

Seção Miscelânea

**Structural imbalances in the Chinese Economy
after the 2008-2012 Financial Crisis. Reflections
from Latin American Economic Thought**

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2008-2012. Reflexões do pensamento econômico latino-americano**

**Desequilibrios estructurales en la economía china después de la crisis
financiera 2008-2012. Reflexiones desde el pensamiento económico
latinoamericano.**

Gustavo E. Santillán

CIECS-CONICET-UNC (República
Argentina)
E-mail: gustavo.santillan@gmail.com

Abstract: This work develops a reflection over the Chinese economic structural imbalances, as evident in the aftermath of the 2008-2012 Financial Crisis. To do so, it presents a review of some relevant concepts provided by, first, the current literature on the so called “middle income” economies; secondly, the work advances in the search of contributions originally produced by the Latin American Economic thought, together with theoretical developments formulated by Arthur Lewis work on development economics, considered as an appropriate tool for the analysis of the Chinese economic transition since 1978. This review is presented together with an exposition of the main traits of the Chinese economy, accomplished by means of aggregate indicators examination. From this analysis, we came to identify some traits that resemble China with an unbalanced productive structure. The economic imbalances of the Chinese

economy, in this regard, lay on the existing links between the country and the world economy and, finally, constitute major challenges for the sustainment of the development process.

Keywords: China. Economy. Imbalances. Economic thought.

Resumo: Este trabalho desenvolve uma reflexão sobre os desequilíbrios estruturais econômicos chineses, como evidenciado no rescaldo da Crise Financeira de 2008-2012. Para tanto, apresenta uma revisão de alguns conceitos relevantes fornecidos, em primeiro lugar, pela literatura atual sobre as chamadas economias de “renda média”; em segundo lugar, o trabalho avança na busca de contribuições originalmente produzidas pelo pensamento econômico latino-americano, juntamente com desenvolvimentos teóricos formulados pelo trabalho de Arthur Lewis sobre economia do desenvolvimento, considerado como uma ferramenta apropriada para a análise da transição econômica chinesa desde 1978. é apresentado em conjunto com uma exposição das principais características da economia chinesa, realizada por meio do exame de indicadores agregados. A partir dessa análise, chegamos a identificar alguns traços que lembram a China com uma estrutura produtiva desequilibrada. Os desequilíbrios econômicos da economia chinesa, nesse aspecto, assentam nos vínculos existentes entre o país e a economia mundial e, finalmente, constituem grandes desafios para a sustentação do processo de desenvolvimento.

Palavras-chave: China. Economia. Desequilíbrios. Pensamento econômico.

1. Introduction

In the period under review, the People’s Republic of China (PRC) recorded high rates of GDP growth until 2008. From then on, economic growth started to decline. At the same time, the PRC adopted indigenous mixes of Economic and social policies aiming at regulate the economic process, throughout the entire period. Such was also the pursued path among a relevant set of Latin American countries (Brazil and Argentina, for example). This process has been arduously debated by scholars and observers all over the world, and this article intends to contribute to this debate.

In spite of this, both regions share also another common feature in the eyes of the international community: China and Latin America were often quoted as abnormal failures in the world order, with nothing good able to come out of them, so much in the economic field (i.e. technology, manufacture, etc) as in the field of ideas: by this token, both the “Sick Man of Asia” and the “American backyard” were strong lessons about what *not to do* in Economic Policy.

This work aims to trace some Latin American reflections about the so called underdeveloped societies, which we think might be fruitful for a comprehensive outlook of the challenges faced by these kind of societies, even in spite of the recent economic successes. By doing so, we move the focus of the analysis away from the inner dynamics (which would lead us into the consideration of leadership errors, indiscipline, excessive monetary emission or public spending, disrespect of comparative advantages, and so on, to explain the challenges faced by our countries), to turn it to the articulation of these dynamics with the global society into which they are occurring.

This task is developed by a) a preliminary review and criticism of recent economic literature on “middle income” economies, b) a presentation of relevant literature produced within our region and able (to our mind) to provide concepts for the analysis of the main Chinese and Latin American economic bottlenecks, and c) a

2. Middle income trap?

We start our analysis by stating a recent fact, which is currently a concerning issue for the Chinese

succinct explanation of the main traits of the Chinese economy, developed by means of aggregate indicators exam. All this work goes in order to justify our hypothesis, which goes as follows: China shares some features of an *unbalanced productive structure*, driven in its economic cycles by recurring episodes of inflationary pressures. These pressures are in turn due in part to an underlying contradiction between accumulation and consumption.

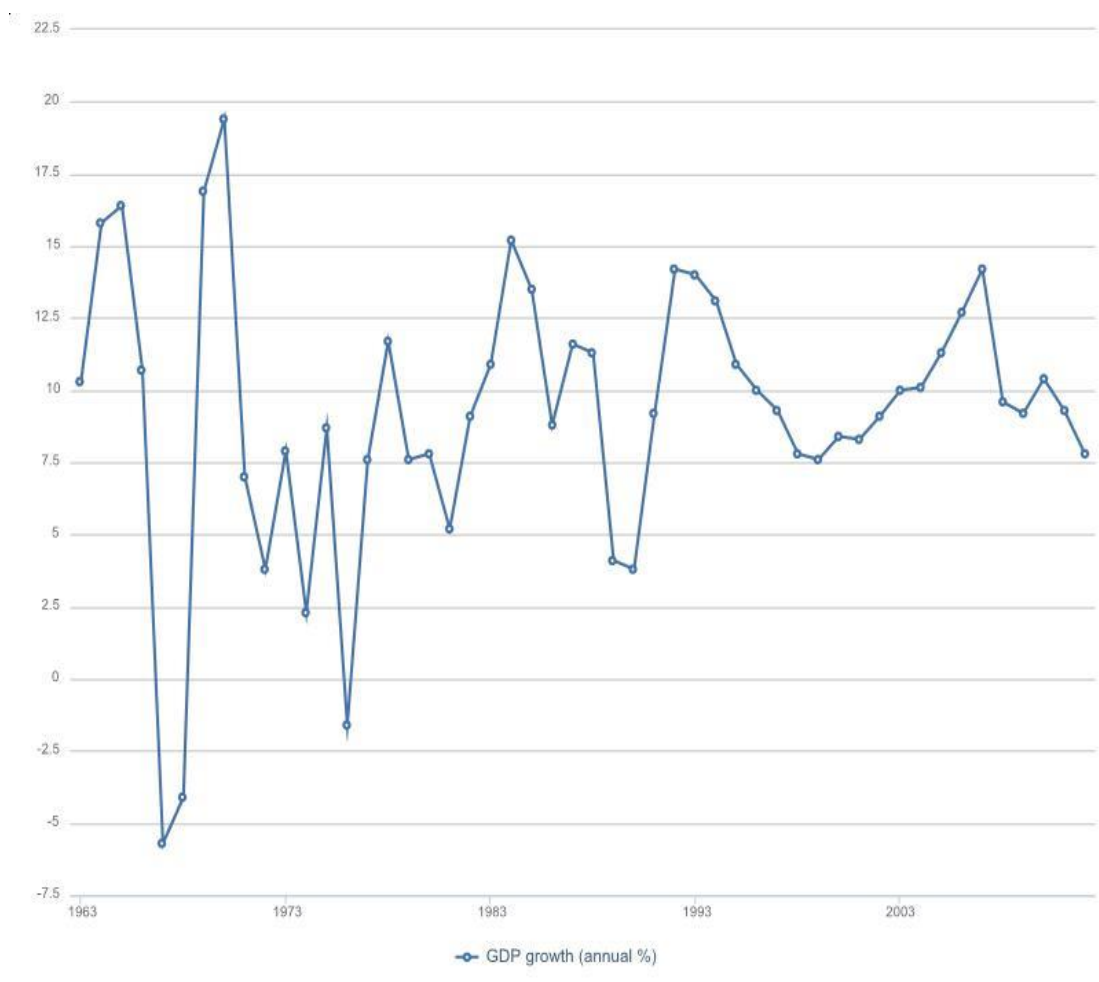
This hypothesis has two corollaries: first, as already suggested, this contradiction is due to the structural position shared during its previous XXth century history among the world order. Secondly, we must cast a serious doubt on mainstream economics scholarly pleas on “innovation” and “openness” as means to overcome current difficulties, frequently named as “middle income traps.” Instead, we must look at the current existing links between domestic economies and the international world order.

leadership: the apparent slowdown of economic growth indexes, since the outburst of the 2008 financial Crisis. We show in Chart 1 the average

indexes of GDP growth for a long term period, 1963-2012

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Chart 1. GDP growth (annual %)



World Bank, 2013

¹²⁶ We deliberately excluded the Great Leap Forward Period. Therefore, in order to look into the performance of the Chinese Economy during and after the Maoist era, we start our analysis by 1963.

This trend might constitute merely a short-term minimum variation in the experienced index of growth since 1978 (as seen in our chart, China clearly experienced more serious challenges between 1989-1990), but for the appearance of some structural emerging problems and, secondly, for the World Bank recent elaborations about the so called “middle income”¹²⁷ trap, threatening to halt Chinese economic development.

Originally, the concept was first sketched in a *Foreign Affairs* article by Geoffrey Garreth (GARRETH, 2004: 84-96) and then further developed in the *East Asia Renaissance...* document from the Bank, (INDERMIT, KHARAS et.al., 2007:17-18) based only on neoclassical assumptions of diminishing marginal returns to capital.¹²⁸

In a nutshell,

The idea that middle-income countries have to do something different if they are to prosper is

consistent with the finding that middle-income countries have grown less rapidly than either rich or poor countries, and this accounts for the lack of economic convergence in the twentieth century world. Middle-income countries, it is argued, are squeezed between the low-wage poor-country competitors that dominate in mature industries and the rich-country innovators that dominate in industries undergoing rapid technological change. (INDERMIT, KHARAS et.al., 2007:17)

Later on, the limits of the trap were set on the basis of income definitions established by the Bank itself. (see AGÉNOR and CANUTO, 2012) From then on, economic literature spent efforts to determine, by regression and cross country statistical data review, the existence of such a trap. These efforts implied also the determination of a minimum required time span for the persistence of a country within the middle income category. Secondly, more empirical studies were devoted to the quest for the sources of the traps, testing several factors and indicators inhibiting economic growth. By this token, social justice, educational factors, natural

¹²⁷ The middle income status is defined by the Bank itself, with the upper limit set at around US\$ 12,000 of GNI per capita.

¹²⁸ Most of the Chinese (and East Asian, and Latin American, for that matters) growth was accomplished by virtue of factor inputs. (COLLINS, BOSWORTH and RODRIK, 1996:135-203)

resources endowment, etc., were recently detected as possible explanations of per capita income stagnation. (ROBERTSON and YE, 2013; FELIPE, ABDON and KUMAR, 2012; PEERENBOM, 2013)

In spite of this, the concept itself has been criticized several times, on accounts of its ambiguity and non-specific character. Concretely, what do income level tells us about the main and specific features of a concrete economy? What kind of achievement accomplishes a country by breaking the 12,000 dollar barrier of per capita income? These questions remain (so far) unanswered by the middle income trap concept, thus vaguely defined. (JIANG, 2013:129-140) Therefore, some corrections were proposed to it, implying a) a multidimensional approach in order to select and classify sample countries, and b) the definition of several traps instead of one, in order to explain existing inhibitions to economic growth among middle income economies.

3. Structural imbalances in peripheral economies

Having situated the “middle income trap” debate among a

conventional and mostly empirical framework, we chose to take a different approach in order to better describe the main problems affecting peripheral economies. This approach, precisely, came from Latin-American Structuralist Political Economy.

The virtue of this school lies in the definition of structural forces and mechanisms dictating the main traits of a national economy, given its specific position within a wider world order. It was Raúl Prebisch, first, and later Celso Furtado, whom opened this theoretical point of view. While Prebisch insisted on a secular deterioration in the terms of trade for natural-resources commodity exporters,¹²⁹ Furtado stated the concept of underdevelopment, not as a required stage for development,¹³⁰ but as a by-product of capitalist development within the world order. Furtado defines underdevelopment as

¹²⁹ Although these premises were discarded among the Washington Consensus ideological climate, now they are again re-examined in light of fluctuating price trends for commodity exports. See CAVALCANTIAI, MOHADDESAB and RAISSIC, 2012

¹³⁰ This feature in Furtado’s thought marks a clear difference between ECLA’s developmentalist economic thought and Rostow’s Modernization Theory, widely supported by the American State Department on its time. This point is worth to stress because, later on, developmentalist research on East Asian Economies were influenced by this last view, rather than by Latin American structuralism. This is clearly corresponding with the diverging US role in both regions after World War II.

the capitalist-induced constitution of *hybrid* economies in the periphery of the world system. These economies are in fact *dual* economies, with a modern-capitalist sector (generally constituted by foreign investment in resource-based sectors) aiming to produce for the world market, and with the decision centres located in the core of the world system (multinational companies, and/or metropolitan States). Together with this “modern” sector and surrounding it, underdevelopment implies the persistence of a traditional, pre-capitalist sector, maintaining and reinforcing its traits as foreign-induced economic growth takes place. (FURTADO, 1964:165)

This point is one of particular relevance to our purposes, because 1) dualism implies a chronic shortage of capital during the process of economic growth, eventually leading to recurrent short-term crisis, and 2) a structural imbrication is produced between the two sectors of the economy, whereby the modern sector grows by seizing factors and resources from the traditional sector. This relation might take different and

concrete historical forms,¹³¹ (FURTADO, 1964:213-246) as we will see next in the case of China.

Precisely, China poses serious challenges for underdevelopment theory: this theory stresses the role of the traditional sector of the economy merely as a provider of wage labour,¹³² and neglects the positive role of an unlimited supply of labour for the economy as a whole.

This leads us to consider Arthur W. Lewis model of economic development, which posits a more accurate explanation of rural-urban transition for the case of China,¹³³

¹³¹ See two alternative approaches to the rural-urban transition process and, therefore, to the relation between the modern and traditional sector of the economy (albeit constructed on the basis of the Sub-Saharan African experience), in ARRIGHI, 1969; and the classic work of the French Marxist anthropologist Claude Meillassoux (MEILLASSOUX, 1987)

¹³² In Furtado’s model, the impact of the modern sector on the per capita income of the traditional sector might take different forms along the process. In Burma and Ceylan, for instance, a rigid supply of labour in the traditional sector created, on behalf of the demand arising from the modern plantation sector, a situation of underutilized factors together with an absolute rise in the wage levels of both sectors, without a structural transformation of the economy (namely, development). In the Brazilian case, instead, the result of foreign-induced development was the formation of a three-tier economic structure: one level was constituted by subsistence activities within the traditional sector; a second tier was constituted by the export sector, driven by foreign investment; and, finally, an incipient economy devoted to the production for the domestic market, given the ability of local workers to defend its standard of living. This ability depended on particular conditions of inner rural and foreign immigration, basis of the making of Brazilian working class. (FURTADO, 1969:169-173)

¹³³ Ironically, what Lewis had in mind was African

(LEWIS, 1963;1986) in spite of being partially constructed under neoclassical assumptions. Concretely, Lewis starts from the observation of dual underdeveloped economies (like Furtado did); this, for Lewis, implied an imbalance between an excess of labour in the traditional sector, *versus* a shortage of labour in the modern, capitalized sector. This imbalance implied in turn different factor remunerations in both sectors, with wages at subsistence levels in the traditional economy, and wages determined in the modern sector not by marginal productivity of labour, *but by the minimum wage in the subsistence sector*. Therefore, the establishment of wages just above this minimum in the modern sector allows for the massive influx of workers into the cities and industries, given the feasibility of labour mobility (which constituted, for us, an important factor in the Chinese reform). The final crucial assumption for this model to work this way, is the unlimited supply of labour in the rural areas and in the informal sector of the economy, nurturing urban

supposed transition from a rural economy towards economic development. History, unfortunately for Africa, denied Lewis thesis for these economies in favour of the unforeseen Chinese transition.

growth and economic development. Along this process, however, and in the long run, economic development implies the levelling of this dual-cost structure, thereby achieving optimal factor allocation. From this point on, the economy reaches the neoclassical “equilibrium” point, and labour is rewarded for its marginal product.¹³⁴ When this allocation is achieved, the economy reaches its maturity and acquires an homogenous character. Economic growth, on the other hand, starts to slow its pace.

This is consistent with the sustained expansion of per capita income in aggregate terms in China from 1978 on, as much as with the sustained rural income and regional disparity, corresponding with labour demanding and supplying regions, displayed in Table 1.

¹³⁴ According to Furtado, a major flaw in neoclassical economic theory is its incapacity to explain economic growth and development, given optimal factor allocation and zero benefit. The virtue of Lewis model is to be able to combine neoclassical assumptions with an “exogenous” explanation of economic transformation, from the observation of the evident dualism existing in peripheral economies. For additional criticism to the neoclassical stationary model, albeit from a different perspective, see AGLIETTA, 1979.

Table 1. Rural-Urban income disparity (selected years)

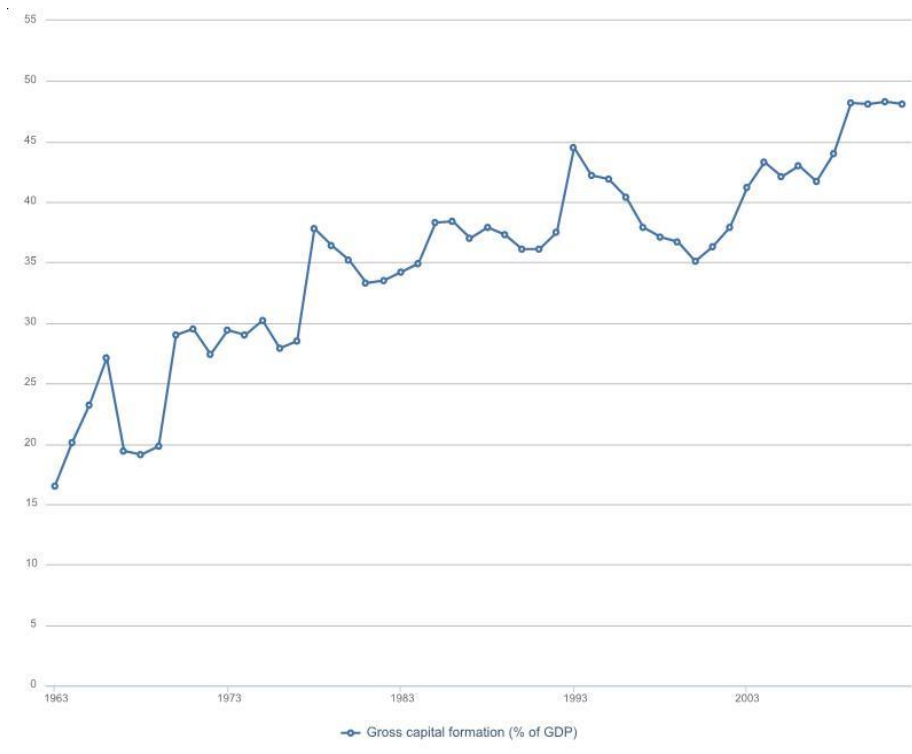
	Rural Income (yuan)	Urban income (yuan)	U/R
1978	133,6	343,4	2,57
1985	397,6	739,1	1,86
1988	544,9	1181,4	2,17
1992	784	2026,6	2,58
2001	2366,4	6859,6	2,9
2009	5153,2	17174,7	3,33
2011	6977,3	21809,8	3,13

NBS (2018). *China Statistical Yearbook*, vs. years.

This process, above all, explained the phenomenal 30-year economic growth period at high rates, and the continuity of it (albeit, as stated, at low rates). However, the model does not account for two factors: a) the continuous process of

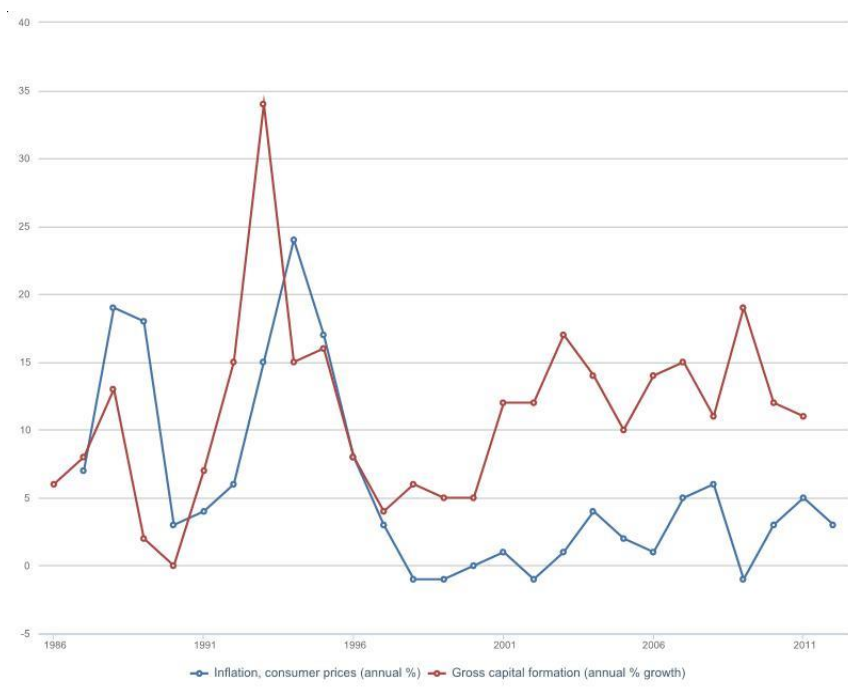
capital formation in the economy, and b) the recurrence of economic cycles, manifested in the Reform and Opening-up period by often violent inflationary episodes in urban areas. Both factors are intertwined, as we will be able to see.

Chart 2. GCF, 1963-2012 (% GDP)



World Bank, 2013

Chart 3. GCF and inflation, 1986-2012 (%)



World Bank, 2013

Since 1949, development and structural transformation in the Chinese economy proceeded through a) a State driven capital accumulation in the 1949-1978 period, b) the elimination of rural landlord classes at the beginning of the same period, and c) in the period opened in 1978, a Lewisian path of rural labour absorption.¹³⁵ However, this last period was also marked by an absolute rise in income levels (both in rural and urban areas, albeit maintaining rural-urban disparity), which eventually led to inflationary pressures. This implies, in our view, that there is a contradiction between popular consumption and capital accumulation. There is no traits in Lewis model which helps us explain this cycles within a developing economy, nor the persistence of structural inflation (implying an unbalance between investment and consumption).¹³⁶

¹³⁵ Concretely, the beginning of the process was in great measure allowed by the official tolerance of authorities to rural – urban migration in the aftermath of the Cultural Revolution, together with the authorization to rural families enacted in 1979 to undertake production decisions in their own (*de facto*) plots. Consequently, over 27 million people flew into the cities between 1975 and 1979, reversing twenty years of *negative* rural-to urban migration rates. (RISKIN, 1987: 266-267.

¹³⁶ Concretely, “Capital formation and technical progress does not translate into wage increases, but in an increase in the participation of benefits into the

Recently, there has been much debate about the exhaustion of Lewisian path to development within Chinese economy, given that urbanization (within the scope of 55-60% of total population¹³⁷) might imply the exhaustion of the unlimited labour supply reserves. Actually, there is growing evidence of rising labour costs in coastal cities, reinforcing this hypothesis. However, there is no concrete and aggregate quantification of this increase, suggesting the existence (even today) of the continuity of the labor-absorbing path. (CAI, DU and YANG, 2009)

Therefore, we will focus instead on our defined contradiction in order to apprehend the main bottlenecks inhibiting the Chinese economic development. To do so, we will conclude our theoretical review by

national progress.” Regarding inflation, “inflation with the purpose of capital creation is self’-destructive, suicide. Prices climb whilst capital is created, and they decrease later, as the production reaches to market in the national progress.” (LEWIS, 1963: 733). That is, another neoclassical assumption based on optimal factor allocation, which supposes what could be regarded as a short-term disequilibrium. For Furtado, instead, inflation is a structural trait of development, linked with resource appropriation by industrial capitalist classes. Policy recommendations stresses, according to this model, State administration of investment allocation during the process, which of course does not eliminate the inflation phenomenon.

¹³⁷ Given the existing restrictions to urban registration of migrants, the official figure of 45% rural population is an underestimate value.

explaining this contradiction, as expressed in inflation pressure, through an exam of the relation between exports, domestic growth, and exchange rate. This, in turn, will allow us to look into the last twenty years of the Chinese economic development.

In order to turn the Chinese economy more or less comparable with another peripheral economies, we must look so much into its structural inner limitations, as much as into the ways in which developing economies insert themselves into the world capitalist economy. These ways produce, in fact, *unbalanced productive structures* in developing countries.¹³⁸ This concept is a resemblance of Furtado's dual economies, in the sense that economic growth in these structures is driven primarily by the export sector.¹³⁹ The primacy of the export sector translate itself into an official exchange rate in accordance with the actual productivity of this sector, generally higher than in the rest of

the economy. With respect to the domestic market producing sector, the established exchange rate is then relatively lower than required, making competition difficult with import products. The next consequence of this exchange relation is the constant influx of foreign currency along with the successful development of economic growth. These resources are devoted, by the domestic industrial corporate sector and by the State, to investment projects and to the acquirement of capital goods, pressing over the exchange rate. By doing so, pronounced tensions are introduced during the economic cycle, conditioned by a) A shortage of capital and foreign currency within the national economy, b) A crescent loss of competitiveness of the industrial sector, produced by the *de facto* valorisation of the exchange rate, and c) A progressive erosion of the public sector foreign reserves. These tensions are temporarily managed by the government through the resource to foreign indebtedness; this in turn aggravates the situation, because the reserves are then "evaporated" through an additional bleeding, the payment of principal

¹³⁸ The concept was developed and applied in DIAMAND, 1972, 1978, 1988.

¹³⁹ This is the case in Lewis model as well. In Furtado's view, this trait corresponds with the underdevelopment situation, before structural transformation. From then on, if accomplished, domestic market plays a major role in development.

and interests of foreign debt. All this situation is solved, finally, through an abrupt devaluation that temporarily readjusts the foreign exchange relation, until the cycle resumes again. This is known in the peripheral economies specialized literature as *stop and go* cycles. Ultimately, and given the fact that devaluation implies resource transfers from wage and fixed income earners towards the capitalist classes, a depression in popular income is produced during the downturn phase of the economic cycle.

Summing up, in unbalanced productive structures, we have:

- a) A relative primacy of external sector,
- b) A chronic shortage of capital, and
- c) A systematic repression of living and consumption standards.

In the short term, the transition phase between each stage of the cycle manifests itself in inflationary pressures during the exhaustion of foreign reserves until, finally, they are unleashed by a devaluation of the exchange rate.

This is translated into the actual reality of China, as follows: there might be maintained the existence of a structural tension, as in the peripheral economies. This tension expresses itself in a contradiction between the need for accumulation and capital formation, on one hand, and popular consumption and real per capita income rise on the other hand. Even since the period of planned economy, there were oscillations between policies oriented to reduce capital accumulation levels (for instance, 1962-1965) towards the increase in wage levels, and the authorization to the operation of private autonomous activity. These policies are conditioned by the existence of previous overinvestment levels, and by the deterioration of per capita income levels (verified, for instance, between 1958 and 1962). However, in order to precise more specific features within the Chinese economy expressing this contradiction, we must look separately for its main structural features and imbalances.

4. An outlook of the Chinese economic structure

We referred in our last section to structural disequilibria between accumulation and consumption, as this was evident during the Maoist period. Concretely, and much like in the Soviet experience, the State accumulated capital during that period at the expense of a) the traditional landlord ruling classes, and b) the standard of living of the common peasantry. This allowed for the construction of an integrated industrial structure, although how much of this structure was functional to the post-Maoist economic reform model, is still subject to debate. Finally, and in spite of the debate, this feature states a clear difference between the Chinese economy and a “typical” peripheral economy, as defined by Furtado.¹⁴⁰

¹⁴⁰ Regarding State appropriation of peasant income, it was stated as a trait of several late development economies. For Japan, see TAKAHASHI, 1986: 60-115. A classical sociological work qualified Maoist agrarian policy in the following terms: peasants were “subject to renewed overburdens and pressures when introduced into the modern world (albeit) having been supplied the most important revolutionary destructive force that threw away the old order; they were propped into (...) the modern era under communist regimes that maid (them) its predilect victim.” (MOORE, 1993:9). As for Brazil, the resistance of traditional elites was broken, according with Furtado, during the ‘50s and early ‘60s within the State apparatus, allowing for the accomplishment of structural transformation. Later on,

The first decade of economic reform in China, as already stated, marked the beginning of the Lewisian path of development, and this allowed for the accumulation of capital on that basis. However, urban inflation surged repeatedly between 1986 and 1989, lying behind social conflict and eventually wounding up in the Tiananmen crisis. This crisis stopped the pace of economic reform, and the government cut investment in order to control urban inflation. In addition, much of the capital already flowing into the country ceased, by means of the economic blockade implemented by Western countries. The crisis finally concluded in 1992 with Deng Xiaping’s decision to resume and accelerate the opening-up process, and this had two major consequences in economic terms: first, the acceleration in the pace of capital inflows to China, this time driven directly by European and US investment.¹⁴¹ Secondly, the growing competition stressed the financial

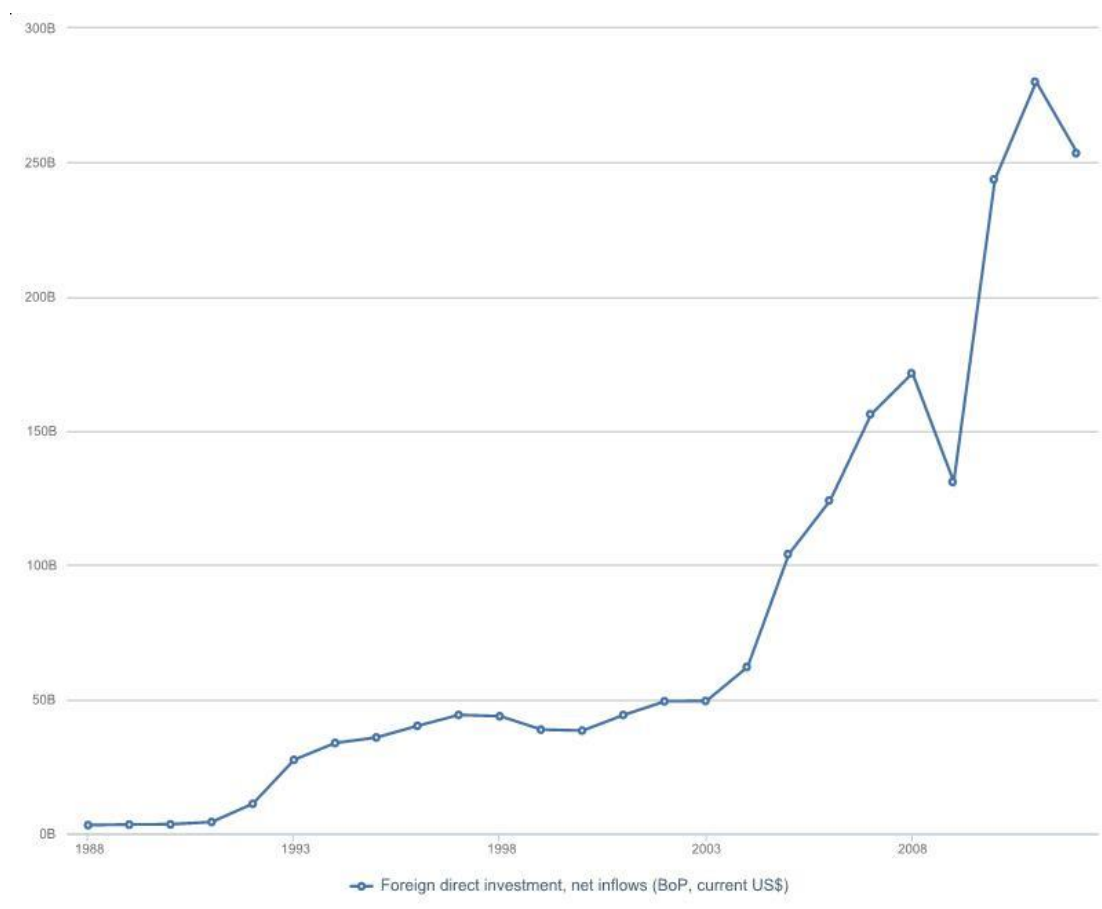
the author regretted for the reversion of this accomplishment after the 1964 coup d’état, and pledged for the abandonment of neoliberal policies in order to resume the path to development. See ROCHA, 2007:132-159.

¹⁴¹ During the 1989-1992 period, the scarce amount of capital entering to the country was channeled through Chinese diaspora investors, mainly from Hong Kong, Singapore and Taiwan.

situation of State – Owned enterprises, requiring urgent corporate reform. (NAUGHTON, 2007:100-107) We can see inward FDI in the Reform period in Chart 4 (absolute terms) and 5 (as a

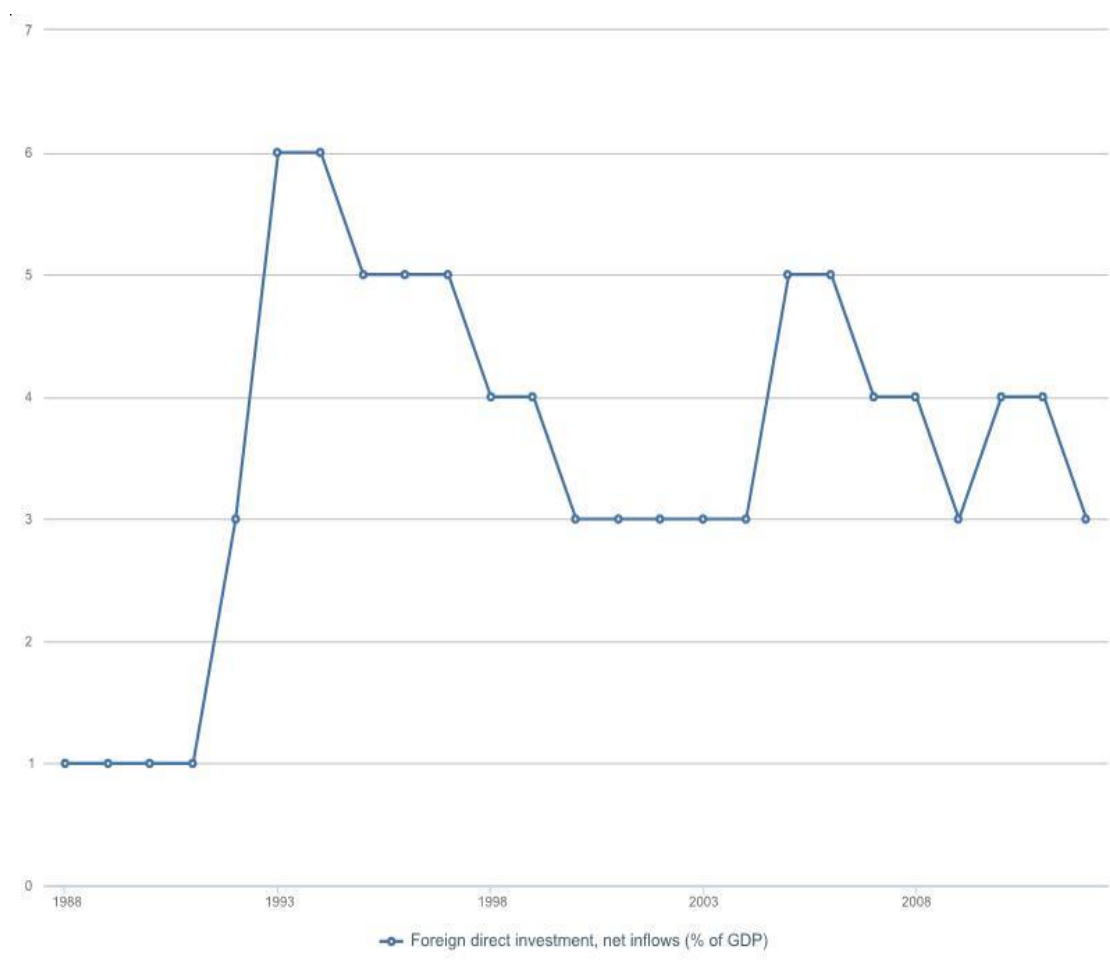
percentage of GDP). This last chart displays the increasing importance of foreign investment during the ‘90s. More precisely, real surge of foreign investment occurred in 1993.

Chart 4. FDI inflows (1988-2012) (current US\$)



World Bank, 2013

Chart 5. FDI inflows, % of GDP (1988-2012)



World Bank, 2013

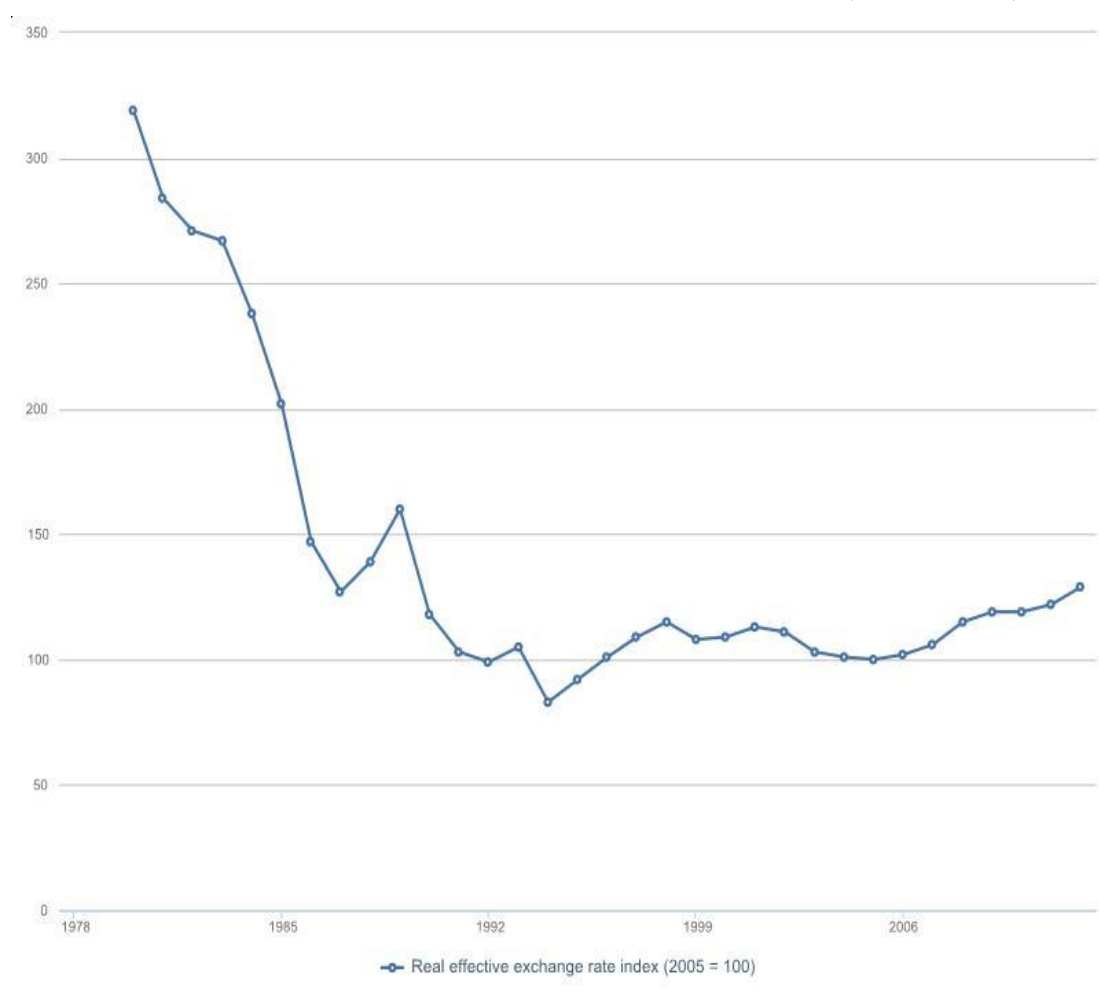
The above stated has three profound implications to our purposes. First that, evidently, inflation could be effectively controlled after 1995 by the leadership. Second, that much of this success, conventionally attributed to the downsizing and transfer of state assets implemented between 1993-1997, is due in great measure to the sustained capital inflows arriving into the domestic economy. Third, that public corporate sector, usually

producing in this stage for the domestic market, started to work during the 1993-1997 transition as the domestic industrial sector in an unbalanced productive structure: that is, started to suffer competition from the external sector, demanded crescent financial assistance, and thereby stressed the State fiscal budget. This situation, eventually, could only be superseded by the application of a mixed policy that a) pursued the gradual liberalization of

the economy, b) transferred the bulk of loss-making enterprises to the private sector, thereby drastically reducing State employment, and c) selected strategic-sector enterprises and promoted the conformation of a highly protected core of State

conglomerates, aiming to turn it competitive in the world market, and able to absorb and develop high technology. Chinese accession into the WTO, in 2001, only reinforced this pattern of growth.

Chart 6. Real effective growth rate, 1978-2012 (2005=100)



World Bank, 2013

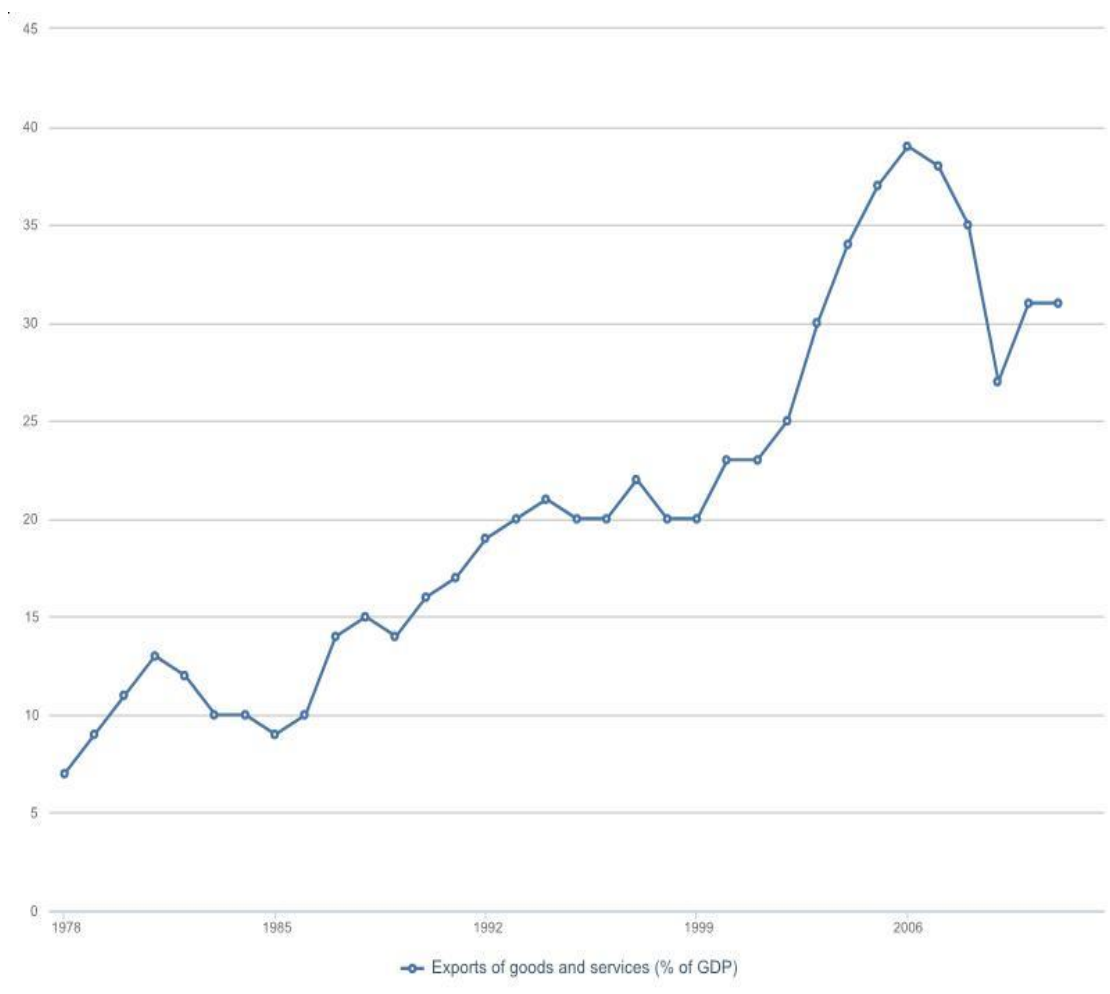
In spite of this process, and in spite of a detected reduction in the recurrence of economic cycles, certain structural problems in

Chinese economic model should be reinterpreted in light of our conceptual framework: first, there is a dependence of economic growth

from the export sector, as evidenced in the amount of FDI received from the '90s on. This can be remarked from the observation of the percentage of exports in GDP. Concretely, FDI was applied in good measure to install re-export platforms

by transnational corporations towards the US and European consumer markets, producing also semi-elaborated products for Japanese and South Korean companies, thereby reinforcing regional integration.

Chart 7. Exports as % of GDP, 1978-2012



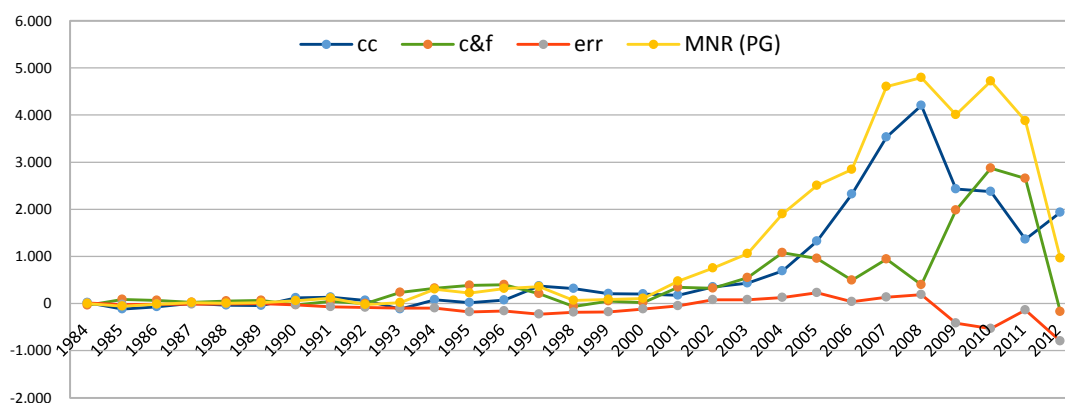
World Bank, 2013

With 35 years of economic reform, and having overcome high inflation rates experienced during the '80s on the basis of massive influx of

investment, the outcome in 2012 was the increasing exposition of the economy to the global turbulences. We can see this trait in chart 8,

displaying the Chinese financial position with the world (Balance of Payments).

Chart 8. Chinese Balance of Payments, 1984-2012



Elab. under STATE ADMINISTRATION OF FOREIGN EXCHANGE, 2013

Therefore, the relative dependence from the external sector might imply the subordination of the domestic economy, at a stage of prevalence of financial capital over industrial production and investment decisions; that is, an external environment radically different than the international framework in which Structuralist Economics developed its tenets. This situation called for the State adoption of strong anticyclical policies to overcome global shocks, as evidenced between 2008-2009. However, the increasing proportion of portfolio investments (see chart 8) might neutralize the effectiveness of

these kind of policies in the future, thereby reducing State autonomy.

It could be pointed out that these difficulties are shared by every national economy embedded in the globalization process, however central or peripheral these economies were. We can find enough support for this assumption in practically every daily analysis developed by any report press. However, some specific features of Chinese economy deserve a close attention.

First, anticyclical economic policies in China are remarkably expansionary, rapidly spilling out towards local jurisdictions and the

banking sector. This in turn is explained by the remarkably high savings rate existing in domestic economy. These savings are unable to be channeled into domestic consumption, therefore heading towards investment in capital goods and infrastructure sectors serving exports development, given the outward orientation of the economy. As the exports sector grows faster than the domestic goods industrial sector, inflationary pressures have reemerged (MANTZOPOULOS and SHEN, 2011:168). In the meantime, the successful development of the export sector pushes down the exchange rate by means of foreign currency influx, as in an unbalanced economic structure. In the already stated downturn economic environment, a relevant risk is in the order of the day: an eventual and sudden fall in exports price or volume, able to generate excess capacity and unemployment, might push for a reduction in the domestic demand, thereby creating a vicious cycle in the economy.

We find here, in sum, and in spite of the remarkable success in structural transformation achieved by the country (not only in the last 35

years, but from the creation of the People's Republic), a relative difficulty in the achievement of a balanced and parallel growth of consumption and investment, at the expenses of the living standards of the population.

5. Conclusion

We stated in our theoretical review, first, the inadequacy of the "middle income trap" concept in order to deal with the current challenges faced by the Chinese economy and, secondly, even to depict the main traits of this kind of economy. This is due to the merely empirical elaboration of the concept, by virtue of induction and convention.

Secondly, we delved in Latin American economic thought in order to get a better comprehension of the structural features of the Chinese economy. By doing this, we did not pretend to fit China into the theoretical suit of dependency theory, or structuralist thought. Surely, there is a crucial difference between China and the Latin American economies: for instance, in the degree of integration, knowledge, and value-added in industry. However, we did

pretend to illuminate some aspects concerning the modes of articulation of an economy embarked in an accelerated process of structural transformation with its surrounding environment. As a result, we came to the following conclusion: during its transition process, China relied on two pillars: rural-urban transition, and resource transfers from the core of the world economy. Both elements contributed to capital formation, but this process introduced imbalances between investment and consumption, which is a typical feature of a peripheral economy.

The above-stated features, of course, are a matter of concern for the Chinese leadership, although expressed in a different language than our framework did. On the other hand, the measures devised to deal with the problems derived from these traits are far from being a safe bid. The Chinese government proposes, for instance, the deepening of the openness of its economy to foreign capital, in a context well different from the early '90s. The prevalence of financial capital in the global economy, for instance, is nowadays much more pronounced. Secondly, the measures adopted or in adoption

in order to deal with the expansion of consumption, implied as a counterpart the increased promotion of rural-urban migration, and the detachment of peasants from their land in order to incorporate them as consumers. Moreover, the resources provided for the reinforcement of an incipient social safety net would come from the decrease in public investment (with special emphasis on local governments budget reductions), from the rationalization of the financial and banking system by means of its opening-up to foreign investment, and from the building of a truly functional capital market. These sets of measures could only multiply the influence of foreign capital, only that this time allocated mostly in the financial sector. The success of this kind of policy lies, in turn, in the ability of the financial sector to allocate resources for investment in response to a supposedly crescent demand induced by the promotion of consumption. By this token, investment decisions are left to market forces. If demand is not sufficiently pumped by public spending (in fact, the proposed policies are based on fiscal tightening) it is not sure that

domestic market will function in the direction of calling for investment allocation.

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