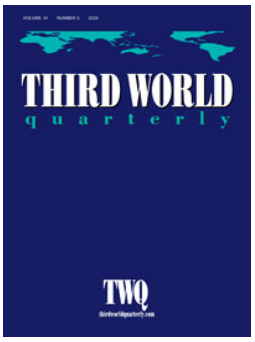

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Towards a conception of the systemic impact of China on late development

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ABSTRACT
The tremendous expansion of the Chinese economy since the turn of the century, especially in terms of its external dynamics, is of world-scale significance. It seems to justify the quest for appropriate conceptions of China's systemic impact on late development worldwide. A large number of scholarly studies have coalesced to analyse two crucial aspects of the impact, namely: impact on the performance of industrialisation and the condition of labour in the developing world. This paper seeks to critically appraise and reinterpret the existing studies. The appraisal is not so much a critique but rather an attempt to appropriately position the studies in the systemic context. It is submitted that the existing studies' focus on market competition, as the main form through which China's impact manifests, needs to be complemented and underpinned by the more fundamental consideration of productive investment. In the direction of constructing a systemic conception, it is further submitted that the China impact can potentially serve as a countervailing force against the prevailing dynamics of the world economy under neoliberal globalisation – ie the rising predominance of speculative finance that tends to crowd out productive investment, thereby hampering industrialisation and worsening labour conditions in the developing world.

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1. Introduction

The tremendous expansion of the Chinese economy since the turn of the century is of world-scale significance. Between 2000 and 2018, China accounted for almost a quarter of the increase in world economic output, and almost half of the increase in all developing (ie low- and middle-income) economies. In the meantime, China accounted for 35% of the increase in industrial value added of the world and 56% in all developing economies. From 2000 to 2017, China 'raised', in the accounting sense, the average annual growth of the real wage rates of the world from 1.3% to 2.3%. Regarding international economic activities, by the 2010s, China became the biggest merchandise-trading economy in the world as well as a major supplier and recipient of international investment. It has also initiated a range of policy programmes, most famously the Belt-and-Road Initiative, aimed at reshaping the economic landscapes of the world.[1]

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These developments have given rise to widespread concerns over the nature of the Chinese economy and its interaction with the rest of the world. Given the vastness of the scales, they seem to justify the quest for appropriate conceptions of China's systemic impact on world development. By systemic impact it refers to the space for development that has been created and acquired by China, vis-à-vis the space in the world as a whole. In the context of global economic stagnation, the immediate concern over development space can be pinned down as the sharing of the world total of macroeconomic demand (and with it the scale of economic activities, employment, etc.). Demand comes from income, and it is China's role in the creation and acquisition of world income that defines its systemic impact on world development.[2]

Is China a boon, or a curse, for the development of the Global South? Scholarly studies have provided essential building blocks, while seemingly falling short of constructing a systemic conception. They tend to approach the China impact as per the experience of yet another successfully industrialising East Asian economy, following the footsteps of Japan, South Korea and the like. A large number of the studies have coalesced to analyse two crucial aspects of the impact, regarding the progress in industrialisation and the condition of labour in the developing world. The thesis of 'China reinforcing Southern de-industrialisation' dwells on verifying whether Chinese manufacture exports have been displacing exports from other developing countries in the world market, and/or whether China's imports of primary commodities have been inducing the export countries to specialise in the primary sector. The thesis of 'China undercutting Southern labour' dwells on verifying whether Chinese manufacture exports have been driving other developing countries to rely on 'cheap labour' for the survival of their industries, and/or whether China's investment in other developing countries has been mainly pursuing 'cheap labour'.

This paper seeks to critically appraise and reinterpret the existing studies. The appraisal is not so much a critique, in the sense that it is not purported to explicitly and formally test the theses (and hence it does not question the validity of the associated empirical findings). It is, rather, an attempt to appropriately position the studies in the systemic context. Conceptually, in the face of competitive pressure from Chinese exports (Chinese labour), whether or not displacing (undercutting) will occur in a particular developing economy hinges on productivity. Productivity improvement depends on investment. Hence, the crucial question for judging the systemic impact is whether China tends to undermine or enhance the capacity for productive investment in the developing world. The consideration of productive investment should be seen as more fundamental than, or at least complementary to, that of market competition.

Placing productive investment at the centre of the investigation into the systemic impact does have an empirical foundation. The Chinese economy is well known for its production orientation, with its rate of productive investment far exceeding that of the rest of the world. It is also imperative for China to promote productive investment in the broader world. As will be explained below in the paper, neoliberal globalisation has been associated with the rising predominance of speculative finance that tends to crowd out productive investment (thereby hampering industrialisation and worsening labour conditions in the developing world). China has been resisting such systematic dynamics of the world economy. The resistance has had to be undertaken in the broader scope from the early 2010s, amid the rapid deepening of the integration of the Chinese economy into the world market. It appears that China constitutes a significant countervailing, instead of preserving, force vis-à-vis the prevailing systematic dynamics of the neoliberal world. It is, ultimately, in this sense that the quest for systemic conceptions of the China impact is justified.[3]

The paper is divided into five sections, of which this introduction is the first. Section 2 outlines the main attributes of China's international economic activities, which are the direct mechanisms mediating the interaction between China and world development. Section 3 critically reviews and reinterprets, in relation to the indicated attributes and drawing on a range of relevant studies, the theses of 'China reinforcing Southern de-industrialisation' and 'China undercutting Southern labour'. Section 4 turns to delineating the systematic dynamics of the Chinese economy, vis-à-vis neoliberal globalisation. This delineation serves both to substantiate the argument that China is inclined to promote productive investment in the broader world, and to address the counter-factual view that productive investment in the developing world could have been curtailed rather than enhanced in the absence of China. Section 5 concludes the paper.

2. Attributes of China's international economic activities

The interaction between China and the broader world economy is mediated by its international economic activities. Merchandise exports and outward direct investment have been the main immediate mechanisms through which China impacts world development. Between 2000 and 2018, China's world share of merchandise trade increased from 4% to 12%, making it the biggest trading economy in the world. In 2018, China's world share of merchandise trade exceeded that of the United States (11%) and Japan (4%). The contrast in exports is even starker. In the same year, China's world share of merchandise export was 13%, which exceeded the sum total of the United States (8%) and Japan (4%). From these measures, it seems as if the world's second largest economy is more 'open', or 'outward looking', than the largest and third largest economy.

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

- First, trade balance: China has always run trade surpluses since the early 1990s and of hefty magnitudes from the mid-2000s onward, as is shown in Figure 1 by the gap between the two curves that represent total exports and imports. This is true even in the period of continuous and rapid appreciation of its currency vis-à-vis its major trading partners, and of continuous and rapid rise of the wage rates. Between January 2000 and January 2017, China's nominal effective exchange rate appreciated by 32% while the real (consumer price index-based) effective exchange rate appreciated by 34%.[4] In the same period, the real urban wage rate and the real wage rate for migrant workers increased on average by 10.7% and 9.7%, respectively, per annum (see Section 3 below).
- Second, growth: both merchandise exports and imports have registered rapid growth for decades. As can be computed from the data in Table 1, the average rate of nominal annual growth of exports and imports was 14% and 13%, respectively, in the period 1980–2000. The growth rates remained basically the same in the subsequent period of 2000–2018. Consequently, trade surpluses amounted to US$ 351 billion in 2018, equivalent to 2.6% of gross domestic product (GDP) in that year.
- Third, composition of exports and imports: the share of manufactures in total exports increased from 50% in 1980 to 95% in 2018. In contrast, the share of manufactures in total

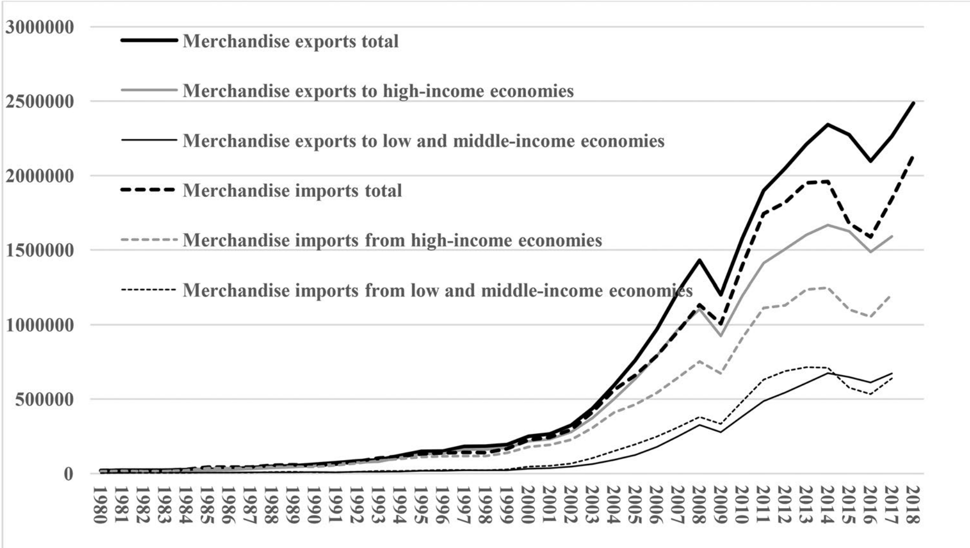

Figure 1. China's merchandise trade (current US$ million). Source: World Bank, *World Development Indicators*, accessed 2 December 2019.

Table 1. Composition of exports and imports (US$ billion).

	1980	1990	2000	2018	2018/1980
Exports					
Total merchandise	18	62	249	2487	137
Manufactures	9	46	224	2352	261
Machinery and transport equipment	1	6	83	1208	1433
Imports					
Total merchandise	20	53	225	2135	107
Manufactures	13	44	178	1434	110
Machinery and transport equipment	5	17	92	840	164
Export/import ratio					
Total merchandise	0.91	1.16	1.11	1.16	
Manufactures	0.69	1.06	1.25	1.64	
Machinery and transport equipment	0.16	0.33	0.90	1.44	

Source: *China Statistical Yearbook*, various issues.

imports increased much more modestly, from 65% to 67%. Exports under the category 'machinery and transport equipment' have registered the fastest expansion. Their share in total exports increased from 5% in 1980 to 49% in 2018.

China's trade with the rest of the developing world has grown especially fast. Between 2000 and 2017, the average nominal rate of growth in its total merchandise trade with developing economies registered 18% per annum, compared to that with developed economies ('high-income economies') of 12%. Moreover, whilst China has been running surpluses with developed economies, its trade with developing economies has been in most years in sizeable deficits. During this period, China also experienced continuous worsening of its international terms of trade, whereas the opposite was true for the developing world as a whole. Between 1998 and 2018, China's net barter terms of trade decreased by a magnitude of 24%.

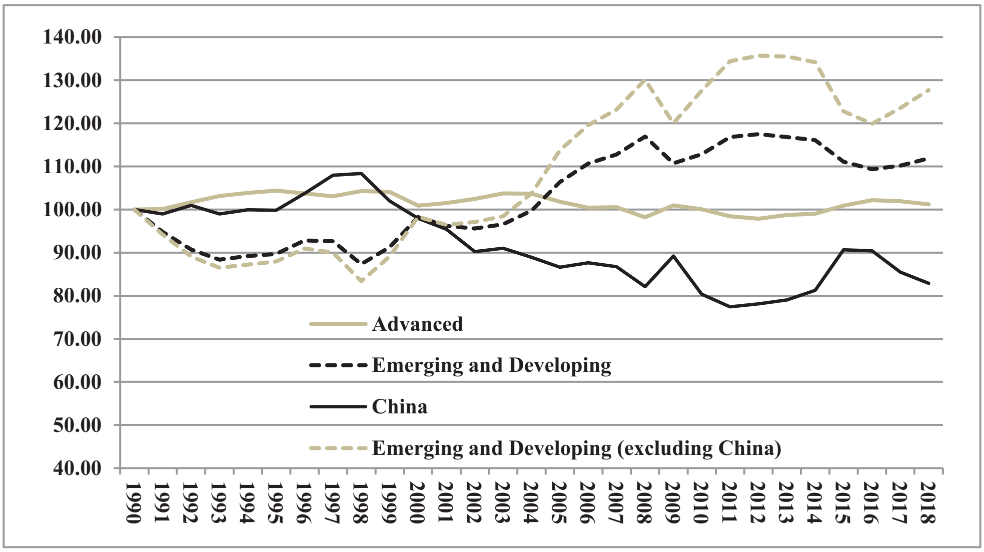

Figure 2. Net barter terms of trade (1990 = 100). Sources: International Monetary Fund, *World Economic Outlook*, various issues; and World Bank *World Development Indicators*, accessed 2 December 2019. Note: Data for 'Emerging and Developing Economies (Excluding China)' are estimates, assuming that the data for "Emerging and Developing Economies" are weighted averages of the terms of trade of China and the rest of the developing economies and using data on their respective total merchandise trades as the weightings.

This stood in contrast to the modest decrease (3%) for developed economies, and the massive increase (53%) for all developing economies excluding China (Figure 2).

Similar to international trade, since the turn of the century, China's performance in foreign direct investment (FDI) has been spectacular (Figure 3). Between 2000 and 2018, China accounted for 25% of the increase in the total FDI flows (inflows plus outflows) in the world, and 51% in the total of all developing economies. There is a complexity specifically in the data for (mainland) China's FDI flows, however: the high proportion of inflows from, and outflows to, the Hong Kong region. In 2018, the inflows from Hong Kong and the outflows to Hong Kong accounted for 67% of total inflows and 61% of total outflows, respectively. It is not clear how much of these flows is 'round-tripping' in nature, or true FDI using Hong Kong as an intermediate destination.[5] Provided that the proportion of 'round-tripping' flows do not fundamentally alter the picture, China remains a major supplier and recipient of FDI in the world. And there are observably three important characteristics:[6]

- First, geographical distribution: the lion's share of China's outward FDI has flown to the developing world, although investment in developed economies has increased at a faster pace in recent years. In 2018, 71% of China's outward FDI flows went to developing and transition economies. By the end of that year, of the total stocks of China's outward FDI, 88% were in developing and transition economies.[7]
- Second, sectoral distribution: China's outward FDI has concentrated in activities that appear to be trade-related services. These include business services, wholesale and retail sales, finance, and information technology services, which combined to account for 67% of the stock of China's outward FDI by the end of 2018. Nevertheless, there was a degree of variation across different continents. The patterns in Asia and Latin America and Caribbean

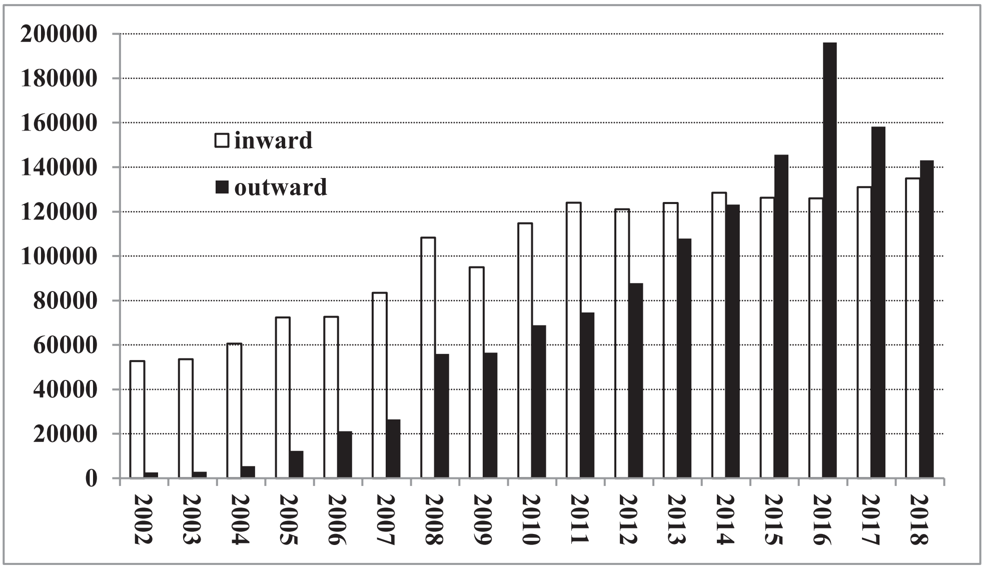

Figure 3. China's foreign direct investment (flows, US$ million). Sources: *China Statistical Yearbook* and *Report on Development of China's Outward Investment and Economic Cooperation*, various issues.

gear towards trade-related services, while that in Africa comprises mainly activities known as 'building infrastructure in exchange for resources'.[8]

- Third, agents of investment: hitherto, state-owned enterprises (SOEs) have played a more important role than non-SOEs have in carrying out the investment. By the end of 2008, of the stock of outward FDI, 70% was accounted for by SOEs. The share decreased to 48% by the end of 2018, while, at the same time, another 27% was accounted for by mixed-ownership shareholding companies. This change partly reflects the ownership reform of Chinese SOEs. It also partly reflects the division of labour between SOEs and non-SOEs: SOEs, typically larger in size and less profit oriented, and whose activities are associated with state strategies and supports, tend to pave the way for the subsequent entry of non-SOEs.

On the whole, as far as Chinese investment in the rest of the developing world is concerned, serving merchandise trade seems to have been the main consideration. Whether or not, or to what extent, this picture of the sectoral and geographical distribution of China's outward FDI could be altered by the peculiar role of Hong Kong needs further investigation. Insofar as the picture is not substantially altered, it is observed that the trading in question has been mainly an exchange of manufactures for commodities.

3. Two existing theses about China's impact on late development

The theses of 'reinforcing de-industrialisation' and 'undercutting labour'

Relevant studies of China's impact on world development are diverse in terms of the scope of focus, the analytics, the empirical findings and the concluding judgements. Nevertheless, discernibly, a large number of the studies have coalesced around two theses – namely, the thesis of 'China reinforcing Southern de-industrialisation' and that of 'China undercutting Southern labour'.

Studies pertaining to the first thesis typically ask two questions. First, have Chinese products displaced the manufactures by other developing economies in the markets? Second, have China's imports of primary commodities induced the export countries to exceedingly specialize in the primary sector?[9] The studies have tended to give affirmative answers to the two questions. These include studies on the displacement effect on the manufacturing sectors in East Asia, sub-Saharan Africa and Latin America.[10] Across the world, the displacement effect from Chinese exports is found to be mainly evident in middle-income economies and much less so in low-income and high-income economies.[11] Additionally, existing studies do find evidence of China trade inducing developing economies that export primary commodities to increasingly specialize in that sector.[12]

Studies pertaining to the thesis of 'China undercutting Southern labour' typically approach the issue on two fronts.[13] Concerning investment, case studies do find evidence that Chinese investors have treated employees unfavourably in terms of labour standards and compensation.[14] Yet case studies also find that Chinese investors are just as profit-oriented as investors from other countries, hence their similar pursuit of the lowest possible labour cost.[15] Further case studies reveal that employment relations within Chinese business establishments in developing countries vary across circumstances, depending on local political-economic conditions.[16] To systematically verify the 'undercutting' thesis requires ascertaining the effect of China on the broader conditions of labour employment in the developing countries in question. This entails falling back on the issue of a displacement effect, together with conjecturing the importance of 'cheap labour' in accounting for the competitiveness of China's manufactures exports. Concerned scholars argue that 'cheap labour' has indeed been the main factor behind China's export competitiveness, and, through the pressure of competition, it has forced the rest of the developing world to 'cheapen' labour. A process of the 'race to the bottom' in labour standards, where the bottom is allegedly defined by the conditions in China, has thus been at work on the global scale.[17] Empirically, it is possible to find evidence that the penetration of Chinese manufactures into the home markets of developing countries has indeed adversely affected the latter's labour employment.[18] For this to be a substantiation of the 'undercutting' thesis, however, the conjecture over 'cheap labour' in China needs to hold.

Contextualising the theses

The two theses summarised above might well be partial in nature in terms of studying China's systemic impact on world development. Conceptually, focussing on displacement is not necessarily sufficient to capture the full developmental effects arising from the opening up of bilateral trade or integration into multilateral trade. The theses can also be empirically partial, in the sense that they might have missed out some other channels through which China's trade and investment impact the developing economies in question. This partial nature of the theses can be seen in the light of a range of studies that employ broader theoretical frameworks for analysing China's impact.

In an exercise that is in the spirit of computable general equilibrium analysis, Adrian Wood and Jörg Mayer find that China's manufactures exports, by altering the global pattern of comparative advantage, do have industry-displacing and primarization-inducing effects for many developing economies, although the magnitudes of the effects are small for the economies in question.[19] In a different computable general equilibrium analysis of gains from trade arising from China's economic expansion, Julian di Giovanni and colleagues find that economies with a comparative advantage similar to China's, in labour-intensive production, tend to suffer from China's trade expansion. They also find that, in a dynamic setting with technological change, these countries benefit from China's trade expansion if China has faster productivity growth in sectors in which it does not have comparative advantage.[20] This way, compared to studies pertaining to the two aforementioned theses, both Wood and Mayer and di Giovanni et al. use broader frameworks for analysis. In the meantime, though, the frameworks are narrower in a different respect: the appropriateness of comparative advantage (and gains from trade) analysis for capturing the systemic impact of China might need to be ascertained in the first place.

Christina Wolf analyses the China impact within a structuralist framework, which, again, is broader in scope but more specific in theory, compared to the two theses in question. Drawing on post-Keynesian theories, Wolf highlights the importance – for the industrialisation of relevant developing economies – of the easing of the constraints of balance of payment and development finance thanks to the China-induced improvement in international terms of trade. The China-invested infrastructure projects also seem to have contributed, via linkage effects, to domestic market formation that is conducive to industrialisation.[21] As for the direct impact on industrialisation, consideration is needed for balancing the negative effect of displacing labour-intensive manufactures and the positive effect of the availability of cheap capital goods from China. The importance of capital goods from China is also emphasised by Daniel Poon, who submits that, compared to capital goods from advanced countries, Chinese goods tend to embody a higher degree of appropriate technology for developing economies.[22]

Dani Rodrik, and Jesus Felipe and Aashish Mehta, approach the systemic China impact on the basis of broader world-scale stylised facts, instead of broader theoretical frameworks.[23] Central to their studies is the emphasis on the importance, and urgency, of industrialisation in the developing world under globalisation. Felipe and Mehta report that manufacturing's share in world income and employment has remained stable, but there has been a relocation of industry on a gigantic scale to just a few developing economies. Rodrik further highlights the danger of premature de-industrialisation for developing economies. It is on this basis that studies pertaining to the two theses on the China impact are justified, and the investigation into displacement effects is important. Even so, these theses need to be contextualised, in relation to industrialisation on the world scale. Rodrik also, at various levels, notes the importance of the further China effects over and above displacement – such as the dynamic effects identified by di Giovanni, Levchenko, and Zhang, and the demand-side effects identified by Wolf.

The theses in relation to the broader empirical picture

Existing studies pertaining to the theses of 'reinforcing de-industrialisation' and 'undercutting labour' are mostly case studies of particular regions, countries or industries. Qualifications and cautions are needed to draw conclusive judgements from their findings on China's systemic impact, in view of their narrowness in both theoretical frameworks and scope of empirical investigations.

Outside China, industrialisation in the rest of the developing world since the turn of the century is not plainly a record of failure. The world share of manufactures exports from developing economies excluding China actually increased, from 12.5% in 1999 to 15.3% in 2012, before falling back to 13.5% in 2017 (Figure 4). The same pattern is observable regarding the world shares of manufacturing value added: all developing economies excluding China increased their share, from 12.9% in 1999 to 21.0% in 2012, before falling back to 19.3% in 2017 (Figure 5). Displacement effects in the absolute sense of directly suffocating industrialisation in the rest of the developing world, though found to be present in the case studies of various particular economies, do not seem to be true for characterising the overall picture of the impact of China's export expansion.

The increase in the world share of manufactures exports from the rest of the developing world has substantially lagged behind that from China, however. Between 1999 and 2017, China's share increased by 12.9 percentage points, whereas that of the rest of the developing world increased by just one percentage point. The contrast in the increased world shares of manufacturing value added is similar: between 1999 and 2017, China showed an increase of 21.3 percentage points, while the rest of the developing world increased by 6.9 percentage points. Perhaps, if there were no 'China impact', the rest of the developing world could have gained a much bigger space for pursuing industrialisation?

The performance of China vis-à-vis the rest of the developing world in manufacturing appears to be correlated with differences in productive investment. Between 2000 and 2017, China's share of world gross capital formation increased by 20.5 percentage points, while that of the rest of the developing world increased by 8.4 percentage points. The average ratio of gross capital formation to GDP, for the period 2000–2017, is 43.1% for China and

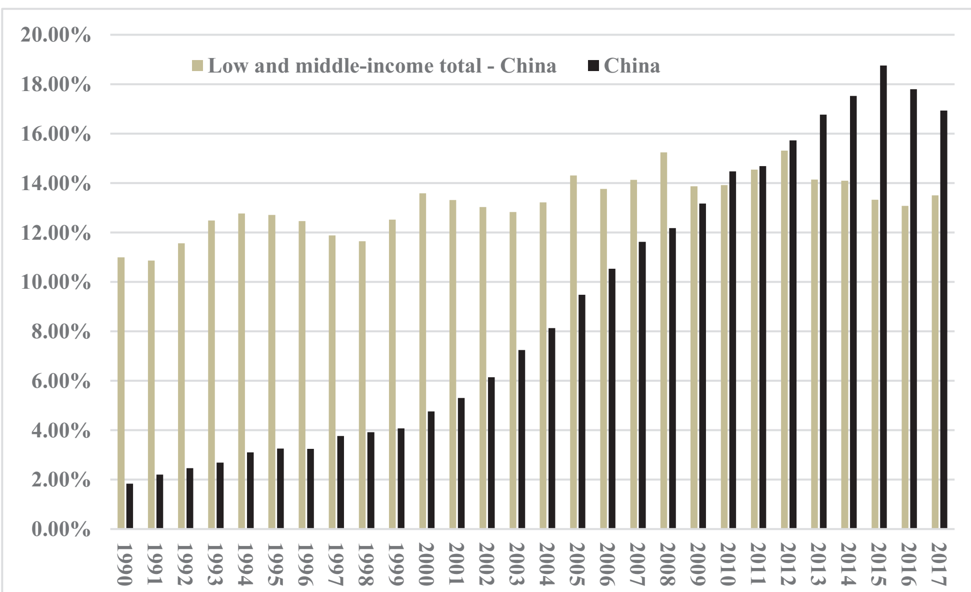

Figure 4. World shares of manufacturing exports. Source: World Bank, *World Development Indicators*, accessed 10 September 2019.

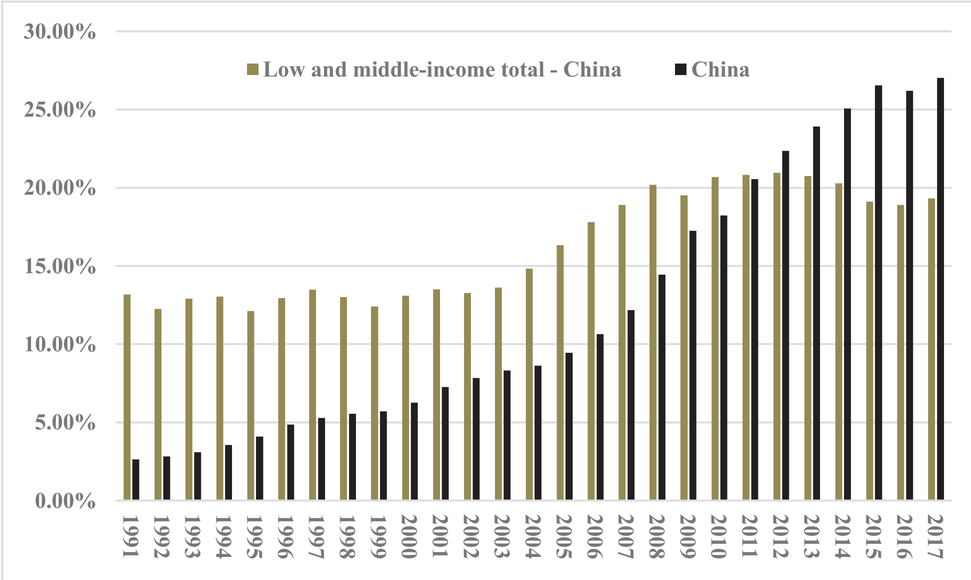

Figure 5. World shares of manufacturing value added. Source: World Bank, *World Development Indicators*, accessed 10 September 2019.

24.7% for all other developing economies combined (Table 2). This correlation raises a question regarding the direction of causation between export and output performance, on the one hand, and productive investment, on the other hand.

Two theoretical strands, on primarization in developing economies, provide insight for investigating the nexus of de-industrialisation and (the lack of) productive investment. The theory of the Dutch Disease, focussing on issues of incentive, posits that the movements of relative prices (particularly the exchange rate) following a commodity boom tend to induce investment to shift away from industrialisation. In contrast, the Dependency interpretation of the Prebisch–Singer thesis, on the deterioration of the terms of trade against primary commodities, focuses on capability. It posits that the deterioration tends to result in the outflows of the investible economic surplus of developing economies, thereby undermining their capability to industrialise. These views can be rephrased in the following way. First, industrialisation requires investment utilising available economic surplus. Second, de-industrialisation can be caused by either lack of capability or lack of incentive to invest. Third, lack of capability due to surplus outflows is externally caused, while lack of incentive due to the 'misuse' of surplus is internally caused. Neoclassical economics need not agree that de-industrialisation is a 'misuse' of resources, provided that it is in line with the principle of comparative advantage. Dependency theory, meanwhile, contends that the 'domestic' can just be an outcome dictated by the prevailing dynamics of the world political-economic system.

In view of the major attributes of China's international economic activities, detailed in the previous section, it is unlikely that there have been systemic surplus transfers – of a scale that matches the discrepancy in gross capital formation indicated in Table 2 – from other developing economies to China. Also recall that, alongside the expansion of trading with China since the turn of the century, there has been a trend of improving terms of trade for

Table 2. Gross capital formation and manufacturing value added (average % of GDP).

	1970–1979	1980–1999	2000–2017
Gross capital formation (% of GDP)			
China	34.0	37.2	43.1
Low- and middle-income excluding China	26.6	24.8	24.7
Manufacturing value added (% of GDP)			
China	36.8	34.2	31.3
Low- and middle-income excluding China	17.9	18.0	15.6

GDP: gross domestic product.
Source: World Bank *World Development Indicators*, accessed 23 May 2018 and 13 January 2019.

the rest of the developing world. It is likely that lack of incentive, in the relevant developing economies, has blocked the utilisation of incomes from the China-related commodity booms to invest in industrialisation.

The contrast in productive investment can also serve as counter-evidence to the thesis of 'undercutting labour'. Recall the rapidly rising share, in China's total exports, of machinery and transport equipment, which can be reasonably classified as capital intensive rather than labour intensive. Recall also the fast expansion of China's exports, and the persistence of trade surpluses, amid the massive appreciation of the yuan. In addition, note that the wage rise was rather rapid precisely during this period of China's rapid expansion in international trade and outward investment. Between 2000 and 2018, the average annual growth of the real wage rate was 10.4% for urban registered employees and 9.1% for migrant workers, both exceeding the 8.8% average annual growth of real per-worker GDP (Figure 6). To achieve the export expansion amid the currency appreciation and wage rise required sufficiently fast growth in labour productivity. And it is conceivable that this fast productivity growth was associated with the fast growth in productive investment.

All these said, the 'undercutting labour' thesis appears to be far less convincing than the alternative thesis that productive investment was the main driving force behind China's productivity growth, industrial upgrading, and, therefore, export competitiveness. Insofar as the rest of the developing economies did find themselves compelled to cheapen labour with a view of withstanding competition by Chinese manufactures, this might have been mainly due to their insufficiency in productive investment. *Prima facie*, this discrepancy between China and the rest of the developing world in productive investment must somehow be ascribable to differences in their respective political-economic conditions.

4. China vis-à-vis globalisation: systematic dynamics and systemic impact

The thesis of 'reinforcing Southern de-industrialisation', and even more so that of 'undercutting Southern labour', rests on a particular perception of the prevailing model of economic development in China. This is a model of export-oriented, labour-intensive industrialisation mainly based on 'cheap labour'. The relationship between this model and the displacement effects on other developing economies is self-explanatory: that China needs to rely on the expansion of labour-intensive manufactures exports to sustain its economic growth and employment. The relationship with 'undercutting' is also conceivable: that the competitiveness of China's manufactures exports is said to have been sustained by 'cheap labour' (ie low wage rates), at least relative to productivity.

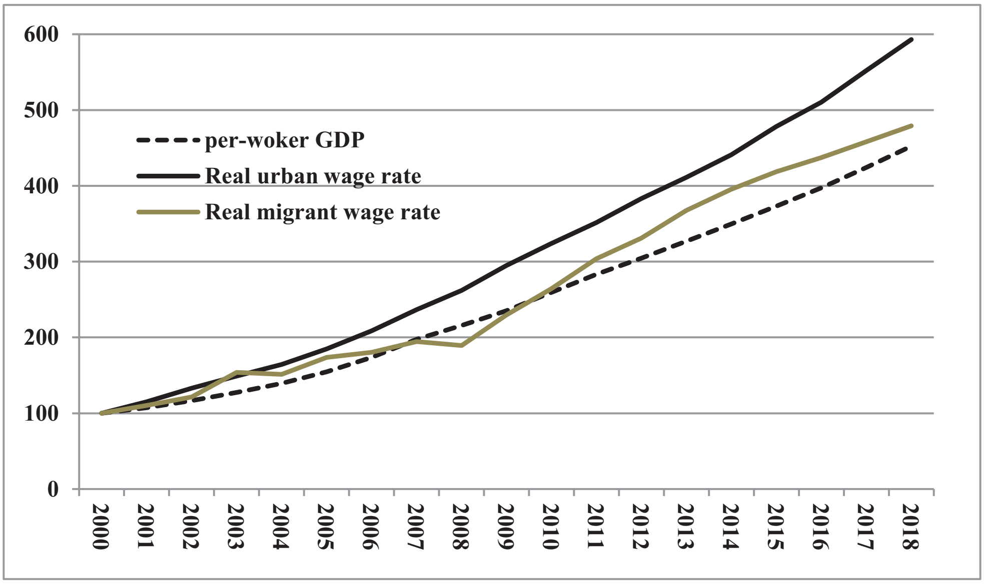

Figure 6. Indices of per-worker real gross domestic product (GDP) and real wage rates (2000 = 100). Sources: Per-worker real GDP and urban wage rate data from *China Statistical Yearbook*, various issues; wage rate data for migrant workers from *Report on Monitoring and Surveying Migrant Workers*, various issues, and Lu Feng, "Wage rate trends of China's migrant workers, 1979–2010", *Zhongguo Shehui Kexue* [*Social Sciences in China*], 2012, no. 7 (2012): 47–67.

The claim that Chinese exports have been mainly labour-intensive products, and the perception of 'cheap labour' in China, are not consistent with the empirical evidence presented in Section 2. The portrayed 'China model' of economic development in general, as will be seen below, is far from accurate. But, irrespective of the accuracy of the claim, perception and portrait, for the aforementioned relationships to hold, the role of China in world development needs to be of systemic significance – not just due to its size but, rather, due to its interaction with the prevailing systematic dynamics of neoliberal globalisation. Clarifying such dynamics is thus needed to pin down the impact of China on late development worldwide, over and above the two theses under review.

A sketch of the systematic dynamics of world development under globalisation

The systematic dynamics of world development can be gauged by characterising the core policy doctrines of globalisation. The doctrines, known as the Washington Consensus, are neoliberal in nature and have been mainly composed of three generations of policies: market and trade liberalisation, privatisation of public assets and services, and financial liberalisation especially concerning the de-regulation of cross-border capital flows. These policies combine to make economic resources increasingly financially tradable, and speculative finance become increasingly predominant in the economy. Since the early 1990s, a process of financialisation has been central to the systematic dynamics of world development.

Theoretically, financialisation, or capital being increasingly oriented to speculative activities, necessarily leads to the crowding-out of productive, long-term investment. This crowding-out also tends to worsen income distribution between capital and labour, thereby depressing consumption growth. World development under globalisation thus tends to encounter systemic demand deficiency. Moreover, the nature of speculative activities is such that they tend to focus on redistributing profits, not creating profits. Economic crises thus tend to first erupt in the financial sector, in the form of financial volatility or even financial collapse. The logic of financialisation, in short, is to make itself intrinsically unsustainable.[24]

In reality, financialisation has actually been sustained for a prolonged period, up until the outbreak of systematic crises from 2008. The key to resolving this paradox is the concept of 'accumulation by dispossession': capital accumulation under neoliberalism is mainly based on the absorption into the world market of productive resources that were previously outside of it. In its formulation by David Harvey, the concept refers mainly to 'predation, fraud, and thievery', through various forms of speculative wealth- or profit-seizing financial activities. Harvey also refers the concept to the expansion of the working class, by means of incorporating workers in the developing world into the system.[25] This second point implies capital chasing 'cheap labour' around the world. A process of the 'race to the bottom' could then arise if, via neoliberalisation, labour supply expands faster than labour demand. The profits so created and extracted could then serve to sustain the process of financialisation.

Harvey, in his exposition on 'accumulation by dispossession', seems to emphasise predatory activities while downplaying labour absorption. This treatment does have its reasons. Theoretically, in the context of financialisation, capital in general is inclined to pursue profits via speculation more than production. If at all possible, capital tends to dissociate itself from particular input–output configurations in particular locations. Insofar as production is necessary, avoiding large-scale sunk investment and pushing to the maximum degree of the substitution of labour for capital are logical of this inclination. Empirically, there is evidence that the political-economic establishments of today's world have been in a significant measure dominated by the so-called Wall Street–Treasury– International Monetary Fund (IMF) Complex. Predatory activities by speculative finance were quite evident in the series of developmental crises under globalisation.[26]

All this said about predatory activities, it can be argued that labour absorption is no less important for 'accumulation by dispossession'. The IMF estimates that in the period 1980–2005, the number of workers effectively producing for the world market quadrupled, and that increase mostly came from developing economies.[27] Such a rapid pace of labour absorption has most likely created a situation that can be dubbed 'the Lewis Model on the world scale': a situation of unlimited supply of labour from the South for employment by capital from the North. This being the case, the ramifications for world development could be very problematic. In times of expanding labour absorption, the unequal power between capital and labour entails surplus transfer from the South to the North. This, in turn, implies a tendency to induce the developing economies involved to fall into a 'low technology, low wage' trap. In times of crisis, the relevant developing economies tend to bear the brunt of the systemic shocks arising from demand deficiency. In this context, some developing economies could still benefit from the labour absorption, if they manage to raise their labour productivity fast enough to more than compensate for the surplus outflows. But this must be the exception, rather than the norm, in the face of the crowding-out of productive investment and the tendency of the 'race to the bottom'.

The characterisation above, to be sure, is no less theory-specific than the neoclassical general equilibrium analyses and the structuralist demand-side and linkage analyses, which were referenced in Section 3 to contextualize the two theses under review. Yet insofar as the characterisation does have elements of truth, its focus on capturing the systematic dynamics of world development can be very useful for investigating into the subject matter of this paper.

The 'China model' beyond export-oriented, labour-intensive industrialisation

Has China's economic expansion been reinforcing, or undermining, the systematic dynamics of world development characterised above? To answer this question requires dissecting the interaction between China and world development, as well as the direction of its domestic economic transformation. It is necessary to verify whether export-oriented, labour-intensive industrialisation has been the mainstay of the 'China model' of economic development since the turn of the century. Available evidence suggests that it has not.

Consider labour absorption. Incorporating Chinese labour into the world market has been crucial for the formation of 'the Lewis Model on the world scale'. Recall the IMF estimate that the effective labour force of the world market quadrupled between 1980 and 2005. This estimate is constructed by summing over the national data of total labour forces adjusted by their export-to-GDP ratios. Using a simpler, aggregate measure of the same indicator, the number of workers effectively producing for the world market in 2005 is found to be 2.28 times that in 1980, whilst the estimate for all developing countries is 3.79 times and that for China alone is 8.65 times the 1980 value. The world share of the number of Chinese workers producing for the world market increased from 8% in 1980 to 32% in 2005.[28]

Along with labour absorption there are the drawbacks suggested by the above characterisation of the dynamics of world development. The renowned 'Foxconn Model', a model of manufacturing sweatshops controlled by transnational capital, has often been cited as representative of the Chinese economy as a whole. It is symptomatic of developmental drawbacks such as a low capital–labour ratio, high work intensity and low wage rates at the micro level, and under-consumption at the macro level. The result is surplus outflows in times of expansion, and excess capacity in crisis-ridden times.[29]

Is the 'Foxconn Model' representative of the Chinese economy? It might be representative only of the sector of processing trade, ie manufacturing activities that import parts and components, assemble into finished products, and re-export to the world market. Exports under the category of processing trade accounted for approximately half of the annual value of China's total merchandise exports from the mid-1990s until 2010, before turning to continuous decline to gradually reach 34% in 2016. Measured as the ratio of net to gross exports, the ratio of domestic value added of processing trade steadily increased from around 20% in the mid-1990s to reach the peak level of 45% by 2009. The value added so calculated for 2009 was equivalent to no more than 5% of China's GDP. Processing trade is thus no more than an enclave sector of the Chinese economy.[30]

The mainstay of Chinese economic development since the late 1990s has been far more than a process of labour-intensive, export-oriented industrialisation. Recall the analysis of China's trade performance in Section 2, and the critique of the thesis of undercutting in Section 3. The rising share of machinery and transport equipment in total exports, the persistence of trade surpluses amid rapid currency appreciation, the continuous wage rise, and, most fundamentally, the fast productivity growth all indicate that 'cheap labour' can hardly be a significant underpinning of China's export and economic growth. Sustained rapid growth in productive investment, in defiance of the broader context of financialisation, is far more important.

It has been suggested elsewhere that, since the late 1990s, Chinese economic development has exhibited a tendency to converge to what can be termed the 'Golden Age Model', ie the economic model that prevailed in advanced capitalist economies in the era 1950–1975. Characteristic of the model is synchronous growth in labour productivity and the wage rate, which, in turn, underpins synchronous growth in investment and consumption. It is with this tendency that China has been able to sustain its income growth, and therefore its absorption of primary commodities from the rest of the world on a gigantic scale. This import appetite, together with the inclination to depress export prices by the sector of the 'Foxconn Model', explains the spectacular trend of deterioration of China's terms of trade with the rest of the developing world.[31]

Now, consider issues of predation. In the first decade of the twenty-first century, there was a notable trend in the world of finance: massive increases in the official holding of reserves in foreign exchange by developing economies. Measured as a ratio to their monthly average import values, the official holdings by developing economies increased from 5.2 months in year-end 2000 to 10.6 months in year-end 2014. The ratio for China alone increased from 7.9 to 20.8 months. In contrast, the ratio for developed economies increased only slightly, from 2.4 to 3.2 months.[32] In the face of increasing financialisation of the world economy, developing economies had to accumulate reserves to protect their currencies against speculative runs. Given the low rates of returns to the reserves, the accumulation entails paying seigniorage to the reserves currency-issuing countries – a tributary transfer of economic surplus to the financial hegemons of the world.

The situation with China could be considered the extreme of this outward surplus transfer. In addition to facing the general pressure of global financialisation, China has had to confront conundrums arising from what Ronald McKinnon and Gunther Schnabl term 'currency mismatches'.[33] Whilst being the biggest trading economy in the world, with the biggest trade surplus, China's currency is not sufficiently important in the international monetary system to finance the surplus. It thus had to accumulate reserves in the period 2000–2014. Worse, pressed by its trading partners for reducing trade surplus, it had to allow its currency to continuously appreciate after 2005, and this invited massive inflows of 'hot money' only to further increase official reserves.

Things seem to have worsened after 2008. Amid the unfolding Great Recession worldwide, predatory activities via hegemony in the international monetary system have become all the more reckless. It is reported that the series of quantitative easing in developed economies resulted in the flooding of 'hot money' in developing economies, and, with leveraged effects, generated serious asset bubbles.[34] The reverse flows after 2014, again with leveraged effects, resulted in bursting of the bubbles. These inflows and outflows of 'hot money', manipulated by the financial hegemons of the world, have been exceedingly harmful to developing economies. China, for one, has suffered from the associated booms and busts with its asset markets. Its loss of foreign exchange in 2015 due to capital outflows, for instance, is estimated to exceed US$ 600 billion.[35] The severe fluctuations in its stock market in 2015, and in its exchange rate, were to a significant measure related to these inflows and outflows of 'hot money'.

In an attempt to cope with 'currency mismatches', after 2008, China sped up the process of the internationalisation of its currency, the Renminbi yuan. One set of policies that have been undertaken centre on opening up the domestic financial market. Yet these policies have proved to be problematic. The massive inflows and outflows of 'hot money' have caused booms and busts in the domestic asset markets. Worse, they have also caused serious crowding-out effects on productive investment, forcing Chinese industrial firms to become increasingly speculation oriented. The likely outcome of promoting yuan internationalisation under the existing international monetary system is, at best, to financialise the Chinese economy with a hope of sharing the hegemony, ie to transform itself into purely a part of neoliberal globalisation. The more likely outcome, however, is that it will fall prey to the existing financial hegemons of the world.

In summary, hitherto, China has been partly submissive to the prevailing systematic dynamics of world development, in the form of the 'Foxconn Model' in production and falling prey to international speculative interests in finance. It has also been partly resistant to the dynamics, in the form of the domestic structural-institutional arrangements that have generated the tendency of converging to the 'Golden Age Model'. In recent years, the Chinese leadership has initiated a range of international programmes – the 'Belt-and-Road Initiative' programme, the Asian Infrastructural Investment Bank, the New Development Bank, etc. – aimed at reshaping the economic landscapes of the world. One objective of these programmes is to promote yuan internationalisation in a way that forces finance to serve productive activities, rather than attempting to join the existing, speculation-oriented financial hegemons of the world. The success or failure of this pursuit of an alternative to the prevailing systematic dynamics of world development will be of fundamental importance, not only for China itself but also for its impact on the broader developing world.

5. Conclusions

China's economic expansion over the past two decades has been of world-scale importance. This has induced enormous scholarly efforts to clarify its dynamics and ramifications. This paper seeks to contribute to the literature by attempting a delineation of the systematic dynamics of China, and of neoliberal globalisation. The objective is to construct an appropriate conception of the systemic impact of China on world development.

Many existing studies have coalesced around the theses of 'China reinforcing Southern de-industrialisation' and 'China undercutting Southern labour', with ample supportive evidence. Yet the theses themselves cannot be said to be sufficient for assessing the systemic impact of China on world development. They need to be contextualised, both theoretically within broader frameworks that take into account further effects that might have been brought about by China, and empirically in terms of the overall picture of the actual process of world development.

Regarding the thesis of 'reinforcing de-industrialisation', this paper argues that it is deficient at the systemic level. The rest of the developing world has experienced considerable expansion in manufacturing production and export, precisely in the period that China became a world-significant player in international trade and investment. In terms of the thesis of 'undercutting labour', which largely hinges on the perception of a China-created 'race to the bottom', this paper argues it is wrong, because China's trade expansion has been sustained by productivity growth rather than 'cheap labour'. In both instances, the contrast in production and trade performance is instead attributed to the difference between China and the rest of the developing world in productive investment.

Further discussion on the broader picture of world development suggests that its systematic dynamics has been dominated by a process of 'accumulation by dispossession'. This takes the forms of financial predation and labour absorption, leading to under-investment across the world. China's political economy has hitherto been mainly production-oriented in nature. This nature, by promoting productive investment both domestically and in the broader world, has served as a countervailing force against the speculation-oriented nature of the world market.

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Notes

1. Wage data from International Labour Organization, *Global Wage Report 2018/19*. Other data from World Bank, *World Development Indicators*, accessed on 10 September 2019. Unless otherwise indicated, all the data used in this paper are from the same World Bank sources.
2. This paper dwells on the systematic impact of China on world development with respect to the economic issues of income creation and acquisition. There are further issues that are bound to embody China's systematic impact on world development, perhaps most importantly those concerning global climatic change – that is, the emission of greenhouse gases and the sharing of the rights (and responsibilities) of emission. These further issues are beyond the scope of the paper.
3. The term 'systematic' is used in this paper to capture the essential character of the institutional arrangements and rules that govern world economic activities. This is to be distinguished from the term 'systemic', which means 'system-wide' in scale or scope. The exposition in Section 4 will concretise the notion of systematic dynamics.
4. Exchange rate data from Bank of International Settlement, *Effective Exchange Rate*, accessed 11 June 2018.
5. Garcia-Hererro, Xia, and Casanova, *Chinese Outbound*, estimate that, in 2013, of mainland China's FDI flows to Hong Kong, 40% was round-trip back to the mainland, 30% stayed in Hong Kong, and the remaining 30% was distributed to the rest of the world. In that year, the flows to

Hong Kong accounted for 58% of China's total FDI flows to the world. This proportion is broadly in line with the general trend: as of year-end 2018, Hong Kong still accounted for 56% of the stock of mainland China's outward FDI (whilst the Cayman Islands and British Virgin Islands, two other 'tax havens', combined accounted for 20%).

6. Data in the next three paragraphs are from National Bureau of Statistics of China, *China Statistical*, and Ministry of Commerce of China, *Report on Development* and *Statistical Bulletin*, various issues.
7. The pattern of geographical distribution could be significantly altered by the intermediation of Hong Kong, which is included in the category of 'developing economies'. Taking into account the estimates in note 5, and assuming that all non-round-trip FDI flows that passed through Hong Kong ended up in the developed world (and Hong Kong itself being re-categorised as a developed economy), the proportion of China's FDI flows to developed economies could then be as high as 48% of the total in 2018. This might be an inflation, though, as some of the non-round-trip FDI flows could end up in developing economies.
8. There is a possibility that the data of sectoral distribution of China's FDI in Latin America could be distorted by the concentration of the flows to holding companies in Caribbean tax havens (the British Virgin Islands and Cayman Islands), which are used as intermediate destinations.
9. A caveat concerning definitions needs to be stressed. For the thesis of 'China reinforcing Southern de-industrialisation', the relevant studies mostly focus on the displacement effect (and the primarisation effect) of Chinese exports on the scale of industrial activities in the developing economies concerned. This focus deviates from the definition, traditionally used in the relevant policy discourse, of de-industrialisation as a process of decreasing shares of industry in the economy. As can be seen from Table 2, de-industrialisation in this traditional definition seems to have prevailed in the developing world irrespective of China, and China itself has actually undergone the same process of de-industrialisation so defined.
10. The literature on 'China reinforcing Southern de-industrialisation' is rich. Below are some representative examples. On East Asia, see Eichengreen, Rhee, and Tong, *Impact of China on the Exports*; Greenaway, Mahbir, and Milner, "Has China Displaced Other Asian"; and Hart-Landsberg and Burkett, *China and Socialism*. On sub-Saharan Africa, see Buse, Erdogan, and Mühlen, "China's Impact on Africa"; Edwards and Jenkins, "Impact of Chinese Import Penetration"; Kaplinsky, "What Does the Rise of China Do"; Kaplinsky, McCormick, and Morris, *Impact of China on Sub-Saharan Africa*; and Kaplinsky, McCormick, and Morris, "China and Sub-Saharan Africa." On Latin America, see Álvarez and Claro, "David versus Goliath"; Gallagher, Moreno-Brid, and Porzecanski, "Dynamism of Mexican Exports"; Jenkins, "Measuring the Competitive Threat"; Jenkins, "Latin America and China"; and Jenkins, Peters, and Moreira, "Impact of China on Latin America."
11. Fu, Kaplinsky, and Zhang, "Impact of China."
12. See Jenkins, "Latin America and China"; Rosales and Kuwayama, *China and Latin America*; Sandrey and Edinger, *China's Manufacturing and Industrialization in Africa*; and Pigato and Tang, "China and Africa."
13. Again, a caveat concerning definitions needs to be stressed. For the thesis of 'China undercutting Southern labour', the relevant studies tend to hold the view that it entails a process of 'the race to the bottom' where the bottom is determined by labour condition in China. This is precisely the meaning of 'undercutting'. Yet it is conceivable that developing economies could still be forced, by the competitive pressure of Chinese exports, to 'cheapen' labour irrespective of the labour conditions in China. The competitive pressure can still be in place with improving labour conditions in China, provided that its productivity growth exceeds the improvement. This points to the importance of productive investment.
14. See Baah and Jauch, "Chinese Investments in Africa"; and Brautigam, *The Dragon's Gift*.
15. Dollar, *China's Engagement with Africa*, provides a survey of the issue in multiple countries.
16. See Lee, "Spectre of Global China"; and Tang, "Does Chinese Employment Benefit Africans."
17. See Chan, "Race to the Bottom"; Foster and McChesney, *Endless Crisis*; Hart-Landsberg and Burkett, "Chinese Reform Experience"; and Walker and Buck, "Chinese Road: Cities in the Transition."

18. See Álvarez and Claro, "David versus Goliath"; and Edwards and Jenkins, "Impact of Chinese Import Penetration."
19. Wood and Mayer, "Has China Deindustrialised."
20. di Giovanni, Levchenko, and Zhang, "Global Welfare Impact of China."
21. Wolf, "China and Latecomer Industrialization Processes"; and Wolf, "Industrialization in Times of China." Concerning structuralist analysis of the combined impact of the various China-generated effects, there are diverse findings from different studies. Yoshimichi Murakami and René Hernández, in "Impact of China on Economic Growth," in a balance-of-payments-constrained growth analysis, find that the Chinese impact on three Latin American economies is positive but rather modest. In a separate study of China's impact on a sample of 62 developing economies, Teng and Lo, *Determinants of Developing Countries' Export*, find that the balance-of-payment effect is indeed insignificant. Yet they also find that the terms-of-trade effect is significant and strong in raising the productive investment and export sophistication of the developing economies concerned.
22. Poon, *China's Development Trajectory*.
23. Rodrik, *"Premature De-Industrialization"*; and Felipe and Mehta, "De-Industrialization? A Global Perspective."
24. See Lazonick, *Sustainable Prosperity*; and Wade, "Choking the South."
25. Harvey, *Brief History of Neoliberalism*.
26. Wade and Veneroso, "Asian Crisis."
27. IMF, *World Economic Outlook*, April 2007.
28. Data from UNCTADsta, accessed May 8, 2016, https://unctadstat.unctad.org/EN/
29. See Foster and McChesney, *Endless Crisis*; Hart-Landsberg and Burkett, "Chinese Reform Experience"; and Smith, *Imperialism in the Twenty-First Century*.
30. For a detailed analysis of the scale and character of China's processing trade, and the dualistic structure of the Chinese economy, see Lo, "China and World Development."
31. The synchronous, rapid growth of the wage rate and labour productivity in the period 2000–2016 was reported in Section 3. In the same period, there was also synchronous growth in consumption and investment of unprecedentedly fast speed: the average annual growth rate, in real terms, was 9.8% for consumption and 12.7% for investment. These synchronous growths were underpinned by an institutional framework that resembles the 'Golden Age Model'. For further details, see Lo, "China Confronts the Great Recession."
32. Data from International Monetary Fund (IMF), *Currency Composition of Official Foreign Exchange (COFER)*, accessed May 17, 2018, and *World Economic Outlook*, various issues.
33. McKinnon and Schnabl, *China's Financial Conundrum*; McKinnon and Schnabl, "China's Exchange Rate and Financial Repression.
34. Palma, *Why Corporations in Developing Countries*.
35. Institute of International Finance, "Capital Flows to Emerging Market," January 19, 2016, https://images.magnetmail.net/images/clients/IIF_2/attach/CF_0116_Press(3).pdf

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