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## China and the future of the developing world: The coming global-Asian era and its consequences

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## **China and the Future of the Developing World**

The Coming Global-Asian Era and its Consequences

Jeffrey Henderson\*

May 2008

### **Abstract**

The rise of China as an economic and political ‘driver’ of the global economy is likely to be one of the defining moments of world history. Its dynamism and international expansion are on the verge of creating a ‘critical disruption’ in the global order that has held sway for over 60 years. As such, China is beginning to reshape the world, presaging a new phase of globalization: a ‘global-Asian era’. This new era is likely to be distinct from any of the earlier phases of globalization and China’s global footprint, in terms of its business, economic and political actions and their geopolitical implications, is likely to be markedly different from what has gone before. This paper offers a framework by which we can begin to understand the coming global-Asian era (GAE) and some of its consequences, particularly as the latter are surfacing in the developing world. Having discussed the nature and dynamics of the GAE, the paper turns to sketch a series of vectors (trade, aid and energy security) along which the GAE is beginning to impact on developing countries. The paper argues that, at least for these vectors, the Chinese-driven GAE is providing opportunities as well as dangers for national development projects. It concludes by briefly speculating on the viability of the GAE.

Keywords: China, globalization, developing world, trade, oil, aid, geopolitics

JEL classification: F01, F14, F59

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## Acronyms

GAE global-Asian era

AAE Anglo-American era

TNCs transnational corporations

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*When China awakes, she will shake the world*  
(attributed to Napoleon Bonaparte)

## **1 Introduction**

The rise of China as an economic and political ‘driver’ of the global political economy is likely to be one of the defining moments of world history during the present century and, perhaps, beyond. While much of the attention and political-policy debate on the external consequences of China’s development is currently concerned with its implications for the advanced industrial economies (see, for instance, Hutton 2007), at least as important are its consequences for the rest of the developing world. This paper seeks to contribute to the international research effort, now gathering steam, designed to correct this imbalance.<sup>1</sup> It does so, however, in a particular way. It argues that China’s rise and international expansion presages a new phase of globalization: a ‘global-Asian era’ (GAE). It is in the nature and dynamics of the coming GAE that the origins of the economic and political futures of many parts of the developing world are likely to be found.

The paper begins by outlining the earlier phase of globalization out of which the GAE is beginning to emerge and then sketches some of the GAE’s key dimensions. In so doing, it marks the reasons why the GEA is likely to be significantly different from that earlier phase of globalization, even though it has continuities with its recent, neoliberal, representation. The paper proceeds by suggesting that the GAE is likely to throw the developing world into a particular form of crisis: one in which the opportunities for development may be as evident as the dangers inherent in the new global political-economic realities. The paper continues by flagging a number of vectors along which the GAE is beginning to impact on the developing world and makes a preliminary attempt to identify the trajectories of crisis that movement along two of those vectors is beginning to produce. The paper concludes by briefly posing the question as to whether China’s rise is as secure a prospect as many assume, and thus whether the GAE is indeed likely to displace the current phase of globalization.

## **2 Phases of globalization**

Historiographically influenced social science ranging from Braudel via Wallerstein, Arrighi and other world-systems analysts, to the work of Held and his colleagues (e.g., Braudel 1981-84; Wallerstein 1974-89, 1979; Arrighi 1994; Held et al. 1999) makes it clear that far from being a recent—and predominantly economic—phenomenon, globalization has to be understood as an articulation of myriad economic, political and social processes that have evolved over the past five centuries or so. Taking its cue from this literature, this section first presents a categorization of the phase of globalization—and its three subphases—that has been evident for nearly two centuries: the ‘Anglo-American era’ (AAE). It goes on to suggest that while the emerging GAE will have important continuities with the AAE’s current sub-phase, at the same time it is likely to

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<sup>1</sup> See, for instance, the activities associated with the globally networked ‘Asian Drivers’ research programme: [www.ids.ac.uk/asiandivers](http://www.ids.ac.uk/asiandivers), and [//asiandivers.open.ac.uk/](http://asiandivers.open.ac.uk/)

represent a significant break from it. Subsequently this section sketches some of the contours of this new phase of globalization.

## 2.1 Anglo-American era

From the early nineteenth century through to the present period we can conceive of a distinct phase of globalization into which the regions of the world have been progressively absorbed. While for analytic purposes this phase can be divided into three sub-phases, the continuities inherent in these sub-phases have been much more evident than their discontinuities. Consequently it is reasonable to comprehend them as variations on a seamed, but relatively coherent form of globalization: the Anglo-American Era. While the motor-force of the AAE and its evolution, has been the particular rhythms and organization of accumulation as well as the flows of capital, labour, power and imagery associated with them, it is important to mark that the geopolitical balance of power after 1815 (subsequent to the Napoleonic Wars) and again after 1918 (subsequent to the First World War) was central to the emergence of first Britain and then the United States as the pre-dominant global powers (cf. Kennedy 1989).<sup>2</sup>

### *Anglo-American era I (circa 1815-1918)*

This first subphase was characterized by the continued industrialization of Britain and by the second half of the period, Germany and the United States. Capital accumulation was associated with competitive forms of capitalism on the one hand and classical imperialism on the other. The principal national beneficiary was Britain, which emerged as the dominant economic and political power. A combination of inappropriate forms of corporate governance and state policies that privileged finance and commercial over industrial capital, resulted in a systematic underinvestment in technological upgrading which led, ultimately, to declining competitiveness vis a vis Germany and the USA. Inter-state rivalries, partly associated with the onset of Britain's economic decline, and particularly with Germany, culminated in the First World War (see variously, Hobsbawm 1975, 1987; Kennedy 1989; Hutton 1996; Lazonick 1991: chapter 1).

### *Anglo-American era II (circa 1919-74)*

Emerging as the principal beneficiary of the First World War, the second subphase of the AAE was associated with the continued rise, and ultimately the economic and geopolitical dominance of the United States. With the US in the forefront, the most dynamic centres of capital accumulation globally (particularly Germany and Japan towards the end of the period) were associated with monopoly forms of capitalism, while productivity reached historically unprecedented levels during this period. After

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<sup>2</sup> Periodization in historiography, while conceptually crucial, is sometimes problematic and often imprecise. The periodization of the Anglo-American era offered here and, specifically, the beginnings of its subphases, are grounded in key symbolic moments: for AAE I, the Congress of Vienna and the allied victory at the Battle of Waterloo in 1815, settling the accounts of Britain and other European powers with Republican and Napoleonic France; for AAE II, the end of First World War and the Treaty of Versailles in 1919, which implicitly acknowledged US power vis a vis Europe; for AAE III, the bankruptcy of New York City in 1974-75 and the economic and social agenda that followed which became the first experiment in neoliberal reform. On the last point see Harvey (2005: 44-8).

the Second World War—from which the US again emerged as the principal beneficiary—Fordism, as the dominant regime of accumulation during the period, reached its zenith delivering unprecedented levels of generalized prosperity in the core countries. Throughout the period the core countries of the AAE II (with the principal exception of Japan) witnessed persistent internal challenges to prevailing relations of wealth and authority from both organized and ‘unorganized’ labour (see, for instance, Braverman 1974; Aronowitz 1973) and external challenges—militarily and ideologically—from militaristic nationalist and fascist regimes (Germany, Japan, Italy) and from various state socialist regimes (principally the USSR, China and North Korea). In many parts of the developing world, economic and political power associated with US neo-imperialism were confronted—sometimes successfully—by popular resistance movements mobilized, in part, by various forms of socialism (Cuba and Vietnam among many others).

### *Anglo-American era III (circa 1975 to the present)*

The contemporary sub-phase of globalization has been characterized by a deepening and geographic dispersal of the dynamics that began to emerge in the last fifteen years or so of the AAE II. Three of these seem to have been particularly important: the ICT revolution and the subsequent transformation of economic transactions, politics, work and everyday life through the global expansion of cyber networks (a dynamic captured best in Castells’ trilogy: Castells 2000-03); the rise and expansion of neoliberalism as an economic, political and social project and as the principal ideological ‘glue’ of the AAE III (Harvey 2005); and the emergence of a new regime of accumulation—‘financialization’—associated with the progressive subjection of all other forms of capital to the particular interests and rhythms of finance capital (Boyer 2000; Williams 2000; Glyn 2006). The USA has continued to be the dominant political economy throughout this period—not least because it has been the principal source of many of the innovations associated with these dynamic—and geopolitically its dominance has been expressed, in recent years, through a new form of imperialism grounded in neoliberal globalization on the one hand and a militarized foreign policy on the other (Harvey 2003; Johnson 2004). Underlain by deepening structural weaknesses in the US economy (Brenner 2003, 2005), the consequence of these dynamics is that the world economy and its geopolitics have become increasing unstable (see below).

## **2.2 Transitional dynamics**

The transition from the AAE I to the AAE II and on to the AAE III was relatively uncontentious in the sense that there was an absence of major economic, political or military conflagrations between the two dominant powers, the USA and Britain.<sup>3</sup> While this is not the place to explore this proposition in detail, the sources of this ‘transitional calm’ probably lay in the economic and political indebtedness of Britain to the USA during and after both the world wars; the perceived cultural, ideological and political continuities between the two countries; and the perceived threat of ‘communism’, both before and after the Second World War, stretching at least through to the dissolution of the Soviet Union in 1991.

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<sup>3</sup> Though, obviously, there was major opposition from rising powers, particularly Germany and Japan.

In spite of the fact that China's rise would have been inconceivable without the AAE III—without neoliberal globalization (see Harvey 2005: chapter 5)<sup>4</sup>—the transition from the AAE III to the GAE, may well be highly contentious. The following are among the reasons why this could be the case.

*China is a dramatically different sociopolitical formation from the countries that dominated the AAE*

With few signs, as yet, that the Communist Party's hold on power is weakening, China remains, essentially, a Stalinist state. As a consequence, the Party formally absorbs the state apparatuses,<sup>5</sup> the state is fundamentally authoritarian and repressive, and though change is afoot, China lacks a vibrant civil society that could act to moderate its authoritarianism (Nolan 2004a; Pei 2006). Although Britain, the United States and other major global players were nowhere near as democratic as early, or as deeply, as their national mythologies suggest (Chang: 2002 Chapter 3), and from the Peterloo massacre of 1819,<sup>6</sup> through the 'labour wars' of the late nineteenth and early twentieth centuries, to the McCarthyite 'witch hunts' of the 1950s, their governments could certainly be repressive (see, for instance, Thompson 1963: Part 3; Lens 1974; Brown 1977; Dawley 1991: Part II), the repression there was never as systematic or as prolonged as it has been in China.<sup>7</sup> In a nutshell, as Hutton (2007) argues, China does not subscribe to 'enlightenment' values. While, again, the extent to which Britain and the United States have themselves subscribed to enlightenment values has been uneven and patchy, depending on political expediency and prevailing perceptions of the 'national interest',<sup>8</sup> the key difference relative to historic (since the revolution of 1911) and contemporary China, is again the dramatic differences in the development of their respective civil societies and thus in their relative capacities for the mobilization of political opposition in support of enlightenment values.

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4 For a wide range of reasons—from creating a literate population to producing a heavy industrial base—Maoism was also a *sine qua non* for contemporary economic development in China.

5 Even though formally, and increasingly informally, provincial and local state agencies have developed a degree of autonomy, particularly with regard to economic governance (Wang 2007).

6 Caused by a military attack on an unarmed crowd attending a pro-democracy rally in Manchester.

7 Political authoritarianism and repression in China pre-dates the revolution of 1949, having been a feature of 'modern' China since the republican revolution of 1911 (repression in Imperial China is not relevant to this discussion). Taiwan is the only Chinese society ever to have evolved a democratic polity based on liberal-representative principles.

8 In over a century replete with instances where enlightenment values have been sidelined, witness, for instance, the US overthrow of the nascent nationalist government in the Philippines in 1898 (Miller 1984), the bombing and gassing of civilians by the British in Mesopotamia (now Iraq) in the 1920s (Glancey 2003), or the overthrow of democratically elected governments in Iran in 1953—by the British and Americans (Halliday 1979)—Guatemala in 1954 or Chile in 1973, both with the active assistance of the US government (Globalsecurity 2007a, 2007b).

*To the peoples of the dominant AAE countries (and the ‘occident’ more generally),  
China represents the ‘great other’<sup>9</sup>*

By the time the first maritime colonial power, Portugal, had made contact with Chinese merchant ships (in Melaka—now part of Malaysia—in 1511), China was at the zenith of its power as the regional hegemon in East Asia. While it was to slide into economic and geopolitical decline over the next four centuries,<sup>10</sup> China began to be perceived by Europeans and, subsequently Americans and other peoples initially of European origin, as the ‘great other’ (Jullien 1999; Zhao 2007). While part of this perception was undoubtedly positive, in terms of an appreciation among the middle and upper classes of at least the aesthetic representations of Chinese culture, elements of it were profoundly negative. China came to be perceived as the polar opposite of European cultures. The size, wealth and cultural sophistication of China, coupled with the fact that it had been controlled by a unified state since the third century BC, began to transmute, by the late nineteenth century, into a sense of China as a major potential threat to European and Euro-centric ‘civilizations’. With the triumph of the People’s Liberation Army in the civil war of the 1930s and 40s and the founding of the ‘communist’ state in 1949, China began to be perceived—particularly in the USA—as not merely the cultural great other, but ideologically, as profoundly alien. US and European racism, of course, was a central component of this perception.

While Japan, at least since the mid nineteenth century, was also viewed culturally in European societies and the United States in similar ways to China, with the exception of the 1930s through to 1945, it was never perceived as an ideological and military threat. On the contrary, with the exception of that period, from the Meiji Restoration of 1867 through to the present period, the Japanese state has specifically linked its political fortunes (arguably in a subservient form) to those of the prevailing dominant power: Britain during the AAE I and the United States subsequently (Murphy 2006).

With the size of the temporary and permanent migrations from China that have been associated with the AAE III and the ‘ideological/spiritual pollution’ that has been a result of the absorption of China into the global economy and, particularly, its cyber networks and cultural forms, it is possible that the negative perceptions in the Occident of China and in China of the Occident,<sup>11</sup> are being moderated. Whether that moderation has penetrated the power centres of the AAE III and the corridors of the ‘new Forbidden City’, not to mention the vast majority of their respective populations, remains a question for history.

*The geopolitical context within which China is the principal ‘rising power’ is arguably more fragile than at any time since Second World War*

If the leading analyst of the relation of war to the economic decline of the ‘great powers’, Paul Kennedy (1989), and the world’s greatest living historian, Eric

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<sup>9</sup> I use the term ‘occident’ in preference to the ideologically-loaded, cold war term, ‘the west’, with its geographical and cultural confusions (are Japan and South Korea, for instance, part of ‘the west’?).

<sup>10</sup> For disparate explanations of China’s decline, see, amongst others, Qian (1985); Mokyr (1990); Frank (1998); Pomerantz (2001).

<sup>11</sup> On the latter issue see Dikotter’s (1992) important book on issues of race in Chinese culture.



Hobsbawm (1994), are in pessimistic agreement that we live in perilous times, then we all need to take note.<sup>12</sup> In both their cases, as in the work of many ‘global historians’, there is a sense that the contemporary period is becoming remarkably reminiscent, in terms of economic instability and inter-state rivalry, of the decade or two preceding the First World War. As I have indicated above, there is a sense that the US economy, in its structural fabric, is beginning to come apart. We must add to this the facts that finance capital, with all its inherent instabilities, has been ‘unleashed’ internationally (Glyn 2006), the US and some of its allies are militarily over-stretched and seemingly losing in the ‘war on terror’, Russia and Japan seem to be on the verge of re-militarization,<sup>13</sup> poverty in the developing world (with the significant exception of China), continues to increase (Davis 2006) and global warming threatens to deliver devastating climatic shifts. Into this maelstrom, China is now beginning to step. It thus seems axiomatic that China is re-entering the global political economy at a moment when geopolitical relations are more fragile than at any time since the Second World War, and thus probably in recorded history.

### **3 Global-Asian era**

We are now in a position to sketch some of the key elements of the GAE. As with the phases of the AAE, the nature of the GAE will be intimately associated with the ‘peculiarities’ of China’s political economy and social formation; its history and its current condition. Arising from these, two elements could be decisive.

#### **3.1 The sources of China’s competitive dynamic**

There are at least two factors that are important here: that China has a ‘giant’ economy and that its economy is constituted as an unusual form of capitalism.

##### *The ‘big country’ effect*

While its various indices of economic growth are not dissimilar to those of Japan, South Korea or Taiwan in earlier periods (Winters and Yusuf 2007: 9), with a population of over 1.3 billion, a low-wage labour force matched historically in size only by contemporary India, and with increasing skill and innovative potential in abundance, the difference between China and the other East Asian late industrializers (or, indeed, any other country that has industrialized) is the sheer scale at which these economic and social dynamics are being brought into play. The following data will serve to underline this comment.

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<sup>12</sup> For Hobsbawm, if not for Kennedy, the appropriate role for pessimism in the current period would probably mirror Gramsci’s famous dictum: ‘pessimism of the intellect, but optimism of the will’.

<sup>13</sup> The Japanese government has recently (May 2007) approved a referendum on whether the Constitution should be rewritten to remove the clause that currently limits military expenditure and participation to defensive purposes only. Though participation in the various multilateral forces that are a significant feature of contemporary global politics has been the immediate context for this development, the principal reason was undoubtedly security concerns occasioned by the rise of China.

In terms of terms of shares in the growth of world exports, for instance, whereas China was second to the USA between 1995 and 2004, with 8.9 per cent relative to the latter's 10.7 per cent of the total, its share in the growth of world exports between 2005 and 2020 is projected to be 15.4 per cent compared with the USA's 9.9 per cent (and Japan's 6.3 per cent and Germany's 3.8 per cent) of the total (Winter and Yusuf 2007: 15). With regard to the structure of exports, China is now the world's largest producer of electronic and ICT products (*ibid.*: 42) and in terms of higher skill and technology intensive products, China's performance is beginning to approximate that of South Korea (extrapolated from Winter and Yusuf 2007: Figure 2.1: 40). This capacity to move into higher valued-added, more technology intensive products—at a far earlier stage in the industrialization process than other late industrializers—is underpinned by a dramatic expansion in the graduate labour force, with 600,000 people in engineering now graduating annually (McGregor 2006).<sup>14</sup> Add to this a competitive position in innovative technologies that one would not expect to find in a developing country at this stage in its development—such as nanotechnology, where over 1000 scientists at the Chinese Academy of Sciences alone are acting as principal researchers (Appelbaum et al. 2006; see also Appelbaum and Parker 2007)—and we can see the reasons for the World Bank's conclusion in its recent report on China and India that 'even though China is not the dominant force in the world economy, the shock it is administering to the world is unprecedented' (Winter and Yusuf 2007: 11).

### *Form of capitalism*

Far from being a monadic economic system, capitalism is extraordinarily diverse in its organizational composition, state-business relations, managerial priorities etc (from a vast literature see, for instance, Lazonick 1991, Henderson 1998a, Whitley 1999, Coates 2000, Hall and Soskice 2001; Lane and Myant 2006). One of the implications of this reality, as Chang (2007) stresses for the developing world, is that far from there being one 'royal road' to development, as neoliberalism in its various guises would have us believe, there are a multiplicity of potentially successful routes to high performing economies capable of delivering generalized prosperity. China's form of capitalism may well be one of these. If it is, and if China becomes a dominant economy, then it will be a very odd form of capitalism to have constituted the core of a new phase of globalization.

While Chinese capitalism is a complex, hybrid, phenomenon (see, for instance, Henderson 1998b: 377-82; Nolan 2004b; Nee and Opper 2007), sharing some similarities with the partially 'state orchestrated' capitalisms of Japan, Taiwan and, particularly, South Korea, <sup>15</sup> it is unique in two ways. First, it is the only significant globalizing form of capitalism to have at its core a Stalinist state that continues to pay lip service to, if not respect, some of the principles of socialism.

Relatedly, it is the only political economy where state-owned companies are at the cutting edge of globalization. As a consequence, it is reasonable to assume that the managerial priorities, time horizons for returns on investment, etc., of such enterprises

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<sup>14</sup> Though large proportions of these are considered unemployable by TNCs (McGregor 2006).

<sup>15</sup> South Korea from the mid-1960s to the late 1980s, in terms of the developmentally crucial relationship between the authoritarian state and the huge business conglomerates—the *chaebol*—probably comes closest (but still not that close) to China's model of capitalism (see Amsden 1989; Kim 1997).

are not only very different from US, European, Japanese or South Korean firms, as Nolan's (2001, 2004b: chapter 2) work implies, but that their primary concerns are not merely with profits (though they are about that), but with China's national development strategy. If the considerations behind particular investments in particular places are not just commercial, but are driven by the Chinese state's strategic interests, then almost by definition, the logic of globalization during the GAE, and its consequences for countries absorbed into it, could be dramatically different from earlier phases of globalization.

### **3.2 China's unusual nationalism**

China is the first potentially hegemonic economic-political power, other than the United States, to have been subject to colonization and relatedly and importantly, the first to be populated by non-white peoples. The legacies of colonialism, and perhaps issues of race, are consequently likely to influence China's bilateral and multilateral relations, certainly with the US, the European powers and Japan and—in different ways—those with the developing world. Central to the issue (and unlike many other nationalisms) seems to be a sense of historical grievance associated with a perceived 'one hundred years of humiliation'. Roughly from 1842 (the end of the first 'opium war' with Britain) to 1949 (the socialist revolution), China was subject to imperialist incursions by Britain, the USA, France, Belgium, Germany and, particularly, Japan (in terms of its brutality) which seem to have left deep scars on the national psyche (Chang 2001; Gries 2005).<sup>16</sup>

With the decline of Maoism as the ideological 'glue' of Chinese society, the key legitimations for the continued rule by the Communist Party have become its ability to deliver sustained economic growth, coupled, as the occasion arises, with its determination to right the perceived historic wrongs perpetrated against China by foreign powers. In that, the latter seems to be increasingly associated with a concern to re-assert its supposed 'rightful' place in the global economic and political order; Chang's assessment (2001: 175) that one of Deng Xiaoping's key contributions to China's development was to transform Maoism into a developmental nationalist ideology, seems valid.

While Chinese nationalism has often been seen as a 'top-down' affair—essentially as a propaganda strategy designed to legitimate Party rule in the face of the deepening contradictions and rising conflicts associated with the 'beast'—capitalism—that the Party itself unleashed (for instance, Shirk 2007: 6-9)—recent events (e.g., the US bombing of the Chinese embassy in Belgrade in 1999 and the mobilizations against Japan's refusal to apologize for its suppression of China in the 1930s and 1940s), arguably point to the emergence of a grassroots, 'popular nationalism' (Gries 2005: chapter 7). Whatever the sources of China's 'new' nationalism, however, it seems to be infused with a deep sense of victimization and if Chang (2001) and Gries (2005) are correct, this has contributed to a mass psychology of insecurity. Given that China has territorial ambitions in East Asia (Taiwan most obviously, but also with regard to control over the potentially oil and gas rich Paracel and Spratley Islands in the South

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<sup>16</sup> On a personal note, in June 1988 I was with two Hong Kong Chinese colleagues in a hotel bar in Nanjing. Realising that many of the bar's clientele were Japanese, one of my colleagues—whom I had previously taken to be apolitical—asked the singer to perform an anti-Japanese song well-known in China. She immediately agreed. Fortunately the song was sung in Putonghua and none of the Japanese in the audience seemed to be aware of its meaning or significance.

China Sea, islands also claimed by Vietnam, Malaysia and the Philippines), and its self-perception seems to be as much a product of ‘cultural ethnocentrism’ (Taylor 2006; and more directly, Dikotter 1992) as that of the dominant powers of the Anglo-American era, it seems likely that the GAE could be marked by less than pragmatic responses, on China’s part—as on the parts of its potential adversaries—to some of the geopolitical tensions that will inevitably arise.

As a consequence of these dynamics, China’s global economic and political footprints are likely to be markedly different from those that have been the products of previous global powers. With the GAE, therefore, we can expect an economic and political world order markedly different from that established under US/British/European hegemony. For instance, with the GAE we might expect less emphasis on the ideal of democratic governance systems, or on human rights and humanitarian issues (even rhetorically). Also—and this could be positive for the developing world—the ‘demonstration effect’ of China’s development may encourage others to further question neoliberal policy agendas. In order to explore some of these questions in a little more detail, I turn, momentarily, to a discussion of some of the vectors along which the GAE is likely to develop. First, however, I need to explain why this discussion is couched in relation to a particular notion of crisis.

#### **4 China, the global-Asian era and the crisis of global development**

We stand at a hinge of history, one of those moments in human evolution where the superimposition of multiple contradictions from the past, is generating extraordinary economic-political turbulence and uncertainty. That these are reverberating on the human condition, from the individual psyche at one polarity to the geopolitical relations of nation states at the other, is of no surprise (cf: Appelbaum and Henderson 1995). The rise of China (and soon perhaps India also) is beginning to compound existing contradictions, thus further complicating the problems of our contemporary epoch.

Hinges, by their nature, are turning points. They allow doors to swing open to reveal new vistas, new possibilities, but they also allow them to swing back, at least partially closing down those new possibilities. Until the trajectories for the future have been revealed and stabilized, the world is inevitably cast into crisis. But the crisis of the human condition we now confront should be understood not in the largely negative, medical sense, evident in European languages: a decisive moment in a potentially terminal illness. Rather it needs to be understood in the more optimistic sense evident in Chinese: as a dialectic between ‘danger’ and ‘opportunity’ (Henderson 1998b: 356). Following the logic of this notion of ‘crisis’, the next section proceeds with an examination of the crisis tendencies that are emerging along a number of vectors where the coming GAE is already beginning to reconfigure the possibilities for the future of the developing world.

##### **4.1 Vectors of crisis**

There are a number vectors along which crisis tendencies associated with the emergence and gradual deepening of the GAE could be assessed. Given space constraints, I can deal only with three of these here, and in a schematic way at that. While this section

does not tackle (except obliquely) the potentially vital questions of (for example) the environmental impacts of the GAE, the issues of global governance and the geopolitical implications of the GAE's emergence, it does attend to questions of trade, energy security and aid and human rights. Even in themselves, however, these vectors, taken both separately and collectively, are clearly ones on which much of the future of the developing world will depend and with regard to energy security, in particular, they are vectors around which geopolitical tensions are already reverberating.

## 4.2 Trade

### *Imports*

The sheer scale of the dramatic and sustained growth of the Chinese economy has massively expanded China's dependence on the import of primary commodities from elsewhere in the developing world. Thus with the continuing reduction in agricultural land (consequent on urbanization) and the flow of peasants into the cities (as result of the rising demand for industrial workers on the one hand and rural poverty on the other), agricultural productivity in China has stagnated. As a result, the country has become increasingly dependent on the import of food and other agricultural commodities. Thus by 2004, China's trade deficit in foodstuffs amounted to US\$3.7 billion (Kaplinsky 2005: 206). While much of this—in grains, for instance—was composed of imports from the developed world (and the USA in particular), some of the shortfall has been sourced from the developing world. Well-known examples include the import of soya and oil seeds from Brazil and Argentina. Thus, for instance, China's share of Brazil's total oil seed exports rose from 20 per cent in 2001 to 30 per cent in 2004 (Gottschalk and Prates 2005).

Similarly, China's increasing demand for metals to feed its industrial revolution has impacted on developing world exports. Thus increasing proportions of Zambia's copper exports are heading for China, as are the Congo's exports of cobalt and copper, Zimbabwe's exports of cobalt and Ghana and Jamaica's exports of aluminium. China's share in Chile and Peru's exports of copper, for instance, increased respectively, from 9 and 8 per cent of the total in 2001 to 17 and 19 per cent by 2004 (Gottschalk and Prates 2005). Although most of these metal exports continue to be in the form of ores rather than the higher value-added processed metals, it is still the case that the rising prices that they have helped induce are, in principle, beneficial to the economic welfare of the countries concerned. The fact that many of these benefits may not be reaching the workers in these industries, nor the bulk of the populations of the countries concerned, is not directly a product of the GAE, but rather of the inequalities of wealth and power evident in the countries themselves.

There is, however, at least one primary commodity where China's import demands is having a detrimental effect. With its burgeoning furniture and pulp industries, China is now one of the world's largest importers of timber. Unfortunately, it has become the world's largest importer of illegally logged timber, particularly from the rain forests of Burma, Malaysia, Thailand, Indonesia and Papua New Guinea (Rapa 2007). As a consequence, some of China's demand for timber is having adverse environmental implications and at the same time is having few positive welfare implications for the countries concerned (in terms of poverty reduction, for instance).

With regard to China's rising demand for manufactured commodities, the picture, for the moment, is more clearly positive than mixed. Given the nature of China's industrial economy—with its predominant emphasis on textiles and garments, electronics and engineered metal products (e.g., automobiles)—the principal regional source of manufactured imports from the developing world are the industrializing (and recently industrialized) countries elsewhere in East Asia. Thus, with regard to textiles—though definitely not garments (see below)—there is evidence to suggest that China has been increasing its imports from other parts of East Asia and from South Asia (e.g., Lau 2007). With regard to electronic products, most of China's component imports have come from South Korea, Taiwan, Singapore, Malaysia and Thailand (and, of course, from Japan, which by definition does not figure in the current analysis). So far, this dynamic has had a positive impact in terms of employment, wages and other economic benefits for the countries concerned. What is unclear, however, is how long such import demands will continue. With the reconfiguration of electronics production networks in East Asia, consequent on rising skills, but lower production costs in China, investment strategies of the transnational corporations (TNCs) and rising costs elsewhere in the region, it seems likely that some component production (at least for those that embody medium level technologies, such as hard drives and some other computer peripherals) is likely to shift to China itself. Evidence of this is beginning to emerge, for instance, from Malaysia (see Phillips and Henderson 2006; Henderson and Phillips 2007) and Taiwan (Yang 2006).

### *Exports*

If the implications for the developing world of China's demand for imports are mixed (with both dangers and opportunities involved), the consequences of the fact that it is a manufacturing and exporting powerhouse seem more clear-cut.

China's capacity in labour-intensive manufactured exports seems to be helping to drive a 'race to the bottom' in parts of the developing world. With regard to textiles, a recent World Bank study (Winters and Yusuf 2007: 89-92) reports that while exports to China have thus far benefited East Asian producers, by 2020 the situation is likely to have reversed with Indonesia and Vietnam, for instance, suffering contractions in their respective industries of around 9 per cent. The study's projections suggest that garments industries will be hit more heavily with declines of around 19 per cent in Vietnam and North Africa (principally Egypt), for instance. Other research reports the consequences of China's exports to the US, EU, etc., for garments industries elsewhere in the developing world. Subsequent to end of Multi Fibre Agreement, Lesoto's garments industry has all but been wiped out, while South Africa's supply of garments to its domestic market has declined from 80 to about 25 per cent (Kaplinsky and Morris 2006). Furthermore, recent estimates suggest that between 2003-05, 130,000 workers were laid-off in Sri Lanka's garments industry as a direct result of Chinese competition in third markets (Perera 2006).

With further regard to Chinese competition in exports to third markets (e.g., USA)—including in higher technology products such as electronics and auto components, much recent research on Latin America has been equivocal about the extent to which China poses a threat to their indigenous or foreign owned manufacturing industries, in spite of evidence in the media that suggests that Mexican-based producers, for instance, have been badly damaged with growing unemployment in the maquiladoras bordering the USA. Jenkins' work (2007), however, is more consistent with media concerns. He

shows that with regard to Latin American manufactured exports to the USA, Chinese competition is likely to have more serious consequences than has been recognized in the scholarly literature. With regard to East Asian manufacturing industries, work by Lall and Albaladejo (2004) suggests that low and medium technology industries there are seriously at risk from Chinese competition. This includes not only recently industrialized countries such as Malaysia (Henderson and Phillips 2007), but also more mature industrial economies such as South Korea.

### **4.3 Aid and human rights**

China's foreign aid derives largely from four central governments and a variety of provincial government agencies. The former consist of the ministry of commerce, the China Export-Import Bank (Exim), the China Development Bank and a variety of less significant actors (which can be grouped as the fourth agent), such as the ministries of health, education, etc. Of these the ministry of commerce (which contains the department of foreign aid) and the Export-Import Bank are currently the most important, though the Development Bank is reputed to have substantial reserves. In 2005, Exim alone had a larger investment portfolio in Africa—US\$15 billion—than any of its equivalents from the US, Japan or Britain (Alden 2007: 24). The latter have also become significant actors in their own right, with the governments of Anhui and Sichuan, for instance—via their state-owned construction firms—having direct links with particular provincial governments in Angola, and Sichuan currently cooperating with the government of Ogun State, Nigeria, to build a US\$50 million pharmaceutical plant (Alden 2007: 29).

With this multiplicity of funding sources and the diverse (indeed, given provincial involvement, competing) interests associated with them, it is probably a misreading of the situation to assume that there is a unified 'strategy' when it comes to China's aid programme.<sup>17</sup> That question notwithstanding, there seem to be at least two issues worthy of comment here: the consequences of China's aid regime and the potential human rights issues as Chinese firms begin to expand their investment in other parts of the developing world.

Given its historic—official—commitment to non-interference in the internal affairs of other countries (Taylor 2006), it is, perhaps, unsurprising that China's overseas aid programme is effectively circumventing the political conditionalities now associated with 'western' aid, whether the latter comes from international or national agencies. Judged against the dubious lending standards of the World Bank—or particularly USAID in earlier periods, for instance—China's current aid programme (which, among others, includes grants and loans to countries with dubious human rights records such as Burma, Turkmenistan, Uzbekistan and Sudan) seems relatively unproblematic. If there is a problem, however, it is that international lending standards (at least formally, if not informally), have moved on. Thus while Chinese loans and other forms of assistance provide a politically easy route to development finance for cash-strapped regimes, they release those regimes (some of them highly corrupt and, indeed, predatory on their

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<sup>17</sup> I am grateful to Professor Zha Daojiong of Beijing University for this observation. In general, my discussions with him, in Beijing in October 2007, have helped to improve my thinking on both the aid and energy vectors, though he, of course, bears no responsibility for the interpretations sketched here.

populations) from the pressures they might otherwise be under to drive through political reform. Unlike their international counterparts, it is a matter of course, for instance, for Chinese aid agencies to refuse to engage with NGOs concerned with the human rights and governance implications of their policies. And to take one Chinese example, the China Export-Import Bank consistently fails to conduct environmental and social impact analyses prior to investing in given projects (Alden 2007: chapter 1). One example of recent Chinese loan activity will suffice to underline the general problem.

China, as with USAID, and many other national aid programmes, lends money predominantly in accord with its commercial and strategic interests. For instance, given its involvement in Angola's oil industry (referred to below), it is not a surprise that the Angolan regime has been a recipient of China's largesse. Angola is a country where around 25 per cent of state revenues 'disappear' year on year and one that has a president who is believed to be implicated in these 'disappearances'. In 2005, China's Exim Bank delivered US\$2 billion in aid to the Angolan regime. Whereas much of this has been invested in much-needed transport and infrastructure, the government partners in receipt of aid were not the relevant ministries, as is usually the case, but the president's office, raising questions as to what proportion of the loan in fact ended in productive investment.

Another source of potential concern are the types of labour processes and working conditions that are likely to result from Chinese foreign direct investment or, indeed, outsourcing in the developing world. It is in some African countries that these problems are likely to be experienced initially as Chinese firms are now the leading foreign players in the development of transport infrastructure there and are increasingly prominent in telecommunications, mining, logging and, of course, energy extraction. Alden (2007: 14), for instance, reports that more than 800 Chinese companies are now operating in 49 African countries with 480 of these involved in joint ventures with African firms. While these investments are undoubtedly positive in terms of economic development, their implications for social development are less clear. Notwithstanding the fact that many of these companies generally prefer to bring (indentured) Chinese workers with them—thus leaving local Africans unemployed—it is likely that working for such companies is likely to leave much to be desired. While the working conditions in the sub-contracted plants of the US and European companies that drive, for instance, many of the garments and footwear production networks in the developing world remain highly problematic (among a vast academic and popular literature underlining the problems, see most recently, McVeigh 2007), this should not absolve the activities of Chinese firms. While there is little evidence available from the developing world on which to base robust conclusions about working conditions in Chinese-invested operations, the treatment of rural migrants in Chinese industrial cities such as Dongguan and Guangzhou (which have working and living conditions that would have been familiar to Engels in 1840s Manchester) <sup>18</sup> and across the country's urban-industrial landscape, does not augur well for the treatment of workers in, say, Pakistan or Nigeria, Indonesia or South Africa, where China's 'cultural ethnocentrism' is likely to further influence management attitudes to the workforces.

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<sup>18</sup> Fieldwork notes, April 2005 and April 2006.



#### 4.4 Energy security

Of all of the vectors discussed in this paper, it is China's search for energy security that is probably attracting the most attention, if not from researchers, then certainly from those concerned with international security policy. Among the countries where China already has exploration and/or supply contacts are Kazakhstan, Iran, Saudi Arabia, Sudan, Nigeria, Angola and Venezuela for oil; and Turkmenistan, Burma, Bolivia and Algeria for gas (Boekestein and Henderson 2005). While, in principle, Chinese demand is likely to bring economic welfare benefits to such resource-rich countries, in practice that is only true where the revenues are redistributed and/or invested in productive projects (only in Venezuela are revenues currently redistributed). Beyond the question of the economic—and broader welfare—benefits that may be derived from China's search for secure supplies of oil and gas, at least two other issues arise that are politicizing developments along this vector.

The first of these concerns China's bilateral relations with some very dubious regimes. In 2003, for instance, 41 per cent of Sudan's exports and 23 per cent of Angola's went to China (Jenkins and Edwards 2006: 25). In both cases, these exports were almost totally made up of oil shipments. Like the Sudan, Angola is also an example of a country with an authoritarian, corrupt, predatory regime. Unfortunately the majority of oil-rich countries have regimes that are variations on this theme, so China cannot be faulted with allowing its (state owned) oil companies to do business with them, just as there has been no attempt, by US and European governments, for instance, to constrain the activities of many of 'their' oil companies in countries where the respect for human rights verges on the non-existent.

In spite of the ether of hypocrisy surrounding pronouncements by politicians and the media in the US and EU on China's role in some oil-rich countries,<sup>19</sup> the charge that does seem to stick against the Chinese government, is the nature of its relations with Sudan. Given the Sudanese government's complicity in the genocide taking place in the Dafur region and its export dependence on China, as indicated above, China, in principle, must have significant leverage over the regime in Khartoum, particularly given the inability of the regime to sell its oil (at least legally) to other major consumers.<sup>20</sup> That this leverage has just begun to be exercised seems to be indicative of two things.<sup>21</sup> While the lack of respect for human rights in China is now a matter of (a very long) record, given the fact that since 1949 this has rarely involved the suppression of its own minorities (though there remains an issue with regard to Tibet), a reluctance to lever the Sudan regime is unlikely to be a product of the fact that the Chinese government is oblivious to human rights issues. For the moment, it is more likely to be a consequence of China's traditional bilateral relations with African countries, which going back to the 1950s have emphasized (at least officially) non-interference in the

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<sup>19</sup> Another case of this is its relations with Iran, but that raises separate geopolitical issues that are beyond the scope of this paper.

<sup>20</sup> Chinese oil companies are not the only ones still dealing with Sudan. The state owned Malaysian company, Petronas, for instance, is still operating in the country.

<sup>21</sup> That China has recently agreed to send military personnel to Dafur as part of a UN force, is widely assumed, in the US and European media, to have been a decision driven by the government's desire to avoid a boycott of the Olympic Games in 2008. As Hilton (2007) notes, the Chinese government may be confronted with a similar dilemma over its continued support for the military regime in Burma.

internal operations of other states (Taylor 2006). Second, the relative absence of a popular concern in China with the human rights implications of China's external operations (the significant exception to this general rule is Hong Kong) is, once again, a reflection of a tightly controlled media (with an absence of a tradition of investigative journalism)<sup>22</sup> and the underdevelopment of an autonomous civil society.

The second question concerns the interface between China's search for oil and gas security and the geopolitical ramifications of this. Among an array of issues that could be picked-up here, only two will be touched upon: Shanghai Cooperation Organization (SCO) and the 'string of pearls'.

Founded in 2001 on the basis of a Chinese initiative, the Shanghai Cooperation Organization (SCO) now includes, in addition to China, Russia, Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan as full members, while India, Pakistan, Iran and Mongolia have observer status. Pakistan and Iran are currently seeking to become full members. While Chinese motives in SCO are many and diverse, it is likely that the principal reason for the Chinese initiative was its concern to wean the central Asian states from their economic and political reliance on Russia.<sup>23</sup> Beyond that, the development of stable political relations with the potentially major oil and gas suppliers in the region has been high on the list (Boekestein and Henderson 2005). Although the physical logistics of supply from the various former Soviet republics are potentially problematic (though, for instance, China is currently constructing a pipeline to supply gas from a non-SCO member, Turkmenistan), inter-governmental relations via SCO should help to secure supplies, should problems arise in the 'bottlenecks' of China's oil supply lines from the Persian Gulf: the Straits of Hormuz and Melaka (see below). More recently, SCO members have begun to conduct joint military exercises and this has prompted speculation that SCO could develop into a military alliance similar to NATO (Alexandroni 2007).

Consistent with my earlier point about physical 'bottlenecks' turning into geopolitical ones, China seems to be engaged on a number of initiatives in the Indian Ocean which at least, in part, could constitute the early stages of a strategy to protect its oil supply lines from the Middle East and Africa. Currently composed of various initiatives to construct port and other logistical facilities in Burma and Pakistan, this 'string of pearls' is beginning to prompt speculation that these could, should security circumstances in the region require it, form the basis of Chinese naval bases in Southeast and South Asia. Of these, the Chinese construction of port facilities at Gwadar in Pakistan—close to the Iranian border—and Kyauk Phyu in Burma are, for obvious reasons, becoming sources of particular interest, not least for the US military (see Niazi 2005; Pehrson 2006). With an oil pipeline under construction from Kyauk Phyu to the Chinese city of Kunming and a pipeline mooted from Iran to Gwadar, the infrastructure necessary for avoiding military blockages of Chinese oil shipments through the Straits of Hormuz and Melaka seems to be well-advanced.

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<sup>22</sup> This is not unique to China, but is a general problem with the media throughout East Asia. The principal exception is the Philippines.

<sup>23</sup> I am grateful to Professor Zha Daojiong for this observation. See also the SCO website: [www.sectsc.org/html/00035.html](http://www.sectsc.org/html/00035.html).

## 5 Conclusion

I have briefly identified a series of ‘crisis’ dynamics that could well arise along three vectors associated with the coming GAE. Consistent with the Chinese ‘reading’ of crisis employed here, it seems clear that the GAE is likely to carry both dangers and opportunities for economic, social and political development in various parts of the developing world. This is confirmed by other work, for instance, on the role of China in the World Trade Organization (WTO) and other institutions of global governance (e.g., Humphrey and Messner 2006). The key point of this part of the paper—both analytically and in terms of policy responses—is that rather than ‘read-off’ the likely consequences of the GAE on the basis of our assumptions, hunches or prejudices, we need to be guided, on a case by case basis, by the empirical realities that the GAE is beginning to generate. These are diverse and this needs to be appreciated. Only subsequently will we be able to develop an aggregated picture of the GAE’s longer-term consequences and only then will some sort of theoretical closure become possible.

Having said this, a further note of caution is in order. Throughout this paper I have assumed that a China-driven form of globalization—a global-Asian era—will come to fruition. While from our current historical vantage-point, that seems likely, there are a number of dynamics in train that could delay or even derail the process. While this is not the context to deal with these in any detail, a couple of issues can be flagged.

First, recent calculations by the Asian Development Bank suggest that the Chinese economy is 40 per cent smaller than it is currently assumed to be (Keidel 2007).<sup>24</sup> If these data are credible (and they are soon to be given the World Bank’s seal of approval), then clearly the emergent phase of the GAE is likely to be longer than would otherwise have been the case. Second, there are worrying signs of a future major crisis (in the ‘European’, not Chinese sense this time) in China’s financial system. For instance, at a time (2006) when the Chinese Government was admitting that its financial institutions (they are state owned) were burdened with non-performing loans (NPLs) totalling US\$133 billion, the US accountancy transnational, Ernst and Young, calculated that, in fact, the NPLs amounted to a staggering US\$911 billion, or about 40 per cent GPD equivalent on the basis of the then-current calculations (Chan 2006).<sup>25</sup> Around 35 per cent of the NPLs were bound-up with real estate speculation. As the principal internal trigger in some of the East Asian crisis economies in the late 1990s—specifically Thailand, Malaysia, Indonesia and Hong Kong—was real estate speculation (Henderson 1999), this raises the spectre of an East Asian-style crash in China, though on a far larger and more dangerous scale—both internally in China and externally—than was previously the case.

These questions of the longer-term growth prospects and viability of China’s development project, however, are for the future. For the moment we remain poised on the verge of a new episode in global history: one that may see, as Frank (1998) and others suggest, the return of China to its historically central role in the global political economy. If this does turn out to be the case, then, as I have argued in this paper, we can

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<sup>24</sup> And those in abject poverty (living on less than one US dollar a day) are, at 300 million, three times more numerous than current estimates suggest.

<sup>25</sup> Under Chinese government pressure, the Ernst and Young report was rapidly withdrawn. At the time, Ernst and Young were tendering for a major contract from the Beijing government (Chan 2006).

expect the global political economy to be gradually absorbed into, and reconstructed by, a new phase of globalization. This new phase will be dramatically different from what has gone before and will have dramatically different consequences for the developing and developed worlds alike.

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