

China and India – the new powerhouses of the semi-periphery?

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This chapter argues that if the South American/ East Asian or state socialist model captured the post-war 'model' of the semi-periphery, then the post-cold war states of China and India embody a new 'globalised' form. Rather than opting for a version of neo-mercantilism or protectionism, India and China have both based their economic strategies on globalising their economies by attracting multinational investment and Foreign Direct Investment (FDI). As a result both states, whilst different in terms of their overall economic output have maintained high economic growth through the emphasis on manufacturing and on facilitating relatively cheap labour for transnational corporations (TNCs). As a result, both countries have become increasingly competitive not just in the global market, but also in organisations such as the WTO, where they have both become important regional players in terms of their influence. However, these moves have also served to merely consolidate their role as being dependent upon western investment and companies whilst both China and India remain severely underdeveloped in terms of their internal institutional development and in terms of living standards and marked inequality.

INTRODUCTION

World Systems Theory emphasises that the contemporary world system is a structure with an origin and trajectory that develops over time and within which there are fundamental qualitative social, political and economic developments, while also providing a compelling account of the causes of inequality and uneven development within the world system (Wilkin, 2008:93). The concept of the semi-periphery is regarded by many analysts as the most constructive contribution of World Systems Theory to our understanding of the global economy (see Peschard, 2005).

In his structuralist challenge to modernisation theory, Immanuel Wallerstein contended that the semi-peripheral zone has an intermediate role within the world system displaying certain features characteristic of the core and other characteristic of the periphery. As Griffin Cohen and Clarkson (2004) outline, the condition of semi-peripherality, whether it is defined as primarily social, cultural, economic or spatial, can be understood as having the both the consciousness of subordination and the means of resistance-in contrast to the core which may lack the consciousness, or the periphery, which may lack the requisite means. Semi-peripheral countries such as China and India therefore, while conscious of their (apparent) subordination to the hegemonic power(s) at the centre of the global system, are endowed with sufficient resources to resist domination. Being in the incongruous and conflicting position of the semi-periphery in turn, distances actors

from the deterministic assumptions of the centre while still being close enough to have an insider understanding of those assumptions and the state capacity to ameliorate them. This results in a scenario whereby the semi-periphery is a provocative environment from which to observe and study the dynamics of enhanced global integration and, in particular instances (which are far more numerous in India than in China), resistance to globalization (ibid).

While dependency theorists tended to focus on how various forms of subjugation and exploitation changed as the world's capitalist economies became more integrated (see Arrighi, 1995), their approach appeared to condemn countries on the periphery to perpetual impoverishment without proposing a mechanism, other than violent revolution, to bring about significant improvement in their respective situations. Dependency theory was also limited by its rudimentary generalisations and the determinism of its economic analysis. In response to dependency theoretical inadequacies, Wallerstein (1979) offered a recognised 'semi-periphery' of countries, in particular the so-called 'Asian Tigers', that had radically ameliorated their respective positions within the world system since the early 1960s, and exhorted that their example offered other states on the periphery the hope of extricating themselves from the stasis of underdevelopment.

Nevertheless, the model of a semi-periphery remains empirically and theoretically problematic, particularly with regard to how it is delineated and measured. For example, the conception of a semi-periphery is almost entirely absent from dependency analysis, while it is treated by others as a residual category in which 'semi-peripheral' states are assumed to be eventually pulled towards either the core or periphery (Arrighi, 1985: 245). Outlining the respective cases of China and India as occupying the 'semi-periphery' is therefore inherently problematic as both states occupy an ambiguous position with the global political economy and also demonstrate notable characteristics of both core and peripheral states. In much of the literature pertaining to the economies of India and China since their respective liberalisation or marketisation processes began in 1978 (China) and 1991 (India), the performances of two rising powers are oft-times portrayed as symbiotic, a depiction which negates an essential element of their respective growth patterns and which leads to simplistic comparative analyses. It is instructive therefore to heed the obvious yet prescient words of one of globalization's pre-eminent disciples

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when attempting to examine both China and India in tandem, namely that 'India is not China' (Wolf, 2008). Likewise, it is important to reflect as economic historian Angus Maddison (2007) states, that 'in many respects China is exceptional as it is and has been a larger political unit than any other' (Maddison, 2007: 15).

The development paths undertaken by both China and India have been very different, while the disparities between the two economies' integration into the world system are extensive. Any analysis of the economies of India and China must therefore be cognisant of their divergent developmental strategies and their differing degrees of integration into the global economy. When China began its process of economic liberalisation in 1978 it had a class structure and wage level congruent with those of a peripheral state, but an economic structure which resembled that of a semi-peripheral state (Li, 2005). As regards India, it can be asserted that within the context of the inter-regional flow of labour and high-tech skills, that it has graduated to 'core' status in the context of regional globalization (see Adapa, 2007) Yet, paradoxically, despite an annual per capita income of less than US\$500, a ranking below that of Sudan and Somalia on the Global Hunger Index (BBC, 2008) and an adult literacy rate of barely fifty per cent, India is one of the world's leading sources for human-capital intensive service products such as information technology software and biotechnology (Balasubramanyam, V. N. & A. Balasubramanyam, 1997).

Today, both China and India have the potential to advance into the core group of states given the extent of their resources and/or regional dominance (Wilkin, 2008), as well as their respective abilities to take advantage of the flexibilities offered by the cyclical depressions and other downturns in economic activity afflicting core states. Nevertheless, it can be proffered that, in terms of productive activities, both states currently conform to Wallerstein's definition of semi-peripheral states as 'in part they act as a peripheral zone for core countries and in part they act as a core country for some peripheral areas' (Wallerstein, 1976: 463).

Wide-scale predictions of a great re-convergence in the global economy with China regaining its former pre-eminence are more indebted to historical determinism than coherent reasoning. while the tendency of many analysts to extrapolate from current growth rates and observe that China will supersede the United States as the world's

largest economy by 2040 not only disregard the obstinacy of American hegemony, but are based upon the premature assumption that China's current upward economic trajectory will continue unabated. Pronouncements on the inevitability of China's resurgence as the globe's primary economic leviathan have tended to overlook the important question of whether China was ever an economic superpower, at least by contemporary standards. For hundreds of years, China was beholden to a cycle of growth without development, in which the only impetus behind the expansion of the economy was an increase in population, the majority of whose lives rarely rose above **subsistence** levels. This demographic shift intensified competition for limited resources, inflated the mortality rates from episodic famines and natural disasters and compelled the government to expend ever greater energy on social control.

While Andre Gunder Frank (1998) contends in his devastating critique of anti-historical and anti-scientific Eurocentricism that there existed a single global economy or world system with a world-wide division of labour complemented by multilateral trade from 1500 onwards which was dominated by Asia, and in particular China, until at least 1800, his analysis is not supported by economic historian Angus Maddison, who maintains that China's decline began long before the eighteenth century (Maddison, 2007). What is incontrovertible however is that between 1820 and 1952 as world product rose eightfold, China's share of global GDP fell from one third to one twentieth, while its real per capita income fell from parity to a quarter (Kynge, 2006). While many Asian countries were afflicted during this period by the twin impediments of moribund indigenous institutions which hindered development and foreign colonial domination, in China these problems were exacerbated further by internal disorder and civil war which had deleterious demographic and economic welfare effects on the Chinese population (Maddison, 2007).

China's gradual re-emergence from this economic devastation has led some observers to predict that a new 'commonwealth of civilisations' will emerge in the early decades of the twenty-first century. Arrighi and Silver (1999), for example, in their analysis of the crises of British and Dutch hegemonies, assert that in both instances system-wide financial expansion preceded system-wide social conflict. In order for a non-catastrophic transition to a new 'commonwealth of civilisations' to take effect, adjustment and accommodation by the United States to its less-exalted status is a sine qua non, as is the emergence of a new global leadership from main centres of 'the re-emerging China-

centred civilisation' which is willing to provide system-level solutions to system-level problems left behind by US hegemony (Arrighi & Silver, 1999: 289).

A central question to examine in the context of the contemporary global political economy therefore is what impact the economic re-emergence of China and striking growth of India will have upon the underlying dynamics of the extant world system, particularly if, as Wallerstein (1998) retains, the capitalist world economy has passed through its structurally temporal moments of genesis and development and has moved into its current moment of structural crisis? If this is the case, then the historical system is unlikely to witness the full acting out of another hegemonic cycle. Instead of greater modernisation and enhanced upward mobility, we may instead be entering an era of 'bifurcation' during which the world-system will be in disarray with many simultaneous possible solutions proffered to all the equations of the world system, resulting in a lack of predictability about short-term patterns. Emanating from this system, however, will be a new type of "order", which according to Wallerstein, will be absolutely indeterminate, in the sense of being impossible to predict, as well as being subject to much agency, in the sense that 'even small pushes may have enormous impact on the path of the system in crisis' (Wallerstein, 1998)

The global economy at the end of the first decade of the twenty-first century can therefore be mapped along the 'B' or downward phase of the fifth Kondratieff long wave (The Age of Information and Telecommunications) wherein capital within the global economy is shifted from declining sectors into "sunrise" industries leading core states to establish new leading sectors or monopolies in order for profit margins to return to levels that pertained during the expansionary phase of the current Kondratieff wave (Li, 2005). In order for capital to move from those declining sectors into new or expanding monopolies, the declining sectors must be re-located from the core to the periphery or semi-periphery thereby providing a historical moment in which opportunities for upward mobility within the system are fomented (Wallerstein, 1979: 69-72).

India and China are excellent exemplars of states that have exploited altered market structure to engage in upward mobility within the world system. For example, the downward phase of the current Kondratieff wave has coincided with China becoming the pre-eminent locus for foreign direct investment (FDI) among countries of the

periphery or semi-periphery. By early 2006, FDI in China had climbed to US\$640 billion, leading to a scenario in which sixty per cent of exports from China in 2005 emanated from foreign-funded enterprises within its borders (Zhibin Gu, 2006). By 2002 China had overtaken the United States as the primary recipient of FDI on a global basis despite accounting for only four per cent of the world's Gross Domestic Product (GDP) and five per cent of global manufacturing exports (Li, 2005). China's investment-driven, export-oriented model vindicates Cardoso's (1973) contention that policy makers in countries of the periphery (and latterly semi-periphery) attract foreign direct investment by predicating growth upon low wages and providing myriad other incentives to potential investors resulting in dynamic, but uneven, growth.

The capitalist global economy has, in historical terms, been able to defer structural or terminal crises by means of expansion into overseas markets which are replete with reserves of cheap labour and natural resources, thereby preventing labour and environmental costs rising to the point of effectively endangering accumulation (Li, 2005). However, the limits of geographic expansion have now been superseded, a scenario which renders any further "systemic cycle of accumulation" in the global economy inimical to existing reserves of labour and environment. In these circumstances, those populous countries with large reserves of cheap labour and under-developed or exploited natural resources, such as the burgeoning economies of China and India, may prove to be the final repository for the expansion of the global economy and lead to a dramatic increase in labour and environmental costs in the early decades of the twenty-first century.

China's nationalist trade policy strategy has sought to meld Japanese-style mercantilism with "soft totalitarianism" and has brought in its wake both environmental degradation and a chronic waste of resources through reckless investment (Prasad, 2008). Overall, this model of development remains one in which access to Chinese markets is impeded, and cheap labour, involving in certain instances children and prisoners, undercuts labour's ability to bargain for higher wages and benefits in competitor countries such as the United States (Johnson, 2000). China's model of economic development therefore highlights how the semi-periphery provides a source of labour that counteracts any upward pressure on wages in the core and also provides a new home for those labour-intensive industries that can no longer function profitably in the core, e.g. textiles and car

assembly, as well as playing a fundamental role in stabilising the political structure of the world system (Hobden and Wyn Jones, 2008: 148). China's long-term economic strategy is to transform its state-owned enterprises (SOEs) into versions of Japan's vertical and horizontal *keiretsu* or South Korea's *chaebol*. By amalgamating profitable and financially precarious businesses together into developmental conglomerates and supplying them with credit, China hopes to create its own versions of corporations such as Samsung, Mitsubishi and Hyundai. Inevitably, consolidation on this scale will divide the labour force into an aristocracy of labour on the one hand, working for strategic corporations and ordinary workers on the other, in medium and small enterprises selling intermediate goods to the developmental conglomerates (Johnson, 2000).

China's marketisation process was initially ignited by the Communist Party's sense of self-preservation and maintenance of political command which resulted in mere modification of existing economic institutions and minimal political reform. The myth of a finely-orchestrated reform project devised assiduously by the National Congress of the Communist Party of China delivering structured, gradual "free-market" reforms is a forceful, but ultimately erroneous, one. As James Kynge (2006) highlights, many of the key events, and occurrences that propelled reform were, in fact, 'unplanned, unintended or completely accidental, in which much of the crucial impetus...sprang not so much from the implementation as from the miscarriage of central government policies' (Kynge, 2006: 14). Similarly, Chalmers Johnson (2000) asserts that 'China has never tried to become a "free-market economy" but rather to engage and exploit other market economies to become a great power' (Johnson, 2000: 173). Ultimately, China's process of economic reform or marketisation was a development to re-orient towards markets and to open up China to foreign capital. As Robert Weil (1994: 11) observes:

All of China is engaged in a massive gamble, to see if it can reach a permanent level of higher development through what the government calls 'reforms' to achieve market socialism or 'a socialist system with special Chinese characteristics', while retaining national control of the economy, preserving some degree of social ownership and planning and avoiding the worst dislocations normally associated with Third World capitalism

(Weil, 1994: 11)

The economic reform process within China was triggered not by ideological reorientation but rather by a seemingly innocuous payments predicament that emanated from an

abortive attempt to implement Deng Xiaoping's 'Ten-Year Plan for Economic Development'. Deng had gambled that his strategy could be paid for by the discovery of big new oil deposits and that China's planning apparatus could administer a massive programme of industrial plant import and construction (Naughton, 1996: 67). However, a negligible number of oil deposits were discovered meaning that many of the Ten-Year Plan's provisions had to be jettisoned while those that already been paid for left a sizable deficit in the Chinese state's finances. Deng therefore had to improvise in order to cajole some modicum of growth from a moribund economy that was only just beginning to recover from the excesses of Mao's disastrous Great Leap Forward (Peoples Daily, 2008); Kyne, 2006: 14)

China's phenomenal levels of growth since 1978 and its concomitant wide-scale integration into the global political economy has been largely predicated on exports by state owned enterprises or foreign companies. Tellingly, at the instigation of the economic reform process, virtually all of productive assets in the Chinese economy were state-owned. Thirty years later, seventy per cent of China's productive wealth remained concentrated in the state. The decision to keep productive resources in state hands was a prescient one as it permitted the state to mobilise those resources during the rapid industrialisation of the 1980s and 1990s, while also serving the vital developmental purpose of creating infrastructure and expanding industrial capacity.

Another intrinsic element of China's developmental model was the creation of Special Economic Zones (SEZs) from 1980 onwards in which special tax incentives were given to foreign investments, commercial tax rates halved, and import duties waived completely. The creation of the SEZs within China represented an attempt to replicate the strategy for economic success of Asian Tiger economies such as South Korean and Taiwan. The dismantling of China's commune system between 1977 and 1979 which destroyed the only rudimentary public health system in China, boosted agricultural production and led to a radical reform of the food sector and also freed up enormous reserves of labour for the manufacturing export sector. Subsequently, millions of rural peasants flocked into the SEZs, where low-wage labour in tandem with liberalised trade and investment, acted as a huge enticement for foreign technology and capital.

The location of the initial tranche of SEZs was no accident of geography as three of the first four zones– Shenzhen, Zhuhai and Shantou- were established in the southern province of Guangdong bordering Hong Kong, and in close proximity to Taiwan. However, in contrast to South Korea and Taiwan where the introduction of Export Processing Zones (EPZs) presaged rising wages, technology transfer and the introduction of a taxation regime; by 1990, average factory wages within the SEZs in Guangdong were a mere fifty cent per hour as opposed to US\$4 an hour in neighbouring Hong Kong. In order to exploit this enormous discrepancy between the value of labour power in the two areas, by 1991 twenty-five thousand Hong Kong denizens had taken ownership of factories in Guangdong employing three million workers (Neema and Pokhariyal, 2008). The combination of low-cost labour, technology transfer, enormous reserves of capital and large incentives to foreign investment led to an export boom predicated on labour-intensive manufactures such as garments, textiles, footwear, plastic, toys and electronic assembly (Sachs, 2005: 161).

The marketisation process in China was given its greatest impetus by Zhu Rongji, who acted as deputy prime minister from 1993 to 1998 and as prime minister from 1998 to 2003. Rongji's avowed admiration of Thatcherism manifested itself in his dismantling of over forty thousand of China's state owned enterprises (SOEs) from 1996 to 2001, a retrenching move which resulted in the loss of over fifty-three million jobs. In many cities of northern China half the workforce was made redundant overnight (Hutton, 2007). The drive to transform the majority of China's SOEs into share-holding or limited liability companies was initiated at the fifteenth Chinese Communist Party Congress in September 1997 in response to claims by party apparatchiks that the continued subsidisation of loss-making SOEs, state control over certain input and output prices, rigid labour laws, easy access to bank credit and monopolistic market practices, had acted as strong incentives for SOE management to operate their firms inefficiently (Gabriel, 2006).

The rapid development of China's economy has led to intense degrees of urbanisation and proletarianisation which, hypothetically, should create favourable conditions for labour to organise, thereby presaging a concomitant increase in the protection of economic, political and social rights. Beverly Silver (2003) for example, contends that the pattern whereby the size of the industrial working class is declining in high-wage

economies but simultaneously increasing in low-wage countries replicates labour shifts identified for the automobile and textile industries on a global scale. As a result of these combined processes the mass-production industrial proletariat has expanded speedily in both size and centrality in many low-wage economies and has led to a scenario in which, since the mid-1980s, Asia, and especially China, has been the key site of industrial expansion and new industrial working-class formation (Silver, 2003: 106).

However, the secular trends of rising real wages and taxation which have marked the entire life span of capitalism as a historical system (Wallerstein, 1979) do not necessarily correspond to China's developmental path and neglect a notable tendency whereby, as inter-state competition intensifies to lure investors to EPZs, labour costs and environmental standards are held low, resulting in extensive social dumping. Pakistan, for example, in response to a complaint from the International Labour Organisation (ILO) admitted that it had exempted its EPZs from certain labour laws because of requests from Daewoo, while the governments of Namibia and Zimbabwe retained that choosing not to apply certain national labour regulations would be decisive for the success of their respective EPZs (Moran, 2002: 82). Within China, while wages of migrant workers have risen since marketisation began in 1978, particularly for those working in factories along the east and south coasts, in historical terms they remain risible. The fact that over 700 million people in China live on less than US\$2 per day provides an enormous pool of reserve labour willing to work at wage levels below those which prevailed at the start of the Industrial Revolution in Britain. For example, when the wages of a modern-day semi-skilled migrant worker in the burgeoning municipality of Chongqing are adjusted for time and converted into Chinese renminbi they are less than half the wage levels demanded by handloom operators in the Weavers' Minimum Wage Bill rejected by the House of Commons in May 1808 (Kynge, 2006: 30).

While there are well documented accounts of labour discontent within China (see for example, Solinger, 2003) most of these protests have been against job losses as well as unpaid pensions and wages resulting from the dismantling of China's welfare state and state-owned industrial enterprises amid the country's movement towards greater integration with the global self-regulating market. Labour unrest within China therefore has been accompanied by a significant Polanyi-type counter-movement for the self-

protection of society against the disruption of established ways of life and livelihood (Arrighi and Silver, 2003: 354).

In contrast to the development path undertaken by China and states which have adopted the classic Asia strategy of exporting labour-intensive, low-cost manufactured goods, India's growth has been driven by large-scale service-sector exports in capital and knowledge-intensive manufacturing such as information technology. Despite triumphalist pronouncements that India's success in high-end capital-intensive sectors is indebted to the 1991 New Economic Policy (NEP) which initiated a wide-scale series of liberal market reforms, it was the nakedly neo-mercantilist decision by the Janata government to effectively expel IBM from India in November 1977 for non-compliance with the country's 1973 Foreign Exchange Regulation Act which proved to be the catalyst for the boom in India's indigenous software sector.

The radical re-orientation of the India's developmental strategy from import substitution industrialisation (ISI) since independence to liberalisation in July 1991 derived from an unprecedented series of crises encompassing a severe balance of payments emergency, exchange rate management, fiscal and monetary policies, domestic resource allocation trends and public sector management (Singh, 1997: 58). India's overhaul of its ISI strategy also needs to be set within the context of growing interdependence throughout the global political economy. By the early 1990s, transformations in the financial structure were manifested through policies of deregulation and privatisation which led to increased capital mobility on a global scale. In the production structure, the increased diffusion of existing technologies led to greater technology transfer to developing economies. The rise of international regimes and the increasing characterisation of the international system as a "plurilateral" structure (Cerny, 1995) helped to place economic concerns more centrally on states' international agendas, while the demise of the Soviet Union enhanced competition between developing states' markets for foreign direct investment, bank credit and government aid, market shares and for multinationals' capital and technology (Strange, 1996).

In contrast to the extraordinary economic success of China's SEZs, India's experience of Export Processing Zones (EPZs) indicates that since the first zone was established in Kandla, Gujarat in 1965, the EPZs have had considerable difficulty in attracting both FDI and domestic inward investment for multifarious reasons. Overall, the extent of

FDI into India while substantial (US\$15.7 billion in 2006) lags a long way behind that of China's FDI of US\$69.5 billion the same year (Pradesh, 2008). One of the primary reasons for this disparity is that while Special Economic Zones (SEZs) operate with lax labour and environmental standards in China, resistance within India has grown to the concept of the provision of specific laws and regulations which prioritise Export Processing Zones at the expense of development in other sectors and regions. For example, in 2005 the Indian National Congress-led government sought to introduce a series of retrenchment reforms which endeavoured to establish a large degree of labour market flexibility within the EPZs. These measures were successfully resisted by elements within the governing United Progressive Alliance (UPA) coalition who were opposed to the further diminishing of labour protection for workers in India (Sharma, 2006). The development of India's EPZs are further inhibited by the lack of a natural conduit for capital and the movement of goods redolent of the manner in which neighbouring Hong Kong and Taiwan act as gateways for capital and goods emanating from the EPZs in China's Guangdong province.

Notwithstanding the inherent difficulties of initiating labour-intensive manufacturing on the kind of scale witnessed in China, India has latterly become a net exporter of foreign direct investment and retains a capacity to attract capital which confers upon it a degree of economic power commensurate with that of a regional power. Through its flagship Indian Institutes of Technology and the Indian Institute of Sciences, India annually produces hundreds of thousands of scientists and engineers who have enhanced India's reputation in knowledge-intensive sectors such as information technology, biotechnology and the space industry (Perkovich, 2003: 131). Nevertheless, while lucrative in terms of accentuating levels of GDP growth, these high-end technologies are relatively risible as employment providers. For example, while India's software companies such as Tata Consultancy Services, Sycamore and Infosys Technologies have been hugely successful enterprises, the industry as a whole employs a mere one and a half million people amid a labour pool of 470 million people (Prestowitz, 2005). Moreover, the geographic disparity in the location of India's software firms is reflected in the fact that almost eighty per cent of the industry is concentrated in the cities of Bangalore, Mumbai and Delhi (Perkovich, 2003; Balasubramanyam, V. N. & A. Balasubramanyam, 1997)

Despite the panoply of economic statistics that gushingly depict 21st century India as an exemplar of social and economic mobility, the country lags significantly behind even lesser resourced countries of the semi-periphery and periphery in terms of other key developmental indicators. In conjunction with rising levels of inequality since the initiation of the New Economic Policy, child malnutrition is twice the level which pertains overall on the African continent (Hunter Wade, 2008: 393). Notwithstanding its booming information technology and biotechnology industries and the embrace of neo-liberal economic norms since 1991, per capita income within India (US\$530 in 2003-US\$3,000 adjusted to purchasing power parity-PPP), compares very unfavourably with China (US\$6,800 adjusted to PPP) (Srinivasan and Tendulkar, 2003). According to the UN Human Development Index (HDI) which assesses how states provide their citizens' basic needs by measuring four variables (life expectancy at birth, adult literacy rate, school enrolment, and GDP per capita), India at the beginning of the twenty-first century ranked 115th out of the 162 countries for which data were accessible (The Hindu, 2001). India's infant mortality rate in 2004 (62 per 1,000 live births) was greater than that of neighbouring Bangladesh (56.4 per 1,000 live births) (World Bank, 2005). Three hundred million Indians live on less than a dollar a day; 45 per cent of children are malnourished, while less than half of India's 500,000 villages are connected to an electricity grid (Guha, 2007). Similarly to China, enormous regional disparities exist within India: the neighbouring north-eastern states of Bihar and Uttar Pradesh, for example, account for 42.5 per cent of India's poor (Prestowitz, 2005).

Notwithstanding the shameful structural impediments to transformation which have plagued India since the colonial era, its international status has been latterly enhanced as evidenced by India's forthright membership of several of the institutions of global governance such as the World Trade Organization. India has long-established status as a regional leader and its role in the vanguard of highly-influential alliances such as the G20 group of developing countries which emerged in August 2003 prior to the WTO Ministerial Conference in Cancun, Mexico and the G8+5 provides it with far greater authority at multilateral level than many other semi-peripheral states. ¹ Whereas India's trade negotiators proved supine in the Uruguay Round from 1986 to 1993, the country's growing economic competitiveness, in tandem with that of China, was reflected in the crucial talks on the Doha Development Round in July 2008 where both countries were

¹ India forms part of the so-called 'G4' leadership of the G20 along with South Africa, China and Brazil.

able to face down the United States' negotiators and effectively scupper any potential deal due to objections voiced by the two countries over the contentious issue of safeguard mechanisms used to stymie import surges.

In contrast to India which was one of the twenty-three founding Contracting Parties to the General Agreement on Tariffs and Trade (GATT) that was initiated in October 1947, China only joined GATT's successor organisation, the WTO, in September 2001 after fifteen years of oft-times fractious negotiations. The primary goal of the China's trade representatives throughout the negotiations was to gain admission to the WTO for China with the status of a developing country, a move which would exempt the country from certain provisions of WTO agreements such as subsidies for domestic industries and the granting of unimpeded market access to foreign competitors (Johnson, 2000). The debate as to whether China would join the WTO with the status of a 'developed' or 'developing' country is indicative of how the country's position has not been clearly defined within the global political economy.

China's membership of the WTO has already proved highly contentious. For example, when its highly-successful textile industry was opened to further global competition after acceding to WTO membership, it led to the invocation of a raft of anti-dumping clauses and import quotas by the United States and the European Union, both of whom threatened China with a trade war in the wake of the abolition of the Multi Fibre Agreement in January 2005. The accession of China into the WTO will in the long-term have a significant impact on the current regime of accumulation as it marks the first time in its history that China has agreed voluntarily to open up its markets according to a set of rules and principles set down by an extra-territorial body (Kynge, 2006: 117). China's trade negotiators in the WTO have given more than 600 market-access commitments in the accession document, excluding other market-access commitments made on specific products and sectors in the goods and services schedules. Restructuring and retrenchment will be required under WTO rules of, for example, China's capital-intensive automobile industry where 125 car companies are to consolidate into between three to six firms in order to resist competitive pressures from foreign manufacturers.

The necessity of profound structural changes within the Chinese economy as its economy becomes further embedded within the processes of globalization highlights

how many of the pronouncements acclaiming a resurgent, behemoth China often fail to analyse many of the internal, often contradictory dynamics which have the potential to produce enormous social dislocation and alienation. For example, China's pattern of growth has been geographically distorted towards coastal regions while many inland areas have either stagnated or regressed, leading to enormous migration (estimates emanating from the unreliable National Bureau of Statistics range from 150 million to 200 million people) from the interior to the coastal regions.

Consequently, patterns of inequality between the regions are higher than for any other comparable country in the world. To take one example, the ratio of the average income of China's richest (Guangdong) to poorest province (Guizhou) rose to 4.3 by 1993 and remained at that rate in the period 1998-2001. Corresponding figures for India and the United States in the late 1990s were 4.2 and 1.9 respectively (Hunter Wade, 2008: 393). A further predicament that China's economic policy makers must overcome is the wild vacillations in the rate of growth which have stimulated sharp booms wherein rapidly rising prices give way to periods of stagnation. In attempting to extricate its economy from cyclical downturns, China risks becoming embroiled in a classic crisis of over-production, particularly as the world economy further stagnates.

The perennial question of political reform and the sustainability of political authoritarianism will be one of the most exigent issues to be resolved in China within the next decade. China's centralised apparatus is no longer compatible with the dynamism of a decentralised and diverse market economy, which depends on migration, multiple bases of power, strong growth rates and a high degree of regional, cultural, ethnic and linguistic diversity (Sachs, 2005: 167). Part of the reason for China's economic success has been the greater empowerment of provincial and local governments to experiment by allowing for diversity, creating a more complex division of labour and enabling mobility. However, extensive corruption in local and regional governments resulting from the systemic inadequacies that have accompanied China's transition to marketisation is undermining the legitimacy of the one-party system:

The overarching contradiction of an omnipotent, single-party regime that combines the characteristics of state capitalism with a market orientation and endowed with the ability to bankroll its systemic inefficiencies is not maintainable in the long term. China's

political system fails to permit the checks and balances necessary to administer a market economy so that each organ of government and each economic entity are regulated by an external or independent body (Kynge, 2006: 186). The Chinese Communist Party has recognised the incongruity of this paradoxical situation by pouring enormous energy and resources into attempting to create a system of self-regulation in politics, law and the economy, under which 'all parties are equal but the Party is more equal than the others' (ibid, 2006: 187).

An additional problem faced by Chinese policy makers which may serve to underline the country's social fragility is that the dismantling of China's commune system, which destroyed in turn the only public healthcare system within the country, means that, since the 1980s, China's rural poor have had to depend on out-of-pocket payments for their health expenses. This development has had catastrophic consequences such as rising infant mortality rates in some rural areas while wide-scale epidemics, such as the SARS pandemic in 2003 highlight further how China no longer has a functioning public health system in rural areas capable of surveillance and control of epidemic diseases (Sachs, 2005).

Similarly, while India doesn't face an impending crisis of political reform, it will encounter other long-term structural problems certain to undermine its developmental capacity. Since independence in 1947 India's policy makers have failed to initiate any worthwhile mass literacy programme or a modicum of significant land reform. As a result, India has singularly failed to repeat the example of even East Asian developmental states such as South Korea where the landed aristocracy was emasculated by land reform and the peasantry atomized into smallholders (Heller, 1999: 32). A further structural difficulty that must be confronted by India's legislators is that while the country boasts world-class information technology and biotechnology sectors, these industries' respective impacts on long-standing structural unemployment is almost negligible. Furthermore, India's recent economic success has complicated the conduct of macro-economic policies. For example, the rising levels of foreign direct investment into India have stimulated a rapid appreciation of the exchange rate, in turn harming external competitiveness and stimulating a stock market boom with many similarities to the speculative "Dot Com Bubble" which lasted from 1995 to 2001.

CONCLUSION

Wallerstein's assessment that semi-peripheral states are an important mechanism for restructuring the world-economy has particular resonance with regard to the burgeoning economies of China and India. China, for example, has now displaced Japan as the principal US creditor and has become the new focus of Asian economic regionalism (Cox, 2004: 313). Furthermore, as semi-peripheral states China and India are imbued with the capacity to 'protect' the world system in that they 'partially deflect the political pressures which groups primarily located in peripheral areas might otherwise direct against core states' (Wallerstein, 1974: 349-50).

Nevertheless, China and India are structurally-deficient in certain key areas and face several of the common problems encountered by erstwhile peripheral countries such as weak financial markets and regulatory structures as well as extortionate levels of income and equality disparities which threaten to undermine social stability, particularly as the impact of globalization renders the semi-periphery ever more vulnerable to widening inequality. China also faces the problem of lacking an independent judicial and legal system and being beholden to an authoritarian political elite which tolerates excessive levels of corruption, particularly at local and regional governmental levels (Zhibin Gu, 2006: 47). Political reform within China is inevitable as the country engages in ever more rapacious forms of marketisation. Whether this reform will lead to movements of the left and right finding fertile ground as such movements tend to do in semi-peripheral and second-tier core states due to the contradictory location of semi-peripheral areas in the larger world-system (see Chase-Dunn, 1998: 213) is unclear.

Hypothetically, those aspects of globalization, e.g. internationalisation of production, which have altered market structure and resulted in the concentration of the bulk of the material production facilities and organised working classes in the countries of the periphery and semi-periphery should provide those states with an unparalleled degree of bargaining leverage against core states (Li, 2005). Such an alteration empowers semi-peripheral states such as China and India to utilise their leverage in order to transform the world system from one based on highly unequal exchange and monopolistic profits and to provide system-level solutions to the system-level problems left by the world

Downes, G., 2009. 'China and India – the new warehouses of the semi-periphery?', in Worth, O. and P. Moore (eds.) in *Globalisation and the Semi-Periphery*, London: Palgrave, pp. 114-135.

market economy The evidence so far encountered regarding the possibility of such a transformation emanating from those two states is however dispiriting in the extreme.

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