relationship between export and import represent the exchange of demand between China and the rest of the world.

5. *Xin Jingbao* (Beijing News), 18 August 2010.

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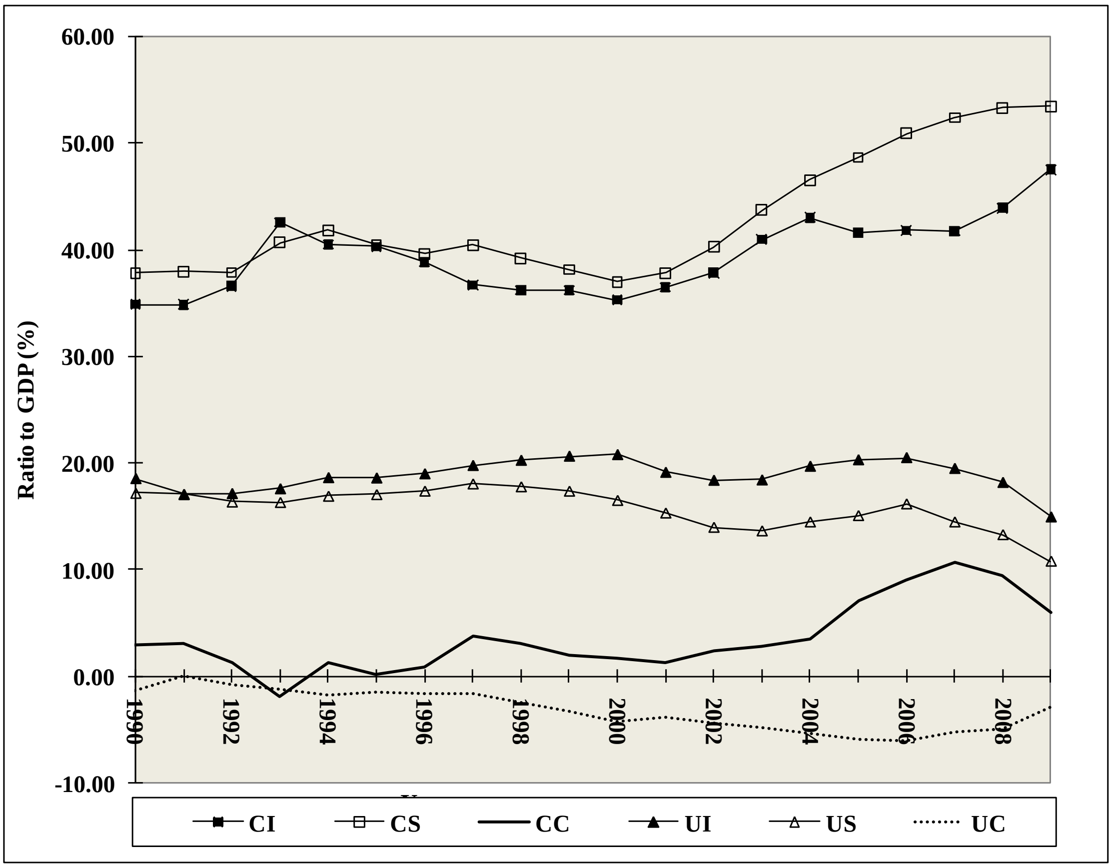
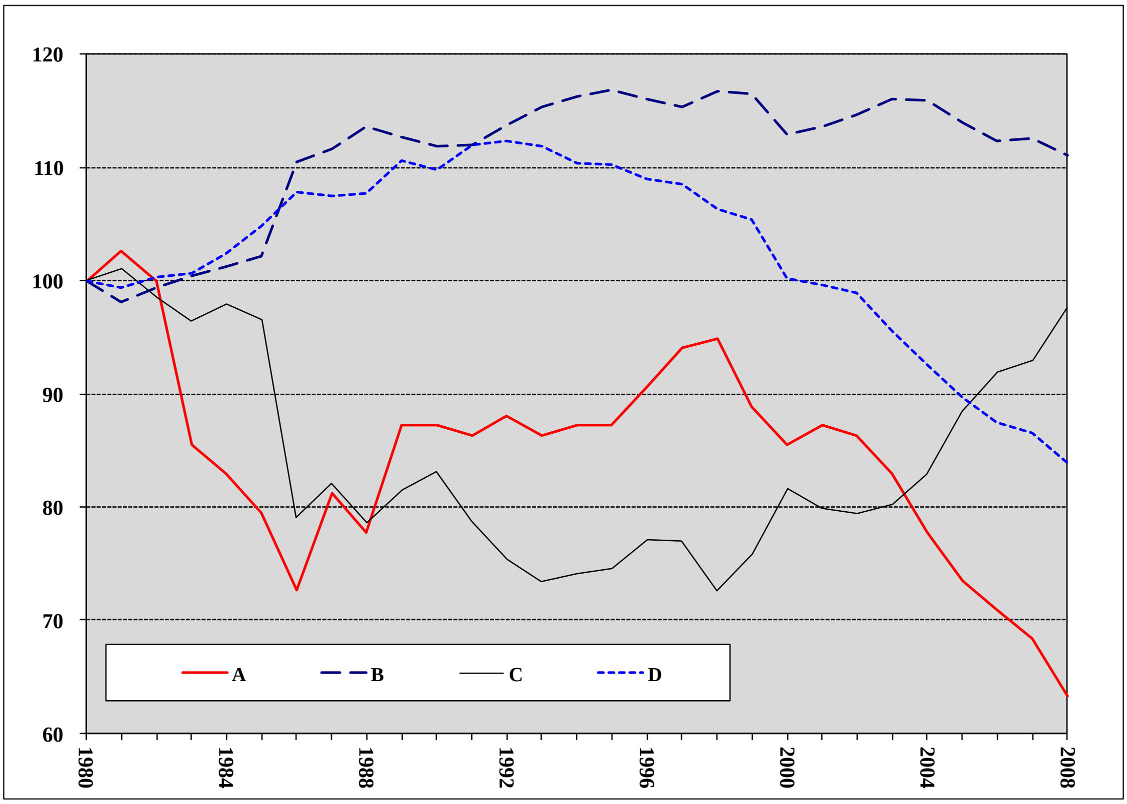
Figure 1. Current-Account and Savings-Investment Balance (ratio to GDP, %)



Sources: Chinese data from National Bureau of Statistics, *Zhongguo Tongji Zhaiyao* 2010 (China Statistical Abstract 2010); US data from IMF, *World Economic Outlook*, data bank (access 23 August 2010).

Notes: CI = China's gross investment, CS = China's savings = gross investment + current-account balances, CC = China's current-account balances; UI = US gross investment, US = US savings, UC = US current-account balances. GDP data are of the expenditures approach.

Figure 2. Net Barter Terms of International Trade (1980 = 100)



Sources: International Monetary Fund, *World Economic Outlook* data bank (access 23 August 2010), and *International Financial Statistics Yearbook*, various issues; World Bank, *World Development Indicators*, data bank (access 23 August 2010)..

Notes: A = China; B = developed countries ('industrial countries' in the IMF categorization); C = developing countries; D = East Asian newly industrializing economies (i.e., Hong Kong, Taiwan, South Korea and Singapore). East Asian newly industrializing economies data are terms of trade in goods and services; others are terms of trade in goods.

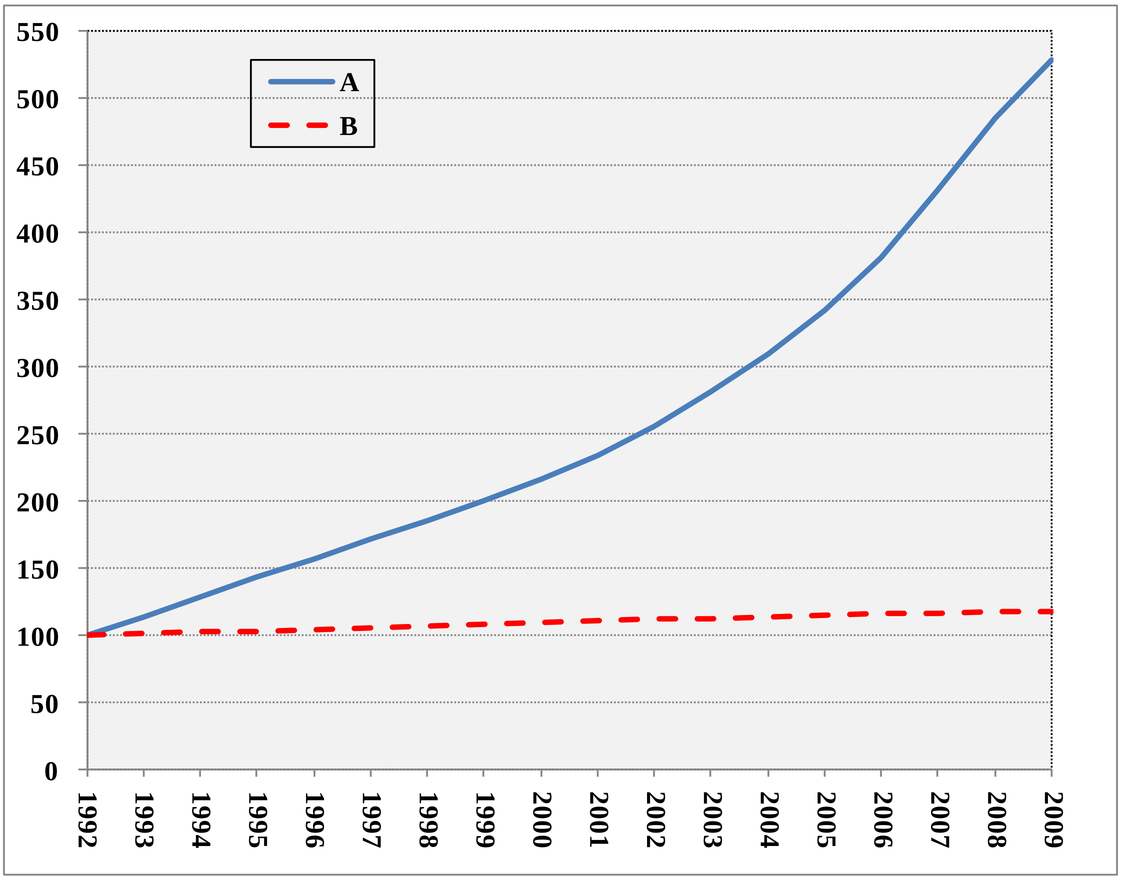
Table 1. China's Total Foreign Trade and Processing Trade (US dollar, 100 million)

	X	PX	PX/X	M	PM	PM/M	(X-M)-(PX-PM)	(PX-PM)/PX
1992	849	396	47%	806	315	39%	-37	20%
1993	917	443	48%	1040	364	35%	-201	18%
1994	1210	570	47%	1156	476	41%	-40	17%
1995	1488	737	50%	1321	584	44%	14	21%
1996	1511	843	56%	1388	623	45%	-98	26%
1997	1828	996	54%	1424	702	49%	110	30%
1998	1837	1045	57%	1402	686	49%	76	34%
1999	1949	1109	57%	1657	736	44%	-81	34%
2000	2492	1377	55%	2251	926	41%	-210	33%
2001	2661	1474	55%	2436	940	39%	-309	36%
2002	3256	1799	55%	2952	1222	41%	-273	32%
2003	4382	2419	55%	4128	1629	39%	-535	33%
2004	5933	3280	55%	5612	2217	40%	-742	32%
2005	7620	4165	55%	6600	2740	42%	-405	34%
2006	9689	5104	53%	7915	3215	41%	-114	37%
2007	12178	6176	51%	9560	3685	39%	127	40%
2008	14307	6752	47%	11326	3784	33%	14	44%
2009	12017	5870	49%	10056	3223	32%	-686	45%

Sources: National Bureau of Statistics, *Zhongguo Tongji Nianjian* (China Statistical Yearbook), various issues; *Zhongguo Tongji Zhaiyao* 2010 (China Statistical Abstract 2010); Statistical Communique of Social and Economic Development 2009.

Notes: X = total export, PX = processing export, M = total import, PM = processing import.

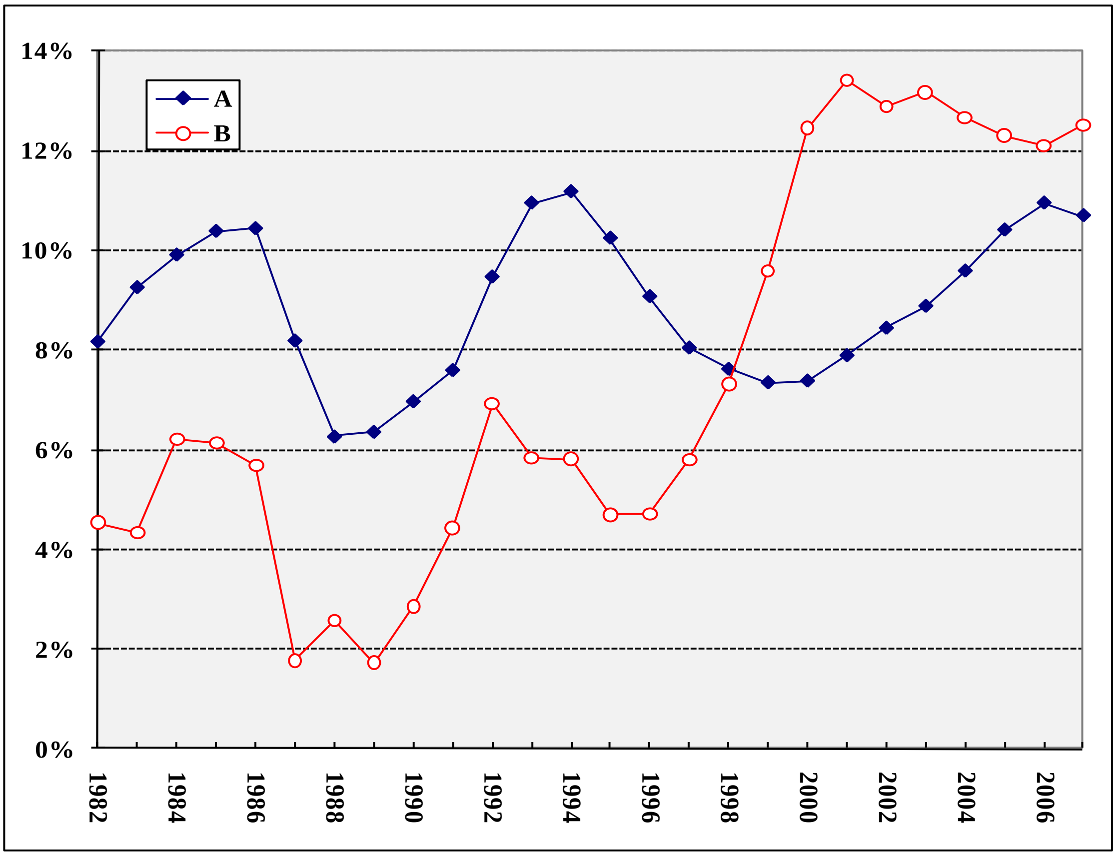
Figure 3. Indices of Real GDP and Labour Employment (1992 = 100)



Sources: National Bureau of Statistics, *Zhongguo Tongji Nianjian* (China Statistical Yearbook), various issues; *Zhongguo Tongji Zhaiyao* 2010 (China Statistical Abstract 2010).

Notes: A = real GDP, B = labour employment (year-end number of employees).

Figure 4. Annual Growth Rate of Per Capita Real GDP and Real Urban Wage Rate (5-Year Moving Average, %)



Sources: National Bureau of Statistics, *Zhongguo Tongji Nianjian* (China Statistical Yearbook), various issues.

Note: A = per capita real GDP; B = urban real wage rate.