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China and the Dynamics of Transnational Accumulation: Causes and Consequences of Global Restructuring

Most economic analysts believe that China's post-1978 record of rapid and sustained export-led growth has made the country one of the most successful developers in modern times. They also believe that the nature and scale of China's growth provides new opportunities for a broader restructuring and acceleration of economic activity in other countries, both Third World and developed. These claims, if true, have profound political implications. The first implies that governments pursuing economic development should, like China, promote greater market freedoms and international integration. The second implies that capitalist dynamics continue to create new global growth centres capable of ensuring economic progress for those countries willing and able to embrace the capitalist world market. Thus, in contrast to the fears of many workers throughout the world who view China's export activity as a threat to their living and working conditions, most analysts believe that its long-run impact will be positive for all.

The data does indeed show that China has achieved unprecedented rates of growth and that its economic

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transformation has greatly influenced the nature and organisation of economic activity in other countries. However, we reject the mainstream understanding of the Chinese experience highlighted above and the commonly derived political conclusions. To begin with, we do not believe that China's economic experience or the resulting restructuring of other economies can be understood in national or even inter-national terms, as if China's gains create opportunities for policy makers in other countries to promote their own national restructuring in ways that benefit their respective working-class majorities. Rather, we see China's post-reform economic activity and changes in production processes in other countries being linked and collectively shaped by broader *transnational* capitalist dynamics, in particular by the establishment and intensification of transnational corporate-controlled cross-border production networks. And, far from benefiting working people, these dynamics are increasing international imbalances and instabilities as well as heightening competitive pressures that work against the interests of workers in all the countries affected by them, including China.

In short, we believe that the conventional wisdom on China presents a flawed picture of global capitalist dynamics and the tensions they generate, one that leaves workers with a set of political options largely limited to passive acceptance of their worsening conditions or a declaration of economic war against their counterparts in other countries, especially China. In contrast, by focusing on the nature and logic of the new transnational accumulation dynamics that are reshaping economic activity in China and other countries, it becomes easier to see the destructive nature of capitalism itself, and the need to build international solidarity and nationally complementary strategies to oppose and overcome it.

I. The rise of China

Since 1978, China's GDP has grown by an average of 9.5% a year. This is three times the rate of the US and faster than that of any other country.[1] As a result, China's GDP now accounts for 13 per cent of world output (based on purchasing power parity), second only to the United States.[2] More specifically:

[1] *Economist* 2004, p. 6.
[2] *Economist* 2004, p. 4.

> China is the fourth largest industrial producer after the US, Japan, and Germany. As the leading producer in terms of output in more than 100 kinds of manufactured goods, China now makes more than 50% of the world's cameras, 30% of the world's air-conditioners and television, 25% of washing machines and 20% of refrigerators, in addition to the more than 50% of the world's toys. When the Multi Fiber Agreement is phased out in 2005, Chinese apparel will reach 46% of world total production and 20% of textile. 85% of bicycles and 80% of shoes sold in the US are made in China.[3]

Even these figures understate China's importance to the world economy. In 2004, China and the United States accounted for almost half of world growth. As the *Economist* explains, 'If American consumers and Chinese producers were to retreat at the same time, global growth could slump'.[4]

Most commentators believe that China's economic gains are largely the result of a series of state decisions to encourage the decentralisation, marketisation, and privatisation of economic activity. Over time, and with the support of the Chinese state, this transformation has come to be driven and the economy shaped by the activities of export-oriented transnational corporations.[5] For example, the government established 'a programme of export processing, under which inputs and components needed for the production of goods for export were imported duty free, with a minimum of administrative interference'.[6] Export-oriented foreign enterprises were also given subsidised access to land and utilities, tax holidays, and preferential tax rates (15 per cent or less, compared to the 33 per cent rate for domestic companies).[7]

The growing importance of foreign investors is highlighted by Table 1, which shows the rapid rise in foreign direct investment (FDI) in China, beginning in the early 1990s. In 2002, China became the largest recipient of FDI in the world. Significantly, as Table 2 reveals, China has been the only East Asian country to sustain its attractiveness to foreign investors.

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[3] Lee 2004, p. 1.
[4] *Economist* 2004, p. 3.
[5] Hart-Landsberg and Burkett 2005a, Chapter 2.
[6] Naughton 1996, p. 11.
[7] Periodic attempts by the Ministry of Finance to unify the tax rates at the domestic level have been defeated by the Ministry of Commerce, which fears angering foreign investors. See Huang 2005.

Table 1
Net foreign direct investment in China, billions US$

1985	1.0
1986	1.4
1987	1.7
1988	2.3
1989	2.6
1990	3.5
1991	4.4
1992	11.0
1993	27.5
1994	33.8
1995	37.5
1996	41.7
1997	45.3
1998	45.5
1999	40.3
2000	40.8
2001	46.8
2002	52.7
2003	53.5
2004	60.6

Source: Asian Development Bank (2005).

Table 2
Net foreign direct investment in East Asia, billions US$

	1997	1998	1999	2000	2001	2002	2003	2004
Korea	–1.6	0.7	5.1	4.3	1.1	–0.2	0.1	3.4
Singapore	1.1	4.6	8.5	1.2	–7.6	1.7	5.6	5.4
Thailand	3.3	7.4	5.7	3.4	3.5	0.8	1.5	0.7
Malaysia	5.6	2.2	2.5	1.8	0.3	1.3	1.1	2.6
Indonesia	4.7	–0.2	–1.9	–4.6	–3.0	0.1	–0.6	1.0
Philippines			1.8	1.4	1.1	1.7	0.2	.06

Source: Asian Development Bank (2005).

As a result of their ongoing investments, foreign producers are coming to dominate the Chinese economy. For example, the share of foreign manufacturing affiliates in China's total manufacturing sales has grown from 2.3 per cent in 1990 to 31.3 per cent in 2000.[8] Foreign firms are also increasingly coming to dominate China's export activity. The percentage of

[8] Hart-Landsberg and Burkett 2005a, p. 48.

exports produced by these firms grew from 17.4 per cent in 1990 to 55 per cent in 2003.[9] According to Stephen Roach, Chief Economist and Director of Global Economic Analysis for Morgan Stanley, 'Chinese subsidiaries of global multinationals and joint ventures with businesses from the industrialized world' accounted for 'fully 65 per cent of the total increase in Chinese exports' over the period 1994 to mid-2003.[10] As a consequence of these trends, the ratio of exports to GDP has also climbed steadily, from 16 per cent in 1990 to 36 per cent in 2003.[11] Thus, China's economic growth has become increasingly dependent on the export activity of these transnational corporations. In fact, according to China's State Information Centre, net exports will account for more than 35 per cent of the country's economic growth in 2005, significantly higher than in previous years.[12]

II. China and the world economy: the virtuous growth spiral

In contrast to the many working people and companies in other countries that view China's foreign-supported export offensive as a threat to their economic survival, mainstream analysts typically see China as a new growth centre capable of supporting a restructured international economy, with benefits for people in both rich and poor countries.[13] Among the most important reasons for their confidence are China's close integration with global markets and its abundant supply of cheap labour. As the *Economist* explains:

> First, for such a big economy [China] is unusually open to trade and investment. This year the sum of exports and imports of goods and services is likely to reach 75 percent of China's GDP, far more than in other big countries: in America, Japan, India and Brazil the figure is 30 percent or less. At its peak Japan's trade reached only 32 percent of its GDP. Similarly the stock of total investment in China by foreign firms is equivalent to 36 percent of its GDP, compared with 2 percent in Japan.
>
> The second feature is that Chinese manufacturers have access to an almost unlimited supply of cheap labour. By some estimates, there are almost 200

[9] Hart-Landsberg and Burkett 2005a, p. 125; Gilboy 2004.
[10] Roach 2003.
[11] Hart-Landsberg and Burkett 2005a, p. 121; Roach 2005.
[12] People's Daily Online 2005b.
[13] For detailed discussion of the mainstream optimism on China, with references to the academic literature, see Burkett and Hart-Landsberg 2000, pp. 31–6, and Hart-Landsberg and Burkett 2005a, Chapter 4. The *Economist*'s (2004) special report combines the different elements of the mainstream consensus in compact and highly readable fashion.

> million underemployed workers in rural areas that could move into industry. This surplus labour may take at least two decades to absorb, helping to hold down wages for low-skilled workers (who currently earn less than 50 cents an hour). Japan and South Korea, in contrast, absorbed their rural labour much more quickly.[14]

In other words, China's cheap labour and massive size should enable it to keep attracting foreign investment and to produce exports at low cost. However, because China's foreign production is heavily import-dependent, the resulting growth will generate a substantial demand for goods and services produced in other countries. Therefore, those governments that allow market forces to restructure their respective national economies in line with China's activities will be rewarded with new, higher value-added investment and employment opportunities for their populations.[15] Mainstream economists generally believe that the experience of other East-Asian countries provides powerful empirical support for this positive view of China's growth. They find the East-Asian experience especially relevant because the countries in the region have also relied on foreign-produced exports to drive their growth.

Table 3 highlights one important way in which China's transformation has influenced East-Asian economic activity. It shows that China has shifted its exports of manufactures away from East Asia (minus Japan) and toward the two most important international markets, those of the US and the European Union (EU). And, in response, most of the other countries in the region have redirected their exports away from those markets. Fernald and Loungani examined China's competitive strength in the US market by dividing the major East-Asian developing countries into three groups: China (China and Hong Kong), the NIEs (South Korea, Singapore, and Taiwan), and the ASEAN-4 (Indonesia, Malaysia, Philippines, and Thailand). They found that the China group's share of the total exports of the three groups to the United States rose from approximately one-fourth in 1989 to one-half in 2002.[16]

A more detailed industry level examination of this competition is even more revealing, highlighting the fact that 'China has emerged as a significant exporter across virtually the entire spectrum of industries'.[17] This trend is illustrated in Table 4, which shows changing export shares for the three groups

[14] *Economist* 2004, p. 9.
[15] *Economist* 2004, p. 10.
[16] Fernald and Loungani 2004, p. 2.
[17] Ibid.

Table 3
Direction of exports of manufactures, per cent of national total

	Destination				Total Exports, billions $US
Exporting Country	**Japan**	**USA**	**EU**	**EAS-Japan**	
China					
1992	9.1	11.1	9.5	57.9	65.5
1996	17.8	20.2	14.0	34.2	123.6
2000	15.1	22.9	16.7	29.9	215.5
Malaysia					
1992	7.7	27.1	18.0	39.5	25.9
1996	11.1	23	15.1	42.7	58.7
2000	11.3	24.5	15.1	39.8	78.3
Thailand					
1992	14.0	26.4	21.3	23.7	21.5
1996	15.7	19.6	19.6	32.5	38.4
2000	13.9	22.9	17.7	32.7	50.9
Singapore					
1992	5.5	26.4	19.0	35.0	48.1
1996	7.7	21.7	14.8	45.0	103.4
2000	7.5	19.7	14.6	47.3	117.1
Indonesia					
1992	12.7	17.9	21.9	31.8	15.8
1996	15.9	18.4	19.3	30.7	25.2
2000	13.2	19.2	18.5	32.4	34.7
Philippines					
1992	13.1	65.5	4.8	12.1	5.8
1996	16.1	37.1	17.4	24.7	16.9
2000	13.7	31.1	18.3	32.7	34.8
Korea					
1992	11.7	25.9	14.3	23.9	66.3
1996	9.2	19.0	13.6	32.6	109.7
2000	9.0	23.9	15.3	31.5	148.3
Taiwan					
1992	10.5	47.1	7.3	26.5	52.9
1996	9.2	14.9	14.9	39.4	114.8
2000	10.2	26.4	18.3	37.1	159.7
Japan					
1992		29.3	20.8	31.1	312.8
1996		28.6	16.2	40.7	374.7
2000		31.2	17.1	38.2	435.1

Note: EAS-Japan includes all the countries listed above minus Japan, plus Hong Kong and Vietnam.

Source: Athukorala 2003, Table A-1, pp. 40–1.

in the five largest industries ranked according to the dollar value of US imports from the three groups. For example, while the China group accounted for only 7 per cent of the total exports in computers, peripherals and semiconductors in 1989, their share rose to 24 per cent by 2002, with the export share of the NIEs falling from 72 to 42 per cent over the same period.

Table 4
Export shares in US market, in per cent

	Computers, peripherals and semiconductors	Apparel and footwear	Household goods	Recreational equipment and materials	Home entertainment equipment
China and HK					
1989	7	36	24	38	19
2002	24	69	67	84	53
NIEs					
1989	72	52	66	57	64
2002	42	12	22	11	17
ASEAN-4					
1989	21	12	10	5	18
2002	34	20	11	6	30
IMPORTS from Asia, 2002	$67.8 bn	$41.1 bn	$38.8 bn	$19.4 bn	$17.1 bn

Notes: NIEs includes South Korea, Singapore, and Taiwan; ASEAN-4 includes Indonesia, Malaysia, the Philippines, and Thailand; HK is Hong Kong. This table shows the five largest industries ranked by total dollar value of US imports from these countries. The industry shares of the three groups sum to 100 for each year.
Source: Fernald and Loungani 2004, p. 2.

Holst and Weiss found similar results in their investigation of the impact of China's export growth on the ASEAN-5 (Thailand, Indonesia, Philippines, Malaysia, and Singapore), over the period 1995–2000. They concluded that the ASEAN-5 suffered 'substantial and widespread loss of export markets' to China in the US and Japanese markets and that 'this loss tends to be greatest in the export activities in which ASEAN economies are most specialized'.[18]

In spite of these trends, mainstream economists, as noted above, believe that China's growth has supported a successful restructuring and upgrading of regional economic activity. Lall and Albaladejo find confirmation for this conclusion in their examination of the changing export profiles of East-Asian

[18] Holst and Weiss 2004, p. 1256.

countries.[19] Table 5 shows that, while the percentage of Chinese high-technology (HT) exports rose considerably over the period 1990 to 2000, the other East-Asian countries were also able to greatly increase their own specialisation in HT products, in many cases even more successfully then China. For example, Singapore raised its share of HT exports from 39.1 per cent to 61.2 per cent over the same period.

Table 5
Composition of East-Asian manufactured exports, in per cent

	RB	LT	MT	HT
China				
1990	14.3	51.9	26.9	6.9
2000	9.5	44.9	21.2	24.4
Singapore				
1990	27.8	9.6	23.4	39.1
2000	14.9	6.5	17.4	61.2
Philippines				
1990	37.6	33.7	12.9	15.8
2000	6.5	11.9	11.6	70.0
Malaysia				
1990	31.9	14.8	18.0	35.3
2000	13.1	9.6	17.8	59.4
Thailand				
1990	24.2	40.1	15.1	20.6
2000	18.4	21.5	23.8	36.3
Indonesia				
1990	54.2	32.6	11.3	1.9
2000	33.7	31.3	17.5	17.4
Korea				
1990	7.1	40.0	31.3	21.6
2000	11.7	17.1	34.0	37.1
Taiwan				
1990	6.9	41.3	26.1	25.7
2000	4.4	23.8	25.5	46.3

Note: RB refers to resource based; it includes processed foods, tobacco and wood products, refined petroleum products, dyes, leather, precious stones and organic chemicals. LT refers to low technology; it includes textiles, garments, footwear, other leather products, toys, simple metal products, simple plastics, furniture and glassware. MT refers to medium technology; it includes heavy industrial goods such as automobiles, industrial chemicals, machinery and standard electrical and electronic products. HT refers to high technology; it includes complex electrical and electronic products, aerospace, precision instruments, fine chemicals and pharmaceuticals.
Source: Lall and Albaladejo 2004, p. 1446.

[19] Lall and Albaladejo 2004.

Equally important for the mainstream argument is the fact that the new market for these higher technology ASEAN and NIE exports is increasingly East Asia itself, and especially China. Table 6 shows that China's trade balance with East Asia (excluding Hong Kong) went from a deficit of $4 billion to a deficit of $40 billion over the decade of the 1990s. Looking more specifically at what Lall and Albaladejo call the 'New Tigers' (Indonesia, Malaysia, the Philippines, and Thailand), we can see that they transformed a deficit with China of $0.3 billion in 1990 to a surplus of $4.2 billion in 2000. And this surplus was largely based on trade in HT products. In like manner, the NIEs (Korea, Taiwan, and

Table 6
China's net trade with East Asia, billions US$

	1990	2000
Japan total	–2.9	–3.4
RB	0.7	1.90
LT	0.8	12.7
MT	–3.1	–11.4
HT	–1.3	–6.6
NIEs total	–1.4	–32.0
RB	0.07	–4.0
LT	–0.3	–4.6
MT	–0.9	–14.9
HT	–0.2	–8.6
Hong Kong total	10.5	32.6
RB	1.4	1.9
LT	7.4	16.5
MT	1.5	4.9
HT	0.2	9.2
New Tigers total	0.3	–4.2
RB	–.3	–2.2
LT	0.3	1.0
MT	0.1	0.07
HT	0.08	–3.1
East Asia-HK total	–4.0	–40.0
RB	0.5	-4.4
LT	0.9	9.1
MT	–3.9	–26.2
HT	–1.5	–18.3

Notes: NIEs includes South Korea, Taiwan, and Singapore; New Tigers includes Indonesia, Malaysia, Philippines, and Thailand; HK is Hong Kong. Refer to Table 5 for definitions of the four product groups.
Source: Lall and Albaladejo 2004, p. 1456.

Singapore) also greatly expanded their surplus with China through trade in higher-technology products. Recent regional trade patterns are consistent with this development. As the *Asia Times* reports, 'In the past year [2003] China has taken in 40–50 percent of Asia's exports, accounting for all of Taiwan's and the Philippine's export growth last year and over 50 percent of each of Japan's, Malaysia's, South Korea's and Australia's'.[20]

III. The underlying dynamics of regional restructuring

This view of China, as a national success story based on its increasing export prowess, and as an anchor for regional and global growth, is seriously misleading. The reality is that China and East Asia are being jointly reshaped by a larger transnational corporate restructuring dynamic that also encompasses the more developed capitalist countries in as well as outside the region. This dynamic is promoting both greater trade dependence and the expansion of integrated cross-border production processes, with China serving as a processor of manufactured components imported from neighbouring countries and the final production platform for the region's increasingly important extra-regional export activity. It is also pitting different nations' workers against each other to the benefit of transnational capital and its local subordinates in each country, thereby intensifying exploitation and worsening uneven development and overproduction problems.

Several trends help to highlight this development. First, as Table 7 shows, there has been a significant rise in East-Asian trade ratios (exports plus imports) relative to GNP from 1990–2003, demonstrating that a growing share of each nation's economic activity is being shaped by international dynamics, with China recording the most rapid increase. Second, as Table 8 shows, an increasing share of this trade is in parts and components.[21] For the ASEAN-6 countries as a whole (Indonesia, Malaysia, Thailand, Singapore, Philippines, and Vietnam), the growth in exports of parts and components accounted for 55 per cent of the group's combined export growth over the period 1992–2000.

[20] Keliher 2004.

[21] The trade in parts and components highlighted in this paper is measured by the amount of this trade in only two SITC categories: SITC 7 (machinery and transport) and SITC 8 (miscellaneous goods). However, these two sectors together accounted for about 70 per cent of total world trade in manufactures over the period 1992–2000. And they include the goods most regularly produced through global assembly operations. See Athukorala 2003, p. 10.

The growth in imports of parts and components accounted for 68.2 per cent of their combined import growth.[22] The experience of the NIEs was similar. China's different role as the region's main producer of final products is highlighted by the fact that parts and components accounted for only 17.9 per cent of its total export growth over the 1992–2000 period but 42 per cent of its import growth.[23] Thus East-Asian economic activity is increasingly being narrowed to the production and trade of parts and components within a regionally structured production network.

Table 7
Total trade as a percentage of GNP

	1990	2002	2003
China	29.7	49.4	60.6
Hong Kong	218.2	254.9	290.9
Korea	53.4	57.5	61.5
Taiwan	74.2	84.0	91.7
Indonesia	43.5	52.9	. . .
Malaysia	139.2	213.5	194.0
Philippines	48.2	87.1	85.4
Singapore	298.4	273.9	301.5
Thailand	66.5	106.3	110.9

Source: Asian Development Bank 2004, p. 83.

China's emergence as East Asia's final export platform is further highlighted by the country-by-country trade patterns shown in Table 9. Note that, with the sole exception of Indonesia, the East-Asian countries have all substantially increased the share of parts and components in their exports to China. For example, the percentage of Malaysia's exports to China that are parts and components rose from 6.4 to 50.6 between 1992 and 2000. For South Korea, the corresponding percentages were 8.1 and 26.7. As Table 9 also shows, China was the only country, with the exception of Indonesia, that continued to sell mainly final goods to the US, Japan, and the EU. Equally revealing of the nature of the transnational accumulation process is the fact that East Asia's parts and components trade is largely concentrated in SITC 7, machinery and transport equipment, and within that sector, in electronics and electrical

[22] Athukorala 2003, Table 4, pp. 30–1.
[23] Ibid.

Table 8
Parts and components, shares of manufactured exports and imports

	Total exports of manufactures US billions	% of exports parts and components	Total imports of manufactures US billions	% of imports parts and components
China				
1992	65.5	6.7	60.3	19.5
1996	123.6	9.8	102.4	21.1
2000	215.5	14.5	160.2	33.5
Malaysia				
1992	25.9	40.4	31.2	37.9
1996	58.7	42.6	61.1	47.5
2000	78.3	49.7	66.0	58.8
Thailand				
1992	21.5	21.2	27.5	26.5
1996	38.4	23.4	51.9	32.9
2000	50.9	35.9	48.3	45.3
Singapore				
1992	48.1	28.2	53.2	32.0
1996	103.4	39.7	105.9	42.8
2000	117.1	49.6	108.1	51.7
Indonesia				
1992	15.8	4.0	19.3	20.5
1996	25.2	7.4	28.3	23.8
2000	34.7	14.2	18.9	19.4
Philippines				
1992	5.8	29.3	7.2	32.6
1996	16.9	52.5	25.3	43.6
2000	34.8	64.0	24.7	55.1
Korea				
1992	66.3	17.8	48.4	26.7
1996	109.7	25.2	90.4	27.4
2000	148.3	30.6	93.1	38.9
Taiwan				
1992	52.9	20.1	37.6	29.6
1996	114.8	28.8	60.4	35.0
2000	150.7	37.8	93.6	37.3
Japan				
1992	312.8	22.9	99.2	15.4
1996	374.7	30.3	185.4	19.3
2000	435.1	30.6	209.2	24.2

Source: Athukorala 2003, Table A-1, pp. 40–3 and Table A-2, pp. 48–50.

Table 9
Parts and components share of trade in selected markets

Share of parts and components in exports	China	ASEAN	US	Japan	EU
China					
1992		8.2	4.3	6.2	2.9
1996		17.7	7.2	11.8	6.0
2000		29.0	9.1	15.4	10.9
Malaysia					
1992	6.4	45.2	43.6	45.5	35.8
1996	16.1	57.1	40.9	35.2	44.0
2000	50.6	65.2	47.6	40.5	14.8
Thailand					
1992	6.8	57.2	17.3	25.9	11.7
1996	29.2	42.3	16.4	20.0	16.4
2000	54.0	56.9	26.3	37.6	32.2
Singapore					
1992	23.1	37.6	28.1	37.6	19.3
1996	41.9	48.3	38.5	37.9	38.8
2000	50.3	56.3	46.4	41.1	47.7
Indonesia					
1992	0.0	7.6	3.4	5.3	2.6
1996	1.1	19.5	4.3	7.2	4.0
2000	5.7	31.4	9.4	20.8	6.7
Philippines					
1992	1.8	64.4	26.0	27.0	14.8
1996	17.6	82.5	43.4	48.9	56.0
2000	81.8	87.5	52.0	52.8	66.5
Korea					
1992	8.1	38.8	20.4	18.4	13.6
1996	13.1	40.3	37.7	32.5	23.8
2000	26.7	50.0	30.5	39.7	26.2
Taiwan					
1992	18.4	26.8	18.6	19.1	21.3
1996	17.1	34.1	27.2	27.6	27.2
2000	29.8	48.9	32.8	41.6	35.0
Japan					
1992	11.7	33.4	25.7		19.3
1996	23.5	40.6	31.9		26.5
2000	32.8	46.8	27.5		27.6

Note: ASEAN includes Malaysia, Thailand, Singapore, Indonesia, Philippines, and Vietnam.
Source: Athukorala 2003, Table A-2, pp. 48–9.

industries. Moreover, 'there is little variation among the individual East Asian countries in terms of trade composition'.[24]

In sum, East-Asian export production (itself a growing portion of total production) is increasingly narrowing not only to parts and components, which are largely detached from any national base of production, but also to a select few operations in a select few industries in response to the changing needs of transnational corporate production networks. It is thus not surprising that the share of East-Asian trade that is intra-regional has grown significantly. But, rather than reflecting a growing regional independence and balance, as mainstream economists claim, this trade activity is tied to a regionally structured accumulation process that is anchored in China and ever more dependent on final sales outside the region, especially to the US and the EU. Distinguishing between total trade and final trade (total manufacturing trade net of parts and components), we find that while the intra-regional share of total trade is going up, the intra-regional share of final trade is going down.[25] More striking and significant is the difference between total trade and final trade of just exports. 'In 2000 over 60 percent of "final exports" from developing East Asia found markets in countries outside the East Asian region, up from 55 percent in 1992. A similar pattern is observable for the ASEAN countries.'[26] Arguably, then, China now sits at the end point of a transnational production process that is anything but helpful to East Asia's prospects for self-sustaining economic development.

IV. Consequences of restructuring

Some mainstream economists are aware that East Asia's regional growth process is now dependent on parts and components trade. They argue that this is a positive development that only reinforces the need for further international liberalisation of trade, finance, and foreign direct investment. Their view is that as the production of growing numbers of higher value-added goods takes place through globalised production networks, more countries will have the opportunity to participate in their production, enabling them to upgrade their respective economic activity. But, for countries to gain

[24] Athukorala 2003, p. 14.
[25] Athukorala 2003, Table 5, p. 32.
[26] Developing East Asia includes China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. Athukorala 2003, p. 18.

the benefits of this dynamic, their governments must ensure flexible labour markets and competitive wages, reduce tariffs, end exclusive regional trade agreements, open up their economies to FDI, and harmonise commercial laws (especially those bearing on so-called intellectual property rights) in line with the pro-corporate standards established under the WTO.[27]

We find little reason to believe that this transnational production system will support a stable and sustainable regional development. The most obvious problem is that East Asia's accumulation dynamics are increasingly based on exporting outside the region. More specifically, as more of China's economic activity, and thus the region's production, depends on exports to the US, the result has been ever larger US trade deficits. China became the country with which the US has the largest trade deficit starting in 2000. That year, the US trade deficit with China was $84 billion; in 2004 it was $162 billion. Over the same period, the overall US trade deficit soared from $375 billion to $618 billion; the 2004 deficit was equal to 5.3 per cent of GDP.[28] It is doubtful that the US economy can continue to sustain such large and growing trade deficits. Yet, any disruption to this trade pattern would adversely impact the entire East-Asian supply line and growth process.

However, the problems with the region's accumulation dynamics run deeper than such trade imbalances suggest. The China-based regional system of export production is also shifting economic activity away from meeting the needs of East-Asian working people. And, while this system appears to enable higher value-added production, it in fact offers limited gains in value added to the various countries that compete with one another for positions in the cross-border production chains controlled by transnational corporations. For example, a UNCTAD study found 'participating in international production chains' often leaves the host country 'locked into its current structure of comparative advantage . . . thereby delaying the exploitation of potential comparative advantage in higher-tech stages of production'.[29] These limitations have 'been causing concern in recent years, even in some of the East Asian countries which have been more successful in exploiting various advantages associated with TNCs [transnational corporations]'.[30] UNCTAD highlights several reasons for such concern. Among the most important:

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[27] Athukorala 2003, pp. 8–9.
[28] US Department of Commerce 2005.
[29] UNCTAD 2002, p. 75.
[30] Ibid.

> The spillovers from engaging in subcontracting or hosting affiliates of TNCs are reduced because the package of technology and skills required at any one site becomes narrower and because cross-border backward and forward linkages are strengthened at the expense of domestic ones. Furthermore, when only a small part of the production chain is involved, out-contractors and TNCs have a wider choice of potential sites – since these activities take on a more footloose character – which strengthens their bargaining position vis-à-vis the host country. This can engender excessive and unhealthy competition among developing countries as they begin to offer TNCs increasing fiscal and trade-related concessions in order to compensate for the shifting competitiveness from one group of developing countries to another; it can thereby aggravate the inequalities in the distribution of gains from international trade and investment between TNCs and developing countries.[31]

Many of these limitations are visible in China, the centrepiece of the East-Asian export-driven accumulation process. The Chinese government has employed a variety of policies to attract export-oriented foreign investment, hoping that foreign capital would generate substantial technology transfers and export earnings. However, as Edward Steinfeld describes:

> What has moved to China *en masse* . . . are the manufacturing-intensive segments of particular value chains. More precisely, it is the codified, commodified, non-integral manufacturing activities that move. . . . Chinese firms, though integrated into global supply chains, remain focused on non-differentiable production activities. Despite high-levels of foreign ownership, only 15 percent of the manufacturing firms surveyed by the World Bank in 2001 reported engaging in any design efforts for foreign customers, a sign that the respondents are essentially 'rule takers' in open, modularised production processes. Only 7 percent reported providing customers R&D or other specialized services. The figures are noteworthy given that the sample specifically targeted higher-tech sectors, the very ones in which we should expect high degrees of innovation, networking and development of firm-specific proprietary knowledge.[32]

Government leaders have also worked to create a few world-class Chinese companies in an attempt to ensure an independent, national base for China's

[31] UNCTAD 2002, p. 76.
[32] Steinfeld 2004, pp. 1975, 1983.

future industrial development. The companies targeted to become national champions include Huawei (which produces telecommunications equipment), Haier (white goods/consumer appliances), Lenovo (personal computers), TCL (televisions), and Baosteel (steel).[33] However, despite the fact that many of these proposed champions have grown quite large, few have succeeded in becoming internationally competitive.

Huawei, for example, operates in 70 countries, with 24,000 employees including over 3,000 foreign nationals. Over 40 per cent of its 2004 revenue was earned outside the country. But, according to the *Economist*, much of its sales are in emerging markets where there is little competition and most of its success is tied to its connections with the Chinese military. Perhaps most telling, its profits have been quite limited: $300 million on $5 billion in revenue.[34] Lenovo, China's leading PC maker, is also struggling for survival. Its 'profits from PCs are rising by just 1% per year and its market share is being squeezed as Dell makes inroads in expensive computers and private-label firms undercut prices on basic machines. Some put its early success down to good government connections – it is majority-owned by the Chinese Academy of Sciences'.[35]

China's leading firms have also done little to advance national interests in terms of research and development. Most importantly, they continue to rely on imported foreign equipment to stay competitive. According to George Gilboy,

> Over the last decade . . . Chinese industrial firms have spent less than 10 percent of the total cost of imported equipment on indigenizing technology. Indigenization spending at state firms in the sectors in which China is most often cited as a rising power (telecom equipment, electronics, and industrial machinery) is also low (at 8 percent, 6 percent, and 2 percent of the cost of imported equipment, respectively).[36]

By comparison, such spending by industrial firms in OECD countries averaged approximately 33 per cent. And South-Korean and Japanese firms, during their respective periods of rapid industrialisation 'spent between two and three times the purchase price of foreign equipment on absorbing and

[33] *Economist* 2005.
[34] *Economist* 2005, p. 59.
[35] *Economist* 2005, p. 60.
[36] Gilboy 2004.

indigenizing the technology embodied in the hardware'.[37] China's leading firms have also done little to support the development of national technology supply networks. In fact, 'China's best firms are among the least connected to domestic suppliers: for every $100 that state-owned electronics and telecom firms spend on technology imports, they spend only $1.20 on similar domestic goods'.[38]

Unfortunately for Chinese planners, the reasons for such failures are largely found in the very nature of the country's economic reform strategy – specifically its direct and heavy reliance on transnational corporations. In this regard, the Chinese experience with export-led growth has been different from that of Japan, South Korea, and Taiwan; those countries 'relied almost exclusively on domestic firms to manufacture and to export commodities; China has largely relied on FIEs [foreign invested enterprises] to produce exports, and virtually no domestic Chinese companies control significant export networks'.[39] Because 'the central government has allowed foreign companies into China at a much earlier stage of its development . . . these [firms] now control the bulk of the country's industrial exports, have increasingly strong positions in its domestic markets and retain ownership of almost all technology.'[40] The declining effectiveness of China's strategy is well illustrated by the strong and growing foreign dominance in China's high-tech sector:

> While exports of industrial machinery grew twentyfold in real terms over the last decade (to $83 billion last year), the share of those exports produced by FFEs [foreign funded enterprises] grew from 35 percent to 79 percent. Exports of computer equipment shot from $716 million in 1993 to $41 billion in 2003, with the FFEs' share rising from 74 per cent to 92 per cent. Likewise, China's electronics and telecom exports have grown sevenfold since 1993 (to $89 billion last year), with the FFEs' share of those exports growing from 45 percent to 74 percent over the same period. . . . This pattern repeats itself in almost every advanced industrial sector in China. . . . FFEs increased their total share of high-tech exports from 74 percent to 85 percent between 1998 and 2002. But perhaps more significant, in the same period, they increased their share of total domestic high-tech sales from 32 percent to 45 percent,

[37] Gilboy 2004.
[38] Gilboy 2004.
[39] Naughton 1996, p. 21.
[40] *Economist* 2005, p. 61.

> while the share of that market held by China's most competitive industrial firms, SOEs, fell from 47 percent to 42 percent.[41]

In sum, Chinese state policy has indeed transformed the country into a fast growing export platform, with some significant domestic production capacity. But autonomous development potential is being eroded as the state loses its planning and directing capability, and resources are taken over and restructured in and by foreign networks largely for the purpose of satisfying external market demands.

Perhaps an even more damning critique of the regional restructuring process is that, insofar as the region's growth is increasingly dependent on cross-cutting and competing transnational corporate production networks (whether or not they are directed at exporting), all of the countries of East Asia are under ever greater pressure to keep wages down and productivity up so as to sustain or improve their position within these networks. This, in turn, reinforces the bias of the system toward exports rather than domestic wage-based demand, thereby worsening export overproduction problems. And, because of its key position in transnational investment and trade networks, China has become the benchmark for competition. Therefore, workers throughout East Asia have become pitted against each other in a contest to match the level of labour exploitation achieved in China, with disastrous consequences for all. We highlight some of these negative consequences for workers in China, South Korea, and the US.

V. Workers: China

Given the celebration of China's economic success, one might expect to see obvious gains for Chinese workers. In fact, quite the opposite appears to be true. Despite the growth of a relatively small but numerically significant upper-income group whose consumption opportunities have greatly expanded, most Chinese working people are suffering from deteriorating work and living conditions.

China's reform programme, as noted above, involved a sustained effort to marketise and privatise economic activity, and to promote foreign export-oriented enterprises as the leading force in the economy. As a consequence the number of state-controlled companies fell from over 300,000 in 1995

[41] Gilboy 2004.

to less than 150,000 in 2005.[42] In line with this change, the share of total employment in state controlled enterprises fell from 62 per cent in 1998 to 38 per cent in 2003.[43] Over the same period, employment in state-controlled industrial companies fell by 40 per cent.[44] The growing dominance of foreign-sector operations is most clearly revealed in the distribution of value added in the non-resource-based industrial sector; from 1998–2003, the share of industrial value added produced by state enterprises in the non-resource-based industrial sector fell from 17.3 per cent to 6.7 per cent, while the share accounted for by foreign-sector operations rose from 11.4 per cent to 17.1 per cent.[45]

Unfortunately, the massive decline in state employment has not been offset by the rise in private employment. The result has been a major increase in the urban unemployment rate. This increase does not show up in official government statistics, largely because these figures exclude laid-off state workers and rural migrants now living and working in urban areas. Thus, while government statistics proclaim an urban unemployment rate in the three to four per cent range, most analysts believe that the true figure is in double digits.[46] For example, a study based on the 2000 Chinese census yielded an estimate of 11.5 per cent, while a 2001 targeted labour-force survey placed the rate at a higher 12.7 per cent.[47] Other estimates have ranged as high as 23 per cent.[48]

State workers have not fared well in this restructuring process. According to the Social Relief Division of the Ministry of Civil Affairs, state-owned enterprises laid off 30 million state workers over the period 1998 to 2004. As of June 2005, over 21.8 million of these workers were reduced to surviving on the government's 'average minimum living allowance', which meant that they were living a life of poverty. Laid-off state workers normally receive a 'basic living allowance' for three years from their former state enterprise. If they are unable to find employment during that period, they are able to draw unemployment insurance payments for two additional years. Only after exhausting those payments do laid-off state workers become eligible to receive the minimum living allowance, the basic welfare grant given to all poor urban

[42] OECD 2005, p. 95.
[43] OECD 2005, p. 96.
[44] OECD 2005, p. 95.
[45] OECD 2005, p. 133.
[46] Hong Kong Confederation of Trade Unions 2004, p. 19.
[47] OECD 2005, p. 76.
[48] McGuckin and Spiegelman 2004, Part II.

residents. According to Ministry figures, in June 2005, this allowance was equal to approximately $19 a month; by comparison, the average monthly income of an urban worker was approximately $165 dollars.[49]

Even those laid-off state workers that succeed in finding new employment generally face hard times. An All China Federation of Trade Unions (ACFTU) survey of re-employed state workers found that

> 18.6 percent were odd-job manual workers, 10 percent did various sorts of hourly work (which usually refers to activities such as picking up others' children from school); 5.2 percent had seasonal jobs; 60 percent were retailers operating stalls; and a mere 6.8 percent had obtained formal, contracted employment.[50]

Many state workers face a hopeless future because they live in cities that are no longer central to the new foreign-dominated export activity that is largely concentrated in coastal areas. As a result, growing numbers are left with few options but to demonstrate for better pensions and health care. Even those still employed in the state sector must worry about competition from migrant workers and the possibility of future closures or privatisation of their current enterprises if they demand too much.

While there is job growth associated with the new export-oriented, foreign-dominated production, most of these jobs are low paid and highly exploitative. According to *Business Week*, a US Bureau of Labor Statistics consultant attempting to measure the average hourly compensation of Chinese factory workers

> concluded [that] China has about 38 million city manufacturing workers. The 30 million on whom she found data earn an average $1.06 an hour. Another roughly 71 million suburban and rural manufacturing workers earn an average 45 cents an hour, for a blended 64 cents. In the current BLS survey, Mexico's $2.48 hourly compensation is the lowest.[51]

Time Asia reports that in Guangdong, where approximately one third of China's exports are produced,

> base assembly-line wages in the Pearl River Delta, the province's manufacturing belt, have been virtually frozen at about $80 per month for

[49] China Labour Bulletin 2005.
[50] As quoted in Hong Kong Confederation of Trade Unions 2004, pp. 12–13.
[51] Coy 2004.

> the past decade, according to a recent survey by the Ministry of Labour and Social Security. Factor in inflation over roughly the same period, and average pay in real terms has declined by as much as 30%. The reason: China's rise as a manufacturing power has contributed to a surplus of global production capacity for all kinds of goods, from sneakers to DVD players to plastic lawn chairs. With the price of raw materials rising and factory profit margins shrinking, blue-collar workers are at the losing end of a long chain of supply and demand.[52]

Adding insult to injury, many of China's workers are not even being paid what they are owed. Chinese government surveys have found 'that 72.5 percent of the country's nearly 100 million migrant workers were owed wages'.[53]

These problems are unlikely to be corrected by government action. Rather, poor employment terms and the lack of institutional support for workers seeking to improve them flow directly from the nature of China's capitalist restoration.[54] As part of the reform process, regional and local government officials were freed from central oversight and encouraged to promote private enterprise, especially foreign enterprise, for their mutual profit. Thus, most provincial and local authorities now depend heavily for their own success on attracting and keeping profitable firms in their jurisdiction. In many cases, local government officials have actually become shareholders in these ventures.[55] As a result, workers often find their efforts to improve conditions undermined by the very local governments that are supposed to protect them.

This situation has triggered two important developments: a growing unwillingness of rural workers to keep moving to industrial areas and a growing wave of strikes. For example, 'factories in the Pearl River Delta region are facing a shortfall of some 2 million workers, with shortages also affecting other key manufacturing provinces, including Fujian and Zhejiang'.[56] In a telling commentary on the dynamics of the global economy, some analysts claim that the labour shortages will eventually force employers to boost wages and actually pay them. But others point out that, given the competitive conditions of the global accumulation process, 'Higher wage costs will squeeze

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[52] Gough 2005.
[53] Lee 2004, p. 2.
[54] Hart-Landsberg and Burkett 2005a, Chapter 3.
[55] Cody 2004.
[56] Holland 2004, p. 42.

margins, forcing some light industry inland, or to cheaper locations in Vietnam, India or Bangladesh'.[57]

Even more threatening to the Chinese growth strategy is the fact that workers are beginning to take direct action in their own defence, especially at foreign-owned export enterprises. Table 10 offers some indication of the growth in labour disputes. The figures are far from complete in that they only include those disputes that are officially registered with or recognised by government arbitration committees or labour courts. Nonetheless, the data show that disputes are rising and that they are greatest at foreign and private enterprises, the ones that are most celebrated for driving Chinese growth.

Table 10
Disputes per 100,000 employees by ownership type

Type of firm	1998	1999	2000	2001
SOE	24.5	31.2	40.4	56.1
Urban Collective	69.2	106.2	154.6	197
Foreign-invested	384	456	327	300.6
Private enterprises	110	132	159	156.6
Rural Collectives	9.6	7.9	3.1	1.8
Joint-owned and Stock	8.1	66.5	108	199
Individually Owned	7.0	10.2	19.1	30.1

Note: SOE refers to State Owned Enterprise.
Source: Hong Kong Confederation of Trade Unions 2004, p. 29.

Perhaps most significant is the fact that workers are increasingly pressing their demands for improvement through strikes. As the *Washington Post* notes:

> Heralded by an unprecedented series of walkouts, the first stirrings of unrest have emerged among the millions of youthful migrant workers who supply seemingly inexhaustible cheap labor for the vast expanse of factories in China's booming Pearl River Delta.
>
> The signs of newly assertive Chinese workers have jolted foreign and Chinese factory owners, who for the last two decades have churned out everything from Nikes to baby dolls with unbeatably low production costs. Some have concluded that the raw era in which rootless Chinese villagers would accept whatever job they could get may be drawing to a close,

[57] Ibid.

> raising questions about China's long-term future as world headquarters for low-paid outsourcing.[58]

Such actions are relatively new. In the past, the labour news was largely filled with struggles by laid-off state workers who were demanding fair treatment in terms of severance payments and pension and health support. An example was the massive unrest in northeast China during the spring and early summer of 2002. The Chinese government has generally responded to such actions with policies designed to 'prevent workers' protests from spreading beyond their immediate locale'.[59] These include the use of 'media blackouts, denial of the right to demonstrate, police spies, snatch squads and "visits" to workers' homes from various organs of the state, including the All China Federation of Trade Unions (ACFTU)'.[60] But this strategy may well lose its effectiveness as more workers take actions that threaten production, especially at foreign companies.

While China's rapid growth has also created wealth, most of the domestic gains have been captured by a relatively small percentage of the population, thereby creating growing inequality. According to the *South China Morning Post*,

> The growing disparity between the mainland's urban rich and rural poor has created one of the world's most pronounced national income gaps. It is on a par with the poverty-stricken African nation of Zimbabwe. . . . [W]hile some urban residents are buying luxury homes and cars, the vast majority of the 800 million peasants live on less than US$1 a day.[61]

And, as researchers with the Chinese Academy of Social Sciences point out, 'the income disparity is evident not only between urban and rural residents, but also among urban people as well'.[62]

Although China's National Bureau of Statistics has concluded, based on survey research, that only 5 per cent of the country's population can currently be considered middle-class, the government is confident that its economic policies will raise this to 45 per cent by 2020.[63] However, such a prediction

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[58] Cody 2004.
[59] Hong Kong Confederation of Trade Unions 2004, p. 7.
[60] Hong Kong Confederation of Trade Unions 2004, p. 9.
[61] Cheng 2004.
[62] *People's Daily* 2004.
[63] *People's Daily* 2005a.

flies in the face of the lived experiences of Chinese working people.[64] As a Hong Kong Confederation of Trade Unions report explains, 'globalisation' has left Chinese workers:

> isolated in a global equation in which job insecurity and poverty award employers with the upper hand in what has become known as the race to the bottom. Workers in developed countries are told that they must accept lower wages and flexible working conditions to stop their bosses moving production abroad. Meanwhile, workers in SOEs in China are told they must accept a decline in conditions and welfare or be replaced by migrant workers from the countryside. And migrant workers, especially in the coastal Special Economic Zones, are told that they must accept wage arrears and lax health and safety or the boss will move to a more investor-friendly environment further inland.[65]

VI. Workers: South Korea

South Korea's economy is also being rapidly restructured in line with the transnational accumulation dynamics described above, and with negative consequences for South-Korean workers. This restructuring is largely a result of the post-crisis (1997–8) liberalisation and deregulation of the South-Korean economy that was promoted by US and Japanese policy makers, working through the IMF, with the ambivalent support of the *chaebol* (the dominant South-Korean conglomerates).[66] A major consequence is that China's growth has become the main force driving South Korea's economic activity and shaping its economic choices. In 2001, China became South Korea's number one foreign investment location. In 2004, almost half of South Korea's foreign investment went to China. By November 2004, China had approved some 32,299 projects by South-Korean firms in China, for a contracted value of $49.1 billion.[67] In large part because of this investment, China became South Korea's number one export market in 2002, and its number one trading partner in 2003.

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[64] For a more complete discussion of the ways in which the reform process has led to deteriorating social conditions for the majority of Chinese working people, especially in health care and education, see Hart-Landsberg and Burkett 2005b, pp. 606–12.

[65] Hong Kong Confederation of Trade Unions 2004, p. 22.

[66] Hart-Landsberg and Burkett 2001; Hart-Landsberg 2004.

[67] *Asia Times* 2005.

In the immediate post crisis period, the South-Korean government relied on deficit spending to promote the country's economic recovery. The government budget as a percentage of GDP shifted sharply from a surplus in 1996 to a deficit of 4.6 per cent in 1999. But, such high levels of deficit spending were not sustainable, as the ratio of government debt to GDP rose from 16.2 per cent in 1997 to 39.6 per cent in 2002. Additional government obligations, including a massive shortfall in public pension reserves and interest on outstanding currency stabilisation bonds, also weighed heavily on government finances.[68] Finally, under heavy IMF pressure to rein in spending, the government returned to a surplus position in 2000.

Foreign investment also played an important and early role in boosting growth, providing the government with critical foreign exchange. However, much of this investment was 'vulture investment' that involved takeovers of South-Korean assets at fire sale prices. One outcome of this investment has been a significant denationalisation of South-Korean capital.[69] Significantly, once the most attractive assets had been purchased, this foreign investment rapidly and steadily declined, falling from a peak of $15.7 billion in 2000, to $6.5 billion in 2003.[70]

Desperate to reverse this decline, the South-Korean government has taken steps to create a more attractive investment environment for foreign companies. In August 2003, it established three free economic zones in an effort to make South Korea the 'business hub of East Asia'; foreign businesses that operate within these zones will enjoy tax breaks as well as exemptions from various environmental and labour regulations. The government also plans to offer foreign high-tech investors a cash grant equal to 20 per cent of the value of their total investment. However, this policy is unlikely to achieve its goal. One important reason is that transnational corporations are far more attracted to China, where they have access to extremely low-cost labour, an extensive system of subsidies, and a lax regulatory environment. Recognising their strong bargaining position, these companies are demanding that the South-Korean government do more to improve the country's 'business environment,' especially concerning labour policy. According to the *Korea Herald*:

> Increased labor flexibility is one of the top priorities for attracting foreign investment, said the head of the American Chamber of Commerce in Korea. . . .

[68] *Korea Herald* 2003b.
[69] Hart-Landsberg and Burkett 2001, pp. 414–16.
[70] Hart-Landsberg 2004, p. 93.

> Without tackling the labor issue, Korea should become increasingly vulnerable to the cheap labor in China, its main competitor, said the 61-year-old chairman at a seminar hosted by the Institute for Global Economics. 'Korea's competition is Shanghai, Hong Kong and China. Realize what your competition is, because investors can choose where to go,' he stressed.[71]

At the same time as foreign direct investment inflows have slowed, outflows of South-Korean FDI have grown substantially. Over 4,000 South-Korean factories have moved their production out of South Korea since 1998, and the numbers have been increasing dramatically each year. According to a Korea Customs Service official, 'about 70.7 percent of those production facilities have moved to China'.[72] A study by the Korea Chamber of Commerce and Industry found that 'about nine out of ten companies manufacturing products in Korea have plans to invest in China in the future, as the country's low production costs and the eager-to-please regulations make the market more attractive than Korea'.[73] As a result of this trend, South Korea's net foreign direct investment actually turned negative in 2002 (see Table 2).

The *chaebol*, like their foreign counterparts, are also demanding that their government take more aggressive steps to weaken the country's labour movement. They have made clear that, if the government does not meet their demands, they will continue to move their production 'across the Yellow Sea to China, where wages are lower and the demands of workers rarely result in headaches for managers'.[74] This is no empty threat. As the *Korea Herald* reports:

> Korean industries are moving overseas faster than firms in other advanced economies, and the so-called industrial 'hollowing out' will likely become a serious problem by 2007, Korea's leading business organization argued yesterday. . . . Industrial migration, which in the past took place mostly in light industries such as shoe-making and apparel industries, is rapidly spreading to other sectors, including the electronics, telecommunications, metal and machinery industries, it noted.[75]

Beginning in 1999, in an attempt to counter these negative developments, the South-Korean government started encouraging the use of credit cards to

[71] Kim Ji-hyun 2004.
[72] Kim Mi-hui 2003.
[73] Kim Mi-hui 2003.
[74] Kirk 2003, p. W1.
[75] Kim Hyun-chul 2003.

stimulate domestic private consumption by, among other things, raising the limits on cash advances and introducing tax deductions for purchases made by credit card. The result was a major consumption boom and corresponding credit-card debt explosion. The total amount of credit-card spending rose from $53 billion in 1998 to $519 billion in 2002.[76] Household debt rose from 87 per cent of disposable income in 1999 to 131 per cent in 2002.[77]

With cash advances and credit-card loans accounting for approximately two-thirds of all consumer transactions, it was not long before many households faced unsustainable debt levels. Delinquency rates began rising sharply in 2002. Frightened by the prospect of a wave of personal bankruptcies and the danger such bankruptcies could cause the country's financial system, the government finally took steps to limit credit-card use in the spring of 2003. Not surprisingly, the government's success led to a sharp decline in private consumption. South Korea's private spending contracted 1.4 per cent in 2003 and a further 0.9 per cent in 2004.[78] This decline, in turn, had a negative effect on domestic business investment.[79] South Korea suffered a recession in the first half of 2003.

As a result of these trends, South Korea is now more dependent then ever on exports to power growth.[80] In 2003, with domestic consumption and investment down, exports accounted for 98.2 per cent of the country's growth.[81] The situation remained much the same in 2004. And, as noted above, these exports are increasingly headed to China. Many South-Korean analysts claim that the shift in export orientation from the US to China has greatly reduced the country's vulnerability to instabilities in the US market.[82] But, as we have seen, China largely functions as a production platform for exports to the United States. In line with this orientation, most South-Korean exports to China are intermediate goods used in the production of other goods. Studies by the Korea International Trade Association and the Korea Institute for International Economic Policy have shown that 'a large portion of the final products are reshipped to third countries, with about 40 percent re-exported to the United States'.[83] Similarly, a UNCTAD study of East-Asian trade

[76] Lowe-Lee 2004, p. 1.
[77] Kim Jae-kyoung 2005.
[78] Kim Jae-kyoung 2005.
[79] Kim Ji-ho 2004b.
[80] Hart-Landsberg 2004.
[81] Kim Ji-ho 2004a.
[82] Lister 2004, p. 1.
[83] Brown 2004, p. 1.

relationships concluded that South-Korean exports to China now move in lockstep with Chinese exports to the United States.[84]

In short, South Korea's economic future has become increasingly dependent on a narrowing range of exports within a framework shaped by a China-based, US-oriented system of export production. South Korea is currently running a trade surplus with China. However, the country is simultaneously experiencing a premature hollowing-out of large parts of its industrial base. Moreover, South-Korea-based export producers are facing growing competition from China produced exports in other, third-country markets. Studies by private and state research institutes in South Korea are already warning that 'China's export competitiveness was in some cases greater than that of Korea in sectors such as machinery, electronics/home appliances, textiles, and some information products'.[85]

As developments in the Chinese auto industry make clear, this competition is not limited to low-end manufacturing. China has passed South Korea to become the world's fourth largest producer of automobiles, out-producing South Korea every year since 2002. According to an official of the Korea Automobile Manufacturers Association, 'China has been accelerating its auto output because major global carmakers have been scrambling to produce vehicles in that country to tap the world's fastest-growing auto market'.[86] Even more threatening to Korean economic interests, given that cars account for nearly 30 per cent of South Korea's exports, foreign producers are now starting to use China as a production base for their own automobile exports.[87]

South Koreans are paying a high price for their country's economic restructuring. Corporate actions and threats have led to a series of government reforms that greatly strengthen their bargaining position with workers. For example, many corporations have taken advantage of new labour laws to fire their permanent workers and rehire them as temporary or even daily workers – part of the 'flexibilisation' of the workforce. As a result, the percentage of wage-workers with irregular labour status rose from 42 per cent before the 1997–8 economic crisis to 55 per cent in 2003.[88] These irregular workers receive on average only 53 per cent of the hourly wages paid to regular

[84] UNCTAD 2005, pp. 137, 139.
[85] Cooper 2002, p. 1.
[86] Kim Hyun-chul 2004.
[87] Bradsher 2005.
[88] Jang 2004, pp. 280–1.

workers.[89] Moreover, state policies have helped to create an enormous reserve army of the unemployed: the self-employed and their unpaid family members account for more than one third of the total workforce.[90]

Not surprisingly, then, the country's poverty rate remains considerably higher than before the crisis. Inequality stands at record levels.[91] A 2004 Korea Broadcasting System survey on the economic state of the nation provides perhaps the clearest evidence of the failure of this restructuring process to satisfy majority needs. As reported by the *Korea Times*, the survey found that 'More than half of South Koreans feel that the current economic situation is worse than it was in late 1997 when the financial crisis shook the nation'.[92]

VII. Workers: the US

We have highlighted some of the ways in which East Asia's regionally-structured production network is worsening living and working conditions for East-Asian workers. The primary focus of this network has been the US market, and the China-based export offensive is also generating serious negative consequences for US workers. In the words of *Business Week*:

> 'The China price.' They are the three scariest words in US industry. In general, it means 30% to 50% less than what you can possibly make something for in the US. In the worst cases, it means below your cost of materials. Makers of apparel, footwear, electric appliances, and plastics products, which have been shutting US factories for decades, know well the futility of trying to match the China price.[93]

The growth in imports and related plant closures has contributed to a serious decline in US manufacturing employment. The US manufacturing sector lost more than 3 million jobs between 1998 and 2003, 2.7 million of which were lost between 2000 and 2003.[94] While most mainstream economists claim that this loss is due primarily to changing consumer tastes (demand for fewer manufactures) and/or rising productivity, Bivens demonstrates that imports have been a more important cause. He does this by comparing

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[89] *Korea Herald* 2003a.
[90] *Korea Herald* 2005.
[91] Hart-Landsberg 2004, pp. 98–9.
[92] Kim Jae-kyoung 2004.
[93] *Business Week* 2004.
[94] Bivens 2004, p. 2; cf. Burke et al. 2004, pp. 4–5.

a measure of manufacturing demand that includes the sum of domestic manufacturing output and net manufactured imports into the US, with a measure of total domestic demand that includes GDP and net imports of all goods and services.

Specifically, Bivens finds that, while the share of domestic production of manufactures relative to GDP has fallen, the share of manufacturing *demand* (including net imports) as a percentage of total domestic demand (as defined above) actual grew over the period 1998–2003.[95] Thus, the loss of manufacturing jobs is not due to a lack of demand for manufactures, but, rather, to a decline in their domestic production. Indeed, the ratio of domestic manufacturing production to total manufacturing demand fell from 89.2 per cent in 1997 to 76.5 per cent in 2003.[96] Overall, according to Bivens's analysis, domestic factors (demand and productivity) account for only 41.5 per cent of the loss in manufacturing jobs over the years 1998–2003, while imports account for 58.5 per cent.[97]

Naturally, then, China's new position as anchor of East Asia's transnational export régime has led many US businesses and workers to view China's export activity with alarm. And, whereas in previous years, China's exports were largely in low-technology items, they are increasingly shifting to products that threaten the jobs of higher-paid US workers. For example, while 'in 1989 approximately 27 percent of imports from China competed against goods produced by high-wage industries in the US market, by 1999 that percentage had grown to almost 45 percent'.[98]

We have argued that the China phenomenon should be understood not in simple national or even inter-national terms but rather as a transnational capitalist process that ties together production across borders to the benefit of transnational capital and to the detriment of enterprises not connected to this process and most workers in all the countries involved. Consistent with this argument, although many US companies are being hurt by China-based production activity, other US firms are directly contributing to and profiting from this activity. Among the biggest beneficiaries, according to the *Financial Times*, are those companies that use China 'as a base for exporting or sourcing cheap goods, such as Wal-Mart'.[99] In fact, Wal-Mart alone accounts for more

[95] Bivens 2004, p. 4.
[96] Bivens 2004, p. 5.
[97] Bivens 2004, p. 6.
[98] Burke 2000, p. 6.
[99] McGregor 2004.

than 10 per cent of total US imports from China.[100] One estimate, reported in the *China Daily*, is that Wal-Mart imports from China will top $18 billion in 2004.[101] Other US transnationals, such as General Motors, Procter & Gamble and Motorola, are also making large profits doing business in China and/or with Chinese subcontractors.[102]

The role of US transnationals in advancing or deepening this China-based process to the detriment of US workers is significant and growing. According to Burke, 'A 10 percent increase in the level of US direct investment in an industry in China is associated with a 7.3 percent increase in the volume of US imports from China and a 2.1 percent decline in US exports to China in that industry'.[103] Burke charts the changing orientation of US firms operating in China by comparing 'exports shipped to US affiliate firms in China to imports sold to the United States from these affiliates, from 1989 to 1997'.[104] The result is that 'since 1995, the value of imports from US affiliates in China has surpassed the value of US exports to these foreign affiliates. In just a few years, US multinationals operating in China have turned from net exporters to China to net exporters to the United States, a gap that will only widen with increased FDI to China, further contributing to the growing US trade deficit.'[105]

Table 11 highlights this shift in orientation by examining the activities of majority owned foreign affiliates (MOFA) of US firms. We see that by 1998, US MOFAs in China were exporting more to their parent companies than their parent companies were exporting to them, thereby helping to enlarge the US trade deficit. The special role of China is highlighted by the fact that US MOFA behaviour in the Asia and Pacific region does not follow this pattern. There, the intra-firm trade of US-based transnationals continues to generate a surplus for the US economy. Clearly, there is a broad process at work in which China-based production does have a significant impact on the US economy. Although that production is largely driven by East-Asian capital, an important segment of US industry is also participating in and benefiting from it as well.

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[100] *China Economic Net* 2004.
[101] Jiang Jingjing 2004.
[102] *Business Week* 2004.
[103] Burke 2000, pp. 1–2.
[104] Burke 2000, p. 4.
[105] Ibid.

Table 11
US intra-firm trade, Majority Owned (Nonbank) Foreign Affiliates (MOFA), millions US$

	US exports of goods to MOFA in China	US imports of goods from MOFA in China	US exports of goods to MOFA in Asia and Pacific	US imports of goods from MOFA in Asia and Pacific
1997	1745	1659	50,922	35,544
1998	1967	2026	44,615	36,419
2001	2152	3027	41,757	34,346
2002	2093	3037	35,967	30,870

Source: Bureau of Economic Analysis 2000–4.

We have focused on China because of its importance for contemporary global capitalist dynamics, especially for the development of East-Asian industry and the US trade deficit. However, precisely insofar as China's new global role has largely grown out of the changing nature of transnational capitalist production imperatives, it is important to acknowledge that this transnational activity is not limited to East Asia, and that capitalist competition generates a complex array of intersecting cross-border relationships around the world. This complexity is highlighted by a study done by Kate Bronfenbrenner and Stephanie Luce for the US-China Economic and Security Review Commission.[106] Their main focus was on US production shifts (tied contractions and expansions of jobs) to China, as reported in English language media, during the first quarters of 2004 and 2001, respectively. However, in order to situate these corporate moves in a wider geographical perspective, they also looked at 'job shifts from the US to other Asian countries, Mexico, and other Latin American countries; and production shifts from Asia, Europe, and other countries into China, other Asian countries, and Latin American countries'.[107]

For the first quarter of 2004, they found 255 shifts announced or reported by US facilities. Mexico was the location for 69, China for 58, other Asian

[106] Bronfenbrenner and Luce 2004.

[107] Bronfenbrenner and Luce 2004, p. 9. Their study was not intended to be comprehensive. For example, they did not look at the co-ordinated expansions and contractions of production at different sites undertaken by transnational corporations (as opposed to complete closures and openings that were connected). Nor did they investigate the kind of foreign outsourcing in which US firms (whether transnational or not) shift purchases of intermediate goods from domestic to foreign suppliers. Burke et al. 2004, show that this last form of foreign outsourcing has greatly accelerated in recent years.

countries for 39, India for 31, and other Latin-American and Caribbean countries for 35.[108] This number of production shifts out of the US represented a major leap compared to the first quarter of 2001; for example, during this period the authors found only 30 shifts to Mexico, and 25 to China.[109] These figures also suggest that while China is a major destination for US production, the largest number of production shifts out of the US continue to go to Mexico, not to China.

Perhaps even more significant then the rise in the number of shifts is the fact that their strategic orientation also appears to be changing. In 2001, the great majority of shifts involved US-based firms moving production from the US to a single foreign location. In 2004, 48 per cent of all production shifts involved moving production to multiple foreign destinations. According to the authors, 'A large percentage of these shifts were simultaneous shifts to "nearshore" countries in Latin America (primarily Mexico) and to China and other "offshore" countries in Asia'.[110] In other words, for US corporations, global restructuring tended to involve both Mexico and China. The authors highlight this new pattern as follows:

> For example, US based Amerock announced in February 2004 that it would be shutting down its Rockford, Illinois cabinet and window manufacturing plant after seventy-five years in operation. The company plans to move 450 jobs from Illinois to China and Mexico – not to sell hardware to the Chinese and Mexican market, but in an effort to reduce production prices and stay competitive in the US market. This is true for a wide variety of products that will be produced in China to sell back to the US market by companies such as Carrier Corp. (air conditioners), Levis (jeans), Werner Co. (ladders for Home Depot), Union Tools Inc. (lawn and garden tools) and Remington Products Company (electric shavers).[111]

The unique role played by China in the transnational restructuring process becomes clearer thanks to Bronfenbrenner and Luce's examination of production shifts from countries other than the US. They found that, over the January-March 2004 period, there were 55 announced/reported production shifts from Europe to China and 33 shifts from Asian countries to China (with 17 from Japan alone). And, similar to the US experience, many of these relocations were co-ordinated with shifts to production sites other than China:

[108] Bronfenbrenner and Luce 2004, p. 16.
[109] Bronfenbrenner and Luce 2004, p. 17.
[110] Bronfenbrenner and Luce 2004, p. 20.
[111] Bronfenbrenner and Luce 2004, pp. 33–4.

> While the Asian companies tend to shift operations to multiple countries within Asia, we found several cases where European countries simultaneously shifted production to China and Eastern Europe. This most likely occurred for the same reasons that a US company would shift to Mexico and China: to keep some production cross border but not offshore, so it still can be quickly, easily, and cheaply accessed through ground transportation.[112]

Thus, transnational corporations from all three regions are expanding their production lines to include both near-shore and offshore operations. China is the dominant production base in East Asia, representing for many East-Asian companies the best near-shore and offshore option. But, for US and European companies, China is the desired offshore option, with US companies choosing Mexico for near-shore operations and European companies choosing Eastern Europe. Since European and US firms have other options closer to home, their cross-border operations are not as dependent on China as are those of firms in Asia.

All of this highlights the fierce competition among transnational corporations based in the US, Europe, and Asia to expand and diversify their production networks, the effect of which is to bring different countries' workers into an overarching framework of competition both within and between different enterprises. Asian capital appears to have moved fastest and furthest in this direction but US and European companies are quickly catching up. China's role is critical because, while it is the dominant production base for East Asia, the region that is the most export-oriented, it also plays a critical role in the transnational production networks being extended by US and European firms.

The commonality of worker experiences resulting from this transnational capitalist investment and production dynamic is perhaps best highlighted by employment trends in both China and the US, the countries that appear to lie at opposite ends of the dynamic. The reality is that, while the US is losing manufacturing employment, so is China. As a Conference Board report notes, 'While there has been much discussion about offshoring high-wage jobs from the United States to low-wage countries like China, the loss of large numbers of manufacturing jobs is actually occurring in both countries simultaneously'.[113] More specifically, China has lost 'more manufacturing jobs than the United States – 15 million in total, a 15 per cent decline – between

[112] Bronfenbrenner and Luce 2004, p. 21.
[113] McGuckin and Spiegelman 2004, Part I.

1995 and 2002'. Moreover, it has suffered job losses in many of the same industries. 'For example, the United States lost 202,000 textile jobs between 1995 and 2002, a tremendous decline by any measure. But China lost many more – 1.8 million.' In fact, China has suffered job losses in 26 of its 38 major manufacturing industries.[114] In sum, workers in China, East Asia, and the US are increasingly captured by a common dynamic of capitalist restructuring. Wealth is being generated but little is being shared with those who do the actual production, most of whom are being pitted against each other and suffering similar consequences, including unemployment and worsening living and working conditions.

VIII. Conclusion

Our analysis of China verifies the continuing dynamism of contemporary capitalism. That dynamism leads to rapid shifts in the economic fortunes of nations and the development of new production and exchange relationships within and among countries. Indeed, it is the very rapidity of change that leads many to celebrate contemporary capitalism as an engine of development. Nonetheless, we believe that a careful examination of contemporary dynamics shows that, despite its rapid growth and export success, China is not an attractive model of development from a working-class perspective. Chinese workers are facing increasingly difficult conditions even as they succeed in producing more exports.

China also does not anchor a development process that is beneficial for workers in other countries. Workers throughout East Asia are being knitted together in a production process that crosses many borders and, in so doing, restructures national activity and resources away from meeting domestic needs. Activity and resources are being organised to serve export markets out of the region under the direction of transnational corporations whose interests are largely in cost reduction regardless of the social or environmental consequences. The US economy and US labour are also being restructured as part of the same process.

Our analysis of contemporary dynamics also highlights the fact that this transnational capitalist restructuring, within which China plays such a critical role, is generating tensions and imbalances. For example, East-Asian growth is increasingly dependent on ever-greater US trade deficits. This trend cannot

[114] Ibid.

continue forever. In saying this, we do not mean to predict that capitalism has reached some final crisis. Rather, our point is that these imbalances will have to be corrected, and insofar as the logic of capitalist competition goes unchallenged, governments can be expected to manage the resulting economic instabilities with policies that will only further worsen living and working conditions. In fact, they are likely to generate explanations for the necessity of such policies that will deliberately foment racism and a destructive nationalism.

Whether workers can develop a response to this situation remains to be seen. Clearly, the dynamic nature of the system and the fact that wealth is being created tends to mask the destructive nature of the system. So does the mainstream perspective on the Chinese experience. We need to challenge that perspective and demystify the transnational capitalist processes that are reshaping different countries' economies, in order to reveal the capitalist roots of the growing social problems faced by workers around the world and the structural imbalances that threaten yet further immiseration. Finally, we need to translate this understanding into a programme of action that can assist the birth of national, regional, and global movements for change that can enable working people to reclaim control over their lives.

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