

China: The Parallax View

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Introduction

Neoliberal discourse on emerging markets came into its own with the landmark World Bank (1993) publication on the East Asian miracle. The document proffers the ideologically exciting but erroneous view that the rapid leap to the forefront of world market competition by economies such as South Korea and Taiwan is best captured in terms of endogenous transformation. The factors stated to be at the core of the change, the untrammelled operation of markets supported by market friendly state policies, purportedly got “prices right” as East Asian exporters increasingly captured profitable shares of global production.

Concurrent with the World Bank publications’ release, neoliberal economic wizards swarmed to the decaying carapace of Soviet states seeking to shock “animal spirits” latent inside into market action to achieve a similar outcome as that in East Asia (EA). However, as ex-Soviet transition economies rapidly plunged into a cauldron of mafia-like oligarchy and kleptocracy neoliberals, with little to show for their ivy-league credentialed efforts, turned to China as their ex-socialist transition “model”. According to neoliberals, it was precisely post-Mao reforms that unleashed entrepreneurial initiative in China fostering its successful endogenous market development and out of this world growth rates. This article offers an alternate storyline. It argues the key factors in China’s growth equation are exogenous. That China has hitched its future to momentous transnational economic forces. And it now stares into the abyss for doing so.

The organization of this article is as follows: The next section zeros in on the foremost exogenous factor undergirding the remarkable growth spurt in EA and China: the drenching of EA in United States (US) anticommunist booty. Section three examines the

prominent role of foreign capital in post-Mao China's economic transformation up to the period around the recent US originated global meltdown. The fourth section takes a step back to explore the way patterns in internationalization of production and finance set by the morphing US role in the world economy from the 1980s created the template for China's integration as it opened. The fifth section returns us to the key question of China's current crash trajectory.

Take-off on Anticommunist Steroids

In *all* recorded world history, per capita GDP growth over 6 percent for an extended period has occurred only *three* times with each episode taking place in post World War II (WWII) EA. Japan's spurt, averaging over 8 percent annually from 1955 to 1973, is the first. Second, South Korea and Taiwan's growth in GDP per capita in the period 1982-1996, averaged 7.4 percent and 7.1 percent respectively. Third, there is China's post 1978 trajectory averaging near 7 percent GDP growth per capita to 2005 which is the longest in human history (Naughton 2007: 142-3).

Japan, of course, entered the 20th century as an industrializing power hungry to chalk its name on the roster of imperialist states. In the aftermath of WWII, had US initial Occupation strategy to "pastoralize" Japan played out, when the Occupation ultimately came to a close, Japan had the domestic stock of know how to build upon and would have re-emerged as a developed economy. Though not the hyper-competitive international powerhouse it ultimately became. It was Mao Zedong's peasant army on the verge of marching into Beijing that impelled the "reverse course" in US policy to frantically rebuild Japan as a glittering showcase capitalist model. Besides thousands of technology patents that were lavished gratis upon Japan (including Dupont nylon and Bell transistor), the onset of the Korean War topped up the \$1.7 billion spread around Japan by Occupation procurement with a further \$3 billion. Japan's industrial output in fact doubled during the Korean War years

alone. Further, President Eisenhower maintained issues of US domestic manufacturing to be “insignificant” in the face of the communist threat as he opened the US market to Japanese exports, and reduced tariffs on goods from Canada, Denmark, Finland, Italy, Norway and Sweden in quid pro quo for those states opening their markets to Japan. Manufacturing exports from Japan to the US doubled between 1955 and 1960 (Westra 2012: 54-6).

South Korea blazed a similar anticommunist trail. Directly emplaced on a major Cold War fault line South Korea became the recipient of booty estimated to have cost US tax payers \$600 per capita each year between 1945 and 1976. The \$12 billion aid South Korea received during 1945-65 equaled 100% of the government budget throughout the 1950s. Military aid from 1945 to 1976 amounted to \$15 billion. This dole to South Korea was four times that received by *all* Latin America in that period. As the Vietnam War revved-up so did South Korea’s exports to its anticommunist partners’ captive market with 94.29% of steel exports, 51.75% of transportation equipment and 40.77% of non-electrical machinery going to South Vietnam in 1967 alone (Westra 2006). Though it was the US market which opened wide to South Korean labor intensive industries. Finally, it was under the auspices of anticommunist partnership that US brokered the rapprochement with Japan which led to Japan not only licensing technologies to South Korea conglomerates but bailing out both Park Chung-Hee and Chun Doo-Hwan’s respective state directed heavy steel and automobile industrialization drives. It is therefore no accident that South Korea emerged as the sole global exemplar of full-scale industrialization from the post WWII third world. Anticommunist manna enabled South Korea to surmount the “Catch-22” of development where exports are required to pay for technologically upgrading imports; yet without the wherewithal to pay for imports of materials, machinery and know how, it is impossible to produce competitively for export (Westra 2012: 54, 69).

The paradox of China's rise, on the one hand, is that only Mao Zedong's socialist revolution and China's subsequent exclusion from "Free World" comparative advantage predicated international economic intercourse forestalled what was surely the fate of a country in its predicament. That is, with China's post WWII abject poverty, legacy of imperialist exploitation, huge subsistence agrarian population, geographic and ethnic division, parasitic landlord/gentry ruling class which was the power base of the corrupt and inept authoritarian Nationalist Party, China would be another "Bangladesh" today. Instead, during the Mao years 1952 to 1972 China achieved a decadal growth rate of 64 % or 34 % per capita: higher than that of decadal rates of Germany and Japan's late 19th early 20th century formative growth spurts; and comparable to that of the Soviet Union during its 1928-58 growth heyday (Meisner 1986: 436-9). On the other hand, as China turned outwards in the world at the outset of the Deng Xiaoping era, it did so with a healthy disciplined workforce, imbued with industrial skills, and a rate of literacy over two thirds of its population (Naughton 2007: 81-2). And most crucially, China turned outward in a region economically pumped up on anticommunist steroids, marked furthermore by an advanced network of trading and technology linkages, all which were intended to contain it with a band of showcase capitalist states.

In fact, as the US increasingly disengaged militarily from EA following Nixon's historic 1972 visit to China, and the end of the Vietnam War in 1975, it was Japan that began to ride the wave of billions in anticommunist largesse poured into the region. As alluded to above, from 1949 (and as articulated in National Security Council document NSC 48), the US played a pivotal role in refurbishing the image of Japan amongst former conscript states of Japan's regional "Co-Prosperty sphere". The US envisioned a "triangular trade" where it supplied cutting edge technologies to Japan. Japan traded intermediate goods to the region receiving raw materials from a clutch of soon to be touted tigers. In the period 1975 -1985,

50% of Japan's FDI into EA was resource extraction related. The rest went into light manufacturing in Singapore, Thailand and Malaysia. And, when protests related to Japanese presence erupted, these were placated by Japan's expanding overseas development aid into the region (Stubbs 2005: 153ff). Following the Plaza Accord which heralded the onset of *endaka* or Japan's strong yen, manufacturing FDI to the Asian region as a whole leaped. From 1986 it began to rise in China. The thrust of Japan's FDI involved small and medium sized enterprises (SMEs) and international subcontracting, a novel device of FDI. SMEs, however, had a large economic footprint in host economies (Hatch and Yamamura 1996). By 1995 the share of Asia in Japanese MNE FDI hit 91.6% including the 66.3% in China (Itoh 2000: 119).

Contagion

Instructively, China commenced its post-Mao transformation with industry value added equal to 44% of GDP in 1980, one of the higher industry-to-GDP ratios in the world at that time (for example, South Korea's in that year was 40%; India's, 24%). China's opening to the world economy entailed flows of resources into less energy intensive light manufactures that were largely low-tech. This bucks the trend of third world, catch-up, import-substitution industrialization (ISI) development where the movement of industrialization is from light labor intensive to heavy capital intensive industry; a process which across much of the third world beyond EA entailed drastically curtailed consumption and mountains of debt. China's "reform" era instead commenced with rising share of industry in the economy led by expanding light mass production. This initiated a "consumption revolution" based on relatively egalitarian income distribution according to conventional GINI measurement, initially binding production and consumption, and industry and development, in a "virtuous circle" (Westra 2012: 152-3). This virtuous circle was centered by one of the final dictums of Mao policy: the "Third Front", which commenced as

a drive to decentralize China's economy as a bulwark against foreign aggression, but ended up encouraging the growth of town and village enterprises (TVEs) that produced agricultural inputs and consumer goods outside the planned economy (though initially, as adjunct to it). International socialist observers applauded such decentralization as a challenge to the Soviet model and harbinger of socialist development into the future (Westra 2011).

As post-Mao reforms gathered pace, Deng Xiaoping supported creation of special economic zones (SEZs) in China as "windows to the world" which would help garner foreign exchange that would be put toward purchasing technologies to modernize Chinese industry. The first step was the opening of 4 SEZs in China's southern coastal provinces of Guangdong and Fujian (setting out Hainan Island as its own province, made 5 SEZs). They were designed to take advantage of proximity to Hong Kong and to a lesser extent Taiwan which had parlayed export production and opening of export production/processing zones (EPZs) into rises as formidable trading entrepôts. At the outset, SEZs entailed changes in law to permit foreign invested joint ventures. With foreign investment flowing in to China, lobbying led to opening a total of 14 coastal city regions (largely in erstwhile imperialist enclaves) to SEZs by 1984. A second phase commenced in 1986. With a further relaxation of restrictions on inward investment, which effectively permitted full foreign ownership, China became ever more attractive as a platform for international business to export to world markets (Breslin 2003).

It was during the second period of China's opening that the stage was set for the ongoing orgy of corruption by Chinese Communist Party (CCP) figures. As assets of the state owned sector were being "stripped" a "dual-track" price system widely in force from 1985 enabled those with privileged backgrounds and well oiled connections to the party-state apparatus to garner huge benefits from "buying low and selling high" in consumer and producer goods. And between 1987 and 1992 the same cohort coveted massive tracts of land

across China at bargain prices. Asset stripping of the state sector was eagerly supported by military and CCP provincial and local elites. It in turn fostered a spending spree by the now politically *and* economically privileged on everything from their children's education to travel and entertainment as well as suburban monster homes and luxury automobiles. May Day celebrations would even been used to bestow medals for "model workers" on the new business barons battening on former state property (Westra 2012: 154).

But even more dramatic transformations unfolded from the onset of the third phase of China's opening. By 1992, initiatives to boost pockets of economic activity centered on market pricing and international investment had exerted sufficient centripetal force across the state sector to largely obviate the socialist planning system (where TVEs and SEZs were initially conceived as adjuncts). This was broadly accepted when Deng Xiaoping made his celebrated tour of southern China early in the year, visiting SEZs he authorized a decade prior to proclaim that labeling policies socialist or capitalist did not matter as long as they promoted development. During the 14th Congress of the CCP held October 1992, the existence in China of "socialist market economy" was "officially" endorsed. The proclamation was followed in 1993 by a larger FDI flow into China than in all the preceding reform years (Breslin 2003).

Paradoxically, however, government recognition of "market" predominance in China was accompanied by ever greater central government macroeconomic control (though shorn of socialist planning pretensions). As a consequence, paralleling the inward FDI deluge was an ensuing spate of investment led growth. In 1992 and 1993 fixed investment grew at a rate of over 30% of GDP. The emphasis here was on producer goods in support of infrastructure and construction industries. Thus, investment patterns in China at this juncture increasingly fell in line with those so-called miracle economies of EA soon to be castigated by neoliberals as "crony capitalism" following the 1997-98 Asian Crisis. As China acceded to the World

Trade Organization (WTO), initiating the fourth and ongoing phase of China's opening to FDI from 2001, fixed investment contributed 39.3% of GDP growth. Between 1998 and 2002, the value added share of heavy industry within the industrial sector as a whole rose from 27% to 36%. The period also brought to a definitive end China's initial reform induced virtuous circle of relatively egalitarian income distribution, rising household consumption and economic growth. GDP growth outstripped rises in household income and the GINI coefficient which measures inequality jumped from 0.24 in 1984 to 0.41 in 2000: and from there into the fourth phase of China's opening worsened to 0.44 in 2003 and 0.46 by 2006. The numbers signal greater inequality than Thailand, India and Indonesia and approached levels of income inequality then found in Brazil and South Africa (Westra 2012: 153).

In quantitative terms the extent of FDI inflow into China is staggering: From China's opening to the late 1980s it hovered between approximately \$1.2 billion to just over \$2 billion per year. In 1992 the figure is around \$10 billion and in 1993 it jumps to almost \$30 billion. In 1997 as the Asian Crisis struck FDI inflow into China stood at over \$42 billion. By 2003 China received upwards of \$50 billion FDI (Dang 2008). In 2007 FDI into China rises to near \$75 billion. Then, as the global meltdown commences in 2008 FDI into China tops \$92 billion. It falls slightly in 2009 to around \$90 billion but then through 2010 and 2011 FDI into China again spikes significantly to \$105 billion and \$116 billion respectively (US-China Business Council 2012). China, thus, has been the largest recipient of FDI flows to the developing world since 1993 and has vied with the US as the single-most destination for the bulk of FDI the world over (*China Daily* October 29, 2012). From 1993 through to 2008 FDI grew on an average annual basis by 20.1%, much more than the rate of GDP growth (*Peoples Daily Online* October 29, 2008).

The setting for the flood of FDI into China, as noted above, is the SEZ/EPZ which across the globe where they exist partakes of "offshore" principles of extraterritoriality. That

is, while SEZ activities *do* occur in a given state, they are treated as if they do not occur there, at least not within the regulatory space which governs similar operations elsewhere within the country as a whole. Given the original intention of China's SEZs to silo foreign capital for specific functions in an ostensibly socialist economy, the explosion of FDI which followed the aforementioned shifts in CCP policy has created a gigantic SEZ/EPZ of sorts across much of China's coastal area. Added to this, from the mid 1990s, were also 14 so-called open cities and plethora of special "development zones" all conferred with varying offshore-like privileges to deal with foreign capital. The host vehicle for FDI in China is the foreign invested enterprise (FIE) that includes enterprises running the gamut from shades of joint ventures to the wholly owned foreign company (Breslin 2003). In fact wherever an FIE is emplaced in China it tends to operate as its own mini SEZ (Westra 2012: 154).

Of the two lures for FDI in China, investing for domestic market access and FDI directed toward export production, it is the latter which overwhelmingly predominates. We will return to the question of the domestic market in the fifth section. At this point it can simply be noted that prior to China's entry into the WTO the domestic market was largely closed to foreign capital. And, when it opened, China did so with an underdeveloped internal infrastructure relative to its geographic expanse making it near impossible to produce in one part of China and sell in the country as a whole. On the other hand, in contrast to the situation holding in China's domestic market, all levels of government in China heavily subsidize the international export economy in core areas of transportation and communications in particular. The "scale effects" of this subsidization have contributed to the clustering of similar industries in a given area; something which further entails concentration of same nationality investors across the various industrial sectors and clusters (Breslin 2003).

As well, by the time of China's entry into the WTO it had built a formidable capacity for production of counterfeit goods (with counterfeiting factories often located next door to

those producing for “branded” exporters). Fake goods in China constitute a parallel industry with its own production chains which often interface with “legitimate” outsourcing firms. China is not only the world’s number one source of fake products internationally, but domestically, counterfeiting has moved up-market with the highest quality fakes being displayed in posh showrooms and even commanding higher prices. On the evidence, accounts of China’s potential domestic market bonanza for foreign investors and retailers would be remiss not to factor in extensive counterfeiting competition (Shenkar 2006).

Until 2007, manufacturing in China attracted the greatest share of total inward FDI. During the peak years of 2002-2004 manufacturing FDI accounted for approximately 70% of FDI (Economist Intelligence Unit 2012): Nowhere else in the world does FDI in such huge quantities flow into manufacturing. By 2007 then, 94.9% of China’s export total was composed of manufactured goods. In 2004, close to 70% of total FDI went to 100% foreign owned subsidiaries. From 1995 to 2004 foreign capital generated 30% of China’s growth; with foreign capital contributing to a full 40% in 2003-2004. The share of China’s total exports constituted by FIE activities leaped from 1% in 1985 to 58% in 2005 (Westra 2012: 154-6). One estimate has it that by 2004 foreign capital controlled a full 76.6% of Chinese industry as a whole (Cheng 2007). Disaggregating this number, foreign capital controlled the majority of assets in 21 out of 28 of China’s leading economic sectors in 2006 (Westra 2012: 155).

In high technology exports like computers, the share produced by 100% owned foreign businesses continues to grow; increasing from 55% in 2002 to 68% in 2009. The share of FIEs as a whole in production of high technology exports is approximately 85%. Such trends are important in contextualizing the fact of China’s emergence in 2006 as the world’s number one exporter of high technology goods coveting a 16.9% global market share (Hart-Landsberg 2013). It is instructive, hence, that during the period 2005-2007 China’s

export dependence hovers just below 40% of GDP; a significantly greater export dependency than South Korea, for example, at any point during its 1982-1996 growth spurt (World Bank 2013a). As well, while the average share of GDP constituted by private consumption of EA miracle economies South Korea and Taiwan ranged between 50 to 60% over the course of their launch toward modern development, China's fell from around 50% in 1990 to a miserable just over 30% in 2004 (Westra 2012: 155).

What are the domestic constituents of China's lure for FDI? The first draw, as touched on above, is that when China opened its windows to the world, in contrast with third world countries on the erstwhile "Free World" membership roster (with comparably low GDP per capita), Maoist policies of primary and secondary education as well as good basic health care for China's vast peasantry offered up to foreign capital a literate and disciplined workforce; this topped up by an authoritarian polity ensuring broad social stability.

The second draw is low wages. But it is *not* simply a matter of China's teeming populace and seemingly inexhaustible surplus labor force here: In the move away from agricultural collectivization at the close of the Mao era the state allotted arable farmland on a per capital basis to households through a "responsibility system". Beyond the quota of produce to be delivered to the state, households could utilize the land for their own purposes. Besides the massive boost this gave to agricultural productivity, releasing rural labor en masse from staples production at the outset of China's opening to foreign capital, the guarantee of land to rural households created a fallback subsistence option for off-farm laborers which lowered the cost of labor as it simultaneously rendered part-time and short term employment contracts palatable to the burgeoning off-farm cohort (Nee and Opper 2012: 161-3).

Superimposed on this arrangement is the *hukou* household registration system, still a feature of China's law to this day. It fosters a social divide in China between "legal" urban

resident permit holders and those from registered rural households (somewhat akin to “illegal” migrants from Latin America flooding into US agriculture and meat packing). Rural residents swarming to China’s urban centers are excluded from education, health care, housing and state entitlements. Nor can they sell their land or rural homes, ultimately anchoring their and any offspring’s future in rural villages. This further represses real wages below subsistence levels and constitutes a de facto subsidy to foreign capital (Standing 2011: 107-8). China’s “floating population” was estimated at 211 million in 2009 and projected to grow to 350 million by 2050 if government policy remains unchanged (*China Daily* June 27 2010). And, as floating migrant workers have no legal right to be in cities, at times of social unrest or economic downturn, they can be evicted at the crack of a whip. Though the connection with China is not made explicit, the World Bank evinces a disturbing cynicism in flogging such arrangements – off-farm workers streaming to urban sweatshops or construction work for low wages while maintaining “footholds” in subsistence farming to backstop their survival – as a template for the third world as a whole (World Bank 2008: 216).

The third draw is the transportation, communications and energy delivery infrastructure state macroeconomic investment from 1992 has largely completed throughout the coastal region. Highway construction outside of the coastal region, on the other hand, was negligible to 2008. FDI in China therefore preponderates in the coastal region. Only by 2008 did the proportion of total FDI into China flowing to the coastal region fall below 80% (Liu and Daly 2011).

The fourth draw is the extremely favorable tax and rebate regime for foreign investment emplaced from 1994 (Dang 2008).

Before moving on to situate China’s trajectory of opening to foreign capital within the context of international economic change lead by the US from the 1980s we need to

answer the following question: From where does FDI flooding into China hail? It is estimated that near 60% of FDI into China in 2006 emanated from the EA region with Hong Kong, Japan, Taiwan, SK and Singapore leading the way. Overall, by 2006, the top five investors in China were Hong Kong, Japan, Virgin Islands, US and Taiwan (Dang 2008). These numbers in themselves, however, only tell part of the story. In fact, what deeper probing of investment evidence shows is that, as we shall also see with regards to trade with China, bilateral and country based figures can be immensely misleading.

Firstly, the extent of “foreign” investment in FDI figures for China is nebulous due to the practice of “round tripping”. Here, domestic Chinese use Hong Kong and a coterie of offshore tax havens such as the Virgin Islands (as well as Cayman Islands, Barbados, Bermuda, Mauritius, Samoa) and the investment device of “shell companies” to move money out of China surreptitiously for the purpose of re-investing in China to gain the preferential treatments accruing to foreign investment. The true round tripping figures are difficult to tabulate however because investors from Taiwan and elsewhere across the Chinese Diaspora in Asia also avail themselves of tax havens. British Virgin Islands and Cayman Islands, for example, have emerged as major destinations of outward investment from Taiwan. Secondly, Japanese capital as well as US capital have the two greatest representations of regional headquarters in Hong Kong and utilize these local offices to “disguise” investment into the southern coastal province of Guandong. The third problem facing our tracking sources of FDI in China is the labyrinthine network of investment and contract manufacturing intermediaries which characterize global outsourcing but is a particularly conspicuous feature of EA and China (we will return to this important point below). Investment companies, for example, operate as “matchmakers” bringing together multinational (MNC) branded companies with subcontracting producers. The latter shoulder the risks and insulate branded MNCs from direct truck with abysmal labor standards (Breslin 2003).

The Global Take

Besides the anticommunist steroidal pumping up of the EA region, China's economy is a creature of momentous world economic changes from the 1980s which saw the US transubstantiate into a *global economy* (Westra 2012): dependent upon the world for the array of consumer goods its populace demands; dependent upon the world for capital inflows to sustain its budget and trade deficits; all the while manifesting the worlds' largest national debt while national savings rates hover near zero. Yet, through the persisting role of the dollar as world money, remaining as firmly in the global driver seat as it was when it was the worlds' workshop and creditor! Let us track the changes in the architecture of international production and finance that enable such a feat. And look at the way China is ensnared in the web.

Internationalization of production and emergence of an actual international division of labour was an idiosyncratic feature of post WWII capital accumulation and MNC profit strategy. Spearheaded by US MNCs, through the 1950s and 60s, production was internationalized by "tariff jumping" FDI where MNCs strove to capture markets they might otherwise be excluded from. MNC activities as such supplemented domestic corporate investment and profit-making. By the mid-1970s, with the advanced economies (except Japan) caught in a protracted crisis, MNC international activity commenced a shift from tariff jumping to relocating production and assembly to "export platforms" which serviced global markets. This began a process of advanced economy corporate capital attrition against its unionized domestic labor force and ultimate replacement of domestic production by internationalized outsourcing (Westra 2010).

As the 1970s drew to a close, trends in the US economy reached an impasse. US MNCs faced ever increasing competition in the domestic market for consumer durables from a combination of Japanese and German MNCs plus US MNCs producing in the nascent

European Union (EU). While US MNCs competed to recapture domestic market share, such efforts taken by individual capitals contributed to overcapacity and falling profits across key industries and the economy as a whole. Further, US military adventures through the previous decades had engendered a monstrous misallocation of domestic resources and exacerbated a spiralling inflation that, when paired with the growth slowdown, produced the phenomenon of *stagflation*. The confluence of the foregoing undermined confidence in the US dollar which despite the demise of Bretton Woods a decade earlier had maintained its global status as hub currency.

The crossroads arrived at demanded, in principle, the US begin taking its domestic medicine to remake its industrial economy and face the mandate of “Free World” institutions World Bank and International Monetary Fund (IMF) to deal with potential alternatives to a “dirty floating” dollar as world money. However, the coming to power of Ronald Reagan signalled US intention to seek a wholly new international orientation where the US would remain globally paramount notwithstanding abdication of its industrial economy.

It is true that the US built rudiments of its new dollar seigniorage based global orientation through the 1970s by fomenting abrupt price rises of globally (dollar) traded commodities such as oil, and increasing the global supply of (dollar) money and credit much quicker than growth of the *real* international economy of production and trade. And that these moves drove funds toward financial markets headquartered on Wall Street. Where interest and exchange rate fluctuations fed global appetite for arbitrage divorced from real economic activity (Altvater and Hübner 1989: 58). Yet, opportunities to stem the tide remained. But with the unilateral raising of interest rates by Federal Reserve (FED) Chair Paul Volker in 1981 to upwards of 20%, there would be no turning back. Inflation was quashed. And, with the value of the US dollar measured against the value of other currencies exploding by over 50%, money streamed into US dollar denominated assets; this cementing anew the

attractiveness of the dollar, backed by Treasury (T-bill) IOUs, as global reserve currency.

What remained of US civilian manufacturing production would henceforth be largely priced out of foreign markets (Westra 2009: 113-4).

However, this did not mean that in any way US MNCs intended to relinquish their commanding heights position in the US or global economy. Through the 1980s and into the 1990s US MNCs moved from relocating production and assembly to export platforms toward the wholesale dissembling or *disarticulating* of global production into what has become known in business school circles as “value chains.” What the latter concept captures is the fact that MNCs deverticalized and disintegrated production systems, scattering pieces of them across the globe. As a result, it has been estimated that 60% of global trade is now constituted by trade in sub-products or components, labelled “intermediate goods” (WTO 2010).

According to Grazia Ietto-Gillies (2002), on the one hand then, it is this disintegration of production which has fomented the integration of trading networks (though where the flow of sub-products across value chains further intensifies patterns of intra-firm, intra-sectoral movement of goods characteristic of internationalization of production from the post WWII era). On the other hand, such slicing, dicing and geospatial dispersal of production permanently fragments the global labor force. Vitiating the ability of labor to organize and resist MNC designs.

The disintegration of national production systems and disarticulating of manufacturing processes has further brought about qualitative transformation of the non-financial MNC itself. MNCs were remade as “virtual” or “not-at-all-manufacturing” businesses; that is, MNCs became branded monopolists that simply no longer *make anything*. Thus business school celebrations of “flexibility”, with the intimation that MNC deverticalization reinstated markets and invigorated competition, were spurious to say the least. The information and computer technology (ICT) revolution in MNC global *logistics*

paralleling the shift to not-at-all-manufacturing (“logistics” being a term co-opted from the military) empowered MNCs to exercise Stalinist-like centralized suzerainty over vast geospatially dispersed networks of suppliers (Westra 2012: 84-5). The lynchpin of this centralization is the *non-equity mode* (NEM) of MNC global control. NEM operates through the new coterie of aforementioned contract manufacturers, MNCs (most from advanced states) in their own right, that manage the global reassembling and international reverticalization of manufacturing with the actual business of making things now relegated to suppliers under NEM thumbs. By 2010, NEM control type businesses employed a global labor force of around 20 million. NEM contract manufacturing accounts for approximately 90% of production costs in toys and sporting goods, 80% in consumer electronics, 50 to 60% of automotive components world-wide (Hart-Landsberg 2013).

As the scenario of MNC disinternalizing of manufacturing operations and global disarticulation of production played out, manufacturing activity exploded across the third world. By 2000, third world share of global manufacturing value added rose to 24% of the world total. In 2001, the share of manufacturing exports in third world exports as a whole was 70%; with the total value of third world manufacturing exports increasing a full 4 times between 1980 and 2002 (Westra 2012: 92). It is no surprise to find developing EA economies front and center in the global sea change. Developing EA share of global GDP rose from below 10% in 1980 to over 28% by 2010. The EA share of global exports also leaped from 8% in 1980 to near 26% by 2009. But the telling figures here are export dependency predicated upon intermediate goods trade. The regions export/GDP ratio jumped from approximately 15% in 1982 to 45% by 2006; significantly outpacing increases in trade by both low and middle income third world states in the world as a whole. More dramatically, sub-products comprise over 50% of total interregional import/export (figures for the EU 15 and NAFTA are 22.1% and 36.3% respectively). Of China’s imports of manufactures, the

share of intermediate goods grew from under 24% in 1992-1993 to over 59% in 2006-2007 (Hart-Landsberg 2013).

The point to be made is that the current trajectory of manufacturing in the third world entails a divergent dynamic from that propelling the ISI drive during the post WWII “Free World” heyday. Then, third world states sought to build wholly integrated industrial structures in the direction of what we refer to above as full scale industrialization, according to the template offered by the advanced economies. This model involved moving “up the ladder” from light through heavy industry toward the consumer durable automobile society. The model is marked by the wholesale shift of populations out of agriculture into manufacturing which, as the production ladder was climbed, fed the virtuous capitalist circle of rising incomes and living standards for workers and the translation of growth into development. From the third world as a whole, however, the model is *only* consummated in the anticommunist capitalist showcases of South Korea, Taiwan (in part) and the anticommunist servicing entrepôt city states of Singapore and Hong Kong (in the latter the daunting task of dismounting landed ruling classes and large-scale shifting of populations from agriculture is never confronted).

From the 1980s, the international dissembling of manufacturing processes along with their geospatial dispersal engenders a radical disjuncture between manufacturing industry and *industrialization* as it decouples growth across the third world from the sort of *development* industrialization historically wrought. The figures on the diminution of manufacturing as a percent of total labor force employment among advanced capitalist states – from 37% to 50% in the 1950-1970 period to below 18% at the close of the 20th century; with the US level around 10% – are incontrovertible (Feinstein 1999). In the world as a whole, according to the International Labor Organization (ILO), industrial employment as a percent of total employment remains constant around 21% from the waning years of the 20th century (ILO

2011). But let us not be misled: Firstly, this figure is buoyed considerably by ex Soviet states, including Russia and Ukraine, maintaining industrial systems of a bygone era (which year by year are being increasingly dismantled). Secondly, amongst countries that constituted the third world following WWII, *only* in South Korea and Taiwan does the percent of the labor force employed in industry rise (combined with significant diminution of the workforce in agriculture below 10%) exhibiting a similar profile to that attained earlier by advanced capitalist states. In China, for example, employment in agriculture remained over 50% at the close of the 20th century. Industrial employment (figures include China's massive construction sector) rises from 24% at the beginning of the 21st century to a peak of around 28% (though as we will see, it is now falling without having reached even lower levels attained by advanced capitalist, anticommunist showcase or ex Soviet states). However, with employment in agriculture still over 36%, and keeping in mind our discussion of the burgeoning floating population and *hukou* system, we already have a prima facie case for China representing something radically different from so-called catch-up industrial development (CIA-The World Factbook 1998; 2001; 2004; 2007; 2013).

In fact, from the early 21st century, the trend in the world as a whole is no longer a movement of populations from agriculture to industry as marked the capitalist era from its inception. Rather, it is from agriculture to the service sector. And the service sector, across the third world is the domain of exponential increases in so-called vulnerable, informal and contingent employment (Westra 2009: 176-7). Further, the evidence shows that much of the third world with historically scant levels of manufacturing employment and low per capita GDP is now in the throes of "premature deindustrialization". And will *never* taste capitalist wealth effects enjoyed historically by advanced states and the anticommunist third world showcases that climbed the economic development ladder (Dasgupta and Singh 2006).

Volker's unilateral interest rate hike is crucial here in shattering the third world ISI dream. Much of the dollar liquidity flooded into the worlds' financial system through the 1970s was borrowed by ISI states at inflation driven below zero interest rates. Thus, starting with Mexico in the summer of 1982, crises would soon sweep across 27 countries by 1983. The impact was devastating: as late as 1996 the cumulative output of the third world as a whole still had not recovered to the 1979 level (Duménil and Lévy 2004: 86-8). Further, the structural adjustment programs (SAPs) imposed on an enlarging raft of debt besieged third world states by 1989 cleansed much of the third world of remaining full scale industrialization pretensions. SAPs were designed to reverse allegedly wrongheaded institutional and policy biases toward industry and reset third world states back on the comparative advantage track as exporters of agricultural products and raw materials. SAPs domestic "deregulationist" impact was then intensified by global imposition of neoliberal trade "liberalization" dictums. These smashed remaining buttresses third world states emplaced to contain MNC incursions. Therefore, when manufacturing returns, it does so sliced and diced, firmly under MNC global "logistical" control, and preying upon a now permanently fragmented and dispersed global labor force (Westra 2009: 172-3).

We can only recall the tweaking by Japanese economist Kaname Akamatsu of mainstream trade theory with his "flying geese" model of "dynamic" comparative advantage. Intra-regional trade centered on "lead goose" Japan, it was argued, would ultimately export the "product cycle" and transplant production processes among middle-income "geese" as Japan raised its technological and productive prowess. However, under current conditions where erstwhile "whole" manufacturing is disarticulated and globally dissembled, it is not clear how such might ever come to pass. Not only has the export dependence of low and middle income countries in EA leaped, as noted above. In the world as a whole low and middle income countries proportion of global sub-product exports grew to 35% by 2008. Yet

growth of capital and consumption goods exports remained stable in those countries since the late 1980s. As for Japan, 29% of its imports were being drawn from *low* income countries, by-passing the middle income “geese” where industrialization was to have taken-off (Millberg and Winkler 2010).

But let us return to our elaboration upon the linkage between transfiguring of the global financial architecture and transubstantiating of the US into a global economy as defined above.

High US interest rates which quashed inflation on the global hub currency compelled other advanced states to follow with interest rate increases. An absurd situation was thus engendered across the advanced capitalist world where not only were real interest rates over twice the rate of growth of respective national products but they exceeded returns on productive investment and rates of profit in the *real* economy. Such conditions then accelerated the transformation of global financial and credit markets. As Elmar Altvater and Kurt Hübner explain, it is not just a question here of bloating debts from the third world crisis or even mounting debt casualties among private and public borrowers in advanced states; all hit by higher interest rate rollovers. On the one hand, the very “dynamic” of debt changes: Credit used for investment in *real* economic activities is repaid out of profits which, if higher than interest rates, leads to debts being paid off. However, as credit is increasingly deployed in debt restructuring or private and government consumption, its avenues of financing are reduced to deductions from current private and government income and/or more debt. On the other hand, the direct exposure of US commercial banks along with other assorted financial intermediaries to third world and other debtors shocked the global financial system into a wholesale transformation of lending through *securitization* with its smorgasbord of new-fangled financial instruments. This places the debt onus squarely on the shoulders of debtors

caught between the aforementioned rock of ever narrowing repayment possibilities and hard place of incurring ever more debt (Altvater and Hübner 1989: 59-64).

The concatenation of high interest rates, meagre returns on productive investment and expanding “liberalized” global financial/credit markets along with spreading “secondary” markets in debt securities exacerbated tendencies of international capital flow towards short term, speculative financial arbitrage and away from *real* economic activities. Wall Street, with its sophisticated entrenched financial infrastructure and intricate connection to global financial hubs, emerged as the vortex drawing in global liquidity only to then dispatch it in casino games. In fact, Wall Street operations constituted a surreptitious industrial policy transforming non-financial MNCs (particularly in the US where ideological anathema to “big government” policy reigns) into financial arbitragers in their own right. In this sense, the successive waves of MNC mergers and acquisitions (M&As) which swept the globe through the 1980s, 1990s and into the 21st century constituted the flip side of the MNC shift to branded not-at-all-manufacturing (Westra 2012: 108 ff). Wall Street created a hothouse for MNC divestiture of “risky” assets such as labor forces and factories which were often transferred into the hands of NEM control contract arrangements. A new metric, so-called shareholder value (market capitalization of businesses calculated by multiplying the total number shares by their price as a ratio of the net worth of a company), was evolved to assess Wall Street “policy” results. It is not surprising that by 2000, corporate equities in the US would be valued 45 times that of underlying MNC earnings; this figure well exceeding the 30 times equities were in excess of corporate earnings preceding the 1930s Great Depression (Glyn 2007: 56-7).

With commanding heights business in the US (and elsewhere across the globe under compulsions emanating from the US) no longer in the business of *real* economy profit making, so international banking morphed away from the “relationship banking” model

which crystallized at the dawn of the capitalist era. What “relationship” refers to is the fact that unlike moneylenders of old banks do not lend their own money; rather capitalist banking performs the role of financial intermediation connecting various classes of depositors and borrowers. And, diverging from antediluvian money lending, the socially redeeming function of capitalist banking is oversight of the creditworthiness of borrowers and what borrowers intend to do with money obtained from banks (Kregel 2012). However, the “originate and distribute” model of banking, engendered by the perfect storm of receding *real* investment opportunities for bloating pools of footloose funds, swelling global debt and spreading securitization casino, is based upon financial disintermediation. Banks originate loans only to sell them off through securitization garnering fat fees in the process. The socially redeeming facet of relationship banking is thus leached away. Banks evince little interest in creditworthiness of borrowers or to what end loans might be put as both principal and interest is paid to end buyers of securities, *not* banks. At the end of the day banking under originate and distribute compulsions gravitates toward a new preferred customer base; the finance, insurance and real estate (FIRE) sector which surpassed manufacturing as the largest sector of the US economy by 1986; and a new modus operandi, asset inflation through debt (Hudson 2012). This banking model was cemented in the US by the Financial Services Modernization Act. And exported as tentacles of Wall Street banking reached across the globe behind WTO provisions in the General Agreement on Trade in Services (Westra 2012: 134).

The US rode high on the waves of world economic change: The US current account deficit, which bloated through the 1990s into the 21st century as the US abdicated its industrial economy, accounted for around 50% of global aggregate current account deficits in 2006; with China instructively accounting for 22% of global aggregate current account surpluses (Hart-Landsberg 2013). By 2005, the US was sucking in 70% of “liberalized” global capital flows to finance its deficit (Rajan 2005). The US dollar as world money thus

acts as an *auto-financing* mechanism. States gain access to dollars by way of externally orienting their economies. They are forced to sell more goods for dollars than they import, or borrow dollars through securitization.

With the dollar as global hub currency the US budget deficit transmutes into an *auto-borrowing* mechanism. US government spending is increased in a fashion that does not “crowd out” private sector borrowing. Nor is a rise in interest rates compelled even though US domestic savings hover near zero. Further, the central role of the dollar in international investment makes the dollar the key “traded” currency in “liberalized” world markets. Thus, not only do global foreign exchange reserves spike astronomically from the mid 1990s, the dollar consistently composes over 65% of *official* reserves with the suspicion that were China’s foreign exchange distribution reported, and opacity of offshore financial centers factored in, that US dollars constitute an even larger proportion of swelling “unallocated” reserves (IMF 2012). Both the global spike and proportionate increase in reserves held by the third world, including major so-called emerging markets, follows the uptick in volatility and short term orientation of global investment as states turn to largely dollar reserves to defend their own currencies against speculative attacks. To offer an example of what is at stake, in 2007 those dollar reserves held *in* the US banking system by the top 10 foreign holders effectively amounted to a conscripted “loan” worth near 13% of US GDP (Murray and Labonte 2012).

It is important to emphasize that so-called liberalization of finance is not an independent variable. The evidence displays a clear pattern: Wall Street is the main progenitor of the new-fangled securitization instruments and command center for the global financial casino. And whichever part of the world global meltdowns originate, in EA or the US itself, funds from across the globe flood into US dollar denominated assets. In fact, when Standard & Poor’s dropped their rating on US debt during early budget ceiling charades of

2011, T-bill IOUs experienced their greatest rally since Lehman Brothers collapse (Westra 2012: 131ff, 196).

Now let us add China to the mix: The trade deficit with China in 2007 was the biggest the US had with any country. It exploded from \$11 billion in 1990 to \$274 billion by 2007. In that year China's share of US total trade deficit was 32.1%. China's trade with the US increasingly shifted to ICT products. These composed 37.6% of total US manufactured imports from China in 2005-2006 giving the impression that China was moving up the high tech ladder. But, here again, bilateral and country based figures can be tremendously misleading. As China's share of the US trade deficit exploded, over the same period Japan's share shrank from 21.1% to 10.2% and the share of EA as a whole plummeted 16% to 7.9%. Hence, while China's trade surplus with the US bloated, China was running a trade deficit with EA as a whole. To take a glaring example of what is going on in 2001 computer manufacturers from Taiwan produced 4% of their laptops in China. By 2006, this figure jumped to 96.8%. At that point 8 out of China's top 10 exporters were original design manufacturers (ODMs) from Taiwan that supply branded MNCs like Dell with computers and components. China had no "national" ODMs. No Chinese suppliers played a significant role with respect to Taiwanese ODMs or their suppliers (Hart-Landsberg 2013).

It has never fully been appreciated the extent to which the Wall Street orchestrated 1997 Asian Crisis (with a wink from the US Treasury which certainly was aware of the large scale capital flows to offshore centers hedge funds used to attack Asian currency pegs) hastened consolidation of China as lynchpin in global value chains and remade EA anti-communist showcase economies to benefit the US new orientation. The immediate impact of the crisis was price collapse which saw the US import bill from the crisis hit economies fall by \$31 billion in 1997. It is estimated over two years the collapse in prices involved savings equal 25% of US non-oil imports (Westra 2012: 134). Then came IMF compelled

“restructuring”. Through 1997-98 and beyond the ratio of investment to GDP in the EA region plunged. South Korean investment, as a case in point, averaged 37% of GDP 1990 to 1997. Between 2000 and 2007 the average was 30%. South Korea’s growth also became more export dependent with China taking over 30% of South Korean exports. Around 70% of these exports are intermediate goods which remerge in Chinese exports (Hart-Landsberg 2013). For economist Richard Duncan, slicing and dicing of global production along with routing of global value chains through low wage China has been central to dampening inflationary pressures in the US economy (and dollarized world economy). These pressures would have otherwise built up 1970s-like, he maintains, due to commodity price inflation (as cost of energy and food affect the consumer price index indirectly) engendered by speculative Wall Street gambits (Duncan 2012).

But even accounting for China’s cheap labor furnishing of the “American way of life”, with US multiple deficits and zapping of its well paid unionized workforce from the 1980s, we are brought back to the question of the source of US consumption sufficient to foment China’s meteorically high growth rates, not to mention much touted pre-meltdown growth in the US itself. The answer is debt. And the evidence is incontrovertible. Spiking from the close of the 1970s to 2007 total US credit market debt skyrocketed from 170% of US GDP to 360%. Skyrocketing in tandem with total credit market was US household net worth. Breakdown of the household sector’s assets during the above period show real estate composing 32%; equities 25%; deposits 9%; government and corporate bonds 5%; and miscellaneous holdings (pension and retirement funds, etc.). The expansion of credit increased the value of both major household sector assets. The median price of a single family home in the US more than quadrupled between 1980 and 2007. The Dow Jones Industrial Average surged from 1,000 in 1982 to 14,000 by 2007. Rising asset values ramped up mortgage debt 10 times, in turn fuelling a household spending spree largely financed by

using homes as ATMs. The latter saw consumer credit increase 6 times. As US consumption as a proportion of GDP jumped to over 70%, US household debt bloated to 98% of US GDP (Duncan 2012: 37-40).

One final matter before we shift to China's current malaise – interest rates.

Remember, the 1981 “unilateral” US dollar interest rate hike by then FED Chair Paul Volker, dubbed a “coup” given the role of the dollar as world money and the extreme nature of the rise, did the initial dirty work in cementing the new US global orientation (Duménil and Lévy 2004: 69). By accelerating the disarticulation of “national” production systems and fragmentation of the global labor force (re-concentrating it only under China's low wage and unique labor market regime) it exorcized the twin demons of US dollar inflation. High interest rates further contributed to the drift of global finance toward short term speculation and securitization casino play that ultimately entrenched originate and distribute banking. And the Volker coup drew global wealth into dollar denominated assets which cemented the T-bill IOU standard of global reserves and reinvigorated the dollar's role as world money.

But, with the world economy dominated by FIRE headquartered on Wall Street, global growth based asset inflation stimulated by seemingly limitless credit, high interest rates are anathema. Besides US FED policy, the sheer extent of foreign holdings of US assets, particularly holdings of anticommunist stalwart Japan and ironic progeny China, constitute a major factor. We may note the 2008 positive net international investment position (NIIP) of Japan and China at \$2.5 trillion and \$1.5 trillion respectively is virtually a mirror image of US negative NIIP at minus \$3.5 trillion (Deutsche Bank Research 2010). In this way, the dollar as world money allows a monstrous net debtor to foment an internal expansion unimaginable for any other economy. And Wall Street, which is heir to the global booty (though predominately from EA) the dollar attracts, to impel an external expansion to its, and US, benefit. One estimate has the US-China nexus, which we have seen is actually the US-

anticommunist showcase EA nexus in new garb, contributing over 45% of global growth in 2005 (Ragan 2005). Another estimate sees it accounting for more than 60% of cumulative growth in global GDP in the period 2002-2007 (Ferguson and Schularick 2007).

China, It's Coming

As the impact of the 2008-2009 US originated mortgage debt fuelled bubble reverberated across the globe, advanced economy governments where banking systems had been most closely bound to Wall Street casino play responded with a flood of liquidity. Running the gamut from “asset” purchases through deposit insurance payouts and debt “guarantees”, the rapid money injection to prop up US, UK and EU banks by end 2009, according to Bank of England’s Andrew Haldane, totalled \$14 trillion (Alessandri and Haldane 2009). In the US, as the private sector debt which rocket fuelled US, China and global growth contracted by \$3.4 trillion between end 2008 and mid-2011, US government debt exploded by \$3.9 trillion (with a multiplier effect far exceeding this amount) in an attempt to stave off wholesale depression (Duncan 2012: 110). China, with an economy cushioned by a large current account surplus and swelling foreign exchange reserves, nevertheless pumped the equivalent of \$570 billion at end 2008 into a spate of infrastructure projects, eliciting the refrain “China saved the world” (*Globe and Mail* September 24, 2011).

Why the refrain rings so very true is that behind the direct linkage of US debt- driven consumption serviced by MNC value chains in EA directing final assembly through China has been instigation of a global raw material resource supply boom. This impacted advanced economies like Australia and Canada as well as so-called developing economies across Latin America and Sub-Saharan Africa. The injection into China’s economy of an amount equal to 15% of its GDP, making it the largest relative economic stimulus of all the meltdown bailouts, was accompanied by government admonition to state banks to ramp up lending. Predictably, China recovered rapidly from the US originated crisis. The recovery saw fixed

investment in China jump to a whopping 46.2% of GDP by end 2010 (Foster and McChesney 2012). Investment driven growth in China dampened adverse effects of the 2008-2009 meltdown in EA. And, as China's demand for key raw materials increased, even as demand for these elsewhere in the world contracted, it further maintained growth trajectories among resource exporters in Latin America and Sub-Saharan Africa (Hart-Landsberg 2013). All told, it is estimated that China's growth contributed over 40% of global growth between 2008 and 2010 (Bloomberg View 2011).

This feat has given rise to three interlinked narratives on China's future which dominate mainstream commentary: The first is that of global "rebalancing". Second is "decoupling", where China is slated as the major component in a new engine of global growth built on so-called emerging market BRICS (Brazil, Russia, India and China, with South Africa sometimes added for good measure). The third and most recent is that of "reform". Each narrative harks back to the neoliberal view of endogenous change with which this article began. Let us take them up one by one.

Put starkly, the rebalancing narrative forecasts that with the right policy adjustments China will consume in a fashion which induces high domestic growth rates while pulling in US and other advanced country exports in a fashion which engenders mutual prosperity and remedies the US external deficit. The problems with this view are legion. They begin with the fact that China entered the 21st century with per capita GDP significantly below the position from which anticommunist showcases South Korea and Taiwan launched their rapid ascent in the world economy. And light years behind where Japan commenced its meteoric growth trajectory back in 1955 (Glyn 2007: 89).

China's much trumpeted current GDP ranks it second biggest economy in the world. But GDP per capita in US dollars in 2011 was \$5,445 placing China just above Jamaica; a middle income country ranking (World Bank 2013b). Calculated in terms of purchasing

power parity (PPP) dollars (a measurement that I would better accept if global public and private debt was settled in PPP “currency”) China’s estimated 2012 per capita GDP is \$9,100 putting it below Timor-Leste (CIA- The World Factbook 2013). What is significant about GDP per capita is that in the medium term historically, growth in a country with China’s profile remains resource intensive for some time. Certainly, given China’s giant global economic footprint along with the size of its recent stimulus, it is to be expected that its impact on global demand continues to be significant. However, even taking account of China’s spending flow into services such as education and health care, there is little in the way of direct demand for particular goods and services exported by the US and high income EU economies. China’s total demand in 2008 was equivalent to less than 25% of total US and EU consumption (Kaplinski and Farooki 2010).

In fact, in the area of consumer goods Chinese demand is hardly a replacement for the US. China’s consumption by 2010 was but 12.5% of US consumption. And the import content of Chinese domestic consumption is but 8%, three times less than that of the US (Hart-Landsberg 2013). Further, the nature of that consumption will differ sharply for some time to come from that shaping global value chains. MNCs catering to US consumers structured value chains around things like brand recognition, product diversity, quality control and environmental/energy impacts of production. This fed advances in just-in-time-production, zero inventories as well as chain and retail ICT logistics. Consumption in China where 270 million *households* were within the \$1000 to \$5000 total annual income bracket in 2007 and just under 50 million *households* in the \$0 to \$1000 total annual income bracket turns on low cost, standardized goods and evinces scant concern with quality, pollution or energy intensity which factor into the division of labor constituted by MNCs and NEM contract networks (Kaplinski and Farooki 2010).

Then there is the question of employment: In the first decade of the 21st century it is estimated that across the third world 85 million jobs or 20% of total new employment was “associated with rising exports”, most in manufacturing. In China, the export contribution to employment between 2000 and 2010 is 43 million workers (McKinsey Global Institute 2012a). New survey data shows that the post-meltdown travails of the global economy hit China much harder in 2011 and 2012 than government statistics display. In June 2012 the urban unemployment rate stood at 8.05%. For migrant workers, most employed in the export sector and construction, it is 6%. From August 2011 to June 2012 unemployment jumped from 5.5 million to 10 million (though less than the 23 million unemployed during the meltdown itself). Further, the rise in real wages during 2011 made much of in the mainstream rebalancing narrative, has now largely eroded (*Wall Street Journal* December 10, 2012).

The flip side of these figures is the fact that advanced economy consumers cannot be counted on to abet their own recoveries not to mention China's. Nor does a replacement exist for US consumption. In 2007 and 2008 US household annual consumption averaged around \$10 trillion. Household consumption in Japan and Germany during the same period averaged only \$2.5 trillion and less than \$2 trillion respectively (Hart-Landsberg 2013). By mid 2011 US household debt as a percent of disposable income had only fallen from close to 130% to around 110%. And even if US households successfully deleverage over the next decade their spending will be considerably reduced in the absence of the home-ATM connection (McKinsey Global Institute 2012b).

Taking 18 core economies of the OECD, total debt to GDP ratios jumped from 160% to 321% between 1980 and 2010. Disaggregating the numbers, and controlling for inflation, household debt leaped 600%, that of nonfinancial corporations 300% and governments 425% during that period. For the private sector and government to reduce debt requires a current account surplus. However that means China and other third world economies dramatically

ramping up imports. That is not in the cards as discussed above. To deleverage, OECD households must save which depresses consumption. But it is simply not possible for 41% of the world economy to save and pay back at the same time. To get total debt down to approximately 180% of GDP, which neoclassical economists see as sustainable for renewed growth, leaves an estimated debt overhang of \$11 trillion for the US and €6 trillion for the EU (Boston Consulting Group 2012).

The argument for decoupling has two dimensions: one explicit, the other implicit. The explicit dimension treats the global financial flow side of the rebalancing narrative. Its signal question is replacement for the dollar as global hub currency and the T-bill IOU standard of global reserves. As touched upon above, a window of opportunity did exist in the 1970s for an orderly transition in the world economy under auspices of international institutions to a system along lines of alternatives floated at Bretton Woods. That window is closed. The “dollarized” world economy is the obverse of the US transubstantiation into a *global economy* with its full spectrum dependence upon the world; yet ability to foment historically unparalleled domestic and international expansions.

Enabling conditions for the US transubstantiation as such originate with petrodollar “recycling” and anticommunist EA. In particular, it is the suckering of Japan as quid pro quo for US anticommunist largesse into holding ever bloating amounts of US debt from the 1980s onward. As the landmark study by Angus Maddison displays, in the closing years of the 20th century Japan’s positive NIIP of \$1.15 trillion was virtually a mirror image of US negative NIIP \$1.53 trillion (OECD 2001: table 3-10). Following the Asian Crisis China jumps on the bandwagon with a vengeance. By end 2007 China held 20.3% of US T-bill IOUs, Japan 24.7%. By end 2011, China held 23.1%, Japan 21.2% (Murray and Labonte 2012). By end 2012 China’s holdings reached \$1.155 trillion, Japan \$1.131 trillion (*Wall Street Journal* November 16, 2012). Further, from end 2007 through mid 2011, China expanded its foreign

exchange reserves to the equivalent of \$3.2 trillion (and given China's hefty trade surplus with the US and smaller one with the rest of the world we can assume between 75% and 80% of this is dollars). Whatever direction US monetary policy takes the notion that China could simply divest itself of dollar holdings at will is ludicrous. There is no other debt market as deep and liquid as that of the US. And what currency is available in international markets to purchase all China's dollars (Duncan 2012: 31, 78)? China's policymakers also have no illusions about the yuan emerging as global reserve any time soon. The euro is a regional currency dependent upon the international payment architecture of the dollar: Ditto for the pound which is largely tied to London's financial role in the dollarized global economy. The yen is currently Asia's most internationalized currency but recently facing its own travails. Thus all roads lead back to dollar supremacy (*Financial Times* March 12, 2013).

And this story is not about "manipulating" currencies for export gain. Yes, at the outset, the "sterilizing" of dollar export earnings by Japan and later China by respective central bank "dropping" the equivalent in yen or yuan in exporters accounts while either holding the foreign exchange in a "special account" or outside the domestic banking system in dollar denominated assets kept currency appreciation at bay to the competitive benefit of Japan and China's exporters. But a new world economic die has now been cast with the US abdicating its industrial economy and transubstantiating into a *global economy* dependent upon the foreign capital inflow. And much of the production edifice of the world economy has been disarticulated into value chains which pass through China to maintain low costs of consumer goods in the face of advanced country stagnating wages and rising unemployment.

Japan's export travails relate more to its global brands losing their competitive edge than the value of the yen (*Financial Times* January 31, 2013). The yen now accounts for between 30% and 40% of Japan's total foreign trade settlements mitigating the impact of currency fluctuations on its exports world-wide (*Financial Times* March 12, 2013). In the

case of China, from 2005, when it began to expose the yuan to limited international currency trading, yuan value rose 33% by 2010. As China opened the yuan more to currency market forces in mid 2010 the value of the yuan increased another 10% (*Globe and Mail* November 2, 2012). Further, China's wages are so much lower than those of EA exporters like South Korea and Taiwan that the yuan could still appreciate 30% and not compromise China's relative low wage profile (Westra 2012: 159).

With the "implicit" dimension of the decoupling argument the intimation is that the rise of BRICS led by China signals gestating of a new orientation for the global economy away from the pattern we describe. This is nonsense. From the juncture of the Volker "coup" and onset of global securitization and Wall Street casino play the world economy has been characterized by burgeoning capital flows into the US and US dollar denominated assets. This trend was punctuated by brief episodes of capital outflow, such as that preceding the Asian Crisis, only to see monies stream back to the US as bubbles the flows had fomented, burst. What marks the period from the beginning of the 21st century when the acronym BRICS is coined is that, as capital inflow to the US and dollar denominated assets spiked, a parallel sustained capital flow to third world so-called emerging markets occurred. This flow entailed increased volumes of securitized "lending" to private borrowers (upon the shoulders of which the debt onus weighs) not only in resource exporting Latin America but South and EA; with a surge in utilization of arcane derivative instruments. When the meltdown hit, the emerging market flow was temporarily halted as money retreated to the "safety" of dollar holdings (Vasudevan 2009). And, as it retreated, it did so with gains from derivative contracts private borrowers entered into, many unwittingly, through their Wall Street commanded domestic banking systems (Westra 2010).

The global multiplier effect of China's massive investment spurt as we have seen reinvigorated the emerging market fete as raw material demand revamped. In 2009, China

was the number one or number two trading partner for 78 countries representing 55% of global GDP. China is thus projected to contribute over one third of “global net wealth accumulation” through to 2015 (IMF 2011). As US “quantitative easing” liquidity injections kicked in under largely zero interest rate conditions, speculative flows into the third world trailing the China driven “real” investments spiked. So potentially destabilizing are these speculative flows that even the IMF inveighed against them while states like Brazil and Thailand enacted capital controls to forestall rapid outflow (Westra 2012: 168). And what about the investment that sparked the global growth spurt? As put by economist Nouriel Roubini, it amounts to “half-empty” high speed trains, “three-quarters empty” stations, “three-quarters empty” highways with each competing with new airports for non-existent traffic to nowhere. “There is no rationale for a country at that level of economic development to have not just duplication but triplication of those infrastructure projects” (Reuters.com June 13, 2011).

But it gets worse. While China’s capital account is largely closed, preventing the huge destabilizing financial deluge experienced by other emerging markets, it nevertheless is the largest single recipient of capital inflow among that group of third world economies (IMF 2011). China is also the major draw of global FDI as noted previously. What that money is doing is of global concern. The answer is real estate. By 2010 it was attracting 23% of FDI as the proportion going to manufacturing continued to fall (Economist Intelligence Unit 2012). Further, the admonition for banks to ramp up lending which accompanied the post-meltdown central government capital injection saw local governments use banks like credit cards. Much of the credit based largess was funneled into real estate as debt in that market leaped as a percent of bank portfolios. In 2010 real estate amounted to 20% of all fixed investment. Its demand in 2011 was believed to constitute around 50% of that of all the world’s key traded

commodities and raw materials. When positions of hedge funds and commodity futures traders are factored into the mix a collapse will be catastrophic (Westra 2012: 170-71).

There is not just the issue of oversupply now, with “China’s cities ringed with empty suburbs and skylines littered with half-finished tower blocks” (*Wall Street Journal* November 16, 2012b). At end 2012 China’s banks rolled over around 75% of all loans to local governments that had been due to mature (*Financial Times* January 29, 2013). Estimates of local government debt range from \$2.4 trillion to \$3.1 trillion or 50% of China’s 2010 GDP; requiring interest payments of \$150 billion annually (Westra 2012: 170). As banks closed direct lending taps under new dictates from the central government, a “shadow finance” sector estimated to be one third the size of China’s banking sector by 2012, spawned to fill the gap: Though the evidence is that banks market shadow finance arrangements collecting fat fees along the way (*Wall Street Journal* November 26, 2012). The issue for China, however, is not *just* the amount of debt per se the above processes have generated. Total credit market debt in China is currently 200% of GDP. Rather, in the view of the Bank for International Settlements, it is the *rate of private* debt increase. In China this trend is 12% over the previous decades’ rate, a greater rate of increase than peak levels in the US and Spain, in 2007 and 2008 respectively, before their crises hit. According to the IMF, a further indication of danger for China is the rapid increase in the ratio of private credit to GDP of 50% from 2008, similar to what occurred in the US prior to the meltdown (*Wall Street Journal* February 25, 2013). As with the pattern, the ending is familiar and it is *not* happy.

The reform argument largely recapitulates the previous narratives suggesting policy remedies we show at best are limp given dynamics of the world economy. Its most recent nuance runs something like this: China’s growing middle class will compel economic and political change in line with historical experience of previous developers. The sad truth of the matter is that China is one of the most unequal societies on earth in line with the usual

suspects in Sub-Saharan Africa. Most recent alternative data show inequality worsened considerably from the pre-meltdown period giving China a GINI measurement not of .46 as we noted for 2006, but a GINI of .61. That is, China's top 20% command almost 70% of all income, the bottom 20%, 0.5%. The respective figures for the US are 50.3% and 3.4% (*Wall Street Journal* December 10, 2012). China has the world's most billionaires. Recent estimates put their number at 408. US billionaires number *only* 317. China's potential middle class is wedged between the billionaires and 700 million peasants. It is projected to grow from 13.7 million households as of 2010 to 167 million, or 40% of the population, by 2020. The US, according to the OECD, currently has the biggest middle class, 73% of the population (*Wall Street Journal* March 7, 2013).

However, the income figures for what constitutes "middle class" mean little on their own. US middle class life under the cloud of burgeoning inequality has been "made in China". And even "mass consumption" is becoming increasingly skewed with 5% of Americans purchasing near 40% of all consumer goods with 60% not buying much of anything. Working peoples' wages have fallen from the mid 21st century from 64% of the US economy, where they held for decades, to 57.5%. Currently, 46 million Americans are living on food stamps, up 74% since the meltdown (Westra 2012: 167-68, 189). In China, while the most basic goods are cheap, emblems of middle class life like Starbucks "grande latte" cost over a dollar more than in Hong Kong. Made in China clothing and electronics cost more than they do in overseas markets due to a distribution infrastructure geared to export from coastal regions. Survey data suggests over half of China's working professionals are depressed suggesting it is Chinese middle class unhappiness that is "the biggest risk in the world" (*Wall Street Journal* March 7, 2013). No doubt part of such "unhappiness" stems from ever inflating real estate prices. Buying a condo in Beijing, for example, costs over 20 times an average annual salary as opposed to 8 times in expensive Tokyo (Westra 2012: 171).

Talk by China's political class of genuine reform is theater. Of China's 1,024 über rich identified by Hurun's Rich List 160, with a total net worth of \$221 billion, have seats in the current CCP Congress and associated bodies. To compare, combined wealth of *all* 535 members of the US Congress is estimated at *only* between \$1.8 billion and \$6.5 billion in 2010. Evidence shows that among China's über rich, those 160 serving in its Congress saw their wealth grow by 81% from 2007 to 2012, faster than their wealthy brethren with no national political post (*Wall Street Journal* December 26, 2012). Transparency International ranks China's level of corruption around that of other BRICS. Control by the state of major investment projects, land, commanding heights banks, feeds corruption by China's elite (*Wall Street Journal* November 16, 2012b). It is estimated that 40% of China's military budget is siphoned off by corrupt Peoples Liberation Army officials. Their monster homes with Bentleys in the car park bear testament to this (*Financial Times* November 14, 2012).

But what is hastening China's maneuver into the crash lane is the seething discontent throughout the vast expanse of the country. The annual number of mass incidents of protest and social unrest jumped from 50,000 in 2002 to around 80,000 in 2006. In 2010 the number surged to around 180,000 (*Wall Street Journal* November 16, 2012b). What is even more instructive than the number of these incidents is that the central government often tacitly accepts them. For unlike Tiananmen or extreme cases like Tibet and Xinjiang Uygur's they are directed at local governments. We can suspect that they prove useful to the CCP to keep local and provincial power in check. Remember, less than a century ago, China's provinces were ruled by warlords. Given China's historic divisions this is the most likely scenario to follow its impending economic collapse.

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