China and the Future of the World Economy

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Japan Focus presents two complementary perspectives on the challenges facing China and the world economy in the context of global over-accumulation. In 1997, China emerged unscathed from the economic collapse that set back Japan and then Korea, Thailand, Indonesia, and other high-flying Asian economies. The present analyses pose the question of whether China, too, is now vulnerable, with consequences that will be felt throughout the world economy. Posted at Japan Focus on February 9, 2007.

Shanghai's Pudong District

The Rise of China: Harbinger of a New Global Order, or In the Footsteps of Pre-Crisis Japan and the Asian Tigers?

By Ho-fung Hung

With Chinese real estate and stock prices skyrocketing and exuberant talk about the dawn of a "Chinese Century" in western media, the Chinese Academy of Social Science recently warned that China is witnessing an unsustainable expansion of an asset bubble reminiscent of what Japan experienced in the 1980s. The prolonged economic difficulties that haunted post-bubble Japan for a decade and a half, the report warned, are not far off if timely actions are not taken to rein in the excessive liquidity now threatening China's economy. [1]

This warning echoes two provocative commentaries by Shan Weijian, a Chinese economist and managing partner of TPG Newbridge, published in the Far Eastern Economic Review as "The World Bank's China Delusions" and "China's Low-Profit Growth Model." [2] Shan contends that China's double-digit growth has coincided with falling profit rate among major industrial firms. He argues that World Bank euphoria over China's rapidly growing profit rates rests on flawed official statistics. The heart of the problem, Shan argues,

is that China's economic expansion is driven more by massive mobilization of labor and capital inputs than by gains in labor and capital productivity. In the second article, Shan cites research papers by Alwyn Young, Lawrence Lau, and Paul Krugman published on the eve of the Asian Financial Crisis in 1997-98. These economists warned of the vulnerability of "Asian miracles" that were the product of big surges of capital input based on high savings driven by delayed consumption (hence overinvestment and underconsumption) rather than productivity gains, anticipating that the limits of the boom would soon be reached. [3] In fact, the imbalance of the Chinese economy, as indicated by its investment-to-consumption ratio, has just surpassed all East and Southeast Asian economies right before the Crisis. [4] Shan stops short of predicting whether China will avert a major economic crisis by reorienting its growth model in timely ways. But his concern is shared by other prominent economists who have been gauging the Chinese economy closely, such as chief economist of Morgan Stanley Stephen Roach, who fears that China's failure to reorient its economy toward a more sustainable mode could trigger economic turbulences in the global economy. [5]

Walden Bello's critical assessment (below) of the state of the global political economy shows that these concerns are valid both for China and for the world economy. Bello sees the neoliberal globalization project promoted by the US in the 1980s and 1990s as a flawed attempt to tame the overaccumulation crisis that has been troubling the US and other advanced capitalist states since the 1970s. Rather than address the crisis in a fundamental way, it merely shifts it to other emerging economies and US competitors, including Japan, the Asian Tigers, and most recently, China. Overproduction is the root of the unsustainability of China's and other Asian growth models. Viewed in this light, the rise of China, rather than ushering in a dynamic new global order, is leading to a new round of regional and global crisis. In the meantime, the successive financial turbulence of the 1990s, competition from emerging economies, and increasing resistance to the neoliberal/globalization project from the global South have forced the Bush administration to retreat from the globalist project symbolized by the World Trade Organization, whose Doha round of tariff reductions is presently stalled, and turn instead to protectionist measures as well as interventionist strategies to reorder the global economy and discipline the developing world.

Bello's depiction of the deep-seated and longstanding malaise of the global order provides a cogent framework for assessing the Asian and Chinese developmental miracles in global perspective. It will certainly provoke lively debate about how China and the Asia Pacific region should cope with the challenges of twenty-first century global capitalism, and about Asia's role in the making of an alternative, just, and sustainable global order.

Notes

[1] People's Daily, January 13, 2007. "Top Research Body Warns of Real Estate Bubble." (http://english.peopledaily.com.cn/200701/13/eng20070113_340908.html)

[2]

Shan Weijian 2006. "The World Bank's China Delusions." Far Eastern Economic Review. 169, 7.

Shan Weijian 2006. "China's Low—Profit Growth Model." Far Eastern Economic Review. 169, 11.

[3]

P.R.Krugman,. 1994. "The Myth of Asia's

Miracle." Foreign Affairs. November/December 1994.

Alwyn Young. 1995. "The Tyranny of Numbers: Confronting Statistical Realities of the East Asian Growth Experience." The Quarterly Journal of Economics, August 1995.

Kim Jong-Il and Lawrence Lau. 1994. "The Sources of Economic Growth in the East Asian Newly Industrialized Countries." Journal of the Japanese and International Economies. Vol. 8, No. 3.

[4] Ho-fung Hung 2007. "Rise of China and the Global Overaccumulation Crisis." Unpublished Working Paper.

[5] Roach, Stephen. 2006. "China's Rebalancing Imperatives: A Giant Step for Globalization." Morgan Stanley Research Global. December 1, 2006.

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The Capitalist Conjuncture: Over-Accumulation, Financial Crises, and the Retreat from Globalisation

By Walden Bello

Text available here (http://www.japanfocus.org/data/s2.pdf).

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