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From the New International Economic Order to the G20: how the ‘global South’ is restructuring world capitalism from within

PHILIP S GOLUB

ABSTRACT In the early 1970s the G77 and the Non Aligned Movement (NAM) challenged the material and intellectual pillars of the postwar liberal capitalist system through collective action at the UN to establish a New International Economic Order (NIEO). The aim was to complete the ‘emancipation’ of the ‘global South’ by creating binding institutional frameworks, legal regimes and redistributive mechanisms correcting historically constructed core–periphery disparities. That ambitious effort failed in the face of ‘Northern’ resistance and national segmentation within the NAM. Today re-emerging states of the global South are engaged in a more successful effort to gain voice and alter international hierarchy by claiming a central place in the world capitalist system and restructuring it from within. The vertical late-modern world system centred in the Atlantic and ordered by the ‘West’ is thus gradually giving way to a polycentric international structure in which new regional and transnational ‘South–South’ linkages are being formed. This paper critically reviews the transformation and argues that, while it is creating long sought-for conditions of relative international equality, it has also dampened the emancipatory promise of the anti-colonial struggle.

In the early 1990s, when many observers were anticipating a new cycle of ‘Western’ ascendancy, Janet Abu-Lughod presciently hypothesised the end of the era of ‘European/Western hegemony’ and a ‘return to the relative balance of multiple centres’ that preceded Euro-Atlantic imperial globalisation in the 19th century. This systemic change, which she situated in long historical perspective and compared to the successive restructurings that led to the Eurasian-centred 13th century world system and the early modern Atlantic system that opened the way for European world hegemony, involved the re-emergence of Asia and the Pacific, which would ‘supplant the Atlantic as the zone of expansion and dynamism in a world system that has been almost totally

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globalized’. \(^1\) Jack Goody contemporaneously argued that the historic pendulum, which had swung to the ‘West’ in the modern and late-modern periods, was swinging back to the ‘East’ as Asia reclaimed the systemic role long held before the age of Western empire and industry. \(^2\) While it is implausible that Asia or other postcolonial world regions will soon supplant the Euro-Atlantic countries at the centre and apex of a new postmodern global hierarchy, the movement towards a polycentric and plural world system has indeed quickened over the past decade-and-a-half, as major countries/regions of the ‘global South’ have consolidated their position as dynamic poles of the world capitalist economy, developing regional and transcontinental linkages that are reconfiguring global trade, investment and financial flows.

The systemic restructuring has primarily been driven by East Asia, which has experienced a process of economic expansion and ascent, the intensity, spatial scope and duration of which have been remarkable by historic standards. Beginning with Japan’s revival in the 1950s and 1960s, a regional development dynamic was set into motion that spread successively, in wave-like formations, to the Newly Industrialised Countries (NICS) of North East Asia (South Korea, Taiwan), the re-emerging countries of Southeast Asia (ASEAN 4) and thence, over the past three decades, to China. Varying initial conditions, historic pathways and state capabilities have produced uneven country-to-country developmental outcomes, distinguishing first and second wave industrialisers from third and fourth wave countries that are climbing the ladder but have yet to catch up with the most developed economies. Nonetheless, a coherent process has been at work, unfolding over time and space to most of the region, with global effects. East Asia’s aggregate share of constantly increasing world GDP (in purchasing power parity—PPP), which was negligible in the 1950s, has thus risen from around 10% in 1980 to 25% in 2010. China’s share has grown from 2% to over 14%. Over the same time frame PPP per capita GDP in current international dollars was multiplied by 12 in South Korea, by over seven in Singapore and Thailand, by six in Malaysia and Indonesia, and by 33 in China (from $250 to $8380 in 2011)—a spectacular increase that reflects the intensity of growth and its cumulative impact. By 2020 East Asia’s share of world GDP (PPP) is expected to reach 32%, with China accounting for nearly two-thirds of the total. In South Asia India’s world share has risen from 2.5% to 5.5%, and per-capita GDP has increased by a factor of 14, from $419 dollars to $3600 dollars today (in current international dollars PPP). Asia’s aggregate share of world GDP (PPP) is thus projected to approach 40% in a few years. When other major re-emerging countries and world regions—Turkey, Brazil, Mexico, South Africa, etc—are factored in, the global South’s world share in 2020 will exceed 50%. \(^3\)

Over the past decade and a half East Asia has thus been the main source of world growth and has emerged as the heart of new and increasingly thick transcontinental ‘South–South’ trade and investment linkages. Growing financial power derived from cumulative surpluses is another important feature of the rebalancing of the world economy, which has been accentuated by the deep and probably durable economic crisis in the European Union and the continuing economic problems of the USA. The politics of re-emergence has lagged behind economics, but a gradual reordering of world politics is also underway, as seen
in the growing voice of the global South in international public organisations (IMF, WTO) and clubs (G20), their activism in various issue areas of world politics, and incipient efforts to institutionalise regional and global linkages bypassing traditional centres of authority (IBSA, Shanghai Cooperation Organisation). Systemic change at political level is evident, conversely, in the diminishing relevance of old clubs (the G7 or G8) and the difficulties encountered by the formerly dominant countries and blocs (NATO) in setting the global agenda or establishing and maintaining international regimes reflecting their preferences. We are, in short, witnessing the end of the long historical cycle during which wealth and power were concentrated in the hands of a small number of Euro-Atlantic states. The hierarchical international system constructed in the late modern period that was centred in the north Atlantic and ordered by the Western powers, and which instituted a global division of labour dividing the world into dominant cores and dependent peripheries, is giving way to a decentred world system with plural sources of authority.

The argument of this paper is that the major actors of this systemic shift are realising what generations of nationalist anti-colonial and postcolonial leaders had fought for—upward mobility and greater international equality through a redistribution of world power at economic and political levels—by embracing and restructuring the world capitalist system from within rather than by exiting or challenging it from without. At the same time the waning of colonial/imperial modernity and of the conceptual categories that previously organised knowledge of world social space, have generated an intellectual and normative predicament: the role of postcolonial states as drivers of a new phase of capitalist globalisation has blurred and in some cases completely erased the emancipatory message and critical vision of early anticolonial nationalism. To make that case, I compare current change to the early efforts of the Non-Aligned Movement (NAM) in the 1950s to catch up with the West and gain voice, and to the ambitious but failed mobilisation of the G77 and the non-aligned countries to obtain fundamental changes in the global order in the 1970s (the New International Economic Order—NIEO). I then examine the specific historic circumstances that allowed some developmental states to harness transnational flows to national institutions and channel them to meet modernisation objectives, and the way in which this translated into a systemic movement leading to the current global restructuring. The paper concludes with a brief critical discussion of the some of the problematic dimensions of re-emergence: the social and spatial unevenness resulting from capitalist transformation, the ideational shift manifest in the quest for wealth and power, and the waning of the emancipatory perspectives of earlier revolutionary and reformist anti-colonial outlooks.

1950–75: the elusive quest for development and autonomy

Since the collapse of the European imperial order after the Second World War, the primary international challenge for societies from the global South has been how to achieve effective autonomy and de facto rather than de jure equality. While initial conditions varied considerably from country to country, with greater or lesser levels of industrialisation and differing state capacities, all
postcolonial states, including the states of Latin America that had achieved independence in the early 19th century but remained caged in the magnetic field of informal empire, faced the problem of filling independence with substance and overcoming developmental hurdles rooted in historically constructed patterns of dependence and inequality. Despite the promise of self-determination, universal ‘well-being’, ‘equal rights’ and ‘economic and social progress and development’ contained in the United Nations Charter, living standards in ‘peripheral’ world regions in the early 1950s, as measured by per capita output, were on average only marginally better that they had been in 1750, while their relative share of world manufacturing (6.5%) was five times lower than it had been in 1860 (36.6%). By the early 1970s that share had increased to 9% in a much expanded world economy, thanks to state-led industrialisation strategies (import substitution industrialisation), but nonetheless remained inferior to 1900 levels, with most gains concentrated in a very few states: in 1970 South Korea, Taiwan, Singapore, Hong Kong, Brazil and Mexico accounted for nearly a third of industrial production, outside of China, in the global South. Overall, independence had not translated into a fundamental improvement of the relative economic position of most postcolonial states.

The various strands of dependency theory provided a coherent and convincing account of why this was the case. Structuralist and neo-Marxist dependency theory both emphasised the persistence of systemic asymmetries and constraints that reproduced international hierarchy and hollowed out the sovereignty of states that remained caged in subordinate positions in the world capitalist economy. Dependency relations constructed in the colonial era continued to operate through world-level mechanisms—global market forces, production and monetary structures, unequal terms of exchange, etc—that generated structural vulnerabilities and inhibited or limited the development possibilities of societies trapped in a global division of labour suiting the needs of the historically dominant Euro-Atlantic core. Theotonio Dos Santos concisely defined dependency as ‘a situation [deriving from an historical condition] in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected’. The result was the persistence of core–periphery polarity as a result of the concentration of capital, power and knowledge in the North and the asymmetric positioning of states in the international division of labour. For neo-Marxist dependency theorists this situation implied that autonomy could only be achieved outside the dominant system, through exit and revolution. Hypothesising ‘dependent development’, structuralists such as Fernando Cardoso envisioned the possibility of gradually altering existing structures through protective measures and creating more equal patterns of international relations, making ‘development’ possible.

The post-Independence development impasse led to a sharp North–South confrontation in the early 1970s. Altering the post-1945 world order became the central concern and aim of the constellation of postcolonial leaders, international public servants (UNCTAD), theorists and activists who initiated the drive for an NIEO in the late 1960s, which culminated in the adoption of the Declaration on the Establishment of a New International Economic Order at the General Assembly of the United Nations in May 1974. The aim of this programme,
which grew out of the 1955 Bandung conference of non-aligned states but was far more ambitious and intellectually coherent than earlier non-aligned efforts, was to create and institutionalise a global redistributive order founded on new binding rules that would ‘correct inequalities and redress existing injustices…eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations’. The demand for an NIEO put dependency theory at centre stage. As Robert W Cox emphasizes, it ‘precipitated a debate about the real and desirable basic structure of world economic relations’ that was not limited to interstate issues but ‘ranged inevitably into domestic and transnational structural issues’. At epistemological level, it ‘challenged the intellectual hegemony of liberal economics and its claims to an exclusive “rationality”’. The Declaration prefigures later global governance and ‘alterglobalisation’ debates and constitutes a historical marker against which current transformations can be assessed.

Made in the midst of the world economic crisis of the early 1970s, the Declaration offered a comprehensive programme for a negotiated restructuring of the postwar world economic order. It called for: a reform of the Bretton Woods institutions and the international monetary system; the establishment and institutionalisation of mechanisms to correct terms of trade imbalances between the North and the South; the implementation of preferential and non-reciprocal arrangements for ‘developing countries in all fields of international economic cooperation’; the creation of frameworks of regulation and supervision of transnational corporations to secure the ‘full permanent sovereignty of every State over its natural resources and all economic activities’; the right of states to nationalise foreign firms and to exercise control over resource exploitation; the facilitation of technology transfer and the promotion of endogenous technological development; and the extension of assistance to the ‘least developed countries’, as well as the strengthening of ‘mutual economic, trade, financial and technical cooperation among the developing countries’. This coherent set of measures was designed to secure the ‘sovereign equality of States’, correct historically inherited disparities, and achieve ‘even and balanced development’ with a view to the ‘liberation’ and ‘emancipation’ of the peoples of ‘developing’ nations.

None of these major objectives was achieved, however, much less the underlying ambition to restructure world order. Although it continued to reverberate in UN commissions and academic debate in following years, the NIEO declaration and programme of action represented the high point of postcolonial collective action to construct an international institutional architecture conforming to global South preferences.

**Structural constraints: the defeat of ‘peripheral Fordism’**

The effort failed for a number of reasons, three of which are salient: the resistance of the USA, changes in world monetary conditions in the late 1970s, and the fragmentation of the NAM along national lines. The NIEO was accurately interpreted by spokespersons of the dominant powers as a ‘fundamental
challenge to the extant liberal order’, hence to Euro-Atlantic or Northern hegemony. Henry Kissinger brusquely dismissed the ‘so called Third World’s’ efforts to ‘disrupt the post-war order’. In a particularly vehement attack, Harry Johnson of the University of Chicago denounced the NIEO as ‘propaganda’ and a throwback to ‘Marxist theories of imperialism’ and/or 19th century German mercantilist thought. More forward-looking internationalist currents within Northern elites, regrouped in the Trilateral Commission, recognised the need to make adjustments in world economic relations to ‘manage interdependence’. Nonetheless, their primary concern was to preserve the pillars of the US-centred liberal world system, seen as under threat. In 1975 the Chairman of the Commission, Zbigniew Brzezinski, warned:

The less-developed countries are now tempted to become more and more assertive. A number of their leaders have noted that the year 1973 will go down in history as equal in importance to the year 1905. That latter date marked the first time a European power had been defeated by a non-European power, and this is what gave the Russo-Japanese War its historical significance…inclined to be more assertive and confident of their power, [these countries] may be tempted to pursue policies of confrontation rather than cooperation. We could thus move into a phase of international politics in which there will be intensifying confrontations between the advanced and the developing countries.

Arguing for adjustments rather than structural change, he suggested that the ‘advanced countries [should] consult closely and undertake joint initiatives, enlisting on an ad hoc basis those developing and particularly energy-producing countries which are capable and willing to become partners in such an architectural endeavor’. The 1973 oil prices increases engineered by OPEC constituted an ostensible ‘Third World’ success in gaining mastery over national resources. Yet it generated a fracture in the global South between energy producers and consumers, who were obliged to finance their imports through debt or foreign aid. Reflecting US strategic leverage over the petro-monarchies, Gulf surpluses, which accounted for 75% of total OPEC surpluses, were mostly parked in US banks and US treasury bonds. Only relatively small volumes of ‘petrodollars’ were actually channelled back to the least developed countries, whose balance of payments problems augmented their vulnerability. The result was a tightening of IMF control and hence US structural influence over the economies of the energy-dependent countries of the global South. Neither the USA nor Europe seriously entertained the idea of a redistributive grand bargain responding to the core concerns of the framers of the NIEO. While the USA actively sought to divide the South, the Europeans responded with some conciliatory measures, such as the 1975 Lomé Convention, which gave former African, Caribbean and Pacific colonies preferential access to the European market. But these actions were less designed to stimulate development or correct historical disparities than they were to maintain the precarious control of former imperial states over the parts of the South they could still influence. Playing on heterogeneity in the
G77, notably divisions between oil producers and consumers, these responses successfully diluted the core claims of the NIEO and dissipated its political impact.

Two pivotal changes occurred in the late 1970s which effectively ended the challenge to liberal capitalist hegemony. The first, which matured slowly and the effects of which only became fully apparent in the 1990s, was the decision taken in 1978 by the post-Mao Chinese leadership to embark on a programme of gradual domestic liberalisation, economic opening and internationalisation that led to China’s integration into the world capitalist economy, discussed in the next section of the paper. The second was the decision taken by the US Federal Reserve in 1979, for domestic and international reasons, to restore monetary control through a sustained rise in interest rates. The US decision changed the conditions of operation of the world economy and revealed the persisting structural power of the USA, that is, its ability to shape international frameworks and obtain preferred outcomes thanks to its preponderant position in the world economy. Demonstrated in the Latin American debt crisis of the late 1970s and early 1980s, which ushered in a decade of economic stagnation and declining living standards, decisions taken in a handful of core countries provoked systemic effects over which the global South had neither voice nor control. Intentionally or not, the 1979–83 monetary shock brought Latin American countries, which had contracted large volumes of dollar denominated debt, to their knees, calling into question regional ‘neo-corporatist’ developmental strategies, or what Alain Lipietz of the French school of regulation calls ‘peripheral Fordism’, leading to the abandonment of import substitution strategies and to the ‘asphyxiation of industrialisation’.15

Although these outcomes underscored the theoretical pertinence of critiques focusing on the structural dimensions of dependency and demonstrated the practical urgency for an NIEO, the overall effect of the ‘stunningly successful monetarist counter-revolution’ was to end the challenge and ‘tame the rebellious South’.16 In 1985 Stephen Krasner described the resulting North–South configuration as follows: ‘The gap between Northern and Southern capabilities is already so great that even if the countries of the South grew very quickly and those of the North stagnated (an unlikely pair of assumptions in any event), only a handful of developing countries would significantly close the power gap within the next one hundred years.’17 This sweeping conclusion has, of course, been thoroughly disconfirmed by more recent evolutions but it had some pertinence at the time it was formulated, coinciding with the spread and ascendancy of neoliberalism and the ‘Washington Consensus’. Having neutralised the NIEO challenge, in the 1980s and 1990s the USA, along with European states and a constellation of public and private international actors, set and enforced a global liberalisation regime that was directed against state-led developmental models and which tightened constraints on most, though not all, postcolonial states. ‘Intense political pressure was exerted by advanced industrialized countries on developing nations to open their economies...along a variety of dimensions, [their] national economic regulations were called into question’.18

US and European behaviour during the 1997–98 ‘Asian financial crisis’ should be read in this light. In much the same way that the 1980s debt crisis in
Latin America created the conditions for the dismantling of peripheral Fordism in South America, the regional crisis in East Asia, which spread from the open and more vulnerable economies of Southeast Asia to South Korea, with knock-on effects in Japan, generated an opportunity for the USA and Europe to weaken competitive developmental state models and make East Asia conform to the post-cold war hegemonic neoliberal regime. Rather than coming to the support of distressed (allied) states, the US Treasury waited on the sidelines and then, with European consent, vetoed Japan’s initiative to create an Asian Monetary Fund (AMF) to pool the resources necessary to stem the liquidity crisis generated by massive and time-compressed capital outflows. This was motivated by concerns that the AMF might become the kernel of an autonomous regional financial system rivalling the IMF, which was called in only when it became apparent that contagion was spreading to global markets and which then imposed characteristically harsh structural adjustment programmes designed to open and liberalise local markets. In the USA the crisis was interpreted as a defining moment in the balance of world economic power: it had supposedly ‘destroyed the credibility of the Japanese or East Asian model of economic growth’ and constituted, in Alan Greenspan’s formulation, a decisive defeat of state-led developmental efforts and ‘an important milestone in what evidently has been a significant and seemingly inexorable trend toward market capitalism’. This performative statement has, like Krasner’s earlier assessment, been turned upside down by the rising role of East Asia in the world political economy, and by the current, profound and probably durable crisis affecting the economies of the West.

Restructuring global capitalism from within

This historical background must be kept in mind when assessing and theorising the systemic shift that is now occurring. How the South, or at least major parts of it, moved from what appeared to be thorough defeat and marginalisation to the increasingly central position it now occupies in the world political economy remains a major and much disputed question. Why is the pendulum swinging? The influential answer offered by world systems theorists has been that the rebalancing or decentring towards Asia in recent decades reflects the slow decay of the American hegemonic system instituted in 1945, which entered a long phase of terminal decline during the 1970s and from which it recovered only partly when the USSR collapsed. The underlying assumption is that the world capitalist system is characterised by regular patterns of hegemonic ascent, supremacy, decline and succession, reflecting the cyclical rhythms of capitalist ‘development’. This succession process, which until now has only occurred within the Euro-Atlantic core, is generated by moments of systemic crisis, or what Giovanni Arrighi calls ‘systemic chaos’, in which ‘whichever state or group of states is in a position to satisfy the system-wide demand for order is presented with the opportunity of becoming world hegemonic’. China’s capitalist ‘rise’ would thus be latest in a series of successive restructurings and hegemonic transitions since the emergence of the modern capitalist world system in the 16th century.
The explanation given here is more historically contingent. It cuts across three interrelated dimensions of East Asia’s re-emergence. First, unlike the 19th century European imperial system, the post-1945 US-centred capitalist order did not produce uniform dependency and underdevelopment. For reasons related to US strategic objectives during the first decades of the Cold War, the US hegemonic system in Northeast Asia authorised upward economic mobility for key allied states that were integrated in the internationalised US security and economic system and that, like western Europe, became recipients of strategically driven US investment. Unlike other postcolonial world regions, where the US encouraged authoritarianism without development, in Northeast Asia the USA helped to erect and sustain Bureaucratic Authoritarian Industrializing Regimes (BAIRs), in Bruce Cumings’ apt formulation, which mobilised society behind overriding developmental objectives. Strong bureaucratic states pursuing neo-mercantilist industrialisation strategies were tolerated, indeed nurtured, so long as the BAIRs remained docile subordinate components of the USA’s regional political economy. As part of their de facto cold war compact with the USA, the Northeast Asian allies traded their political sovereignty and strategic autonomy for unrestricted access to the US market. The USA’s cold war strategy required a belt of secure and prosperous states in Northeast Asia to contain the USSR and the PRC (until the late 1960s Sino-Soviet split), and to curb revolution in Southeast Asia. As Cumings emphasises, the understanding on the US side was that ‘Japan’s sun was to rise high but not too high; high enough to cause trade problems for the allies in declining industries’ but certainly not so high as to becoming a competing centre of the world capitalist economy.21 The same reasoning applied a fortiori to South Korea and Taiwan. Regional war-making was a determining factor propelling the rise and consolidation of the BAIRs, which became platforms for the USA. For Japan the Korean War was a ‘gift of the gods’, in the words of then Prime Minister Shigeru Yoshida. It fuelled Japan’s 1950s economic revival, US demand and infrastructure investment, creating favourable conditions for the mobilisation of endogenous productive capabilities. In like manner the Vietnam war stimulated the South Korean economy’s rapid growth and industrialisation in the 1960s and 1970s. Third wave industrialisers in Southeast Asia, likewise conservative authoritarian regimes, were favoured to a lesser degree but also became platforms for US strategic investment (and, more significantly, of Japanese industrial investment in the 1980s). The post-1945 US hegemonic regime in East Asia thus deviated from classical imperial systems, in which core–periphery structures generated under-development. In the 1980s regional economic development took on a life of its own and became increasingly autonomous, as evidenced in deepening regional integration and declining levels of single market dependence on the USA.22 China, which was not a part of the hegemonic system and therefore enjoyed greater political autonomy than US allies, who were deeply enmeshed in cold war security structures, is the latest and by far the largest exemplar of an East Asian bureaucratic authoritarian industrialising regime.

Second, these developmental state forms account for the fact that some countries with strong state capacity and instruments to govern the markets
have proved more capable than others in the context of post-cold war globalisation to harness transnational flows to national institutions and national development purposes. This is of course a matter of theoretical dispute. Authors such as David Harvey or Saskia Sassen read local transformations as simply derivative of a new phase of capitalist primitive accumulation, or ‘accumulation by dispossession’, on a world scale, with globalised capital seeking and obtaining ‘external sources’ for the pursuit of accumulation. Other authors argue that export oriented industrialisation and internationalisation are generating new forms of Southern dependency. Jianyong Yue argues, for instance, that ‘the interaction of China’s market “socialism” and global capitalism generated a powerful self-reinforcing process that set China on a dependent path of development…characterised by a technology-less industrialisation’. Both critiques emphasise global constraints and minimise the relative autonomy and endogenous possibilities of states under conditions of globalisation. Outcomes in third wave industrialisers in Southeast Asia (Malaysia, Thailand, Indonesia) do not really support either conclusion (nor do current trends in Brazil). Internationalisation and capitalist transformation have generated new social stratifications but have not led to international entrapment. Although questions do remain regarding their future development trajectory, notably whether they will able to replicate the Japanese, South Korean and Taiwanese successes, these countries have seen their autonomy increase and their living stands rise significantly as part of the wider regional development dynamic.

This is also true of China, which, because of its scale, nonetheless constitutes a special case. Gradual integration into the world capitalist economy and export-led industrialisation modelled on the neo-mercantilist strategies of earlier East Asian developmental states has generated intense growth and real GDP gains over long periods. Capitalist transformation has simultaneously led to spatial polarisation, large-scale continental mass migrations, sharp new social stratifications and major problems of environmental sustainability linked to energy use and urbanisation. Sustained growth, fuelled by transnational investment flows, has been made possible by the mobilisation and exploitation of a vast subordinate labour force, notably women concentrated in low value added activities, raising crucial issues of gender and class. While they highlight the need for vigorous corrective measures, without which the country’s development is likely to be compromised, these problems do not call into question the fact that the strategy followed since 1978 has been broadly successful. China’s pathway bears some analogies to US economic expansion in the 19th century, which was fostered by transnational flows and relied on the exploitation of slave labour until the mid-19th century and of low wage immigrant labour in the latter part of the century. This comparison is not meant to justify disciplinary Chinese labour policies—although there are currently some signs of relaxation—much less the authoritarian regime that is engineering capitalist transformation. It merely points to the fact that China, through the exploitation of its internal peripheries, is following the path of earlier successful capitalist powers.
East Asian and South American regionalism and new transnational linkages

The third dimension is regionalisation and the intensification of transnational South–South trade and investment flows. Regionalisation has been an important feature of East Asian re-emergence. Initiated by the relocation of Japanese manufacturing capacities in the 1980s, which generated a concatenated division of labour in East Asia, regional economic integration has deepened over the past decade and a half. Intra-regional trade as a share of total trade has thus risen constantly over past decades (by 20% in 1970, 32% in the early 1980s, 47% in the early 1990s, 54.8% in 2000 and 58.5% in 2007). An unintended consequence, regionalisation was spurred forward by opportunistic and coercive Western behaviour during the 1997–98 crisis. Washington’s veto of Japanese proposals for the abovementioned AMF that would have pooled resources to help countries restructure regional economies along neoliberal lines were interpreted as thinly disguised efforts to curb developmentalism and gain access to valuable local resources at bargain basement prices. These short-sighted actions generated nationalist backlashes and stimulated moves towards protective monetary regionalism. US and IMF policy pushed the East Asian policy elites to consider ‘the benefits of regionalism without the Caucasians’. Mobilising anti-colonial repertoires, conservative nationalist leaders such as Mohamad Mahatir of Malaysia and Thaksin Shinawatra of Thailand began advocating the replacement of the dollar in regional trade. In 1999 ASEAN invited China, Japan and the Republic of Korea (ROK) to create a common market. In 2000 the Chiang Mai Initiative led to bilateral swap arrangements among central banks and was understood as a first step towards the creation of a regional financial institution to pool currency reserves. In 2003 ASEAN+3 announced the establishment of the Asian Bond Fund (ABF), initially capitalised at $1 billion, designed to channel reserves held by Asian central banks back into the region, and to gradually allow the region to replace the dollar with a basket of Asian currencies. In 2005–06 senior officials at the Asian Development Bank began pushing for the creation of an Asian Currency Unit (ACU) as a step towards monetary union. In May 2008 finance ministers from 13 East Asian countries announced plans to create an $80 billion pool to protect regional currencies, replacing the bilateral currency swap arrangements under the earlier Chiang Mai Initiative.

China was protected by capital controls from financial contagion during the 1997–98 crisis and demonstrated ‘responsibility and leadership through its policy choices’. The PRC played a crucial role in regional recovery by choosing not to devalue the renminbi and by absorbing a growing share of regional exports. Over the past decade the PRC has become a key actor in regionalisation at both trade and monetary levels, supplanting Japan as the gravitational core of regional integration. Chinese annual GDP growth averaged over 9% between 1997 and 2010 and, in the aftermath of the crisis, trade and investment flows between China and the rest of Asia grew significantly. Since the late 1990s regional trade with China has been growing faster than with the USA: Japan’s imports from China already exceed those from the USA and Japanese exports to China have been steadily rising. This same trend is apparent in South
Korean, Thai, Malaysian and Singaporean trade flows. An IMF study noted in 2007:

[China has] displaced the United States as the largest export market for an increasing number of Asian countries. It has also been pivotal in boosting intraregional trade and Foreign Direct Investment (FDI), particularly in the form of intermediate goods channelled through multinationals as part of cross-border chains. The potential expansion of China’s domestic market creates opportunities for the regional economies... to produce higher-tech goods that China is unlikely to be able to produce domestically in the near future.32

Chinese leaders thus interpret the 1997–98 crisis as a turning point: ‘The process of the East Asian cooperation has been consolidated day by day since then [and is now] based on a multi-layered, multi-faceted structure’.33 Recent moves to gradually internationalise the renminbi and use it in regional transactions, such as the June 2012 Japanese–Chinese accord to trade in their currencies rather than the dollar,34 represent a further step in this direction.

Similar though less accomplished efforts towards regional integration have been occurring in South America since the erosion of the Washington Consensus in the 1990s and the weakening of the authority and hold of the international financial institutions over the continent. Regional cooperation to promote development and integration is being institutionalised, as seen in the expansion of the Common Market of the South (Mercosur, or Mercosul) and the 2007 decision to create the Banco del Sur (Bank of the South) whose stated purpose is to promote ‘a space devoted to the promotion of economic and social development... [and] to the convergence and complementarity of processes of economic integration’. Much like East Asian protective regionalism, the Bank was conceived as the seed-form of autonomous institutions not subject to the US-cum-Western-dominated international financial institutions. This was followed in May 2008 by the founding in Brasilia of the Union of South American Nations (Unasur) a political and economic community regrouping the countries of the Mercosur and the Andean Community, and more recently the Community of Latin American and Caribbean States (CELAC). Intraregional trade is still relatively low (25%) when compared to East Asia but, as in East Asia, single-market dependence on the USA has been gradually decreasing as a result of diversification of trade and investment flows and new transnational South–South linkages.

These new linkages constitute an important feature of the current restructuring of world capitalism around new poles. Transnational South–South flows bypassing the historic centres of world capitalism have intensified in recent years. China has become the pivotal, though not the sole, actor in the new flow patterns. Trade between China and all other postcolonial world regions grew significantly over the past decade and a half. While the share of South America, Africa and South Asia in China’s total trade remains relatively small, China’s share in their total trade has become strategically important. The space is not available for a comprehensive review of the new transcontinental flows, but the
pattern is clear even when using limited data sets. Over the past two decades Asia has become Brazil’s main trading partner, accounting for 30% of its exports and 31% of its imports. Exports to China, as a share of total exports, have risen from 0.9% in 1992 to over 17%. China has thus become Brazil’s second trading partner, just behind the European Union (21%) but well ahead of the USA (10%). Argentina’s exports to China, as a share of total exports, have likewise risen from 1.1% to 9.7%. Similar patterns are apparent for Africa, where South Africa’s export share to China has risen from 1.8% in 1998 to over 12%, while imports rose from 3% to 15%, and Nigeria’s exports from 0.5% to 6.9%. In South Asia the share of Indian exports to China has risen from 2.9% to over 10%, and imports from 2% to 12%. In East Asia the phenomenon is more pronounced since China constitutes the hub of a constantly expanding and increasingly complex regional trade network. China thus accounts for 37% of Taiwanese exports, 26.6% of South Korean exports, 17% of Malaysian exports, 16.2% of Filipino exports, 15% of Thai exports and 12% of Indonesian and Singaporean exports. South–South transnational flows are not limited to China and involve multiple network linkages between Brazil, Africa, India, Southeast Asia and Turkey. Still at an incipient stage, some South–South political institution building outside of China is also occurring (eg IBSA).

The overall pattern points nonetheless to the constitution of a Sino-centric transcontinental trade network that could in future be underpinned, through the gradual internationalisation of the renminbi, by a currency and credit system that is likely to be complementary rather than alternative to the dollar and the euro. As noted earlier, China’s emerging systemic role can be compared to that of the USA in the late 19th century, when it became a semi-autonomous core of the late-modern world system. The USA became the world’s leading manufacturer in the 1890s and began to reshape the conditions of operation of the world economy. By the turn of the century it had become a new source of international investment and credit. China, a little more than a century later, is in like manner gradually becoming an ‘active unit’ of the world system, increasingly shaping the global environment rather than simply being conditioned by it.

**Conclusion: where to go from here?**

For reasons outlined above the new globalisation cycle that began in the late 20th century has led to an unexpectedly rapid, albeit still incomplete, rebalancing between ‘East’ and ‘West’ and ‘North’ and ‘South’. East Asia has been the main driver of a systemic change that is leading to new transnational linkages between Asia, Africa and Latin America. These new patterns of interaction are part of a broad process of gradual decentring and restructuring of the world economy that, at the political level, is leading to a diffusion of power. Domestic or international events, for instance a hypothetical but not unthinkable Chinese overreach in the South China Sea leading to sustained inter-state tensions, might slow but are unlikely to halt a transformation that is embedded in globalisation and has become one of its driving forces.

Postcolonial re-emergence raises important questions of meaning and purpose for the West but also for the re-emerging countries that have been dynamically
restructuring world capitalism from within. If the rebalancing conforms to one of the historic aims of generations of anti-colonial leaders and thinkers, gaining upward mobility and achieving sovereign equality, the way in which it is occurring represents a rather sharp break with the past. Anti-colonialism still constitutes a component of the identity and discourse of the re-emerging South, including in conservative nationalist circles that read the current transformation in oppositional cultural terms. But unlike the first generation of postcolonial leaders, who aimed for revolution or sought to invent a ‘Third Way’ between capitalism and communism, and the framers of the NIEO who challenged the intellectual and material foundations of the post-1945 world order, the actors of the current shift in global power relations are claiming a central competitive place in the world capitalist system that their predecessors had attempted to either reform or supplant. The success of that claim, and their consequent implication in current and future global system management, has dampened and in some cases entirely submerged the broader emancipatory or universalistic dimensions of the long struggle for independence, equality and justice.

This phenomenon is more pronounced in Asia, where the state has come to ‘command the banner of nationalism’, to borrow Fernando Cardoso’s apt formulation, for purposes of domestic legitimation and/or the assertion of international power goals, than in South America, where the forward-looking content of anti-colonial nationalism still holds some sway. In South America the regional political reaction to the ‘lost decade’ and subsequent neoliberal ‘reforms’ has taken a different route than the conservative reactive nationalism in East Asia. As Arturo Escobar notes, ‘Latin America was the region that most earnestly embraced neoliberal reforms, where the model was applied the most thoroughly, and where the results were the most ambiguous’.37 The response was the political affirmation of plural lefts that were shaped by earlier debates and struggles over non-alignment, dependency and development, and which are now seeking to construct more socially inclusive development models at domestic level and new patterns of cooperation at regional and international levels. The results on both fronts have been ambiguous, however. High, though somewhat declining, levels of inequality at domestic levels underscore the difficulty of transforming social structures and hierarchies built over long periods. At world level challenging the status quo—the Western centred order—has yet to lead to a ‘positive affirmation of an alternative ordering of the real’.38 The new determining roles that they are destined to play raises the normative question, currently unanswered, of what kind of world the new capitalist powers want to live in, now that some of them are, at last, achieving international equality.

Notes

2 J Goody, The East in the West, Cambridge: Cambridge University Press, 1996. Initially in this paper I use quotation marks for ‘West’ and ‘East’, ‘North’ and ‘South’ to highlight what Edward Said called their lack of ‘ontological stability’. As Said argues, these concepts are ‘supreme fictions’ of the orientalist gaze, constructs that generate otherness rather than knowledge. For like reasons, I emphasise the concept of re-emergence rather than emergence, since many if not most of the postcolonial countries currently involved in
systemic transformation had ‘emerged’ before they were submerged during the ‘great divergence’ in the 19th century.


17 Krasner, Structural Conflict, p 4.


20 G Arrighi, The Long Twentieth Century; London: Verso, 1994. Arrighi identified Japan rather than China as the hegemonic contender, but it is the general logic of his argument regarding systemic transitions that interests us here.


25 The scale of urbanisation in China is historically unprecedented: nearly half the population lives in urban areas today, against 10% in 1900 and less than 35% in the early years of the capitalist transformation. By 2030 the UN expects that 70% of China’s population, or 950 million people, will be living in urban agglomerations.

26 See Golub, Power, Profit and Prestige.

27 See http://aric.adb.org/indicator.php. Statistics vary from one international institution to another. The IMF gives lower estimates than the Asian Development Bank (51.9%) but highlights the same general phenomenon. IMF, Regional Economic Outlook Asia Pacific, Washington, DC: IMF, October 2007. Although a significant share of regional trade is in intermediate goods for final destination export to the USA, Europe and Japan, it has allowed for technology transfers and has stimulated endogenous growth factors in East Asia.

29 ‘The Future of Asia’ conference held in Tokyo in June 2003 demonstrated convergence around this objective. The then Thai Prime Minister, Thaksin Shinawatra, declared: ‘Funds held by Asian countries, which account for about half of the world’s foreign currency reserves, used to be invested mainly in the US and Europe. Now funds should head toward Asia thanks to the birth of an Asian Bond Market... Although the Asia Bond Fund will start out in US dollars, we hope to shift to Asian currencies in the future’. The then Malaysian Prime Minister Mohamad Mahatir asserted: ‘We will all benefit from the Asia Bond Market because it is Asian and is in our own interest, not a device for somebody else somewhere and imposed on us. Initially the bonds should be denominated in the US dollar but we should move away from the US dollar in the future’. The former Japanese prime minister Ryutaro Hashimoto seemed to be thinking along parallel lines: ‘The lessons learned from the Asian currency crisis are producing good results’. See ‘The Future of Asia 2003’, Nikkei Weekly, 21 June 2003.

30 ‘Asian finance ministers seek common currency’, New York Times, 5 May 2006. ‘The Asian Development Bank has been pushing the idea of an Asian currency unit, or ACU, during 2012. The unit’s value would be set by an index of participating currencies. The idea has gained popularity among several Asian finance ministers as a step toward harmonising regional monetary policies. The bank’s Japanese president, Haruhiko Kuroda, a supporter of an Asian monetary union, had pledged to propose the creation of an ACU at the meeting in Hyderabad, but reportedly held back in light of opposition from Washington.’


33 ‘Further reciprocal cooperation to build a harmonious East Asia’, speech by Vice Minister of Commerce, Yi Xiaozhun, 26 May 2008, reported by the People’s Daily, at www/english.peopledaily.com.cn/90002/93687/93689/6418402.html


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