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# RESURGENCE OF CHINA AND INDIA: A "profound transformation"

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The economic resurgence of China and India has become a staple feature of the news in recent years and it has sprouted a cottage industry of books and feature articles predicting when these economies will overtake the United States to become the largest economy in the world. Earlier, this year, Martin Wolf noted in the *Financial Times* that "Between 2007 and 2012, the Chinese economy will expand by close to 60 per cent. Emerging Asia as a whole will grow by almost 50 per cent. Over the same period, economies of high income countries will grow by a mere 3 per cent. Who can doubt that the world is undergoing a profound transformation?"

And Lord Meghnad Desai chimed in by saying, "There is no crisis of capitalism. There's a crisis of western capitalism which has gone geriatric. The dynamic capitalism with its energy, innovation and sheer greed for growth has moved east." Yet, as Table 1 indicates this is a strange conception of geriatrics. The table plots the per capita gross national income (GNI) of five 'emerging economies'—Brazil, Russia, India, China, and South Africa (BRICS)—as well as those of three southern European economies, widely acknowledged to be in deep recession at least since 2007, against the composite per capita GNI of high-income economies (the 'organic core') in current US dollars.

**While China and India have recorded very high rates of growth in the last 10-20 years, on a per capita basis their income levels remains very low compared to the high-income economies and even to the southern European economies mired in recession**

**The shift of manufacturing and back office operations to China and India has widened income differentials across the world**

**In the context of increasing automation of production, this suggests that industrial production is declining in the hierarchy of economic activities as greater profits are being reaped through financial speculation**

**Unlike previous eras when surplus capital was transferred from declining centres to rising ones, today the Chinese are recycling their current account surpluses to the US**

**This may indicate that we are on the threshold of a truly profound economic transformation—one as significant as the industrial revolution of the 19th century which enabled economies in Europe and the US to vault over the Indian and Chinese economies.**

Following the historical sociologist Giovanni Arrighi, the ratio of GNI per capita gauges the income gap separating the BRICS and the poorer southern European states from the states that have jointly set the standards of wealth that all others have sought to attain. As such it indicates the command an average inhabitant of each state exercises over the marketed human and natural resources relative to the command exercised over the same by the average inhabitant of the organic core. It says nothing about the living standards of people in each jurisdiction which depends on price levels, productivity, distribution of income and other factors which are not measured by per capita GNI. What it does is to express better than any other readily available indicator, the totality of power relations (cultural, economic, political) that has privileged inhabitants of the organic core over other peoples on the planet.

For our present purposes, it highlights two features: first, though the ratio of GNI per capita of the BRICS have started to inch upwards, they still are at a very low stage—the ratio of GNI per capita of India was in 2010 even less than half of what it was in 1938! Whatever else overtaking the United States may mean, this does not suggest that China or India are going to set standards of wealth that other states will seek to attain. Second, though the southern Eurozone periph-

ery has been mired in crisis, these states still registered a far better performance than the BRICS between 2000 and 2010. This must of course be qualified by noting that the population of the southern Eurozone periphery is miniscule compared especially to those of China and India.

## Widening Income Inequality

However, GNI after all is an average and one of the results of China being transformed into 'workshop of the world' and India into the world's 'back office' has been a growing disparity in income and wealth across the world. In the United States, the gap between the rich and the poor is the greatest since the late 1920s. In 2010, 93 percent of the wealth generated in the country went to the top 1 percent; and 37 percent of this went to the top 0.01 percent—some 15,000 households with average incomes of $23.8 million. In contrast, in the 40 years since 1932, the average American worker's pay had doubled in real terms while the average CEO's pay had grown by only 4 percent! In the 17 Eurozone countries in 2010, 8.2 percent of the population was living below the poverty line and twice that percentage in Greece and Spain.

In 'developing Asia,' the Gini coefficient rose from 0.39 to 0.46 over the last 20 years. If it had remained the same, some 240 million people would have escaped poverty. From the fierce egalitarianism of the Mao era, China now has a Gini co-efficient greater than that of the US and the rate of rural distress in India is so high the New York University's Center for Global Justice and Human Rights estimates that over the past 16 years, there has been a farmer committing suicide every 30 minutes—and this does not even include the *dalits* ('untouchables'), *adivasis* (tribals) and those, including women, who do not have formal title to land.

These widening income inequalities are in fact a symptom of the 'profound transformation' of the world economy signaled by the economic resurgence of China and India. It is indicative of the decline of industrial production in the hierarchy of economic activities for the first time since the industrial revolution.

The industrial revolution first made cheap clothes by producing them with machines more efficiently than artisans in India. Later, the assembly line produced a wide range of other goods and made them available to a mass market. These processes also created an industrial working class which demanded, and eventually secured, better wages and living standards. It created the modern middle classes which led to democracy as Barrington Moore underlined more than 40 years ago.

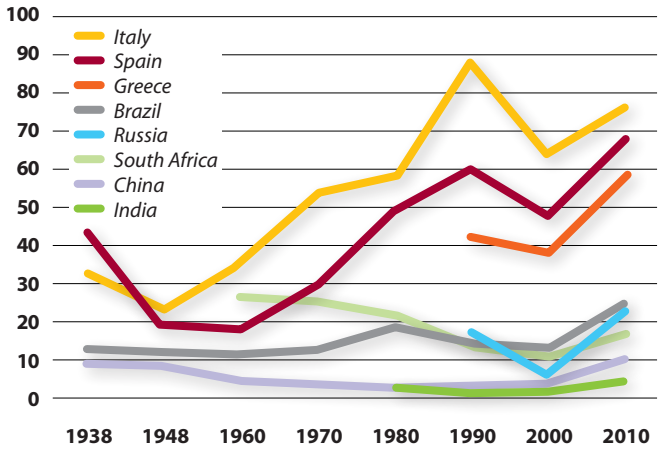
Today, as the shift of manufacturing activities to China, India, and other 'emerging economies' are making industrial products available to a much larger segment of the world's population, this has happened without the redistribution of incomes that accompanied and followed the industrial revolution of an earlier era. More significantly, Tata Motors' $2200 Nano car, is emblematic of Indian and Chinese firms making much cheaper versions of expensive products and thereby making them available to a much wider segment of the world population—but as this is done without creating large industrial work forces that can demand better wages, it does very little to ameliorate the widening gap between the rich and poor. The middle classes, virtually across the globe, are being squeezed out of existence and the ranks of the poor are swelling.

**Table1.**
**Comparative Economic Performance-Southern Europe vs. BRICS (GNI per capita as a percentage of the GNI per capita of the organic core)**

| Region | 1938 | 1948 | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 |
|---|---|---|---|---|---|---|---|---|
| **Southern Europe** | | | | | | | | |
| Greece | | | | | | 41.9 | 37.2 | 57.5 |
| Italy | 32.2 | 22.9 | 35.4 | 53.0 | 57.8 | 87.8 | 62.6 | 75.4 |
| Spain | 41.9 | 18.5 | 17.6 | 29.4 | 48.2 | 59.4 | 46.5 | 67.0 |
| **BRICS** | | | | | | | | |
| Brazil | 12.1 | 11.4 | 10.8 | 11.9 | 18.3 | 13.4 | 11.7 | 23.4 |
| China | 4.1 | | 4.3 | 3.4 | 2.6 | 1.4 | 3.1 | 9.9 |
| India | 8.2 | 7.6 | 3.8 | | 2.1 | 1.6 | 1.4 | 3.1 |
| Russia | | | | | | 15.5 | 5.6 | 22.4 |
| South Africa | | | 25.9 | 24.9 | 21.4 | 13.7 | 9.6 | 15.9 |

**Notes**:
**1**. The Organic Core includes in **Europe**: Austria, Belgium, Denmark, Finland, France, Germany (the former West Germany till 1989), Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom; in **North America**: Canada and the United States; in **Australasia**: Australia and New Zealand. Since 1990, Japan has been included in the Organic Core.
**2**. Data for 2010 includes New Zealand GNI for 2009.

**Sources**: Calculated from W. S. Woytinsky & E. S. Woytinsky, World Population and Production: Trends and Outlook (New York: Twentieth Century Fund, 1953) for 1938 and 1948; United Nations, Compendium of Social Statistics, 1977 (New York: United Nations, 1980) for 1960; World Bank, World Tables, 1976 and World Tables on Disk, 1992 (Washington, DC: World Bank) for 1970; World Bank, World Development Report (Washington, DC: World Bank, 1982) for 1980; World Bank database online for 1990, 2000, and 2010




## A 'Profound Transformation'

The closest parallel to the 'profound transformation' of the world-economy caused by the economic resurgence of China and India is in the mid-nineteenth century when the economies of Europe overtook China and India in the production of manufactured products. In the mid-eighteenth century, by Angus Maddison's estimates, China and India had accounted for about three-fourths of all manufactured products in the world, but by the mid-nineteenth century, Europe and North America accounted for the same percentage. The

capitalist economies of Europe and North America were only able to outstrip the artisans of the two Asian jurisdictions by introducing machines. The tide eventually turned in March 2011, when China ended the United States' 119-year run as the largest manufacturing nation, accounting for a slightly larger share of global manufactures than the US.

The entry of some 20-30 million Chinese and Indian workers into the world labor force each year has transformed production conditions everywhere. The transfer of manufacturing to China and back office operations to India is not merely due to low labor costs as other countries have even lower costs but because they both have stable political conditions and large supplies of skilled and educated workers. As a legacy of Maoist egalitarianism, China had focused on primary and vocational education for the many while India had promoted tertiary education for the few. This is one reason that the growth of manufacturing has been more extensive in China and that of information technology in India.

Labor costs however are now only typically 10-15 percent of the final cost of a product, and it is often not worth shifting production elsewhere simply to take advantage of low wages. The *New York Times* reported that though an iPhone produced in the US would cost only $65 dollars more—not a significant amount considering that Apple makes a profit of over $400 per phone—it was simply not feasible to produce it in the country. A few weeks before the introduction of the first iPhone in 2007, Steve Jobs demanded that the screen be made of unscratchable strengthened glass. The precision required in cutting and grinding the glass involved recruiting some 8,700 industrial engineers to supervise about 200,000 assembly-line workers. Apple estimated that it would take 9 months to recruit this army of mid-level engineers in the US; it took just 15 days in China. Moreover, entire supply chains are in China so if a product required a slightly different screw, the factory next door could deliver those screws in sufficient quantities in a few hours.

Since the new glass screens were available literally at the eleventh hour, once the new screens arrived at the plant at midnight, some 8000 workers sleeping in the company's dormitories were woken up and they were at their work stations within half an hour to begin a 12-hour shift. Within 96 hours, they began churning out 10,000 iPhones a day. Nothing like this could even be contemplated by factories in the United States or in Western Europe.

Unable to compete with low-wage labor overseas, two years after the financial crisis of 2007-08, businesses in the United States spent 2 percent of their revenues on hiring employees and 26 percent on software and equipment. Apart from wages, recruiting workers required that time be spent on culling applications, calculating fringe benefits, administering and monitoring government mandated drug tests, and time training and re-training employees as opposed to getting Indian programmers to re-write computer code for numerically-controlled machines. So software and equipment was far cheaper and less time consuming than hiring workers.

The steady increase in automated technologies however means that the demand for labor in the organized industrial sector in China and India is declining as well. Though there was a 12 percent rise in industrial production in China between 1995 and 2000, there was also a 15 percent fall in employment. During this time, labor income as a percentage of manufacturing output fell from 48 to 42 percent. The corresponding fall of labor income in India was even steeper—from 37 to 22 percent. Falling orders from overseas as a result of the financial crisis and increasingly harsh conditions in the workplace has also led to unprecedented levels of worker unrest in China—and this has stimulated a drive for further investment in automated machinery and robots.

In the contemporary era, then, with the shift and increasing dispersal of manufacturing activities, and the progressive deployment of numerically controlled machines and automated technologies, employment in the organized industrial sector is steadily shrinking and is a major cause of widening income inequalities. While our conceptual frameworks are still informed by the experience of the industrial revolution and we equate industrialization with development—as in the case of the annual G-8 meetings (leaders of Canada, France, Germany, Italy, Japan, Russia, the UK, and the US) being called a meeting of 'leading industrial nations,' when they are increasingly being de-industrialized even if they still account for a disproportionate share of global wealth.

Yet, as already noted, this has not been tantamount to a general expansion in welfare in these countries, as the wealth is increasingly being concentrated at the top. The decline in well-paying employment opportunities, and the growth of unemployment, with the progressive off-shoring of manufacturing and data-processing has meant that ever-larger segments of the people are dependent for their means of social reproduction on cheap imports and this in turn causes a vicious cycle of ever-more jobs and services being transferred overseas.

The consequent decline of rates of manufacturing profits has led to an increasing flight of capital to financial speculation and as the work of the University of Michigan sociologist Greta Krippner shows by 2006, profits of the manufacturing sector amounted to just 30% of total corporate profits in the United States and only 36% of the profits of non-financial firms.

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## Financial expansion

One of the legacies of the industrial revolution is that it is only industrial capital that is seen as 'true' capital, capital in its mature phase as opposed to merchant capital or financial capital. Yet, as the French historian Fernand Braudel emphasized, it is flexibility and adaptation that is the essential characteristic of capitalism. Since the ceaseless accumulation of capital is the prime directive of capitalism, rather than investing in specific input-output combinations and the consequent loss of flexibility, capitalists prefer liquidity to take advantage of ever-changing opportunities to accumulate more capital. It is only in exceptional instances, such as the Industrial Revolution of the nineteenth century or the post Second World War expansion of the world-economy that capitalists 'specialize' in industry. Even in these cases, soon competitive pressures lead to an accumulation of capital in excess of that which could be invested in the production and sale of commodities without sharply driving down rates of profit and capitalists inaugurate another phase of financial expansion and speculation. Financial speculation and expansion then can been as Braudel suggests as a 'sign of autumn'—of the decline of a system of accumulation.

Following Braudel, Giovanni Arrighi argued that the recurrent tendency for capital to withdraw from particular input-output combinations to financial speculation is a means both to redistribute income and wealth from peasants, workers, and other strata to agencies that control mobile wealth and to transfer surplus capital from declining centers of capital accumulation to emerging centers—from Amsterdam to London; from London to New York. Such transfers are crucial to institute new cycles of accumulation. Unlike previous cases though, today, capital from the 'rising' power—China—is flowing to the 'declining' United States and this indicates a fundamental change: of the decline of industrial production in the hierarchy of economic activities.

The capitalist oligarchy of the United Provinces based their power on control of global networks of commerce and finance that could not be as easily superseded as the Venetians' control over trade routes. Extensive territorial control of the world through colonization enabled Britain to obtain raw materials and markets for manufactures in contrast to the parsimonious territorial acquisitions of the Dutch. Once Britain had launched the industrial revolution, its widely-dispersed territorial base and small industries were no match for the large, multi-unit enterprises emerging on the compact, continent-sized land mass of the United States which not only enjoyed an extremely favorable endowment of natural resources but was also insulated by two oceans from the power struggles in the eastern hemisphere

Each of these structural shifts is grounded in the conditions of production. Since raw materials are not even distributed across the world and producers tend to deplete conveniently located sources, and as the higher grades and larger volumes or raw materials are needed as the scale of production is ramped up, it requires innovations in transportation and finance. This calls for new partnership arrangements between states and enterprises. Privileged access to cheap timber and grain provided the United Provinces with a head start over its rivals in shipping and fisheries—which lowered the costs of labor—and reshaped the political economy of the Rhinelands. Better ship design yielding higher cargo capacity with lower staffing requirements bestowed competitive advantages on Dutch ships and led them to dominate the carrying trade. None of this would have been possible without the intervention of the Dutch state that developed the infrastructure of dams, ports, and cranes that were beyond the capacities of individual boatyards and also created joint-stock companies and facilitated the issue of letters of credit. Unable to compete with the Dutch in access to superior timber, Britain developed more expensive and highly maneuverable warships to capture Dutch ships, while also colonizing North America where its colonies in New England were well-endowed with forests accessible by short rivers to meet the demand for ships—and soon to surpass Britain in numbers and cargo capacities of ships. It was only with the development of James Watt's steam engine that Britain was to regain its advantage in shipping and, in the words of Alan Carfuny, relegate "the United States to the status of a minor maritime nation." But the iron and steel—and railroads—that Britain developed to deflect the American challenge in shipping would enable the US to institute the multi-unit, vertically-integrated enterprises and vault over Britain as an economic power.

Again, as Amsterdam lost its entrepôt functions, very low domestic interest rates compelled capitalists to seek higher returns overseas even if it meant financing their rivals in England. Conversely, because the basis of British accumulation was in industrial production, as profit rates declined, the British financed overseas loans to support the foreign purchase of their industrial products and thus supported national economic growth in Britain. Just as this enabled the United States to copy British technology, and then outpace it as an economic power by mass producing complex industrial products, today 'emerging Asia' is copying, and then modifying American technology to take the lead in manufacturing.

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## Conclusion

In the early twentieth century, whereas European cars were expensive handcrafted models, Henry Ford in the United States pioneered the mass-produced Model T that had a much wider market. The assembly-line which allowed largely unskilled workers to assemble complex products like automobiles also however strengthened the industrial working class. The concentration of large numbers of workers in a plant gave them the power to disrupt production and indeed urban life. Since technical control links the plant's entire labor force as the industrial sociologist Richard Edwards noted, even a militant minority could disrupt the assembly line and when that happens "every worker necessarily joins the strike." Hence, reflecting the political power of the workers, the financial crisis of the 1920s and 1930s led to the rise of the welfare state in the high-income economies of Europe and North America.

Today, with the adaptation of American and other Western technologies, Indian and Chinese companies—like Tata Motors' $2200 Nano car, Godrej and Boyce's battery-run $70 refrigerator, Huawei's Ideos phone which is the cheapest smart phone at $100, or Haier's cheap household goods from air conditioners to wine coolers is again penetrating a far wider segment of the world market. As manufacturing has been progressively relocated overseas, workers, engineers, and supervisory staff in the 'emerging economies' have gained very valuable hands-on experience of production processes. A case in point is the Chinese company, BYD, which has learnt how to make lithium-ion batteries at ambient temperatures instead of the expensively heated 'dry rooms' as they use cheaper materials. This has dramatically reduced the price of these batteries from $40 to about $12. However, unlike the large vertically-integrated multi-unit enterprises that underpinned US economic ascendancy, the new enterprises in India and China do not employ large numbers of workers and hence they do not have the same political power and social weight as earlier generations of industrial workers. Hence, unlike the crisis of the 1920s and 1930s, financial crisis leads not to greater welfare for the poor but to the imposition of stringent austerity measures.

The economic resurgence of China and India does indeed mark a 'profound transformation'—just as their eclipse as manufacturing dynamos in the early to mid-nineteenth century marked another epochal transformation. If the latter signaled the industrial revolution and the rise of the West, the former may be indicative of the decline of industrial production in the hierarchy of economic activities. This may be the reason that the Chinese are recycling their current account surpluses to the United States.