The Asia-Pacific Journal | Japan Focus

Volume 5 | Issue 12 | Article ID 2611 | Dec 01, 2007

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China's rapid economic expansion has impressed the world. At the beginning of the twenty-first century China has become the third largest importing as well as exporting country, the fourth largest economy in the world (after the United States, Japan and Germany), and one of the top three destinations of foreign direct investment. The figures of its increasing world export market share in the period of 1985 to 2000 show that China has profited more from globalization than any other country. China achieved an average annual export growth of 4.5 percent, while the second and third country on this list achieved no more than 1.8 percent (the United States) and 1.1 percent (Korea). Its annual growth of real GDP from 1980 to 2000 was even more spectacular with an average of 10 percent. Over this period developing countries on average only grew 3 percent, and the average growth of the rest of Asia was 4.5 percent (UNCTAD, 2005b, 2004, 2003, 2002b).

The impressive growth of the biggest developing country in the world is currently a key economic and political issue. China's high rate of economic expansion is based on a development model that combines a modernization of state-led economic organization and regulation with a gradual, controlled neoliberalization in which (foreign) transnational companies play a central role. China thus developed a successful model of mixing public and private roles and investment in order to achieve growth through economic integration in the world market. The government fostered industrial export policies, including tax reforms, currency devaluations and duty free imports, resulting in high productivity gains, especially in the export oriented regions in the southern provinces that could attract investment from Hong Kong and Taiwan (Houweling, 2004). Apart from the figures of its domestic product and trade, it is the 1.3 billion population of the People's Republic of China (PRC) that reflects its current importance and its potential to become one of the leading economies of the world. Such an economic position will, of course, translate into much greater political power, affecting all other countries, as well as its international relations at the regional and global level. In the industrialized countries, China is considered the decisive factor in the process of deterritorialization of global production, which in the United States caused a loss of 15 million jobs in the industrial sector between 1995 and 2002 (Si Zoubir, 2004). In 2005, the US trade deficit with China moved beyond $200 billion: the largest trade deficit of the United States with any country.

While the effects of China's rapid economic expansion can be seen around the world, analyses of these effects tend to focus on the implications for industrialized countries while neglecting the changing situation for developing countries. To Asia, Africa, Latin America, the Middle East, and Central and Eastern Europe, however, the effects are likely to be as far reaching, or even more so (see Table 1). On the one hand, being transformed into the so-called factory to the world, China's production includes a wide spectrum of products, many of which previously formed an important part of the (semi-) industrial exports of other developing countries. The abundance of cheap labour in

China is causing competition with these countries for (Western) export markets, and also for foreign direct investment (FDI) by transnational companies. In particular, this competition harms the (new) export strategies of developing countries that have tried to attract foreign investment to the same sectors as China, such as in the clothing sector. On the other hand, Chinese companies have started to become a source of FDI in several developing countries.
More importantly, with its industrialization and growth, China is turning into an important market for primary products. China's growing need for natural resources forms a major opportunity for other developing countries; the Chinese are willing to invest large amounts in sectors like oil and minerals (e.g. iron ore, copper, nickel). China's contribution to the expanding global demand has driven up the prices of these and other primary commodities (e.g. natural rubber, wood, and soy beans). These changes in the terms of trade are especially positive for the many developing countries depending on the export of one or a few of these commodities.

Several indicators for China, Sub-Saharan Africa, Latin America and the Caribbean, and the United States, 2004

	China	SSA	LAC	US
Population (millions)	1,296	726	546	294
GDP/cap. ($)	1,500	601	3,576	41,440
FDI ($ billions)	62	20	69	121
Export ($ billions)	593	232	276	819
Import ($ billions)	561	212	237	1,526

Sources: CEPAL (2005), WTO (2005), and World Bank (2006)[1]

The expansion of China has already brought about important changes for developing regions, and these changes are likely to continue in the years to come. With the continuation of China's average annual growth of almost 10 percent over the last 25 years (implying its economy has become nine times larger in only one generation), in the year 2020, a GDP of $14 billion will be reached, which is 32 times its GDP of 1980 (UNCTAD, 2002a). When also considering the so-called synergies of "Greater China" (China, Hong Kong, Macau, Taiwan, and also Singapore), the effects on the global economy are even greater due to Hong Kong's harbour and commercial potency, Taiwan's technological potential (e.g. the world's largest producer of notebooks), and Singapore's centre of high technology and qualified services. In 2003, of the 25 largest non-financial transnational companies from developing countries (ranked by foreign assets), five were from Hong Kong, another five from Singapore, three from China and one from Taiwan (UNCTAD, 2005a: 7).

The rapid growth of China and some other (emerging) economies in the East and the South is creating a new global economic outlook for developing countries. In the UNCTAD this is qualified as the "new geography of trade" shaped by three interlinked trends: the increasing share of developing countries in world trade; South-South trade (commodities and manufactures) and economic cooperation "reaching a critical mass"; and the changing context of North-South interdependence and terms of engagement. Within this new context, as a "new growth pole in the world economy" China has a major impact on developing regions: "the most important reason for the rapid growth of South-South trade is that output growth in some large developing countries, particularly China, has been much faster that in the developed countries. … the growth dynamics in China and other Asian economies have positive effects," but they are also posing "new challenges for many countries" (UNCTAD, 2005b: iii-v).

In international politics China has recently come to present itself more prominently, stressing its position as a developing country and seeking new South-South alliances. In Africa, Latin

America, and the Middle East, China has strengthened its strategic economic relations by establishing cooperation forums and business councils in order to secure its access to primary goods and consolidate its export markets. It has started to play a more visible role since its membership of the World Trade Organization (WTO) in 2001, such as its lining up with countries like India, Brazil, and Russia in the G20. The G20 caused the failure of the WTO's Cancun summit of 2003, forcing industrialized countries to take developing countries' interests more seriously.

This article starts with some facts and figures that illuminate what is meant by the global expansion of China. This is followed by an overview of the economic development of China (in the twentieth century), including the introduction of market socialism and the process of China's neoliberalization. Then we analyze the role of China in Asia and China's South-South policies. By way of conclusion we discuss the meaning of the new South-South relations in the context of contemporary globalization.

China's globalization

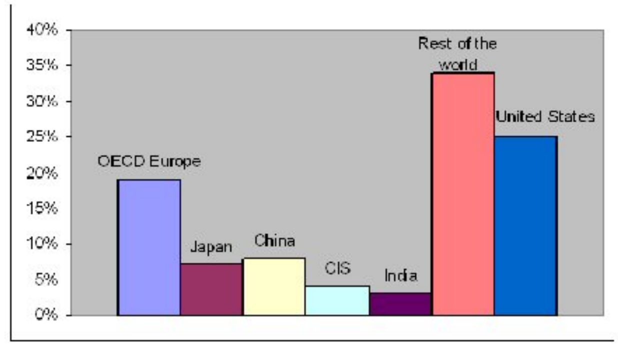
Over the past few years, the world has become aware of the importance of China's ongoing expansion. China has become a central place for production, investment, import, and export, which are all heavily tied to China's role as "the factory to the world." Between 1980 and 2003, China's share in world trade increased more than fivefold: its exports rose from 0.9 to 5.8 percent and its imports from 1.0 to 5.4 percent (UNCTAD, 2005b: 133). This trend is ongoing. The effects on the global system can be compared to those of the English industrial revolution in the second half of the nineteenth century, those of the development of the western United States at the end of that century, and Japan's industrialization after WWII (Morrison and Brown-Humes, 2005). Evidently, the "China effect" on developing regions and countries, and on the sectors and actors within them, varies widely. Here we briefly review the main trends of China's economic expansion that have a global impact: its growing import of commodities; the increase of Chinese exports; its success in attracting FDI; and China in its new role as foreign investor.

With its rapid economic growth and expanding export production, China has become a major consumer of natural resources and commodities, many of which originate from other developing countries. China has become the world's largest importer of several important commodities, such as iron ore. In 2004 China consumed 40 percent of the world's coal, 25 percent of the nickel, and 14 percent of the aluminium. This massive Chinese demand has contributed to rising commodity prices, as the steep increase of metal prices since 2004 shows. In 2005 the IMF metal price index rose by 26 percent (another 7 percent increase was expected for 2006). With energy prices rising 39 percent, this contributed to an overall 29 percent increase (in dollar terms) in the IMF commodities and energy prices index in 2005. This process is evidently beneficial to the exporting developing countries, as they had suffered from years of low world prices and related worsening terms of trade. The metal price level in 2006, for instance, is about twice as high as the average price level of the 1980s and 1990s (IMF, 2006: 54-63).

The Chinese contribution to rising world demand and prices of oil and other hydrocarbons deserves special attention. Internationally, it is the second largest consumer of energy, only after the United States. This is partly because of its enormous economic activity, but also a result of the notorious lack of energy efficiency in the production processes that take place in China. Only two decades ago China was the largest oil exporter of East Asia; these days it is importing massive amounts of oil. Since 2003, China has been the world's second greatest importer of oil and responsible for 31 percent of the global growth of oil demand. Next to the Middle East, Africa has become an important source for its oil import. While the former accounts for 45 percent of the oil imported by China, 29 percent comes from Africa (Zweig and Bi, 2005). Due to the economic and political importance of energy, this development is of major concern to industrialized countries. To developing countries with large reserves of hydrocarbons, on the other hand, Chinese demand and investment, and rising world-market energy prices have been an economic blessing. Politically, however, China's rise and the resulting shifting global power relations have also given occasion to complex new negotiations, as the case-studies on the Arab World and on Russia show.

Next to its imports of fuels, minerals, and metals, China imports large quantities of manufactured and agricultural products from developing countries. Much of this South-South trade seems to be concentrated in East Asia, but the figures are somewhat misleading since they include the large trade flows between China and Hong Kong (China), which functions as China's transhipment port. In reality, large quantities of agricultural raw materials and food for the Chinese market arrive from other parts of the world, such as soy from Latin America. Similarly, as part of East Asian production-sharing, manufactures from these countries arrive in Hong Kong for further assembling or manufacturing in China. The so-called triangular trade involves China importing intermediate products from more advances economies such as Japan and South Korea. With the cheaper labour of Chinese workers, these inputs are then further assembled into products that are exported to the United States and Europe. As a result, in 2004 China replaced the United States as Japan's main trade partner (UNCTAD, 2005b: 130-41).

Oil consumption by countries and regions, 2004

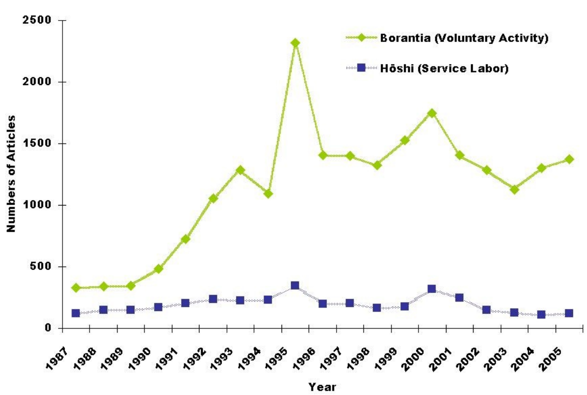


Source: World Bank (2005)

China's massive imports are closely related to the remarkable growth of export production in China and to the attraction of enormous flows of foreign direct investment. A large share of these imports serves as input for "the factory to the world." From 1985 to 2000 the value of Chinese exports increased from $26 billion to $249 billion. Together with high levels of public investment, foreign direct investment (implying the entry and expansion of transnational companies) in China has been crucial for the growth and modernization of exports.[2] From 1985 to 2000 FDI inflows rose from $2 billion to $41 billion, and in 2004 foreign direct investment to China was $61 billion. As a result, China is not only the biggest developing country recipient of FDI; globally among all countries, it comes in third, after the United States and the United Kingdom, which have FDI figures of $96 billion and $80 billion, respectively.

Transnational companies (TNCs) have played a key role in the expanding Chinese production for the world market, and even more so in the changing composition of Chinese exports. In the period from 1985 to 2000, the share of primary products and resource-based manufactures decreased from 49 to 12 percent, whereas the share of high technology products rose from 3 to 22 percent. The share of TNCs in Chinese exports rose from 9 to 50 percent between 1989 and 2001. Ninety percent of the exports of these companies are manufactured goods, such as machinery and equipment. There is also a large FDI component in technology intensive products: 91 percent in electronic circuits; 85 percent in automatic data-processing machines; and 96 percent in mobile phones (all in 2000). Apart from US and European companies, in China there are a large number of TNCs originating from Asia, mainly South Korea, Japan, Hong Kong, Taiwan, and Singapore (UNCTAD, 2002b: 161-6; 2005a: 2-3). To other developing countries China is thus a competitor in export manufacturing, which includes competition in foreign direct investment (see Figure 2) as well as export markets. In Latin America, as elsewhere, the issue of China's expansion is also about "the future 'spaces' open for the development of industrial exports in a liberalized world in which PRC is preempting many markets for products that developing countries can export" (Lall and Weiss, 2004: 23).

Regional distribution of net FDI inflows in Africa, Asia, Latin America, and China, 1990-2004 (in billions of US dollars)



* annual averages

Source: CEPAL (2005)

While China is a big shark in the sea of foreign capital, many developing countries are profiting from the fact that Chinese investments abroad have grown substantially, reaching $11 billion in 2004. China's FDI in developing countries is primarily driven by its growing demand for natural resources. Of the top 50 non-financial TNCs from developing countries in 2004, seven were Chinese: CITIC Group (no. 5), China Ocean Shipping Co. (no. 8), China State Construction Engineering Corporation (no. 19), China National Petroleum Corporation (no. 24), Sinochem Corporation (no. 28), TCL Corporation (no. 44) and China National Offshore Oil Corporation (no. 47). This is a noticeable change compared to the list for 1993 that does not contain one single Chinese company (UNCTAD, 2006: 283; 1995: 30-1). Only CITIC is majority-owned by the Chinese state, but most of the other Chinese TNCs are also controlled by the state. Their rise is the result of the government's determination to create China's own "global champions," which are internationally competitive while operating under state control (Economist, 2 July 2005).

Taken together, to developing countries, China's success in the globalized markets has several faces. With regard to merchandise trade, China has definitely won the race of other parts of the South: while China increased its share of world exports from 0.9 to 5.8 percent between 1980 and 2003, Latin America's share decreased from 5.5 to 5.0 percent, and Africa's share fell dramatically from 5.9 to 2.4 percent. China's imports, however, have equally risen and China has become the leading importing country in South-South trade (UNCTAD, 2005b: 133, 141). To developing countries that depend on the export of a small number of commodities, this diversification of export markets, the rising world market prices, and Chinese investments have all been economically beneficial. Conversely, developing countries that compete with China in export manufacturing have seen trade and investment negatively affected by China's success. In addition, cheap Chinese imports have been hurting local manufacturing companies that produced for the internal market, especially small and medium-sized companies.

The economic restructuring of China

What started as a gradual global move from socialist to capitalist economic measures in the late 1970s, turned into China's neoliberal reforms in the next two decades. In this development China resembled the processes of economic restructuring in numerous other developing countries. As we have argued elsewhere, the global spreading of neoliberal ideology and policies during the last two decades of the twentieth century gave way to fundamental changes of national economies, governance, and politics around the world. The triumph of capitalism that went with the end of the Cold War was largely captured by the neoliberal current, resulting in the reform of various capitalist models. This does not imply that the diversity of regional and national economic models has been fully erased, since national programmes of neoliberalization have been partly shaped by historical circumstances (economic, political, social) and existing policies. Yet, imbued with neoliberal thought, both capitalist and socialist regimes have gradually taken the shape of neoliberal regimes, largely irrespective of the type of party or coalition in government (Demmers, Fernández Jilberto and Hogenboom, 2004: 16).

China's economic reforms of the first phase (1978-84) accentuated the restructuring of agriculture in order to increase that sector's prices and productivity, stimulate consumption, develop local industries, and introduce market mechanisms to reduce the inequalities between the rural and urban regions. Starting in 1984 a second phase began, which has been considered as decisive in the implementation of China's market economy. Characterized by the decentralization of economic policies and the redistribution of income, resources traditionally belonging to the state were transferred to the market and the private sector. The reform of state companies, which became more independent in their operations, was the main objective at the beginning of this second phase. Transfers between companies as well as mergers and bankruptcies radically changed the production relations and gave room to the rise of the private sector in the economy. In this context the regulation of labour relations is no longer part of the absolute control of the state. As the Chinese state renounced its traditional monopolies in the industrial and commercial sector it slowly commenced to govern according to policies of structural adjustment similar to those known in Third World countries in the 1980s (Fernández Jilberto and Mommen, 1996).

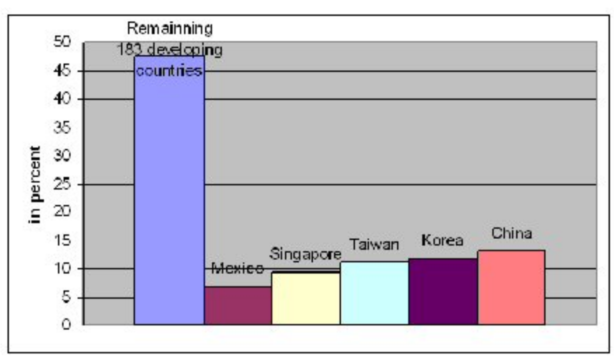
The second phase of economic reforms that started in 1984 was the structural reaction to the inflation crisis, the economic chaos and the social instability that reigned in China in the early 1980s as a result of previous economic policies (Lin and Zhu, 2001). The debate then centred around the dilemma of either radically reforming the property system and privatizing public enterprises, or implementing structural adjustment policies accompanied by a partial liberalization of the system of fixed prices. The latter option triumphed and was turned into the double price system (or dual-track pricing system) in which monetary policies became the main instrument to influence currency rates, while its fixed prices system was partially liberalized to improve the competitiveness of exports (Mckinnon, 1995). This new price system meant that the prices of capital goods were fixed by the Plan of the centralized economy, while the prices of consumer goods were established by the market. However, the system became an important source of corruption of state officials (Wang, 2002), as has also happened with some of the other policies of partial liberalization. In addition, economic inequalities deepened between social groups functioning in the planned sector of fixed prices and those working in the deregulated sector of the economy. In 1988, the Chinese government announced the termination of this pricing system and the acceleration of economic deregulation (Li, 1997).

The signing by China in December 2001 of the protocols for entry into the WTO consolidated its policies of economic liberalization. For this purpose, in the preceding decennium China had significantly reduced its import barriers and economic protection. The average level of import taxes was gradually reduced from 43 percent in 1992 to 17 percent in 2002 (Lemoine, 2002). These reductions have been accompanied by the parallel application of selective protectionism with more rights of importation, licences, and quota regimes in the sectors considered as strategic. Quotas and licences for industrial imports have been lowered, and only limited quotas have been maintained for the import of agricultural products. The service sector has also been opened in a limited manner to foreign investment. In the transport sector the limitations to the participation of foreign capital are to be eliminated, while transnational enterprises are to be authorized to participate in wholesale and retail trade and to commercialize local or imported products. To stimulate exports, import rights have been liberalized for all products destined for subsequent re-exportation and for the industrial sectors of assembly. This deregulation is to enhance the industrial export sector that is concentrated in the coastal area and that "dynamizes" China's foreign trade through international business operations based on sub-contracts with transnational enterprises and assembly industries (Lemoine, 1999).

The general opening of China's internal market and the enhancement of its export sector along the coast since 1980, authorizing and fiscally favouring FDI, have been extremely successful. These foreign investments have been channelled towards the sector of export industries and the sectors of import substitution such as cars and telecom materials, although in the latter sector foreign participation is not allowed to exceed 49 or 50 percent of total capital, depending on the sector (DeWoskin, 2001). The financial sector is also submitted to further liberalization of operations in local currency yet with some limitations. As a result of the improvements in its investment climate, between 1980 and 2000 private investment as a share of GDP almost doubled in China (World Bank, 2005: 2).

While entry into the WTO allows China to benefit from the status of "most favoured nation" (which is regularly granted to the member countries) for other developing countries this implies more competition with cheap Chinese products (see Figure 3). For example, countries like Malaysia, Thailand, Poland, Hungary, Turkey and Argentina have been forced to reduce their import tariffs on products like textiles and leather, which is harming their national industries. Moreover, since 2005 China has benefited from the gradual elimination of import quotas on Chinese products in the European and US markets in which it is competing with many developing countries, although until 2008 members of the WTO may still use protectionist measures against Chinese textiles in case they destabilize their markets. Internally the Chinese state uses these (temporary) export limitations in the global economy to press for a deepening of its neoliberalization policies. Import liberalization and foreign direct investment are beneficial in a similar sense for the further restructuring of China's industrial export sector and contributing to the economic concentration and competitiveness in the internal market.

Shares of developing countries' manufactures, 1990s



Sources: ILO (2004), UNCTAD (2002a)

Rather than the conditionality of the IMF and the World Bank, it was changing internal views that gave way to China's radical policy changes. Its enormous and rapid economic progress is a result of strong economic management by its political elite. Interestingly, compared to many other developing countries, these economic reforms did not imply a weakening of the state apparatus, nor democratization or an end to socialist discourse. The Chinese stability based on the political cohesion of the state-party system contrasts with the chaos provoked by the political and economic reforms made in the last phase of the USSR's existence. Compared with the ex-USSR and Eastern Europe, the key to China's stability is in establishing neoliberal economic restructuring without reform or opening of the political regime, and monetary policy played an important part in this process (Cabane and Tchistiakova, 2002).

The implementation of neoliberal policies in China is largely the result of the economic intervention and political decisions of the state. The acceleration and deepening of China's neoliberalism as of 1989 has been possible because of the combination of direct intervention of the state in the process of economic reform and political stability. Although the economic reforms and privatizations have created strata of private entrepreneurs, they do not possess political initiative or the capacity to initiate social or economic action independent from the state. While the economic growth and political cohesion that have accompanied China's neoliberalization may revive academic debates about the models of economic opening of developing countries, or the difference with the ex-USSR and Eastern Europe, it is remarkable that there has not been a collapse of China's political regime (Lin, 2001). Despite the Tiananmen protests of 1989, China has shown a stability of the state-party's power stemming from its capacity to ideologically renovate itself by and through substituting the model of a centrally planned economy with neoliberal policies. The state-party has thus eliminated the necessity of partial political liberalization as was faced by the neoliberal dictatorships of Latin America after the economic restructuring of the 1980s, as a result of which authoritarian neoliberalism was replaced by populist neoliberalism (Demmers, Fernández Jilberto, and Hogenboom, 2001).

The deepened globalization of the Chinese economy is strengthening its specialization in the industrial sectors in which it possesses major competitiveness and comparative advantages. These sectors are intensive in the use of manual labour, and correspond to the pattern of international competitiveness of the majority of the Third World countries, such as textiles. In this sector China has demonstrated that its commercial expansion was successful in the production of both intermediary articles (fibres and fabrics) and terminated articles (clothes). This will form an important source of a reduction of unemployment in China, and according to estimations, China may come to occupy 40 percent of the global textiles market. Additionally, in this capital and technologically intensive industrial sector, its competition with foreign products can benefit from the immense potential of its national market. At the same time, partly as a result of the exigencies of structural adjustment of the WTO, China's economic liberalization may aggravate unemployment, which officially is 3.5 percent but in reality might be around 10 percent or more. At least ten million people will become unemployed in the agricultural sector, which employs 340 million people, in the next few years due to the sector's restructuring (Wang, 2002). Due to the population growth in ten years there will be an extra 130 million Chinese people competing for jobs in agriculture or industry (Yao, 2000). In sum, from a labour perspective, China's transition to a market economy does not differ substantially from the models applied in other developing countries or transition economies: unemployment, precarious labour, and informal employment are structural components of economic neoliberalization.

The role of China in Asia

In its strategy of finding economic associations, China is inspired by "models of open regionalism" (Carl, 2001; Fernández Jilberto and Hogenboom, 1997). This can be witnessed in its creation of regional business forums for Africa, the Arab World, and Latin America, which will be discussed further along, and in its participation in institutions like the Pacific Economic Cooperation Council (Díaz Vázquez, 2003). Yet its main regionalization step has been the Free Trade Agreement of China and the Association of Southeast Asian Nations (ASEAN), consisting of ten countries. The agreement, which went into effect on 20 July 2005, will in 2010 result in a fully operational free trade zone. This zone encompasses 1.8 billion people, a combined GDP of $2 trillion and total trade of $1.2 trillion. Two other regional initiatives are linked to ASEAN: the East Asian Community, consisting of ASEAN with China, Japan, and South Korea (also known as ASEAN Plus Three), and the East Asia Summit (EAS), which includes all the former countries plus India, Australia, and New Zealand. These two initiatives are forums for cooperation in which, among several other things, free trade is discussed. However, the plans for East-Asian free trade (of the ASEAN Plus Three) and for pan-Asian free trade (by the EAS) are competing and still to be decided on. It is nevertheless of interest that China and India have been approaching one another and that they are trying to settle (border) conflicts in order to improve their bilateral relations. The two countries that jointly represent one third of the world population announced in April 2005 a strategic partnership for peace and economic cooperation. Lately, bilateral trade between India and China has been rapidly increasing, by as much as 79 percent in 2004, and China might soon become India's largest trade partner by switching places with the United States.

In addition, China actively participates in the Asia-Pacific Economic Cooperation (APEC) that integrates 21 countries with 2.5 billion inhabitants along the Pacific.[3] The APEC members jointly represent almost 60 percent of the world's GDP and 50 percent of international trade. In the first ten years of its existence it has even generated 70 percent of global economic growth. APEC's objective is to liberalize the markets of the group's most developed countries by the year 2010, and to achieve in 2020 the complete liberalization of the APEC economies (Matus, 2004).

The strategy of "open regionalism" as implemented by China is to construct a regional and global political economy that reduces its dependency on the North American market, to generate more control over its vulnerability for global financial crises, and moreover, to transform Asia into a zone of mediation between the United States and China. With this last matter, China also aims at weakening Japan. It disputes the regional hegemony of Japan based on an economic regionalization that has lead to superficial industrialization instead of profound modernization of the economies of Southeast Asia. The changing balance of regional power in East Asia is broadly linked to the consequences of the end of the Cold War, to China's economic restructuring, and particularly to the politics of Ronald Reagan towards Japan. With the Plaza Accords of 1985 the United States forced Japan to revalue the yen by 50 percent in order to stimulate US exports in the region and to reduce Japan's industrial competitiveness in the North American market. This gave way to the relocalization of exports and investments of Japanese manufacturing industry to Southeast and East Asia, thereby strengthening the economic regionalization. Shortly before the Plaza Accords came into effect, the United States absorbed one third of Japanese exports, but only a few years later (at the beginning of the 1990s) Japanese exports to the United States had fallen to 27 percent, while the interregional Asian trade had increased from 32 to 44 percent, and in 1995 even moved beyond 50 percent (Golub, 2003). The Plaza Accords thus strengthened the competitiveness of the Chinese economy in the region by reorganizing the regional division of labour in East Asia around the manufacturing capacity of Japan. This unintended outcome contributed to Asia's growing economic success in the global market, and eroded its "single market dependence" with respect to the United States that had existed between 1950 and 1980. The irony for the United States was that its attempts to regionalize the Asian economy with Japan as the pivot has turned out to favour the regionalization of the Chinese economy (Pottier, 2003).

In the late 1990s, it was the East Asian financial crisis of 1997-98 that brought about new views on global relations and changes in Asian relations. The severity of the crisis came to many as a surprise and a shock. The next shock was that the international support was weak and misguided. The IMF imposed policy conditions that were not suited to the specificities of Asia's financial problems and insufficient to stabilize the markets. Meanwhile, the United States was unwilling to financially support the Asian countries in crisis, which sharply contrasted with the immediate support of the US Treasury to its neighbour and NAFTA-partner Mexico during the peso crisis in 1995. Added to this was the frustration of many Asians that it had been US-led IMF conditions for liberalization of the financial policies of Asian governments that eased the outflow of capital and thereby deepened the crisis (cf. Jomo, 1998). All together, this encouraged regional Asian cooperation. Japan proposed the creation of an Asian Monetary Fund (AMF) that would allow for regional financial cooperation and policy coordination and that could provide financial liquidity necessary to confront currency crises in the region. However, the objection of the United States, the European Union, and the IMF prevented its realization. The US opposition stemmed from the fear that such a fund would create an autonomous monetary system for Asia that would be a rival to the IMF and would deprive the United States of one of its main instruments of global hegemony, which has effectively helped to impose the opening of numerous developing countries and transition economies to the global economy and thereby, to US capital.

In 2000, the AMF idea was revived by China, Japan, South Korea and the ASEAN countries with the Chiang Mai Initiative (CMI). This Initiative involves a regional scheme for financial cooperation involving a system of swap arrangements. Although some bilateral swap arrangements have been established between several of the thirteen countries, including a Japan-China arrangement, the CMI is moving ahead quite slowly. One reason for this is the competition between China and Japan as the region's leading countries (Park and Wang, 2003). Although the Japanese economy has started to grow again, in the regional power balance Japan is gradually losing its dominant position. In addition, the United States has been pushing Japan and China further apart, and Tokyo has become more reluctant to cooperate in regional structures that would exclude the United States (Wang, 2005).

China's South-South policies

The rapidly changing economic position of China is affecting its global policies, too. While the East Asian financial crisis of 1997-98 gravely affected many developing economies in and outside Asia, to China it manifested for the first time the issue of its economic security and its possible fragility when facing a global financial crisis. As a result, China intensified its strategy of globalizing and regionalizing its economy as expressed in its entry into the WTO and its active policies to negotiate free trade agreements, such as those with Japan and South Korea. During the Asian crisis, however, the only gesture of Chinese "good will" towards developing countries and especially to Latin

America was the decision to not devalue its currency, which would have deteriorated the competitiveness of these economies vis-à-vis China even more. In reality, this gesture was as instrumental as the rest of China's international policies since Deng Xiaoping, intended to serve future negotiations on global and bilateral trade as well as China's access to Third World sources of energy.

China has become more active and vocal in South-South and global politics, especially since its acceptance as a member of the WTO in 2001. Two years after entering the WTO, China joined the G20 of developing countries that pushed for more fairness in the opening of markets. Although China's role has been less visible than that of countries like Brazil and India, their joint efforts led to the failure of the WTO's Cancun summit in 2003. Through the G77 (officially labelled "Group of 77 plus China" or "G77 and China"), China supports initiatives for the "global South" such as the "new geography of trade." This concept was proposed by leaders of developing countries at the UNCTAD session in 2004 in Sao Paulo to increase South-South trade by means of a reduction of tariffs among developing countries and to start a third round of the Global System of Trade Preferences among Developing Countries (GSTP).

China has also become a promoter of South-South cooperation. According to vice minister of Commerce Wei Jianguo, it is "a corner stone of Chinese foreign policy."[4] Since July 2004, China has had a partnership with UNDP in the South-South Cooperation project, in which China replaced Japan as the key donor (from 1999 to 2004). Interestingly, this project, among other things, stimulates private enterprises to take the lead in South-South cooperation. Yiping Zhou, director of UNDP's Special Unit for South-South Cooperation states that "special emphasis should be on building inclusive public-private partnership and triangular cooperation," and that there is a "need for a more aggressive and innovative financing strategy for SSC, including private sector funding."[5]

This new attitude on South-South cooperation is an example of the general trend of a profound "de-Maoization" of China's political, economic, and development assistance relations. Since the late 1970s, China's need for natural resources and commodities has given way to an accelerated de-ideologization of its links to developing countries. After China began to open its economy, and in the 1980s in preparation for joining the World Bank and the IMF, it started to establish friendly relations with countries regardless of their social systems or ideologies. Relations with developing countries became largely based on mutual economic benefit, as shown in the shift away from grants and interest free loans to joint ventures and trade.

Since the beginning of the twenty-first century, China's "trade-not-aid" policy has been further expanded. A system of intensified economic South-South relations with a large dose of pragmatism has been implemented at the bilateral and multilateral level. China has been promoting South-South trade, partly through active regional business policies. Apart from its intensified Asian relations, China has intensified its cooperation with Africa, the Arab World, and Latin America. It has institutionalized these relations through new councils and forums, which is something quite different from its support for liberation movements in the 1960s and its support for the New International Economic Order (based on Mao's Theory of the Three Worlds) of the 1970s. The central objective of China's current policy is securing its access to the natural resources and commodities that are necessary to maintain the dynamism of its economy, while offering its internal market as an export destination to developing countries. This principle of "complementarity" is applied in China's strategy of establishing economic cooperation and free trade associations. Part of it is performed by the participation of Chinese conglomerates in developing regions, based on traditional principles of transnational enterprises yet with a more pronounced role of the state in their transnationalization process.

While China's "Third Worldism" is replaced by a model of South-South relations that enhances the globalization of its economy, China is not following the Western agenda of free markets and democracy in its international relations. First, Chinese state (controlled) companies and public-private partnerships are central to China's agenda for international development. As access to foreign resources is vital for China's continued economic growth (and social and political stability), many new exploration and supply agreements on energy and other commodities are signed by state-controlled Chinese companies and foreign states. According to Zweig and Bi (2005) China is "courting the governments of these states aggressively" and building goodwill by trade relations, aid, forgiving national debt, and helping to build infrastructure. Second, in this process there are "no political questions asked," since China considers national sovereignty as crucial. Due to this lack of political conditions China is supporting several countries with authoritarian regimes that do not receive Western governmental support, particularly in Africa. Though not following the line of strictly "free markets," China's international approach is not socialist either; rather, its new South-South relations reveal that China is hardly interested in politics or civil society. In the words of Deputy Foreign Minister Zhou Wenzhong, "business is business. We try to separate politics from business" (in Zweig and Bi, 2005). While this seems true for the local politics of countries with which China is doing business, there is always one crucial political "string" attached: support for China's One China Policy, implying no recognition of Taiwan. For instance, between 2004 and 2006, Senegal, Liberia, and Chad ended their diplomatic relations with Taiwan in order to deepen relations with China.

Peacefulness is stressed in the Chinese policy documents for bilateral and multilateral development relations with Africa, Latin America, Asia, and the Arab World. They all refer to "peaceful development," "peace and development," and the Five Principles of Peaceful Coexistence as a foundation of China's international relations since the 1980s. "China stands for a new security concept that features mutual trust, mutual benefit, equality, and cooperation….China refuses to join any military alliance or engage in any arms race. China does not seek spheres of influence nor sets up military bases overseas," according to Zhijun Zhang, Deputy Minister of the International Department of China. "In conclusion, China's peaceful development is a blessing not only to China, but also to the world as a whole. A stable, open and prosperous China marching on the road of peaceful development will make still greater contributions to peace, stability, and common development of the world."[6] Yet, with its rise as a global power it is hard to imagine this peacefulness will last forever. China's "peaceful rise as superpower" (Zheng, 2005) would be a historic anomaly, and its economic potential and needs are sooner or later going to interfere with the interests of other countries. In the meantime, based on its approach to national sovereignty, China is supplying arms to many countries, including to those banned by Western countries because of human rights abuses. This opaque Chinese practice has been heavily criticized by many countries and organizations, including Amnesty International.

In Africa, China's aid-for-oil policy resembles the tradition of trade-and-aid deals by industrialized countries, but contrary to the Africa policies of the European Union and the United States, China is not posing policy conditions. Based on its principle of non-interference in domestic affairs China does not demand macroeconomic reforms, good governance (more transparency and less corruption), or respect for human rights. In 2004 China provided a $2 billion credit to Nigeria and Angola for building offices and repairing railways with Chinese contracts. While the IMF berated Angola for corrupt oil deals the country exported 25 percent of its oil to China, in return for which it received Chinese loans and aid, including funds for Chinese companies to construct (rail-) roads, bridges, schools, hospitals, and a fibre-optic network. In Zimbabwe, China became the largest investor (particularly to secure access to platinum for its automobile industry) after President Mugabe's policies made western countries turn away. While there was great social unrest over Mugabe's destruction of shantytowns in 2005, China supplied Mugabe with fighter jets and troop carriers (worth about $240 million) in exchange for gold and tobacco. Similarly, China agreed to sell Nigeria fighter jets (worth $251 million) financed by China's Exim Bank (Pan, 2006; Walt, 2006).

The economic activities of the world's largest developing country with the world's poorest region have been rapidly growing and in the 1990s China-Africa trade increased 700 percent. In 2000, the China-Africa Forum started a new period of trade cooperation and investment, resulting in a doubling of trade from 2000 to 2003, and again from 2003 to 2005, when trade amounted to $32 billion. Much of this increase was due to the growing Chinese import of oil from countries like Sudan, and of copper (Zambia), diamonds (Sierra Leone), Cobalt (Congo), and timber. About 900 Chinese companies have come to invest in Africa, amounting to $900 million in 2004, or 6 percent of Africa's total inward FDI. With Chinese demand--among other factors--pushing up oil prices and exports, in 2005 Africa reached the remarkably high GDP growth rate of 5.2 percent (UNCTAD, 2005a).

The government of China is very active in its relations with Africa and in the past few years Chinese officials have regularly visited the region. In 2005 the China-Africa Business Council (CABC) was launched with a secretariat in Beijing and offices in the six participating African countries: Cameroon, Ghana, Mozambique, Nigeria, Tanzania, and Kenya. This business council is a public-private partnership involving the UNDP, the Chinese government and the China Society for Promotion for the Guangcai Programme: a link between the Chinese Communist Party and the Chinese private sector. In January of 2006 Foreign Minister Li Zhaoxing visited Cape Verde, Senegal, Mali, Liberia, Nigeria, and Libya, Oil and gas deal were signed between Nigeria and the Chinese state controlled CNOOC for a value of $2.3 billion. In November of 2006, Beijing hosted the largest ever China-Africa summit with 48 African leaders to discuss plans to further extend trade and investment. On this occasion China promised to triple its development assistance to Africa, and agreements where signed for almost $2 billion in new Chinese investments in the region. Apart from serving economic interests, its new Africa policy provides China with important allies in the United Nations, such as Nigeria, Sudan, and Zimbabwe.

With the Middle East, China has intensified relations on a similar basis of mutual benefit and with energy as key interest. In September 2004 Chinese Foreign Minister Li Zhaoxing visited Cairo, where the Ministers conference of the Arab League took place. On this occasion, two agreements on the Sino-Arab Cooperation Forum were signed: the China-Arab Cooperation Forum and the Framework Agreement between China and the Gulf Cooperation Council, including negotiations for a free trade zone (Bajpaee, 2006). In December 2005, an energy dialogue was launched by China and OPEC. In particular, the ties with Saudi Arabia have been strengthened as China is now its major client, importing over 20 million tons of Saudi Arabian oil in 2005. On 23 January 2006, an agreement on energy cooperation was signed when Saudi King Abdullah bin Abdul Aziz went to China for his first visit outside the Arab world (China Daily, 23 January 2006). Iran is important as a provider of natural gas to China: in 2005 Iran-China trade was valued at $9.5 billion. The two countries signed a multi-billion dollar (estimates range from $70 to $100 billion) gas and oil deal (for 30 and 25 years, respectively) in exchange for a 50 percent stake for China in the development of Iran's Yahavaran oil field. Both China and Arab countries have capacities and interest to invest abroad, especially in the energy sector. For instance, in 2005 Kuwait agreed to invest in a project of petrochemical and refinery infrastructure in the province of Guangdong, while in 2006 Saudi Arabia's Aramco Overseas Co agreed to invest $750 million in a petrochemical complex in Fujian Province, which is to process 8 million tons of Saudi crude oil (Pant, 2006).

China's relations with other regions and developing countries have also been strengthened. Trade between China and Latin America quintupled from 1999 to 2004, amounting to almost $40 billion in 2004, when China invested $1.4 billion in the region. As with the African and Arab countries, China set up a Cooperation Forum for Latin America. In November 2004 President Hu visited Latin America with a trade mission and shortly afterwards vice president Zeng Qinhong went to the region to sign trade and oil agreements with Venezuela. While Chinese initiatives towards most transition economies in Eastern and Central Europe have been limited, with Russia a strategic partnership has been established for which, again, energy, trade, and investment were the main motive.

The global South and globalized markets

In the 1980s and 1990s, the transformation of the private sector into the predominant motor for economic development and a reduced role of the state in the economy were the main elements of international policy prescriptions for low-income countries. This became known as the Washington Consensus, because it was a view shared and effectively applied by US government agencies as well as the IMF and the World Bank (all based in Washington, DC). These institutions were at that time very suspicious of an active role of the state in the economy, and especially of state-owned and state-controlled companies. In 1997, the IMF claimed that "[a]mong many developing countries, the direct involvement of the state in economic activity is large and wide-spread...Often state-owned enterprises are operated inefficiently, and despite the monopoly status they tend either to make low profits or to run persistent and large losses that burden government budgets" (IMF, 1997: 85-8). Meanwhile the World Bank (1997: 61) stated that "in all too many countries ... [p]rivate initiative is still held hostage to a legacy of antagonistic relations with the state. Rigid regulations inhibit private initiative. And state enterprises...dominate economic terrain that could more fruitfully be given over to competitive markets." In Africa, Latin America, Central and Eastern Europe, and Asia these financial institutions stimulated privatization and other liberalization policies that involved a transfer of economic power from the public sector to the private sector. These policies have brought about an economic concentration in very large and increasingly transnational private companies (usually structured as conglomerates or economic groups), but this tendency has generally not been as positive as the Washington Consensus claimed it would be, and it has in some cases clearly been negative to the economic and social development of these regions (Fernández Jilberto and Hogenboom, 2007).

While the rise of China and the new South-South relations have come about in the context of neoliberal globalization, involving developing countries that have gone through profound neoliberal reforms, these trends implicate important criticisms of the dominant neoliberal approach to achieving economic development in developing regions. The economic success story of China as well as its rise as a political protagonist of the modern South-South agenda may seem to be an outcome of a paradoxical process of the last quarter of the twentieth century. Contrary to the situation of the third quarter of the twentieth century, when China's economic and political development were very different from most of the rest of the Third World, starting in the late 1970s China went through several phases of profound policy restructuring that resembled the economic liberalization that was taking place in practically all developing countries. Yet, despite this convergence, China's development was not aimed at achieving a free market and a small state, as was generally happening in developing regions, in particular in Latin America and Africa.

The apparent paradox, then, is that economic liberalization has been as central to China's miraculous growth as the strong state and its active economic role. In reality, however, China's success is consistent with other findings on capital accumulation regimes and economic growth of developing countries that "raise serious questions about the strategies adopted in a number of developing countries for activating a dynamic process of capital accumulation and growth through a combination of increased FDI and reduced public investment and policy intervention" (UNCTAD, 2003: 84). In this respect, and irrespective of many differences, China's successful strategy of insertion into the world economy is bearing some resemblance to the development models of other East Asian countries with an economically (pro-) active state. While by the end of the 1990s the remarkable development of several emerging economies in Southeast Asia became (for some part unjustly) blurred by the Asian financial crisis, China's rise shows developing countries that there is a viable alternatives to the Washington consensus.

Apart from setting an example for alternative development strategies, China's recent global economic influence is encouraging for developing countries in several ways. By joining the G20 in the WTO negotiations, China has been of great support in advancing the interests of developing regions in global politics and the world market. Meanwhile, as a new export market and an emerging source of foreign investment, there is a "China effect" in this area, too. Increasing growth in developing countries that is benefiting from exports to China and rising world market prices diminish these countries' dependency on international financial institutions and their policies. And countries that receive Chinese investments or development assistance find that there are no economic policy conditions attached. On the other hand, China's global agenda has a clear and purely economic goal, and it has been its economic—and not political—liberalization within a neoliberalizing global system that paved the way for China's remarkable economic development. As a result, while China can be expected to further enhance the South-South agenda and support the demands of developing countries for fair international trade, it may also further enhance a globalization that is ignorant or even ruthless when it comes to human rights or environmental effects.[7]

Notes

[1] Some of the China data are from the World Bank's "China Data Profile", based on its World Development Indicators database of April 2006.

[2] The rising FDI figures do not imply that it was mainly foreign private investment that financed China's growth. In contrast, an important explanatory factor for China's high level of gross capital formation since 1970 of more than 30 percent of GDP—higher than in the rest of Asia, and Latin America and Africa—is that in the 1980s and 1990s China had a significantly higher level of public investment as a share of GDP. While public investment in China accounted for 15 to 20 percent, the average in all developing countries

was 10 percent in 1981and decreased from then onwards (UNCTAD, 2003: 66, 75).

[3] The APEC countries are Australia, Brunei, Canada, Chile, China, United States, Philippines, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Russian Republic, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

[4] Beijing, 6 July 2004, UNDP and Chinese Government meeting to launch a new UNDP project on SSC of which China is the key donor.

[5] Speech at the 11th session on Economic Cooperation among Developing Countries, Havana, 21 March 2005.

[6] In a speech at the 42nd Munich Conference on Security Policy, 5 February 2006.

[7] An extensive overview of China's global economic expansion and the effects on developing countries and transition economies can be found in two special issues that we guest edited for the Journal of Developing Societies (numbers 3 and 4 of volume 23, 2007) with case studies on Africa (by Piet Konings), Indonesia (by Thomas J. Lindblad), the Middle East (by Gouda Abdel-Khalek and Karima Korayem), Russia (André Mommen) and Latin America (by us).

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This is a revised and developed version of an article that appeared in The Journal of Developing Societies Vol. 23, 3, 2007. Posted at Japan Focus on December 24, 2007.