Capital Fixity and Mobility in Response to the 2008-09 Crisis:
Variegated Neoliberalism in Mexico and Turkey

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Abstract: The article examines the 2008-9 crisis responses in Mexico and Turkey as examples of variegated neoliberalism. The simultaneous interests of corporations and banks relative to the national fixing of capital and their mobility in the form of global investment heavily influenced each state authority’s policy responses to the crisis at the expense of the interests of the poor, workers, and peasantry. Rather than pitching this as either evidence of persistent national differentiation or some Keynesian state resurgence, we argue from a historical materialist geographical framework that the responses of capital and state authorities in Mexico and Turkey actively constitute and reconstitute the global parameters of market regulatory design and neoliberal class rule through each state’s distinct domestic policy formation and crisis management processes. While differing in specific content the form of Mexico and Turkey’s state responses to the crisis ensured continuity in their foregoing neoliberal strategies of development and capital accumulation, most notably in the continued oppression of workers. That is, the prevailing strategy of accumulation continues to be variegated neoliberalism.

Keywords: variegated neoliberalism, state power, capital fixity, capital mobility, Mexico, Turkey.

Abbreviated article title: Capital Fixity and Mobility and the 2008-09 Crisis in Mexico and Turkey.
INTRODUCTION

The comparative study of Turkey and Mexico can provide unique insights into the dynamics of the 2008-9 crisis. Accounts of the global crisis that spread globally in late 2008 and early 2009 crisis often portray the BRICS as successful cases of economic growth based on a combination of state-led export and investment promotion with sound financial policies (cf. The Economist, 2012; Bremmer, 2009; IMF, 2010a; Keely and Love, 2010: 24). The advanced capitalisms, by contrast, are often depicted as examples of state failure, in terms of irresponsible financial policies and weak regulatory authority alongside some examples of market failure led by a few bad banking apples (cf. Canuto, Leipziger and Pinto, 2012; IMF, 2010a; World Bank, 2012). The study of Mexico and Turkey in this juncture has been somewhat overlooked – and even more so in comparative terms – since the crisis did not originate in these countries, due to the popularity of the core BRICS cases among commentators, and because of Mexico and Turkey’s seemingly rapid pace of economic recovery. Yet these two societies are OECD members that uniquely border two of the world’s most powerful political and economic regions, the US and EU. Both countries, moreover, experienced the first and last of the major neoliberal financial crises (Mexico 1994 and Turkey 2001) characteristic of the lost half decade of the 1990s. Since then authorities have restructured state-capital relations in ways that have allowed Mexico and Turkey to become members of major international forums like the 2009 Financial Stability Board – an international body intended to manage the current global crisis. Yet on most social indicators Mexico and Turkey perform abysmally with workers generally worse off today that before market reforms.
For our purposes, the comparative cases of Mexico and Turkey help to demonstrate the ways in which crisis-driven neoliberal strategies of accumulation have been implemented and reinvented according to each society’s domestic political economy and its integration into the financial world market (cf. Muñoz Martinez, 2008; Marois, 2011). Both countries share histories of structural adjustment policies and export-led development strategies that swept globally since the 1980s. Yet as in most cases of neoliberal transformation their institutional landscapes and class structure characteristics continue to maintain specificities (cf. Albo, 2005; Brenner, Peck and Theodore, 2010). Our study fills a gap in the developmental and international political economy literature in three ways. First, state intervention during the 2008-9 crisis through stimulus packages, expansion of credit and access to liquidity towards national companies was premised on the idea that national capital was more loyal to the economy, resulting into more employment and economic growth (Andersen, 2009). This assumption ignores that domestic capitalist might have as much interest as foreign capitalists to move their money away from their home economy as seen in the case of Mexico and Turkey. Thus, this type of state intervention might end up strengthening existing domestic structures of power instead of improving the living conditions of the population in general. Second, our examination of the Mexican and Turkish cases seeks to locate the agents within the capitalist class and the state in both countries in order to understand the concrete social forces that influence economic policy-making. This is central to the questioning of the domestic structures of power in its articulation with unequal global economic and political structures in order to propose alternative policies to neoliberalism. Third, most institutional comparative studies tend to overemphasise domestic specificity at the expense of simultaneously constituted and modified universalising capitalist structures missing the opportunity to contribute to how
national differences constitute a universal if malleable global neoliberalism (e.g., Martinez-Diaz, 2009; Öniş and Burak Güven, 2011)

As our point of departure we examine Mexico and Turkey’s official responses to the 2008-09 global financial crisis in their borders. In unique ways, the simultaneous interests of corporations and banks relative to the national fixing of capital and their mobility in the form of global investment heavily influenced each state authority’s policy responses to the crisis. The interests of the poor, workers, and peasantry, by contrast, found little traction. Rather than pitching this as either evidence of persistent national differentiation or some Keynesian state resurgence, we argue from a historical materialist geographical framework that the responses of capital and state authorities in Mexico and Turkey actively constitute and reconstitute the global parameters of market regulatory design and neoliberal class rule through each state’s distinct domestic policy formation and crisis management processes. The comparison analytically and concretely deepens the notion of variegated capitalism, and in doing so enables a critically informed and evidence-based approach to alternative development policy formation (cf. Peck and Theodore, 2007).

A HISTORICAL MATERIALIST ALTERNATIVE: FRAMING CAPITAL FIXITY AND MOBILITY IN CRISIS

Geographical political economy asks how social relations are territorially grounded and how space shapes and is simultaneously shaped by economic and political power and social struggle (cf. Swyngedouw 2000). Capital mobility and fixity are two internally dimensions of the same spatial processes of capital accumulation. This is shaped by the interaction of contentious social forces, which for our purposes involves class structures, capital, and state authorities. In this formulation, it is important to recall that from a historical materialist perspective, capital is an exploitative and unequal social relation that exists between capital
and labour, is historically specific, and is the way in which value is preserved and multiplied through the appropriation of surplus labour (Marx, 1978, p. 40). Moreover, as capital does not move in the form of production money is necessary for the repositioning of productive processes. The credit system in general and fictitious capital in particular are historically specific ways owners of money can move money across borders and into different sectors of the economy in search of valorisation. Today private fictitious capital claims take the form of shares, bonds, credits, and financial derivatives based on expected future surplus labour, future tax revenues and value flows that do not yet exist and dispossession strategies that have not yet been implemented (Harvey, 1999, pp. 265-67).

These flows of capital, money, and credit – and their underlying class relations – constitute the world market as we know it today. So while for Marx the mobility of capital is inherently global (1973, 408) – so too does money capital involve momentary fixity in order to appropriate and use labour power and nature to produce value and extract profit (Harvey, 2001, p. 312). This territorialised reproduction of capitalist social relations is structured by competitive imperatives to accumulate money capital, reproducing the tensions between capital mobility and fixity (Henwood, 1998, p. 231). Once value is produced, it can circulate and come to rest in another spatial fix. In the processes of competition, capital mobility and fixity are not detached from their contexts and from social agency. Rather, competitive processes are shaped by class (inter- and intra-) struggle. From a historical materialist approach, social class is not just the division of society according to one’s income or market power but rather an understanding of how social relationships of production place historical beings into situations of antagonism: capitalists control the appropriation of surplus that workers produce with their labour power, which workers must sell in order to survive (Foster, 1990, 80-1).
This relationship between classes and capital fixity and mobility takes place under financialisation. Money, credit, and fictitious capital claims have grown quantitatively more significant in accumulation and qualitatively more powerful in how everyone’s lives are articulated within global capitalism (cf. Glyn, 2006; Lapavitsas, 2009). The rise of financial imperatives has nonetheless caused differences within the capitalist class and capital mobility and fixity to become blurry. For instance, the securitisation of real estate and production can create fictitious capital out of fixed investment (Fox Gotham, 2009, pp. 355-71). Landed interests and real estate developers need to link their activities to financial assets for expansion (Harvey, 2010, 50). Global production firms that trade in stock exchanges and deal with financial derivatives need to fix their investments in low cost locations to produce profits. This interpretation offers an understanding of the ways in which the processes of fixity and mobility are internalised within capitalist firms. This provides an alternative understanding of capitalists, which are often analysed in terms of foreign vs. domestic capitalists and/or financial versus industrial fractions of capital, where the former seems more internationally financially oriented and the latter appears to be loyal to the national economy (Harvey, 1999, p. 316).

Social classes are also connected to and shape the institutionalised political and economic practices of the state (Poulantzas, 1974, p. 25; cf. Jessop, 2010). The results of social struggles can be conceived of as institutionalisations of power relations, which of course extend beyond class to institutionalised gendered, racialised, and imperial and colonial power relations. The state is central to both the reproduction of the relationship between capital fixity and mobility as well as to the mediation of underlying social and class conflict (Brenner and Elden, 2009, pp. 359, 364, 367). The state is imbricated in processes of capital fixity and mobility as capital takes the form of the relocation of
production and investment via money across state borders and its re-territorialisation in specific political jurisdictions (Bryan, 2001, pp. 64-5). The way tensions between the fixity and mobility of capital are politically mediated and resolved (however fleeting) by state authorities depends on the historical specificity of the domestically situated class and power struggles (Poulantzas, 1974, p. 73). At the same time, state policy and practice influence the ways in which social classes relate to the fixity and mobility of capitalist social relations of production and exploitation. So too does such a framework leave open possibilities of change beyond capitalism through social struggle.

Our geographical historical materialist framework emphasises that the spread and intensification of market-rule and capital relations are not processes automatically and seamlessly activated by capitalists and corporations but are rather everywhere institutionally implemented, domestically mediated, and actively funded by capitalist state authorities. Since the 1970s the neoliberal policies institutionalizing the intensification of market, profit, and financial imperatives alongside labour discipline and the commodification of all realms of social life have necessitated the action of state authorities (cf. Duménil and Lévy 2011; Marois 2012). The theoretical, empirical, and political challenge is rather to investigate how neoliberalism as a class project is simultaneously patterned and interconnected as well as context-specific (Brenner et al. 2010a, p. 184). For this we draw on the concept of variegated neoliberalism to compare context-dependent and interconnected neoliberal policies in Mexico and Turkey during and in the aftermath of the 2008-09 crisis. The concept of variegated neoliberalism shows how regulatory restructuring is locally domesticated within the global parameters of neoliberalism. At the same time the success and the failures of local versions of neoliberalism lead to further rounds of policy experimentation that in turn re-shape global policy frameworks (cf. Peck, 2004; Brenner et
Processes of domestication are not agentless but rather institutionally mediated and politically shaped by individual and collective social relations of struggle for economic and political power.

A BACKGROUND TO CAPITAL FIXITY AND MOBILITY IN MEXICO AND TURKEY

By the end of WWII, Mexico and Turkey’s developmental strategies aimed at producing for the domestic market and at sequencing the expansion of manufacturing capacity to replace imports. Despite experimentation with early forms of liberalization the post-war institutionalization of ISI developmental strategies meant that large domestic firms in Mexico and Turkey were tightly linked to capital fixity. Consequently state authorities aimed to protect domestic markets, their core source of profit realization, with restrictions on imported goods and foreign-direct and portfolio investment in both cases. At the same time, these domestic corporations were linked to international capital mobility through their active involvement in nascent domestic bank-based financial groups and associated links to international bank syndicates largely in the US and Europe (White, 1992, p. 59; Gültekin-Karakaş, 2008). Still, the mobility of these groups’ financial assets was constrained by domestic capital controls deemed necessary for national developmental processes (Solís, 1997, p. 19; Aydın, 2005, p. 35). The profits of financial groups remained closely tied to the fixity of their capital within Mexico and Turkey in the form of government protection, subsidies, domestic investment, and market expansion. Another way in which the process of capital mobility manifested itself in the ISI period, particular to the Mexican economy, was through export processing zones where foreign companies, mostly American, received the benefits of tax exemptions and used cheap labour to assemble manufactured products to be re-exported to the US. In both cases the very emergence of large domestic capital groups
in these two national contexts was premised on supportive state policies that produced and reproduced exploitative productive, political, and social relations that disproportionately benefited domestic capital groups even as organised labour made some relative distributional gains (Marois, 2012, p. 68).

The 1979-82 US Volcker shock amidst mounting third world indebtedness led to the 1980s debt crisis that in turn triggered a phase of volatile and violent neoliberal transformations in peripheral capitalisms. Beginning in the 1980s both the Mexican and Turkish governments imposed increases in taxes and in the prices of public services on peasants, workers, and middle classes in order to help pay for foreign and public debts while making cuts to social programs and food subsidies (Correa, 2006, pp. 166-7; Yalman, 2002). These two OECD members (Turkey 1960, Mexico 1994) have since suffered recurrent crises, the most notable being Mexico’s 1994-95 and Turkey’s 2001 financial crises. Far from undermining neoliberalism subsequent state-authored rescues and financial reforms preserved, renewed, and intensified the structurally unequal social relations of power and class characteristics of neoliberal capitalism (cf. Marois, 2011). In both countries neoliberal policies led to further disempowerment of the working classes and peasants.

The 1980s debt and 1990s financial crises led Mexico and Turkey’s capitalist classes to restructure their articulation to capital mobility and fixity. With capital account liberalization measures being enacted in 1989 in both Mexico and Turkey large firms began concentrating more wealth and increasing their involvement in speculative, risky, but lucrative financial activities (Garrido, 2005, p. 100; Cizre-Sakallıoğlu and Yeldan, 2000, p. 487). Neoliberal transformation also entailed processes of capital centralisation and concentration among the large capital groups as these companies extended ownership and control over larger portions of their economies. Centralisation entailed these ever-larger
groups tying together different stages of production and distribution by absorbing smaller firms and by diversifying assets to include everything from telecommunications, media broadcasting, construction, manufacturing, resource extraction, to of course banking and finance (Cokgezen, 2000). In both cases, albeit unevenly and amidst contestation, neoliberal state authorities supported and facilitated centralisation and concentration through policies that enabled everything from M&A barriers, to access to foreign capital, to new sources of dispossession (privatisation). Economic centralisation and concentration in a handful of companies at home facilitated the internationalisation of the largest Mexican and Turkish companies abroad via acquisitions, especially following Mexico’s 1994 crisis and Turkey’s 2001 crisis (UNCTAD, 2008; Kutlay 2011, p. 74). In this way large Mexican and Turkish capital groups internalised mobility and fixity within their firms as they required favourable political and economic conditions to accumulate via financial investment or direct investment abroad while relying on state policies to ensure these conditions of mobility and profits at home.

Varied forms of concentration in Mexico and Turkey’s banking sectors reflect back on capital fixity and mobility. In Mexico the 1982 debt crisis led authorities to nationalise the entire banking sector. A change in government led to market-oriented bank restructuring processes intended to privatise the banks, which then occurred rapidly between 1991 and 1992. Privatisation resulted in the concentration banking ownership in the hands of Mexico’s richest individuals, mostly national shareholders (Vidal, 2002, pp. 22-5). The 1995 pesos crisis, however, led to the eventual opening up to foreign bankers and over 80 per cent foreign control by 2002 (BIS, 2004, p. 9). The oligopolistic structure of Mexican banking remained intact with the domestic to foreign ownership swap. By contrast Turkey has experienced no such rapid and structural shifts in bank ownership.
despite also suffering from the 1980s debt crisis and a financial crisis in 1994. Still, private bank ownership was concentrated in the largest holding groups through the 1990s. Distinctively, however, Turkey retained large state-owned commercial banks that controlled upwards of 40 per cent of banking assets (cf. BAT, 2009). Turkey’s 2001 banking crisis, like Mexico’s 1994 crisis, led to stricter rules. State authorities had to bolster official supervision and regulation post crisis or risk the collapse of their domestic neoliberal projects. The reforms notably included tougher capital and liquidity requirements, yet the costs of such re-regulation were compensated by profitability returns nearly double that possible in the advanced capitalisms’ banking sectors (OECD 2010). The foreign banks in Mexico, in particular, have internalised profitability strategies that involve skimming off the best domestic clients, shying away from risky infrastructure and productive loans, and dealing in lucrative Mexican state debt certificates (Avalos and Trillo, 2006, p. 79; Guillén Romo, 2005, p. 248; Stallings, 2006, p. 197). Turkey’s large domestic banks have followed suit as have the restructured state banks, but to a lesser extent. In both cases an increasing chunk of all banks’ returns comes from charging higher fixed fees and commissions alongside dealing in high interest rate consumer credit (Acosta Córdova, 2013; Bakir and Öniş, 2010).

The economic opening of the 1980s and 1990s also put export processing zones (EPZs) at the centre of economic policy (Middlebrook and Zepeda, 2003, p. 538). However, according to the ILO, while Mexico had 107 EPZs by 1997 Turkey had 11 (ILO 1998). While growing in significance in Turkey today, the Mexican case is more pronounced. In Mexico and Turkey (to a lesser magnitude) these zones rely on the investment of large global corporations, particularly from the United States and Europe. The assembly plants are connected to capital mobility through global production networks
but also connected to capital fixity through their reliance on the closeness to American and European markets, production infrastructure, and most importantly to the legal and economic conditions provided by state authorities to access cheap labour. In Turkey, moreover, the ‘gap’ for cheap labour and export processing capacity has been filled in part by the so-called SMEs (small and medium sized enterprises). In Turkey, SMEs are often associated with eastern or ‘Anatolian’ capital (as opposed to the large capital groups known as ‘Istanbul’ capital). These small firms are very significant economically and politically and often linked to larger, export oriented conglomerates (Sariaslan, 2004, p. 9). The SMEs internalise fixity and mobility in complex ways specific to Turkey but not unlike Mexico’s EPZs, insofar as their production is often tied to exports, if indirectly, but they are highly dependent on cheap and flexible labour in Turkey.

**Locating Social Forces**

Neoliberal transformations from the 1980s onwards distinctively strengthened particular economic actors in Mexico and Turkey. In Mexico, large Mexican companies, largely foreign-owned banks, firms in export processing zones, and investors in financial assets of large Mexican firms and public debt turned into influential forces within the capitalist class in Mexico. In Turkey, large Turkish companies and investors in firms and domestic debt became important influences within the capitalist class. However, the banks remain predominantly domestically-owned and tied to the large holding companies alongside three large state-owned banks and an only recently growing foreign bank presence. Additionally, SMEs and Anatolian-based capital have taken a place of almost parallel importance to the large Istanbul capital groups.

These economic transformations did not occur in a political vacuum. A striking feature of the neoliberal era is that it has remained in place, however modified, despite
changes in party politics and any associated left–right ideological shift. In Mexico the authoritarian regime based on one state party, the Institutionalised Revolutionary Party (PRI), ruled the country for more than 70 years. In the 1980s and the 1990s the PRI assisted in the implementation of neoliberalism. The trend of economic concentration and the financial orientation of firms intensified after Vicente Fox, candidate for the centre-right Action National Party (PAN), won the 2000 presidential election (Zepeda, 2011, p. 9). The switch from PRI to PAN did not create any ideological break but rather ensured neoliberal continuity and the continued power of capital over labour and the peasantry (cf. Álvarez Béjar and Ortega Breña, 2006). Cast in comparison, Turkey’s party history has been far more fragmented and polarised characterised by unstable coalitions, military coups, party dissolutions, and struggles between westernised secularist and religious conservative camps (cf. Tachau, 2000). Turkey shares, nonetheless, a highly authoritarian party structure and form of political rule (Oğuz, forthcoming). Stable one party majority rule came after Turkey’s 2001 financial crisis and with the dramatic rise of the Islamic- and market-oriented Justice and Development Party (AKP) under the leadership of Prime Minister Recep Tayyip Erdogan (cf. Sen, 2010). The AKP did not break with the rapid neoliberal restructuring initiated by the leftist-led coalition during the 2001 crisis, but instead intensified state and market restructuring over the next decade including aggressive financial reforms and privatisations. While large Istanbul capital has not lost out from AKP neoliberal transformation, certainly the AKP consolidated and promoted the fortunes of Islamic capital with its traditional Anatolian base.

Three decades of variegated neoliberal transformation in Mexico and Turkey, which led to processes of capital centralisation and concentration and financialisation, set the institutional and material conditions from which capital and state authorities responded to
the global financial crisis’ impact on their societies in 2008-09. It is out of the scope of this paper to analyse the origins of the global crisis. However, the crisis manifested itself in the form of mortgage foreclosures in the US, mainly subprime, collapsing mortgage lenders, investment banks and hedge funds collapsed in 2007 (Martin. 2011, pp.592-3). The financial crisis spread over global credit markets as returns on risk increased rapidly and liquidity diminished (Eichengreen et al., 2012, p. 1301). The initial impact of the crisis on Europe and the US had serious consequences on Mexico and Turkey, as these countries rely economically for export markets and incoming investments. This will be analysed in the following section through the lens of capital mobility and fixity.
Table 1: Comparative Indicators, Mexico and Turkey, 2007 to 2012

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<tr>
<td>GDP Growth</td>
<td>Turkey</td>
<td>4.7</td>
<td>0.7</td>
<td>-4.8</td>
<td>9.0</td>
<td>7.5</td>
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<td></td>
<td>Mexico</td>
<td>3.4</td>
<td>1.2</td>
<td>-6.0</td>
<td>5.6</td>
<td>3.9</td>
<td>3.8</td>
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<td>Public sector debt as per cent of GDP</td>
<td>Turkey</td>
<td>39.9</td>
<td>40.0</td>
<td>46.1</td>
<td>42.2</td>
<td>39.1</td>
<td>36.2</td>
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<td></td>
<td>Mexico</td>
<td>37.8</td>
<td>43.1</td>
<td>44.5</td>
<td>42.9</td>
<td>43.8</td>
<td>43.1</td>
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<td>Unemployment rate</td>
<td>Turkey</td>
<td>10.3</td>
<td>11.0</td>
<td>14.0</td>
<td>11.9</td>
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<td></td>
<td>Mexico</td>
<td>3.7</td>
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<td>5.2</td>
<td>4.8</td>
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<td>Foreign direct investment (net, billions $)</td>
<td>Turkey</td>
<td>19.9</td>
<td>17.0</td>
<td>6.9</td>
<td>7.8</td>
<td>12.6</td>
<td>16.2</td>
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<td></td>
<td>Mexico</td>
<td>31.3</td>
<td>27.8</td>
<td>16.5</td>
<td>21.3</td>
<td>21.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Portfolio investment assets (billions $) net</td>
<td>Turkey</td>
<td>1.9</td>
<td>1.2</td>
<td>2.7</td>
<td>3.5</td>
<td>-2.7</td>
<td>-2.7</td>
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<td>acquisition financial assets</td>
<td>Mexico</td>
<td>14.7</td>
<td>-14.2</td>
<td>34.5</td>
<td>5.4</td>
<td>-6.0</td>
<td>8.3</td>
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<td>Portfolio investment liabilities (net</td>
<td>Turkey</td>
<td>2.8</td>
<td>-3.8</td>
<td>2.9</td>
<td>19.6</td>
<td>19.3</td>
<td>38.1</td>
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<td>incurrence of liabilities)</td>
<td>Mexico</td>
<td>13.3</td>
<td>4.8</td>
<td>15.3</td>
<td>37.7</td>
<td>40.6</td>
<td>81.3</td>
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<td>Gross foreign reserves (CBT); (billions $)</td>
<td>Turkey</td>
<td>76.2</td>
<td>74.0</td>
<td>73.8</td>
<td>86.6</td>
<td>90.1</td>
<td>86.3</td>
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<td></td>
<td>Mexico</td>
<td>71.3</td>
<td>95.3</td>
<td>99.9</td>
<td>120.6</td>
<td>149.2</td>
<td>170.2</td>
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<td>Real minimum wages (US dollars per hour)</td>
<td>Turkey</td>
<td>3.4</td>
<td>3.4</td>
<td>2.9</td>
<td>3</td>
<td>2.8</td>
<td>2.7</td>
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<td></td>
<td>Mexico</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
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<td>Consumer prices (index 2005=100)</td>
<td>Turkey</td>
<td>--</td>
<td>--</td>
<td>141.0</td>
<td>153.1</td>
<td>163.0</td>
<td>177.5</td>
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<tr>
<td></td>
<td>Mexico</td>
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<td>119.2</td>
<td>124.2</td>
<td>128.4</td>
<td>133.7</td>
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<tr>
<td>Inflation</td>
<td>Turkey</td>
<td>--</td>
<td>10.4</td>
<td>6.3</td>
<td>8.6</td>
<td>6.5</td>
<td>8.9</td>
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<td></td>
<td>Mexico</td>
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<td>5.1</td>
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THE VARIED REACTIONS OF CAPITAL TO CRISIS

Between 2008 and 2009 the specific competitive and accumulation strategies of different capitals to crisis in Mexico and Turkey varied according to their specific articulation to fixity and mobility, revealing the powerful agency of capital amidst crises. National variation, however, does not preclude some generalizing thrusts, three of which are apparent in Mexico and Turkey. These include each society’s experiences with (1) capital flight; (2) reduced domestic production; and (3) an outperforming banking sector.

First, in Mexico capital flows in portfolio (liabilities) and foreign direct investment decreased between 2007 and 2008 (Table 1). Foreign direct investment experienced a fifty per cent reduction between 2007 and 2009. Mexican and foreign firms contributed to this capital mobility in different ways. Large Mexican corporations moved their money abroad in the form of FDI. Greenfield investment abroad by large Mexican firms increased from 842 million dollars in 2008 to 1.91 billion in 2009 and 2.57 in 2010 (UNCTAD, 2011, pp. 196, 207). Fearing losses and instability, financial investors and banks shifted their money capital away from the Mexican economy into other currencies, notably the US dollar. In turn, this caused Mexican stocks to decline as the Mexican peso depreciated by 4.2 per cent in 2008 (Froymovich, 2009, p. C8). In some instances, corporations like that of Banamex (Citigroup’s Mexican subsidiary) paid 1.4 billion dollars to its American headquarters to recapitalise its faltering core operations, resulting in cuts to new lending (Redacción, 2010). Large Mexican firms with investment in financial derivatives also contributed to this outflow when they paid their losses in derivatives in US dollars. These firms had used derivatives to obtain US dollars at low interest rates, paid these loans with yields from their investment in Mexican pesos, and obtained profits from the difference between lending rates in the US and investment rates in Mexican pesos. Several Mexican firms reported
losses in derivatives operations that totalled 8 billion dollars (US) between 2008 and 2009 (Reyes, 2009).

In Turkey portfolio flows (liabilities) also reversed course between 2007 and 2008 and FDI steadily fell between 2007 and 2009 (Table 1). In contrast to Mexico, however, Turkey’s largest corporations tended not to move their money abroad. Outward investment flows instead slowed from $2.6 billion in 2008 to $1.6 billion in 2009 (Kadir Has 2011). Some large corporations opted to halt investments in a ‘wait and see’ strategy while others took advantage of the state’s recovery package and tax breaks to update operations at home. In a further divergence of note from Mexico the obscure balance sheet item ‘net errors and omissions’ registered capital inflows of nearly $15 billion US dollars from October 2008 to June 2009 – that is, unofficial and unrecorded repatriation Turkish corporate foreign savings – that presumably went to paying off foreign debts (Uygur, 2010, p. 27). This helped to mitigate the still-significant capital flight out of Turkey as investors turned to the security of the US dollar. This, like in Mexico, exerted downward pressure on the stock market indexes and affected the value of the currencies. Foreign investors shed stocks and bonds on the ISE as its value dropped by 35 per cent from mid-September 2008 to March 2009 (Özdabakoğlu, 2009). This put enormous pressure on the Turkish Lira as the US dollars soared by 40 per cent against the Lira. However, the derivatives so important to the specificity of Mexico’s crisis were not significant in Turkey (Özdabakoğlu, 2009). Like Citibank Mexico, the profitable operations of foreign banks Fortis and Dexia in Turkey were used to bolster their failing operations in Europe. By and large, however, the enormous profit opportunities in Turkey meant bank capital stayed put, albeit in slightly modified form. The private banks generally rolled over existing loans but cut back on new loans in real terms. The three large state-owned banks, by contrast, increased lending across
the board. Both the private and state banks shifted assets into government debt in efforts to preserve profits and decrease lending risks amidst crisis (Mihaljek, 2010).

Second, the crisis-generated lack of global effective demand, alongside capital flight, impacted domestic production in Mexico and Turkey. Both Mexican and Turkish capitals slowed their domestic investment and production. Industrial activity in Mexico decreased 12 per cent in 2009 over 2008 while fixed capital formation declined 10 per cent in the same period (INEGI, 2013). Capacity utilisation fell slightly from 79.7 per cent at the beginning of 2007 to 76.6 per cent at the end of 2009 (INEGI, 2013). At the same time, domestic aggregate demand declined in 2009 and wages remained stagnant while prices rose faster than wages (Table 1). This was partly the result of the strategies of global corporations in Mexican export processing zones. These companies slowed down production in Mexico and channelled the returns of their sales to the payment of financial obligations and boosting the price of their bonds and stocks (Morales, 2010). Still, the initial devaluation of the peso during the global crisis lowered the costs of production in Mexico, which made Mexico once again an attractive site for foreign direct investment, mostly American companies, particularly in export processing zones in the electronics and auto sectors because of rising wages in China and cheaper transportation costs from Mexico to American markets (Luhnow and Davis, 2012, p. A12).

Turkish industrial output likewise fell as private fixed capital investments dropped by 10 per cent in 2009 over 2008 (CBT, 2010, p. 33). Capacity utilisation sat near Mexico’s in 2007, at about 80 per cent, before collapsing to just over 60 per cent by early 2009 as manufacturers reduced existing stocks and overcapacity (CBT, 2011, p. 10). Turkey, too, suffered from lower levels of private domestic demand to GDP growth, which collapsed from 5 per cent in 2007 to -1.8 in 2008 to -8.3 in 2009 (IMF, 2012, p. 47). Like Mexico,
Turkish exporters sought to reduce labour costs by holding down wages below inflation in addition to initiating work stoppages and staff layoffs (Table 1; Öztürk, 2012, p. 70). While some Turkish exporters cut production (by about half by early 2009) and employment (down by about 15 per cent) to protect profits, other exporters responded in a similar way but also tried to re-orient Turkish exports to other-than-Western markets (notably to the Middle East, especially the Gulf countries, and to Africa) (Uygur, 2010, p. 18). Turkey reduced dependence on Europe and the US whereas Mexico continued relying on American markets.

The crisis revealed capitalists' distinct ties to capital fixity and mobility in the context of financialisation. Their distinct linkages to international finance and fixed processes of national production, circulation, and realisation shaped their responses to the crisis and created new sources of frictions among large firms, both national and foreign. Large Mexican firms, including domestic and foreign banks, had more vested interests in capital fixity in Mexico than financial investors. The former relied more on their Mexican operations, domestic markets, and peso assets to realise an important share of their profits even though international capital mobility offered them the possibility to escape capital devaluation and find cheaper production sites outside of Mexico. Large Mexican firms also required a strong peso to reduce exchange rate risk in their foreign direct investment and financial operations in international financial markets. By contrast, exporting firms’ main interests were not only tax exemptions but also a relatively low exchange rate. A strong peso threatened the competitiveness of their exports and diminished their gains from using cheap Mexican labour despite the gains appreciation gave exporters when purchasing inputs from abroad. As such, the interests of the export sector on peso devaluation diverged from financial investors, banks, and Mexican oligopolies requirements of a strong peso.
In Turkey foreign investment capital likewise had a strong interest in securing their mobility of capital out of Turkey and back in once conditions proved more favourable. By contrast, Turkey’s large domestic holding groups (Istanbul capital) aimed to secure profitability at home but to augment this by trying to access cheap foreign capital. Their interests are complex and sometimes contradictory, so not easily summarised. Since internationalizing after the 1980s much of their domestic production is for export, yet many intermediate inputs and energy are imported. This led the Turkish Exporters’ Assembly (TIM) to demand that the Central Bank intervene to moderate the TL exchange rate (neither let it appreciate nor depreciate too much in any direction). However, these groups’ assets also often include major domestic retail wings and media outlets (Yapı ve Kredi Bank, Akbank, and Garanti Bank respectively). As the crisis intensified by early 2009 calls from a representative arm of Istanbul capital, TÜSİAD (Turkish Industrialist Businessmen’s Association), focused on Turkey securing a deal with the IMF to decrease foreign borrowing costs by having state authorities extend official guarantees on their debts. By contrast, a representative arm of Anatolian capital, MÜSİAD (Independent Industrialist Businessmen’s Association), strongly resisted an IMF deal since it came with tax reform requirements that would impact them most directly (that is, by increasing tax enforcement thus threatening their implicit, if illicit, ‘tax-breaks’).

In different ways, capitalists in Mexico and Turkey were financially-oriented but territorially attached in different ways to their domestic economies in the form of production, dispossession, and credit. This suggests that the national or international legal origin of firms did not determine a particular commitment to the national fixity or global mobility of capital. In fact, the capitalist classes had different intra-class stakes in the global mobility and national fixity of capital, which varied by society and its productive and
financial integration into the world market. So too would this diversity shape domestic policy responses to the onset of crisis in 2008-09.

THE VARIED REACTIONS OF STATE AUTHORITIES TO CRISIS

In 2008-09, the internalising and adaptation to fixity and mobility by state authorities facilitated the reconstitution of global capitalism and neoliberal class rule in Mexico and Turkey. The specific policy responses of course varied according to each society’s specific problems of capital accumulation and neoliberal class rule generated by the 2008-09 crisis. Nonetheless, six general categories are evident and involved managing them in particular ways: (1) domestic interest rates; (2) international reserves; (3) loan guarantees and access to liquidity; (4) taxation; (5) public debt management; and (6) stimulus.

First, domestic interest rates became a focal point of policy formation. The Mexican central bank or Banxico under the PAN Presidential Administration increased interest rates in 2008 from 7.50 to 8.25 per cent in order to lower inflation (Banxico, 2009a, p.12). This was consistent with Mexico’s monetary policy of inflation targeting since 2001. The Mexican central bank has raised the interbank overnight rate (*tasa de fondeo bancario*) when inflation increases beyond the inflation target and vice versa. The present target of a rate of inflation is three per cent with a band of one percentage point. This measure did not stop prices from increasing, and instead, had negative effects on economic growth as firms’ credit costs rose. For that reason, Banxico cut interest rates from 8.25 per cent to 4.50 per cent in 2009. In Turkey, by contrast, the Central Bank’s Monetary Policy Committee from the beginning of the crisis initiated sharp cuts to its policy rate. The widely regarded unorthodox measure saw interest rates slashed from 16.75 per cent in October 2008 to 6.75 per cent in October 2009 (CBT, 2010, p. 6). Contrary to conventional thought, inflation fell
to 6.5 per cent, its lowest level since 1968, thus enabling the CBT to continue reducing interest rates within its inflation targeting mandate (BAT, 2010, pp 1-2; BAT, 2009).

Second, Banxico and the Central Bank of Turkey used international reserves to provide liquidity to large firms to cover liabilities in US dollars and maintain the value of the peso. For instance, in Mexico the initial depreciation of the peso during the 2008-09 crisis led to losses in derivatives held by large Mexican firms, which increased the demand for US dollars. This depreciated the peso by 25 per cent (Banxico, 2009b, p. 81). The central bank supplied from its international reserves to prevent further depreciation (Moreno, 2010, p. 74). The general strategy of the central bank was to increase foreign exchange liquidity through a rule that set the daily amount to be auctioned with a minimum price floor of two per cent above the previous working day exchange rate (Cuadra, Sidaoui and Ramos-Francia, 2010, p. 288). In 2008, this daily auction was set at 400 million, which was lowered to 250 million by May 2009. There were exceptions to this rule in 2009. To guarantee liquidity, a swap of 30 billion US dollars was established with the US Federal Reserve in 2008 and a Flexible Credit line was negotiated with the IMF in 2009 for 30 billion dollars (Banxico, 2009a, pp. 69-72). To defend the Mexican peso, Banxico also remunerated US dollar deposits kept in the central bank (Cuadra et al., 2010, p. 288). While Banxico injected liquidity into the economy, the National Commission of Banking and Securities set limits on the profits that foreign banking subsidiaries could transfer to their headquarters abroad (BBVA Research, 2012, p.3).

Turkish authorities, to a lesser extent, increased foreign exchange liquidity so domestic capital could service foreign commitments. The selling off of international reserves was also intended to smooth TL exchange rate volatility (down 40 per cent to the USD). It was not until March 2009 in a series of 18 auctions, however, the CBT auctioned
900 million US dollars in reserves (cf. BAT, 2010, pp. I-4). State authorities facilitated domestic liquidity early on by other creative ways. Notably, the AKP government enacted the ‘Law on Repatriation of Capital or Tax Peace and Asset Repatriation Programme’ in November 2008 (PDMR, 2009, p. 13). The voluntary scheme was pitched in terms of generating an economic boost while allowing individuals and corporations to repatriate previously unclaimed or illegally held foreign assets legally (the ‘Peace’ aspect) subject to a minimal two per cent tax, drawing in over 31 billion US dollars but generated a meagre 1 billion US dollars in tax revenue by the end of 2009. Amidst this the AKP government maintained a strategy of entertaining, if never completing, talks with the IMF from late 2008 until mid-2009 but without ever signing a formal deal (Aydin, 2013, p. 104).

Third, the PAN and AKP offered different types of loan guarantees and access to liquidity to the private sector. In Mexico, Banxico lent US dollars to commercial and development banks, drawing on a foreign currency swap line with the US Federal Reserve, totalling 3.22 billion dollars in the form of loans to private firms via commercial and development banks (Banxico, 2010, pp. 69-72). In 2009, the central bank also auctioned interest rate swaps for up to 50 million US dollars to enable credit institutions to exchange their exposure to financial assets with fixed rates and long term maturities for short-term instruments with variable rates, reducing their risk structure and the duration of the credit institutions’ assets (Cuadra et al. 2010, pp. 292-3). Change in regulations allowed commercial banks to use new eligible assets as collateral to access liquidity from Banxico at lower rates. Development banks such as NAFINSA and Bancomext provided short-term financing in the form of guarantees on securities issued by firms, insuring up to 50 per cent of the securities issued (Cuadra et al. 2010, pp. 291-2). In contrast to the PAN, the AKP directed loan guarantees and supports towards productive sectors like agriculture, SMEs,
and large firms, mainly through two large Turkish state-owned banks, Ziraat and Halk, which drew on the government guarantee schemes. These banks increased loans from between 15 to 25 per cent in 2009 over 2008 levels (BAT, 2010, pp. I-3). State authorities also increased the credit and guarantee levels of the state-owned Export Credit bank of Turkey). At the same time, and to stem any possible gutting of the banks’ capital, the Banking Regulation and Supervision Agency (BRSA) began authorizing the banks’ distributions of earnings to shareholders in 2009. Official re-regulation by the BRSA in January 2009 allowed banks to restructure and reclassify weaker securities and loans in 2008 as performing to enhance the appearance of financial health, reduced FX lending terms and interest rates and reserve requirements for FX liabilities (cf. IMF, 2010b; CBT, 2010, p. 37).

Fourth, authorities manipulated taxation, but in different ways. The PAN Administration in Mexico increased taxes in order to finance previous policy responses to the crisis. While taxes did not increase in 2008 and 2009, the value-added tax (VAT) was increased one per cent and income taxes rose three per cent in 2010. As a result non-oil revenues increased 12.1 and 2.4 per cent in 2010 and 2011 respectively. Yet, there was a 45.4 per cent increase in VAT returns during 2011 in comparison to the previous year because large firms and investors can claim credits on this tax, whereas individuals, particularly workers, cannot (Secretaria de Hacienda, 2011, p. 27). Also, operations in stock and other financial markets remained tax exempted. Turkey did not increase taxes (in fact, resisted this by resisting an IMF package). Instead, authorities relied on increasing public debt to finance its stimulus package, which the domestic banks eagerly bought up. In fact VATs decreased to boost consumption on automobiles, consumer durables, and heavy-duty machines and equipment from 18 per cent to 8 per cent. This VAT cut also applied to
computers, IT, office technologies, and office furniture as well as for SME purchases of industrial machines.

Fifth, Mexico and Turkey’s Ministries of Finance focused on public debt management. In 2008 the Mexican Treasury reduced long-term bond issuance during the fourth quarter of 2008. The goal was to prevent further closing of investors’ positions in long-term government bonds. Later, the Mexican Treasury issued and swapped short-term instruments in pesos for long-term government debt (Secretaria de Hacienda, 2011, pp. 21, 68). As a result, public sector debt increased (Table 1). While the Turkish Treasury entered into the crisis period in a relatively favourable position of having a 1.8 per cent budget surplus, it nonetheless had to contend with shortening debt maturities by the end of 2008, which fell from 34 to 32 months due to global instabilities and capital flight (PDMR, 2009, pp. 15, 18). Authorities maintained Turkey’s preceding trend of internalizing public debt (Table 1).

Sixth, both countries unrolled rather limited, albeit distinct, stimulus packages. The Mexican government’s stimulus packages launched in 2008 mostly promoted investment in infrastructure and expanded access to credit for the construction sector as well as private and public mortgage institutions (Secretaria de Hacienda, 2011; FMI, 2011, p. 40). Subsidies for exporting companies producing vehicles, auto parts, electronics and machinery were also part of the stimulus package. The Ministry of the Economy allowed companies to have production stoppages while absorbing some of the labour costs. In exchange, planned job cuts had to be limited to a third of the decline of sales (Galhardi, 2010, pp. 1-2) Resources were channelled to an expansion of social security coverage to workers forced into early retirement, workers’ training and scrapping schemes and government, private sector (ILO, 2010.) Also, the budget for the poverty alleviation
program *Oportunidades* increased 60 per cent (Feliz Herrera, 2011). However, the importance of programs related to workers and anti-poverty projects in the stimulus package was not as significant as infrastructure spending and production subsidies. This stimulus package represented 1.6 per cent of Mexico’s 2009 GDP.

Turkey’s stimulus package, unlike in Mexico, was not unveiled until just ahead of local elections in March 2009 (OECD, 2012, p. 14). It also focused primarily on raising domestic consumption through VAT to help capital reduce domestic capitals’ overproduction stocks (Öniş and Güven, 2011, p. 5). Some infrastructure expenditures were increased for the Southeastern Anatolia Project and corporate tax breaks provided to help relocate production to the East especially (PDMR, 2009, p. 13). This complimented the AKP regional strategy of locating labour intensive but globally competitive production to the east of Turkey where the Kurdish population seemingly offers a cheaper source of labour (Öztürk, 2012, p. 72). By contrast, the AKP extended unemployment benefits, temporary and part-time employment and, a new program for temporary public employment, public internship, and vocational training. The overall stimulus package represented 3.4 per cent of 2009 GDP.

**VARIEGATED FIXITY AND MOBILITY, BUT NO LESS NEOLIBERAL MEXICO AND TURKEY**

The variegated and sometimes contrasting results show how Mexico and Turkey represent two different but nonetheless neoliberal projects shaped by relatively mobile capital and relatively fixed internal class and accumulation structures. In Mexico the internalisation of the dynamics of mobility and fixity within large Mexican firms and financial investors shaped authorities’ policy responses to the crisis. The authorities’ initial increase in interest rates in the crisis period intended to keep portfolio investment in Mexico to prevent
devaluation of the peso and inflation. When inflation increased and domestic and foreign investors took their money out of Mexico, Banxico lowered interest rates to ease liquidity for firms that still had investment in the country, especially large firms. The authorities’ policy preferences for large firms can be seen in the form of loans and liquidity facilities because such measures were directed towards improving Mexican firms’ and banks’ balance sheets and their risk structure. The latter was done through the use of derivatives by the central bank while loans were directed to guarantee private sectors’ securities. As a result, only a handful of firms received the benefits of these programs due to the concentration of the Mexican stock exchange in a handful of firms (BMV, 2010, p. 36). It is worth noting that the Mexican central bank and the Ministry of Finance did not react mechanically to the foreign exchange needs of capital, but rather devised mechanisms to favour private sector’s access to funds while protecting the value of the peso. For that reason, loan and liquidity government mechanisms for large firms and banks were denominated in pesos and limits on foreign liabilities in banks remained in place. Overall, economic and financial policy targeted the value of the peso, favouring large Mexican firms, banks and investors in public debt. Stimulus packages were also directed to subsidise production of large firms instead of overall general consumption. These policy responses show how state policy tried to reconcile the internalised tensions of capital fixity and mobility within firms. The deep integration of large Mexican firms to global financial markets through FDI and derivatives and the close connections of both domestic and international financial investors to the Mexican economy through public debt, which is a reference in several global indexes including the World Government Bond Index, influenced policies that focused mainly on the worthiness of the peso, low inflation, access to foreign exchange and guarantees on private securities. This in turn hints at the close
nexus of the capitalist class in Mexico to capital mobility. At the same time, regressive
taxation and the stimulus package also tried to deal with capitalists’ interests in fixity
within Mexico in order to increase yields in their investment in public debt and facilitate
profitable investment in production and construction.

So too in Turkey has the internalisation of mobility and fixity within Turkish firms,
larger and smaller, and financial investors shaped authorities’ policy responses to the crisis.
Authorities’ policies initially reflected the needs of large corporations to shed existing
stocks, especially in consumer durables and autos, and to increase domestic liquidity for
smaller firms. In response the Central Bank systematically reduced its policy rate and eased
domestic liquidity requirements while the government, much later, provided VAT cuts for
these goods as part of it delayed stimulus. As inflation continued to fall so too could the
Central Bank’s policy rate continue its decline. This led to a falling lira, which was thought
to be nonetheless overvalued by as much as 25 to 60 per cent to the US dollar pre-crisis
(Uygur, 2010, p. 56). While this increased the repayment costs of foreign currency
borrowings for large holding groups, a moderated fall increased Turkey’s export
competitiveness, benefitting both Istanbul and Anatolian capital. But while the government
aimed to increased domestic liquidity via eased reserve requirements the private banks in
fact reduced lending. State banks did increase credit dramatically to help compensate. As
Turkey’s stimulus response was delayed until early 2009, by this time large holding groups
had regained access to international markets freeing up authorities to respond to SME
demands for credit support. While piecemeal and delayed, authorities crafted policy around
their most organised and powerful domestic capital constituents.

The varied reactions of capital and state authorities to the 2008-09 crisis have
seemingly yielded positive ends as many economic indicators in Mexico and Turkey since
indicate. In Mexico GDP bounced back in 2010 and 2011 while Turkey’s GDP bump was even more significant in the same period (Table 1). The Mexican Stock Exchange rose 12.4 per cent from the beginning to the end of 2010. The Istanbul Stock Exchange 100 Index reached an all-time high with returns jumping 21 per cent in US dollar terms (BAT, 2012, viii). Mexican and Turkish bank profits (as return on equity) ranked near the top of the G-20 with Mexico’s banks hitting 16.8 per cent in 2010 and 15.5 in 2011 and Turkey’s banks outperforming at 23.9 in 2010 and 18.9 in 2011 (BAT, 2012a, p. 63). The accumulation of international reserves reached historical records in both countries, although Mexico far outpaced Turkey (Table 1). The IMF reports exports in Mexico and Turkey and inflation decreased in both countries (Table 1). While not without reservations, capital in Mexico and Turkey – especially given the overarching context of the Great Recession in the advanced capitalisms – were doing phenomenally well.

The seemingly positive outcomes of the 2008-09 crisis have not been distributed to the benefit of workers and the majority in these societies. So is it in Mexico and Turkey. According to the OECD (2011) Mexico and Turkey are still among the worst off in the OECD despite impressive post-crisis GDP growth indicators. These two societies remain the second and third most unequal within the OECD by the Gini coefficient. Mexico ranks the worst in poverty protection while Turkey sits at fifth worst. In terms of the enigmatic OECD ‘social justice’ indicator, Turkey ranks the worst followed immediately by Mexico. Aside from perhaps maintaining a job for which they are effectively making less doing, your average worker has come out poorer from the 2008-09 crisis. The stimulus packages have not reduced unemployment rates significantly since 2009 and real minimum wages have decreased while prices have increased faster than wages (Table 1).
Still, the way financialisation and neoliberalism worsen social inequality does not take place is automatic and homogeneous ways but are rather shaped by the internal class structures and the political conditions of a country. In Mexico, targeting wages temporarily solved the global exporting firms’ concerns over export competitiveness and left the strong peso policy intact. Thus the interests the exporting industries connected to global production companies through low wages became compatible with the interests of large Mexican companies’ goal of low production costs in their Mexican operations in order to increase the margins between profits and direct investment, and therefore the value of their stocks and bonds. Profitable yields in public debt, which sustained reserve accumulation and a strong peso, required debt repayment, and, therefore, an increase in non-oil revenues. In Mexico, this was accompanied by regressive taxation, which allowed the accumulation of new resources to sustain debt management and reserve accumulation strategies. This strategy was central to the mediation of internalised tensions of capital fixity and mobility as financially oriented large Mexican companies and financial investors received the benefits of these strategies while imposing the costs of the crisis on middle and working classes. The weakening of middle and working classes in the aftermath of the 2008-09 crisis set the conditions for the labour reform in 2012, which led to the further flexibilisation of labour conditions under the PAN administration with the support of the PRI. This reform allows outsourcing, the use of private firms to hire temporary workers and increases part-time work in the country. In Turkey, too, targeting wages and labour flexibility temporarily eased international competitiveness problems (in addition to the benefits of a weakening lira). Wage and flexible employment measures alongside inducements for capital to move to low wages regions likewise emphasised the need to keep capital fixed within Turkey’s borders. This was goal shared by both Istanbul and
Anatolian capital, albeit in different parts of Turkey. In mid-2009 with the AKP unveiled the Temporary Labour Law (Number 592) which facilitated employers’ access to cheaper and more flexible workers by allowing companies to hire temporary staff through private offices. The government then increased public debt to pay for the stimulus package that unabashedly benefited domestic capital, large and small alike. Unlike Mexico, the costs were not immediately socialised by VAT increases, though the AKP refusal to undertake tax reforms meant the average worker would pay disproportionately for it in the future anyway. Rather VAT reductions sought to induce greater individual consumption. While stimulus packages varied in both Mexico and Turkey, the targeting of labour through state policy was central to mediating the contradictions between fixity and mobility within its capitalist class during the 2009-9 crisis.

CONCLUSION

With the world’s advanced capitalisms continuing to stagnate long after 2009, mobile capital had to seek out peripheral locations to invest and valorise capital. This led to a seemingly strong recovery in Mexico and Turkey. This bounce-back recovery enabled state authorities, pushed and supported by domestic capital in different ways, to actively reconstitute the global policy framework of neoliberalism through domestic policy formation and crisis management. This occurred through variegated processes of trial-and-error domestically vis-à-vis world market-based regulatory parameters negotiated and set at larger international scales. While differing in specific content the form of Mexico and Turkey’s state responses to the crisis ensured continuity in their foregoing neoliberal strategies of development and capital accumulation, most notably in the continued oppression of workers. That is, the prevailing strategy of accumulation continues to be variegated neoliberalism. This is defined not by any specific matrix of policies alone but by
the shared defeat of organised labour and popular classes’ capacity to resist market-oriented restructuring and austerity that disproportionately benefits capital. It should be reiterated that policy formation does not exclusively respond to the general interests of capitalists, but rather involves a process of negotiation among capitalist classes and state authorities influenced by the resistance and demands of subordinated classes. This explains why workers in Mexico and Turkey have disproportionately born the costs of state policy responses through regressive taxation, lower wages, and the socialisation of accumulation risks.

A critical assessment of fixity and mobility can help inform progressive alternative policies and institutions. Further research needs to target and assess actually existing policy alternatives and practices. However, for our purposes, we can signal two fruitful directions for such research building on the foregoing historical materialist geographical analysis. The first direction is the need to locate power relations along the lines of capital mobility and fixity in order to critically analyse the limits of domestic stimulus packages. Without doing so, domestic stimulus packages might end up reinforcing existing structures of capitalist power within a country. The second direction is the importance of understanding emerging capitalsms as central spaces in the constitution of global frameworks of neoliberalism rather than peripheral ones. Such a view emphasises the importance of progressive social change in those economies in order to encourage alternative policy formation globally.

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After Neoliberalism? Brazil, India, and China in the Global Economic Crisis

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After Neoliberalism? Brazil, India, and China in the Global Economic Crisis

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ABSTRACT Against the backdrop of debates about ‘post-neoliberalism’, we examine the implications of the global economic crisis for three important semi-peripheral states: Brazil, India, and China. Deploying a framework which combines neo-Gramscian theory, radical economic geography, and materialist state theory, we find that all their political-economic models have undergone processes of substantial neoliberalisation, albeit to varying degrees and partly giving way to countervailing trends well before the global turmoil. The crisis has markedly accentuated ongoing developments. In Brazil, it has reinforced a transition to a neo-developmentalist strategy. In contrast, the Indian elites have quickly returned to the path of gradual neoliberalisation. In China, it is still unclear whether a fundamental social-corporatist regime change will be accomplished. Our analysis thus suggests a divergence of trajectories, rather than a general rebound of the state, let alone a full-blown post-neoliberal transformation.

Keywords: BRICs, neoliberalisation, post-neoliberalism, economic crisis, world order

Introduction

In April 2011, the heads of state of Brazil, Russia, India, China, and South Africa gathered in Sanya, China, for the third BRICS summit. Their summit declaration not only emphasised that the BRICS were positioned to play a central role in shaping the future global political economy. It also expressed the Global South’s latent dissatisfaction with fundamental aspects of the Western-dominated neoliberal order, such as weak financial regulation and international monetary policy (BRICS Leaders Meeting, 2011).

The summit can be understood in the context of the emergent debates over possible crisis-induced ‘post-neoliberal’ transformations in the global political economy. Such debates
ensued as governments around the world were compelled to abandon, at least temporarily, core neoliberal principles in order to prevent a complete economic collapse (Brand and Sekler, 2009; Brenner et al., 2010a). Diverging interpretations exist: Some scholars identify first attempts to ‘break with some specific aspects of neoliberalism’ (Brand and Sekler, 2009, p. 6), while others remain sceptical regarding the potentials for such a transformation (Crouch, 2011, p. viii), or even consider the emergence of a new neo-authoritarian variant of capitalism more likely (Robinson, 2010, pp. 306 f.).

Such disagreements underscore the validity of Gramsci’s identification of crises as contested phases when ‘the old is dying and the new cannot be born’ (Gramsci, 1971, p. 276). However, as far as the role of emerging economies has been addressed, attention has remained focused primarily on their relative power gains in global politics (e.g. Altmann, 2009). A substantial discussion of the transformations that the crisis may have triggered with regard to the political-economic models of the emerging economies themselves, and thus to fundamental relations between state and capital, has been largely absent from these debates so far. It is this issue which we shall address in this article.

More specifically, we seek to reach a comparative assessment of the impacts that the global crisis has had on three of these countries: Brazil, India, and China (the BICs). These have been chosen because they are the largest, as well as the most economically powerful and/or dynamic among the BRICS countries. Unlike Russia, they were also historically marginalised in global economic governance. In our analysis, we focus on the role which neoliberalism has played in shaping their political-economic models and the recent changes therein which the crisis may have triggered or accelerated. The text proceeds as follows: In section two we outline our perspective on ‘neoliberalisation in crisis’ and the conceptual framework used for its analysis. In section three we scrutinise and compare the political-economic transformations that brought about a turn to neoliberalisation in the BICs. In section four we briefly analyse the impacts which the global economic crisis has had on their economies and societies before discussing the crucial differences between these three countries’ reactions to the crisis and their implications in section five. A short conclusion follows: For India, we observe a continuity of neoliberalisation, while Brazil has shifted to a relatively stable social-democratic model. China, in turn, is in the midst of an open-ended process of structural transformation.

Understanding Neoliberalism as a Theory of Praxis

At a basic ideological level, neoliberalism is a set of guiding beliefs in the guise of scientific truths, ‘doxa’, centred on the notion of efficient, competition-driven markets as the best mechanism for regulating socio-economic relations (Bourdieu, 1998, pp. 34 ff.). While neoliberal ideology is most closely associated with the progressively transnationalised fractions of the bourgeoisie, against the backdrop of the protracted economic crisis of the 1970s its principal intellectual advocates successfully recast it as a practical theory which would not only restore economic dynamism but thereby also serve the best interest of society at large. In most cases, these emerging neoliberal social alliances also incorporated parts of the middle classes, and they could often count upon temporary support from marginalised population segments. Thus, neoliberalism came to constitute the major force driving the dismantling of the predominance of Keynesian and developmental state strategies in the capitalist core states and the periphery, respectively (Robinson, 2004, pp. 73 ff., 80 f.).

Of course, these processes have not been simply unidirectional or all-encompassing, but rather path-dependent, contested, and constitutively uneven. Thus, one can observe a marked
persistence of institutional configurations and political-economic strategies distinct both from each other and from the neoliberal ideal (Brenner et al., 2010b). Moreover, against the background of changing political conjunctures, the underlying ideology and policy programmes have undergone several rearticulations, whereby the ‘roll-back’ phase was followed by a more ‘socially interventionist and ameliorative’ phase of ‘roll-out’, which crystallised itself for instance in Third Way social democracy and the so-called Post-Washington Consensus (Peck and Tickell, 2002, pp. 388 f.). In spite of this flexibility of neoliberalism, the integration of subaltern actors has often succeeded only to a limited extent. As a result, neoliberalism has come to manifest itself in highly differentiated, or ‘variegated’, forms which differ not least with regards to the role for state involvement in the economy, capital and labour market regulations, etc., depending on prior institutional settlements, specific social alliances, and so on (Peck and Tickell, 2002).

This brings us to another key point, namely the significant transformations in the relations between state and capital which these processes induced. The previously dominant Keynesian and developmentalist approaches attributed to state institutions a key role in steering economic development and distributing social gains, and in many cases involved active state engagement in productive activities (Radice, 2008, pp. 1164 ff.). The erosion of the underlying settlements implied substantial changes to this role: Thus, policy programmes like economic liberalisation, privatisation, and the internationalisation of production and finance entailed and were accompanied by a reconfiguration of capitalist states as ‘competition states’ (Hirsch, 2005, pp. 145 ff.). Rather than occupying the ‘commanding heights’ of the economy, their activities came to be predominantly focused on fostering and sustaining ‘competitiveness’ and thus on facilitating private, business-led capital accumulation. Contrary to the ideological myth of state withdrawal, however, this reconfiguration is best understood as a process of self-transformation: In a kind of liberal interventionism, the socio-economic alliances which had risen to (state) power pressed toward a reorganisation of the institutionally engrained dimensions of class relations, to advance and entrench the ongoing changes in the balance of forces (ibid., pp. 141 ff.).

In accordance with these general empirical considerations, we would now like to sketch out some theoretical and methodological tenets. In our view, neo-Gramscian theory, with its constitutive focus on social forces and the changing configurations of consent and coercion, provides a useful lens for studying the advance of neoliberalism (e.g. Gill, 2008, ch. 3, 6). Hegemonic rule, in this view, is exercised by a social class (or fraction) which is able to integrate subaltern forces by means of material concessions and a shared ideology. The formation of an encompassing ‘social bloc’ which can canvass support for the envisaged political projects is an essential prerequisite for their sustainability. Crises are to be given particular attention, due to their potential adverse impacts on the stability of ruling blocs and thus the creation of new scope for action for contending social forces (Gill, 2011, pp. 4 f.).

To grasp more fully the uneven and multifaceted character of neoliberalism, the above perspective can be specified with methodological tenets associated with the notion of ‘variegated neoliberalisation’ (Brenner et al., 2010a, 2010b; Peck and Tickell, 2002; Peck et al., 2010): this understanding implies that the empirical starting point should be ‘actually existing neoliberalism(s)’ and the interactions between neoliberal projects and historically specific pre-existing institutional structures in processes of neoliberalisation. In the present context, this suggests the need to analyse the extent to which such processes may have been brought to a halt, modified, or even reversed.

In order to conceptualise the implications of neoliberalisation and its crisis in the BICs for state–capital relations, it is helpful to additionally draw upon state-theoretical insights from
the thriving neo-Poulantzian literature (Gallas et al., 2011). The main contribution that it can make to the present analysis is rooted in Poulantzas’s (1978, pp. 128 f.) insight that the state and its apparatuses constitute ‘a relationship of forces, or more precisely the material condensation of such a relationship among classes and class fractions’. In other words, ‘[s]tate power results from a continuing interaction between the structurally inscribed strategic selectivities of the state as an institutional ensemble and the changing balance of forces operating within, and at a distance from, the state and, perhaps, also trying to transform it’ (Jessop, 1999, p. 54). For our purposes, this perspective specifies the question regarding the crisis-induced de- or recomposition of neoliberal social blocs: What is at stake is a possible transformation of the ‘structurally inscribed strategic selectivities’ of individual state apparatuses and the apparatus ensemble as a whole, i.e. their relative openness or closure for the interests of socio-economic actors which had remained outside of the ruling bloc.

Neoliberalisation in Brazil, India, and China

These principles are especially pertinent for the BICs. Due to their huge size and large populations, as well as their intermediate role in the world economy, these semi-peripheral nations are characterised by distinctive state–society complexes, historically defined by the ‘paramountcy of the state as the institution driving forward the social formation’ (van der Pijl, 1998, p. 80). They count with larger domestic markets than most other (semi-)peripheral countries and therefore, in Poulantzian terms, with stronger domestic and national capital fractions (Poulantzas, 1978, p. 117). Traditionally, these could rely on the developmental state infrastructure to strengthen their own position vis-à-vis international competitors. None of the BICs has ever come close to resembling neoliberalism’s ‘heartlands’, or the peripheral countries subjected to ‘shock therapies’ with regard to the depth of neoliberalisation. This is not to say that neoliberalism did not play a significant role, much to the contrary. However, all three countries developed quite specific variants of neoliberalised political economies, based on the social alliances that were forged in their support and the pre-existing institutional configurations, among other things. As a historical legacy, state institutions are still crucial for organising the expansion of capital accumulation in the vast territories, and thus continue to exert considerable power (Nölke, 2011, pp. 3 ff.).

Brazil: From ‘Collorstroika’ to Lula’s Social-Democratic Turn

The Brazilian turn to large-scale neoliberalisation from the early 1990s onwards was preceded by the exhaustion of an authoritarian developmental state regime, which had been based on a tripartite economic structure comprising national-private, state-owned, and foreign capital. From the mid-1970s, faced with increasingly adverse international conditions, it began to lose its economic dynamism, finally giving way to the debt crisis of the 1980s (Souza, 2005, ch. 7). In 1989, a phase of heightened political struggles in the context of the transition to democracy culminated in the election of Fernando Collor de Mello for president, with a small majority for his centre-right coalition over Lula da Silva’s socialist Partido dos Trabalhadores (Workers’ Party, PT).

Immediately, Collor’s government began to push for a restructuring of the state apparatuses by implementing a programme of large-scale privatisation, and for increasing economic openness by radically reducing import tariffs and ending the Brazilian blockade of the GATT negotiations (Vizentini, 2003, pp. 80 ff.). Fernando Cardoso, as finance minister of an interim
presidency and from 1995 as president, created the *Plano Real* scheme which sought to tackle inflation by pegging the currency to the US dollar. His government continued the processes of privatisation and initiatives for greater economic internationalisation (Schmalz, 2008, p. 79). A somewhat more cautious approach was taken with regards to the liberalisation of the financial sector (Souza Braga and Cinta Macedro, 2000). As a result of Collor’s and Cardoso’s policies, parts of the developmental state infrastructure were shattered or restructured: for instance, the activities of the cash-rich development bank BNDES became primarily geared towards financing privatisation projects, while the finance ministry, a stronghold of neoliberal ideology, considerably gained in importance relative to other state institutions (Rocha, 2002).

For some time, the project of neoliberalisation was supported by a seemingly stable social bloc, led by transnationally oriented capital fractions which derived support from middle classes, as well as parts of the marginalised population who benefited from the end of hyper-inflation (Schmalz and Ebenau, 2011, pp. 57 f.). However, modest growth rates, a chronic current account deficit, widespread job losses, and a stalling of poverty reduction quickly emerged as downsides of the model. The knock-on effects of the Asian crisis (1997–1998) led to the collapse of the monetary regime, a massive depreciation of the currency, and finally the imposition of a structural adjustment programme by the IMF. As a consequence, the social bloc underpinning the neoliberal project gradually disintegrated (Pochmann, 2006, pp. 60 ff.).

In 2002, Lula was elected president after the PT had succeeded at forging a new alliance among the losers of the neoliberal opening policy, including the urban proletariat, domestic market-oriented capital fractions, and parts of the middle classes (Boito Jr, 2003, p. 12; Morais and Saad-Filho, 2005). Also, parts of export-oriented capital fractions, not least several agribusiness companies, rallied behind the government because of its commitment to open up markets in the Global South. However, the heterogeneity of this coalition led to conflicts about the political orientation of the administration and thus the control over state apparatuses (Schmalz, 2008, ch. 4). For instance, former Finance Minister Antonio Palocci, was openly criticised by other ministers, including today’s president, Dilma Rousseff, for his support of austerity policies. As a result of this split between neo-developmentalist and neoliberal currents during Lula’s first term, profound changes remained confined largely to the areas of foreign policy, industrial policy, and social welfare. Between 2003 and 2008 Brazil benefited from a major commodity boom which not only enabled the government to consolidate the current account balance and to pay off considerable parts of Brazil’s foreign debt, but also widened its political leeway. Not least with the popular support derived from increased social spending, after Lula’s re-election in 2006 it thus managed to forge a more coherent class alliance. The latter might be characterised as a ‘semi-peripheral social-democratic bloc’, unified around a consensus regarding the goals of high economic growth with mild redistribution.

Subsequently, the government embarked upon a project of substantial economic reorientation (Sicsú, 2007). Its most tangible manifestation was the massive investment programme *Programa de Aceleração do Crescimento* (PAC), with a volume of about US $290 billion. The GDP growth rate picked up, reaching 5.4% in 2007; the poor north-eastern regions even experienced double-digit ‘Chinese’ growth rates (*The Economist*, 2011). In addition to surging (agricultural) exports, Brazil’s economic development was also strongly fostered by the expansion of the domestic market and accelerated industrial growth, as high as overall GDP growth. In particular, Lula’s social and labour market policies contributed to this success through their positive effects on demand from the lower classes: until the end of his second term, real minimum wages had almost doubled, social welfare programmes had been extended, and labour formality had increased (Berg, 2011).
In sum, a far-reaching neoliberalisation of the Brazilian political-economic model had taken place up until the early 2000s. However, when the global economic crisis began to spread, this process had already come to a halt, and had even been reversed in most policy areas. Instead, the government reinvigorated a developmentalist approach through a state-coordinated investment plan and by implementing an active industrial policy (Novy, 2009). Likewise, social inclusion had gained in importance as a policy goal in ministries responsible for economic issues. Also, for the first time since the 1960s the lower classes had significant influence on Brazil’s state apparatuses; for instance, trade unionists became actively involved in foreign trade negotiation processes.

India: Counter-Revolution in Slow Motion and Predatory Growth

Similar to Brazil, albeit under democratic-socialist auguries, over the second half of the twentieth century successive Indian governments, led by the Indian National Congress party (INC), pursued a developmental state strategy based on an uneasy alliance between the state and national capital. In this sense, India’s post-independence economic model was characterised by strong direct state involvement, in particular in the primary and manufacturing sectors, a reliance on state planning, and a strongly protectionist stance (Sau, 1983, pp. 58 ff.; Schmalz and Ebenau, 2011, pp. 82 ff.). However, the ‘counter-revolution in slow motion’ (Desai, 2008) against this model began already in the 1960s, when with the strengthening of capitalist relations in agriculture through the ‘Green Revolution’ state actors’ disciplinary capacity vis-à-vis agrarian capitalists was reduced decisively (Chibber, 2003, pp. 43 ff.). Due to a combination of such growing internal contradictions and the increasing adversity of the international context, the national-developmentalist ‘Nehruvian Consensus’, through which several INC governments had canvassed the support of the popular classes, lost most of its ideological clout. A balance of payments crisis was seized by neoliberal reformers, swept to state power with the election of Narashima Rao as president in 1991, as the long-awaited opportunity to begin a concerted process of neoliberalisation (Patnaik and Chandrasekhar, 1995).

The Rao government de facto abolished the extensive system of industrial licensing, opened up various segments of the public sector to private capital, and reduced subsidies and price controls protecting agricultural producers. India also joined the WTO and in this context substantially relaxed trade barriers, increased currency convertibility, and eased controls on foreign investment (ibid.). Not unlike the Brazilian case, a prudential regulation of the financial industry was retained due to the influence of the traditionally conservative Indian central bank, RBI. Beyond this sector, the Indian case of neoliberalisation remained somewhat more limited than the former, as more elements of the developmental state infrastructure were retained and some new, if limited, large-scale social policy instruments, like the National Rural Employment Guarantee scheme (NREGA), created. Similarly, economic internationalisation advanced only slowly (Kohli, 2007; Reddy, 2009, pp. 135 ff., 161 ff.). Nevertheless, the direct economic role of state institutions and the emphasis on redistribution were reduced considerably. Thus, while the political advocates of the neoliberalisation project succeeded at amalgamating actors ranging from business elites to the growing affluent middle classes into a supportive social bloc, its narrowness reflects changes in state–society relations at large: a much ‘warmer embrace’ with capital, mirrored by the growing disregard for the more marginal addressees of the traditional developmentalist strategy (Kohli, 2007).

Consequently, while in recent years India has seen considerable economic dynamism, with pre-crisis GDP growth rates peaking at 9.8% in 2007, comparable social improvements have
not materialised. The most salient problems include the escalation of a long-standing agrarian crisis, a lack of formal employment creation, and generally poor results in terms of poverty reduction (Jha and Negre, 2007). What is more, the high-growth segments depend significantly on the retention of these structures in order to sustain their global competitiveness through cheap inputs of labour and natural resources. The present configuration has therefore been denounced as one of ‘predatory growth’ (Bhaduri, 2008). Consequently, far from representing a hegemonic project, the ruling bloc is faced with growing social discontent and resistance, even giving way to limited state disintegration in parts of India’s east controlled by Maoist guerrilla organisations. Despite this, the neoliberal ideology has remained dominant among the elites and the politically vocal middle classes, not least due to the extraordinary economic growth (Ebenau and Al-Taher, 2010, pp. 6 ff.).

China: The Long March to the World Market

The basis for the Chinese kind of neoliberalism is to be found in the capitalist restoration after the Maoist era under leadership of Deng Xiaoping, the Communist Party of China’s (CPCh) grey eminence at that time. After 1978, small private enterprises were permitted, the agricultural sector was partly de-collectivised, and special economic zones were established in order to boost exports and attract foreign capital (Hart-Landsberg and Burkett, 2005, pp. 40 f.; Naughton, 2007, ch. 4). This period can be characterised as one of ‘reform without losers’ (Naughton, 2007, p. 91), in which the market economy grew while still embedded in a planning system. In addition, the state sector was largely excluded from privatisation. This phase ended with the bloody abatement of a social movement that demanded a more social and democratic direction for the reforms in the massacre of Tiananmen Square in 1989, when the way was paved for an authoritarian neoliberal economic restructuring (Hui, 2003).

The fourteenth CPCh Congress in 1992 coined the notion of a ‘socialist market economy’ for the envisaged political-economic model, consequently adopting several resolutions to accelerate economic opening. Thus, ‘neoliberalism with Chinese characteristics’ (Harvey, 2005, p. 120) celebrated a breakthrough: Scores of SMEs were privatised, the import licensing and quota system relaxed, tariffs considerably reduced, new industrial segments opened up for foreign investment, and export-supporting measures created (Breslin, 2007, ch. 3). China’s accession to the WTO in 2001 initiated a new phase of economic internationalisation with further tariff reductions, and the liberalisation of the services and agricultural sectors (Panitchpakdi and Clifford, 2002, pp. 164 f.). China has since developed into the world’s largest exporter in absolute terms. Compared to Brazil and India, it maintains a high level of exports as a proportion of GDP (35% in 2008). Like India and Brazil, the liberalisation of banking and finance in China remained rather limited, and firm controls over the currency and capital flows were retained. Moreover, a quasi-symbiotic relationship between state, national capital fractions, and CPCh developed, as the degree of state intervention as well as the size of the public sector remained large (Nee, 2005). More specifically, the Chinese state impeded a consolidation of both an independent organised bourgeoisie and proletariat. Nevertheless, the close ties between local party officials and capital led to a structural asymmetry in the ‘strategic selectivities’ of China’s state apparatuses vis-à-vis capital and labour, respectively. Also, foreign transnational capital fractions gained importance throughout the reform process, but still have only limited influence on state institutions.

China has been achieving consistently high GDP growth rates since at least 1978. Compared to India, its model has been more successful at absorbing labour surpluses (Chatterjee, 2008).
Nevertheless, the highly dynamic, export- and foreign investment-driven growth has exacerbated social, especially rural–urban inequalities, which alongside the retrenchment of the public sector and associated enterprise-based welfare functions have given rise to a heightened degree of social and labour unrest in recent years (Silver and Zhang, 2009). Politically, the liberalisation process led to significant coordination problems between the central government and the semi-autonomous provinces, triggering structural over-accumulation problems (Hung, 2008). Moreover, the viability of the export model came to depend increasingly on the ability of the US to maintain its debt-financed consumption levels. This ultimately led to the emergence of a constellation in which considerable imbalances had to be contained by continuously high levels of Chinese loans to US public debtors (Ivanova, 2011, pp. 864 ff.).

In order to consolidate the social bloc underpinning the current political-economic model, the administration of Hu Jintao (from 2002), promoting a ‘harmonious society’, has undertaken some tentative steps in a more social-corporatist direction, by extending social policies, taking measures to strengthen labour regulation, and increasing the degree of environmental protection. A major aim of these neo-Bismarckian policies is the creation of nationwide rural and urban social insurances (e.g. health and pensions) and, hence, the provision of some basic social rights for the Chinese population (Haan, 2011, p. 763). This reorientation, however, is still in its early stages and has remained partial, as well as contested.

**Hit but Still Standing: The Crisis in Brazil, India, and China**

The global crisis significantly affected the politico-economic trajectories of the BICs. Financial markets and export industries can be identified as two distinct transmission belts through which the crisis was transferred from its US-epicentre (Schmalz and Ebenau, 2011, pp. 31 ff.).

From late 2008, the three countries were hit by the fallout of the financial meltdown. Common symptoms included partly dramatic stock market volatility, currency depreciation, capital flight, and sharp drops in foreign direct investment, as well as some subprime losses in Brazil and China (Farhi and Zanchetta Borghi, 2009; Ghosh and Chandrasekhar, 2009; Liang, 2010). Still, while governments, central banks, and regulatory institutions of the three countries could not fully protect their respective financial sectors, strict regulatory standards and a limited integration, relative to the core states, into the most affected segments of international financial markets prevented a major breakdown.

Compared to the significance of the financial transmission channel, the effects of the temporary collapse of foreign trade were considerably larger for the BICs (Marques and Nakatani, 2009; Nachane, 2009; Schüller and Schüler-Zhou, 2009). The highly export-driven Chinese model in particular came to face serious difficulties, whereby coastal provinces like Shanghai and Guangdong were hit the hardest. In the third quarter of 2008, about 670,000 factories went into bankruptcy. Recovery did not begin until December 2009. In India, the export-oriented manufacturing sector and, with some delay, some enterprises in the IT/BPO sector were hit by the crisis. The volume of goods exports was about 10% lower in the last quarter of 2008 than during the previous year (Chandrasekhar, 2009; Nachane, 2009). The Brazilian economy fell into a recession: between the last quarter of 2008 and the first quarter of 2009, GDP contracted by an overall 4.4% (Pochmann, 2009, p. 42); exports shrank disproportionately by about 16%. Notably, the Lula government’s previous efforts to reorient foreign trade towards the semi-periphery reduced the impacts somewhat.

In all three countries, the crisis caused domestic consumption and investment activity to decline, with significant social consequences. In Brazil, between November 2008 and January
2009 about 800,000 jobs were lost, mainly in the industrial sector. Again, even though this constituted the worst balance since the financial crisis of 1998–1999 (Marques and Nakatani, 2009, p. 5), the prior expansion of the welfare systems absorbed some of the resulting social hardships. In India, an estimated four million people were made redundant, while workers in the informal economy suffered from the downturn’s secondary effects (Mohanakumar and Singh, 2011). In early 2009, Chinese studies estimated that up to 20 million migrant workers had lost their employment (Chan, 2010, p. 667). In summary, despite the limited impact transmitted through financial channels, the BICs all suffered major declines in export levels with significant social consequences.

**Neoliberalisation in Crisis: Reactions and Transformations**

Like the capitalist core countries, the BICs responded to the crisis with an array of fiscal, monetary, and social policy measures. The significance of these responses with regards to possible post-neoliberal transformations of the dominant political-economic strategies, however, varies considerably among the three countries.

**Brazil: The Consolidation of the Social-Democratic Turn**

The Brazilian government, in coordination with trade unions, reacted quickly to the crisis. In contrast to preceding administrations during other crises, it relied on a ‘classical’ anti-cyclical Keynesian policy package. Its main component was the accelerated realisation of the PAC investment programme, which clearly dwarfed the comparatively modest size—1.2% of GDP—of the designated stimulus package: Before the crisis, only about 15% of the projected programme had been realised; by August 2009, however, already over half of the allocated budget had been spent. In addition, through extensive loans by public commercial banks and the development bank BNDES, a credit crunch was successfully countered (Governo Federal do Brasil, 2009; Nozaki, 2011, p. 52). The central bank also lowered the prime rate; in 2009, real interest rates fell to historically low levels of 4%. Moreover, several durable consumer goods were exempted from VAT to stimulate domestic consumption (Pochmann, 2009). These macroeconomic measures were supported by additional social spending (e.g. a 10% raise of payments associated with the Bolsa Família cash transfer programme). Simultaneously, trade unions continued to campaign actively, with 93% of agreements struck during the crisis leading to real wage increases (Schmalz and Ebenau, 2011, p. 72).

Even though 2009 was marked by low GDP growth and weak social performance, the overall trajectory of the Brazilian economy was rather robust. In contrast to earlier phases of economic turbulence, Brazil was able to withstand the crisis on its own and managed to recover quickly. In 2010, the economy was booming again with a GDP growth rate of over 7% and more than 2.5 million new formal economy jobs (O Globo Online, 2011). At a larger scale, the Brazilian crisis management had two important implications: the strengthening of the centre-left government and the further increase of its elbowroom in economic policy. At the end of his term in December 2010, Lula enjoyed the highest ever recorded approval rates, about 83% (Datafolha, 2010). His successor Dilma Rousseff was thus elected with a secure majority. By setting in motion a second huge investment programme, PAC II (2011–2014), with a volume of US$539 billion, her government considerably reinforced the neo-developmentalist approach. In sum, the crisis response amounted to the strengthening of Brazil’s semi-peripheral social-democratic class alliance, building not least on an ongoing expansion of the domestic market, and a further increase of
developmental state-like steering of economic processes through strengthening the role of state-owned companies and an overall coordination of private infrastructure investment activities.

**India: Back to the ‘Normality’ of Neoliberalisation**

Compared to Brazil and China, Indian state institutions reacted relatively late to the spreading turmoil. In monetary policy, the central bank reduced the interest rate and injected liquidity of around US$109 billion into the economy (Viswanathan, 2010, pp. 58 f.). Between December 2008 and March 2009, the central government implemented three stimulus packages which included, among other measures, a temporal VAT reduction, funding for public–private partnership infrastructure projects, and support for non-banking financial institutions. The combined volume of these packages remained small, at under 1% of GDP.

India’s economic and social performance throughout the crisis was ambiguous. Like in the Brazilian case, the monetary policy interventions of the RBI managed to prevent a full-blown liquidity crunch. The relatively low levels of financial and trade integration and continuously strong domestic demand limited the drop in GDP growth and helped to quickly offset the job losses in export units (GoI Labour Bureau, 2009; Viswanathan, 2010). Under these circumstances, economic growth quickly got back on track, reaching 7.4% in 2009–2010 and 8.5% in 2010–2011. On the other hand, the social impacts of the crisis were larger than the positive macroeconomic scenario would lead one to expect. The cushioning effects of NREGA spending, increased by 140% in 2008–2009, remained limited because of ongoing implementation deficits and the programme’s restriction to the rural context (Harriss-White, 2010). Due to knock-on effects on the urban informal economy, the relatively mild dip in GDP growth translated into a disproportionate persistence and an increase of poverty of 2.8% (*Times of India*, 2010). Moreover, the impacts on the export sector and foreign capital flows pointed toward the growth of vulnerabilities associated with advancing neoliberalisation (Ghosh and Chandrasekhar, 2009).

Thus, the resilience of the Indian economy was mainly due to the comparatively low degree of financial and trade integration, as well as prudential banking regulation. The federal elections of April/May 2009 nevertheless resulted in a strengthening of neoliberal forces in the state apparatuses, even though this was largely down to idiosyncrasies of the federal electoral system, not a substantial gain in votes for the INC. The central budget for 2010–2011 envisaged a return to austerity-oriented policies, reducing state investments by about US$56 billion and withdrawing unused stimulus funds. The 2011–2012 budget, in turn, implied a consolidation of this direction, with real-term reductions in the levels of state investment and agricultural spending, NREGA included. Moreover, the government announced plans to further increase the role of exports, and to accelerate the process of capital account liberalisation with the ultimate goal of full convertibility (*The Hindu*, 2010). In sum, the Indian state institutions’ reactions to the crisis and their aftermath reflect the stability of the dominant coalition of state actors, business elites, and middle classes and its control over the state apparatuses, but also its relative narrowness: the heterodox policies adopted during the crisis were part of a limited intervention aimed merely at stabilising the current economic regime. The dominance of neoliberalism as a political leitmotif among the dominant social bloc, in turn, has remained quite intact.

**China: Structural Change with Obstacles**

After the Lehman collapse, the Chinese government quickly approved a stimulus package with a volume of US$586 billion—around 12% of the country’s GDP—complemented by further...
investment by regional governments. Significant parts were channelled into infrastructure measures, and a substantial proportion went into economically backward inland provinces (Haan, 2011, p. 765). These investments were accompanied by expansive fiscal policies: in late 2008, the government urged the four major public banks to increase lending and the People’s Bank of China lowered the prime interest rate. Around one fifth of the total expenditure went into measures to increase consumption (Hung, 2009, p. 22). Moreover, the Chinese government furthered its social policy efforts, for instance by announcing a public health care reform, valued at about US$123 billion (New York Times, 2009), which increased the basic health care coverage rate to about 95% by mid-2011.

Taken together, these measures succeeded in boosting investment and countering the crisis-induced job contraction. In the second quarter of 2009, GDP growth had already returned to 7.9%. Some of the shortcomings of the Chinese economic model were temporarily corrected: The growth of the domestic market was strengthened, with the poorer inland provinces reaching the highest GDP growth rates, up to Inner Mongolia’s 16.9% (People’s Daily Online, 2010). Strike waves in 2010–2011 went ahead largely without repression by the authorities and achieved significant wage increases. Moreover, these strikes seem to have initiated further reforms to establish institutional procedures to mediate industrial conflicts, particularly in economically important Guangdong province. Also, national and regional authorities attempted to reduce the export industry’s vulnerability by fostering technological upgrading. The State Council drafted a support programme of around US$133 billion for 10 key industries (Tong, 2010, pp. 52 ff.). Similarly, the ambitious plans to increase energy efficiency sought to support such upgrading. In 2010, Chinese authorities resolutely closed down around 2,100 heavily polluting factories (New York Times, 2010). The Twelfth Five-Year Plan (2011–2015) includes the target of increasing consumption as a share of GDP by 5% through an expansion of welfare systems, public wage increases, and a consumption credit system; it also projects investments in key technologies, in particular green technologies, of about US$600 billion.

However, as time progressed, it became increasingly obvious that the measures implemented in the wake of the crisis did not lead to a profound transformation of the Chinese model, despite the entailed expansion of state capacities and reinforced impulses toward a strategic reorientation. Investment still remained the major driver of GDP growth (Schüller and Schüler-Zhou, 2009, p. 176). In 2010 there was even a broader revival of the export-driven growth model. Moreover, faced with a growing housing bubble and rising inflation, the central bank considerably tightened monetary policy. In summary, even though China’s political-economic model is undergoing some change in a social-corporatist direction, and further neoliberalisation might have come to a halt for the time being (Haan, 2011, p. 768), it remains unclear whether government policies will be able to break with the trajectory of export-led growth.

Conclusions

Our analysis has shown that the BICs shared some grounds for higher resilience and quick recovery from the crisis, including higher levels of financial regulation and relative importance of domestic markets. However, claims regarding a coherent B(R)IC(S)-crisis response, possibly built on a shared rejection of neoliberalism and amounting to a general rebound of the state (Bremmer, 2009; Nayyar, 2011) do not stand up to closer scrutiny. Rather, seen from our vantage point of ‘neoliberalisation in crisis’, there has been a considerable divergence regarding implications of the crisis with respect to potential shifts in political-economic strategies and state–capital relations.
In Brazil a structural reorientation had already been under way before the global turmoil. In its second term the Lula government succeeded in forging a coherent class alliance behind its project of economic growth with social redistribution. The consolidation of power came along with a reconstruction of Brazil’s developmental state architecture and a strengthening of social inclusion as fundamental policy goal in ministries responsible for economic issues. The government’s crisis management contributed to a consolidation and broadening of this transformation. Theoretically speaking, a new ‘semi-peripheral social-democratic’ class alliance has formed; processes of neoliberalisation have begun to be reversed in most areas; thus, the ‘strategic selectivities’ of state apparatuses have shifted somewhat in favour of marginalised parts of the population.

When the effects of the global crisis hit India, the economy was in the midst of a singularly dynamic phase which had consolidated the dominance of the ruling bloc, despite the obvious downsides associated with advancing neoliberalisation. The crisis did not significantly alter this situation. Rather, even though it threw into relief the increasing external vulnerability of the Indian economy, neoliberal political actors managed to consolidate their control over state institutions. Heterodox economic policies were temporarily applied purely to stabilise the current model. This was followed by a quick return to the path of gradual neoliberalisation. In theoretical terms, the dominance of the neoliberal bloc, despite its exclusive character, has emerged solid from the crisis; processes of neoliberalisation, if less advanced than previously in Brazil, are continuing; this makes for a continuing closure of state institutions for the interests of population segments which are not part of the recent boom.

The Chinese response to the crisis, finally, formed part of an ongoing, protracted, and ambiguous search for ways out of the progressively neoliberalised model’s structural problems of one-sided export-oriented and investment-driven growth. The Twelfth Five-Year Plan (2011–2015) seems to address these problems, since it is aiming at increasing consumption and public wages, expanding welfare systems, and green investment. However, the government’s intention to recast the state–capital nexus as a more social-corporatist one might be inhibited by the balance of forces operating within the state, not least the weak representation of labour, as well as by the coordination problems in implementing these aims on a regional level. Thus, while processes of neoliberalisation may have been brought to a halt, so far there has been no consequential break with the export- and investment-led model.

Note

1 This article is based on results of a research project conducted between 2009 and 2011 for the Rosa Luxemburg Foundation, whose main results were published in 2011 in a German-language monograph (Schmalz and Ebenau, 2011).

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The Global Crisis and Latin America

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The Global Crisis and Latin America

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ABSTRACT This article provides a critical perspective on the current global financial crisis from the standpoint of its dynamics in Latin America. It is argued that the crisis is but the latest manifestations of an endemic propensity towards crisis. It is also argued that in Latin America strategic responses of organisations and movements in the popular sector are paving the way for a way out of the crisis that goes beyond out-of-control markets, greedy bankers and ineffective regulation or saving capitalism. At issue is the economic model (neoliberal globalisation) used to guide national policy for the past twenty-five years. Also at issue is the capitalist system itself.

Este artículo provee una perspectiva crítica sobre la crisis financiera global actual desde un punto de vista de su dinámica en Latinoamérica. Se ha argumentado que la crisis no es más que la última manifestación de una propensión endémica hacia la crisis. También se ha sostenido que las respuestas estratégicas de organizaciones y movimientos en el sector popular de Latinoamérica, están allanando el camino para una salida de la crisis que va más allá de los mercados fuera de control, banqueros codiciosos y la regulación inefectiva o salvando al capitalismo. Bajo discusión está el modelo económico (globalización neoliberal) utilizado para guiar la política nacional por los últimos veinticinco años. También está en debate el mismo sistema capitalista.

本文从拉丁美洲动力机制的角度，为全球金融危机提供了一个批判性的视角。本文认为，这场危机只是危机的地方性倾向最近的昭显而已。同时，也认为在拉美，民众领域各种组织和运动的战略反应正在为走出危机而铺路。这场危机不仅仅是失控的市场、贪婪的银行家和无效的监管或挽救资本主义。过去25年间用来指导国家政策的经济模式（新自由主义全球化）是成问题的。待讨论的还有资本主义体系本身。

Keywords: crisis, global capital, neoliberalism, financialization, global governance, regulation, social movements

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This paper provides a critical perspective on the current global financial crisis from the standpoint of its dynamics in Latin America. The past year has seen the publication of some books and numerous scholarly and periodical articles, many of them converging on a common theme: the lack of financial regulation and the resulting acceleration of irresponsible speculation. The general argument advanced is that the global financial crisis, precipitated by the sub-prime debacle, together with misguided policies, has allowed financial ‘innovation’ and speculation to proceed unchecked, giving unscrupulous lenders and traders free rein to exploit the lack of regulatory oversight. Essentially, it is argued, the crisis is not systemic or structural but financial, and thus correctible with the right monetary policy fix or construction of a new and more effective financial architecture and global governance.

The paper argues to the contrary that the crisis is but the latest albeit one of the most virulent manifestations of an endemic propensity towards crisis. It is also argued that in Latin America diverse popular and non- or anti-capitalist responses are paving the way for a way out of the crisis that goes beyond out-of-control markets, greedy bankers and ineffective regulation or saving capitalism and that challenge the institutional structure of the system if not some of its pillars.

This argument is constructed in the form of five propositions: first, the current global crisis is systemic in form and not merely a matter of financial regulation or good governance; second, a crisis tends to unhinge the existing system of institutionalised practices, releasing forces of change; third, the predominant response of governments in Latin America reflects an understanding of the crisis as essentially an issue of regulating financial markets and monetary–fiscal policies; fourth, the crisis has hastened the demise of neoliberalism as an ideology or economic model, but the strategic response of governments to the crisis point towards a more muted and pragmatic neoliberalism, a more socially inclusive and sustainable form of capitalist development parading as democratic socialism or social democracy; and fifth, progressive change requires and is predicated on the mobilisation of the forces of change in the popular sector of civil society.

Rethinking the Crisis

In his analysis of the political economy of capitalism Marx had theorised a propensity towards crisis, a condition in which the system exhausts its capacity to expand the forces of production. And notwithstanding an unresolved debate as to the fundamental or root cause of this crisis, and the precise nature of its economic and political dynamics, numerous studies over the years, undertaken from the standpoint of diverse theoretical perspectives, have substantiated Marx on this. As for the dynamics of the current global crisis, Walden Bello (2009) has argued that they can be traced back to the system-wide crisis of overproduction that in the early 1970s put an end to the ‘golden age of capitalism’ (1945–1970).1 This involution in the system of global capitalist production unleashed a lengthy and ongoing restructuring process in the following forms:

- a technological conversion of the global production apparatus, leading to a process of ‘productive transformation’ (without the ‘equity’ proposed by ECLAC (1990));
- a global geographical displacement of capital and production, resulting in the succession of newly industrializing countries’ in the global south and a new international division of labour (Fröbel et al., 1980);
- a widespread programme of policy reform designed to renovate the world capitalist system and reconfigure decision-making power regarding the allocation of productive resources,
releasing thereby the ‘forces of economic freedom’ from the regulatory constraints of the welfare-developmental state (Petras & Veltmeyer, 2001);

- a neoconservative counterrevolution that diminished the power of the centralised state and organised labour vis-à-vis capital, resulting in a process of democratisation to share the responsibility for governance with ‘civil society’ (on this see Veltmeyer, 2007);

- a process of financialisation, leading to the appearance of an enormous disjunction between the real economy and a financial superstructure, and, in 2007, a major crisis of the financial system—a financial implosion and meltdown of global investment capital that has overgrown and is threatening to overwhelm the real economy and shake the very foundations of global capitalist production, with a sharp contraction in the ‘real economy’ at the centre of the system and powerful reverberations in the periphery (Foster & Magdoff, 2008).

As Walden Bello conceives of it, this adjustment to the requirements of a ‘new world order’ in the 1980s had three major dimensions, each associated with an attempt to escape what was essentially a crisis of overproduction: neoliberal restructuring, globalisation, and financialisation.

(1) Neoliberal restructuring took the form of Reaganism and Thatcherism in the North and ‘structural adjustment’ in the South. The aim was to ‘invigorate capital accumulation’ by (a) ‘removing state constraints on the growth, use and flow of capital and wealth’ and (b) ‘redistributing income from the poor and middle classes to the rich on the theory that the rich would then be motivated to invest and reignite economic growth’. The problem with this formula, Bello continues, ‘was that in redistributing income to the rich ... the incomes of the poor and middle classes [were gutted], thus restricting demand while not necessarily inducing the rich to invest more in production’. As a result, neoliberal restructuring had a poor development record: ‘Global growth averaged 1.1% in the 1990s and 1.4% in the 1980s, compared with 3.5% in the 1960s and 2.4% in the 1970s when state interventionist policies were dominant’ (Bello, 2009).

(2) The second ‘escape route’ was ‘extensive accumulation’ or ‘globalisation’—‘the rapid integration of semi-capitalist, non-capitalist, or precapitalist areas into the global market economy’ (Bello, 2009). The aim was for capital to gain access to cheap labour, emerging markets and new sources of cheap agricultural and raw material products. Integration was effected by trade liberalisation, removing barriers to the mobility of capital and abolishing barriers to investment: policies of financial and trade liberalisation under the Washington Consensus (Williamson, 1990).

The problem with this escape route is that it exacerbated overproduction. For example, ‘a tremendous amount of manufacturing capacity has been added in China over the last 25 years, with a depressant effect on (capital accumulation) prices and profits elsewhere in the system’ (Bello, 2009). Not surprisingly, Bello notes, by around 1997 the profits of US corporations stopped growing. In one calculation, ‘the profit rate of the Fortune 500 went from 7.2 in 1960–69 to 5.3 in 1980–90 to 2.3 in 1990–99 to 1.3 in 2000–2002’ (Bello, 2009). By the end of the 1990s, with excess capacity in almost every industry, the gap between productive capacity and sales was comparable to the Great Depression.

(3) Given the limited gains in countering the crisis of overproduction via neoliberal restructuring and globalisation, the third escape route—financialisation—was functional for maintaining and raising profitability under conditions of lagging productivity growth. With investment in industry and agriculture yielding low profits owing to overcapacity, large
amounts of surplus funds were ‘invested’ and reinvested in the financial sector—i.e. as Bello (2009) argues, ‘the financial sector . . . turn[ed] on itself’.

The all too evident result has been to increase the bifurcation of a hyperactive financial economy and a stagnant real economy. As noted by one financial executive in the Financial Times: ‘there has been an increasing disconnection between the real and financial economies in the last few years. The real economy has grown . . . but nothing like that of the financial economy—until it imploded’ (cited in Bello, 2009; see Foster & Magdoff, 2009, for an extended analysis of the dynamics of this ‘implosion’).

This multidimensional restructuring (or ‘escape routes’, in Bello’s conception) can be traced out in close to four decades of ‘development’, a process dominated by the decisive turn from a welfare-developmental state to a neoliberal state—a ‘short history of neoliberalism’ as David Harvey (2005) conceives of it. This ‘short history’ can be traced out in a succession of four policy cycles: (i) in the policies implemented by the regime headed by Augusto Pinochet after the 1973 military coup; (ii) in the early 1980s with the call for a ‘new world order’ based on neoliberal principles, and the subsequent implementation of a policy agenda designed by the economists at the World Bank on the basis of these principles and on the model of Pinochet’s policies; (iii) a third round of neoliberal reforms in the 1990s under a post-Washington Consensus regarding the need for a more socially inclusive, sustainable and governable form of neoliberalism (see Ocampo, 2006; Ocampo & Khan, 2007); and (iv) in the new millennium, under conditions of an enormous financial bubble (more of a balloon) that exceeded many times the growth of the real world economy, and a global primary commodities boom (2003–2008) led by the demand in China and India for energy and natural resources (on these developments see Petras & Veltmeyer, 2009).

In Bello’s analysis of the systemic origins of the global crisis, and our review of the restructuring process that ensued with the onset of crisis in the 1970s, it is evident that in the current conjuncture the crisis is not merely financial in substance and form but it derives from an inherent propensity of capitalism towards crisis (Magdoff & Sweezy, 1988; Foster and Magdoff, 2008). What is different or somewhat ‘new’ about the current crisis is not so much its depth or global scope as its multidimensionality—financial, overproduction, labour regulation, food and energy, environmental, social, and political.

It is evident that the crisis is deeply rooted in the world capitalist system, whose structure and dynamics can be deciphered with reference to a theory of capitalist development elaborated by Marx with reference to different historical conditions. In terms of this theory, the ‘crisis’ is symptomatic of the weakening and loosening of the ‘structure’ that had hitherto constrained and given form to social and political ‘action’, releasing diverse forces of social change. As for the outcome of this crisis situation it cannot be determined at the level of theory: it depends on the correlation and particular interplay of these forces of change, i.e. on the nature of the responses to the crisis made by different social and political ‘actors’ within the system.

It is certainly conceivable that under these conditions the crisis could lead to either the collapse or the overthrow of the system, depending on the relevant weight or force of structural and political factors. But it is more likely, given the demonstrated resilience of the system, and the strategic and political responses that are already in evidence, that notwithstanding the depth and global scope of the global crisis it will lead to an effective restructuring of the system and with it a renewed process of capital accumulation.

As for the politics (decision-making in the allocation of productive resources and the social distribution of wealth) of this restructuring process it relates to a system that is fast approaching
its limits in expanding production on the basis of the existing institutional and social structure of that system. In a previous phase of crisis-and-restructuring these limits to the capitalist development of the forces of production were overcome via a process of state-led development of these forces and the institution of a social democratic form of the welfare state (Glynn et al., 1990). But in the current context of neoliberal globalisation, these same limits have given rise to a new post-Washington Consensus on the need for a more socially inclusive form of neoliberalism, more democratic forms of local and global governance, and a more pragmatic way of balancing the state and market in the process of capitalist development (Ocampo et al., 2007). Whether these ‘developments’ and the associated politics can be used to harness the forces of change released by the crisis and so restore ‘order’ remains to be seen. It will be determined in practice, not theory.

The Dynamics of the Global Crisis in Latin America

From 2002 to 2008 the governments in South America such as Argentina that were beset by an economic crisis at the turn of the new millennium managed their way out of the crisis. An appreciable number of these countries rode a short five-year wave of a primary commodities boom fuelled by the explosively growing demand in China for energy, minerals and other industrial inputs, as well as middle class consumer goods. Over the course of this boom, the rate of economic growth in the region increased from an average rate of 0.6% in 1996 and a bare 1% in 2002 to a regional average of 6.2% in 2004, 5.5% in 2005, and 5.6% in 2006. For the countries in South America that led the boom the economic recovery and rate of sustained growth from 2003 to 2007 was even greater, ranging from 8.3% in Argentina and 8.0% in Venezuela to 6.3% in Peru, 3.9% in Bolivia—and, in a different systemic context, 9.0% in Cuba (Bárcena & Titelman, 2009, p. 85).

In 2008 this primary commodities boom went bust, caught up in the vortex of the current financial crisis. The initial response to this crisis, at the level of the state, was to deny it—as in the case of Mexico’s President Felipe Calderón, who argued (at Davos, to an assembly of world capitalism’s most illustrious representatives) that Latin America was more or less insulated from this particular virus and that it could ride out the storm easily enough. Ironically, Calderón heads the most vulnerable economy in the region vis-à-vis the US economy at the epicentre of the crisis. As for Mexico itself, even at the time Calderón’s public statement that did nothing to soothe the tempers back home economists in Mexico were predicting the loss of upwards or at least 500,000 jobs in a contracting economy—at least 175,000 in the first half of 2009. Mid-March, the estimate of Mexico’s gross national product (GNP) growth for 2009 was reduced from −1.5% to −3% (La Jornada, 2009). By December the estimate of the degree of shrinkage of the economy was increased to 7.5%.

Other Latin American governments were not so quick to discount the effects of the crisis on the regional and local economies, even though the initial response of many, in the last quarter of 2008 and even into 2009, as Petras (Petras & Veltmeyer, 2009) notes, was ‘self-delusion’: the belief that their country could ride out the crisis on the basis of relatively high reserves of foreign currency and relatively healthy (reduced) levels of short-term debt. This was particularly so for those countries in South America that had ridden the wave of the primary commodities boom on the world market, a boom that has largely gone bust to the dismay of both the agro-elites and the governments who and that had substantially benefited from the boom in the form of higher prices, windfall profits and increased fiscal revenues (Petras & Veltmeyer, 2009). Uruguay has thus far weathered the global storm, tacking with the winds of change so
as to post a surprisingly ‘robust’ growth rate of 11% over the course of the year preceding the recent elections that brought to power another centre-left regime. But if the economists at ECLAC (2009a) and the participants in a recent (19–21 January 2009) international colloquium on the ‘Global Crisis and Latin America’ in Mexico, are correct in their assessment and prognosis the leaders of the other countries in the region have no reason to be sanguine in the face of the apparent failure of the G-8 thus far to solve the crisis at the epicentre of the system and the possibility, nay likelihood, that they will have to seriously contend with its spread-effects in both the financial markets and the real economy.

No country, according to a recent study of the responses made by Latin American governments to the crisis by ECLAC (2009a) is immune, not even those in a context of the primary commodities boom that were careful not to over-spend or cut short-term debt on the global market, and to build-up reserves of hard currency. The Latin American economists who gathered recently in Mexico City to analyse what the crisis might mean for the region established that no country is safe from the maelstrom of the global crisis, notwithstanding what the Economist sees as Latin America’s ‘valiant efforts’ thus far to manage if not elude the crisis. The Economist had put Mexico, Brazil, Argentina and Venezuela among the nations most likely to fall, although it is the private sector, rather than the governments in these countries that were and are facing the greatest challenges. Governments and capitalists in the private sector, it turns out, either still have a high amount of short-term debt as a percentage of total reserves, or their bank loans as a percentage of total deposits are at a risk with the impending credit squeeze, or both (Bustillo & Helloso, 2009).

In any case, Latin America, according to the Washington Office of ECLAC, has certainly felt the effects of the crisis, primarily at the level of the market with a severe credit crunch, a slowdown in capital inflows and a dramatic decline in portfolio investment flows, large declines in stock price indexes (the destruction of up to $220 billion in the value of financial assets), significant currency adjustments and an increase in debt spreads. Latin America’s gross domestic product (GDP) projected growth for 2009 declined from 3.6% in September 2008 to 1.4% in December 2008 (Fidler, 2009). More recent projections estimate Latin America’s GDP per capita falling to −2%. As a result bankruptcies have risen in number and are expected to proliferate, and state spending on social programmes and services have declined, pushing an estimated nine million people in the region back into poverty.5 State credit and subsidies to big banks and businesses will also increase. Unemployment will expand, especially in the agro-mineral and transport (automobile) export sectors. Public employees will be discharged and experience a sharp decline in wages. Latin America’s external financial flows will also suffer the loss of billions of dollars and euros from declining remittances from overseas workers. Foreign speculators are withdrawing tens of billions of investment dollars to cover their losses in the US and Europe. Foreign disinvestment will replace ‘new foreign investment’, eliminating a major source of financing for any major ‘joint ventures’.

According to the IMF, 40% of Latin America’s financial wealth ($2,200 billion dollars) was lost in 2008 because of the decline of the stock market and other asset markets and currency depreciation. This decline is expected to reduce domestic spending by 5% in 2009. Latin America’s terms of trade have deteriorated sharply as commodity prices have fallen sharply, making imports more expensive and raising the spectre of growing trade deficits (Fidler, 2009, p. 7). The onset of the recession in Latin America is evidenced by the 6.2% fall in Brazil’s industrial output in November 2008 and its accelerating negative momentum (Rumsey, 2009, p. 5). As a result, Latin America has experienced a delayed entry into a period of profound and likely prolonged recession without, it would seem, any serious plan or program to counteract its destructive impact.
As a result of these ‘developments’ governments in the region—regardless of ideological complexion but particularly those like Chile, Peru and Colombia that are particularly ‘open’ and heavily dependent on the flow of foreign direct investment—have begun to take defensive action, to protect their domestic markets and to minimise their exposure to this deadly virus by means of diverse ‘countercyclical policies to buffer the impact of the crisis’ (Bárcena & Titelman, 2009). But thus far to little avail.

Governments in the region are not the only organisations responding to the global crisis. Nor have all governments responded—or are they responding—in the same way. Sectors of the intellectual and social Left, and popular sector organisations that bring together unions, social or civil society organisations and the social movements throughout the region, have conducted their own analysis of what the global crisis means for them and the region. As they see it—and there is a virtual consensus at this level—although production and the crisis have been ‘financialised’, the crisis reflects the demise of neoliberalism as an ideology (the ‘agotamiento de la ideología neoliberal’) and as a model used to guide national policy. Further, it is recognised that although the crisis has assumed multiple and diverse forms it is primarily a production rather than a financial crisis: a massive loss of jobs, the erosion of incomes and pensions wrapped up in capitalist financial institutions, the cutback of essential government services and the lack of access (affordability) to food—problems that in different contexts are reaching crisis proportions with disastrous social effects.6

Strategic and Political Responses to the Crisis

In the absence of a nationally organised revolutionary force the recession by itself, even with an as-yet non-existing mass protests, will not lead to a social transformation. At least in the initial phase of response to the crisis, mass pressure and most social and political struggles will be in the direction of conserving jobs, blocking mass layoffs and ‘defensive’ factory occupations. This may be accompanied by demands for greater state involvement, either through subsidies to failed enterprises or selective nationalisations. The demise of neoliberalism is inevitable but its replacement, at least initially, will most likely be ‘state capitalism’ or a muted more socially inclusive, pragmatic and ‘sustainable’ form of neoliberalism parading as democratic socialism or social democracy a la Chile or as per the post-Washington Consensus achieved in an alliance between the moderate (or centre-) Left from a position of state power in alliance with progressive forces in ‘civil society’. Both and Castañeda and Morales (2008) and Petras and Veltmeyer (2009) make this point.

The most radical response and vigorous popular demands, according to Petras (Petras & Veltmeyer, 2009), will most likely occur in those countries most dependent on primary product exports and in those countries integrated into the depressed markets of the US and the EU. This includes countries in Central America, Chile, Peru, and Venezuela. Bolivia and Ecuador, by several accounts (see in particular Weisbrot et al., 2009), have been somewhat insulated from the impacts of the uneven global recession by measures taken to promote growth during the downturn. These measures include an expansion of foreign currency reserves, an increase in public investment of additional revenues derived from the primary commodities boom and (in the case of Bolivia) from a re-nationalisation of the country’s hydro-carbons and other natural resources and increased royalties (up from 6.3% of GDP in 2005 to 10.5% in 2009), as well as increased fiscal expenditures on social programmes (health, education, social security, and income transfers to the poor) (Weisbrot et al., 2009). Brazil and Colombia, with more diversified exports and a larger internal market, will also be impacted by the recession.
but not as severely or abruptly, particularly, in the case of Brazil, by its cushion of foreign currency reserves, which exceed its foreign debt, public and private, combined. By mid-2009, Petras postulated (in February 2009), the recession would likely deepen under conditions of massive capital flight and the loss of credit, investment markets and remittances. Local producers and capital markets, he argued, would be hit hard. By 2010, he concluded, Latin America would be in deep recession. This was then (January 2009) and this is now (December 2009), without the precise unfolding of this pessimistic scenario but nevertheless negative growth rates from $-1\%$ (Chile) to $5.7\%$ (Venezuela) and $10.5\%$ (Mexico) in November, raising questions about the strategic and political responses to the crisis made over the year (since October 2008) by the governments in the region and different organised groups and classes—responses that we will bring into focus below.

Notwithstanding the refusal to date of popular sector organisations to rise to the challenge of radical analysis and revolutionary theory—at least to Petras’ prognostication, the radicalisation of the Left might yet or could well take hold once it becomes evident that the pragmatic neoliberal or counter-cyclical economic policies of the governments, fail to deliver on their promise, or the stimulus plans and public works programmes fail to offset the propensity towards a deepening economic crisis.

The key to the emergence and growth of revolutionary movements, Petras (2007) argues, is their strategic location in the socioeconomic centres of the crisis with organised cadre and ‘local opinion’ leaders capable of articulating and linking local discontent with a national plan of struggle, informed by an anti-imperialist socialist programme. Given present circumstances the recession opens a door of opportunity for the re-emergence of mass movements, which in turn would provide conditions for a revival and renewal of socialism. The renewal of socialist mass movements would undoubtedly reflect the limitations of fragmentation and spontaneity on the Left and the lack of deep implantation in communities and neighbourhoods, workplaces, and factories. The world recession, Petras (2007) argues, ‘not only undermines even further what remains of the legitimacy of neoliberalism but challenges the entire capitalist class configuration’. The threat of economic collapse and the failure of the banks and the financial system to expand and sustain production are also reviving the spectre of ‘statist nationalism’ as a prelude to a radically changed and unbalanced relation between the state and the market, favouring the former. Under these conditions in the context of capitalism, which is unable to operate through weakened market mechanisms and growing protectionism, severe strains in US–Latin American relations are inevitable and are promising for a socialist project.

Although the dialectical process of crisis and response is by no means determinate and some of the offered solutions are poorly defined, there is an emerging trend for both the academic and political Left, and popular sector organisations in the region, to discuss or negotiate their ideas and actions with the ‘progressive’ regimes in the region—constituted or headed by Chávez, Morales, and Correa (‘populist nationalists’ or ‘proto-socialists’ in the language of some analysts) and da Silva [Lula], Fernandez Kirchner, and Bachalet (‘pragmatic neoliberals’, according to Petras, or ‘moderate leftists’ as Castaño prefers to view them)—all governments formed in the wake of a region-wide wave of anti-neoliberal sentiment. These proposals, advanced in different sectors of the left (intellectual, social and political), have included:

- an increase in social spending and infrastructure investment, and a reorientation of Central Bank policy away from stabilisation and towards a priority concern for employment
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generation (the first recommendation of the ‘structuralist’ and ‘institutionalist’ economists that had gathered in Mexico City in January 2009);

- an extension of regional banking and development finance institutions such as the Bank of the South (also a consensus proposal);
- the extension and deepening of ALBA, an alternative regional trade mechanism originally proposed by Venezuela (Chávez) and now including a supportive alternative popular alternative regional trade alliance of Bolivia and Ecuador with Cuba and Venezuela, as well as Nicaragua and Honduras—and possibly even El Salvador after the recent victory of the FSLN (another consensus ‘position’ on the Left);
- an alternative model of local food production and food security based on the sustainable livelihoods of small-scale peasant producers (advanced by Via Campesina); and
- socialism in one form or the other (state centralised or, as in some proposals, decentralised to allow for popular power in public decision-making), socialising both the means of social production and consumption. This proposal—also advanced by elements of the labour movement such as the Union of Electrical Workers of Mexico, which emphasises the fact that the workers had nothing to do with causing the crisis but everything to do with ending it—presupposes an engaged public agency based on the active social mobilisation of all sectors of the Left, including both the state, in the case of Venezuela—and perhaps Bolivia and Ecuador; the intellectual and political Left and supportive elements of civil society critical of neoliberalism; organised labour where possible; and the social movements as well as regional alliances and coordinating bodies (‘Coordinadores’) such as the Coordinadora de movimientos Sociales (CMS) in Ecuador.

As for the counter-cyclical policies recommended by the structuralist (and Keynesian welfare state) economists at the Mexico City Symposium, policies that are, as Casteñada and Morales (2009) point out, consistent with those recommended by other groups on the social democratic Left, it turns out that many of the governments in the region, irrespective of their ideological orientation or persuasion, have already taken or begun to take precisely these policies. For example, in a summary of counter-crisis policy measures taken by different governments in the region over the past year a study by ECLAC (2009a) notes that 16 out of 21 countries in the region over the past year did in fact increase spending on infrastructure. Five also promoted job creation (including Argentina, the country with the lowest external ‘openness’ index) and as many as 14 either maintained or even increased their public social programme spending.

Nevertheless, the predominant response of these governments reflects their understanding of the crisis as essentially a financial market and monetary-fiscal policy issue. In the policy response to the crisis of most governments in the region, both those tacking a pragmatic neoliberal line on macroeconomic policy (the ‘moderate’ or centre-left) and those tacking further left (the ‘populist nationalist’ regimes) there has been a predominance of monetary, financial, fiscal and exchange rate measures. Six governments reduced hard currency reserve requirements and, in a similar move to that taken by the G-8 governments, 15 of them increased liquidity in national currency (eight of them in foreign currency) (ECLAC, 2009a).

Two ‘structural’ (as opposed to monetary or fiscal) policy measures of particular relevance were implemented by a number of the more clearly ‘progressive governments’ in the region, most notably Venezuela, the pivotal centre of the Latin American Left since 1999 and, together with Cuba, Bolivia, and Ecuador, a new axis of leftist policies and politics in the region. However, this axis and these measures—including the construction of a new axis for intra-regional trade (ALBA); a new institutional mechanism for promoting national economic
development (The Bank of the South); and the renationalisation of natural resources and economic enterprises in strategic sectors—predated, or were coincident with rather than in response to, the crisis. They represent a strategic leftist response to US imperialism and the model of neoliberal globalisation in place throughout the region since the 1980s. Like the similarly timid moves in the US and the UK, in exchange for a financial bailout, towards an ownership stake in the country’s major banks and financial institutions—and calls for the outright nationalisation—they also point to the ‘need for a systemic alternative to capitalism’ (Panitch & Gindin, 2009), conceived by Hugo Chávez as the ‘socialism of the twenty-first century’. As to the form that socialism in the new conditions might take there is no consensus, no model: just an agreement in principle for the need of a new more ‘humane’ and ‘fully human’ society, a ‘society of equals’, a ‘new world of justice, dignity and equality’ that is only possible, Chávez insists, ‘with socialism’ (Chávez, 2007, p. 247).

Indications are that these and other such ‘structural’ changes in the organisation of national and regional development can help insulate countries and the people in the region from the anticipated ravages of the economic restructuring process, which has already destroyed up to US$50 trillion of capital in the world economy and US$220 in Latin America over the course of the year, with seriously negative consequences for the livelihoods of those having to work or make a living in the real economy.

Normally, such a capital restructuring process always hits the hardest those on the margins and the furthest away from the ‘centre’ who are unable to protect themselves from the restructuring strategies pursued at their expense by the guardians of the system and the neoliberal world order. The only way for producers and workers in the popular sector to defend themselves from this restructuring process is to disconnect where and how they can from the system—and to actively mobilise not only for a change of direction but for ‘another world’, i.e. productive and social transformation of the system.

Strategic Responses to the Crisis

We can distinguish five types of strategic response to the crisis by organisations in the popular sector, in particular the social movements of indigenous peoples, peasants, and rural landless workers that, as Barrett et al. (2008) established, formed the social base of the movements that dominated the political landscape in the 1990s. At the moment these strategies exist primarily in the form of ideas and practice, but there is in formation an active debate on how to proceed in acting on these ideas. This debate is largely internal to the popular movement but in the context of the global financial and production crisis there has emerged a series of conversations and discussions of social movement leaders with other sectors of the political left, both the intelligentsia and what we might term the ‘political class’, elements of which in recent years (1989–2008) have in fact captured state power in a number of South American countries (Venezuela, Argentina, Brazil, Bolivia, Ecuador, Chile, Uruguay, and Paraguay), establishing in the process a number of centre-left or left-of-centre regimes.

A Leftward Shift in Macroeconomic and Social Policy

Generally, the political Left that had managed to capture state power in the pre-crisis period in 1989 and in the context of a wave of anti-neoliberal sentiment and a primary commodities boom, socialism is not understood as the abolition of private property in capitalist form or the socialisation of the means of production, but rather as the nationalisation of the country’s natural
resources (e.g. Bolivia) and capitalist enterprises in the strategic sectors of the economy, or where (Venezuela) the proprietors or CEOs are not fulfilling their assigned social responsibilities; regulation of the market and economic activity in the ‘private sector’ in order to place a ceiling on the ability of capitalists to exploit labour and for investors to enrich themselves at the expense of other social sectors; and a more just or equitable distribution of the social product in the form of national income.

The problem is that, with the exception of Venezuela, none of the left-leaning regimes that have come to power in the new millennium in the wake of a wave of anti-neoliberal sentiment took advantage of the highly favourable economic and political conditions of the pre-crisis years to change policy in a genuinely ‘progressive’ direction. In this regard, again with the exception of Venezuela it is not possible to observe any significant difference between the policies regarding the allocation of fiscal resources (and the social distribution of these resources) adopted by these Left-leaning regimes and those with a pragmatic or even dogmatic neoliberal orientation. On this one point Casteñada and Moreles on the New Left (one or two?) and Petras and Veltmeyer (2009) on What’s Left in Latin America agree: that most regimes both on the moderate and far Left have implemented more or less the same policies in the current conjuncture.

In any case, as explained above, under the conditions of the current crisis it will be much more difficult for these regimes, regardless of their ideological orientation, to reorient national policy and tax expenditures in a progressive direction. Even so, in this changed context of the financial crisis (with a capital loss in the region up to US$220 billion over six months), virtually all of the governments in the region have adopted counter-cyclical policies designed to stimulate demand, prevent massive unemployment and minimise the negative socio-economic effects of the crisis, and, at the same time, contain the forces of social discontent and political opposition that will undoubtedly be generated by these conditions. In anticipation of these and such ‘developments’ virtually every country in the region have sought not only to maintain liquidity at the level of financial markets but to invest in and increase fiscal expenditures on both economic and social infrastructure and on social programs designed to redistribute income and alleviate poverty.

**Nationalisation of Resources in the Commons**

Nothing is more important to the social movements than respect for the territorial rights of indigenous peoples in relation to communal resources, in particular water, the struggle over which has replaced ‘land’ as the major concern of the popular movement. With reference to water as a ‘fundamental human right’ and a public good that should in no case be turned into a commodity (major demands of the social movements), one of the very first legislative action of the Morales government in Bolivia was to re-nationalise ownership of natural resources such as oil and gas, and to prevent a commercial encroachment on the global commons, the heritage of humankind (Abya Yala, 2009).

With this reversion of the neoliberal policy to privatise these resources together with other means of production, and a more extended policy in this direction in Venezuela to nationalise companies in the strategic sectors of the economy, nationalisation is understood as a transitional form of socialism—the ‘socialism of the twenty-first century’, according to Hugo Chávez. Thus, socialism in this context takes the form of nationalisation combined with a policy of regulation regarding markets and private enterprises in its capitalist form, capping the ability of the owners of these enterprises to exploit labour and enrich themselves, and a more equitable distribution of social product by means of the instrument of fiscal expenditures.
However, within the popular movement a different conception of socialism as an alternative to neoliberalism prevails. Within the movement ‘socialism’ is understood as the utopian socialists of the nineteenth century understood it: as ‘communism’, ‘our political practice’ in the words of Morales (Morales, 2003), leader at the time of the Movement Towards Socialism (MAS). As constructed within the social movement and understood by Morales this ‘practice’ is rooted in a culture of solidarity, i.e. in ‘relations of reciprocity, complementarity and equity’ (Abya Yala, 2009). As for socialising the means of production a country’s natural resources are common property of the people and cannot be privatised. They are under the stewardship of ‘the people’ in their communities in a social relationship of solidarity and ‘respect and harmony with Mother Earth’ (Abya Yala, 2009). In terms of peoples’ ‘territorial rights’ socialism does not mean and should not take the form of state control. Rather it implies a decentralised state allowing the people in their local communities to exercise their collective responsibility in protecting and sustaining the heritage of humankind, to allow people to ‘vivir bien’ (live well) in harmony with nature and in solidarity with each other.

Integration ‘From Below’ in Trade Relations with Other Countries in the Region

A key element of the proposed policy and what amounts to a consensus in the Movement is support of ALBA, a trade mechanism originally proposed by Chávez but now encompassing six countries including Cuba and Bolivia, the initial partners of the project, and Honduras and Nicaragua. The movement in its indigenous character understands and has constructed ALBA as a mechanism of ‘integration from below’ based on a conception of ‘living well’, the basic goal of ‘development’ as understood by the Movement and embodied in the Bolivia’s new ‘National Development Plan’. In this development paradigm, rooted in an indigenous worldview ‘integration’ is not just a matter of ‘trade’ but is a means of ‘social, cultural, political and productive integration’ of the people in the Andes, Amazonia and the urban areas.

Construction of a Regional Development Bank—the Bank of the South

The design of ALBA as a ‘bottom-up integration of the peoples’ based on ‘living well’ includes a proposal for a ‘new financial architecture ... to have economic independence and sovereignty’. Thus proposal of Chávez to form the Bank of the South (BS) as a national and regional development mechanism is gaining force. Although the project since its conception in 2006 has had to overcome political hurdles of one sort or the other political obstacles the global crisis has revived the project as a mechanism allowing companies and governments in the region access to an alternative source of capital. ALBA is currently projected to begin operations in May of this year with an initial capital of US$10 billion dollars provided by Venezuela, Argentina, Brazil, Paraguay, and Uruguay.

Agrarian Reform Based on a New Model of Agricultural Production

The principal problem of the countryside and rural poverty is land—the separation of peasants from the land, forcing them to migrate to the cities or be transformed into a proletariat (so as to provide capitalist or big landowners with a source of cheap labour) or a class of ‘capitalist entrepreneurs’ (to improve their access to markets, capital, and modern technology). To reverse this process and ensure the sustainability of their livelihood peasant movements are demanding land reform—not ‘market assisted’ as the World Bank conceives of it, but ‘state-led’, i.e. the
distribution not of idle public land but of land concentrated in the hands of large landowners and capitalists in the sector. Another demand of the Movement, with reference here to the Via Campesina, is to change the model that governs the sector of agricultural production—an agro-export model that only benefits the large landowners (‘the oligarchs’) and capitalist corporations—in favour of small producers and the peasant economy oriented towards the local and national markets, to provide for food sovereignty and security and to meet the needs of the people at affordable prices.

A Minga of Resistance and Popular Action

On 29 February 2009, a Bolivia-based regional alliance of indigenous, peasant, and social movements convoked a ‘Minga of Resistance’ in association with ‘other peoples and processes’ in the region. Minga is a Quechua word meaning ‘collective action’ having wide currency among the indigenous poor, both indigenous and mestizo, in the Andes. The call to join in a Minga, as a name for collective action that is at once local and global, gains force from both its cultural and historical references to a shared experience of subjugation. By calling their movement a Minga, the indigenous participants call attention to both the work that must go into politics and the need for collective action.

Thought and action in this direction—in the search for an alternative to capitalist development and neoliberalism, the undoubted source of the current global crisis as it happens and wisely understood—is underway in the popular sector of different countries in the region. See for example the Convocation (20 January 2009) of the Social Movements of America at the World Social Forum in Belém. Departing from a diagnosis of the ‘profound crisis’ of capitalism in the current conjuncture, a crisis that the agents and agencies of capitalism and imperialism are seeking to ‘unload’ (descargar) on ‘our people’, the representation of a broad regional coalition of American social movements announced the need, and its intention to create a popular form of ‘regional integration’ (ALBA) ‘from below’—‘social solidarity in the face of imperialism’.

From this popular perspective the global crisis is not a matter of financial markets but rather a production and social issue—a matter of sustainable livelihoods, employment, and the price of food, which is rapidly escalating under the conditions of the global and local crisis. In this connection ECLAC Executive Secretary José Luis Machinea has noted that the steep and persistent rise in international food prices is hitting particularly hard on the poorest in Latin America and the Caribbean, worsening income distribution. Poverty and indigence will rise if urgent measures are not taken to reduce the effects of these hikes nearly 10 million people would become indigent due to price hikes, and a similar number would increase the ranks of the poor. This does not even take into consideration the aggravating social situation of those who were already poor or indigent prior to the price rises and the global crisis.

Another example of popular action against the production crisis is the peasant–worker alliance recently formed in Mexico to make available affordable food to workers in the cities (Pateson, 2009). In regard to the staple ‘tortilla’, the prices of which have literally hit the roof over the past year, spokespersons for the alliance at a press conference announced that the producers in the alliance would deliver goods to workers and their families at cost or prices at least 20% below those at commercial enterprises—and there would be no taxes charged. Efraín García Bello, Director of the Confederación Nacional de Productores Agrícolas de Maíz de México (CNPAMM), a signatory to the production alliance, noted that actions of this sort would support the economy of both the workers in the urban areas and the inhabitants in the countryside.
Along the same line and supportive of this popular action against the crisis, different organisations in Mexico’s peasant movement, including those set up by or close to the government, proposed that the government’s anti-crisis plan include a policy of local production in corn and rice, milk, vegetable oil, pork products, etc., ending the policy of free agricultural imports under NAFTA, which, as the EZLN (the Zapatista Movement) had predicted, has been the cause of a major production crisis in the agricultural agriculture if not its ‘death knell’. In regard to the local production and imports of vegetable oil, the President of the Senate’s Rural Development Commission pointed out that in just this one case government policy (elimination of import duties) put at risk the livelihoods and direct employment of up to 10,000 jobs in the sector plus an additional 30,000 indirect jobs.

At issue in this and other such actions in the popular sector is whether the political and intellectual Left are up to the challenge levelled by Abya Yala (2009)—able and willing to actively support if not lead the forces of revolutionary change that are being formed in the popular sector.

As for the government, it responded in the same way as other governments in the region by attempting to head off the possible political spread-effects of a growing crisis-generated social discontent via fiscal expenditures on a program of social and development assistance. In the case of Mexico, the basic mechanism of this anti-crisis response is Oportunidades (Opportunities), a programme designed to assist those with scarce resources most directly affected by the global crisis. With a negotiated World Bank loan of US$500 million this programme is expected in 2009 to pump US$4 billion into the countryside and the local economy, continuing the time-honoured tradition (at least since the 1960s) of using rural development as a means of demobilising the social movement and defusing revolutionary ferment in the countryside.

Conclusion

The global crisis is not merely financial, a problem that can be solved with counter-cyclical or demand-led policies, a more effective regulatory regime and ‘good global governance’. Rather, it is a crisis of capital—a crisis of the operating system, a system that governs global capitalist production. To ensure that the most usual victims of this crisis—i.e. people in the popular sector of the ‘developing societies’ on the margins of the system or in what subcomandante Marcos termed the ‘bolsillos de olvido’ (forgotten pockets)—are able to resist, adjust to or otherwise cope with the forces released in the capital restructuring process it is essential that the forces of resistance and change be actively mobilised and to some extent brought together if not unified.

In the current conjuncture of the global crisis the predominant response of governments in Latin America on both the centre-left and the right reflects an understanding of the crisis as a financial matter, an issue of regulating capital markets and of a monetary–fiscal policy fix. The crisis has undoubtedly hastened the demise of neoliberalism as both an ideology and as an economic model, but the strategic response of governments to the crisis point towards a muted and pragmatic form of neoliberalism, a more socially inclusive and sustainable form of capitalist development parading as democratic socialism or social democracy. In this context, the diverse ‘solutions’ to the crisis proposed by the political Left in its predominant or ‘actually existing’ form (as a political regime) generally presuppose the institutionality of capitalism, seeking only to mitigate the effects of the crisis and ensure a more sustainable (socially inclusive, equitable, participatory and humane) form of capitalist development. But my analysis of the regional dynamics of the global crisis leads me to conclude that the popular movement should resist any proposal for a solution to the crisis that includes the operative capitalist system.
This system is evidently a large part of the problem insofar as it reaches crisis proportions, and any solution within the system, no matter how far-reaching or radical the reforms, can eliminate the propensity towards crisis. Nor are such reforms likely to change the fundamental nature of capitalism as a class system based on the exploitation of labour—and the inequitable distribution of society’s productive resources and its collectively produced wealth. Genuinely progressive change and truly alternative development, it would seem, requires the supersession of capitalism, which in turn is predicated on the mobilisation of the diverse and divided forces of change in the popular sector. In this connection, several current political developments in Latin America, based on the agency of social movements in the popular sector of society, are pointing the way forward out of the crisis.

Notes

1 Representing the most serious involution in the system of global capitalist production since the Great Depression, the crisis has been explained both in Marxist terms (a fall in the average rate of profits, overproduction, underconsumption, etc.) and by French Regulationists (Lipietz, 1987, etc.) as a crisis in the Fordist form of global production. In these terms, the crisis is essentially ‘structural’—rooted in the structure of the system, which is defined in the one case by a particular combination of productive forces and corresponding social relations, and in the other by the articulation of a certain ‘regime of accumulation’ and a corresponding ‘mode of regulation’. Others, however, such as Marglin and Schor (1990) and their colleagues, saw the cause of the crisis not so much in the structural limits of capitalist production as in its political limits—in the ‘profit crunch’ deriving from the power of organised labour to demand concessions from capital under conditions of depressed capital accumulation. Hence the last great offensive of labour in the 1968 ‘revolution’ and the counter-offensive launched by capital in 1993. On this particular strategic and ‘political’ response to the crisis—to effect a change in the relation of capital to labour—in the European context see Crouch and Pizzaro (1978). The military coup launched in 1973 by Augusto Pinochet, with US backing, against Salvador Allende’s socialist regime in Chile could be viewed in similar terms.

2 For an analysis of its national dynamics in the case of Brazil see Francisco de Oliviera and Leida Maria Paulini (2007).

3 As we see it, this restructuring process can be traced out in the permutations of five strategic responses to the crisis: (i) an assault of capital on its share of national income and its capacity to demand improvements in wages and working conditions, resulting in a significant change in the labour-capital relation; (ii) the geographical relocation by multinational corporations of its labour-intensive production operations closer to sources of cheap labour, resulting in a new international division of labour; (iii) the technological conversion of global production, resulting in a process of ‘productive transformation’ and the formation of a post-industrial ‘information society’; the globalisation of capital and economic production, resulting in a new world order in which the ‘forces of freedom’ are liberated from the regulatory constraints of the welfare-development state.

4 Notwithstanding the efforts of different governments to break out of the old international division of labour (as exporters of raw materials and primary commodities in exchange for manufactured goods) agro-mineral primary commodities still dominate exports from the region—62.8% on average, ranging from 49.3% (Mexico) and 63.3% (Chile) to 71.7%—83.4% (Argentina, Bolívia, Brazil, and Venezuela) (ECLAC, 2007, p. 270).

5 According to a recent ECLAC (2009b) study, the current global crisis will cause nine million people in the region to fall into poverty, an increase of 1% in the regional poverty rate. This effectively reverses the gains supposedly made over the past decade in which upwards of 41 million, according to the same study, managed to overcome or move out of poverty—the combined result of actions taken by the poor themselves (to migrate) and by a number of governments (especially Brazil and Chile) under the post-Washington Consensus, via greater economic growth, expansion of social spending, improved income distribution, and what ECLAC defines as ‘the demographic bonus’.

6 In the vortex of a economic crisis that has put at risk and threatens the livelihoods of hundreds of millions of the world’s poor, the United Nations launched an online appeal for individual [sic] donations to fight hunger as for the first time in history more than 1 billion face starvation worldwide, a 100 million more than a year ago (CNN.com, 2009).

7 Brazil has enjoyed creditor status since February 2008. Today, according to Jean-Pierre Langellier of Le Monde (Langellier, 2009, p. 18), Brazil has a foreign currency reserve fund of US$231 billion.
If Petras is correct in this then we might very well have an explanation as to why there has been a decided absence of a revolutionary response on the Left to the crisis. On the other the only ‘revolutionary’ response to the neoliberal policy agenda of most governments in the 1990s was made by the social movements of indigenous peasants. As theorised by Holloway (2002) and emphasised by Barrett et al. (2008) most of the Left that emerged in the 1990s chose to bring about social change without a struggle for state power.

On the political character or ideological orientation of these regimes in the current phase of what has been termed the post-neoliberal era see Castañeda and Morales (2008, 2009); Lievessley and Ludlam (2009); and Petras and Veltmeyer (2009). Most commentators view the political left in the current context of regime politics as split into two, but very different understandings and description of what some view as a ‘good’ left composed of regimes that in Castañeda’s terms implies a more cosmopolitan style, moderate and pragmatic leftist, exemplified by Brazil and Chile; and a ‘bad’ left, with reference to the regimes of Chávez, Morales, and Correa in Venezuela, Bolivia and Ecuador, infected with the virus of populist nationalism.

This alliance includes the Coordinadora Andina de Organizaciones Indígenas (CAOI), the Coordinadora de Organizaciones Indígenas de la Cuenca Amazónica (COICA), the Consejo Indígena de Centro América (CICA), the Movimiento Sin Tierra del Brasil (MST), Vía Campesina; the organisations of the Unity Pact (Pacto de Unidad) of Bolivia; and diverse indigenous organisations of Colombia, Ecuador and Peru—meeting most recently on 26 February 2009, in the locality of the Unity Pact in La Paz.

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La Jornada, Cayeron remesas en 2008 y este año seguirán a la baja, dice el BID, 17 March.


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Focus

Global Rebalancing: Crisis and the East–South Turn

Jan Nederveen Pieterse

ABSTRACT

This article argues that the rise of emerging societies is a major turn in globalization and holds significant emancipatory potential. North–South relations have been dominant for 200 years and now an East–South turn is taking shape. The 2008 economic crisis is part of a global rebalancing process. Ongoing developments can be read in two ways: towards recalibrating the old order, or towards the emergence of new logics, which can be simplified as a tale of two scripts. One is global plutocracy with Anglo-American capitalism and financial markets in the West back in the lead and emerging markets joining the club. An instrument for achieving this is the hegemonic ideology of ‘global rebalancing’. On the other end of the continuum is the script of emancipatory multipolarity, considering that countries representing the majority of the world population have joined the global head table. This essay discusses global rebalancing, global plutocracy and emancipatory multipolarity, before taking on the conceptual question of capitalism or capitalisms. Ultimately, the author concludes that developments are layered and that elements of both scripts are combining.

INTRODUCTION

Geely bought Volvo, Lenovo bought IBM’s PC division, Tata bought Jaguar and Land Rover, Mittal bought Corus and other steel industries, Brazilian companies have bought Burger King and Anheuser Busch (brewer of the all-American Budweiser beer), Qatar Holdings bought Harrods, Qatar and Dubai investment companies bought 48 per cent of the London Stock Exchange, emerging economies’ sovereign wealth funds have made major investments in western financial houses, and in the luxury market Asian fashion houses have bought western companies such as S.C. Fang in Hong Kong, which bought Pringle of Scotland. Sahara India Pariwar is making a US$ 2 billion bid for the MGM movie studio.

Earlier versions of this paper have been presented at the Institute of Social Studies, The Hague, Maastricht University, the Transnational Institute, Amsterdam, Pusan National University, Shanghai University and Xiamen University in the period May–July 2010. I am indebted to responses, to Andrew Lee and Jeb Sprague for references and to the comments of referees of Development and Change.
The share of emerging markets in global GDP has risen from 21 per cent in 1999 to 36 per cent in 2010.¹ Emerging societies are on the rise in trade, multinational firms, finance, international influence and cultural presence (Agtmael, 2007; Magnus, 2010; Marber, 1998; Nederveen Pieterse, 2008a; Prestowitz, 2005). This unfolds under various headings such as the rise of the second world, the ‘rise of the rest’ and the BRIC (Brazil Russia India China). The BRIC countries, ‘the only developing economies with GDPs of more than $1 trillion per year’, have ‘provided 45 percent of economic growth worldwide since the financial crisis began in 2007’. Together their foreign reserves are six times the assets of the IMF.² Other groupings mentioned are N-11 or the ‘next eleven nations’ to emerge as major economies, and SICS (systemically important countries, or BRIC plus Mexico, South Africa, Turkey and South Korea).³ Without a doubt these trends represent the ‘next big thing’ in globalization and international development. Consider a sampling of recent headlines as writings on the wall:

Why Brands now Rise in the East
Consumption Starts to Shift to China, India and Brazil
Developing Economies Lead the Way in 2010 [IMF] Forecast, while Rich Nations Lag
Developing Countries Underpin Boom in Advertising Spending
Architecture Firms Go East for Work
Bankers Sense Shift in Capital Flows
Emerging Market Debt is the New Safe Haven
Emerging Economies Set to Play Leading Investment Role
Benchmark Expert Watches Market Weight Shift Eastwards
US Cities Seek To Woo Chinese Investment
Chinese Investment Keeps Greece, Iceland and Others Afloat
The Deal Makers Who Matter Are Rising in the East.⁴

Fukuyama’s triumphalist account of the ‘end of history’ to mark the end of the Cold War now seems long past. In a case of political economy outflanking ideology and geopolitics, this narrative has been slowly overtaken by the rise of new industrializing economies. Accounts of the new emerging equation range widely. It is variously described as a flat world (Friedman, 2005), a ‘spiked world’ (Florida, 2008), a condition of ‘globality’ in which everyone competes with everyone (Sirkin et al., 2008), as the ‘rise of the

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Not too long ago it may have been sufficient for many purposes to view the world as split between North and South, core and periphery, developed and developing, industrial and agro-mineral economies. This is the classic international division of labour that goes back to colonial times. In the 1970s this began to change with multinational corporations investing in low-wage countries in Latin America, the Caribbean and Asia; this was then termed the ‘new international division of labour’. Dependency thinkers argued it was a fad, a fantasy; investors would flee again once labour costs rose; dependent capitalist development brings only underdevelopment. A new branch of studies began to critically examine the semiperiphery as a formation in between the core and the periphery which acts as a periphery in relation to the core (exporting raw materials, adopting its cultural styles) and as a core in relation to the periphery (exporting finished products, setting cultural standards, acting as regional police). Wallerstein (1984) argued that the emergence of the semiperiphery gives the world-system a more stable structure; rather than the polarized North–South, rich–poor field, balancing forces in between give the overall structure greater resilience. Table 1 summarizes the schema of the three-way division.

In the twenty-first century the semiperiphery has come of age and global dynamics are radically changing. ‘The noughties of the 21st century’, notes Martin Wolf ‘now have the same fin-de-regime feeling as those of a century ago’ (when the British Empire went down). The 2008 crisis both reflects and accelerates this process. According to Robert Zoellick, President of the World Bank, ‘the developing world is becoming a driver of the global economy. Even though developing world imports are about half of the imports of high-income countries, they are growing at a much faster rate. As a result, they accounted for more than half of the increase in world import demand since 2000’. He adds:

The world economy is rebalancing. Some of this is new. Some represents a restoration. According to Angus Maddison, Asia accounted for over half of world output for 18 of the last 20 centuries. We are witnessing a move towards multiple poles of growth as middle

Table 1. Three Worlds Revisited

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<td>Industrial and post-industrial</td>
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classes grow in developing countries, billions of people join the world economy, and new patterns of integration combine regional intensification with global openness. (Zoellick, 2010)

The controversial thesis of ‘decoupling’, or the world economy delinking from the American economy and recoupling to emerging economies, finds growing confirmation. ‘The developing world’s rapidly growing middle class, which includes about two billion people in a dozen emerging economies, spends $6.9 trillion a year. McKinsey research suggests that, during the next decade, their annual spending will rise to $20 trillion, a very big market indeed — twice current US consumption, in fact’ (McKinsey, 2010). What is at stake in these changes? First is ‘the rising influence of rising affluence’.6 This is where the big new growth markets are, so in business, finance, commodities, transport, advertising, technology, architecture, this is the big story, the next great frontier that inspires enthusiasm in business schools. New iconic buildings arise in Kuala Lumpur, Taipei, Seoul, Shanghai, Beijing, Dubai, Qatar; new museums, new biennales, new art markets, record sales of luxury goods. Shanghai chic sets a new tone. Major retailers, global brands, diamond traders, wine merchants, architects, advertising agencies, universities, bankers, all head East. Major international cultural events — the Olympic Games, the World Cup, the World Expo — are drawn to emerging societies, beginning with the 1988 Olympic Games in Seoul. Maybe the refrain is simply ‘follow the money’, but our global horizons are changing.

A Londoner notes, ‘Spend two days in Seoul and London starts to look and feel like a sleepy, stagnant backwater’.7 The avant-garde architect Jacques Herzog who designed Beijing’s Bird’s Nest Stadium, observes, ‘I think we may be able to learn from China, Brazil and India, to see how society is able to transform’.8 The second thing that is happening, then, is a revitalization of modernity and staging of new modernities (Nederveen Pieterse, 2009a). With this come new spheres of cultural influence such as the ‘Korean wave’ (Korea Herald, 2008), the popularity of Thai soaps in China and Turkish soaps in Saudi Arabia, and Brazil setting up TV broadcasting in Africa.

Third is a reconfiguration of the world economy. A ‘new geography of trade’ has taken shape in relations between Asia, Latin America, the Middle East and Africa (Nederveen Pieterse, 2008a). In development studies the talk is of ‘Asian drivers’ of growth in developing countries (Kaplinksy and Messner, 2008). Emerging societies are increasingly fulfilling core functions on the world stage — acting as development role models, providing stable markets, loans, aid and security, with China as a leading force.

Emerging societies don’t just play this role in relation to developing countries; some of their model, creditor and stabilizing functions unfold at a global level.

Fourth, the role of emerging economies in finance has been growing as well. Sovereign wealth funds from Asia and energy exporting countries provide credit on a world scale and to international financial institutions (Teslik, 2009). ‘It was the emerging markets, most notably China, that pulled the world back from the brink of financial meltdown’. There has been a remarkable reversal of the creditor–debtor relation between the United States and Asia and Middle East oil exporters — remarkable because it unfolds in international finance, the central powerhouse of western influence and the sector through which the United States sought to shape emerging economies. Besides, finance is traditionally the terrain in which hegemons retain their lead when it fades in economic, political and military domains (Arrighi, 2007). There has been a reversal, too, of classic economic postures — the world’s leading protagonists of free trade now are emerging markets, not the US.

Fifth, it portends a reconfiguration of world order, but so far this is only dimly visible on the horizon. The unipolar world is no more nor is the world of the big powers, as indicated in the shift from the G8 to the G20 in the throes of the 2008 crisis (Altman, 2009). Yet, even if hegemonic capacity isn’t what it used to be, the habits of hegemony and of following hegemony linger. Global governance is ‘still lost in the old Bretton Woods’; the G20 may be a step back, for it expands the rule of big countries over small and it has transformed into an arena of contention over trade and currencies. Political transformations are more salient in regional developments such as the Shanghai Cooperation Organization, ASEAN + 3, China’s free trade agreement with ASEAN, and cross-regional cooperation such as between Brazil, Turkey and Iran, and IBSA (India Brazil South Africa). The crisis does indicate that the North–South polarity has given way to a different fault line that runs between (trade and current account) surplus and deficit societies.

Taken together these trends signal a major tipping point in history. North–South relations have been dominant for some 200 years and current trends see the onset of an East–South turn. There are now three sets of relations to consider: first, relations within semiperipheral countries between industrial and agro-mineral sectors, between urban and rural populations and between rich and poor; second, relations between the core and semiperiphery, between old and new forces; and third, relations between the semiperiphery and periphery, East–South or South–South relations such as

those between China and Africa and Latin America, which is the theme of a growing literature. All are important; the first set is the theme of a recent volume (Nederveen Pieterse and Rehbein, 2009). This discussion focuses mostly on the second set.

Why is this theme important? The present juncture is an ‘in between’ condition. The old hegemony is no more and its frailties pose growing risks; a new constellation isn’t available yet, although some contours are taking shape. Current trends can be read in two ways: towards recalibrating the old order or towards the emergence of new logics. This can be simplified as a tale of two scripts. One is global plutocracy with Anglo-American capitalism and financial markets in the West back in the lead, emerging markets joining the club and the G20 as the de facto governing board of the IMF. A major instrument for achieving this is the discourse of ‘global rebalancing’ which functions both as hegemonic ideology and policy framework. The second script, way on the other end of the continuum, is emancipatory multipolarity, suggesting that countries representing the majority of the world population have come to the global head table. This essay argues, first, that the rise of emerging societies is a major turn in globalization, which is barely controversial; and second, that this holds an emancipatory potential, which is highly controversial.

Let us consider as a guiding image the global situation as a giant seesaw or teeter totter. The middle position is multipolarity — that is, New York, London, Tokyo are not the only ones that matter, but also centres such as Beijing, New Delhi, Sao Paulo, Seoul, Istanbul, etc. Multipolarity is already a given and is non-controversial; what is controversial are the terms of multipolarity and its extent and ramifications. In this representation multipolarity is the middle position and is therefore by its nature unstable and constantly oscillating (see Table 2).

The remainder of this essay will proceed as follows. First, it will discuss global rebalancing according to the G20 and contrast this with actual ongoing rebalancing and rebalancing from the viewpoint of new forces and new emerging multilateralism. The following two sections will then discuss the two main scripts, global plutocracy and emancipatory multipolarity. The paper then reviews the problematic of capitalism or capitalisms, before turning to a reflection on analytics and methods, concluding with an argument for a multilevel analysis in which elements of both scripts combine.

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Table 2. Global Balance
GLOBAL REBALANCING

Playbooks are not readily available when it comes to new systemic themes. This leads many to revert to backward-looking analytical models, the thrust of which is essentially to assume away the relevance of the new systemic phenomena.12

When in the early 2000s the US trade and current account deficits grew ever larger, economists honed in on global imbalances (e.g. Feldstein, 2008; Roubini, 2006) and several argued that the imbalances were unsustainable and would produce either an orderly or a disorderly adjustment, either a soft or a hard landing. Gradually the perspective widened to include not just American deficits but also Asian surpluses, especially those of China (Bagnai, 2009; El Erian, 2008; Okimoto, 2009). One commentator noted ‘global economic imbalances’ are ‘code, as everyone knows, for the US current account deficit and the Chinese surplus’.13

The crisis of 2007–09 brought the imbalances in trade and finance into the headlines. According to a widely held view in Wall Street and Washington, the ‘savings glut’ in Asia prompted the crisis. In Krishna Guha’s words:

The current crisis is in the strictest sense a crisis of globalization, fostered and transmitted by the rapid and deep integration of very different economies. Fast-growing developing countries with underdeveloped financial systems were exporting savings to the developed

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world for packaging and re-export to them in the forms of financial products... the claim that this was sustainable assumed core financial centres — above all New York and London — could create the financial products efficiently and without blowing up. They could not.1

Thus the culprit is the ‘savings glut’ in Asia that overwhelms American financial institutions. This representation overlooks the fact that three decades of deregulation had exposed the vulnerability of these institutions and the Federal Reserve’s low interest rates relayed these flows through an easy money regime, creating a credit bubble society (Baker, 2009; Nederveen Pieterse, 2008b; Phillips, 2009; Taibbi, 2010).

The major post-crisis script, discussed in G20 meetings, Davos and business media, is global rebalancing. If global imbalances are the underlying cause of crisis, managing crisis means addressing the imbalances. In the US, UK and EU — where this has been the dominant discourse — rebalancing essentially means that China should appreciate its currency, the renminbi (RMB), and surplus countries (East Asia and oil exporters) should fund the IMF so the IMF resumes its role of managing world economic stability (e.g. Wolf, 2010). Further prescriptions are that Asia should export less, save less and consume more, and the US should consume less, save more and export more; since these prescriptions involve not just policy changes but structural changes they are on the backburner. Protectionism is the threat behind this agenda. While the US and EU put steady pressure on China to appreciate its currency, China accuses them of protectionism and ‘restricting China’s development’. The situation is reminiscent of the 1985 Plaza Accord in which the G5 agreed on an appreciation of the Japanese yen and devaluation of the US dollar. Now, however, China has learned from the Japanese experience, the US has less leverage and China, as the US’s major creditor, expresses its concern about American deficits and fiscal policies.

The argument for rebalancing presents several problems. It recycles a neoclassical idea of equilibrium and upholds an abstract model. The emphasis on global rebalancing diverts the attention from domestic reform. The dominant ideas of rebalancing reflect the perspectives of the advanced economies, several of which are now deficit countries; they seek to restore a balance that is unrecoverable and has been overtaken by economic trends. It also assumes more capacious global governance than is realistic given the existing imbalances and the past record.

In economics there have been as many ideas of balance as there have been political and economic systems. Each political and economic transition is marked by a redefinition of balance. In neoclassical economics the price mechanism is supposed to balance supply and demand. Efficient market theory, the lead paradigm during recent decades, also assumes that markets

are self-equilibrating. The 2008 crisis debunks this assumption. In Keynesian economics when demand falters the role of government is to rebalance the economy through demand management. Richard Nixon’s adage ‘We’re all Keynesians now’ has made a comeback, but this takes on a different meaning in a global economy than in a national setting. If equilibrium models don’t apply in economies generally, they apply even less in the world economy. Imbalances such as the triangular trade, relations between colonial and colonized countries and unequal exchange between manufactured goods exporters and suppliers of raw materials have been at the foundation of the contemporary world economy. This also holds for recent times. ‘The blunt fact is that at no point in the past century has there been anything resembling a global economic equilibrium…. When officials and economists today speak of correcting global imbalances, it is unclear what benchmark they have in mind’.

In addition, global imbalances are embedded in domestic imbalances. When during recent decades American consumption drove world economic growth, private consumption was 72 per cent of US GDP (comparative rates in 2005 were 57 per cent in Europe, 51 per cent in Asia and 36 per cent in China). As American consumption levels were rising, median wages did not, in part because American workers compete with low-wage, no-union labour in the American South and with low-wage labour overseas (Nederveen Pieterse, 2008b; Reich, 2010). The combination of rising consumption, rising productivity and stagnant wages was made possible by long working hours, two-earner households, imports of cheap Asian consumer goods and a vast expansion of credit. Deferred payments, credit card debt, home equity financing, adjustable rate and subprime mortgages were enabled by Federal Reserve low-interest policies and by external borrowing, which during the past decade absorbed 70 to 80 per cent of world net savings. The financialization of the American economy and the credit bubble, then, primarily reflect the conjunction of rising consumption and growing inequality in the US, rather than global imbalances or a ‘savings glut’ in Asia.

So balance has no precedent in the world economy, imbalance is common and balance is a recurrent ideal. Global economic balance is a hegemonic utopia. Besides, the actual significance of an appreciation of the RMB is doubtful. It doesn’t affect the American trade deficit, which stems from its offshoring production capacity across borders where profit margins have been higher. An appreciation of the RMB will not fix America’s import dependence; as Min Gong (2010) argues, the US trade deficit would broadly remain what it is and imports would rather be sourced from other East Asian countries and Latin America. China’s de-pegging of the RMB from the US dollar, begun in 2005 and resumed in June 2010, barely affects the Sino–US trade imbalance. The China Daily notes, ‘It is the sovereign right

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of a country to decide the value of its currency. And it should not change
to suit another country’s need.16 When in the run up to a G20 meeting
in June 2010 China resumed its de-pegging of the RMB from the dollar
effectively appreciating the RMB by 0.53 per cent), presumably to deflect
tensions with the US congress, American attention shifted to Germany with
calls that it should adopt policies to stimulate demand, increase consumption
and cut exports and savings — suggestions which the German government
promptly declined.

‘Global rebalancing’ is code for shifting the burden of reform onto China
and other surplus societies; in other words, keeping the ‘free market’ in the
West, courtesy of adjustments in the East and Germany. It implies there
is little need for reforming American ways as long as there are external
remedies. But in fact it shows that the global fault lines no longer run
between North and South but between trade (and current account) deficit
(such as US, UK) and surplus countries (notably East Asia, Germany along
with energy exporting countries).

Actual ongoing global rebalancing means dynamic imbalance or transi-
tions from one type of imbalance to another. A number of general features of
actual global rebalancing can be identified. First, the imbalances reflect long-
term changes in the world economy, so beyond immediate effects we must
consider long-term trends. Second, the 2008 crisis is not a cause of imbal-
ances but a manifestation. Crisis is a prism through which global rebalancing
is perceived and a process through which it takes place. The crisis then is not
an ‘ordinary systemic crisis’ and is more than a financial and banking crisis
(the trigger is not the cause). Third, global rebalancing is multidimensional.
Although it is primarily discussed in economic and financial terms it is as
much a political, institutional, social and cultural process. Fourth, ideas of
rebalancing depend on narratives of crisis, which are influenced by the nature
of the recovery; what emerges as the dominant crisis narrative will affect the
idea of balance. Fifth, what is needed is to compare narratives of crisis and
imbalance and policies of rebalancing in societies located at different places
on the spectrum of global imbalances. Thus rebalancing must be viewed
not merely from the viewpoint of advanced societies but as much from the
viewpoint of emerging societies and developing countries.

GLOBAL PLUTOCRACY?

Will there be a global convergence of capitalisms on the American model?
Will American capitalism gobble up emerging markets and will emerging
societies join the club of big powers as franchises of western ways with
different interior design? This is under discussion worldwide. I will present
perspectives on both sides of the equation.

Jan Nederveen Pieterse

Martin Sorrell, chief executive of the British global marketing group WFF, expects adjustments and the end of the era of super consumption, but the pendulum will swing back, albeit with a different geographic balance of power and a new capitalism with an Asian-Pacific, Latin American flavour. The tenor is: let regulations come, they will fail again, incorporate the new capitalism and the City of London will be back in business. Others observe a merger of elites, with business elites and ruling elites, West and East, forming a new global ‘super class’ (Rothkopf, 2008). World-system analysis and the transnational capitalist class perspective (Sklair, 2001) argue along similar lines.

Transnational capitalist cooperation occurs in institutions (WTO, IMF), intellectual property (patents, licensing), technology (industrial standards), transport, travel, and in firms, particularly in mining, energy, telecoms and finance sectors. Governance and international law (UN, ICC) are other domains of cooperation. There are, of course, limits to such cooperation. Currency, interest rates and sovereign wealth funds are jealously guarded national agendas. Security, logistics, trade routes, strategic resources, energy and metals, sensitive technology and foreign investments are closely watched as well. In 2006 the US congress resisted the bid of Dubai Ports World to buy the British firm P&O and take over the management of many major US port facilities. US regulators rejected the bid of China’s CNOOC to buy Unocal, a US oil company, and Huawei’s offer to buy 2Wire, an internet software group and a unit of Motorola. Australia rejected the attempt of Chinalco, China’s state-owned metals group, to invest US$ 19 billion in Rio Tinto. Western companies complain of restrictions they face in China and China complains about restrictions on technology transfer.

While transnational enterprises, migrants and ‘new argonauts’ straddle regions and combine technologies and resources (Saxenian, 2006), this doesn’t rule out differences across countries and zones and may in fact reinforce them. Many firms practise ‘institutional arbitrage’, juggling different arrangements between countries and zones (tax laws, labour rights, environmental regulations, special economic zones) so their actions are conditioned by and condition institutional differences (Ong, 2006). Thus, processes are layered and include transnational cooperation as well as corporate and national, regional and local agendas. Layered processes, then, produce layered outcomes — with different and combined patterns of transnational, regional, national and local cooperation — so diverse scripts coexist at different levels.

Another perspective holds that the most advanced form of capitalism, which is taken to be neoliberalism, predominates. David Harvey, Mike Davis, Patrick Bond and others tend to equate contemporary capitalism and neoliberalism and thus take differences in capitalist organization to be marginal (e.g. Harvey, 2005; Petras, 2009; Westra, 2010). We can term this the ‘neoliberalism everywhere’ thesis; I will come back to this later, in the

section on capitalisms. Let us note that scholars who in the 1980s argued that the semiperiphery wouldn’t fly, such as Samir Amin (1997) and James Petras, now typically dismiss emerging societies as neoliberal economies; in other words, theirs is a script in which western capitalism always wins.

Grim perspectives on the left mirror diehard triumphalism in western business circles. For instance, Goldman Sachs’ idea of the BRIC was not just a matter of selling the BRIC as a portfolio category to investors but also of recruiting local talent: ‘Goldman is trying to raise a new generation of local leaders’.18 This project, of course, hinges on the value of the brand and since Goldman’s indictment for fraud in April 2010 the brand has been slipping fast (by autumn 2010 the company had lost a quarter of its stock value). This illustrates how contingent scripts are — contingent on paradigms, ideologies, politics, institutions, data sets and expectations of continuity and risk. If we unbundle the general dynamics, in contention are narratives of crisis, frontiers of regulation and developments in emerging societies.

In American elite views, the crisis is a systemic failure, no one’s fault, and Wall Street wizards are needed to unwind the mess.19 As noted, a dominant view in Wall Street is that crisis has been brought about by a ‘savings glut’ in Asia; remedy: cut savings in Asia, borrow less in the US. An additional factor is financial excess and deregulation in the west; remedy: regulate banks. Then, a broad (though not uniform) expectation in Wall Street and London is that rebalancing will converge on dominant institutions and will restore the balance that existed prior to crisis.

Nigel Lawson, former UK Chancellor of the Exchequer, asks ‘Will capitalism need to change in the future?’. According to him, ‘The lesson of history is that the answer is “not really”. The economic cycle is endemic and inescapable, and everyone . . . has always known this. What the current cycle does underline, however, is that a cyclical downturn associated with a collapse of the banking system is by an order of magnitude worse than a normal cyclical downturn’, so we need to re-install the separation between commercial and investment banking that was eliminated under the Clinton administration.20 That is the extent of reform required.

Regulation is on the table and reform is inevitable, but there is ample pushback on the frontiers of regulation. Over the past decade bank lobbyists ‘spent almost $370 million in Washington . . . on lobbying and campaign donations to ward off tighter regulation of their industry’.21 Gary Becker


Reforms, then, should not go too far. The rise of emerging markets takes time and for all their shortcomings western institutions and financial markets are best placed to manage the transition. Globalization is moving at mach speed and the financial crisis is just a small cloud fleeting over the road of rapid global innovation (Easterbrook, 2009). Across the world the tide has turned in favour of regulation, but ‘the skyscrapers are high and the regulators are far away’.\footnote{F. Guerrera, ‘The Skyscrapers are High and the Regulators are Far Away’, \textit{Financial Times} 27–28 March 2010.} Institutions are resilient, paradigms are slow to give way, market forces are swinging back, herd behaviour hasn’t ended, the rewards of discipline are unclear and reforms are likely to be relatively marginal. Thus, if a return to normal is likely in the short run, it comes with continuing economic frailty and financial instability. The new normal anticipated in financial markets is slow growth in the West, more regulation and rising risk of sovereign debt.\footnote{Mohamed A. El Erian ‘The New Normal’, \textit{Businessweek} 1 June 2009: 73–4.}
GDP’. In 2002 finance generated 41 per cent of US corporate profits. The pay rate in the finance sector is 181 per cent of median pay. In 2007 American households spent on average 20 per cent of their disposable income on finance charges. In the US and UK it is a story of ‘banks gone wild’ and ‘a financial sector that turned away from the business sector, then caused its self-destruction, and a business sector beset by short-termism’. When during the US Senate hearing of Goldman Sachs a senator exclaimed ‘this is gambling!’, it elicited a swift, indignant response from the Las Vegas casino industry: the comparison is insulting, for our industry, unlike theirs, is highly regulated; here a pit boss knows exactly what is going on, but they have no clue. Susan Strange’s ‘casino capitalism’, that was once a daring critique (1986), has now long been overtaken by (citing the business press) toxic finance, death-wish finance and doomsday finance.

Several rebalancing policies are contradictory. While trying to fix domestic imbalances they add to global imbalances or while fixing one problem they create another. (While US stimulus spending remedies recession, it increases imports and adds to the external deficit. The 2009 ‘cash for clunkers’ programme increased sales of cars of foreign manufacturers rather than cars made in Detroit.) Most accounts deal with financial crisis and gloss over economic crisis. They treat crisis as a liquidity crisis and a credit squeeze triggered by external circumstances and overlook the deeper solvency crisis

(Morris, 2008), which in the US is far more serious than in Europe and Japan. In the US the deeper problem is decades of underinvestment in productive capabilities. According to a trenchant diagnosis, ‘bankruptcy could be good for America’, for bankruptcy focuses the mind.\textsuperscript{30}

In sum, the weaknesses of the global plutocracy script are several: the Anglo-American financial sector is vast, politically embedded and out of control. Because of decades of deregulation and structural deficits the Anglo-American institutions are crisis-prone and the appeal of western institutions has been receding. Anglo-American institutions can possibly co-opt part of the emerging societies’ elites but not all and not the majority of the population. Economic and financial surplus has shifted and international institutions, too, must adopt a more balanced course. Luke Johnson explains ‘why I fear the West’s luck has run out’ and offers a dark and mournful evocation of global rebalancing:

\begin{quote}
It is clear that as a society we must learn something painful and radical — how to live within our means — because the credit just is not there anymore. The easy money is all gone, and there will be no more for a long time. . . . The growth game is over. . . . So why should industrious Asians earn a tiny fraction of what citizens in the west earn? Especially when they have so much of the cash and productive resources, while we have deficits, high costs and poor demographics. Prepare for a wrenching, unstoppable redistribution of resources — and I am not talking about domestic taxes.\textsuperscript{31}
\end{quote}

\textbf{EMANCIPATORY MULTIPOLARITY? GLOBAL REBALANCING PLAN B}

So we turn to scripts of multipolarity. In Asia and the global south, global rebalancing holds different meanings. Thus according to Ronnie Chan, a banker in Hong Kong, it entails:

\begin{itemize}
  \item A shift in moral authority in which the west no longer holds the moral high ground.
  \item A shift in decision making in the world economy in which emerging societies carry greater weight (as in the expansion of voting rights in IMF and World Bank).
  \item A shift in the center of gravity of the world economy from the Atlantic to the Pacific.
  \item A gradual shift away from the US dollar as world reserve currency in favor of a basket of currencies and bilateral currency deals.
  \item A shift towards growing East–South or South–South economic cooperation.\textsuperscript{32}
\end{itemize}


Since the new normal means shrinking demand in Asia and rising protectionism in the West, free trade agreements in Asia have been rapidly expanding and trade relations between Asia, Latin America, Africa and the Middle East have been growing steadily as well. Part of this is the ‘new silk roads’ between Asia and the Middle East (Nederveen Pieterse, 2010a; Simpfendorfer, 2009). Because western markets are shrinking, emerging societies must adjust their export-led models to domestic, regional and global south demand. Just as import dependence is unsustainable for the US, so is export dependence for Asia: ‘If the import-and-consume business model is dead, so too is export-and-save’.34

Measured in financial assets, emerging markets, including the Middle East and Eastern Europe, add up to about US$ 25 trillion, the US to about US$ 54 trillion, the EU US$ 42 trillion and Japan US$ 26 trillion. The total financial assets of the emerging markets are thus less than those of Japan and of course more disparate and dispersed. From the viewpoint of western institutions, emerging economies and their financial markets are too small to manage and absorb major investments. The other side of the equation is that although the large financial markets are in the West, the surplus is increasingly in emerging societies and this is where economic trends are turning. Emerging markets have had a ‘good crisis’, their high growth has resumed, their domestic and regional markets are growing, they borrow at cheap rates, their currencies are rising against the dollar and they have mostly young populations. In mergers and acquisitions and in bankers’ ‘call sheets’ (the list of potential buyers contacted when a company is put up for sale) the trend is clear:

In 2010, the player at the edge of the frame has now moved to its center: Asia. The change has been building for nearly a decade. It’s finally here. From Tokyo, west to Seoul, to Beijing, south to Hong Kong, and west again to Mumbai, Asian companies and governments are asserting themselves as the deal makers who matter. Asian acquirers — not including Australia and Japan — have been behind one of every six deal-making dollars globally in 2010 and are on pace for the biggest year ever... much as the United States [after World War II] was left to rebuild a devastated world in its own image, so today are hale Asian companies filling a vacuum that the West occupied before the financial crisis.35

The idea that western financial markets can absorb the emerging economies underestimates the growing gap between financial institutions in the West and financial surplus in emerging markets. According to Martin Wolf, ‘Go east! That is the advice one would give an ambitious financier. This will change the nature of the financial industry. It will also change the philosophy of finance: for most emerging and developing countries, the

34. ‘America’s Fate is not in its Hands’, Financial Times Editorial 16 April 2009: 8.
financial industry exists to push the economy along a development path broadly determined by the state’.36 Another report notes, ‘within 15 years half of capitalization will be in emerging markets and asset allocation will reflect that’.37 According to the President of the World Bank, ‘Asia’s share of the global economy in purchasing power parity terms has risen steadily from 7 percent in 1980 to 21 percent in 2008. Asia’s stock markets now account for 32 percent of global market capitalization, ahead of the United States at 30 percent and Europe at 25 percent’ (Zoellick, 2010).

In portraying the crisis as a global system crisis, the US and UK governments seek a tripling of IMF funds while the IMF expands emerging societies’ voting quotas (G20, 2009). The call is to China, Saudi Arabia and other surplus societies to contribute funds to enable the IMF to act as crisis manager. Emerging societies have stepped into the breach with provisional arrangements such as the IMF issuing bonds rather than their granting loans. Additional Special Drawing Rights may function as a channel through which surplus countries can offload unwanted US dollars without upsetting the applecart. Such arrangements signal an unstable interregnum. Surplus countries are underrepresented in international institutions and yet are supposed to carry a major burden of global economic recovery, while the benefits accrue to hegemonic countries whose institutions have been the agents of financial shipwreck. It stands to reason that significant changes in the global power structure are on the cards, including the status of the US dollar as global reserve currency. Several signals point to the gradual onset of a multi-currency world. The oil-dollar system has been eroding for some time. Russia, China and an international panel convened by the UN call for alternatives to the US dollar as reserve currency and in 2009 Asian central banks cut their accumulation of dollar reserves to less than 30 per cent.38

If economic and financial multipolarity is not in question, then, let us consider its emancipatory or democratic potential. A key question posed by the rise of emerging societies is whether it is mainly a matter of their ‘joining the club’ or whether it implies genuine advances for the majority of the population. In my view, the rise of emerging societies is likely to be on balance emancipatory in the sense of benefiting the majority of the domestic population and the world majority. There are general, domestic and transnational components to this argument.

General considerations are, first, that the threshold is low. Two hundred years of North–South relations have been framed by Anglo-American hegemony and its frontiers such as imperial rivalries, the Cold War and the vanity wars of American hegemony in Iraq and Afghanistan. Second, in the big

picture development aid has had little effect. It has often been a disciplinary exercise (as in IMF conditionalities), a matter of ‘aid-in-reverse’ or rhetorical grandstanding with targets that are habitually unmet, such as the Millennium Development Goals. Third, far more important has been the interdependence between deindustrializing (post-industrial) societies and new industrializing societies. This holds much greater momentum and significance than the intricacies of international development cooperation which are discussed at such great length in development studies. Fourth, the East–South turn represents a comeback of oriental globalization and global history returning to its ‘normal’ mode (Nederveen Pieterse, 2006).

Turning to domestic considerations, because most emerging societies are also developing countries for economic (human skills, domestic market), political (stability) and social reasons (cohesion), some degree of broad-based development and inclusive policies are likely over time. After all, it was on these grounds that apartheid came to an end in South Africa. It isn’t possible to industrialize with the majority of the population dispossessed and excluded (which is not to imply that post-1994 South Africa is a model of balanced development). China, in response to major social and political unrest, abandoned fast-track polarizing growth and adopted the ‘harmonious society’ framework in 2003. After the current crisis it embarks on a new development stage (Li, 2010). Labour protests in 2010 have produced significant wage increases, enabled by the Labour Contract Law that went into effect in 2008 and strengthens worker rights.39 India is headed for a similar but far more difficult crossroads with growing crises of rural and urban poverty and mounting challenges from Naxalites, dalits and Adivasis. Japan, South Korea and Taiwan have been able to integrate their rural majority into modernity through land reform, balanced investments in agriculture and industry and broad-based educational and social policies, in marked contrast to Latin America and most of Asia (see Kay, 2009). To the extent that the rise of emerging societies is based on industrialization they face the main challenge of modernization: how to incorporate the peasant majority. Past answers to this challenge have been fascism, Nazism, Soviet communism and Maoism, so the stakes are momentous.

Due to shrinking demand in the West, emerging societies’ exports will increasingly go to regional markets and to the global South. When export-led growth makes place for growing domestic consumption and domestic demand-led investment, this may enhance opportunities for broad-based social development, rather than fast-track growth, but this is a complex path. While there are strong political and social pressures towards inclusion, this is by no means a straightforward course because in most societies inequality is deeply embedded and cultural encoded, so this needs to be

empirically examined (cf. Akram-Lodhi and Kay, 2009; Nederveen Pieterse and Rehbein, 2009; Thompson, 2010).

Inequality matters for several reasons. First, if emerging societies opt for broad-based development rather than for polarizing growth their development is likely to be more sustainable, both according to classic human development perspectives (Griffin and McKinley, 1994; ul Haq, 1995) and recent assessments (Jomo and Baudot, 2007; Nederveen Pieterse, 2010b; Wilkinson and Pickett, 2009). If the overall choice is for narrow growth, the likelihood of capitalisms converging towards a Davos-style transnational capitalism and global plutocracy (now more centred in the East) is greater but will pose risks of wider international instability over time. Second, if social inequality is addressed it is likely that addressing political and ecological constraints will follow suit; that is, policies with regard to inequality are also an indicator of wider dynamics. Third, as emerging societies step onto the world stage their problems will increasingly become global problems. Fourth, an inclusive development approach in the domestic sphere will also inform emerging societies’ relations with developing countries.

Emerging societies face momentous problems. The monumental numbers of GDP growth, for instance in China, cannot be taken at face value because the prices of labour, land and environment have been kept artificially low. Rural sacrifice has often been the flipside of emerging societies’ growth. China’s constraints include steep inequality, a housing bubble, a gradually ageing population and, as in other emerging societies, difficult equations of development and ecology. Since economic development involves technological changes, strategic interest groups, multinational corporations, global value chains and global finance, it involves inequality as a variable in competition and generates new inequalities. Yet, by comparison to North–South relations, the East–South turn on balance holds greater emancipatory features and potential. There are structural, political and cultural elements to this argument.

When, during the post-war boom (1950–1970), industrial countries in the West and Japan were drivers of world economic growth, commodity prices were high, commodity exporting countries prospered and it was a period of relatively equalizing growth globally. The period 1980–2000 when post-industrial consumer societies propelled the world economy was marked by unequal, polarizing growth within and between countries. With industrializing economies again driving the world economy, rising commodity prices, as in the 2003–2008 commodities boom, enable relatively equalizing growth globally, a pattern that is structurally similar to the period 1950–1970. Thus the East–South turn again redirects the overall pattern towards global redistributive growth. Zoellick (2010) notes:

The developing world’s share of global GDP in purchasing power parity terms has increased from 33.7 percent in 1980 to 43.4 percent in 2010. Developing countries are likely to show robust growth rates over the next five years and beyond. Sub-Saharan Africa could grow by
an average of over 6 percent to 2015 while South Asia, where half the world’s poor live, could grow by as much as 7 percent a year over the same period.

Such figures were inconceivable in the 1980s and 1990s; a different pattern has set in.

Because they are also developing countries and share colonial experiences and frictions with institutions of the North, emerging societies have greater affinity with other developing countries and are less burdened by stereotypes. A case in point is the role Brazil, South Africa, India and China played in the WTO negotiations of the Doha round in Cancún, taking the position that ‘no deal is better than a bad deal’ and acting in sync with the G77 of developing countries. At the same time emerging markets also compete with one another and with light industries in developing countries. Thus Chinese garment exports have had a devastating impact on textile industries in Bangladesh, Kenya, South Africa and other developing countries; China’s shoe exports have eliminated Pakistan’s shoe industry. East–South relations are not exempt from unequal exchange, the reproduction of an old type of international division of labour, big power aspirations and regional hegemony. Manoranjan Mohanty, political scientist of Delhi University, reviews debates and social movements in India and China and finds that:

The probable scenario is the simultaneous unfolding of both these trends — the rise of India, China and some other countries and their entry to the big power club and those policies being increasingly challenged at various levels and the demand for democratization growing in strength. . . . The ideology of domination is under attack everywhere. . . Today not only global hegemons are under challenge; regional hegemons are under even greater challenge. In South Asia, for example, not only Pakistan but even smaller countries like Nepal, Bangladesh would not accept any form of domination by India.40

Thus, the exploitative side of the rise of emerging societies is to some extent counterbalanced by several trends.

CAPITALISMS?

A fundamental conceptual dimension to assessing current trends is whether they are viewed through the lens of capitalism or capitalisms. The rise of emerging societies could in principle be understood in terms of the

40. ‘There are big debates within both the countries today as to whether they just travel on the western path of industrial revolution or on paths that make their economic development consistent with their cherished values. The debates are reflected in the many social movements going on in India — ranging from the movements against mega projects that cause large scale displacement to tribal people’s movements for forest rights and dignity. In China it may have taken different forms, but the questioning of the current strategy of rapid economic growth was as pronounced. That is why the Hu Jintao leadership propounded “scientific outlook on development” — a balanced development that was socially just and environmentally sustainable in order to build a “harmonious society”’ (Mohanty, 2009).
‘rise and decline of nations within the world-system’ (Friedman, 1982) and as a reshuffling within the bounds of western capitalism. Yet, whether or not they unfold within the sphere of western capitalism is not a given but part of the problem to be examined. The 2008 crisis highlights the variation in capitalisms. While the impact of crisis is global it is not uniform. Societies across the world are affected but are affected in markedly different ways. Crisis is a threat for some and an opportunity for others.

During the previous major crisis, the 1997–98 Asian crisis, Anglo-American capitalism was upheld as the sole viable model. The 2008 crisis, however, shatters the headquarters of the erstwhile exemplar. Several after-crisis assessments now reclaim the paradigm of a single, standard-bearing capitalism, in relation to which even West Europe is an outlier. But the 2008 crisis exposes the frailties of Anglo-American capitalism on all levels — as ideology (laissez-faire), as paradigm (efficient market theory), as economics (shareholder short-termism, financialization), as policy (deregulation, liberalization), as institutions (accounting, rating agencies, regulators), as methodology (financial mathematics, quantitative investments) and as culture (bonus culture, predatory CEOs). The 2008 crisis is part of a series, from the American bank crises in the early 1990s, the bailout of LTCM, the collapse of Enron and other corporations, to the subprime mortgage crisis and the Goldman episode (Nederveen Pieterse, 2004, 2008b). The shareholder principle fosters short-termism (boost quarterly earnings numbers to ensure high stock ratings and dividends) and financialization drives a disconnect between finance and economics (Dore, 2000).

For decades the Washington consensus lorded over the developing world; now the lecturing has changed direction and emerging societies ‘talk back’. From Europe to China, critical comments about American capitalism now come not just from backrooms but from official podiums. The tables have turned and there is a different refrain in the air: the West must learn from the Asian crisis and must learn economic prudence from Asia (Mahbubani, 2009).

Various indices (such as the ‘economic freedom’ and ‘competitiveness’ index) typically assume a single model of capitalism. However, the question the 2008 crisis poses anew is whether there is a general ‘growth model’ or script for the relations between state, capital and civil society (Hall and Soskice, 2001; Stiglitz, 2006). This variation is central to rebalancing processes. Institutions matter as part of economic imbalances and as part of rebalancing. Certain institutions prove to be crisis-prone and others crisis-resistant. Since institutions are political formations, analysing this involves politics and ideology, as well as institutional economics. There is no general benchmark by which to measure and evaluate institutional change. Yet most perspectives, explicitly or implicitly, treat capitalism in the aggregate. This holds for mainstream views in media and economics as well as for neo-Marxist views such as world-system theory and transnational capitalist
class perspectives. Crisis, then, becomes a crisis of capitalism, period, not of a particular type of capitalism.

The main variation this view acknowledges is historical, between stages of accumulation and phases of capitalism, between early and late comers to industrialization and modernity. In treating capitalism in the singular, unilinear theories of capitalism, from Marx to world-system theory, view variation mainly as variation over time (with ‘dependent capitalism’ as the main outlier). This perspective is unsuited to examining regional variation because, like post-war modernization theory, it tends to assimilate regional variation into historical patterns (such as ‘lagging behind’ or ‘catching up’). Thus while much current discussion focuses on the ‘future of capitalism’, a more productive question is ‘the future of capitalisms’. Capitalism survives thanks to the diversity of capitalisms: ‘the flexibility of capitalism derives from capitalisms and regional variation’ (Nederveen Pieterse, 2004: 146). Diversity is not disappearing but the terms of diversity are changing and what is at issue is the realignment of capitalisms. Now, far more than in the past, this involves regions outside the old metropoles, the emerging societies from Asia to Latin America and the Middle East.

The idea that emerging societies can be incorporated in Anglo-American capitalism underestimates their different ways of organizing capitalism amid the political and social pressures they face. With the lead model imploding under corporate scandals, toxic finance, feeble institutions, inept governance, ageing populations, mammoth fiscal debt, massive sovereign debt and government eviscerated by tax cuts, the developmental state capitalisms in the East and South emerge as more dynamic and, in some respects, more sustainable. The Asian crisis was attributed to ‘crony capitalism’; now ‘permissive capitalism’ turns out to be a much greater weakness while the robust public sector in most emerging societies emerges as a source of strength, at any rate as long as it is accompanied by competent policies. This isn’t simply a matter of state or market; what matters is what kind of state. The concentration of wealth and power in the US combined with free market ideology has contributed to an ‘anti-state state’ (MacLennan, 1997).

CONCLUSION: ANALYTICS AND METHODS

Let us pause for general considerations. First, let us be wary of totalizing scripts, whether they come from Davos or Porto Alegre, from the World Economic Forum or the World Social Forum. For the sake of argument I have presented two extreme scripts; but either/or outcomes are too simple. As mentioned before, layered processes produce layered outcomes, with different and combined patterns of transnational, regional, national and local cooperation. Regional entities such as the European Union, the Gulf Cooperation Council and ASEAN follow dynamics of their own. Then there is local variation, say between China’s Pearl River Delta and Harbin in the north.
Hence capitalist convergence and divergence occur at the same time. Elites and business classes in different countries cooperate and follow their own ways; which brings us back to the classic thesis of combined and uneven development.

A parallel in cultural studies is that while many expect globalization to produce cultural standardization and McDonaldization, this happens only in some spheres and to some extent; regional, national and local variations continue with dynamics of their own, combine with transnational cultural assemblages and generate new patchworks of difference, which may be described as ‘global multiculture’ (Nederveen Pieterse, 2007).

This essay combines variables which are wide apart (in the vein of global studies), examines their interaction from the viewpoint of development studies, sets forth scenarios and discusses their probabilities. While the variables in these probabilities are fairly straightforward their interaction is contentious and the outcomes depend to a large extent on political processes. After all, everything is a matter of political struggle. It is a fiction that economic models can script societal change. As Polanyi observed, markets are embedded; they are embedded in institutions and political formations, so markets are ultimately political. In contrast to the principle ‘enter economism, exit politics’ (Teivanen, 2002), what is at issue now is taking the economism out of economics and putting politics back in: enter politics, exit economism. While there are overall patterns and trends, changing political tides alter equations. It’s impossible to take politics out of the equation and with politics in the equation the outcomes are unpredictable.

Then there is the fallacy of units. We speak of ‘China’ and ‘the United States’ because that is how economic data pile up, but what matters are classes, strata and regions within and across these units. This is a two-way street: because technological, business and communication interweaving is growing, national units are of limited purchase; yet nations are units of political decision making and forums of social reflexivity. In each country there is a continuously shifting balance between multiple factions, also in response to international trends. Thus in China, the new right (neoliberal), the new left (social and green), the old left (Maoist) and the old right (nationalist), vie for influence, each with different shades of nationalism.

We must also factor in ideological noise. There are gaps between the actual economic policies and practices in various settings and the way they are represented in international media, which are socialized in and biased towards dominant paradigms and underrate institutional variation (Nederveen Pieterse, 2009b).

Several points of methodological caution follow. Arguing continuity is easier than arguing trend breaks. Trend breaks invite the autopilot response: you’re exaggerating; changes aren’t nearly as large as you suggest. New data are not readily shared and once a different future door opens there is no playbook, so resistance is considerable. Therefore assessing the degree of change is crucial. The usual recourse is to metrics. If you can’t count it,
does it count? But metrics follow paradigms — in Hazel Henderson’s words, people measure what they treasure. Data are theory-dependent; hence the problem of indicators. Indicators such as GDP measure economic activity from limited assumptions (Stiglitz, 2010).41 Metrics matter but because measurements reflect limited assumptions quantitative data are often qualitative assessments in disguise. When it concerns system change, assessing the degree of transformation is difficult because the criteria of assessment are contingent and are different when viewed from within or outside the box.

A possible remedy is to supplement the approach to global dynamics by global multi-sited ethnography as a way to get past macroeconomics and to ground our understandings in everyday experience in different parts of the world. In brief, this seeks to enter the social tissue of transformation more deeply by looking at different panels of global coexistence, comparing societies and strata placed differently on the spectrum of global imbalance, not just in metrics and generalizing judgements but also in experiential terms. Nevertheless, methodological finesse will not deliver without theoretical finesse.

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World Turned Upside Down? Rise of the global South and the contemporary global financial turbulence

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World Turned Upside Down? Rise of the global South and the contemporary global financial turbulence

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ABSTRACT  By focusing on the consequences of the dismantling of regulations over the financial sector, the current debate on the causes of the global economic meltdown obscures the cyclical occurrence of speculation in capitalism, as the accumulation of more capital than can be profitably invested in the production and sale of commodities results in financial expansion. Historically financial expansion has signalled the end of one world-scale system of accumulation and the transition to a new system as capital flows from declining powers to rising powers. However, the contemporary period is distinguished by capital flows from rising powers to declining ones. An analysis of the current crisis suggests a reversal of this anomaly as it reduces the ability of China and other East Asian states to support the US dollar. At the same time ‘emerging market economies’ have begun to forge new relationships that could provide the framework for a new system of partnership between states and enterprises to reconstruct a new cycle of accumulation if two hurdles are overcome: 1) absorption of labour that is being displaced because of the high organic composition of capital and 2) dampening of the growing inequalities in income which has not only restricted the growth of markets but is also fuelling increasing social conflict.

Signalling a sea-change in world politics, at the close of the Chinese National People’s Congress in March 2009 Premier Wen Jiabao implored the USA to remain a ‘credible nation and ensure the safety’ of the $1 trillion his country had invested in US treasury bills.¹ This reversal of the usual practice of Western policy makers lecturing leaders of Asia, Africa and Latin America to follow ‘prudent’ economic and financial policies was echoed by the Brazilian president, Luiz Inácio Lula da Silva, who told the visiting British prime minister, Gordon Brown, that the contemporary financial crisis ‘was caused by no black man or woman or by no indigenous person or by no poor person [but] by irrational behaviour of some people that are white, blue-eyed’.² Additionally, an advisory committee set up by the UN General Assembly
noted that the dollar-based financial system compelled poorer countries to lend their foreign exchange reserves to rich countries at virtually zero interest rates. This dampened global aggregate demand and locked up trillions of dollars which could have been used to lessen the impact of the financial crisis.\textsuperscript{3} This pattern of financial flows had attracted so much capital to the USA that its imports in 2006 exceeded its exports by the magnitude of India’s GDP.\textsuperscript{4} Declining confidence in the dollar was underlined by a 51% increase in investor demand for gold in the second quarter of 2009—with India, China and other countries sharply shifting a portion of their foreign exchange assets to the precious metal.\textsuperscript{5} Finally, the clearest admission of the dawn of a new world order came in September 2009, when the G7 grouping of the richest economies in the world disbanded itself in favour of a larger grouping, the G20, which included Brazil, China, India, Mexico and other ‘emerging market economies’, as the major forum to discuss world economic issues.\textsuperscript{6}

The proximate cause for an overhaul of the global financial system—the third since the end of the Second World War—was a breathtaking collapse of world financial markets: by one estimate stock markets across the world lost some €3000 for every person on Earth in the last nine months of 2008.\textsuperscript{7} Based on a series of financial innovations since the late 1970s, banks had developed a complex system of selling their credit risks to third-party investors, trading them on the basis of computer models. By mid-2008 the global derivatives market topped $530 trillion. To place this in perspective, the New York Stock Exchange was valued at $30 trillion at its peak at the end of 2007.\textsuperscript{8}

Shedding their credit risks by selling them to other investors enabled banks to make more loans and to extract the savings of low-income households by lending them money to buy commodities, and especially houses, that they could not afford. The opacity of the system meant that neither regulators nor the bankers themselves could comprehend the scale of the concentration of risk. Once default rates of sub-prime mortgages began to rise in June 2007 and credit ratings agencies began to downgrade the risk-worthiness of mortgage-linked products, investors became far more cautious and this led to a sharp fall in investment funds, further accelerating rates of mortgage defaults. In March 2009 the Asian Development Bank estimated the losses worldwide of the write-down of assets at $50 000 billion, the value of the global economic output.\textsuperscript{9} The impact of this decline was most marked in the USA—where the financial quicksand swallowed up five of the most hallowed investment banks on Wall Street.\textsuperscript{10} Conversely, reflecting China’s enormous trade surpluses, five Chinese banks are in the top 20 financial institutions in the world by market capitalisation, including the three largest—the Industrial and Commercial Bank of China, China Construction Bank and the Bank of China—when there were no Chinese banks in the top 20 just 10 years ago. Correspondingly the number of US banks in the list decreased from 11 to three.

Financial collapse led to precipitous declines in manufacturing output and to a corresponding rise in unemployment. By the end of January 2010 the US unemployment rate stood at 9.7% and, if those who had given up the search for jobs or had settled for part-time employment are factored in, the rate was
estimated to be 16.5%—since the downturn began in December 2007 the economy had shed 8.4 million jobs, the most lost in a recession since the Second World War.11 The situation was so dire that migrants to the ‘richest country on earth’ were receiving remittances from relatives in poorer countries in a stark reversal of historical patterns.12

Reverberations of the collapse of the US market were felt across the Pacific as Chinese exports fell by 16% in 2009.13 As Chinese demand for intermediate products fell and Chinese corporations sought to compensate for the collapse of their markets in North America and Europe by increasing exports to middle- and low-income states, the 10-member Association of Southeast Asian Nations (ASEAN) registered a collective trade deficit of $74 billion with China in the first nine months of 2009—in sharp contrast to earlier years, when ASEAN states posted surpluses in their trade with Beijing.14 Japan experienced its first current account and trade deficits since the Second Oil Shock and these deficits sapped both Japan’s ability to build up its foreign exchange reserves and the rationale for accumulating these assets.15 Declines in Chinese manufacturing ricocheted halfway across the world in Africa—in the Democratic Republic of Congo, for instance, a decline in the production of cell phones led to a fall in the price of cobalt from $49 a pound in 2008 to $14 a pound in 2009 and to the closure of many mines, with a consequent spike in unemployment rates.16 Apart from declining volumes of trade, economic contraction in wealthier countries translated into falling rates of remittances and investments to low-income states. The World Bank estimates that the crisis has pushed some 90 million people across the world into ‘extreme poverty’—less than $1.25 a day.17

Precisely because the present crisis was triggered by the collapse of financial markets across the world, efforts to revive the world economy have centred on re-regulating financial and non-financial institutions and curbing speculation in the derivatives market. Yet what is striking about discussions about the contemporary crisis is the complete absence of an historical perspective. At best commentators and scholars remark that the current crisis is the worst since the Great Depression of the late 1920s and early 1930s. Not only does this ignore the extended debate on financial capitalism as the ‘last stage of capitalism’ at the turn of the last century,18 but also, as Fernand Braudel has reminded us, it forgets that ‘financial capitalism was no new born child of the 1900s’. In his longitudinal survey of historical capitalism Braudel demonstrated that financial expansions have followed waves of economic expansion so regularly—as competitive pressures have led to an accumulation of capital in excess of that which can be ploughed back into the production and sale of commodities without sharply curtailing profit margins—that they could be interpreted as signals indicating the maturity of one world-scale system of accumulation and the beginning of the transition to another, ‘a sign of autumn’.19 Taking his cue from Braudel, Giovanni Arrighi argued that the recurrent tendency for capital to withdraw from production and trade into financial speculation has been a means both to redistribute income and wealth from workers, peasants and other strata to agencies that control mobile capital—and thereby further the process of
financial expansion—and to transfer surplus capital from declining to rising centres of capital accumulation. Thus, as Dutch power waned, capital from Amsterdam flowed towards London while, as British power declined, capital from London flowed towards the USA.

The flow of capital from declining to rising centres of accumulation arises from the very mechanisms necessary to surmount the crisis of accumulation, namely the emergence of new partnership arrangements between states and enterprises to organise an expanded scale of production by accessing strategic industrial raw materials (wood, coal, iron, oil) of progressively higher grades and with more precisely specified chemical and physical properties from increasingly distant locations. The Dutch oligarchy’s power was based on their control over world-encircling networks of finance rather than on commercial networks that could be bypassed. In contrast to the parsimonious territorial acquisitions of the United Provinces, the Second British Empire was based on extensive territorial control of the non-Western world, designed to control supplies of raw materials required for industrialisation. After the Second World War the USA linked Marshall Plan aid to European allies to their loosening colonial control over strategic industrial minerals and petroleum. While peripheral states initially welcomed these investments, as the hoped-for revenues did not materialise they nationalised mines and oil wells. Scarred by the oil price rises of the 1970s, Japanese transnational corporations sought to expand supplies of strategic industrial raw materials by entering into joint-venture projects with resource-rich states and to create an excess of supply to lower prices. Despite its economic strength, as a US client state, Japan was not politically or militarily positioned to change the broad parameters of worldwide structures of capital accumulation.

Underpinning these structural changes in world accumulation were the multiple organisational, technological, financial and political innovations required for a progressive increase in the scale of production. As raw materials are not evenly distributed across the world, and as producers tend to utilise conveniently located sources first, emerging powers have had to access raw materials from further away and, as the size of transportation technologies evolve, this requires more extensive infrastructures, the harnessing of more energy and the employment of more labour. While this eventually increased economies of scale and reduced unit costs to expand markets and make ever-larger projects lucrative, it has historically required new combinations of state and enterprise partnerships. The Marshallian industrial districts that had transformed England into the ‘workshop of the world,’ were no match for the multi-unit, vertically-integrated, large-scale enterprises of the USA. Hence, rising centres became magnets for mobile capital as older centres of production become less competitive.

If financial expansions have been a recurrent tendency in historical capitalism, as Arrighi has noted, one of the peculiarities of the present situation is that capital is flowing from the rising centres in East Asia—especially from China—to the USA instead of the other way around. Leo
Panitch and others have argued that this peculiarity underlines the pervasive strength of the USA as it enables it to maintain high levels of consumption and is a sign of its imperial power rather than a weakness.\textsuperscript{24} Such an analysis ignores not only the historical patterns sketched above but also the conditions of production in historical perspective. Investments by China and India are not merely following earlier patterns of resource extraction by Japan: their scalar magnitudes and the innovations in transportation and infrastructures involved have led to new patterns of state–enterprise relations in which state owned corporations are playing a key role, along with some Chinese and Indian privately owned transnational corporations. The demographic weight of these two giant economies implies that the transfer of manufacturing operations and information technology services to them bears no resemblance to prior shifts in manufacturing to lower-waged sites. Moreover, before the recent financial crisis, Beijing had viewed the US market as indispensable for the growth of the Chinese economy, but the credit crisis led to the loss of millions of jobs and has stimulated a rethink. The Chinese economy’s swift recovery through an extensive stimulus programme also illustrates that the US market is not as vital as was once thought.

The use of sovereign wealth funds and new patterns of state and state-owned and private Chinese and Indian corporations to secure reliable supplies of strategic raw materials and energy may well form the scaffolding of a new system of accumulation on a world scale. However, in order for this to be achieved two enormous hurdles must be circumvented: first, thanks to the high capital intensity of production, the ability of economies to absorb labour has been steadily diminishing; second, the inability to absorb labour has resulted in growing inequalities in income and wealth which have not only constrained the growth of markets but are also fuelling massive social unrest, especially in China and India.

From this perspective the next section outlines the implications of the rise of China and India for the global economy. It argues that the steady downgrading of manufacturing in the worldwide divisioning of labour and the growth of inequalities in wealth and income on a planetary scale, and particularly in the fast-growing economies of the global South, have made economic growth in these countries reliant on markets in the global North. In turn, the recycling of their trade surpluses, above all to the USA, has deepened an ongoing financial expansion that has now ricocheted across the globe.

The next section suggests that, by reducing the flow of foreign direct investments to China, India and other emerging powers and by constraining the markets for their exports, there are strong indications that the flow of capital from the rising powers to the declining ones will ebb and bring to a close the US cycle of accumulation. For a new cycle of accumulation to emerge, it is essential that the increasing inequality of incomes and wealth is reversed, and that economic growth and jobs are provided to millions of workers when a secular growth in the organic composition of capital is reducing the need for labour.
Being Bangalored and the China Price

The relentless transfer of manufacturing operations to China that Business-week said made ‘the China price . . . the three scariest words in US industry’, and the equally relentless transfer of information technology jobs to India that made ‘being Bangalored’ synonymous with outsourcing represent a seismic shift in the trajectory of the world economy and have radically transformed the conditions of production everywhere. This shift in the centre of gravity of the world economy has often been attributed to the maintenance of artificially low exchange rates, especially by China, and to the vast demographic size of these two continent-sized states. Wage rates in China are, however, in historical and relative terms so low, as indicated by Table 1, that no mere manipulation of exchange rates can undermine their competitiveness.

Average wages in the Chinese manufacturing sector are, in fact, much lower than were wages in the handloom sector in England during the early Industrial Revolution, or those in mid-19th century lumber yards in Chicago.

Low wages alone do not account for the magnetic pull that China and India exert towards manufacturing and service jobs—since wages are lower in several other jurisdictions in Asia and Africa. Both countries have stable political systems and their governments provide access to land at low prices, as well as several important incentives and, in the case of China, an impressive transport infrastructure, while India has a large pool of English-speaking graduates. As the phrase ‘being Bangalored’ implies, in both cases services and manufactures are centred on specific cities and regions. Bangalore has become a hub of

<table>
<thead>
<tr>
<th>Country</th>
<th>Monthly Wage (in US$)</th>
<th>As percentage of US Wage</th>
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<tbody>
<tr>
<td>United States</td>
<td>2898.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Japan</td>
<td>2650.2</td>
<td>91.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>2331.4</td>
<td>80.4</td>
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<tr>
<td>Argentina (2001)</td>
<td>837.5</td>
<td>28.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>732.7</td>
<td>25.3</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>612</td>
<td>21.3</td>
</tr>
<tr>
<td>Poland (2004)</td>
<td>585.9</td>
<td>20.2</td>
</tr>
<tr>
<td>Chile</td>
<td>432.4</td>
<td>14.9</td>
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<tr>
<td>Turkey (2001)</td>
<td>427.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Mexico (2004)</td>
<td>341.9</td>
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</tr>
<tr>
<td>Brazil (2002)</td>
<td>308.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Peru</td>
<td>237.8</td>
<td>8.2</td>
</tr>
<tr>
<td>China (2004)</td>
<td>141.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Thailand (2003)</td>
<td>133.5</td>
<td>4.6</td>
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<td>Philippines (2004)</td>
<td>98.8</td>
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<td>Indonesia (2001)</td>
<td>54.1</td>
<td>1.9</td>
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<tr>
<td>India (2003)</td>
<td>23.2</td>
<td>0.8</td>
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information technology-related services—India’s ‘Silicon Valley’. In China, just as in the English Industrial Revolution, Marshallian ‘industrial districts’ specialising in the production of components for specific products have emerged: 5000 factories in Zhili township in Zhejiang province make clothing for children, 1000 factories in Shengzhou in the same province produce about 40% of the world’s neckties, one factory in southern Guangdong province alone makes half the world’s microwaves, and most of the world’s computers are assembled in the city of Dongguan in the same province. Such industrial districts imply that potential rivals have to compete not only against specific manufacturers but also against the entire production chain.27

Just as artificially low exchange rates and low wages do not provide sufficient reasons for the continued transfer of production and services to China and India, the significance of their demographic size also needs to be qualified. The entry of hundreds of millions of low-wage workers from China and India has, of course, vastly expanded the available pool of labour and dampened labour militancy elsewhere as employers threaten to relocate their operations to these Asian behemoths.28 Notably, although the Chinese population will age rapidly in the next 10 to 15 years, fully 50% of India’s population of over 1.1 billion is under the age of 20.29

Foreign direct investment (FDI)-driven growth and the focus on export markets have most importantly not solved the problem of labour absorption in China or India. Since competitive pressures entail a steady improvement in the quality of manufactured exports, Chinese producers have to constantly increase the organic composition of capital—the mechanisation, automation and computerisation of operations—to increase labour productivity, and must resort to the informalisation of production processes, so that despite an almost 12% annual rise in manufacturing output over the last several years in China, there was also a 15% fall in manufacturing employment.30 A report by the Asian Development Bank indicated that, in the 1980s, for a 1% increase in employment in Chinese industries, output had to grow by 3% but, in the 1990s, to achieve the same increase in employment, output had to rise by 8%.31

Far from absorbing labour, the International Labour Organisation (ILO) reports that regular wage employment in the formal sector declined at an annual average rate of 3% between 1990 and 2002, while irregular employment (casual work and self-employment) grew at an annual rate of 18.5% on average during the same period. In absolute numbers state and collective enterprises laid off some 59.2 million people during this 12-year period and foreign and private enterprises in the formal sector hired 24.1 million people, leading to a net job loss of 35.1 million.32

By some other estimates unemployment in China had grown from three million in 1993 to 25 million at the end of 2001, with some sources putting it as high as 60 million. By 2002 the pool of urban poor had grown to between 15 and 31 million people, or about 4% to 8% of the urban population.33 Precisely because industrial growth has been disproportionately based on assembling parts manufactured elsewhere, employment prospects for young graduates have been dismal: by some estimates 50% of the 6.1 million graduates in 2009 have been unable to find jobs.34 Even worse, as the
determination of legal wages is highly decentralised, in many areas these wages have actually declined; this was especially notable in the two cities most closely linked to the world market: Guangzhou and Shenzhen. As rural distress mounted, many migrants from the interior—estimates range between 60 and 120 million—were drawn to the coastal regions. Often these migrants have to pay relatively large amounts for a job that may pay less than the legal minimum wage, and even this is not guaranteed as unscrupulous employers promise to pay a part of the wages at the end of the year. Twenty percent of the respondents of a survey conducted by the All-China Federation of Trade Unions (ACFTU) in 1997 reported arrears in wages—and 46% of these had three months or more of wages owed to them. In these conditions the longer an employee has been at an establishment, the greater the hold the employer has on him.

Given the much smaller share of manufactured goods destined for exports, the organic composition of capital increased far more sedately in Indian industry. Between 1993 and 2003 India’s industrial production grew at an annual average rate of almost 6.7% but factor productivity contributed only about 1.1%, whereas in China industrial production rose by 11% annually over the same period, with the output per worker increasing by 9.8% a year, of which 6.2% was generated by rising factor productivity. Hence, while formal sector industrial employment by this measure grew by only 1.2% in these 10 years in China, it grew by 3.6% in India. Nevertheless, the number of workers in organised sector units employing more than 10 people in India has remained stable at just over six million since the reforms began in 1991, out of a total employment in the manufacturing sector of some 48 million. This suggests that the share of manufacturing employment in the informal sector increased from 80.5% in 1993–94 to 83.3% in 1999–2000. Finally, over two million people may be working in information technology-related sectors in India, but they constitute only about 0.5% of the country’s working population and hundreds of millions do not share in the boom—some 40 million were employed in the construction industry in 2008, earning a daily wage of around 50 US cents, despite the official minimum wage being $2 a day. For all its prominence in information technology and related sectors, India has the largest pool of illiterate people in the world. Moreover, entry into the WTO has worsened agrarian distress and this has led both to a spectacular rise in suicides among farmers and to a widespread Maoist armed insurgency which now afflicts 20 of India’s 26 states.

Additionally, increasing per capita GDP figures in China mask the consequences of the abrogation of rights to free education and health care, and to other social services including pensions, as well as of increased costs for housing, energy and other essential services. This is particularly evident in healthcare—which was once almost free—as the World Health Organisation (WHO) now ranks China 188th out of 191 states in terms of equality of financial access to medical care and medical personnel have been subject to attacks for
denying treatment to patients who could not afford to pay.\textsuperscript{43} As a result, although export-oriented growth has created a ‘middle class’ of over 100 million people in China, it has also lead to a widening chasm of inequality—and its Gini coefficient shows a more skewed pattern of income inequalities than for the USA, which is itself registering the highest levels of inequality since the 1920s.\textsuperscript{44} In turn, popular discontent is manifested by steep increases in protests: large-scale ‘public disturbances’ increased from 58 000 incidents in 2003 to 120 000 in 2008 and 58 000 in the first three months of 2009.\textsuperscript{45}

India may have a marginally better Gini coefficient than China but the Gini co-efficient of land distribution is higher in the subcontinent, indicating a higher degree of landlessness.\textsuperscript{46} Moreover, there are more people living below $2 a day in India than in all of sub-Saharan Africa: some 456 million people, or 42\% of the population, were estimated to live below the international poverty line of $1.25 a day in 2005 according to the World Bank. Several critics have argued that the World Bank estimates themselves are an underestimate of the extent of poverty in the country as a result of untenable estimates.\textsuperscript{47}

Growing disparities in income and wealth and the lack of labour absorption has meant that domestic market growth in the emerging powers remains constrained. Although average urban disposable income in China rose by 8\% in 2008, it was still only $2310 and rural income averaged a mere $698.\textsuperscript{48} Hence China, India and the raw materials-exporting states recycle their current account surpluses to the global North—especially to the USA to help fund its trade deficit and keep its domestic interest rates low and thus provide a market for their goods and services. Over the past five years Chinese purchases of foreign debt, mainly US Treasuries, accounted for one-seventh of China’s economic output and in 2008 it lent the USA the equivalent of 10\% of the Chinese GDP.\textsuperscript{49} Cumulatively, at the end of 2009, some 66\% of China’s foreign exchange reserves of $2.4 trillion were invested in dollar assets, although the percentage of US Treasuries bought by China declined from 47.4 in 2006 to just 4.6 in 2009.\textsuperscript{50} Although China is the largest official holder of US dollars, Japanese official and private investors may hold two or three times as much as Beijing, since almost all of its foreign exchange holdings are on the books of official institutions whereas, if the external currency holdings in private hands are included, Japan’s holdings are estimated to be about $6 trillion according to Akio Mikuni, the head of Japan’s only independent investor-supported ratings agency.\textsuperscript{51}

Large capital inflows to the USA fuelled a massive speculative boom—not only in the share market and in investments, but also in the derivatives and futures market. Thus, while the spike in oil prices is often attributed to the economic resurgence of China, India and other ‘emerging powers’, speculative activities by financial institutions and hedge funds is estimated to have accounted for some 70\% of oil trades by 2008. Additionally, between 2003 and 2007, cross-border mergers and acquisitions by hedge funds and private equity firms averaged $100 billion per year and accounted for about 25\% of FDI flows. Speculation in real estate and stock market prices increased, by Jeffrey Sach’s estimate, the net wealth of US households by $18 trillion between 1996 and 2006.\textsuperscript{52} This provided the foundations for an
extraordinary rise in consumption: in 2008 private indebtedness in the USA amounted to 295% of GDP.53

The massive deflationary pressures exerted by cheap imports even helps displaced US blue- and white-collar workers facing lower-paying jobs economise on their means of livelihood. If the emergence of China as a low-cost producer has led to a hollowing out of manufacturing sectors, especially in high-income states, the ‘China price’ of goods has exercised a major deflationary impact all over the world.54 By one estimate imports of products made in China saved the ‘average American family’ $500 in 2004.55

This pattern of capital movements—flowing from rising centres of manufacture to declining centres—stands in stark contrast to previous patterns, when capital moved from the latter to the former. It is the result in large part of technological changes in production processes that permit enterprises to fragment manufacturing operations to take advantage of cost and wage differentials.56 Hence figures for the massive increase in Chinese manufacturing are somewhat misleading. Lower wages in China and the availability of a large and pliant labour force have meant that enterprises in East and Southeast Asia are increasingly shipping parts and components to China for final assembly. Between 1992 and 2003 exports of parts and components accounted for half the incremental increase of exports from ASEAN; China (including Hong Kong) posted a deficit of $17.6 billion in its trade in these items with its regional trade partners.57 Since products pass through many hands in different places, only a fraction of the profits remain in China. Despite China producing 75% of the world’s toys, for instance, one estimate suggests that only 1/70th of the profit is retained in China. In 2006 the New York Times reported that, although a Barbie doll retails for $20, China receives only 35 cents.58 ‘Foreign-owned’ or ‘foreign-invested’ corporations accounted for 55% of China’s exports between 2000 and 2004 and 77% of the top 200 exporters in China, or 62% of the top 500, were overseas corporations. Although the Chinese government has championed a few ‘national leaders’—Lenovo, Haier, Huawei, TCL, Baosteel—foreign firms account for the bulk of exports in the electronics sectors: they accounted for 90% of computers and 75% of telecommunications products in 2003. Overseas firms even increased their share of the domestic Chinese market in electronics from 32% in 1998 to 45% in 2002.59

China’s move up the technological ladder in manufacturing is also exaggerated by taking indices such as the share of electronics in its exports, because the bulk of its exports in the high-technology sector—laptop computers, DVD players, and mobile phones—are mass produced commodities rather than products at the technological cutting edge. In the case of DVD players, while factories in China make 90% of all such players, royalty payments to the European, Japanese and US holders of key patents constitute almost one-third of the retail price of these machines, even when they are produced for sale in the domestic Chinese market.60

While the continuing pressure on wages exerted by the entry of large pools of low-wage labour has led to a downgrading of manufacturing and service activities in the global divisioning of labour, leading corporations in
high-income states try to control and shape the development of their respective industries by asserting their rights to intellectual property in fields such as information technology, communications, bio-chemistry and genetic engineering, and continue to reap huge benefits from royalties. As a contemporary Chinese proverb puts it: ‘Third-class companies make products; second-class companies develop technology; first-class companies set standards.’ Capitalising on their large internal markets, low cost structure, and the continued relocation of research and development activities, business and government elites in China and India have adopted several strategies to substantially reduce royalty payments. By promoting (or threatening to promote) the development of alternative technology standards such as the EVD or Enhanced Versatile Disc standard for DVD players, or by supporting open-source standards like Linux in software, the Chinese government has helped its domestic corporations to significantly lower royalty payments and participate in the creation of new standards worldwide.

Similarly, loose patent laws and large reservoirs of low-cost scientific labour in India have enabled local pharmaceutical companies—Cipla, Dr Reddy, Ranbaxy, Nicholas Piramal and Wockhardt—to copy drugs made by large Western companies and sell them at a fraction of the cost. Consequently foreign pharmaceutical companies are now entering into partnerships and transferring their patented molecules to Indian companies who undertake all developmental costs, including those of clinical trials. To be sure, this is in part a result of changes in the pharmaceutical industry: easier ‘blockbuster’ drugs (treatments for major diseases like cardiac arrests and cancer) have already been developed and the costs of developing additional drugs have soared. Because large US and European pharmaceutical companies have extensive libraries of patented molecules, they now have more than they could conceivably develop on their own. If licensing molecules helps lower development costs—developing a new drug in India is estimated to cost about $100 million compared to $1 billion in the USA—and helps Western companies reap royalties without significant outlays, the extensive experience Indian companies have in reverse-engineering drugs makes the development of copy-cat generics all the more likely.

The inability of rapid expansion of FDI-led manufacturing to generate adequate employment opportunities in China, and the relatively low pace of industrial growth in India, has thwarted the growth of consumption in these economies. Consequently they have been over-reliant on the US market at a time when large-scale retrenchments and ‘jobless recoveries’ have widened income and wealth differences to a level greater than at any time since the depression of the late 1920s. In these conditions states dependent on exports have cast the USA as a market of last resort, but the current crisis has exposed the vulnerability of this model.

**Genesis of a new order in the womb of the old**

The recycling of trade surpluses from low- and middle-income economies above all to the USA was seen by some economists in the early part of this
decade as being a new infrastructure for world trade—a Bretton Woods II. By this reasoning the only way China and other fast-growing economies of the global South could absorb tens of millions of new labourers each year was to buy low-yielding US Treasuries with their ballooning export surpluses. In other words, steady economic growth in the periphery was predicated on a transfer of their earnings to high-income states to finance a market for their products and services—it was not a self-sustaining process.  

Yet, as we have seen, continued reliance on export-led growth has led to a sharp increase in the organic composition of capital in China and to a corresponding inability to absorb labour in the formal sector where there has been, in fact, a contraction of employment. The information technology sector in India was even less able to absorb labour. Meanwhile, large inflows of capital to the global North, and especially to the USA, led to an unprecedented financial expansion that aggravated existing inequalities in income and wealth and thereby further constrained markets for commodities and services. In turn, the bursting of the financial bubble has affected the real economy and, by shrinking markets for commodities, constrained export markets for the ‘emerging market economies’ and thereby restricted their ability to finance US deficits. At the same time industrialisation on an unprecedented scale in China and to a lesser extent in India and elsewhere has led states and enterprises in these jurisdictions to forge denser relations with states with large endowments of strategic industrial raw materials and energy. The resulting density of South–South relations could provide a new armature for the world economy. In this context the fragmentation of manufacturing operations and the outsourcing of production that had enabled large US and European corporations to pressure their suppliers to steadily lower their prices is also being turned on its head as these original equipment/design manufacturers begin to market their products under their own brands rather than under better known US and European brands. We examine these issues in turn.

First, the economic crisis has sharply cut inflows of foreign investment to China as large corporations seek to curtail expenditures—foreign investments to China in the second half of 2008 were down a third from the previous year. Similarly, in contrast to a net inflow of foreign investments to India in 2007–08, there was a net outflow between April and December 2008. Overall net capital flows to ‘emerging markets’ in 2009 are estimated to drop from $929 billion in 2007 to $165 billion. Second, by reducing Chinese exports there was less pressure on Beijing to prevent the rise of its currency and hence its purchases of dollar-denominated securities fell sharply. Additionally, central government revenues, which had soared by 32% in 2007, began to decline substantially as a result of falling demand for Chinese exports. As this coincided with a $600 billion stimulus programme, especially on infrastructure, announced by the Chinese government to counter the impact of the crisis, it further constrained China’s compulsion to finance US debt.

The government also directed banks to increase lending to small- and medium-sized enterprises—fresh lending by banks is estimated to have been
almost 10 trillion renminbi—and restored export tax rebates for garments that it had been phasing out. Municipal governments have stopped raising minimum wages. Greater availability of credit has spurred domestic consumption—in 2009 sales of cars, desktop computers and durable consumer goods in China surpassed sales of these goods in the USA. This is not to suggest that Chinese demand alone is going to pull the global economy out of the current downturn in the short term, as the average price tags of products sold in China are substantially lower than in the high-income countries—average prices of new cars were about $17,000 in China and, although in numerical terms the Chinese car market was 25% larger than the US market in 2009, in value terms the latter was 66% larger than the former.

Perhaps more importantly, thanks to massive infrastructure projects—with booming consumption of construction equipment and materials, cement, steel and furniture—there has been a significant reorientation of labour supplies. Large numbers of migrant labourers who were let go from coastal factories in 2008 and 2009 found work closer to home thanks to the new construction projects. As a result, when exports picked up in December 2009, labour shortages surfaced in Guangdong and elsewhere along the coastal manufacturing corridor. This is, however, likely to be a passing phase.

Be that as it may, industrialisation on a gigantic and historically unprecedented scale in China and India has also led to greater demands for strategic raw materials and energy, and, from middle- and high-income states, for intermediate and capital goods. Voracious demands for energy and raw materials by Chinese and Indian industries have propped up commodity prices. Between January 2003 and January 2008 the index of world energy prices increased by 170% and the index of world metal prices by 180%.

Low technological quality and product lines meant that existing plants, typically small in scale and located in the interior for security reasons, were ill-suited to the expanded scale and sophistication of manufacturing in China. Similarly, rather than utilising domestic supplies to economise on costs, even though they were of lower quality, as was the practice earlier, the newer steel mills located in greenfield sites along the coasts, like Tangshan in Hebei province, are sourcing higher-grade iron ore from Australia, Brazil, India and Peru. To upgrade the country’s technological quality, Chinese firms sought foreign partners—Mitsubishi Heavy Industries, Mitsui, Nippon Steel and Nisshin Steel from Japan, POSCO from South Korea, Thyssen-Krupp from Germany, and Mittal Steel among others—in joint-venture projects. The social cost of this strategy, however, was the decommissioning of old steel mills with antiquated technologies and the further widening of inter-regional disparities in China, as unemployment in its northeast regions ranged from 30% to 70% by the turn of the millennium.

As China emerged as the world’s largest producer of steel in 1995, state and private firms sought to secure access to supplies of high-grade ore by
replicating the Japanese strategy of entering into long-term contracts with resource-rich states and negotiating joint-venture projects to minimise import costs and risks, while transferring the burden of most of the costs and risks to states and firms in the exporting states. This usually involved setting up infrastructural projects to facilitate the excavation of energy and minerals and their transport to the coast for trans-shipment. Typical of such investments was a project to mine manganese in Gabon, which is estimated to have deposits of some 330 million tons with an average content of 50% manganese—the world’s purest natural deposits. The Chinese National Machinery and Equipment Import–Export Corporation bested the Brazilian Companhia Vale do Rio Doce to develop a 175 million-tonne manganese reserve by agreeing to construct a 200 km railway from Belinga to Booué, a deep-water port at Santa Clara and a hydroelectric dam at Mayibout, and by agreeing to buy all the output from Belinga, whereas the Brazilians only agreed to construct a branch line between the mine and the already existing Transgabonais railway line. Chinese appetites for aluminium, nickel, copper and steel have led to a project to construct the world’s second largest dam to provide electricity to the mines in the Amazon basin on the Xingu River. In another variant, when international financial institutions were reluctant to advance developmental loans to the Angolan government, the Chinese Export–Import Bank offered a more than $4 billion loan for which the Angolan government had to put up a much lower quantity of oil as collateral and at a very low rate of interest, in return for an agreement that 70% of the contracts would be awarded to Chinese enterprises approved by Beijing. The Chinese government and state-owned enterprises are also cooperating to develop a transportation hub in Tanzania for commodities mined in Africa’s copper belt and linked through the Chinese-built Tanzania-Zambia Railway’s terminal to Kapirimposhi, which is connected to Angola’s Benguela railway—creating the first functioning east–west transport corridor in Africa.

As India did not have China’s large reserves of foreign exchange—and because its manufacturing base was much smaller—Indian efforts to secure supplies of energy and strategic raw materials have revolved around a different strategy. To secure access to energy—current estimates suggest that, by 2025, India will have to import 90% of its petroleum needs—New Delhi has been encouraging its private pharmaceutical firms to provide low-cost generic drugs, particularly anti-retroviral drugs, to African states, as well as to set up production facilities in the continent. The Indian government has also helped set up information technology centres such as the Ghana–India Kofi Annan Centre for Excellence in Information Technology in Accra and the Cyber Towers Information Technology Park in Mauritius, as well as providing technological and financial help in upgrading oil fields and laying gas pipelines in Sudan, building steel mills, power plants and oil refineries in Nigeria and agricultural support initiatives in a host of countries.

In a third development, as US, European and Japanese corporations have sought to pressure their subcontractors—especially in electronics—to lower
their prices, Taiwanese subcontractors, who were also original design and/or original equipment manufacturers, have begun to extend their own supply chains to China and to market their products under their own brands. A case in point is Acer, poised to become the second largest computer company in the world. After decades of producing computers for Hewlett-Packard, Dell and Apple and selling products under its own brand name only as a sideline, Acer started to aggressively promote its own line of computers in 2000. Another Taiwanese computer manufacturer, Asutek, pioneered the marketing of net books—the slimmed down laptops that have emerged as the fastest growing segment of the computer market—while HTC, which used to manufacture cell phones for other firms, became the first one to market a cell phone using Google’s operating system.80 After the Taiwanese government loosened restrictions on investment in the Chinese mainland in 2001, Taiwanese original design manufacturers shifted their production across the Taiwan Straits to take advantage of lower-cost land and labour and virtually all production is now in China, whereas before 2001 only 4% of Taiwanese computer production was on the mainland.81 This regionalisation of production has been accompanied by agreements signed between China and several countries—Russia, Belarus, Mongolia, Venezuela as well as ASEAN—to use the renminbi in bilateral transactions.82 This suggests the emergence of an integrated production zone in East Asia and the slow positioning of the renminbi towards full convertibility and as a safeguard against the depreciation of the dollar.

A similar increase in manufacturing may be developing in South Asia. Between the enactment of the Special Economic Zones (SEZ) Act in 2005 and May 2008, some 462 such zones comprising 126 077 hectares were formally approved in India. In these areas the government was empowered to exempt enterprises from central laws and workers typically worked 5.3 more hours than workers in non-SEZ areas and earned 34% less.83 At a time when there is an enormous thrust to develop electric cars, a small company in Bangalore, the Reva Electric Car Company, has the world’s largest fleet of all-electric vehicles on the road. In September 2009 General Motors agreed to buy Reva’s technology for installation in the electric version of its Chevrolet Spark.84 Bangladesh, meanwhile, has been receiving low-waged work in the garment sector as the Chinese government seeks to get enterprises there to move up the technology ladder.

While it is too soon to say, there are signs that the current financial crisis may indicate the end of the US cycle of accumulation. In the first instance, by contracting the US market, the crisis has irretrievably damaged the USA’s role as a market of last resort. This has not only reduced the pressure on China and other East Asian states to recycle their current account surpluses to the USA to fund its trade deficits and to finance its power pursuits. It has also exposed the vulnerabilities of ‘emerging market economies’ and demonstrated that export markets are not as vital to continued growth as they had believed. Second, the unprecedented pace and scale of industrialisation in China, and to a lesser extent in India, has led these states to forge new networks of supplies for raw materials and energy. The increasing density of
South–South relationships could provide a new armature for the revival of the world economy. The scalar magnitude of these investments, and the innovations in transportation technologies required to extract raw materials and ship them half way across the world, are leading to new patterns of state–enterprise relationships and such partnerships have historically underpinned new systems of accumulation. Finally, the move by Taiwanese original design manufacturers to market products under their own brand names and move their production facilities to the Chinese mainland may suggest the emergence of an integrated production region in East Asia. Whether these issues will address the problems raised by growing inequalities in income and wealth that could undermine the new arrangements, and indeed even political stability in China and India, remains to be seen.

A recapitulation

The financial crisis enveloping the globe has crystallised the decline of the US-centred system of accumulation that had been partially prolonged by the flows of capital from China, Japan and other East Asian states as well as from the Oil and Petroleum Exporting Countries (OPEC) and other economies in the global South. As Braudel has observed, financial expansions regularly follow phases of economic expansion as an intensification in competition generates more capital than could profitably be invested in the production and sale of commodities. The deployment of technologies to fragment manufacturing operations into part processes and the relocation of these across the globe to take advantage of cost and wage differentials offer only a temporary solution.

Most notably a focus on export markets has also meant that measures to keep wages competitive in China have led to a growth in levels of inequality and a greater dependence on markets in the USA. This has compelled China, and other states in the global South, to recycle their current account surpluses to the USA to fund its trade deficits and finance its power pursuits. The continued inflow of capital encouraged US banks and non-banking financial institutions to implement a series of financial innovations that even sought to extract savings from low-income households and fuelled an unparalleled bout of financial speculation. When the bubble burst in 2008 with the collapse of Lehman Brothers and economies around the world spiralled downward, this adversely affected exports from China, India and other states. This constrained their ability to continue to recycle their current account surpluses to the USA and led to at least a partial unravelling of their export-led economic strategy.

At the same time, rapid economic growth in China, India and elsewhere in the global South has led to an increasing density of South–South economic relations as the emerging powers seek access to reliable supplies of high-grade strategic industrial raw materials and energy. This reconfiguration of spatial relations provides a framework for the emergence of a new cycle of accumulation. Relatedly, movements by original design manufacturers in Taiwan to market products under their own brand-names and move their
production to the Chinese mainland suggests the emergence of an integrated production region in East Asia. The Indian economy, which has not been as exposed to the financial meltdown because of its lower dependence on exports and its tighter financial regulation, also appears as an increasingly strong player in the world economy. Put differently, successive leading agencies of capitalist power—the erstwhile United Provinces, the UK and the USA—have represented a serial increase in size and population. In this progression, integrated production zones in East and South Asia could potentially represent the next phase in capitalist evolution.

However, the emergence of a new system of accumulation is crucially predicated on reversing growing inequalities in income and wealth globally, particularly in China and India. Their movement up the technological ladder has meant a steady increase in the organic composition of capital and an inability to absorb labour. High rates of growth have been accompanied by high rates of unemployment and widening inequalities in income and wealth magnify the possibility of political instability and threaten to fragment the world market and hence dislocate socioeconomic and political structures worldwide.

Notes

7 Wade, ‘Steering out of the crisis’, p 40.
21 Ibid, p 45.


38 M Wolf, ‘Asia’s other giant slowly awakes: can India integrate into the rest of the world as profitably as China?’, Financial Times, 26 January 2007.


42 Palat, ‘Rise of the global South’, p 52.


44 Palat, ‘A new Bandung?’, p 722. In 2005 the top 10% of the US population accounted for 48.5% of all reported income according to the Internal Revenue Service (IRS). They had only accounted for 33% in 1970, while in 1928 they had accounted for 49.3%. There was not only a relative increase in inequality, but an absolute deprivation of the poor as well. In 2005, while total income increased by 9% over the previous year, it dropped by 0.6% for the bottom 90%. The decline may be even greater since IRS estimates capture 99% of wage income but only 70% of business and investment income, which accrues disproportionately to the rich. Additionally, the poor rely more on welfare and fringe benefits which suffered cuts—especially in health care, child care and education. DC Johnson, ‘Income gap is widening, data shows’, New York Times, 29 March 2007.
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51 RT Murphy, ‘US seigniorage, the world economy and Japan’, Japan Focus, V(1), 2009.
60 Bach et al, ‘The international implications of China’s fledgling regulatory state’, p 504.
61 Quoted in ibid.
62 Ibid.
64 Cf Palat, ‘Flailing eagle, crouching tigers’, p 3624.
73 Ibid, pp 201–207.
Notes on contributor

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