

Causes and Consequences of Globalization: Asia and the US

By Martin Hart-Landsberg

Professor Emeritus of Economics, Lewis and Clark College

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Introduction: Importance of Asia

Asia remains the most dynamic center of capitalist accumulation. According to the Asian Development Bank, "Global headwinds notwithstanding, developing Asia will continue to contribute 60% of world growth." Asia's key position is anchored by China. China is the single largest contributor to world GDP growth, likely accounting for almost 40 percent of global growth in 2016. Stephen Roach, former Chairman of Morgan Stanley Asia and the firm's chief economist, estimates that China's contribution to global growth was 50 percent larger than the combined contributions of all the advanced capitalist economies.

China certainly looms large in terms of the US economy:

The US imports more goods from China than from any other country, approximately \$480 billion a year, followed by Canada and Mexico at roughly \$300 billion each. The US also runs its largest merchandise trade deficit with China, about \$370 billion, which is equal to 48 percent of the overall US merchandise trade deficit. In second place was Germany, at only \$75 billion. The deficit with Mexico was only about \$60 billion.

Adding to China's high profile in the US is the fact that it is the primary supplier of many of our high technology consumer goods, like cell phones and laptops. Chinese exports account for approximately 75 percent of all our cell phone imports by value and 90 percent of our laptop imports by value.

In short, Asia is an important player in the global economy and Asian and US economic dynamics have become increasingly intertwined.

In this talk I want to address three main questions: First, how did this happen, how did Asia become such a key center of global production? Second, what is the significance of Asia's growth for the people of Asia and the United States? Third, what lies ahead for majorities in Asia and the United States?

Globalization and the rise of Asia

So, the first question---how did this happen, how did Asia become such a key center of global production? The rise of Asia, and in particular China, is largely the result of the actions of transnational corporations, in particular, their strategy of creating Asian-centered cross-border production networks or global value chains (GVC). In the words of the Asian Development Bank, these networks or chains involve "dividing the production of goods and services into linked stages of production scattered across international borders. While such exchange of inputs is as old as trade itself, rapid growth in the extent and complexity of GVCs since the late 1980s is unprecedented."

Here are two examples of cross-border production networks:

- The Barbie Doll: the doll was designed at Mattel's headquarters in California. Oil was purchased and refined into the ethylene plastics used to make the doll's body at a factory in Taiwan. The nylon hair was made in Japan. The cotton clothing was made in China. The mould for the doll and the paint used to color the doll as well as the box used for packing it were made in the United States. Assembly of all parts took place in factories in Indonesia and Malaysia. Quality testing took place in California. Aging was
- Another example: the iPhone. Apple does design work in the U.S. Parts are procured from companies in the US, Japan, and South Korea. Assembly of all parts takes place in factories in China that are owned by a Taiwanese company.

The kickoff of this strategy owes much to capitalist competition—more specifically, competition between US and Japanese corporations. Japanese firms, beginning in the 1970s, began exporting ever more advanced manufacturing products to the US, taking market share away from US firms and threatening US corporate profits. The US government responded by demanding a change in Japanese economic policy. Finally, in 1985, the Japanese government agreed to take steps to reduce the Japanese trade surplus with the US. Its main action was raising the value of its currency relative to the dollar by some 50 percent over the following year. Aware that this would hurt Japanese exports and corporate profits, the Japanese government simultaneously began working with its corporations to help them offshore parts of their operations and especially regionalize their production.

While a majority of Japanese foreign direct investment, which refers to investment in real plant and equipment, initially went to the United States and Europe, a considerable amount also went to Asia, in particular Thailand, Malaysia, and Indonesia. Almost overnight, Japanese investment transformed these Southeast Asian countries into major exporters of manufactures, largely to the United States.

Of course, as designed, these exports were largely produced by foreign firms. For example, in Malaysia at the end of the 1980s foreign-controlled companies, mostly Japanese, accounted for approximately 99% of the exports of electronics, over 90% of the exports of machinery and electrical appliances, over 80% of the exports of rubber products, and 75% of the exports of textile and apparel. By 1994, approximately 7% of all Thai production workers were employed by Japanese firms. This investment, which renewed Japanese corporate profitability, threatened South Korean and Taiwanese producers, causing them to follow with their own FDI in Southeast Asia, further boosting the industrial transformation of these countries.

As a result of this activity, foreign direct investment exploded in value, growing far more rapidly in the 1980s than world trade and world output, and, in the words of the UN, "increasingly becoming an engine of growth in the world economy." In 1989 Japan became the largest source country of foreign direct investment, accounting for 23 percent of the total FDI outflows that year. [It was this process that planted the seeds for Japan's current economic stagnation.] And it wasn't long before competition led US and European firms to follow the Japanese lead, increasing the globalization of their own operations. And in line with this development, the third world, especially Asia, became the primary destination for foreign direct investment.

As the Asian Development Bank statement quoted earlier noted, this wasn't just the same old globalization. Rather this stage was marked by a significant change in TNC accumulation dynamics. Previously, transnational corporations had used export platforms to cheapen the production cost of labor intensive and technologically simple goods such as garments and basic consumer electronics. The transnational corporate investment that began in the mid-1980s was undertaken to produce far more sophisticated manufactures. By the 1990s, these goods included automobiles, televisions, computers, power and machine tools, cameras, cell phones, pharmaceuticals, and semiconductors.

More importantly, the change in product line was coupled with a major restructuring in the organization of production. No longer did TNCs ship parts and components to third world countries where they were assembled by low cost labor and shipped back to the TNC home country for final processing and sale. Instead, as the Asian Development Bank also noted, TNCs began dividing their production processes into ever finer segments, both vertical and horizontal, and locating the separate stages in two or more countries, creating cross-border production networks or global value chains.

It was China's decision to open up to foreign investment in the early to mid-1990s that finally secured Asia's new dominant role in world production. Shortly after the death of Mao, the Chinese Communist Party began a major restructuring of the country's economy, taking steps in the 1980s to marketize economic activity and then in the 1990s to privatize state production. The Party's post-1978 state-directed reform program benefited from an absence of foreign debt; the existence of a broad, largely self-sufficient state-owned industrial base; little or no foreign investment; and a relatively well-educated and healthy working class.

However, faced with growing popular resistance to privatization and its associated rise in unemployment and mounting balance of payments problems, the Chinese state decided, in the early to mid-1990s, to embrace a growing role for export-oriented foreign investment. The Chinese state's pursuit of foreign capital dovetailed with the TNC push to globalize their production and it was not long before China became the premier location for foreign investment by transnational corporations from Japan, Korea, and Taiwan, as well as from leading non-Asian corporations from the US and European countries. And, it was not long after China joined the WTO, that the country became the region's primary final assembly and export center.

In short, transnational corporate investment transformed developing Asia (which is basically Asia minus Japan) into an integrated regional export machine. Developing Asia's share in total world exports of manufacturers grew from about 11 percent in the mid-1990s to about 35 percent today. Its share of total third world exports of manufactures increased from approximately 65 percent to 80 percent over the same period. China alone accounts for roughly 16 percent of all exports of manufacturers and half of all third world exports.

The importance of TNC activity in transforming Asia is perhaps best illustrated by the growing importance of parts and components in the region's trade. For example, the share of parts and components in developing Asia's total manufacturing exports rose from about 17 percent in the early 1990s to 35 percent in the late 2000s. The share of parts and components in developing Asia's total imports of manufactures rose from 29 percent to 44 percent over the same period. Even more telling is the fact that parts and components now comprise more than half of all intraregional exports and imports. By comparison the figure is only 36 percent for NAFTA countries and 22 percent for EU15 intraregional trade.

As mentioned, China plays the key role in the region's production networks. As the Asian Development Bank explains, "the increasing importance of intraregional trade is attributed mainly to the parts and components trade, with the PRC [People's Republic of China] functioning as an assembly hub for final products in Asian production networks." China, befitting its structural position, is now the first or second largest export market for almost every developing Asian country, with the majority of those exports being the parts and components needed for the assembly and eventual export of advanced electronics. For example, between 1995 and 2014, the electronics share of manufacturing exports to China from Korea grew from 8.5 percent to 32.2 percent, for Taiwan the share exploded from 9.1 percent to 63.7 percent, for Singapore the share grew from 17.5 percent to 36.8 percent, and for the Philippines it rose from 3.4 percent to 78.3 percent.

Thus, Asian economies have been radically transformed in response to a TNC-directed process of globalization. Among other things, this development has dramatically increased the export dependence of the region's economies. According to Yılmaz Akyüz, former Director of UNCTAD's Division on Globalization and Development Strategies:

despite a high import content ranging between 40 and 50 percent, approximately one-third of Chinese growth before the global crisis [of 2008] was a result of exports, due to their phenomenal growth of some 25 percent per annum. This figure increases to 50 percent if spillovers to consumption and investment are allowed for.

[P]re-crisis growth in [ASEAN countries and Korea and Taiwan] depended even more on exports than in China. Indeed estimates suggest that during 2003-07 about 60 per cent of growth in Korea, Taiwan and Thailand and even a greater proportion of growth in Malaysia, Singapore and Vietnam came from exports, taking into account their import contents. Most of the exports went to AEs, directly, or through China by providing the latter country parts and components for its exports to AEs.

Not only have Asian countries become increasingly export oriented, their exports have also become increasingly limited to a narrow range of parts and components in line with TNC dictates. And as we have seen, this means lots of intraregional trade of parts and components which ultimately end up in China where they are further processed into final goods and then exported out of the region.

The outcome of this development is illustrated by the following trends: the correlation between the growth in East Asian exports and U.S. non-oil imports rose from .21 during the 1980s, to .34 during the 1990s, and .77 during the first half of the 2000s. Even more revealing is the fact that the correlation between East Asian intraregional exports and U.S. non-oil imports increased from .01 during the 1980s, to .22 during the 1990s, and .63 during the first half of the 2000s. Thus, as a consequence of transnational capital's accumulation dynamics, external demand rather than regional needs has become the primary driver of East Asian economic activity.

In fact, almost half of Korean GDP comes from exports to China, some 75 percent of which are intermediate goods that are further processed into final exports sent to the US and the EU. This

development helps to explain why China looms so large for us in the US—it has been transformed into the face of final goods exports from most of Asia.

Given the importance of China in this country, and especially given the Trump administration's charge that China is a giant state run machine that is destroying our economy, it is worth taking a moment here to talk a bit more about its economic transformation and the significance of that transformation for US working people.

First, although the Chinese state retains important levers of control over economic activity, especially its control over the state-owned banking system and natural resource related industries like the coal, oil and gas industries, the fact is that the great majority of industrial or manufacturing production and export activity is now carried out by private companies. In 2012, state-owned enterprises accounted for only 24 percent of Chinese industrial output and 18 percent of urban employment. As for exports, by 2013 the share of state-owned enterprises was down to 11 percent. TNCs were responsible for approximately 50 percent of all Chinese exports. And, most importantly in terms of their effect on the US economy, TNCs produce approximately 80 percent of China's high-technology exports. Moreover, the share of China's high technology exports produced by wholly owned foreign transnational corporations continues to grow, from 55 percent in 2002 to 68 percent in 2009, suggesting a tightening of foreign control.

Second, although these high-tech exports come from China, for the most part they are not really "Chinese" exports. As we have seen, China functions as the primary assembly point for the region's cross border production networks. Thus, the majority of the parts and components used in Chinese-based production of high-technology goods come from firms operating in other Asian countries. In many cases China's only contribution is its low-paid labor.

A Washington Post article uses the Apple iPhone 4, a product that shows up in trade data as a Chinese export, to illustrate the country's limited participation in the production of its high technology exports:

In a widely cited study, researchers found that Apple created most of the product's value through its product design, software development and marketing operations, most of which happen in the United States. Apple ended up keeping about 58 percent of the iPhone 4's sales price. The gross profits of Korean companies LG and Samsung, which provided the phone's display and memory chips, captured another 5 percent of the sales price. Less than 2 percent of the sales price went to pay for Chinese labor.

"We estimate that only \$10 or less in direct labor wages that go into an iPhone or iPad is paid to China workers. So while each unit sold in the U.S. adds from \$229 to \$275 to the U.S.-China trade deficit (the estimated factory costs of an iPhone or iPad), the portion retained in China's economy is a tiny fraction of that amount," the researchers wrote.

The same situation exists with laptop computers, which are assembled by Chinese workers under the direction of Taiwanese companies using imported components and then exported as Chinese exports.

Economists have estimated that the US-Chinese trade balance would be reduced by some 50 percent if the value of these imported components were subtracted from Chinese exports. Thus, it is not Chinese state enterprises, or even Chinese private enterprises, that are driving China's exports to the US. Rather

it is foreign multinationals, many of which are headquartered in the US, including companies like Apple, Dell, and Walmart.

Finally, although the focus of my talk is on Asia and the US (more soon), it is now possible to at least briefly address the question of whether the Asian economic experience is generalizable or at least positive for countries in Latin America and sub-Saharan Africa. And my answer is no---first, China and the rest of Asia dominate third world production of exports; there is no space for new entrants to compete. Second, Asia's success owes much to TNC strategy and there is no simple way for other countries to replicate on their own the transformation promoted by developed country TNCs. Third, Asia's own transformation has had a negative effect on the economic strength and stability of countries in Latin America and sub-Saharan Africa.

While Latin American and sub-Saharan nations have long specialized in the export of primary commodities, developing Asia, especially China, has now replaced core capitalist countries as their main customers. China has surpassed the United States as the world's largest consumer of major metals and agricultural commodities. In 2011, it consumed approximately 20 percent of all nonrenewable energy resources, 23 percent of major agricultural crops, and 40 percent of base metals.

China's resource demands actually led to an increase in the primary commodity dependence of most Latin American and sub-Saharan countries, an outcome that greatly worries the UN Economic Commission on Latin America and the Caribbean (Eclac). These concerns were expressed in an ECLAC report, which journalist Daniela Estrada summarized as follows:

looking at exports over the last decade, ECLAC found that Latin America "has reverted to an export structure based on prime materials, similar to that of 20 years ago."

While in 1999, commodities made up 26.7 percent of total exports, in 2009 they were 38.8 percent of the total....

"The region has been unable to improve the quality of its international insertion and the expansion of natural resource-related sectors does not seem to have contributed sufficiently to the creation of new technological capacities," states the report.

Chinese foreign direct investment and export activity are reinforcing this "backward" movement. China is pouring billions of dollars into Latin American investments to expand the region's capacity to produce the key primary products it currently buys from the region, primarily iron, copper, soy, and petroleum. At the same time, its exports of manufactures undermine the region's own efforts at industrialization. Chinese exports.

The situation is quite similar in sub-Saharan Africa, which has also become a major exporter of primary commodities to China. As a UN report points out:

The share of African manufacturing in GDP rose from a low of 6.3 percent in 1970 to a peak of 15.3 percent in 1990. Since then, there has been a significant decline in the contribution of manufacturing to GDP. In particular, the share of manufacturing in GDP fell from 15.3 percent in 1990 to 12.8 percent in 2000 and 10.5 percent in 2008. It is interesting to note that the decline in the contribution of manufacturing to GDP since 1990 has been observed in all sub-regions of the continent.

So, in brief, a TNC initiated process of globalization has led to a dramatically new international division of labor and production. On the surface, at least up until the Great Recession of 2008, it appeared to have greatly benefited the third world, especially Asia, but also many countries in Latin America and sub-Saharan Africa, with many analysts celebrating the third world's rapid growth, and in the case of Asia, its new industrial might. In fact, many of these analysts claimed that the third world no longer needed the core countries—that their economies had delinked from the core—and were now self-sustaining. However, at least in terms of the last point it is clear that this is false. The rapid growth of Asia was tied to the growth of exports to the US and EU and the rapid growth in the rest of the third world was largely fueled by selling primary commodities to Asia to support their exports activity. There was restructuring but not delinking.

Consequences of Globalization

OK, now to the second question, about the social and longer-term economic consequences of this globalization process, again focusing on Asia and the US. And here I concentrate on the period before the 2008 Great Recession, when the globalization process was most dynamic; I will take up developments in the post crisis period later when answering the last question.

First, this process of globalization has greatly enriched core country corporations, especially those in the US, but also in Japan and Germany. To better appreciate why it is useful to take another more detailed look at the workings and logic of cross border production networks.

Core country TNCs control their networks in a variety of ways. Sometimes the geographically separated participating enterprises are all owned by the lead TNC. Increasingly however, core country TNCs have come to rely on independent “partner” manufacturers to procure required parts and components and oversee their assembly into final products. Some, but not all, of these partner manufacturers are themselves transnational in their operation. In many cases, these partner TNCs are headquartered in the third world. One important result of this development is that a growing number of core country transnational corporations are no longer directly involved in production. Rather they contract out their production and maintain control over their networks through their control over product design and marketing.

To give you a sense of just how significant contract manufacturing – which is only one way TNCs direct their networks -- has become: it now accounts for an estimated 90 percent of the production cost of toys and sporting goods, 80 percent of the production cost of consumer electronics, 60 to 70 percent of the production cost of automotive components, and 40 percent of the production cost of generic pharmaceuticals. And, not surprisingly given the export emphasis of cross border production, contract manufacturers accounted for more than 50 percent of world exports of toys, footwear, garments, and electronics. Moreover, there is every reason to believe that TNC reliance on this form of activity will continue to grow.

Electronics is one of the industries that is most reliant on this new form of production, with a small number of contract manufacturers, almost all located in Asia, producing for all the major brands, including Dell and Hewlett-Packard in computing; Apple, Sony and Philips in consumer electronics; Cisco systems in network hardware, and so on.

Why is this new model so important to core country TNCs? Most importantly it enables them to dramatically lower their costs of production—it allows them to substitute lower cost third world labor for higher cost developed capitalist country labor—and it also frees them from the need to invest in costly plant and equipment. Not surprisingly, then, corporate profits accelerated rapidly over the 2000s as cross-border production networks became fully engaged. In fact, U.S corporate profits and U.S. corporate profits as a share of GDP, both pre- and after-tax, hit record highs. Similar but not as dramatic gains were made by leading corporations in Japan and Germany.

But what have corporations been doing with all their new profits? Instead of investing them, they are accumulating financial assets, engaging in mergers and acquisitions, repurchasing stock, and increasing dividend payouts, all of which strengthens the financialization of economic activity and its associated economic distortions.

As economic analyst Doug Henwood explains when discussing the US situation:

At last count, U.S. nonfinancial corporations had nearly \$16 trillion in financial assets on their balance sheets, almost as much as they have in tangible assets.... Instead of investment—and remember, profitability is quite high—corporations are shoveling cash out to their shareholders. Through takeovers, buybacks, and traditional dividends, nonfinancial corporations are transferring an amount equal to 5 percent of GDP to their shareholders these days—again, down from some recent highs, but very high by historical standards.

Unfortunately, the results of this corporate strategy have not been so positive for core country workers and for two main reasons. First, the shift of production and resulting lack of investment has meant a dramatic slowdown in economic growth and commensurate decline in job creation. And second, the growing direct competition between third world and core workers has produced serious downward pressure on core country wages and working conditions.

The economist David Autor, a leading expert on the US labor market, provides a good summary of what has happened to US job creation over the last several decades.

During the 1980s (1979 to 1989), employment growth by occupation was almost uniformly rising in occupational skill; occupations below the median skill level declined as a share of employment, while occupations above the median increased. In the subsequent decade, this uniformly rising pattern gave way to a distinct pattern of polarization. Relative employment growth was most rapid at high percentiles, but it was also modestly positive at low percentiles (10th percentile and down) and modestly negative at intermediate percentiles.

Fast forward to the period from 1999 to 2007. In this interval, the growth of low-skill jobs comes to dominate the figure. Employment growth in this period was heavily concentrated among the lowest three deciles of occupations. In deciles four through nine, growth in employment shares was negative. In the highest decile of occupations, employment shares were flat. Thus, the disproportionate growth of low-education, low-wage occupations becomes evident in the 1990s and accelerates thereafter.

In other words, in the United States, occupational hollowing out ended in the late 1990s. Since then employment growth has been largely limited to the low-wage sector. As Autor writes, “Stated plainly, the U-shaped growth of occupational employment came increasingly to resemble a downward ramp in the 2000s.”

Not surprisingly given the size of our trade deficit with China, exports from China have had a significant negative effect on US labor market conditions. For example, three leading US labor economists (David Autor, David Dorn and Gordon Hanson) “conservatively estimated that Chinese import competition explained 16 percent of the U.S. manufacturing employment decline between 1990 and 2000, 26 percent of the decline between 2000 and 2007, and 21 percent of the decline over the full period.” And that was a conservative estimate. They also found that Chinese import competition “significantly reduced worker earnings in sectors outside manufacturing.” In large part this was because workers who lost jobs in manufacturing had to seek work in other sectors.

And this study just looked at the labor market effects from Chinese exports, most of which—like for consumer electronics, smart phones, cameras, TVs, computers, etc—are produced under contract for TNCs. It doesn't include the effect of cross border production networks that operate in Mexico or Central America.

Another consequence of capitalist globalization is the growing precarious nature of work. Although affecting workers in all core countries, the trend has probably gone furthest in Japan. There, part-time workers, who make on average 38 percent less per hour than full-time workers, now account for approximately 40 percent of the workforce. In fact, temps and part-timers—who often work 40 hours a week—accounted for all of the nation's job growth in the past five years.

Thus the costs of this corporate driven globalization process for core country workers include a lack of investment, a growing financialization of economic activity, economic stagnation, declining employment opportunities, wage suppression, and inequality. From 2001 to 2007 while mainstream economists were celebrating globalization, average income was falling in the US; consumption was sustained only by growing levels of debt. While the social costs of this globalization process have been significant for US workers, they were not the only ones to suffer in the advanced capitalist world. In fact, it appears that Japanese workers have paid the greatest economic and social cost.

But, what about the consequences of the globalization process for workers in developing Asia, the region that is said to have benefited the most? Although many Asians did enjoy substantial gains in wealth and expanded consumption opportunities, the globalization process has also been costly for the majority of Asian workers. The Chinese experience is representative.

A case in point: China's industrialization has had devastating environmental consequences. For example, a World Health Organization (WHO) supported study “found outdoor air pollution contributed to 1.2 million premature deaths in China, accounting for almost 40 percent of the global total.” More than 70 percent of China's lakes and rivers are polluted, with almost 40 percent of those considered seriously polluted. The WHO estimates that some 100,000 people die each year from water pollution-related illnesses. At least a hundred million people a year are sickened from bacterial food-borne diseases caused by a lack of regulation and contaminated agricultural land; Chinese researchers believe that close to 70 percent of China's farmland is contaminated with toxic chemicals.

Despite the country's rapid growth, job creation has also been problematic. According to the U.S. Bureau of Labor Statistics, total manufacturing employment in China actually fell by almost 7 million during the period 1994–2006, from 119.26 million to 112.63 million. An International Labor Organization study found that total employment growth in urban areas barely grew over the period 1990 to 2002 and almost the entire increase was in irregular work—here we are talking largely about day laborers who work in small shops, or doing house cleaning, repair, or construction.

Approximately 80 percent of manufacturing workers and 90 percent of construction workers in China are internal migrants, meaning that they have traveled from various rural provinces to the main urban areas, which are home to most of the country's new export industries. Because they do not have urban residency, they are denied access to the social services offered to urban residents. For example, these migrants cannot access the free or subsidized public health, education or other social services available in the urban areas where they now work and live. The same is true for their children even if they are born in urban areas.

Moreover, most migrants receive little protection from Chinese labor laws. Most migrant workers work long hours under harsh conditions. For example, an investigation of working conditions at four Taiwanese-owned factories producing chips and motherboards for Dell computers found that employees commonly put in workweeks of over sixty hours, regularly exceeding the legal overtime limit of thirty-six hours a month. Many times they were forced to work seven days straight. Most also had to stand for their entire twelve-hour shift while suffering from extreme temperatures and toxic fumes. Making matters worse, many were classified as student interns or dispatch or temporary workers, which allowed the Taiwanese company to underpay them even relative to already low wage scales and deny them company benefits. Unfortunately, these employment conditions are far from unusual.

According to a China Labor Bulletin report:

In 2015, seven years after the implementation of the Labor Contract Law, only 36 percent of migrant workers had signed a formal employment contract with their employer, as required by law. In fact the percentage of migrant workers with formal contracts actually declined last year by 1.8 percent from 38 percent. For short-distance migrants, the proportion was even lower, standing at just 32 percent, suggesting that the enforcement of labor laws is even less rigid in China's inland provinces and smaller cities.

According to the [2014] migrant worker survey . . . the proportion of migrant workers with a pension or any form of social security remained at a very low level, around half the national average. In 2014, only 16.4 percent of long-distance migrants had a pension and 18.2 percent had medical insurance.

Most studies showing low rates of unemployment and rapidly increasing wages are deeply flawed because they consider only urban residents and state or regular workers. If migrant workers, student interns, and temporary workers were included, the results would be quite different. Not surprisingly, the share of labor compensation in national production has fallen from about 65 percent in the mid-1990s to about 56 percent today. In other words, a large percentage of Chinese manufacturing workers have been excluded from the gains from globalization. Significantly, they are now engaged in increasingly militant workplace actions and strikes in an effort to shift the balance of class forces in their favor.

Of course, real wealth has been generated. Unfortunately most of it has been captured by a relatively small percentage of the population. Chinese university studies find that the richest 1 per cent of households own a third of the country's wealth, while the poorest 25 per cent of Chinese households own just 1 per cent of the country's total wealth. China's Gini coefficient for income, a widely used measure of inequality, was roughly 0.3 in the 1980s. It is now at roughly .5. The World Bank considers a coefficient above 0.40 to represent severe income inequality. Among the world's 25 largest countries by population for which the World Bank tracks Gini data, only South Africa and Brazil are higher at 0.63 and 0.53, respectively.

According to a *Bloomberg News* report, "The net worth of the 70 richest delegates in China's National People's Congress...rose to \$89.8 billion in 2011, a gain of \$11.5 billion from 2010.... That compares to the \$7.5 billion net worth of all 660 top officials in the three branches of the U.S. government."

Significantly, the social costs of transnational capital's current accumulation dynamics are not limited to China. Because of the country's key position in East Asia's cross border production networks, Chinese conditions tend to serve as the benchmark by which transnational corporations evaluate the economic environment in other Asian countries. In a losing effort to match China's investment lure, and reverse their own stagnate rates of investment, governments throughout developing Asia have introduced new labor regimes designed to weaken labor protections. As a consequence, wages and working conditions have also worsened throughout the region. And, among other things, this dynamic reinforces the bias of the entire region toward exports.

For example, the last two South Korean presidents have basically waged a war against workers, especially unionized workers. They have arrested union leaders, banned several public sector unions, and passed new laws which make it harder to unionize and easier to hire temporary workers as replacement for regular workers.

This is from a 2016 newspaper article in

The top 10% of South Korea's income earners are taking home nearly half of all income, a new report shows. This is the highest concentration of income among any comparable Asian country.

Income concentration among the top 10% of earners in South Korea was at 29% in 1995, but it has soared by 16 percentage points in just 18 years.

Until the mid-1990s, income concentration in South Korea was lower than other Asian countries, including Singapore, Japan and New Zealand.

For South Korea, the report said, "the duality between regular and non-regular employment has been a key driver of inequality."

Depending on your definition, more than half of all South Korean wage workers are now non-regular, which means that they do not receive standard benefits, including employment protections. South Korea now has the third highest share of low wage workers among OECD countries, trailing only Ireland and the United States.

And although we are primarily focusing on Asia, it is worth noting that the story for the majority of working people in Sub-Saharan Africa and Latin America, regions which also enjoyed strong rates of growth thanks to the Asian centered globalization process, is also a sad one. For example, a 2011

African Development Bank report trumpeted the region's economic performance as follows: "Strong economic growth in Africa over the past two decades has been accompanied by the emergence of a sizeable middle class and a significant reduction in poverty. Also rising strongly has been a robust growth in consumption expenditures as a result of this growing middle class." The report estimated that the middle class had grown to include approximately one in three Africans, some 350 million people.

The problem with this celebration of the African experience is that it was largely a figment of clever marketing. The African Development Bank defined the middle class as those with a daily consumption of between \$2 and \$20 in 2005 PPP (purchasing power parity) U.S. dollars. Thus, at the lower end we are talking about a U.S. lifestyle based on a yearly expenditure of \$730. It takes quite a stretch of imagination to see that income providing a middle-class lifestyle.

It turns out, according to African Development Bank statistics, that 61 percent of Africans still live below the \$2 a day poverty line. Approximately 21 percent more live just above that amount, between \$2 and \$4 a day. The Bank, while including them in the middle class, also calls this cohort a "floating class." In other words, after a sustained period of rapid growth, more than 80 percent of Africa's population still struggles with poverty.

One important reason that the region's high rate of growth did not produce meaningful improvements in majority well-being is that growth was driven by primary commodity exports and these generally create few formal sector jobs. In broad brush, the Latin American experience was much the same.

So, while globalization was widely celebrated, especially for its contribution to the rise of Asia, the consequences for working people, including in Asia, were far from unambiguously positive.

And finally, and most importantly in terms of evaluating the consequences of the globalization process, is the fact that the process suffered from a serious contradiction which meant it was not sustainable. At its core, the internationalization of production was designed to maximize exports and the ever-expanding scale of transnational production required ever expanding external markets to absorb the output. The national poles of the created imbalance were China, which served as the primary production hub for exports, and the United States, which served as the primary consumer of the goods produced. However, the problem was that the expansion of Asia's export capacity simultaneously undermined the overall purchasing power of core consumers, especially those in the US, who were to purchase those exports.

The size of the U.S. trade deficit grew steadily from 1997 to 2006, counterbalancing the large surpluses of China, Japan and the rest of East Asia. In 2006, the United States accounted for roughly 50 percent of total current account deficits in the world economy while China accounted for approximately 22 percent of aggregate current account surpluses.

In the years before the Great Recession, U.S. household consumption was directly responsible for approximately 20 percent of world output and if you add in all the activities triggered by this consumption, for example the investment in new plant and equipment to produce the goods destined to be sold in the US, US household spending probably accounted for more than ¼ of global output.

The US was key; no other country has the capacity to replace it. Annual U.S. household consumption averaged almost \$10 trillion over 2007/2008. In Japan, household consumption averaged only \$2.5 trillion. In Germany, it was less than \$2 trillion. Moreover, both Japan and Germany are committed to

an export-led growth strategy, which requires their governments to suppress wage growth and, by extension, consumption spending.

US households were able to play their role as primary consumer, despite the decline in family income over much of the 2000s for one reason: they were able to take advantage of a massive housing bubble to borrow trillions of dollars. The ratio of debt to personal disposable income reached an all-time high in 2007, exceeding 130 per cent. This was not a sustainable process because bubbles eventually burst. And the US housing finally burst in 2007, triggering a financial crisis that brought the US expansion to a halt, and not surprisingly caused world trade to dramatically decline.

The Great Recession formally came to an end in June 2009, but US growth has remained exceptionally slow ever since, averaging less than 2 percent a year. Investment is extremely low, job creation has been weak, and wages have stagnated for the great majority of workers. It is difficult to see how global growth can regain its past energy as long as the US economy remains in this weakened state, and there is little reason to think that the US economy is on the verge of a new growth spurt.

For the first time in 15 years, world trade is growing more slowly than world GDP; world trade grew by only 1.7 percent in 2016, far below the 6-7 percent average over the years before the crisis. And as you might imagine, this slowdown poses a serious challenge to Asian growth going forward, since thanks to the globalization process Asian investment and employment is now heavily dependent on exports.

What Lies Ahead For Asia

So, let's turn to my third and final question, what lies ahead for majorities in Asia. The collapse of the US economy and the slow growth since has dramatically lowered Asian export growth rates. For example, Chinese export growth rates went from 35 percent in 2006 down to 9 percent in 2008 and -10 percent in 2009. The decline for other countries was delayed but when it came it was even more dramatic. South Korean and Taiwanese export growth rates fell from 32 percent and 47.3 percent respectively in January 2010, to 2.3 percent and -0.2 percent respectively in January 2014. Thailand's export growth rate fell from 23 percent to -1.0 percent over the same period. Asian export growth rates were close to zero in 2015 and 2016 although they appear to be recovering somewhat this year. For 2016, Chinese exports dropped 7.7 percent on-year, the worst fall since 2009.

I should add that as bad as these numbers are, things have been far worse for Latin American and sub-Saharan African primary commodity exporters. The prices of their exports crashed with the Great Recession and have yet to recover. Without export revenue they cannot import and most of them are now either in or facing recession.

That said, the world economy did recover from the Great Recession and Asian countries are not mired in recession. So the question is why not. And the primary reason is that China has largely been able to, at least up to now, maintain a relatively high growth rate, and that has helped to sustain Asian production, although at a lower level.

The Chinese state responded to the collapse in world trade with a massive investment program, which has been dominated by the construction of new roads, towns, apartment complexes, shopping malls, high-speed rail lines, and airports, supported by an expansive monetary policy. The investment share of Chinese GDP grew, according to official figures, from 39.1 percent in 2007 to an astounding 46.1 percent in 2012 and has generally remained at that level. China has spent approximately \$11 trillion building

roads, airports, ports, railways, and the like from 2006 to 2015. That is an enormous sum of money. Infrastructure spending grew by 17.4 percent in 2016, far outpacing the country's 6.7 percent growth in GDP.

This was a revealing policy choice. Many analysts had encouraged China to respond to the changed global conditions by shifting from its past export growth strategy to a domestic consumer-led growth strategy. However, the government has rejected that option. One important reason is that much of the productive investment that poured into China over the last few decades was designed to process imported inputs into finished manufactured goods for export to advanced capitalist countries. The foreign companies that own these plants are not eager to pay higher wages and even if they agreed to do so, their workers are far from becoming rich enough to purchase the products produced. Thus, the Chinese government turned to infrastructure investment as a way to maintain growth without having to engage in the difficult process of restructuring the economy.

But, this is far from a long-term strategy. Many Chinese infrastructure investments are of dubious economic or social value and there are serious concerns over whether the local governments that borrowed to undertake them will be able to repay their debts. For example, the BBC reports that China's infrastructure investment binge has left the country with "a string of ambitious projects—towns, shopping malls and even a theme park—empty and forlorn."

The Financial Times reports that:

"Ghost cities" lined with empty apartment blocks, abandoned highways and mothballed steel mills sprawl across China's landscape – the outcome of government stimulus measures and hyperactive construction that have generated \$6.8tn in wasted investment since 2009, according to a report by government researchers.

And here is Bloomberg Businessweek:

For all the roads, bridges and railways that China builds every year in an effort to keep the economy humming, the massive splurge may not be having the desired effect.

That's because more than half of China's infrastructure investment has destroyed economic value instead of generating it, according to a study from the University of Oxford's Saïd Business School.

"The evidence suggests that for over half of the infrastructure investments in China made in the last three decades the costs are larger than the benefits they generate," according to Atif Ansar, one of the study's co-authors.

What's more, unless China shifts its focus to fewer and higher quality types of public works that leave a positive legacy, "the country is headed for an infrastructure-led national financial and economic crisis, which is likely also to be a crisis for the international economy," according to the analysis that's published in the Oxford Review of Economic Policy.

Moreover, key state industries that expanded their capacities in response to government directives are now facing serious overcapacity challenges. Finally, the central government's low interest rate policy, which played a critical role in supporting the investment binge, has triggered a housing bubble that appears dangerously close to bursting.

And, despite all this spending, China's growth rate has been falling: from 10.6 percent in 2010, to 9.6 percent in 2011, 7.7 percent in 2012 and 2013, 7.3 percent in 2014, 6.9 percent in 2015, 6.7 percent in 2016 and perhaps 6.5 percent this year. But those are official estimates; many analysts think that growth has fallen to as low as 5 percent. And almost all economists predict that the country's rate of growth will continue to decline over the next few years.

This is also why the Chinese government is doing what it can to minimize wage gains in an effort to keep its export industries competitive—closing worker centers, arresting independent labor activists, freezing minimum wages and the like. And this is also why strike action has been on the rise.

In recognition of the seriousness of these problems, rich Chinese and foreign investors are now moving money out of China. As the New York Times reports: "In Beijing, confidence has given way to a case of nerves. Local residents often sense trouble coming before foreign investors and are the first to flee before a crisis. Chinese moved a record \$675 billion out of the country in 2015, some of it for purchases of foreign real estate." And the total increased again last year.

Now, none of this means that the Chinese economy is about to collapse. But as it continues to slow, other Asian economies will suffer, as their exports to China will decline. This trend means trouble for working people in Asia.

How to conclude this talk? Let me say that we face a period of great challenges. Globalization has indeed transformed Asia, in many ways for the better. But we have also overstated the gains, often falsely equating high rates of exports and foreign investment with improvements in living and working conditions for Asian majorities. Moreover, those gains often came at the expense of workers in other parts of the world and now, post Great Recession, appear increasingly at risk.

So, just like in the US, workers in Asia face the need to build power to push for real changes in the operation of their respective national economies, changes designed to promote more domestically oriented, sustainable production that meets majority needs. And, finally, I hope workers in this country come to see that Asian workers are not their enemy. In fact, both groups face opposition to the changes they seek from the same quarter—the world's dominant transnational corporations and the political elites that support them.