

Zeitschrift: Schweizerische Zeitschrift für Soziologie = Revue suisse de sociologie
= Swiss journal of sociology

Herausgeber: Schweizerische Gesellschaft für Soziologie

Band: 37 (2011)

Heft: 2

Artikel: Global crisis, China, and the strange demise of the East Asian Model

Autor: Hung, Ho-fung

DOI: <https://doi.org/10.5169/seals-814167>

Nutzungsbedingungen

Die ETH-Bibliothek ist die Anbieterin der digitalisierten Zeitschriften. Sie besitzt keine Urheberrechte an den Zeitschriften und ist nicht verantwortlich für deren Inhalte. Die Rechte liegen in der Regel bei den Herausgebern beziehungsweise den externen Rechteinhabern. [Siehe Rechtliche Hinweise.](#)

Conditions d'utilisation

L'ETH Library est le fournisseur des revues numérisées. Elle ne détient aucun droit d'auteur sur les revues et n'est pas responsable de leur contenu. En règle générale, les droits sont détenus par les éditeurs ou les détenteurs de droits externes. [Voir Informations légales.](#)

Terms of use

The ETH Library is the provider of the digitised journals. It does not own any copyrights to the journals and is not responsible for their content. The rights usually lie with the publishers or the external rights holders. [See Legal notice.](#)

Download PDF: 18.03.2025

ETH-Bibliothek Zürich, E-Periodica, <https://www.e-periodica.ch>

Global Crisis, China, and the Strange Demise of the East Asian Model

Ho-fung Hung*

1 Introduction

Ever since the economic crisis that afflicted most Western countries in the 1970s, the East Asian developmental experiences – those of Japan, South Korea, Taiwan, Hong Kong, Singapore, and most recently China – have been lauded as representing a more productive, sustainable model of capitalist development. Though the literature tends to characterize the East Asian model by the central role of the developmental states in facilitating economic growth, the diversity of state-economy relations in fact defies this generalization. The government of Hong Kong, for example, was reluctant to intervene in the economy throughout its takeoff years, while economic governance in China has been far more decentralized than the developmental state in Japan, South Korea, and Taiwan (Hung, 2008). Factors binding these East Asian economies together and accounting for their rapid growth, at the most fundamental level, are their export-oriented industrialization, which fosters globally competitive manufacturing sectors in their economies, and the subsequent vast accumulation of foreign exchange reserves, which protect them from the macro-economic instability and indebtedness that has haunted many other developing countries.

The global financial catastrophe that culminated in the US in fall 2008 and spring 2009 brought about the collapse of export markets for most East Asian economies and the prospect of the collapse of either the US Treasury bonds market or the US dollar, in which these exporters had been investing massively. That was a wakeup call for the vulnerability of the East Asian model of development. Later in 2009, it became apparent that the thrust of state-directed, debt-financed investment under the enormous stimulus program that China rolled out in late 2008 successfully fostered a strong recovery in China and helped prop up other East Asian economies. But the growth generated by the stimulus is not likely to be self-sustainable. Chinese economists and government policy advisers have been worrying that China would falter again once the stimulus effect fades and non-performing loans surges, as it is certain that US consumers will not come back any time soon to pick up the slack (Roach, 2009; Yu, 2009). The global crisis, which is far from resolved, increases the urgency for these East Asian economies to reorient their growth from an export-dependent to a more domestic-consumption-driven pattern.

* Department of Sociology and Research Center for Chinese Politics and Business, Indiana University

In this article, I trace the historical and social origins of the deepening dependence of China and its East Asian predecessors on the consumption market in the Global North as the source of their export-led growth, as well as their dependence on US financial vehicles as the store of value for their savings. With these two dependences, China and its Asian neighbors have few choices other than continuing to help sustain US global economic dominance amid the global crisis by extending more credits to the US in the short run, despite all the talk within and outside of Asia about China's intention and capacity in destroying the reserve currency status of the dollar and constructing a new global financial order centered on Asia. Toward the end of the article, I discuss what options China has in the long and medium run to lead East Asia out of its market and financial dependences on the US, and to facilitate the formation of a more autonomous economic order in Asia.

2 East Asian exporters and US hegemony

The story of the rapid economic ascendancy of Japan and the Four Tigers as dynamic exporters of manufactured goods to the Global North in the postwar era is well known and need not be repeated here. What is often neglected in the discussion is that their ascendancy would have been impossible without the context of Cold War geopolitics (Arrighi, 1996; Hung, 2009b, Ch. 1). During the Cold War period, what was being fought in East Asia was actually a hot war, as Communist China's support of rural guerrillas in Southeast Asia and its involvement in the Korean War and the Vietnam War led the region into a permanent state of emergency. Washington therefore regarded the region as the most vulnerable link in the containment of Communism, considering its key Asian allies, that is, Japan and the four Tigers, too important to fail. This consideration accounts for Washington's generous offering of financial and military aids to these East Asian governments, providing them with abundant financial resources to jumpstart and direct industrial growth. Washington also kept the US and European markets wide open to East Asian manufactured exports. It constituted another advantage that other developing regions did not enjoy. Without this openness to their manufactures in Western markets, it is simply unimaginable that these Asian exporters could have had any chance of success.

Viewed in this light, the rapid economic growth of Japan and the Tigers was consciously engineered by the US as part of its effort to create subordinate and prosperous bulwarks against Communism in the Asia-Pacific. These East Asian economies were never meant to challenge the US's geopolitical and geoeconomic interest. Instead, they were subservient partners that helped the US realize its geopolitical designs in the region.

Organized under a Japan-centric and multilayered subcontracting production network, different Asian exporters occupied different segments of the value chain,

and each of them specialized in exporting goods at a particular level of profitability and technological sophistication to the Global North. While Japan specialized in the most high-value-added items, the Four Tigers specialized in middle-range products, and the emerging Tigers in Southeast Asia specialized in low-cost, labor-intensive ones. This famous flying-geese formation of Asian exporters constituted a network of reliable suppliers of all sorts of consumer products to the Global North (Arrighi, 1994, Epilog).

From the 1980s, Cold War tensions eased and US fiscal and current account deficits mounted as a result of neo-liberal tax cuts and escalating military expenditure in the final stage of the Cold War and beyond. However, the Asian exporters, instead of breaking away from the orbit of US hegemony, tightened their ties to the US by financing the US's skyrocketing twin deficits. East Asia's export-oriented industrialization had been coupled with low domestic consumption rates in the economies. The subsequent trade surpluses and high saving rates enabled these Asian exporters to accumulate substantial financial power in the form of large foreign exchange reserves. Regarding US Treasury Securities as the safest investment in global finance, most East Asian exporters voluntarily parked their hoarded cash in US Treasury bonds, turning themselves into the largest creditors to the US. Their financing of the US current account deficit in turn fueled the escalation of the US's appetite for Asian exports, and the resulting increase in trade surpluses in Asian economies led to yet more purchase of US Treasury bonds. These constituted two mutually reinforcing processes of increasing Asian export to the US and increasing Asian holding of US debt that continuously deepened the market and financial dependences of East Asia on the US. Asia's massive investment in low-yield US Treasury bonds was tantamount to a tribute payment through which Asia's savings were transferred into Americans' consumption power, prolonging the US's fragile prosperity while its hegemony unraveled.

Beginning in the 1980s and accelerating in the 1990s, China's market reform turned it into a late-coming Asian exporter. The rise of export-oriented industrialization in China led many to foresee that China, with its geopolitical autonomy from the US and its exceptional demographic and economic size in comparison to the other Asian economies (Arrighi, 2007, Ch. 12) would be a unique Asian exporter, capable of breaking away from Asia's twin dependences on the US. But, as the discussion below will illustrate, China so far has not overcome the servitude of providing cheap credits and low-cost exports to the US as practiced by earlier Asian exporters. Worse, the extremity of China's export-led and private-consumption-repressing growth model has made China's market and financial dependence on the US even larger than earlier East Asian Tigers.

3 China: an East Asian Tiger in extremis

Provided with the ascendancy of China in the global economy over the last three decades, the debate about the sources of China's success and the unique characteristics of the Chinese model of development has been gaining momentum in recent years. But if we compare the most important aspects of China's macropolitical economy with its East Asian neighbors in comparable stages of development, we can readily observe that the Chinese model of development is largely an extreme replication of the earlier East Asian one, which was grounded on export-oriented industrialization, low consumption, and high saving (Hung, 2008, 2009a). These common features characterized the East Asian model that prevailed under diverse regime types, including liberal democracy in Japan, right-wing authoritarianism in Taiwan, Korea, and Singapore, *laissez-faire* colonialism in Hong Kong, and decentralized, capitalist authoritarianism in China under the rule of a nominally communist party (Hung, 2008). The Chinese economy's export dependence, measured by total export value as a percentage of total GDP, has been mounting continuously and has reached the level that other East Asian economies (average of Japan, Taiwan and South Korea; Hong Kong and Singapore were excluded because of the large share of entrepot trade in their economies) never attained. On the other hand, the weight of private consumption in China's national economy, measured by household consumption as a percentage of total GDP, has been declining and has dropped well below the level in other Asian exporters during takeoff (Hung, 2009a, Figure 1–2).

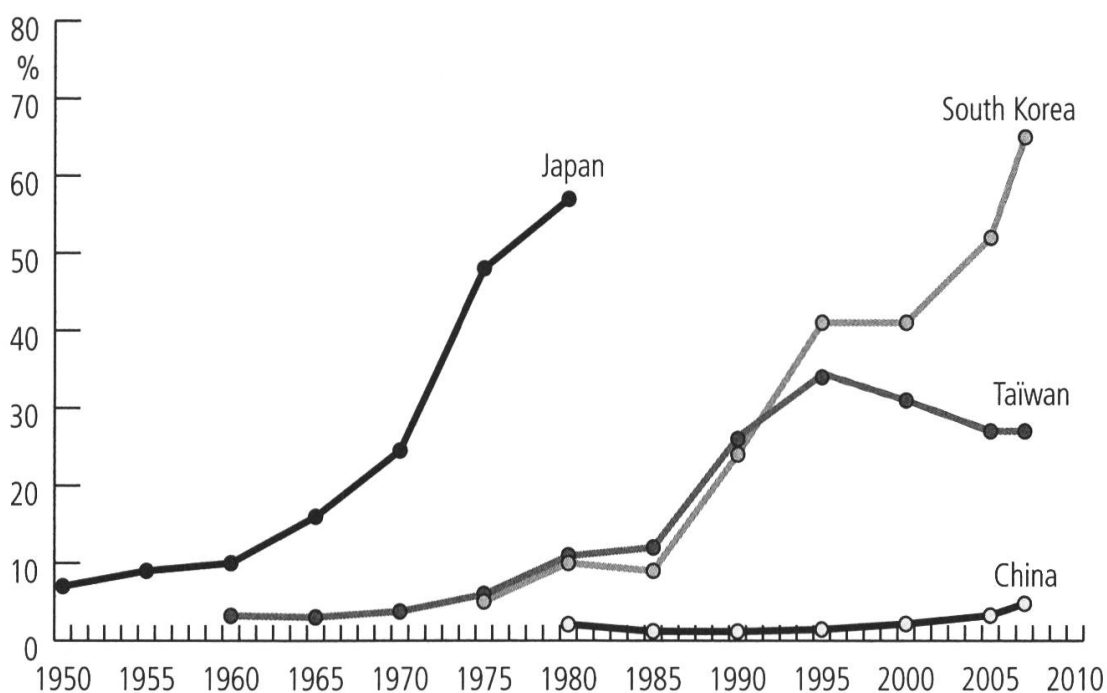
As for earlier Asian Tigers, the US constituted the single most important market for China's exports, only to be surpassed by the EU as a whole recently. The rapid expansion of China's export-oriented industries has already made China the biggest exporter to the US among all Asian exporters. The drastic expansion of China's export engine has not only accounted for its stellar economic growth, but has also turned China into the biggest holder of foreign exchange reserves, surpassing Japan in recent years.

So far, China has been investing most of its foreign reserves in US Treasury bonds as have other East Asian exporters. On the eve of the current global financial crisis, China had emerged as the largest exporter to the US, and at the same time served as the largest creditor financing the US's current account deficit, sustaining its capacity in absorbing Asian exports. While China's low-cost exports helped lower US inflation, its massive purchase of US Treasury bonds helped lower their yields and therefore interest rates across the US economy. In other words, China has emerged as the most significant savior of US economic vitality through its low-cost manufactured exports and low-interest credits in recent years.

4 China's rise and agrarian crisis

China's capability in instituting an extreme, and so far highly successful, version of East Asian export-led growth model hinges on both the global conjuncture and China's internal political economy in the last three decades. First, China's labor-intensive takeoff was coincidental with the onset of the unprecedented expansion of global free trade since the 1980s. Without the outsourcing of manufacturing from the Global North and its mounting appetite for low-cost manufactured imports, China would have found it impossible to export its way to prosperity. More importantly, China's exceptional export competitiveness is largely grounded on the prolonged stagnation of its manufacturing wage level in comparison with other Asian exporters at a comparable stage of development.

Figure 1 East Asian manufacturing wage as a percentage of US wage, 1950–2007



Source: US Bureau of Labor Statistics, International Labor Comparisons Statistics for Japan and Asian Tigers (<http://www.bls.gov/fls/tables.htm>); China Statistical Yearbook for China.

China's capability for developing under the condition of an almost unlimited supply of labor is not a natural phenomenon given by China's population structure, as many tend to presume. Instead, it is a consequence of the government's rural-

agricultural policies that has, intentionally or not, bankrupted the countryside and generated a continuous exodus of rural population over the last 20 years. These include the privatization of township and village collective enterprises, which led to their decline as mass employment generators in the countryside, and the grain market liberalization and cancellation of government procurement, which fomented a long-term drop in grain prices. In the same period, investment by the Chinese government was largely concentrated in coastal cities and towns to boost FDI and the export sectors, while rural and agricultural investment lagged behind. State-owned banks also focused their effort on financing urban-industrial development, while rural and agricultural financing was in tatters.

The emergence of this urban bias in China's development has been at least partially caused by the dominance of powerful urban-industrial elites from Southern coastal regions amid China's integration with the global economy. These elites, which germinated after China's initial opening, grew in financial resources and political influence with the export boom and became increasingly adept at shaping central government's policy in their favor (Gallagher, 2002; Zweig, 2002; Kaplan, 2006; Shih, 2008, 139–188). Their growing leverage in the policy-making process of the central government secured the priority given to enhancing China's export competitiveness and China's attraction to foreign investment in lieu of rural-agricultural development. The urban revolts in 1989 stemming from hyperinflation and deteriorating living standards in the cities only made the party-state more determined to ensure the economic prosperity of big cities at the expense of the countryside in the 1990s and beyond (Yang and Cai, 2000).

The result of this self-reinforcing urban bias is relative economic stagnation in the countryside and concomitant fiscal stringency in rural local governments. From the 1990s onward, the deterioration of agricultural income, rural governance, and the demise of collective rural industries in the form of township and village enterprises, which used to be vibrant employment generators in the early stages of market reform in the 1980s, urged most young laborers in the countryside to leave for the city, creating a vicious cycle that precipitated a rural social crisis (Huang, 2002; Yu, 2003; Wen, 2005; Zhang, 2005).

China's rural-agricultural sector was not only neglected but also exploited in support of urban-industrial growth. A recent study estimates the direction and size of financial resources transferred from the rural-agricultural sector to the urban-industrial sector in China in 1978–2000 (Huang et al., 2006). Taking into account the transfer through the fiscal system (via taxation and government spending), financial system (via saving deposit and loan), and other means (such as grain marketing and remittance of urban migrants), it finds that there was a sustained and ever enlarging net transfer of resources from the rural-agricultural sector to the urban-industrial one, except for the years when the urban economy experienced a temporary downturn, such as in the aftermath of the Asian Financial Crisis of

1997–98 (see also Knigh et al., 2006; Lu and Zhao, 2006; Xia, 2006; Huang and Peng, 2007; Bezemer, 2008).

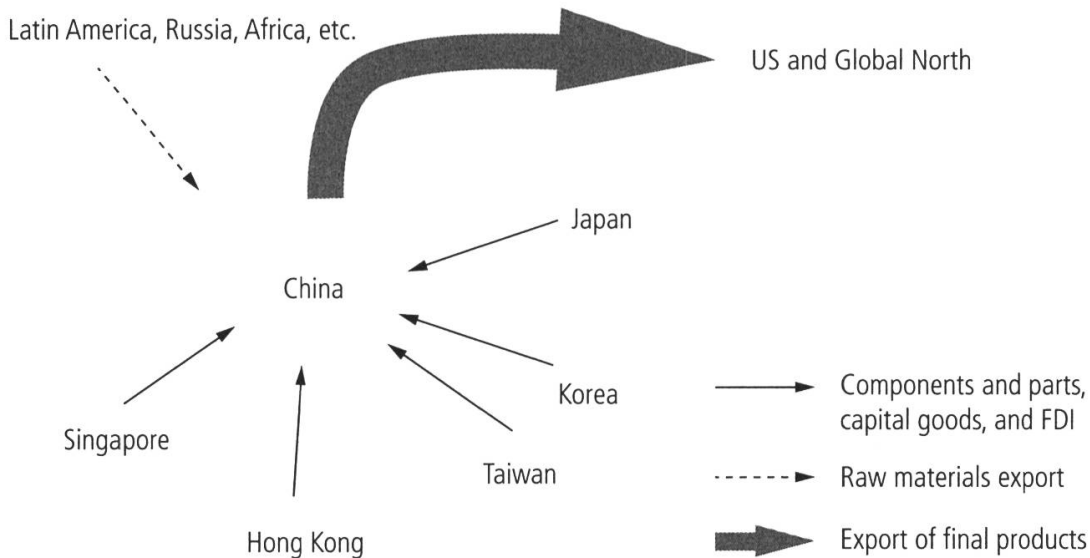
In sum, the urban-biased development pattern that bankrupted the countryside and forced villagers to leave their land is the origin of the prolonged “unlimited supplies of labor”, as well as the subsequent wage stagnation, in China’s export-led economic miracle. It in turn accounts for China’s global financial power, rooted in China’s rising trade surplus. On the other hand, the low manufacturing wages and rural living standards brought about by this same strategy of development have been restraining the expansion of China’s domestic consumer market and deepening China’s dependence on the Global North’s consumption demand, the growth of which increasingly relies on the North’s massive borrowing from China and other Asian exporters. Before turning to discuss the peril of this development pattern in greater details, I outline in the next section how earlier East Asian exporters have increasingly integrated with China’s export engine through the regionalization of industrial production networks in the last 15 years, and how this regionalization is turning the vulnerabilities of the Chinese economy into the vulnerabilities of the East Asian region at large.

5 Sinocentric asianism

When China had just started to establish itself as the most competitive Asian exporter of products at various levels of technological sophistication in the 1990s, earlier Asian exporters, including Japan and the original Four Tigers, together with a group of emerging exporters in Southeast Asia such as Malaysia and Thailand, were put under intense pressure to adjust. The export competitiveness of China lured a lot of export manufacturing to relocate from other Asian economies to China. Some commentators go as far as arguing that the erosion of manufacturing profitability due to competition from China was one of the underlying causes of the Asian financial crisis of 1997–98 (Krause, 1998).

Amidst the turmoil that the rise of China’s manufacturing power brought to the existing export-oriented industrial order in the region, China’s neighbors painstakingly restructured their export engines to minimize head-on competition with China and to profit from its rise. In the old export-oriented industrial order in East Asia, each economy exported specific groups of finished consumer products. The rise of China brought about a new, Sinocentric export-oriented industrial order under which most Asian economies increased the weight of their export of high value-added components and parts (e.g. Korea and Taiwan) and capital goods (e.g. Japan) to China, where these capital goods and parts were used to assemble the finished products to be exported to the Global North (Ando, 2006; Baldwin, 2006; Haddad, 2007; see also Setser, 2009).

Figure 2 The Sino-centric and export-oriented network of production in East Asia, c. 1990-present



These Sinocentric production networks, as seen in Figure 2, have increased East Asia's dependence on China for export growth. Thus, the limit and vulnerability of the Chinese development model, given by its overdependence on consumption demand in the Global North and the slow growth of its domestic market relative to the expansion of the economy at large, inevitably translates into the limit and vulnerability of other Asian economies. The rebalancing of China's development, therefore, is not only about the sustainability of China's economic growth, but is also about the collective future of East Asia as an integrated economic bloc.

6 Rebalancing China's economy: Potentials and obstacles

China's developmental model, which is based on strong growth in its export to the Global North at the expense of the growth of its domestic consumption, makes the Chinese economy, together with its Asian partners, vulnerable to any major contraction of consumption demand in the Global North. The strong incentive for Chinese and other Asian governments to use their foreign reserves to purchase US debt is not only a result of the presumably stable and safe return of the US Treasury bonds but also a conscious effort among Asian central banks to finance the US's escalating current account deficit and hence to secure the continuous increase in US demand for their own exports.

In other words, the growth of China's export engine and the growth of its financial power in the form of the accumulation of US debts are both linked to the consumption spree in the US. Everyone has come to realize over the last decade

that the current account deficit of the US could not have expanded indefinitely. It would inevitably have ended up in a fall in the dollar or a collapse in the Treasury bonds market and a hike in interest rates in the US economy terminating the US consumption spree, as many expected. This not only constitutes a death-blow to China's export engine but will also decimate China's global financial power through a drastic devaluation of its pre-existing investment in Treasury bonds. The current US economic crisis, which has already brought China's export engine to its knees, as well as the imminent collapse of the dollar and Treasury bonds, seem to be the worst nightmare coming true.

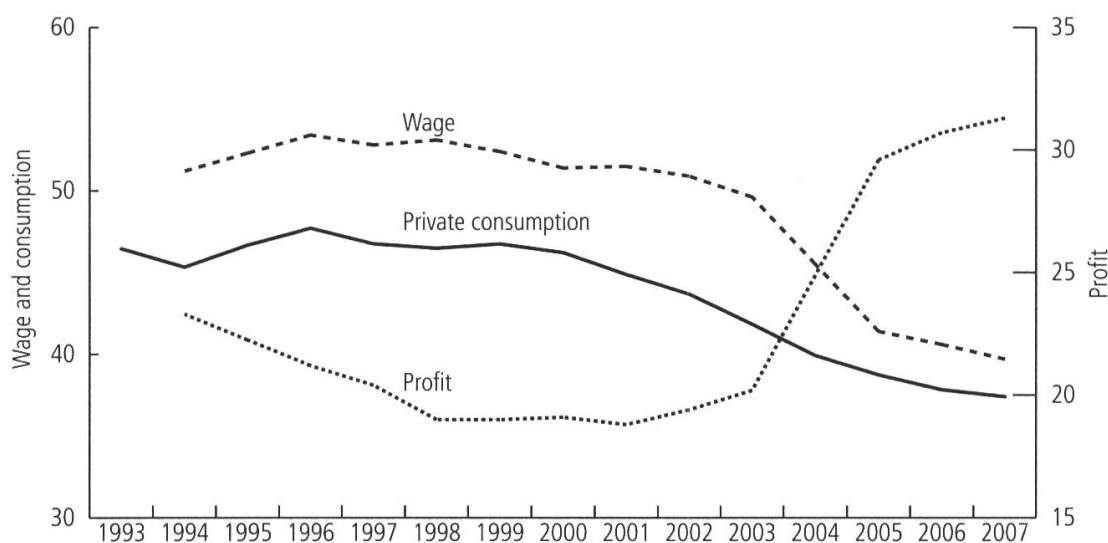
Before the current financial crisis struck, the Chinese government had been experimenting with different ways to diversify and increase the return of its foreign reserve investment. It had tried investing in foreign equities and financing state-owned companies' acquisition of transnational corporations, but nearly all attempts ended up in embarrassing failures (Hung, 2009a, 17–18). These failures are more a result of the constraint given by the exceptional size of China's foreign reserves than a result of bad investment decision per se. Given the size of China's foreign reserves, it is difficult for China to move in and out of certain financial assets freely without disrupting the global market for those assets. And there is simply a lack of financial markets besides the US debt market that has liquidity deep enough to absorb China's gigantic reserves. Paul Krugman was not exaggerating when he claimed that China had been caught in a "dollar trap" (Krugman, 2009), in which it had few choices other than to keep purchasing US debts and other dollar assets to help perpetuate the hegemonic role of the dollar.

Besides making the Chinese economy vulnerable to the vicissitudes of the global economy, China's export-oriented developmental model has also curtailed China's consumption power. As discussed earlier, China's export competitiveness has been built upon a long-term wage stagnation, which in turn was precipitated by an agrarian crisis under an urban-biased policy regime. Without sharing a larger part of their profit with the workers and peasants, the thriving export sector turned most of their profits into enterprise savings rather than converting them into rising living standards and consumption power for their employees. These enterprise savings constituted a large proportion of the aggregate national saving (National Development and Reform Council of China, 2005). As the following figure shows, the fall of total wages as a share of GDP was in tandem with the fall of private consumption as a share of GDP over the 1990s and beyond. These two falling trends are in contrast with the mounting share of corporate profit in GDP. Private consumption has been growing in absolute terms, but this growth has been much slower than the growth of investment (Hung, 2009a, Figure 8).

As an impetus to rebalance China's development, which was duly characterized by Premier Wen Jiabao in 2007 as "unstable, unbalanced, uncoordinated, and unsustainable," since about 2005 the central government has tried to fuel a takeoff

of China's domestic consumption by boosting the disposable income of peasants and urban workers, even at the expense of China's export competitiveness. The first wave of such initiatives included the abolition of agricultural taxes, an increase in the government procurement prices for agricultural products, and an increase in rural infrastructure investment. Although this redirection of attention to raising rural living standards was no more than a small step in the right direction, its effect was instantaneous. The slightly improved economic conditions in the rural-agricultural sector slowed the flow of rural-urban migration, and a sudden labor shortage and wage hike in the coastal export-processing zones ensued, inducing many economists to declare that the "Lewis turning point," that is, the point at which rural surplus labor was exhausted, had finally arrived in the Chinese economy (Cai and Du, 2009). This sudden tightening of the labor market is reflected in the steep increase in Chinese manufacturing wages as a share of US manufacturing wages after 2005 in Figure 1.

Figure 3 Compensation, profit, and private consumption as a percentage of GDP in China, 1994–2008



Source: China Statistical Yearbook (National Bureau of Statistics of China, various years).

Just as the prolonged unlimited supplies of labor in China was more a consequence of the urban-biased policy than a natural precondition of Chinese development, the coming of the Lewis turning point is in fact an outcome of government's attempt to reverse the urban bias instead of a natural process driven by the market's invisible hand. Concomitant to the rising peasant incomes and industrial wages was an unprecedented soar in retail sales growth on the eve of the current global

crisis, even controlled for inflation (Hung, 2009a, Figure 9). But when the government took its first step away from excessive export dependence and toward domestic consumption-driven growth, vested interests in the coastal export sector complained loudly about the grim prospect that the new policy initiatives brought for them. They asked for a compensation policy to safeguard their competitiveness and attempted to sabotage further initiatives of the central government to elevate the living standards of the working classes. Such further initiatives included the implementation of the New Labor Contract Law, which elevates workers' remuneration and makes firing laborers more difficult. They also included the managed appreciation of the yuan after 2005.

7 The current financial crisis: a crisis to waste?

When the global financial crisis struck and China's export engine stalled, China's central government immediately rolled out an enormous fiscal stimulus package amounting to 570 billion US dollars (including both government spending and targeted loans from state-owned banks) to revive growth in November 2008. Many initially celebrated this massive stimulus as a precious opportunity to accelerate the rebalancing of the Chinese economy into a more domestic consumption-driven mode, and expected the stimulus would be constituted mainly by social spending, such as financing of medical insurance and social security accounts, which could further raise the disposable incomes and hence purchasing power of the working classes.

To the disappointment of many advocates of structural rebalancing of the Chinese economy, the stimulus package in fact carried no more than 20 percent of social spending, while the large majority of the spending fell in fixed asset investments such as highway construction and the expansion of sectors already plagued by overcapacity, such as steel and cement.¹ Without bringing much benefits to social welfare institutions and small and medium labor-intensive enterprises, the stimulus package will not be able to generate much increase in disposable income and employment. Worse, horrified by the sudden collapse of the export sector and still dominated by the coastal urban-industrial elite, the central government retreated from the rebalancing efforts and restarted a number of export promotion measures, such as a cutback in value-added taxes for exports and a hiatus in yuan appreciation. Vested interests in the export sector even made use of the crisis to call for a suspension of the New Labor Contract Law for the sake of the survival of export manufacturers.²

1 "Siwanyi neiwai" (inside and outside of the four thousand billion), *Caijing*, 16 March, 2009.

2 See "jiuye xingshi yanjun laodong hetong fa chujing ganga" (severe unemployment jeopardize labor contract law), *Caijing*, 4 January, 2009.

It is all but generally agreed that the massive fiscal stimulus, despite its impressive size, will do little to rebalance the Chinese economy via promoting domestic consumption and hence reducing China's export dependence. Although a large part of the stimulus fund has been directed to the Western provinces and helped redress the development gap between coastal and inland areas, the mostly capital-intensive, urban-oriented growth under the stimulus, such as increasing production capacity in the steel industry and construction of the world's largest high speed rail, of dubious future efficiency and profitability, has aggravated rural-urban polarization. It has put a brake on the narrowing rural-urban gap and rising rural areas' relative living standards under the government's rebalancing effort since 2005, which helped fuel a modest domestic consumption growth, as discussed earlier (Hung, 2009a, Table 3).

What the massive spending actually does is to keep the economy roaring with a state-led investment spurt in the short run while waiting for the export market to turn around. By the summer of 2009, data show, the fiscal stimulus had successfully stalled the free fall of the Chinese economy and fostered a modest rebound. But at the same time, nearly 90 percent of GDP growth in the first seven months of 2009 was solely driven by fixed asset investments fuelled by a loan explosion and government spending under the stimulus program.³ Most of these investments are of low quality and generally unprofitable (Pettis, 2009). If the turnaround of the export market does not come in time, the fiscal deficit, nonperforming loans, and an exacerbation of overcapacity created by the stimulus will generate a deeper downturn in the medium run. The excess liquidity created under the massive lending has also increased the risk of runaway inflation. In the words of a top Chinese economist, this enormous stimulus program is like "drinking poison to quench the thirst."⁴

If the export-oriented establishment is influential enough to continue its domination of China's response to the global crisis, it is likely that China could waste the crisis and fail to shift to a more balanced growth model that relies more on domestic private consumption and can turn China into a genuinely autonomous economic powerhouse.

8 Conclusion

Over the course of the last two decades, China has emerged as the final assembler and exporter in the East Asian network of production. China also attained the status of the largest creditor to the US and the largest holder of foreign reserves, and,

3 "Zhongguo GDP zengzhang jin 90% you touzi ladong" (nearly 90% of China's GDP growth was driven by investment), *Caijing*, 16 July, 2009.

4 The comment is from Xu Xiaonian at the China Europe International Business School in Shanghai. See "China Stimulus Plan Comes Under Attack at 'Summer Davos,'" *China Post*, 13 September, 2009.

given its large economic and demographic size, manifested the potential to become the market of the world on top of being the workshop of the world. With all these endowments and leverages, China is well poised to become a large market for its own industrial establishment and manufacturers in other emerging economies, capable of carving out a new regional and global economic order by facilitating Asia and the global South's move away from market and financial dependence on the Global North in general and the US in particular (Hung, 2009a, 2009b).

China's potential to lead, however, is far from being realized. So far, China's pursuit of the strategy of lending to the US to facilitate its purchase of Chinese exports has only deepened the dependence of China, and thus that of its raw materials, components and capital goods suppliers, on US consumers as the source of final demand and the US bond market as the store of their national wealth. The consequent economic dependence of China and Asia on the Global North makes them vulnerable to any turbulence in the global economy like the current crisis.

China's long-term export competitiveness is grounded on the developmental approach that bankrupts the countryside and prolongs the unlimited supply of low-cost migrant labor to coastal export industries. The resulting, the ever-enlarging trade surplus of China, inflates China's global financial power in the form of increasing its holding of US debt. But the long-term suppression of wages contributes to the far-below-potential growth of domestic consumption demand in China, hence restraining the growth of China's consumption power.

The current global financial crisis, which decimated consumer demand in the Global North and increased the likelihood of the collapse of the US bond market or the dollar, is a belated wakeup call to the urgency of shifting the course of Chinese development from an export-oriented to a domestic-market-oriented one. But at the same time, the vested interests that have taken root over several decades of export-led growth make this shift a daunting task.

China's central government is well aware that further accumulation of global financial power is counterproductive, as it would increase the risk of the assets that China already holds or induce China to move to riskier assets. The government is also well aware of the need of reducing the country's export dependence and stimulating the growth of domestic demand by increasing the disposable incomes of the lower classes. Such redirection of priority from promoting export and global financial power to promoting domestic consumption has to involve the shift of resources and policy bias away from the coastal urban to rural inland areas, where protracted social marginalization and underconsumption entails ample room for consumption growth. Officials and entrepreneurs from the coastal provinces, who have become a powerful group capable of shaping the formation and implementation of the central government's policies, are so far adamant in resisting such redirection.

To foster a domestic-consumption-driven pattern of growth with less urban bias, China perhaps could learn from the experience of India, the rapid development

of which in the recent decade has been grounded more on expansion of domestic private consumption than export and investment. The robust growth in private consumption relative to the overall growth of the economy is attributable in part to the non-occurrence of the surging rural-urban income gap that China experienced (Huang and Khanna, 2003; Fan et al., 2005; Das, 2006; Bardhan, 2010). In the aftermath of the recent global financial crisis of 2008, *The Economist* lauded the fact that “the strength of rural demand [in India] is one reason why India escaped from the crisis so lightly” (Cox, 2009).

As I have outlined earlier, the main obstacle to China’s transition to a private consumption-driven growth pattern is the entrenchment of coastal urban-industrial vested interests in the political system; further studies need to be done to examine the institutional origins of India’s more equalitarian, consumer-driven growth. Questions to ask include: Is the alternative growth model of India related to India’s democratic politics, which makes the policymakers more sensitive to the need of rural consumers-cum-voters? Does this institutional origin also account for the many oft-cited problems that India but not China faces, such as bureaucratic inefficiency and the underdevelopment of public infrastructure? A rigorous and full-fledged comparison of the Chinese and Indian political economies is critical in our quest for a vibrant, balanced, and sustainable model of development in the twenty-first century.

9 References

- Ando, Mitsuyo. 2006. Fragmentation and Vertical Intra-industry trade in East Asia. *The North American Journal of Economics and Finance*, 17: 257–281.
- Arrighi, Giovanni. 2007. *Adam Smith in Beijing: Lineages of the Twenty-first Century*. London and New York: Verso.
- Arrighi, Giovanni. 1996. The Rise of East Asia: World-Systemic and Regional Aspects. *International Journal of Sociology and Social Policy*, 7 (1996): 6–44.
- Arrighi, Giovanni. 1994. *The Long Twentieth Century: Money, Power, and the Origins of Our Times*. London: Verso.
- Baldwin, Richard. 2006. Managing the Noodle Bowl: The Fragility of East Asian Regionalism. Discussion Paper No. 5561, Center for Economic Policy Research, London.
- Bardhan, Pranab. 2010. *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India*. Princeton: Princeton University Press.
- Bezemer, Dirk. 2008. Agriculture, Development, and Urban Bias. *World Development*, 36(8): 1342–1364.
- Cai, Fang and Yang Du (Eds.). 2009. *The China Population and Labor Yearbook, Vol. 1: The Approaching Lewis Turning Point and its Policy Implications*. Leiden: Brill.
- Das, Gurcharan. 2006. The India Model. *Foreign Affairs*, July/August 2006: 2–16.
- Cox, Simon. 2009. An Imperfect Storm. *The Economist*. The World in 2010, November 13.

- Fan, Shenggen, Connie Chan-Kang and Anit Mukherjee. 2005. Rural and Urban Dynamics and Poverty: Evidence from China and India. International Food and Policy Research Institute, Food Consumption and Nutrition Division working paper.
- Gallagher, Mary E. 2002. Reform and Openness: Why China's Economic Reform Have Delayed Democracy. *World Politics*, 54: 338–372.
- Haddad, Mona. 2007. Trade Integration in East Asia: The Role of China and Production Networks. World Bank Policy Research Working Paper No. 4160.
- Huang, Jikin, Scott Rozelle and Honglin Wang. 2006. Fostering or Stripping Rural China: Modernizing Agriculture and Rural to Urban Capital Flows. *The Developing Economies* 44(1): 1–26.
- Huang, Philip and Yusheng Peng. 2007. Sanda lishixing bianqiande jiaohui yu zhongguo xiao guimo nongye de qianjing (the conjuncture of three historical trends and the prospect of small-scale farming in China). *Zhongguo shehui kexue*, 4: 74–88.
- Huang, Ping. 2002. Bupingheng fazhan geju xia de nongcun kunjing (rural impasses under the structure of uneven development). Chinese University of Hong Kong University Service Center.
- Huang, Yasheng and Tarun Khanna. 2003. Can India Overtake China? *Foreign Policy*, July-August: 74–81.
- Hung, Ho-fung. 2009a. America's Head Servant? PRC's Dilemma in the Global Crisis. *New Left Review*, 60, November/December 2009: 5–25.
- Hung, Ho-fung (Ed.). 2009b. *China and the Transformation of Global Capitalism*. Baltimore: Johns Hopkins University Press.
- Hung, Ho-fung. 2008. Rise of China and the Global Overaccumulation Crisis. *Review of International Political Economy*, 15(2): 149–179.
- Kaplan, Stephen B. 2006. The Political Obstacles to Greater Exchange Rate Flexibility in China. *World Development*, 34(7): 1182–1200.
- Knight, John, Li Shi and Lina Song. 2006. "The Rural-Urban Divide and the Evolution of Political Economy in China." In James K. Boyce, Stephen Cullenberg, Prasanta K. Pattanaik, and Robert Pollin (Eds.), *Human Development in the Era of Globalisation. Essays in Honor of Keith B. Griffin*, Northampton, MA: Edward Elgar.
- Krause, Lawrence B. 1998. *The Economics and Politics of the Asian Financial Crisis of 1997–98*. New York: Council on Foreign Relations.
- Paul Krugman. 2009. China's Dollar Trap, *New-York Times*, April 3.
- Lu, Ming and Chen Zhao. 2006. Urbanization, Urban biased Policies, and Urban-Rural Inequality in China, 1987–2001. *The Chinese Economy*, 39(3): 42–63.
- National Bureau of Statistics of China. Various years. China Statistical Yearbook. Beijing: China Statistics Press.
- National Development and Reform Council of China. 2005. *Zhongguo jumin shouru fenpei niandu baogao* (annual report of Chinese resident's income distribution).
- Pettis, Michael. 2009. More public worrying about the Chinese Stimulus. Blog entry at China Financial Markets, July 24, 2009 (<http://mpettis.com/2009/07/more-public-worrying-about-the-chinese-stimulus/>).
- Roach, Stephen. 2009. Kidding ourselves about an Asian Recovery. *Time*, June 9.
- Setser, Brad. 2009. This really doesn't look good. Blog entry at Council on Foreign Relations, January 11, 2009. (<http://blogs.cfr.org/setser/2009/01/11/this-really-doesnt-look-good/>).
- Shih, Victor. 2008. *Factions and Finance in China: Elite Control and Inflation*. New York: Cambridge University Press.
- Wen, Tiejun. 2005. *Sannong wenti yu shiji fansi* (Rural China's centenary reflection). Beijing: Sanlian Shudian.

- Xia, Yongxiang. 2006. gongyehua yu chengshi hua: chengben tanfen yu shouyi fenpei (industrialization and urbanization: division of cost and distribution of benefits). *Jianghai xuekan*, 5: 84–89.
- Yang, Dennis Tao and Fang Cai. 2000. The Political Economy of China's Rural-Urban Divide. Center for Research on Economic Development and Policy Research Working Paper No. 62, 2000.
- Yu, Jianrong. 2003. nongcun hei'e shili yu jicheng zhengquan tuihua: Xiangnan diaocha (mafia in the village and regression of local governments: a survey of Southern Hunan). *Zhanlue yu guanli*, 5: 1–14.
- Yu, Yongding. 2009. China's Stimulus shows the problem of success. *Financial Times*, August 25.
- Zhang, Yulin. 2005. litu shidai de nongcun jiating: mingong chao ruhe jiegou xiangtu zhongguo (rural family in the age of migration: how the tide of peasant labor outmigration is deconstructing rural China). Chinese University of Hong Kong University Service Center.
- Zweig, David. 2002. *Internationalizing China: Domestic Interests and Global Linkages*. Ithaca, NY: Cornell University Press.