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"Spectacular Privatizations: Perceptions and Lessons from Privatization of Welfare and the Privatization of Disaster", in Hillary Potter ed. (2007) Racing the Storm: Racial Implications and Lessons from Hurricane Katrina, Lexington Books, Maryland.

"The New Imperial Conjuncture and Alternative Futures for the Twenty-First Century Global Political Economy", in Globalizations (Routledge) May 2005

"Empire and Its Multitude" (co-authored with Steven Sherman), in Journal of World-Systems Research

Global Financial Crises and the Rise of East Asia

[IN] Ganesh K. Trichur

System-wide sea-changes mark the current global conjuncture. Newspaper headlines since August 2007 have dramatized these changes by relating them to the unfolding of the U.S. subprime mortgage crisis followed by the collapse and bailout of major Wall Street (globalized) Investment Banks by the U.S. Federal Reserve and the Treasury. These developments represent a volte face in the world economy. For if the new century started out, as Gillian Tett observes, "with the idea that financial supermarkets were where the future would lead, that deregulation, free markets, innovative, creative sectors like derivatives were the future, and that leverage was the name of the game", it is clear that "now each of these concepts is completely out of fashion". Further, if the current financial crisis began with credit derivatives in credit markets, it has since spread to affect all kinds of financial assets from equities to corporate bonds to government bonds, thereby setting the stage for growing volatility in foreign exchange markets as well (FT Guide to Davos: 27 January 2009). These forms of financial turbulence and the unabashed resort to State-sponsored bailouts of failed financial enterprises in the global North, appear to confirm Karl Polanyi's (1944) incisive insight that 'free enterprise capitalism' has never been 'free' from the 'visible hand' of State-sponsored Regulation or State-sponsored Deregulation. At the same time, the economic ascent of China and its enormous accumulation of foreign exchange reserves through its export-oriented development strategy has become the target of attack by the U.S. Vice-President Joe Biden and the U.S. Treasury Secretary Tim Geithner for alleged exchange rate manipulation. In response, the Chinese Premier Wen Jiabao rejected these charges as "ridiculous"; strongly defended the Chinese Renminbi as being at a 'reasonable and balanced level'; and explicitly critiqued the U.S. levels of high consumption and low savings as an "unsustainable model of development" (FT Monday 2 February 2009). In addition, Wen Jiabao also rejected any Chinese turn toward protectionism no doubt in large part because the U.S. continues to be a major market for Chinese exports and because the PRC is the largest holder of U.S. Treasuries and Securities (even though many of these holdings may well be part of what are today called "toxic securities").

The current conjuncture thus presents a growing tension between the financial crisis in the U.S. (and the global North) on the one hand; and the interdependence of China on U.S. (and European markets) on the other. In the period after the mid-1980s the PRC-led East Asian expansion has become the spearhead of a world-scale material expansion based on its hugely productive coastal export workshops; while the U.S. has remained for the last thirty years the Keynesian consumer of last resort and the key source of world demand for the immense productivity of East (and South Asian) workshops. The current financial crisis however points to the limits of the debt-ridden U.S. economy as a continuing source of demand for East Asian producers. And it suggests that the East Asian expansion itself, insofar as it remains geared toward meeting demand from Northern markets, may grind to halt in the near future.

These tensions have only intensified the uncertainty about the future of the global economy, at a moment when "almost every institution which had seemed impregnable two years ago and in which people had put their faith has come under attack in the markets". Despite the bailouts of Northern investment banks there is still "a massive shortage of lending in the economy" (FT Guide to Davos 2009: 7-8). All the economic signals that global ruling classes go by suggest the onset of a powerful world recession. At the January 2009 meeting of global business, financial and political elites in the Davos World Economic Forum, the earlier "globalization consensus" appears to have all but evaporated – and along with it the idea that international economic integration is the path to steadily rising prosperity (Gideon Rachman: Financial Times Wednesday 28 January). The newer consensus is that with the worldwide spread of the current financial crisis, the world's nation-states may prefer to slide into protectionism, subsidies and big government borrowing (in the global North and hence increase the debt burdens on future generations) to finance huge fiscal stimulus packages (in both the U.S. and the EU although more so in the U.S.). At the same time, although the global elite are no longer confident in their capacity to govern the world political economy through the discourse of free trade, free markets and free flows of capital, they remain skeptical about any possibility of the "decoupling" of China and the "emerging markets" from the affluent nations of the global North. The PRC's export machine certainly appears to have slowed down since November and December 2008, thousands of small factories have been forced to close, over ten million jobs have been lost, and there appears to be little chance of maintaining Chinese GDP growth rates above 6% in 2009 (Geoff Dyer: Financial Times Wed 28 January:6). Although the PRC has Rmb 4000 billion ($585 billion) investment planned over the next two years, there is danger of over-capacity. India is facing a recessionary downturn, as are other nations in the global South. Although China is maintaining its growth momentum through urbanization and technology catch-up the lingering question is how long can China – and the global South more generally – rely upon export-led development and public infrastructure investments to sustain high growth standards of the past?

The most significant dilemma in the current conjuncture may be restated as follows. On the one hand it is abundantly clear that the U.S. model of world development has reached a dead end with the current financial crises: it is clearly unsustainable within the U.S. and certainly outside the U.S. as Wen Jiabao recently observed (in the Financial Times). On the other hand the PRC-led East Asian economic expansion and regional integration appears tied to the fortunes of U.S. (and more generally Northern) aggregate consumer demand. How was this dilemma created? How may we understand this current impasse in order to transform it?

In the sections below I outline the particulars of my general argument that the current global financial crises and the current phase of the PRC-led economic expansion of East Asia are conjoint phenomena that need to be addressed together.

I: How has the Neoliberal Financial Expansion unfolded across the world economy?

In the first place the current global financial crisis is the outcome of the neoliberal global 'financial expansion' (Braudel 1982; Arrighi 1994) that began in the late 1970s and early 1980s. Central to this financial expansion was the resurgent path of financial speculation – following Marx's "abridged formula" of capital accumulation (M-M`: M`>M) – through extensive (industrial and financial) deregulation via the ideological triumph of monetarism.

The neoliberal turn that emerged in the 1970s was the ruling class response in the U.S. to the historically recurring crisis of overaccumulation of capital. It registered itself as a generalized crisis of profitability from continuing to invest in the U.S.-led post-1945 global developmental path laid out by a U.S.-led combination of governmental and business enterprises. This Cold War developmental path reached its limits in the late 1960s primarily as a result of the U.S. military defeat in Southeast Asia. The attendant U.S. deficits and world monetary crisis sparked by the collapse of the fixed exchange-rate gold-dollar standard were accompanied by the collapse of the Bretton Woods institutions that had organized and legitimized U.S. world power during the post-war decades. The twin forms taken by the overaccumulation crisis were thus a crisis of profitability of ruling classes and a crisis of legitimacy of the U.S. state in the aftermath of the Vietnam War. In the process the 1970s also witnessed the unraveling of the post-1945 ruling class consensus on the Keynesian-Fordist global architecture that supported welfare states in the global North and developmental states in East Asia and elsewhere in the global South. The neoliberal consensus that emerged in the 1970s and 1980s – and whose monetarist laboratories were Chile after the 1973 coup; and New York city after its fiscal crisis – were successful attempts to restore the class power of ruling classes in the global North. Between 1965 and 1973 the rate of profit fell by 30% in the US private business sector and by 20% in the G-7 core group of nations (Brenner 2002: 22). Class power, measured by command over national income shares by the top 1% of income-earning US households, plunged precipitously in the 1970s (Harvey 2005: 44; 15-22). In the U.S. neoliberal doctrines helped restore class power to its upper class strata through the 1979 Volcker (monetarist) Shock and the emergence of a new political class represented by the election of Reagan and the Christian Moral Majority. In the U.K. the Right came to power in the form of Thatcherism. These developments facilitated ruling classes in the capitalist core to switch from the (post-1945 Fordist-Keynesian) tracks of 'expanded reproduction' of capital (M-C-M`: M`>M) to investments in (historically recurring) financial expansions (Arrighi 1994: 1-15) along the 'abridged' circuit of capital accumulation (M-M`: M`>M). The hyper-mobility of transnational capital since the mid-1980s, in particular of short-run speculative flows of "hot money" into and out of neoliberal states, was the hallmark of the neoliberal financial expansion – facilitated by the triumph of monetarist doctrines, extensive industrial and financial deregulation of national economies (although the US, the EU, and Japan continue to protect agriculture through farm subsidies and tariffs), and widespread privatization of state-owned assets.

However, the turn toward neoliberalism has been accompanied by two contradictory effects on the interstate system of sovereign nation-states. On the one hand, the neoliberal turn has produced a general disempowerment of all states in the interstate system, through the retreat of all (Keynesian) welfare states and national developmental states. Neoliberalism in fact worked through the dismantling of welfare states and developmental states. This dismantling of Third World development states accelerated after the debt-crises of the mid-1980s following the 1979 Volcker Shock that effectively raised interest rates on Third World borrowings (from investment banks in the early 1970s when the world economy was awash with liquidity and interest rates were really low) and bankrupted these states. IMF 'structural adjustment programs' (SAPs) were then imposed on the global South. In Africa IMF-imposed SAPs forced the withdrawal of African states from their former developmental roles leading to the economic meltdown of the continent (Ferguson 2006). In Russia (and in Eastern Europe) after 1989 the privatization through Western 'shock therapies' produced endless social chaos (Gowan 1999) until Putin succeeded in re-centralizing political power and steering Russia in a direction drastically different from neoliberal prescriptions. And in India the adoption of the neoliberal turn has created a growing space for the emergence of communal violence and the resurgence of the Hindu religious Right. Not growth, but significant structural retrogression accompanied the process of adopting IMF prescriptions – in Africa, in Russia, in India, and South America.

On the other hand, not all nation-states in the interstate system have been equally disempowered by the neoliberal turn. This is because most of the economic growth of the world economy during the period of neoliberalism has taken place in nations and regions that had little to do with neoliberal doctrines. In particular most of the growth during the neoliberal decades has taken place in East Asia. One outcome of sustained East Asian growth after the 1970s – spearheaded by different combinations of agencies, the most recent one being the PRC-led East Asian expansion – is that States in East Asia have remained strong states furthering the process of capital accumulation and in most instances enabling the accumulation of vast quantities of foreign exchange reserves (Japan, Taiwan, South Korea, and the PRC). It also appears that the growth strategy adopted by East Asian states has largely followed the Japanese model. For it was Japan that pioneered the strategy of export-led economic growth (especially during and after the 1950-3 Korean War) with U.S. markets as its final destination. And it appears that this strategy has been followed not only by Taiwan and South Korea, but also, especially during and after the mid-1980s, by the PRC, by Taiwan, by Southeast Asia, and also by India.

II: How has the East Asian-led Material Expansion during the Neoliberal Epoch been affected by the East Asian Financial Crisis?

The second claim I make is that the myriad financial crises of the 1980s and the East Asian Financial Crisis of 1997-8 in particular, have definitively eroded the (neoliberal) IMF-Washington-globalization consensus. This claim may be unpacked as follows.

Among the several financial crises that unfolded in the late twentieth century after the 1979 Volcker Shock – which include the debt crises of the Third World which broke apart their cohesion – the 1997/8 East Asian financial crisis clearly stands out in terms of its socially dislocating effects across the region as well as for the complicity of the IMF in the way in which the crisis was allowed to wreak havoc on East and Southeast Asian societies.

Nevertheless, even more remarkable than the course of the financial crisis is the course of the recovery from the regional crisis. Although the 1990s were a 'lost decade' of growth in Japan, Japanese business networks especially in the leading sector of electronics are actively restructuring themselves through a reduced reliance on keiretsu-type linkages with other Japanese firms; and by relying increasingly on the greater flexibility of small-and-medium sized enterprises (Ernst 2004: 10-12). In this sense Japanese businesses appear to be converging toward the general business form utilized by Overseas Chinese business firms in the Greater China Circle. More generally, the economic future of Japan in the wake of the 1997 crisis has become inextricably intertwined with East Asian growth and prosperity and increasingly with the PRC. Mainland China (not the US) is now Japan's largest export destination in the world-system (Nakamoto 2008:4). Greater technological collaboration between Japan and China on an equal footing – as illustrated in the partnership between Sanyo and Haier since 2002 – is not only increasing but also appears to be the trend of the future (Ernst 2004: 25-6).

In general, the crisis has served to reinforce intra-regional dependence. Intra-East Asian FDI flows excluding Japan rose from 37% of total FDI inflows to Asia in 1999 to 40% in 2001: "non-Japan East Asia gets more than half of its inward FDI from regional countries" (Hamilton-Hart 2006: 115). The financial crises in the region also appear to have strengthened the resolve of East Asian states to gain more leverage over the flows of capital and to create robust institutions with a greater capacity for regional crisis management. Of clear importance in this regard is the creation in 1999 of the 'ASEAN Plus Three' (APT) group which includes China, South Korea and Japan; the emergence in May 2000 of the regional Chiang Mai Initiative (CMI) which offered facilities for emergency foreign currency liquidity support; an enlarged ASEAN Currency Swap Arrangement; as well as several bilateral swaps (negotiated between 2000 and 2003 amounting to over $30 billion); and an "explosion of bilateral trade pacts" (Pempel 2005: 15). These regional initiatives were devised following widespread regional distrust with the IMF whose policies in the aftermath of the financial crisis only worsened the effects of the crisis on the region. In short, East Asian integration has intensified a process that sidesteps the U.S.-instituted Cold War parameters that framed the region's development. As a result the Northeast Asian 'core' group (China, Japan, and South Korea) cooperate more and more with each other and with Southeast Asia. Simultaneously, East Asia's material expansion has not only deepened its trade, commerce and investment linkages with the oil-rich nations of West Asia, it has also widened the trade and investment relations between China and Africa, China and Latin America, and East Asia and regional markets in South Asia.

A third salient fact about East Asia after the 1997-8 crisis is the accumulating wealth of the region as a whole. In terms of holdings of foreign exchange reserves, by August 2006 Japan held $664 billion in US Treasury securities while China's holdings were $339 billion which surpassed the $300 billion combined holdings of the UK, Germany and Canada (Norris 2006). Large current account surpluses and the world's largest accumulations of foreign exchange reserves (of over $1 trillion compared to $171 billion held by the European Monetary Union and $29 billion held by the US) have become strong financial buffers for the region.

Partly as a consequence of these global networks of East Asian production relations and the growing competitiveness of the global South in the production of world exports, Giovanni Arrighi (2007: 382) observes that the 1997-8 crisis also marks a growing bifurcation between the current account balance of payments deficits in the global North and the current account balance of payments surpluses in the rest-of-the-world. Even though much of the rest of the world's surplus continues to flow to US financial markets, a growing proportion of that surplus is ending in Southern destinations and being rerouted to build up currency reserves, thereby relaxing the hold of Northern financial institutions on the global South. As the Financial Times observed, the Industrial and Commercial Bank of China (ICBC) has become the largest 'world bank' in terms of market capitalization (Anderlini 2008: 15). To this we may add the emergence of "sovereign wealth funds" in the world economy as 'alternative' pools of foreign exchange reserves held by states in West Asia, Eurasia and East Asia. China's large state-managed investment funds represents the largest concentration of money capital available for far-reaching global investments – as was evident in the aftermath of the US-generated subprime mortgage crisis (2007-8) which led to the bankruptcy of different global investment banks in some of which the PRC has acquired important shareholder stakes.

III: What are the Implications of Our Understanding of East Asian-led Material Expansion during (and after) the Neoliberal Epoch? What is the future of the world left?

The final claim I make is that despite the resilience of the East Asian region, despite its growing intra-regional dependence, and most importantly despite the growing wealth of the region's rising middle classes, the biggest dilemma of the region lies in a trend that continued to gather momentum after the 1997 Crisis. Perhaps the most important stylized fact of the East Asian financial crisis is that East Asian states have continued to accumulate dollar-denominated foreign exchange reserves. In fact, this is a trend that seems to have accelerated after 1997-8 (R. Taggart Murphy 2008). It is a reflection of the fact that all Asian states have so far considered holding dollar-denominated assets as their strongest index of economic security whereas what the current financial crisis demonstrates is that these dollar holdings are increasingly toxic financial securities. Under these conditions how does it make sense for the PRC-led East Asian region to continue an export-led growth strategy geared towards US markets? Market signals from the European Union also suggest the current slump in the entire Eurozone may well be the worst recession in fifty years! In short, the global North can longer be counted on as an enduring source of global demand for East Asia's global factories.

Where does the current financial meltdown leave the future of Asia? For one it should certainly provoke East Asian elites into a long-overdue discussion of the future of the region. Above all this discussion has to focus upon rising material and social inequalities within East Asia – and these material and social inequalities have since the mid-1980s worsened all across the region. While growth and distribution in the PRC have been relatively higher and more egalitarian than in India – the average Chinese citizen earns almost twice as much a year as the average Indian citizen (McMichael 2008: 285) – China remains one of the more unequal countries in the world. This reproduces the dependence of the PRC-led East Asian expansion on the willingness and capacity of the global North to absorb ever increasing labor-intensive East Asian exports. "This willingness and capacity cannot be taken for granted in view of the growing indebtedness of the United States and the near economic stagnation of the EU" (Arrighi et.al, 2003: 319). "Even though China controls 55% of the world market for laptop computers and produces 30% of all flat-screen televisions and 20% of microprocessors, it essentially assembles components designed and made elsewhere, or uses copied designs. The other 40% of manufactured products is constrained by the size of China's home market, given the historic low wage structure" (McMichael 2008: 286).

A sound alternative then is to expand the size of the 'home market'. Equally clear is that such an expansion of the home market will not be possible without a carefully planned investment-for-redistribution program. Such redistributive investments may well begin with expansion of primary and secondary education facilities, subsidized healthcare especially for migrant laborers and for the unemployed poor, as well as strong investments in the social and economic advancement of the nation's women. It would entail shifting the ecology and geography of Chinese expansion – away from the coastal provinces and toward the interior; away from export-oriented industrialization towards the rehabilitation of the agricultural land that sustains the livelihood of farmers. It means in short re-embedding markets into Chinese (and Asian) society. It suggests respecting the social base of East Asia's material expansion even if that means substantive 'decoupling' from Anglo-US capitalism and a 're-coupling' with the tragic predicament of the global poor the vast majority of whom are situated in the slum worlds of the global South. For the only alternative to the currently skewed distribution of the benefits of economic growth is the emergence of sustained, widespread and explosive social conflicts in the PRC. The documentation for this is extensive (see Lee 2007). Migrant workers (mostly women) who have been central to the PRC's coastal development strategy for upward mobility in the world-system are among the worst exploited workers in the world. Millions of urban workers laid off by the extensive post-1997 restructuring of State-owned enterprises are the other great losers in China's emergence as the workshop of the world. These two social groups – super-exploited migrant workers and laid-off urban workers – confront increasingly common predicaments of destitution and degradation of social status. And this predicament appears to generally reflect the predicament of the rest of Asia as well. The challenge before the Chinese Communist Party is to make the demands for inclusion of the most impoverished strata in the ascent of the China-led East Asian region, much more concretely realizable than it has been so far. Whether or not, and how, the Chinese Communist Party rises to meet this challenge in the new millennium may well determine whether or not the future of the PRC, and with it the future of the world-system, moves in a socialist direction.

The question of expanding the size of the home market is a most general pointer to where the global South as a whole may use its command over global liquidity. For over the last thirty years of neoliberal financial globalization, the most extreme forms of social polarization have emerged in the world economy: "the most extreme colonial patterns of residential segregation and zoned consumption", exist alongside the emergence of a demonized underclass standing outside the gates of the global elite – whether as migrant laborers in India and China or as the growing concentration of urban slum-dwellers everywhere in the global South. The consensus among the global elite (as expressed by Citigroup Research) is that it is they who are the class which drives global demand in the world economy (Kapur et.al. 2005); and if they fail or go bankrupt then it is the duty of the neoliberal state to bail them out in the interests of the welfare of the multitudes – even if the majority of the world's population since the mid-1980s inhabits 'a planet of slums'. Since the mid-1980s the world system has crossed what appears to be an irreversible threshold in the number of its urban slum-inhabitants and in the growth of the 'informal sector' (Davis 2006).

Most of the inhabitants of the global South live in slums or in slum-like dwellings. The most crucial question confronting the new millennium is the question of what Polanyi called habitation. And nowhere is the question of habitation more compelling than in the rapidly growing PRC and in South Asia. Common problems often demand collaborative solutions. It is not such a tall order for the left in these two spaces to come together to rise to these challenges of the new millennium.

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