Lecture 3

The Rise of the Rest

(Industrialization of the Global South)
The Rise of the Rest

I. •Global Shift
II. East Asia
III. The China Colossus
IV. The Rest
V. Late Developers
I. Global Shift

A. •Rise of Asia

B. Global Backwash
NICs come on strong

Speeding ahead
GDP, % increase on year earlier

Emerging economies
Developed economies

Source: IMF
*Forecast
Asia on the move

Big News of Last Quarter-Century
Outward Waves

- 1950s-70s:
  - Japan & Germany
  - Northern Europe
- 1960s-80s:
  - Taiwan
  - Southern Europe
- 1980s-90s:
  - Korea, SE Asia
  - Southern China
- 2000s:
  - China
  - India
From Atlantic to Pacific

- 43 v. 34% world exports, 2006
I. Global Shift

A. Rise of Asia

B. • Global Backwash
Globalization rediscovered

Surviving the Onslaught

By white people…
Impact on the Core

- Greater (export) competition
- Trade deficit
- Falling profits
- Deindustrialization

Lec. 1 & 2
Waves of expansion & crisis

- 1950s-70s: Japan & Germany
  - Recession of early 1970s
- 1960s-80s: Taiwan & Southern Europe
  - Recession of early 1980s
- 1980s-90s: Korean, SE Asia [South China]
  - Recession of early 1990s (Japan, EU, US)
  - 1996-97 - Asian Economic Crisis
- 2000s: China, India
  - Recession of 2007-10
The Rise of the Rest

I. Global Shift
II. • East Asia
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IV. The Rest
V. Late Developers
II. East Asia

A. Northeast Asia
B. City-States
C. Southeast Asia
D. Asian Crisis
Taiwan -- postwar growth

Chart I: Taiwan's substantive GNP growth rate (1952-1977)

Chart I. Average income per household in Taiwan

Unit: NT$ (at 1991 prices)
Rising productivity & wages
Korean take-off > 1975

Chart 17. Economic Growth in East Asian Countries

GDP at constant $ prices with 1970 = 100

Source: Cabinet Office, World Economic Trends, Autumn 2002

Source: OECD economic indicators database
Korean exports flourish

Korean exports and imports, $ billion, monthly data

Exports
Imports
II. East Asia

A. Northeast Asia
B. •City-States
C. Southeast Asia
D. Asian Crisis
The Little Tigers

- British colonies
  - Hong Kong
    - » China 1996
  - Singapore
    - independent > 1965

- Role of city (-states)
  - HK: Hub of south China
  - Singapore: Hub of SE Asia
II. East Asia

A. Northeast Asia
B. City-States
C. • Southeast Asia
D. Asian Crisis
Southeast Asia

- Comes on strong, 1985-1995
- Fastest: Thailand, Malaysia
- Followers: Philippines, Indonesia
- Latest: Vietnam
II. East Asia

A. Northeast Asia
B. City-States
C. Southeast Asia
D. Asian Crisis
The Asian Crisis, 1996-97

- Starts in Thailand
  - Debt, fast-finance
  - Dollar peg & Reverse Plaza Accord
- Spreads rapidly
  - Hits South Korea & Indonesia hardest
- Almost triggers global meltdown
  - Collapse of Long-Run Capital Management
Regional hit

- Depression
  - Thailand & Indonesia:
    - GDP falls 35%, 1997-02*
  - Regional average real GDP/capita falls 11%

- Least affected
  - Malaysia & China
  - Because least exposed

- Recovery
  - Growth falls from 7.5% to 5%
Debate over Asian Model

See Lectures 4 & 6
The Rise of the Rest

I. Global Shift
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V. Late Developers
III. The China Colossus

A. • Out of Socialism
B. Markets & Profits
C. Industrialization
D. Global Impact
The capitalist road

- Communist China, 1949-76
  - Social transformation
  - Economic foundation
    - (not a ‘maoist backwater’)

- Cultural Revolution
  - Demise of Maoism

- Deng Shaopeng
  - 1978 turning point
  - ‘Reform era’
Controlled transition

- Strong State
  - Guided from center
  - No ‘shock therapy’
  - No political freedom

- Local governments
  - Decentralization
  - Freewheeling
Rapid growth

[Chart showing Real GDP growth for China and India with annual % change and moving average of last five years. Source: IMF]
III. The China Colossus

A. Out of Socialism
B. Markets & Profits
C. Industrialization
D. Global Impact
Market by Stages, 1980s

- Selling on open market
  - Agriculture (HH responsibility system)
  - State & village enterprises (SVEs)

- Experiment with foreign K
  - Export zones in South
  - Mostly HK & Taiwan firms

- Generalized in 1990s
Profit motives, 1990s

- Move to profit signals
  - Ending state subsidies

- State enterprises decline
  - Debt & bankruptcies
  - Recessions of 1990 & 1998

- Privatization
  - Selling shares in SOEs
  - New companies
III. The China Colossus

A. Out of Socialism
B. Markets & Profits
C. Industrialization
D. Global Impact
Growth of industry

- Domestic industry, 1980s-90s
  - Older products (e.g., bicycles, refrigerators)

- Foreign-owned industry, 1980-90s
  - New products (e.g., cars, shoes)

- New industry, 2000s
  - Tech goods (e.g., chips, computers)
Geographic shifts

- Rise of the South, 1980s-90s
- North back on top, 1990s-2000s
- Moving West, 2000s-?
III. The China Colossus

A. Out of Socialism
B. Markets & Profits
C. Industrialization
D. •Global Impact
Explosion of exports

- Join WTO, 2001

China Trade ($ billions)

Data: National Bureau of Statistics of China

* estimate based on actual data up to Q3
The world wakes up

Welcome to the great mall of China

The world's latest Asian boom is likely to have a huge impact on the West

The Observer

How cheap labour, foreign investment and rapid industrialisation are creating a new workshop of the world

COMMENT & ANALYSIS

Chinese producers of goods, able to compete with lower labour costs, are leading a wave of economic development that is spreading to other parts of the world. The Pearl River delta is attracting $1tn of investment a month amid one of the fastest bursts of economic development in history, write Dan Roberts and James Kyung.
Exports vs. domestic market

- Falling rate of growth
- High imports
- Rising consumption
- Infrastructure & interior development
China or Germany?

Leading exporters
Total exports, sum over previous 12 months ($bn)

- Germany
- US
- Japan
- China

Legend:
- Germany: Dashed line
- US: Solid line
- Japan: Dotted line
- China: Dash-dotted line


Values:
- 1200
- 1000
- 800
- 600
- 400
- 200
- 0

Export values in billions of dollars.
The Rise of the Rest

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IV. The Rest

A. •Latin America
B. India
C. Russia
Postwar development

- Engines of growth
  - Brazil & Mexico huge
  - Chile prospers

- Strong growth
  - ~ 5%

- Mostly internal markets
  - ISI (Import Substitution)

- Reaches limits by 1970s
The Lost Decade

- Global debt crisis, 1982
- Mexico & Brazil bankrupt
- Long recession
  - Income & wages fall
1990s Revival

- Shift to exports
  - Mexican maquiladoras
- Chilean model
New financial crises

- Mexico 1993
- Brazil 1998
- Argentina 2001
- Venezuela 2002
2000s revival

- China Effect
  - Resource exports
    - Metals (Chile, Bolivia)
    - Oil (Venezuela, Ecuador, Mexico)

- FDI
  - 55% of 3d world FDI » Brazil, Mexico
    Singapore, Indonesia, China
Popular power & repression

- Political tradition
  - From Bolivar to Villa
- Postwar left
  - From Peron to Che
- Crackdown
  - Brazil 1964
  - Chile 1973
  - Argentina, 1976-83
  - Uruguay
- Left revival in 2000s
  - Chavez in Venezuela
  - Lula in Brazil
  - Kirchner in Argentina
  - Morales in Bolivia
  - Correa in Ecuador
IV. The Rest

A. Latin America

B. •India

C. Russia
Indian Independence, 1947-1990

- Steady, low growth
- National market
- Capital controls
- ‘Non-aligned Nations’
India accelerates

- Break with Congress Party
- Liberalization of 1990s
  - Freer trade & K flows
- Rapid growth (6-8%)
Leading sectors

- Heavy industry
  - Steel (Tata), cars, metals
- Electronics
  - Bangalore & outsourcing
- Back Office
  - Phone centers, data centers, etc.
IV. The Rest

A. Latin America
B. India
C. •Russia
End of the Soviet Union, 1990

- Dismantling planned economy
- Privatization of assets
- ‘Shock therapy’
- State falls apart

How Boris sold his country

Russian: Experiment with a People by Robert Service
Macmillan (1 Apr 2001, £7.99)

Robert Service has written an informative and necessary book on the catastrophe that overwhelmed Russia in 1990s. It is a tribute to the author that he reaches conclusions at odds with his own earlier support for Boris Yeltsin, who ruled the country in these years.

The miseries endured by the long-suffering Russians in the past decade has led 68% of them to see it as the worst decade they can remember, according to one poll Service cites. Life expectancy for men dropped by 4 years in the mid-1980s to 57 in the mid-1990s, and is now about 60 years. Women live some 10 years longer but their life expectancy has also dropped by four years. The collapse of welfare and healthcare, the failure to pay wages and pensions, spiralling unemployment, crime and hopelessness have all contributed to a population loss of about 8.6% of the population of the former Soviet republics.

In 1991 and 1992, Service tells us, the Russian Federation undertook a budget of some 2.5 billion US dollars, and today deaths outnumber births by nearly one-and-a-half times. The wages in Chechnya have resulted in an estimated 70,000 deaths on both sides.

Service has not the slightest nostalgia for communism or the Soviet Union. He tells the story of Mikhail Gorbachev, the last Soviet leader who emerged as a champion of democracy, while Yeltsin and Vladimir Putin have been the agents of a rigorous authoritarianism. Before and during the attempted coup of August 1991, Yeltsin acted with courage and earned the gratitude of Russians. But he used the initiative he had refused to break up the Soviet Union and promoted a Kremilin-drawn from the return of people into the Russian Federation and capitalizing on the South-Chechen conflict - to retake power.

Gorbachev in the late 1990s released the genie of civic self-government throughout the union. A succession of strikes by miners had forced the Communist party formally to renounce its political monopoly. Journalists and broadcasters were reveling in newfound freedoms. Millions followed the debates of the new elected bodies on television.

In a key chapter, “The New Russian State,” Service describes how Gorbachev proposed to Yeltsin in the aftermath of August 1991 that they should consolidate the defeat of the coup by calling for new all-Soviet elections. Gorbachev said he would step down and give Yeltsin a free run at the presidency. Instead, and behind the backs of the Russian and other former Soviet peoples, Yeltsin made a deal with the emerging leadership in Ukraine and Belarus, later ratified by the rulers of the other republics, to wind up the union at midnight on December 31, 1991, together with new representative institutions, and to rename the state of the various republics to their existing power holders. Only in the Baltic republics did this mean a real gain for democracy.

According to Service, between the 1990s and 1990s, Service stresses the backdoor manner in which this deal was brokered, does not give much detail as to the precise options and motivations of the military. In August 1991 key commanders in the vicinity of Moscow sided with Yeltsin against the plotters. But why did they later approve of winding up the union? Yeltsin was more popular than Gorbachev, and had been elected Russian president in June 1991. But he had no mandate to break it up the way he did. Apparently, so far as key military figures such as Pervel Grachev were concerned, democracy had gone quite far enough and needed to be curbed. It seems likely the army thought it could remain the arbiter throughout the former USSR and would face a more fragmented and, hence weaker, political authority.

Service remains as a president of a newly independent Russia, in which the majority of the population soon came to regret the disappearance of the union. The constitutional order of the Russian federation was itself a hybrid product of the Soviet era and the Gorbachev reforms, under the rule of which both his president and parliament had been elected. Before Boris Yeltsin came into conflict with the Russian parliament, which he dissolved in 1993, ordering the army to fire on its building, the White House, when the deputies refused to disband. Service gives a scathing description of how Yeltsin then did a deal with the oligarchs to prevent the 1999 presidential election, securing large loans, as well as media support, in return for handing over the future debts on valuable natural resources. The “new order” of Yeltsin and Putin perpetuates some of the worst aspects of the old Soviet regime while failing to maintain; let alone build, on its more positive side. Thus the Academy of Sciences, and some universities and institutes, had developed a certain independence and vitality in the late Soviet period but, in common with many areas of cultural life, this was to be slighted by the complete collapse of public funding. Of course the Soviet regime had to butt the diameter of the free market, conditioned the idea of any public agency that was not a commercial corporation.

Service is not happy with the conclusions to which his study leads him. He strains to find qualifications and redeeming features in Yeltsin’s record, but the qualifications are lame. “In most regards of Russia there was no use of armed forces,” he says, but elsewhere we read that the “bloody battle in Chechnya, in which every aspect of political, administrative, military, economic, and social affairs,” bring contemporary history is difficult — sources are sparse, perspective difficult, and there is no established narrative to use or contest. Service has bravely faced these difficulties and produced work that is thoughtful and pioneering. It illuminates almost every aspect of life in the new Russia with unexpected detail.
Economic collapse, 1990s

- Catastrophic fall
  - GDP
  - Income

- Human toll
  - Death rate
Revival?

- Oil-led recovery of 2000s

- Rebuilding the State
  - Putin & Re-centralization
  - Revenues (Gazprom)
  - Chechnya & Repression
The Rise of the Rest

I. Global Shift
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V. •Late Developers
V. Late Developers

A. •Late Development

B. Failed Development
Late developers

- Long sequence
  - Germany, France, Italy, Japan, Russia, India, etc.

- Debate over development
  - Liberals: ‘free market, free trade’
    - Smith, Ricardo, Mill, North, Rostow, Sachs, etc.
  - Anti-liberals: State-led development
    - Hamilton » List » Trotsky » Gerschenkron » Amsden
Keys to ‘Late Development’

- Land & Labor
  - Cheap & kept down
- Capital
  - High savings & investment
  - Capital controls
- Technology
  - Learning & imitation
  - Innovation
- Markets
  - Exports to core
  - Home market (infrastructure)
- Direction
  - State planning & targets
  - Incentives & performance standards

Alice Amsden, *The Rise of the Rest, Escape from Empire*
Robert Wade, *Governing the Market*
Beyond ‘Late Development’ model

- **Late Development = National Industrialization**
  - What does that leave out?
- **Capitalism**
  - Class formation & Capital accumulation
  - (no lecture, alas...)
- **State formation**
  - Politics of class & state
  - (lecture 4)
- **Imperial aid**
  - Cold War & Korean War
  - (lecture 7)
I. Global Shift

A. Late Developers

B. •Failed Developers
Why does industry fail?

- Poor labor force
  - Unskilled, undisciplined

- Lack of capital
  - Outflow of savings, profits

- Backward technology
  - Lack of skills, expertise, machinery

- Limited markets
  - Low demand

- Lack of infrastructure
  - High transport cost
  - Poor communication
  - Bad energy & water supply

- Little direction
  - Weak state
  - Weak firms
Larger causes of failure

- External causes
  - Conquest & destruction
  - Colonialism & suppression
  - World Market
    - International competition

- Internal causes
  - Poverty
    - (lack of surplus)
  - Pre-capitalist order
    - (parasitic classes)
  - Failed state
    - (civil conflict)