

## **China's impact on the globalization of the world economy\*** **por Mário Murteira**

**Abstract:** The world system today is more total and interdependent than ever before. Concepts founded in the analysis of long historic perspectives can correct distortions from the short term perspectives. But they also run the risk of underestimating the perhaps complete «newness» of the present. Some of the «latecomers» in modern economic growth have grown much faster than the «early comers» from the West. Like Great Britain and USA They are mostly located in the East, with China as the most important player for analysis. This suggests that the hegemony of the West in the world system is near to its twilight and that other regional dynamics, mostly in Asia Pacific will gain more global strength.

**Key words:** Globalization, World Economy, Global Players, China

**Título:** O impacto da China na globalização da economia mundial

**Resumo:** O sistema mundial é hoje mais único e interdependente do que nunca. Conceitos baseados na análise de longas perspectivas históricas podem corrigir as distorções resultantes das perspectivas de curto-prazo. Mas podem também correr o risco de subestimar a «novidade» do presente. Alguns dos «atrasados» no moderno crescimento económico têm crescido muito mais depressa do que os que chegaram primeiro, como a Grã-Bretanha e os EUA. Estão na sua maior parte situados no Oriente e a China é o actor mais importante para analisar. Isto sugere que a hegemonia do Ocidente no sistema mundial está a aproximar-se do seu ocaso e que outras dinâmicas regionais, sobretudo na Ásia do Pacífico, ganharão mais força a nível global.

**Palavras-chave:** Globalização, Economia Mundial, Actores Globais, China

### **Mário Murteira**

mlsmu@mail.telepac.pt

Doutor em Economia (Universidade Técnica de Lisboa). Prof. Catedrático Jubilado de Economia do ISCTE. Antigo Presidente da Escola de Gestão do ISCTE. Director da revista *Economia Global e Gestão*.

*PhD in Economics (Lisbon Technical University). Full Emeritus Professor of Economics of ISCTE. Former President of ISCTE Business School. Director of Global Economics and Management Review.*

\* This text is taken from a book which is currently being prepared under the title **A Nova Economia do Trabalho: Ensaio sobre Trabalho e Conhecimento no Mercado Global (The New Labor Economics: Essay on Labor and Knowledge in the Global Market)**.

## **ASIA PACIFIC AND THE GROWTH OF THE WORLD ECONOMY**

The economic growth unleashed by the Industrial Revolution started in England in the 18th Century and it triggered a historic process driven by western capitalism with repercussions on the whole of the world economy. The path taken by this process was therefore originally western and it also gave rise to the dominion of some western powers in the world economic

system. However, this dominion has not always existed; it is, in fact, quite recent and there is reason to believe it may be nearing its end.

In the mid 19th Century, China and India were still the two biggest economies. With the gradual industrialization of other parts of the globe, however, the “development” of some accentuated the “underdevelopment” of others, and the leaders in the ranking of the great economies changed in a just a few decades. Although the “Eurocentric” vision of world history has made us forget the vicissitudes of capital accumulation in previous centuries and the transitory nature of hegemonies in the world system, there are comprehensive studies of this by authors such as Braudel, Wallerstein, Arrighi and André Gunder Frank (see, for example, Frank, 1994).

It was only in the second half of the last century and after three decades of world wars and a world economic crisis that Japan took one leading position in the global economy, and this was largely with North American support during the Cold War.

It is true that there was much debate on William Baumol’s principle; «late comers, faster growers». This seemed to suggest a general trend of convergence in the world economic system, as long as the impetus from the initial big push was strong enough for those positioned at the starting line. In fact, however, there has been no such convergence, even though some peripheral economies, mainly Asian, have closed the gap significantly.

Many years ago Simon Kuznets estimated (1977) that the size of the US economy had increased about 1000 times in the two centuries following independence, i.e., between 1776 and 1976. At first sight, this growth appears to be extraordinary and undoubtedly greater than that of their British forerunners. But the average annual growth of the Chinese economy has been three times as fast in the last twenty five years, which means growing an equivalent amount in approximately seventy years - and this in a much more complex and powerful economic system. Growth in the last three years (2002-2005) has been about 10% a year which means the level of national production can be doubled every seven years.

Moreover, the story of mankind is a long process of individual and collective learning; it has incorporated new knowledge and technologies, and the individual and collective experiences are almost entirely shared and understood.

The World system today is more total and interdependent than ever before. Concepts founded on the analysis of long historic perspectives, such as empires, centers, semi-peripheries and peripheries compensate for or can correct distortions from the short term perspectives. But they also run the risk of doing the opposite: they underestimate the perhaps complete “newness” of the present situation.

In fact, it can now be said that some - though not all - of the “latecomers” have grown much faster and that they are mainly located in the East as opposed to the Western world. This would suggest that the hegemony of the West in the world system is in its twilight and that other regional dynamics with greater aspirations will gain strength.

In this context, it is Asia Pacific that stands out, with China as the most important player for analysis.

China is now the fourth world economy if we calculate the amount of national production in dollars at the current exchange rates, and second if the national currency is converted at purchasing power parity.

According to the Trade and Development Report (UNCTAD) 2006, in the 2000-2001 school years there were more students in the final year of technical higher education in China, the Russian Federation and India than in the USA.

China alone had roughly 2.6 million such finalists i.e. in areas such as science, engineering, mathematics, and I.T, in contrast to 1.7 million in the USA. Hence, the new jobs in fields relevant to the so-called “knowledge workers” also tend to be shifting from West to East. And there is a tendency for the supply of highly skilled manpower in the emerging countries to accompany this movement.

We can therefore see a “dewesternization” of world economic growth, albeit within a more interdependent system due to globalization. This has contradictory and somewhat surprising effects: on one hand, it “westernizes” the whole world system, propagating aspects such as ideologies, technologies and visions of the world that emerge in the West like marketing and

consumerism. But, on the other, it is increasingly conditioned and limited by its values and social structures.

More specifically, if we observe the trajectory that led some European countries in the 1930s to something that warranted the name social democracy, we find that it was interrupted in a complex historic conjuncture dominated by the globalization movement.

It is therefore essential to find new models of “social cohesion” so that the globalization process does not make us back track on what was perhaps the best social, economic and also cultural inheritance of European and Western “modernity”. In fact, attempts are being made, with varying degrees of success and conviction and by different means, to look for such models in practice in Great Britain, Germany, France and other Scandinavian countries (Cf. Caldas, 2005).

But the emergence of large scale world economies, with abundant and already considerably skilled human resources in areas which are now strategic, particularly in ICT, are undoubtedly a great threat to the proposed renewal of the “European model” of social cohesion.

In the immediate future, this threat can be clearly identified as coming from the rising Chinese economy, particularly after its formal access to the World Trade Organization (WTO).

It should be stressed that the circumstances – and despite the vicissitudes - which allowed the passage from political democracy to the so-called social democracy in a specific European region will not be repeated; and they are also unlikely to be repeated in these emerging economies. This passage was merely a short lived episode, located in a specific place and time, in a long historic process with an unforeseeable fate.

Clearly history is not a film that we can rewind, alter and improve on, nor can we re-play the best scenes whenever we choose to do so in the future. As Peter Drucker often stressed, and contrary to what historians generally suppose, the *future is always surprising*, that is, new. (Drucker, 2001).

## **THE CHINA EFFECT IN THE «NEW LABOR ECONOMICS»**

We want to identify the ways or means by which China's rapid penetration in the global market affects the context of employment and labor relations in Western countries either directly or indirectly.

This "China effect" manifests itself in various ways such as:

- In the access of Chinese exports to the more developed markets, substituting local and particularly labor intensive production. Clearly, the consequences of this can be more dramatic in Western countries like Portugal whose productive systems are still largely unskilled labor intensive.
- In the access of Western exports which are relatively intensive in new technologies and knowledge to the broad and rapidly expanding Chinese domestic market. China has about 1300 million people still with a low average standard of living whose consumption has not grown at the rate of national production; this has permitted a large accumulation of savings. Nevertheless, this situation will inevitably be corrected sooner or later, if only because of increased social tensions. This will obviously result in a big surge in internal and external demand. It should be noted that to some extent this effect could also "substitute" the great North American market, boosting exports from emerging countries, as an important growth factor for the world economy.
- In the relocation, in all or part of the productive chain, of industries and services to the sphere of the Chinese economy. Deng's doctrine, symbolized by the conjugation of two expressive slogans "Open Door" and "One country, two systems", led to an economy that was increasingly open to foreign capital, in an economic system that increasingly identified with the logic of the world market. When the strategy was first adopted, the Chinese authorities demanded joint venture agreements between foreign and national companies and groups in order to assure an appropriate transfer of knowledge and technologies. And in theory at least, the foreign capital was meant to be placed in certain "special economic zones" which were mainly on the South coast of China, as well as in neighboring Hong Kong and Macau (cf. Murteira ed., 2000). But as time went by, Deng's "Open Door" was gradually extended and Hong Kong became less important in this opening up process; nevertheless, Hong Kong continues to play a fundamental role particularly as a monetary and financial centre.

- In the increasing flow of Chinese direct investment and of Chinese human resources to economies outside of Asia such as Africa and Latin America, and even Western Europe. Indeed, the globalization of the Chinese economy will have an increasing influence on other countries; it will no longer be a case, as in the past, of foreign countries having an increasing influence on an economy which had practically segregated itself from the outside World.
- In the use of part of the Chinese domestic savings to finance the current deficit of the North American balance of payments, notably through the acquisition of North American Treasury bonds. This therefore contributes to the paradoxical situation of an economy with a low average standard of living financing the consumption of another much richer economy. The high level of savings found in the Chinese economy is in part due to the non-existence of a national social security system that provides workers with adequate protection when faced with sickness, invalidity, unemployment and old age. In fact, it is a far cry from the European model of political and social democracy... Nevertheless, in the near future it is likely that the Chinese state will be forced to make significant advances in terms of social security.

The “Chinese effect” on what we call the “New labor economics” is therefore considerable and its various implications are unlikely to diminish in the near future. And other large-scale emergent economies, such as India, may have similar effects on the question of employment in the World economic system.

It therefore seems pertinent to note the apparent paradoxes of the North American hegemony in the world system given that the emergent economies tend to play a more influential role in this system.

The US economy shows signs that would not be tolerated in any other economy, such as the current balance of payments deficit and the low rate of domestic savings which is obviously coupled with high family debt levels. If we compare China and the USA on this matter, it is surprising to find that the “rich” save the least, while the “poor”, in this case, the majority of the Chinese, not only limit their potential consumption but also allow a significant part of their savings to go to benefit the consumption of the “rich”. Such a situation is only possible

because there is a set of factors which cannot be maintained indefinitely, including the low interest rates practiced by the North American monetary authorities.

But the “very rich” North Americans are, in turn, distancing themselves increasingly from the majority of their compatriots in terms of income and consumption and the inequality in the personal and functional distribution of income has visibly increased. In other words, the share of wages in the national income has decreased, contrary to that of capital.

These references suggest that deep-rooted changes are taking place in the global economy. These should be analyzed in the light of demographic trends which include an ageing population in various European countries as well as a general evolution towards falling birth rates and a slow down in the growth of the world population.

But before trying to interpret some of these on-going changes, it is important to refer to the evolution seen in the nature of the transnational enterprise or corporation (TNC), among others.

## **THE NEW GLOBAL PLAYERS**

In his discussion on the role of top management in the transnational enterprise or group in a context of a growing trend for networking and the delicate questions raised by corporate governance, Peter Drucker proposed that their main mission was to affirm identity. That is: the multiple owners of capital and of interests involved in the management of organizations, as well as the network of activities conducted by the organization, raises the most decisive existential question at the organization level: *who are we, anyway?*

These terms *multinational* and *transnational* firms are sometimes considered synonymous. But they may also mean distinct behavioral strategies in the global market: the *multinational* assumes differentiation of strategies practiced by managers e.g. in marketing, within specific limits in each national space; contrary to this, the *transnational* enterprise, in the stricter sense, subordinates its managers to a single strategic direction.

The first phase of the Chinese “Open Door” policy attempted to adapt the TNC specifically to the Chinese context. And clearly, the so-called business cultures also varied intentionally or

not – according to the case - depending on whether they were enterprises from the USA, Japan or Germany. But as a result of factors which are at the base of the so-called transition to the knowledge economy, the predominant trend today is based on what could be called the *denationalization* of the large corporation in the global market.

What do we mean by denationalization here?

Although the TNC is called “transnational”, it can retain some “national” coefficient for all or some of the following reasons: “business cultures” that is, explicit or implicit values assumed by the organization and typical management behavior, according to their national origins (American, Japanese or French, for example); relations or complicity between the TNC and world powers at geo-strategic level; predominant geographic location in areas historically or culturally similar to the nation where the head office is located (e.g. Portuguese companies investing in Portuguese speaking Africa, etc.); holders of the company’s capital are predominantly one specific nationality and as a result can impose a certain strategic or behavioral bias on the grounds of nationality.

The predominant trend today is moving towards the corporation being “transnational” in a more fundamental sense. It is a corporation without precise geographic or cultural roots; therefore, and in the sense of the quotation from Drucker, it can build its own image and identity according to the marketing strategy (not only economic in the strict sense, but also cultural and political) that the board of directors considers to be most suitable. And this is not just the “opportunism” of the chameleon that changes color according to its circumstances; it is something much more complex.

With the growing presence of the TNC in the service sector and in the “knowledge based” services like R&D, health and education, there is also a trend for the dematerialization of the TNC and a two-valued link between enterprise and product (or brand) which is not straightforward.

It is also important to note the entry of other players on the scene, such as for example the new “transnational trade union” which corresponds to the essential need to rethink the organization of workers in a global market. If the so-called “social dialogue” is to have practical effects, nowadays it should become more “socially global”.

On the other hand, due to the strictly financial dimension of current globalization, this brings new and relevant players to the global market.

This is the case of the powerful North American pension funds whose behavior in the capital markets can have a great influence on the performance of some TNC that, in one way or another, are conditioned by the trends of the capital markets which are also radically globalized.

Indeed, it is legitimate to recognize the existence of new players in a space that distances itself from the national dimension in order to look for new identities that are in some way adapted to this global market in constant movement.

## **FLOWS OF CAPITAL AND THE MIGRATION OF WORKERS**

The propensity to emigrate has increased as a result of greater inequalities both in populations' living conditions and also in the opportunities for personal fulfillment at national and international levels; this situation is exacerbated thanks to increasing transparency in societies due to far reaching means of communication as well as other factors such as greater accessibility to means of transport even for long distances and people circulating more easily in spaces like the EU by means of extensive economic integration. Emigration occurs even when this is only practicable in precarious and sometimes risky circumstances. Portugal has had a great deal of experience in this field, particularly in the 1950s and 1960. Nowadays, in the broad context of European integration this experience is more focused on immigration. As a result, this broad topic has become crucially important in current societies: in the words of the UN, it is necessary "assuring cultural freedom for human development".

From the perspective that we have followed here, it is justifiable to contrast three concepts of "capital": *human capital*, *knowledge capital* and *financial capital*; while they have many dissimilarities, they also have reciprocal implications which warrant explanation. We are particularly interested in comparing the mobility of these forms of capital in the global context.

The concept of *fixed capital* could also be considered in the sense of national accounting, that is capital in the most physical sense, such as a material capacity of production, a machine or piece of equipment. But this notion of capital does not have the same importance in the context of our analysis as the others mentioned above.

The repetition of the word *capital* in the various concepts suggests they are similar. But this becomes difficult to justify on closer examination of the global market we have been analyzing. Although it is true that all of them concern productive capacities, something that can be accumulated and with various forms of transaction, there are considerable differences: knowledge is not material, it is sometimes called “intellectual capital” and is inseparable from the person, at least in its form of tacit knowledge. However, this may even be unknown to that person, that is “he does not know that he knows” something of a specific value.

When we reflect a little on this “value”, we are faced with complex and distinct notions depending on whether we are considering human capital, financial capital or knowledge capital.

Is it possible, and justifiable, to try and define some hierarchy - or at least inter-relations - for these concepts based on the notion of value?

“Human capital” is not only work force but also “knowledge capital”, though it is not limited to this in the heart of any organization. The organization can collectively generate and retain knowledge; on the other hand, part of the “knowledge” held by its human resources can be ignored. However, from a purely market perspective the rationale of financial capital is ultimately definitive in the valorization of human capital and knowledge capital. More specifically, the valorization of human resources is determined by its respective productivity but this, in turn, is ultimately conditioned by the financial results of the organization.

The valorization of knowledge capital is determined by its capacity to create or differentiate products or services with financial results which the owners of the organization consider satisfactory.

As one might expect: the more we accept the strictly market rationale, the more the others are subordinate to the rationale of financial capital.

Obviously, however, the “valorization” of human capital or of knowledge capital is susceptible to other more diverse interpretations.

The person or organization is in fact «valorized” according to an individual or collective project which, literally or in their understanding, provides their “*raison d’être*”.

And knowledge, as the essential purpose of the human condition, is valorized in accordance with how much or little it satisfies the “curiosity” which motivates it, that is of the potential “truth” it achieves - however precarious and short-lived it is.

The trends we have noted in the global market, however, tend to make the accumulation of “human” capital and of “knowledge” capital subordinate to that of financial capital.

In these circumstances, what can be said about the mobility of these forms of capital and the relations between them?

It is financial capital that can be moved most easily and almost instantaneously. This is not only thanks to modern ICT but also to the general trend to deregulate the financial markets in pursuit of the liberal principles of the so called Washington Consensus. It is true that ICT allows knowledge capital to be disseminated more easily, but the fruitful collection of the two forms of capital in question are two distinct issues, albeit with mutual implications: to express the essence of the distinction in almost a caricature, it can be said that given attractive conditions, *money is available and is reproduced more easily than knowledge*.

In fact, assuming favorable conditions, the rationality of financial capital allows for a rapid process of accumulation; the transfer of knowledge and its accumulation, in less economically developed areas, faces considerable obstacles.

But it would obviously not make much sense to compare the capacity for example of a university or of a bank system for the dissemination of the forms of capital characteristic to them. This is even because, whether good or not, the “university” and the “bank” are increasingly attracted to new systems of collaboration...

On the other hand, human capital is not as fluid as the other forms of capital, despite its growing mobility.

When we think of the three concepts, simultaneously, we note that “money” and “knowledge” tend to be in mutual pursuit even though there are manifest incompatibilities between them. In fact, nobody would question that national or international R&D with human development objectives does not necessarily coincide with the strategy able to generate the best financial results.

Going back to the central question of this article, it is also of interest to question the “China effect” in the global circulation of the three concepts of capital we have mentioned.

After all, it seems legitimate to state at the start of the 21<sup>st</sup> Century that the new emerging nations in the global market, particularly China, introduce new dimensions in the movement of human capital, knowledge capital and financial capital in the world economy.

Insofar as these different means of accumulating capital tend in turn to be led directly or indirectly by players who are becoming more and more «transnational» and less “national”, we pose the following question: what is the real meaning of these dynamics that come from the new emerging economies, and in particular from the giant China? Does the West’s foreseen “twilight” along with the decline of the European model of social democracy open up new horizons, say, for a different «social model» of globalization at the world level?

## REFERENCES

Caldas, Castro, J.M (2005) Os europeus podem escolher? In **Economia Global e Gestão**, 1/2006, Vol. XI

Drucker, Peter (2001), The Next Society in **The Economist**, November, 3

Frank, Andre Gunder (1994) **World System History**. Presentation at the annual meeting of the New England Historical Association, Bentley College, Waltham, Mass.

Kuznets, Simon (1977) Two centuries of economic growth. Reflections on US experience, in **American Economic Review**, February

Murteira, Mário (1975) **Textos de Política Económica**, Cadernos Hipopótamos, Lisboa

Murteira, Mário (1990) **Lições de Economia Política do Desenvolvimento**, Editorial Presença, Lisboa

Murteira, Mário (2000) Editor e autor, entre outros **Hong Kong and Macau at a time of transitions**, Macau Foundation, Macau (2003) **Globalização**, Quimera, Lisboa