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DIC LO

IDCEA WORKING PAPER 01

JULY 2018

SOAS.AC.UK/IDCEA

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Dic Lo

SOAS University of London

July 2018

Address for correspondence: Dr Dic Lo, Department of Economics, SOAS, University of London, Thornhaugh Street, Russell Square, London WC1H 0XG, U.K. Email: diclo@soas.ac.uk; tel. +44 20 7898 4532; fax. +44 20 7898 4559.

This work was supported by DFID-ESRC under grant number ES/M004228/1 (Project Title: 'Chinese Firms and Employment Dynamics in Sub-Saharan Africa: A Comparative Analysis'), which is gratefully acknowledged. The author wishes to thank Carlos Oya, Christina Wolf, and Sam Kee Cheng for helpful comments.

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ABSTRACT

Since the turn of the century, China's influence on world development has increased enormously to become systematically important. This has given rise to the proliferation of scholarly studies on the dynamics and ramifications of the influence. Discernibly, a large number of the studies have coalesced around two theses – namely, the thesis of 'China reinforcing Southern de-industrialization' and that of 'China undercutting Southern labour'. The first thesis dwells on verifying whether Chinese manufactures exports have been crowding-out exports from other developing countries (the 'Global South') in the world market, and/or whether China's imports of primary commodities have been inducing the export countries to exceedingly specialize in primary commodities production. The second thesis dwells on verifying whether Chinese manufactures exports have been driving other developing countries to rely on 'cheap labour' for the competitiveness of their industries, and/or whether China's direct investment in other developing countries has been mainly pursuing 'cheap labour'. For both theses, the emphasis is on the possible negative impact of China on late industrialization. This paper offers a critical appraisal of the theses. Looking at the overall picture of China's 'going out' – i.e., its trading with, and its investment in, the South – as well as the actual performance of Southern industrialization, it is submitted that the ramifications of the Chinese influence is far more complex and the dynamics of its influence on late industrialization deviates fundamentally from the afore-mentioned theses. Further discussion on the ramifications and dynamics suggests that China's influence on late industrialization needs to be assessed in relation to the boarder context of political economy on the world scale.

Keywords: China, trade, investment, late industrialization

JEL Classification: F54, F60, O50

1. Introduction

Since the turn of the century, China's influence on world development has increased enormously. It has become the biggest trading economy in the world. It is a major recipient of inward investment, and exporter of capital both in the form of direct investment and financial flows. In recent years, it has initiated a range of international programmes aimed at reshaping the economic landscapes of the world. All these developments have given rise to widespread concerns over the nature of China's 'going out', i.e., its trading with, and its investment in, the Global South. What are the implications for economic development in the rest of the developing world? More specifically, is China's 'going out' a boon, or a curse, for the industrialization of late-comer economies?

The proliferation of scholarly studies, in recent years, on the dynamics and ramifications of China's 'going out' is thus a natural outcome of the concerns. These studies are diverse in terms of the scope of focus, the analytics, the empirical findings, and the concluding judgements. Yet, discernibly, a large number of the studies have coalesced around two theses – namely, the thesis of 'China reinforcing Southern de-industrialization' and that of 'China undercutting Southern labour'. The first thesis dwells on verifying whether Chinese manufactures exports have been crowding-out exports from other developing countries in the world market, and/or whether China's imports of primary commodities have been inducing the export countries to exceedingly specialize in the primary sector. The second thesis dwells on verifying whether Chinese manufactures exports have been driving other developing countries to rely on increasingly 'cheap labour' for the survival of their industries, and/or whether China's investment in other developing countries has been mainly pursuing 'cheap labour'. For both theses, the emphasis is on the possible negative impact of China on late industrialization, which is taken to imply curtailing world development.

This paper offers a critical appraisal of the two theses. It is not purported to explicitly and formally test the theses, and hence it would not question the validity of the associated empirical findings. What it does seek to question, or criticise, is the inferences and conclusions from the findings. The critical appraisal is carried out at two levels. First, looking at the overall picture of

China's 'going out', as well as the actual performance of Southern industrialization, it is submitted that the ramifications of the Chinese influence is far more complex than has been proposed by the existing studies. Second, looking at the direction of China's domestic economic transformation, it is submitted that the nature of China's 'going out', and therefore the dynamics of its influence on late industrialization, deviates fundamentally from the afore-mentioned theses. The paper concludes by pointing out that China's influence on late industrialization needs to be assessed in relation to the broader context of political economy on the world scale.

The paper is divided into six sections, of which this introduction is the first. Section two seeks to construct a general picture of the main attributes of China's 'going out' thus far. Section three critically reviews, in relation to the indicated attributes, the theses of 'China reinforcing Southern de-industrialization' and 'China undercutting Southern labour'. Section four attempts a characterization of the dynamics of world development in the era of neoliberal globalization. Section five assesses China's 'going out' in the context of the world dynamics characterized in the previous section. Section six concludes..

2. China's 'Going out': Major Attributes of the Overall Picture

China (mainland) became the world's top merchandise exporter in the year 2009, and has since mostly remained in that position. In 2016, its share of the world total of merchandise exports was 13%. In comparison, the share accounted for by the United States, Japan and Germany was 8%, 4%, and 9%, respectively. In terms of the sum of merchandise exports and imports, in 2016, the world share of China, the United States, Japan and Germany was 11%, 11%, 4%, and 7%, respectively.¹ Taking into account of indirect trade via Hong Kong (a Chinese 'special administrative region' that has the status as a separate entity in the world trade system), China's world share of merchandise exports and total merchandise trade in 2016 reached 15% and 13%, respectively. These numbers indicate the importance of China in world trade.²

Three characteristics of China's international trade are of note.

- First, trade balance: after a period of persistent trade deficits in the first decade of the reform era, from the early 1990s onward, China has always run trade surpluses of hefty magnitudes (Figure 1). This is true even in the period of continuous and rapid appreciation of its currency, the Renminbi yuan, vis-à-vis the currencies of its major trading partners, and of continuous and rapid rise of the wage rates. According to Bank of International Settlements data, between January 2000 and January 2017, China's nominal effective exchange rate appreciated by 32% while the real (consumer price index-based) effective exchange rate appreciated by 34%.³ In the same period, the real urban wage rate and the real wage rate for migrant workers on average increased by 10.7% and 9.7%, respectively, per annum (see Figure 6 below).
- Second, growth: both merchandise exports and imports have registered persistently rapid growth throughout the past four decades. As can be computed from the data in Table 1, the average rate of nominal annual growth of exports and imports was 14.0% and 12.9%, respectively, in the period 1980-2000. The growth then increased slightly to 14.2% and 13.0%, respectively, in the period 2000-2016. Consequently, trade surpluses amounted to US dollar 510 billion in 2016, which was equivalent to 4.6% of GDP in that year – a high ratio that was almost unique among major trading economies of the world.
- Third, composition of exports and imports: manufactures exports have expanded very fast, so that their share in total exports increased from 50% in 1980 to 95% in 2016. In contrast, manufactures imports as a share of total imports increased much more modestly, from 65% to 72%. Meanwhile, exports under the category 'machinery and transport equipment' have registered the fastest expansion. Their shares in total exports increased from 5% in 1980 to 47% in 2016. These exports are not really labour-intensive relative to total manufactures exports. In terms of production characteristics, the industries of machinery and transport equipment typically have a level of labour productivity that is on a par with the manufacturing sector as a whole. The rapid expansion of such exports suggests that, insofar as Chinese exports do exert competitive pressure on economies that are in the early stage of industrialization, this competition is likely to be transitional that tends to fade out quickly.

[Figure 1], [Table 1]

These three developments are almost unique to China on the world scene. They suggest that the expansion of China's international trade, particularly since the turn of the century, cannot be in any significant measure accounted for by exchange rate manipulation. Nor can the expansion be simply reduced to the working of the principle of endowment-determined comparative advantage, i.e., abundance in labour supply ('cheap labour' or otherwise). Productivity growth and industrial upgrading might have been the much more important driving forces.

Along with the expansion in the total of China's international trade, the acceleration of the expansion of its trade with the rest of the developing world has been even more spectacular. Between 2000 and 2016, the average nominal rate of growth in its total merchandise trade with developing economies ('low-and-middle-income economies') registered 18% per annum, compared to that with developed economies ('high-income economies') of 12%. Moreover, whilst China has been running surpluses with developed economies, its trade with developing economies has been in most years in sizeable deficits. The trade imbalances have been caused by China's absorption of commodities from other developing economies. Significantly, during this period, China also experienced continuous worsening of its terms of trade, whereas the opposite was true for the developing world as a whole. Between 1998 and 2016, China's net barter terms of trade decreased by a magnitude of 15%. This stood in contrast to the modest decrease (2%) for developed economies, and the massive increase (26%) for all developing economies including China itself (Figure 2).

[Figure 2]

The expansion in both inward and outward flows of foreign direct investment (FDI) has been equally spectacular (Figure 3). Ever since the early 1990s, China has always been one of the world's main recipient economies of inward FDI. Since the turn of the century, China's outward FDI has also expanded very fast. It has become a major supplier of FDI in the world. In the year 2016, according to United Nations Conference for Trade and Development (UNCTAD) data, outward FDI flows from China (mainland) amounted to US\$ 196 billion, accounting for 13.5% of the world total. This is the

second biggest in the world, after the United States which had a world share of 20.6% in that year.

Adding the outward FDI flows from Hong Kong, of which the main part has been actually carried out by subsidiaries of mainland Chinese companies, China's world share of outward FDI flows in 2016 could be substantially larger than 13.5%.

[Figure 3]

Three characteristics of China's outward FDI are of note.

- First, geographical distribution: hitherto, the lion's share of China's outward FDI has flown to the developing world, although investment in developed economies has increased at a faster pace in recent years. In 2016, 71% of China's outward FDI flows went to developing and transition economies. By the end of that year, of the total stocks of China's outward FDI, 84% were in developing and transition economies.⁴
- Second, sectoral distribution: hitherto, China's outward FDI has concentrated in activities that appear to be trade-related services. These include business services, wholesale and retail sales, finance, and information technology services, which combined to account for 65.3% of the total stocks of China's outward FDI by the end of 2016. Nevertheless, there was a high degree of variation across different continents. In Asia, the top four sectors were: business services (42.4% of the stocks of China's outward FDI in that region), finance (13.1%), wholesale and retail sales (12.9%), and extraction (7.9%). In Africa, the top four sectors were: construction (28.3%), extraction (26.1%), manufacturing (12.8%), and finance (11.4%). In Latin America and Caribbean, the top four sectors were: business services (33.3%), information technology services (18.4%), wholesale and retail sales (17.9%), and finance (11.7%). It can be observed that, whilst the patterns in Asia and Latin America and Caribbean gear towards trade-related services, that in Africa is typical of the activities known as 'building infrastructure in exchange for resources'.⁵
- Third, agents of investment: hitherto, state-owned enterprises (SOEs) have played a more important role than non-SOEs in carrying out the investment. By the end of 2008, of the

stocks of outward FDI, 70% was accounted for by SOEs. The share decreased to 54% by the end of 2016, while, at the same time, another 26% was accounted for by mixed-ownership shareholding companies and limited liabilities companies. This change reflects partly the ownership reform of Chinese SOEs. It also reflects partly the division of labour between SOEs and non-SOEs: SOEs, typically of much bigger sizes and much less profit-oriented, and their activities being associated with state strategies and supports, tend to pave the way for the subsequent entry of non-SOEs.⁶

On the whole, as far as Chinese investment in the rest of the developing world is concerned, serving merchandise trade seems to have been the main consideration. In conjunction with the patterns of China's international trade, particularly its trading relationship with developing economies, it can be further inferred that the trading in question has been mainly an exchange of manufactures for commodities. This seems true not only explicitly in China's investment in Asia and Latin American but also, more implicitly and specifically, in China's investment in Africa in the form of 'building infrastructure in exchange for resources'. Incidentally, with the large-scale construction work and the infrastructure in place, in recent years, Africa has also become a significant destination of (mainly labour-intensive) industries relocated away from China. Direct competition in the market between Chinese and African manufactures thus seems to be fading out. And a capital-labour relationship has gradually emerged in the economic relations between China and Africa.

3. Perspectives on the China Impact on Late Industrialization

The tremendous pace of China's 'going out' since the turn of the century, especially the expansion of its manufactures exports which is central to the entire process of 'going out', has given rise to widespread concerns over its impact on world development. The relevant studies that have emerged are diverse in terms of the scope of focus, the analytics, the empirical findings, and the concluding judgements. Nevertheless, discernibly, a large number of the studies have coalesced around two

theses – namely, the thesis of ‘China reinforcing Southern de-industrialization’ and that of ‘China undercutting Southern labour’.

Studies pertaining to the first thesis typically ask two questions. First, have Chinese products displaced the manufactures by other developing economies, in their home markets and/or in the international markets? Second, have China’s imports of primary commodities induced the export countries to exceedingly specialize in the primary sector? The studies have tended to give affirmative answers to one or both of the two questions. These include studies on the displacement effect of Chinese exports on the manufacturing sectors in East Asia (Hart-Landsberg and Burkett 2005; Greenaway *et al.* 2010), in Sub Saharan Africa (Buse *et al.* 2016; Edwards and Jenkins 2015; Giovannetti and Sanfilippo 2009; Kaplinsky 2008; Kaplinsky, McCormick and Morris 2007, 2010; Pigato and Tang 2015), and in Latin America (Álvarez and Claro 2009; Gallagher, Moreno-Brid and Porzecanski 2008; Jenkins 2008, 2010, 2012; Jenkins, Peters and Moreira 2008). Additionally, existing studies tend to find evidence of China trade inducing developing economies that export primary commodities to increasingly specialize in that sector (Jenkins 2012; Rosales and Kuwayama 2012; Sandrey and Edinger 2011; Pigato and Tang 2015).

Studies pertaining to the thesis of ‘China undercutting Southern labour’ are more nuanced, and less clear-cut in terms of their scope of investigations and findings. They typically seek to verify whether China’s investment in other developing countries has worsened local labour standards and compensations. Furthermore, for gauging the China influence at a more systematic level, they seek to verify whether Chinese manufactures exports have pressurised other developing countries to rely on increasingly ‘cheapening’ labour for the survival of their industries.

Concerning investment, case studies have mixed findings about how Chinese investors have treated employees in terms of labour standards and compensations (Baah and Jauch 2009; Brautigam 2009; Huang and Ren 2013). Regardless, it is quite certain that Chinese investors are as profit-oriented as investors from other countries, and hence their similar pursuit of the lowest possible labour cost (Dollar 2016). Further case studies reveal that industrial relations within Chinese business

establishments in developing countries vary across different circumstances, depending on local political-economic conditions (Lee 2010, 2014; Tang 2016). It is difficult to judge, at the systematic level, whether or not Chinese investment has indeed worsened labour standards and compensations in developing countries.

To systematically verify the ‘undercutting’ thesis thus requires ascertaining the effect of China on the broader conditions of labour employment in the developing countries in question. This entails falling back on the issue of displacement effect, together with conjecturing the importance of ‘cheap labour’ in accounting for the competitiveness of China’s manufactures exports. Concerned scholars argue that ‘cheap labour’ has indeed been the main factor behind China’s export competitiveness, and, through the pressure of competition, it has forced the rest of the developing world to ‘cheapen’ labour. A process of the ‘race to the bottom’ in labour standards, where the bottom is allegedly defined by the conditions in China, has thus been at work on the global scale (Chan 2003; Foster and McChesney 2012; Hart-Landsberg and Burkett 2006, 2011; Walker and Buck 2007). Empirically, it is possible to find evidence that the penetration of Chinese manufactures into the home markets of developing countries has adversely affected the latter’s labour employment (Álvarez and Claro 2009; Edwards and Jenkins 2015). For this to be a substantiation of the ‘undercutting’ thesis, however, the conjecture over ‘cheap labour’ in China needs to hold – which might not be true in reality, as will be discussed below.

To appraise the contribution of these studies, it is noted that the two theses reviewed above might well be partial in nature for studying the China impact on world development, both in terms of their theoretical frameworks and their scope of empirical investigations. They can be partial, conceptually, as narrowly focusing on the displacement effect is not necessarily sufficient to capture the developmental effects arising from the opening up of bilateral trade or integration into multilateral trade. They can also be empirically partial, in the sense that they might have missed out some other channels through which China trade and investment impact the developing economies in question. This partial nature of the theses can be seen in the light of, or in contrast to, a range of studies that employ broader theoretical frameworks for analysing the impact of China on world development.

Giovanni *et al.* (2014), for example, conduct a computational general equilibrium analysis of gains from trade arising from China's 'going out'. It is found that developing economies with comparative advantage similar to China, in labour-intensive production, tend to suffer from China's trade expansion – akin to the displacement effect. It is further found that, in a dynamic setting with technological change, these countries benefit from China's trade expansion if China's pattern of comparative advantage becomes 'less common', i.e., if China has faster productivity growth in sectors that it does not have comparative advantage. This way, compared with studies pertaining to the two afore-mentioned theses, Giovanni *et al.* (2014) does seem to present a broader framework for analysis.

This said, however, a (comparative advantage-based) gains-from-trade analysis is no less theory-specific than the two afore-mentioned theses that focus on industrialization. In other words, the appropriateness, or otherwise, of both types of studies for capturing the systematic impact of China on world development might need to be justified in the first place. Closer in focus to the two theses, Rodrik (2014, 2015) and Felipe and Mehta (2016) both find solid substantiation from empirical studies for the fundamental importance of industrialization in the developing world under globalization, and the role of China's 'going out' therein. Both highlight the danger of premature de-industrialization, or sluggish progress in industrialization, for late development on the world scale.

It is noted that, insofar as focusing on industrialization is justified, the studies associated with the two theses reviewed above are mostly case studies of particular regions, countries, or industries. Yet, at the aggregate level, the world share of manufacturing exports from developing economies excluding China actually increased during this period under investigation, from 12.5% in 1999 to 15.5% in 2012, before falling back to 13.8% in 2016 (Figure 4). Given that the export share of East Asian developing economies outside China remained basically unchanged throughout this period, this increase in world export share has been entirely accounted for by developing economies outside East Asia. The same pattern is observable regarding the world shares of manufacturing value-added: between 1999 and 2015, all developing economies excluding China increased from 12.9% to 18.6%, of which East Asia excluding China increased from 2.2% to 3.9% (Figure 5). On the whole, displacement effect in the absolute sense of directly suffocating industrialization in the rest of the

developing world, though found to be widely present in the case studies, does not seem to be true for characterizing the overall picture of the impact of China's export expansion.

[Figure 4], [Figure 5]

It is true, though, that the increase in the world share of manufacturing exports from the rest of the developing world has very substantially lagged behind that from China. Between 1999 and 2016, China's share increased by more than 13.7 percentage points, whereas the rest of the developing world increased by merely 1.3 percentage points. The contrast in the increased world shares of manufacturing value-added is even more spectacular: between 1999 and 2015, China had an increase by 20.8 percentage points, while the rest of the developing world increased by 5.7 percentage points (of which East Asia excluding China increased by 1.7 percentage points). Surely, should there be no 'China factors', the rest of the developing world could have gained a much bigger space for pursuing industrialization?

Or is the impact of 'China factors' conjunctural in nature, rather than structural? The relative performance of China vis-à-vis the rest of the developing world in manufacturing exports and value-added appears to be correlated with differences in productive investment. Between 1999 and 2016, China's world share of gross capital formation increased by 20.8 percentage point, while the rest of the developing world increased by 6.6 percentage points (of which East Asia excluding China increased by 2.3 percentage point). This correlation gives rise to the question as to what is the direction of causation between export and output performance, on the one hand, and investment, on the other hand. Insofar as the causation starts with investment, the relative performance in export and output might well be mainly caused by factors other than the crowding-out effects by China. As can be seen from Table 2, the average ratio of gross capital formation to GDP, for the period 2000-2015, is 43.5% for China and 24.4% for all developing economies excluding East Asia (and 26.2% for East Asia excluding China). Compared with the average ratios in the preceding decades, there is a very significant increase for China, whilst the rest of the developing world excluding East Asia remains

more or less at the same levels. Thus, both in international and historical comparisons, the rest of the developing world has suffered from problems of insufficiency in productive investment.

[Table 2]

The issue of ‘primarization’ is relevant for considering the possibility of a reversed causation that runs from underperformance in manufacturing exports and output to investment. Conceptually, this causal relationship can be due to (lack of) capability and/or incentive. Industrialization requires investment utilizing available economic surplus. Lack of capability refers to insufficiency in surplus due to outflows, while lack of incentive refers to the misuse of surplus. The pattern of international trade known as the ‘old (or colonial) international division of labour’, where backward economies export commodities in exchange for importing manufactures from advanced economies, is often taken as the classic case of ‘primarization’ suffocating late industrialization.

The ‘China factors’ – competition in the world market, bilateral trade, direct investment, etc. – are at any rate unlikely to have caused surplus transfers from other developing economies to China. Recall that, alongside the expansion of China trade, there was a trend of continuous improvement of the terms of trade for the rest of the developing world.⁷ Ostensibly, it is lack of incentive, due to broader political-economic problems, that has blocked the utilization of incomes from the China-related commodity booms to investing in industrialization in the relevant developing economies.

The contrast in productive investment, between China and the rest of the developing world, can also serve as counter-evidence to the thesis of ‘under-cutting’. This thesis is inconsistent with the characteristics of China’s international trade and industrial production, noted in the previous section. Recall the rapidly rising share, in China’s total exports, of machinery and transport equipment, which cannot be simply classified as labour-intensive judging from the criterion of relative labour productivity. Recall also the fast expansion of China’s total exports, and the persistence of hefty trade surpluses, amid the massive appreciation of the yuan. In addition, note that wage rise was rather rapid precisely during this period of China’s rapid expansion in international trade and outward investment. Between 2000 and 2016, the average annual growth of real wage rate was 10.7% for urban registered

employees and 9.7% for migrant workers, both exceeding the 8.8% of the average annual growth of real per-capita GDP (Figure 6). To achieve the export expansion amid the currency appreciation and wage rise thus required sufficiently fast growth in labour productivity. Indeed, measured as per-worker real GDP, labour productivity on average grew by a very high rate of 9.0% per annum in the period 2000-2016. This is substantially higher than the average rate of 7.7% in the preceding period of 1978-2000. It is conceivable that this acceleration of productivity growth was associated with the concurrent acceleration of growth in productive investment.

[Figure 6]

All these said, the ‘under-cutting’ thesis appears to be far less convincing than the alternative thesis that productive investment was the main driving force behind China’s productivity growth, industrial upgrading, and therefore export competitiveness. Insofar as the rest of developing economies did find themselves compelled to cheapen labour with a view of withstanding competition by Chinese manufactures, this might have been mainly due to their insufficiency in productive investment. Again, the sources of this insufficiency might have been related to problems of the broader political-economic conditions.

4. The Broader Context: Imperialism in our Times?

The assertion, or suspicion, that China’s political economy is heading towards imperialism has been raised mostly by journalistic commentators or political activists (see, e.g., Bond 2016; Harman 2009; Kim 2013; Rotberg 2008; Rousset 2014; Turner 2015). Nevertheless, this assertion does have its scholarly backing associated with the thesis of ‘primarization’: the trend of (relative) de-industrialization in the developing economies that engage with China’s international trade and outward investment has been taken as clear evidence of Chinese imperialism. Ultimately, insofar as this assertion has intellectual insights (rather than simply judging the real world from ideological doctrines), it has been based on a variety of theories of the ‘new imperialism’, which have prevailed in the circles of the political and/or intellectual left since the turn of the century.

Central to theories of the ‘new imperialism’ are concerns over the relationship between (national or transnational) capital and the state, and between rival states, in the context of globalization (Callinicos 2009; Harvey 2003; Wood 2005). This approach does not presume that capital-labour relations – which, after all, are the defining characteristic of capitalism – are unimportant as underpinning of imperialism, but it is taken as given that capital-labour relations have already fully penetrated into major parts of the world. And it is posited that China’s political economy has already become capitalist. Indeed, China is considered to be an intrinsic part of the neoliberal capitalist world economy (Hart-Landsberg and Burkett 2005; Harvey 2005; Panitch and Gidin 2012). With these theories plus the observations over China’s expansion in international trade and outward investment, as well as China’s engagement in inter-state rivalries, the concerned scholars have little hesitation to reach the judgement that China is heading towards imperialism.

But, theoretically, can global capitalism as a system be understood as simply a sum total of individual capital-labour relations? This is plausible, but not necessarily so. It rests on the systemic dynamics, or system-wide mode of capital accumulation, in the particular historical epoch. For one thing, individual capitals might have the inclination towards pursuing profits via speculation instead of production, only to result in depressing productive investment at the aggregate level. For another, at every level of investment, individual capitals might have the inclination towards minimizing labour cost, only to result in depressing aggregate consumption. Thus, the continuous existence of the system of capitalism necessitates the working of some authorities of total capital, i.e., state power, as countervailing force to the self-defeating inclinations of individual capitals. Whether the arrangement of state power, at the global-systemic level, serves the general interests of total capital or the special interests of sections of individual capitals is history-specific. It seems generally true, though, that more powerful sections of capitals tend to have more influence over state power.

Capitalist imperialism entails the dominant sections of capitals, from the ‘North’ (developed economies), exploiting not only labour at home but also labour in the ‘South’ (developing economies). In other words, an essential characteristic of global capitalism is the division between exploiting and exploited economies, and this division is more fundamental than capital-state relations and inter-state

rivalries in determining the welfare of the majority of the world population (Foster and McChesney 2012; King 2014; Smith 2016). The word ‘exploitation’, though, is not always accurate, if it is used in the Marxian sense of the creation and extraction of surplus value within the capitalist mode of production. For, capitalist globalization does not necessarily entail the spread of capital-labour relations at the individual level. Globalization results in the spatial expansion of the system of capitalism, but not necessarily the capitalist mode of production. A more general formulation can be used instead: namely, surplus transfer from developing to developed economies. The precise content of surplus transfer, including the importance of ‘exploitation’ therein, depends on the systemic dynamics in the particular historical epoch.

The systemic dynamics of capitalism in our times can be gauged by examining the core policy doctrines of globalization. The doctrines, known as the Washington Consensus, are neoliberal in nature and have been composed of three generations of policies: market and trade liberalization, privatization of public assets and services, and financial liberalization especially concerning deregulation of cross-border capital flows. These three generations of policies combine to give rise to a process of financialization, where economic resources have become increasingly financially tradable. And speculative financial activities have increasingly dominated the world economy. It can be posited that, since the early 1990s, financialization has been central to the systemic dynamics of capitalism, and financial hegemony has been at the centre of the system.

Financialization, or capital being increasingly oriented towards speculative activities, necessarily leads to crowding-out productive, long-term investment. This crowding-out also tends to worsen income distribution, thereby depressing consumption growth. Consequently, there is a natural tendency of contemporary capitalism heading towards systematic demand deficiency, and hence economic crises. Meanwhile, the nature of speculative activities is such that they tend to focus on redistributing profits, not creating profits. Economic crises thus tend to first erupt in the financial sector, in the form of financial volatility or even financial collapse. The logic of financialization, in short, is to make itself intrinsically unsustainable (Lazonick 2009; Wade 2006).

In reality, the paradox for the theoretical proposition summarised in the preceding paragraphs is that financialization has actually been sustained for quite a prolonged period of time, at least up until the outbreak of systematic crises from 2007-08. Key to resolving the paradox is the concept of ‘accumulation by dispossession’, i.e., cheapening productive inputs by means of neoliberal reforms across the world. Put another way, capital accumulation in the era of globalization is mainly based on the incorporation of productive resources that have been previously outside the capitalist world economy. In its original formulation by Harvey (2005), the concept is referred mainly to ‘predation, fraud, and thievery’, particularly through various forms of wealth- or profit-seizing speculative financial activities. Harvey also refers the concept to the expansion of the working class, by means of incorporating workers in the developing world into the system. This second point resembles the thesis of the ‘new international division of labour’, which is characterized by capital chasing cheap labour around the world. A process of the ‘race to the bottom’ could then arise if, through the efforts of neoliberalism, labour supply expands faster than labour demand. The profits so created and extracted could then serve to sustain the process of financialization.

Harvey in his exposition on the ‘new imperialism’ tends to emphasize predatory activities while downplaying the importance of labour absorption. This treatment does have its theoretical and empirical reasons. Theoretically, in the context of financialization, capital in general is inclined to pursue profits via speculation far more than via production. If possible at all, capital would tend to dissociate itself from particular input-output configurations in particular spatial locations. Insofar as production is necessary, avoiding large-scale sunk investment and pushing to the maximum degree of the substitution of labour for capital, are logical of this inclination. Empirically, there appears to have some validity with the claim, made by critics of the reality of financialization, that the political-economic establishments of today’s world have been in a significant measure dominated by the Wall Street-Treasury-IMF Complex (Bhagwati 2004; Wade and Veneroso 1998). Predatory activities by speculative finance were quite evident in the series of developmental crises under globalization, most notably in countries of the former Soviet bloc during the process of market transformation and East Asian economies during the 1997-98 financial and economic crisis.

All these said about predatory activities, it can be observed and argued that labour absorption is no less important for ‘accumulation by dispossession’. At one level, the scale of absorption implies that its importance must be systematic. The IMF (2007) estimates that, in the period 1980-2005, the number of workers effectively producing for the world market quadrupled, and that increase mostly came from developing economies. It is no exaggeration to say that this is the first truly worldwide, integrated labour market in history. At another level, such a rapid pace of labour absorption has most likely created a situation that can be dubbed the ‘Lewis Model on the world scale’: a situation of unlimited supply of labour from the ‘South’ for employment by capital from the ‘North’. This being the case, the implications for world development could be problematic in times of expansion, and devastating in crisis-ridden times. In the times of expanding labour absorption, the unequal power between capital and labour entails surplus transfer from the ‘South’ to the ‘North’. This, in turn, implies a tendency to induce the developing economies involved to fall into a ‘low technology, low compensation’ trap. In times of crises, the relevant developing economies tend to bear the brunt of the systematic shocks arising from demand deficiency, especially because of the lack of domestic demand as a buffer against the shocks. Predatory financial activities would then come to play in the developing economies that have been engulfed into the crises.

[Figure 7]

In summary, the preceding characterization of the systemic dynamics of capitalism today can be illustrated by the logical flows in the upper part of Figure 7. Financialization in the ‘North’, and across the world, leads to crowding-out of productive investment and systematic demand deficiency. Continuous financialization thus tends to increasingly rely on ‘accumulation by dispossession’, i.e., surplus transfer from the ‘South’. This process of accumulation typically takes the form of predatory financial activities, together with labour absorption. Predation can occur peacefully, where developing economies pay seigniorage to developed economies (see below), or in more violent ways of the fire-sale of productive assets of crisis-ridden developing economies to international financial agents. Labour absorption, meanwhile, mostly occurs in times of economic expansion. Through the creation of a situation of the ‘Lewis Model on the world scale’, surplus transfer from labour to capital, and

therefore from the 'South' to the 'North', becomes systematic. Some developing economies could benefit from this labour absorption, if they manage to raise their labour productivity fast enough to more than compensate for the surplus transfer. But this must be exception, rather than the norm, in the context of the crowding-out of productive investment and the tendency of the 'race to the bottom'.

5. The 'China Factors' in Perspectives

Has China been an exploiting, or exploited, economy vis-à-vis the rest of the developing world under neoliberal globalization? This question is crucial for ascertaining whether or not it is heading towards imperialism. Meanwhile, of a broader concern, has China's 'going out' been reinforcing, or undermining, the systemic dynamics of global capitalism as characterized in the preceding section? Answering this second question is important for world development, irrespective of any trace of imperialism with China. The answer to both of these two questions, put succinctly, is that China has been submissive-*cum*-resistant to the systemic dynamics of global capitalism.

Consider labour absorption. It is almost universal perception that China has followed a path of labour-intensive, export-oriented industrialization in the main part of the reform era up until recently. Incorporating Chinese labour into the world market has played a crucial role in the formation of the 'Lewis Model on the world scale'. Recall the IMF estimate that the effective labour force of the world market quadrupled between 1980 and 2005. This estimate is constructed by summing over the national data of total labour forces adjusted by their export-to-GDP ratios. Using a simpler aggregate measure of the same indicator, the number of workers effectively producing for the world market in 2005 is founded to be 2.28 times of that in 1980, whilst the estimate for all developing countries is 3.79 times and that for China alone is 8.65 times. Put another way, China accounted for exactly 50% of the increase in the world total of workers producing for the world market in the period 1980-2005. The world share of the number of Chinese workers producing for the world market increased from 8% in 1980 to 32% in 2005, although it then decreased gradually down to 19% by 2013.⁸

Along with labour absorption are the drawbacks as suggested by the literature on imperialism. The renowned ‘Foxconn Model’, a model of manufacturing sweatshops controlled by transnational capital, has often been cited as representative of the Chinese economy as the ‘world factory’. It is symptomatic of such developmental drawbacks as low capital-labour ratio, high work intensity and low compensation at the micro level, and under-consumption at the macro level. The ultimate result is surplus outflows in times of expansion, and severe excess capacity in crisis-ridden times (Foster and McChesney 2012; Hart-Landsberg and Burkett 2006; Smith 2016).

But, is the ‘Foxconn Model’ really representative of the Chinese economy? At best, it might be representative only of the sector of processing trade – manufacturing activities that import parts and components, assemble into finished products, and re-export to the world market. Exports under the category of processing trade have persistently accounted for approximately half of the total value of China’s merchandise exports from the mid-1990s until recent years. Measured as the ratio of net to gross exports, the ratio of domestic value-added of processing trade steadily increased from around 20% in the mid-1990s to reach 45% by 2009. The value-added in 2009 was equivalent to no more than 5% of China’s GDP. In other words, the Chinese economy is of a dualistic structure, and processing trade is no more than an enclave sector of it.⁹

The mainstay of Chinese economic development since the mid-1990s cannot be characterized as a process of labour-intensive, export-oriented industrialization. Recall the analysis of China’s trade performance in Section Two, and the critique of the thesis of under-cutting in Section Three. The rising share of machinery and transport equipment in total exports, the persistence of trade surpluses amid currency appreciation, the continuous wage rise, and, most fundamentally, the fast productivity growth, all indicating that cheap labour can hardly be a significant underpinning of China’s export and economic growth. Sustained rapid growth in productive investment, in defiance of the broader context of financialization, is far more important. In fact, it has been suggested that, since the mid-1990s, Chinese economic development has exhibited a tendency of converging to what can be termed the ‘Golden Age Model’, i.e., the economic model that prevailed in advanced capitalist economies in the era 1950-1973. Characteristic of the model is synchronous growth in labour productivity and the

wage rate, which, in turn, underpins synchronous growth in investment and consumption. It is with this tendency that China has been able to sustain its income growth, and therefore its absorption of primary commodities on a gigantic scale. This import appetite, together with the inclination to depress export prices by the sector of the 'Foxconn Model', explains the spectacular trend of deterioration of China's terms of trade with the rest of the developing world.¹⁰

Now, consider issues of predation. In the first decade of the Twenty-first Century, amid unprecedentedly fast economic growth in most developing economies, there was a notable trend in the world of finance: massive increases in the official holding of reserves in foreign exchange by developing economies. Measured as a ratio to their monthly-average import values, the official holdings by developing economies increased from 5.2 months in 2000 to 11.8 months in 2010. The ratio for China alone increased from 7.9 to 21.6 months. In contrast, the ratio for developed economies increased only slightly, from 2.4 to 3.1 months (Figure 8). This trend of massive capital flows from developing to developed economies appears to turn on the head of neoliberal doctrines of globalization, which promise capital flows rather in the opposite direction to promote economic development. It seems developing economies in general learned a lesson from the 1997-98 East Asian financial and economic crisis: in the face of increasing financialization of the world economy, they had to accumulate reserves for protecting their currencies against speculative runs. Yet, given the low rates of returns to the reserves, the accumulation entails paying seigniorage to the developed countries that issue reserves currencies – a tributary transfer of economic surplus to the financial hegemons of the world.

[Figure 8]

The situation with China could be considered as the extreme of this outward surplus transfer. In addition to facing the general pressure of financial speculation in the world market, China has had to confront conundrums arising from what McKinnon and Schnabl (2009) term 'currency mismatches'. Whilst being the biggest trading economy in the world, with the biggest trade surplus, China's currency is not sufficiently important in the existing international monetary system for

financing the surplus. It thus had to accumulate reserves in the period 2000-2010. Worse, pressed by its trading partners for reducing trade surplus, it had to allow its currency to continuously appreciate after 2005, and this invited massive inflows of ‘hot money’ only to further increase official reserves. Currency mismatches cost China dearly not only in terms of surplus outflows, like other developing economies, but also largely circumscribes its space for independent monetary policies.

Things seem to have worsened after 2008, both for China and the rest of the developing world. Amid the unfolding Great Recession, predatory activities via hegemony in the international monetary system have become all the more reckless. It is reported that the series of Quantitative Easing in developed economies resulted in the flooding of ‘hot money’ in developing economies, and, with leveraged effects, generated serious asset bubbles (Palma 2015). The reverse flows after 2014, again with very large leveraged effects, resulted in bursting of the bubbles. These inflows and outflows of ‘hot money’, manipulated by the financial hegemons of the world, have been exceedingly harmful to developing economies. China, for one, has suffered from the associated booms and busts with its asset markets over the era of the Great Recession. Its loss of foreign exchange in 2015 due to capital flights, for instance, is estimated to amount to between 600 and 800 billion US dollar. The severe fluctuations in its stock market in 2015, and with it fluctuations in its exchange rate, were to a significant measure related to these inflows and outflows of ‘hot money’. Nevertheless, thanks to the still existing controls over core items of its capital account, China appears to have suffered much less than other developing economies from the erratic flows of ‘hot money’.¹¹

McKinnon and Schnabl (2014) summarize the policy orientation of China’s state leadership in response to the conundrums of ‘currency mismatches’. After 2008, China speeded up the process of the internationalization of its currency, the Renminbi yuan, and one set of policy measures being taken centre on opening up the domestic financial market. Yet, these measures have proved to be problematic in the context of the existing hegemony in the international monetary system and its manipulation under the Great Recession. As indicated in the preceding paragraph, the massive inflows and outflows of ‘hot money’ have caused booms and busts in the domestic asset markets. Worse, they have also caused serious crowding-out effects on productive investment, forcing Chinese industrial

firms to become increasingly speculation-oriented. It appears that the Chinese leadership is confronted with a dilemma today. The likely outcome of promoting yuan internationalization under the existing international monetary system is, at best, to financialize the Chinese economy with a hope of sharing the hegemony, i.e., to transform it into purely a part of neoliberal globalization. The more likely outcome, however, is to fall prey to the existing financial hegemons of the world.

In summary, the logical flows in the lower part of Figure 7 illustrate the position of China in relation to the systemic dynamics of capitalism today. It has been partly submissive to the dynamics, in the form of the ‘Foxconn Model’ in production and falling prey to international speculative interests in finance. It has also been partly resistant to the dynamics, in the form of the domestic structural-institutional arrangements that have generated the tendency of converging to the ‘Golden Age Model’. In recent years, the Chinese leadership has initiated a range of international programmes – the ‘One Belt, One Road’ programme, the Asian Infrastructural Investment Bank, the New Development Bank, etc. – aimed at reshaping the economic landscapes of the world. And one objective of the programme is to promote yuan internationalization in a way that forces finance to serve productive activities, rather than attempting to join the existing, speculation-oriented financial hegemons of the world. The success or failure of this pursuit of an alternative to the existing systemic dynamics of capitalism will be of fundamental importance, not only for China itself but also for the future prospects for world development.

6. Conclusions

What has been the impact of China’s ‘going-out’ on late industrialization? The analysis in this paper suggests that, on balance, the ‘China influence’ has been more on the positive side than on the negative side. This judgement is based on a critique of existing negative views in terms of what has happened, and positing a positive view in terms of what would have happened without the influence.

Existing negative views have coalesced around the theses of ‘China crowding-out the manufacturing industries of other developing economies’ and ‘China under-cutting the wage rates of

the working class of the world'. For the first thesis, this paper provides empirical evidence to argue that it is flawed at the systematic level. The rest of the developing world has had considerable expansion in manufacturing production and export, precisely in the period that China became a world-significant player in international trade and investment. For the second thesis, this paper argues that it is wrong because China's trade expansion has been sustained mainly by productivity growth rather than labour exploitation. In both instances, the contrast in production and trade performance is instead attributed to the difference between China and other developing economies in productive investment.

In the construction of the positive view, this paper engages with the existing studies focusing on what is meant by imperialism in the era of globalization. Scholars that insist on dubbing Chinese political economy imperialist typically point to China as a capital-exporter, and its inclination to driving other developing economies towards 'primarization'. Yet, imperialism by nature necessarily entails cross-country transfers of economic surplus, but there is no evidence of such transfers from other developing economies to China. It is posited in this paper that, in the era of neoliberal globalization, imperialism takes the specific forms of financial predation and labour absorption – both leading to under-investment across the world. In this context, China has been an exploited, rather than exploiting, economy. Thanks to its elements of resistance against neoliberalism, Chinese political economy has been mainly production-oriented in nature. This nature, by promoting productive investment both domestically and in the broader developing world, has served as a countervailing force against the speculation-oriented nature of the world market.

This positive view, to be sure, is no more than tentative. It rests on a particular interpretation of imperialism in our times, which, whilst being consistent with a range of stylized facts of world development as presented in the paper, is still mainly hypothetical in nature. Nor can the character of Chinese political economy, and its impact on late industrialization, be assumed to be fixed in the future. Much depends on the rivalry between the submissive elements and the resistant elements vis-à-vis the financialization-driven, speculation-oriented systematic dynamics of world capitalism. Whether the influence of China's 'going out' is to continue to translate into world development in the future, or to turn to become detrimental, therefore, is a matter of continuous evolution.

Notes:

1. Data from *World Development Indicators*, accessed 11 June 2018.
2. For various reasons including data consistency, 'China' in this paper refers to mainland China only, i.e., not including Hong Kong, Macau and Taiwan. China's total exports to the world, including indirect exports via Hong Kong, are estimated as the sum of China's exports to the world plus Hong Kong's exports to the world minus Hong Kong's imports from China. Indirect trade data are from Asian Development Bank, *Key Indicators for Asia and the Pacific*, various issues; others from World Bank *World Development Indicators*.
3. Data from Bank of International Settlement, *Effective Exchange Rate*, accessed 5 March 2016.
4. Data from *China Statistical Yearbook* and *Report on Development of China's Outward Investment and Economic Cooperation*, various issues.
5. Data from Ministry of Commerce of China, *2014 Statistical Bulletin of China's Outward Direct Investment*.
6. Data from the same sources as note 4.
7. Data from the same sources as Figure 2
8. Data from UNCTADsta, accessed 8 May 2016.
9. See Lo (2013) for a detailed analysis of the scale and character of China's processing trade, and the dualistic structure of the Chinese economy of which processing trade constitutes an enclave sector.
10. The synchronous, rapid growth of the wage rate and labour productivity in the period 2000-2014 has been reported in Section Three. In the same period, there was also synchronous growth in consumption and investment of unprecedentedly fast speed: the average annual growth rate, in real terms, was 9.9% for consumption and 13.5% for investment. Discernibly, these synchronous growths were underpinned by an institutional framework which encompassed three main pillars: first, an economically activist state; second, the predominance of big firms that were mainly state-owned enterprises; and, third, the substantial improvement in the position of labour vis-à-vis capital in employment.

See Lo (2016) for a detailed analysis of the convergence of Chinese economic transformation to the 'Golden Age Model' from the mid-1990s onward, and the interruption to this convergence post-2008 due to the process of financialization.

11. In principle, given the existing system of capital controls in China, the sum total of the following three items of cross-border capital flows should be approximately equal to zero: current account balance, the balance in foreign direct investment, and the change in official reserves. Yet, according to the 2015 balance of payment data, the actual sum total was a negative amount of US dollar 905 billion. Possible reasons for this result include the revaluation of official reserves due to exchange rate changes, net repayment for foreign debts, transfer of foreign exchange from official reserves to private hands, and capital flights. Estimates of the scale of capital flights (and 'hot money' outflows) vary, from US dollar 600 to 800 billion.

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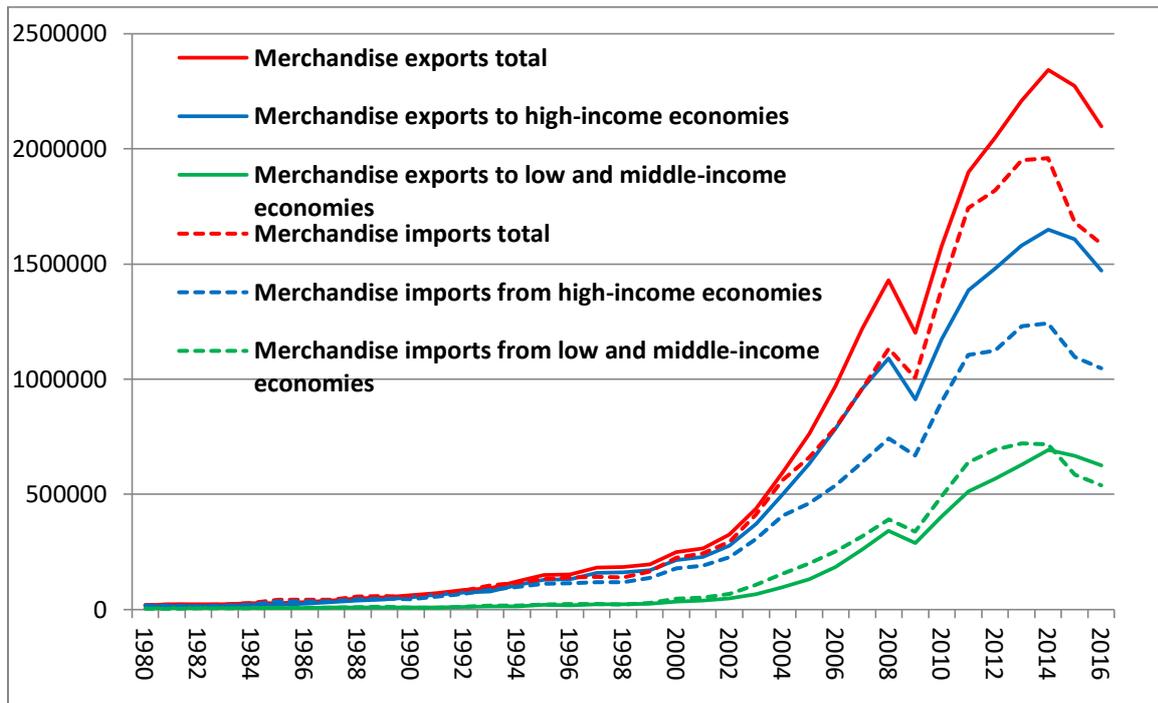
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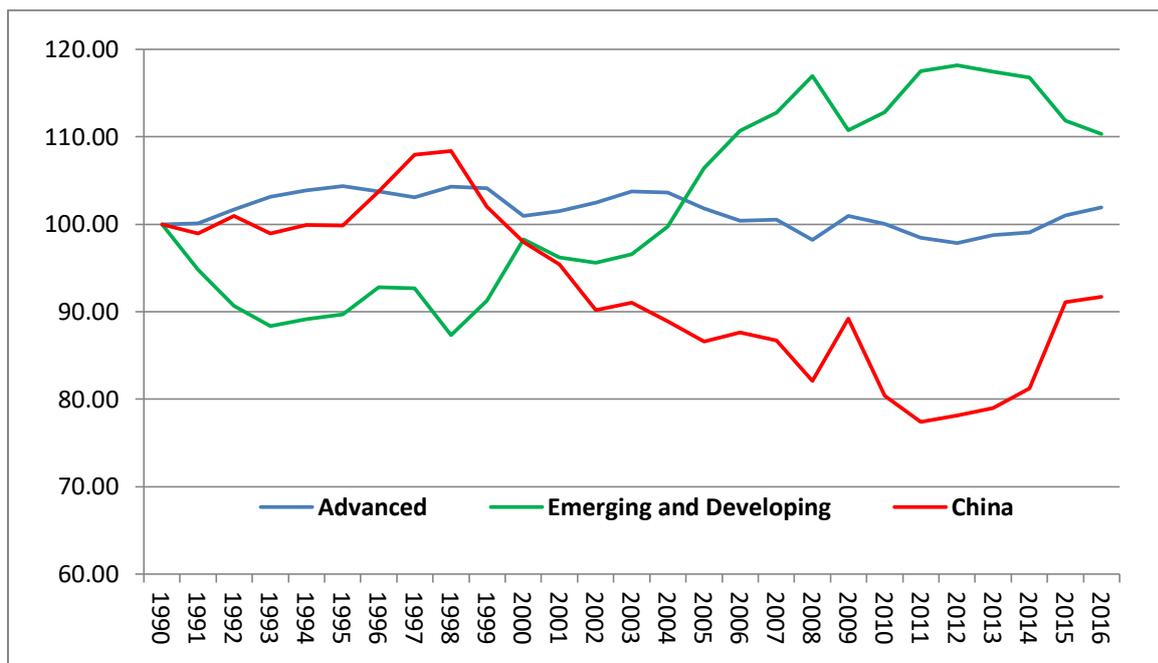
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Figure 1. China's Merchandise Trade (current US\$ million)



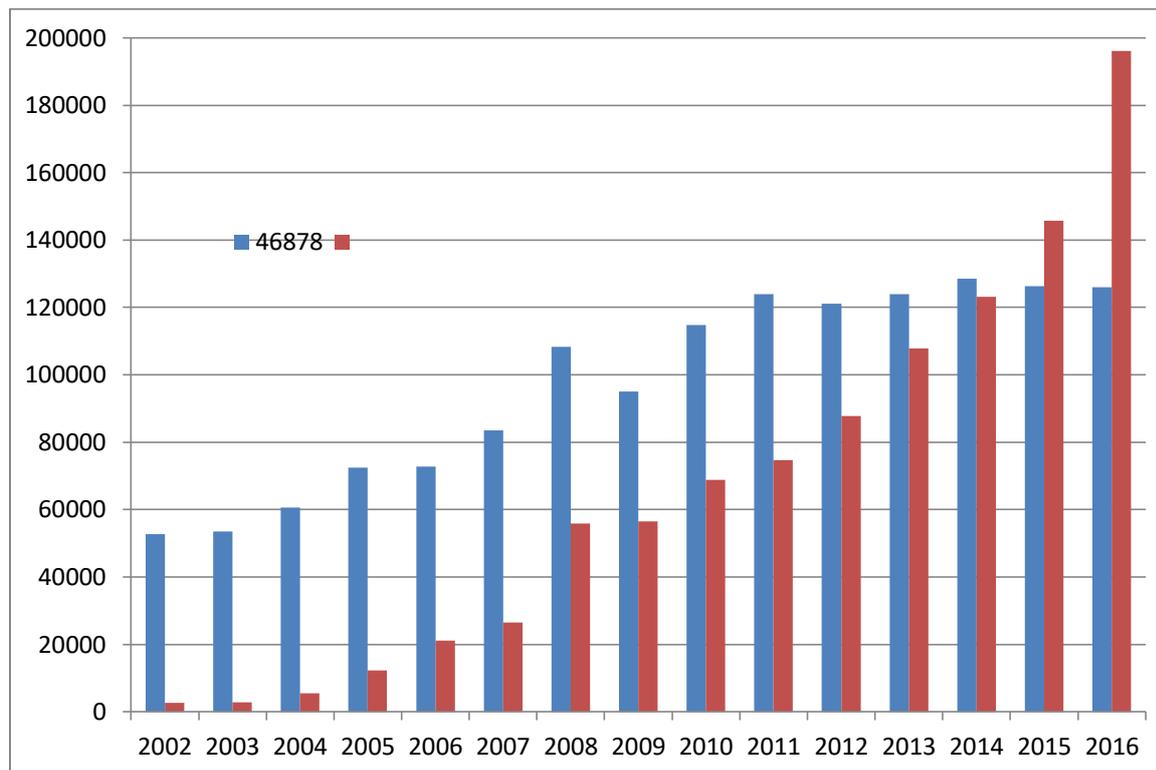
Sources: World Bank *World Development Indicators*, accessed 23th May 2018.

Figure 2. Net Barter Terms of Trade (1990 = 100)



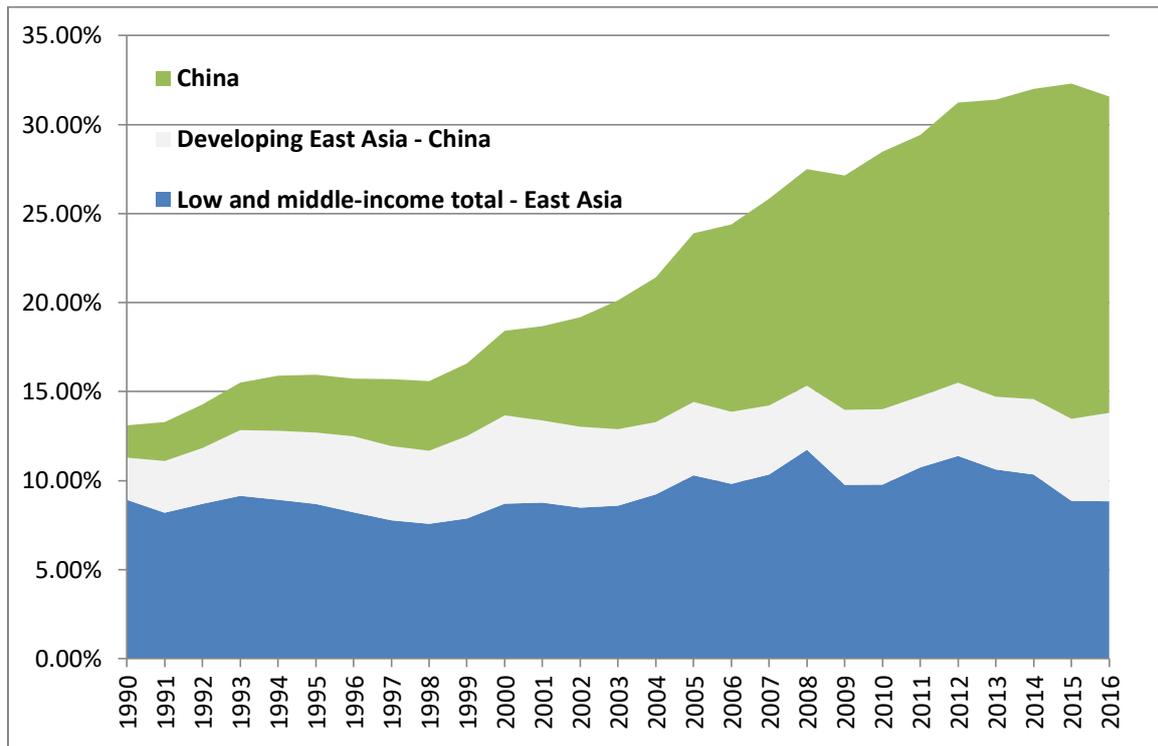
Sources: IMF *World Economic Outlook*, various issues; and World Bank *World Development Indicators*, accessed 23th May 2018.

Figure 3. China's FDI (Flows, US\$ million)



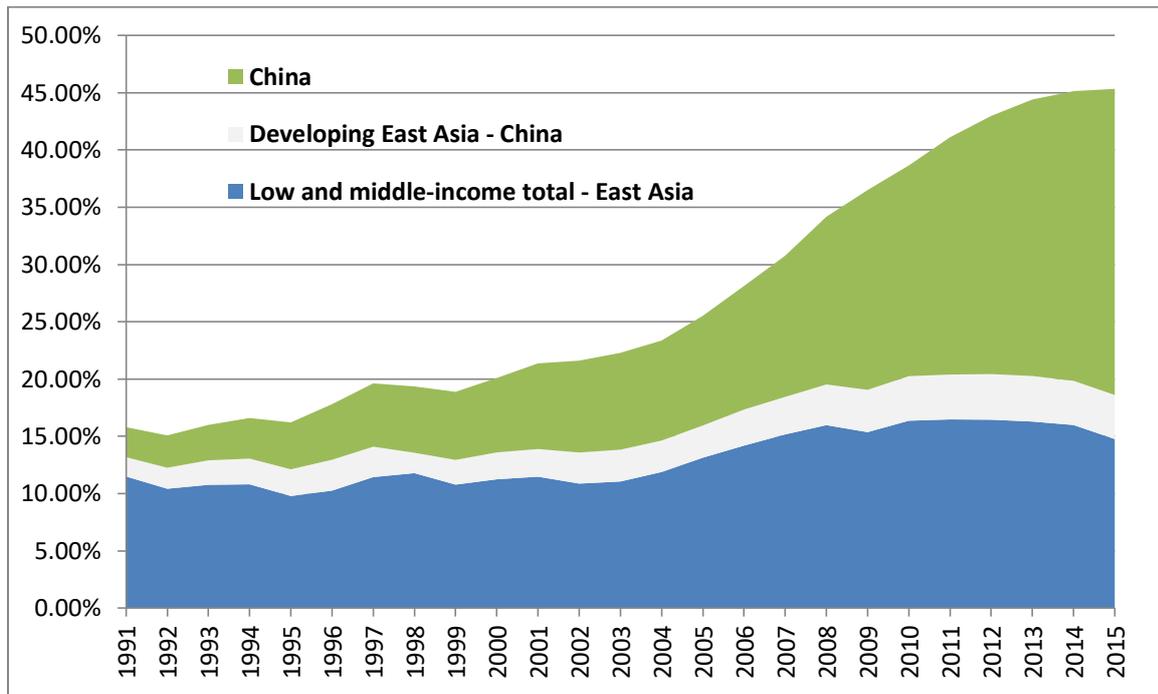
Sources: *China Statistical Yearbook* and *Report on Development of China's Outward Investment and Economic Cooperation*, various issues.

Figure 4. World Shares of Manufacturing Exports



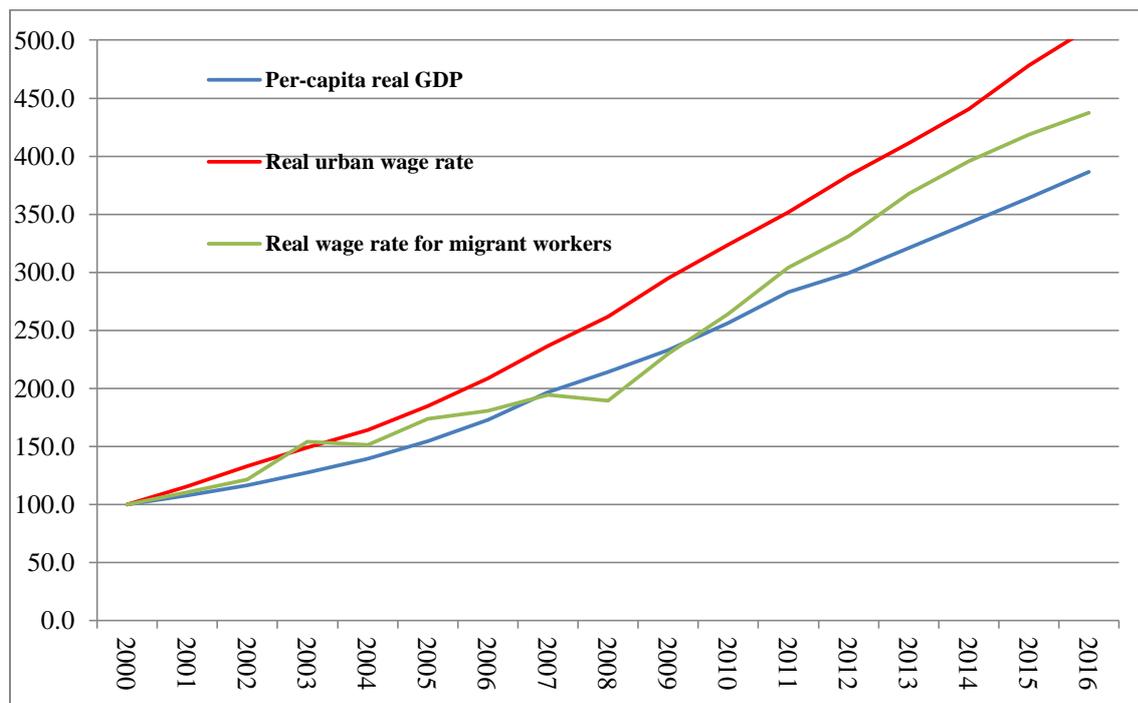
Sources: World Bank *World Development Indicators*, accessed 23th May 2018.

Figure 5. World Shares of Manufacturing Value-added



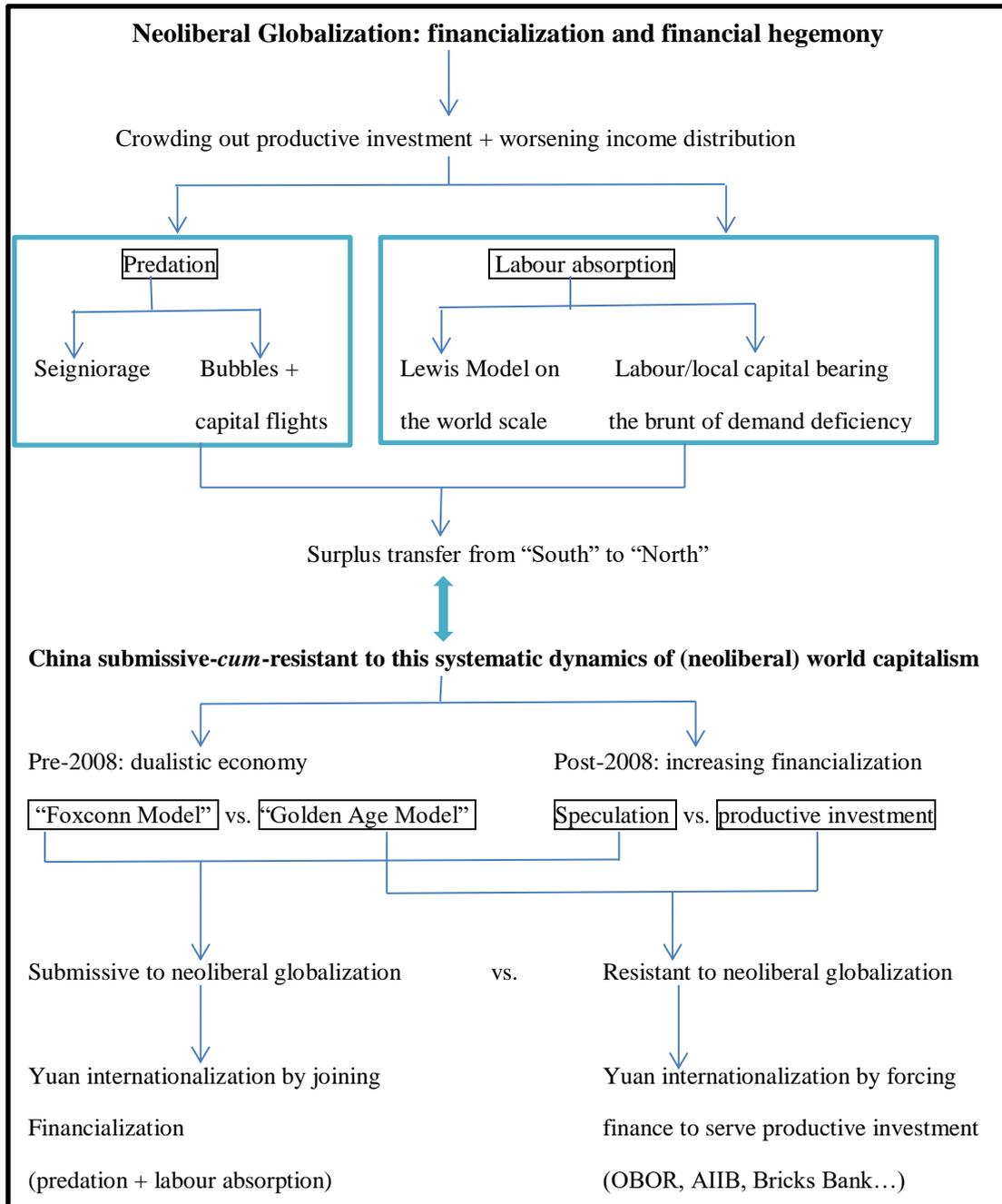
Sources: World Bank *World Development Indicators*, accessed 23th May 2018.

Figure 6. Indices of Per-Capital Real GDP and Real Wage Rates (2000 = 100)



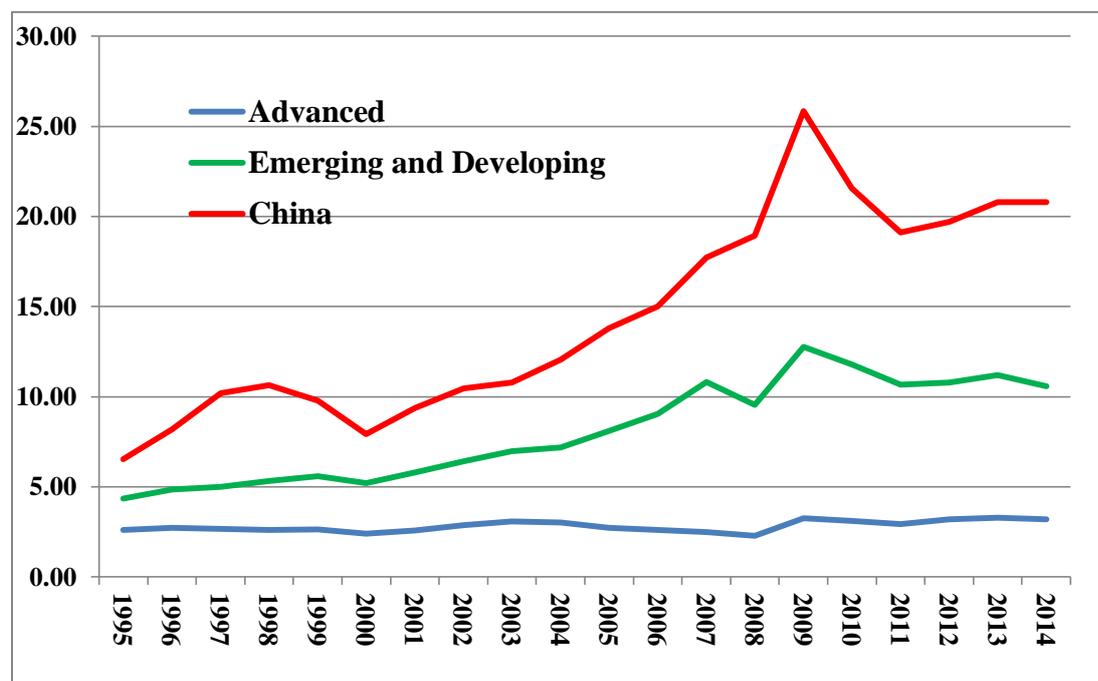
Sources: Per-capital GDP and urban wage rate data from *China Statistical Yearbook*, various issues; wage rate data for migrant workers from *Report on Monitoring and Surveying Migrant Workers*, various issues, and Lu Feng (2012) “Wage rate trends of China’s migrant workers, 1979-2010”, *Zhongguo Shehui Kexue* (Social Sciences in China), 2012, no.7: 47-67.

Figure 7. China Confronts Neoliberal Globalization: An Illustration



Notes: OBOR = ‘One Belt, One Road’ initiative; AIIB = Asian Infrastructural Investment Bank; Bricks Bank = New Development Bank.

Figure 8. Official Reserves in Foreign Exchange as Ratio to Average Values of Imports in Goods and Services (Months)



Sources: International Monetary Fund (IMF), COFER, accessed 17th May 2015, and *World Economic Outlook*, various issues.

Notes: Data are end-of-year foreign exchange reserves of central bank divided by the monthly average import values of the previous 12 months.

Dic Lo

SOAS, University of London

dl1@soas.ac.uk



Research jointly supported by the ESRC and DFID

**Growth
Research
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This research was funded by research grant ES/ M004228/1 from the UK's Department for International Development and the Economic and Social Research Council (DFID/ ESRC)

IDCEA is based at
SOAS, University of London
10 Thornhaugh Street, Russell Square
London WC1H 0XG

Get in touch with us:
Dr Carlos Oya
co2@SOAS.AC.UK
SOAS.AC.UK/IDCEA