The Rise and Fall of the Global South

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A picture that was painted of globalization went as follows: the real wages in the south are much lower than in the north, since the south is saddled with large labour reserves. In a world where capital is mobile, even if labour is not, capital from the north will shift the location of its production activity from the north to the south, to take advantage of these low wages, for meeting global demand. Even if capital from the north does not move to the south, local capitalists in the south who have access (or can obtain access) to frontier production technologies in a large number of spheres, can produce in the south to meet global demand; they can do this successfully owing to the low wages of the south, provided that there are no barriers to the flow of goods and services from the south to the north. Since "globalization" entails the breaking down of barriers to the free flow of goods and services, and of capital, including in the form of finance, it follows that the era of globalization is the era of the emergence of the south, of a massive diffusion of "development", within the capitalist world-order, from the north to the south, whereby the historically-observed duality of the world economy will disappear.

This prognostication appeared for a while to be vindicated. China recorded enormous growth rates based on the growth of exports. India witnessed a significant increase in service sector exports and also came up with impressive growth rates, compared to which the much lower growth rates of the pre-liberalization dirigiste era paled into insignificance. The rise in primary commodity prices, caused inter alia by the increasing demand of a rapidly growing Chinese economy, helped Africa and Latin America too to record impressive growth rates. With globalization it appeared that the south had "arrived". And international finance capital played up this theme of diffusion of "development", since it "legitimized" globalization, painting it in an extraordinarily favourable light as breaking down all past dichotomies.

This prognostication also had a corollary: the south need no longer bother about its own home market, it need not bother about egalitarian asset distribution among its people, about land reforms, about raising the standard of living of its population. Being "open" to flows of goods and services and of capital is all that mattered, since it would automatically ensure growth and bring up the standard of living of the population, if not immediately then at least over time; but no strategy of expanding the home market was really necessary. On the contrary, if the south carried out structural reforms for an egalitarian asset and income distribution, then the ensuing social turmoil could even put off global capital from entering its portals and deprive it of the growth opportunity that globalization had opened up. What it had to do in short was to eschew all egalitarian reforms and merely pursue neo-liberalism, a conclusion that went so directly against the entire tradition of theorizing that had emerged from the "nationalist" and Leninist streams, that for a while those theoretical streams appeared old-fashioned and obsolete.

This scenario has changed completely. The crisis that engulfed the advanced capitalist world in 2007 has now spread to the south, with growth rates both in China and India slowing down remarkably. And what is more, the old mechanism stimulating growth within globalization appears to have run its course, bringing the southern economies to a dead-end.

This was to be expected. If an economy's growth derives its stimulus basically from its ability to export to the world market, then clearly the rate of growth of world demand will have a major influence upon its growth rate. The world recession, not surprisingly, hit the economies of the south, including China and India; and their growth rates too have come down.

But a question arises here: since southern wages continue to be considerably lower than those in the north, why shouldn't the process of "diffusion" of activities, whether under the aegis of metropolitan capital or of domestic producers, continue unabated, so that the growth rate in the low wage countries does not get affected by the rate of growth of world demand? Why shouldn't the growth rate of the world economy in other words affect exclusively the high-wage countries and leave out the low wage ones from its baneful effects, until the wage differences in the world economy have disappeared?

The answer to this question lies in the nature of globalization itself. Globalization has not brought about the transferability of all activities from the north to the south, but only of some. In particular it has actually strengthened the monopoly of metropolitan capital over frontier technologies in a large number of spheres, above all through the global institutionalization of an Intellectual Property Rights regime. This means that in those spheres where metropolitan capital does not wish to locate its production units in the south, local producers in the south are in no position to produce for the world market. And metropolitan capital itself may not wish, in technology-intensive activities, to shift its production base to the south, foregoing all the advantages it enjoys in its existing locations in the north. The upshot of all this is that there are limits to the diffusion of activities even under the present globalization: activities embodying low-end technology get diffused to the south but not activities embodying high-end technology.

If there exists such a boundary to the spectrum of activities that can be diffused, then clearly beyond a point the fact of lower wages in the south ceases to matter as far as diffusion is concerned. And in the activities that are diffused, the rate of growth of world demand determines what the growth rates of those host countries would be to which such diffusion has taken place. This is the reason why countries of the south that were experiencing extraordinarily high growth rates until recently are now beginning to slow down.

To be sure, this slowing down in the south did not occur immediately with the slowing down of the world economy. On the contrary it appeared for a while that the south had escaped the fate of the north, that it would not be a victim of the crisis the way the northern economies had become. But the reason for this interregnum lay not in the fact that the south was free of the influence of world recession but elsewhere, namely in the formation of "bubbles" in a number of southern economies even after the collapse of the housing "bubble" in the U.S.A.

Since international finance capital prefers "sound finance", i.e. wants governments to balance their budgets (or at the most have a fiscal deficit not exceeding a certain percentage of GDP, usually 3 percent), the use of the fiscal instrument for reviving economic activity has been conspicuous by its absence during the current global crisis. What has taken its place is a vigorous resort to monetary policy. In the leading capitalist country of the world, the U.S., short and long term rates of interest have been virtually driven down to zero through Central Bank intervention (including in the market for long-term government bonds where the central bank normally does not intervene).

In the process of purchasing government bonds the Federal Reserve has been pumping in huge amounts of money, a phenomenon that is called "quantitative easing". Though there is some reduction in the amount pumped in every month from the earlier level of $80 billion, there are still plenty of dollars flooding the world which have gone into the faster growing economies of the south, the so-called "emerging markets", and have created "bubbles" there.

The slowing down of growth among the more dynamic economies of the south on account of the world recession was thus, to an extent, countered by the boost to demand given by the formation of such "bubbles"; and these kept the growth rates in such economies going for a while. The influence of even these however is beginning to wane. The south that was supposedly rising is now witnessing a fall, which can be prevented only if the domestic market is expanded through egalitarian measures of wealth and income redistribution, but which, other than China to a certain extent, no other country is doing in any significant manner. (China has been raising its domestic real wages at least in the coastal regions).

The world capitalist economy is unlikely to register any robust recovery in the foreseeable future. This is because in the era of globalization, since real wages everywhere get influenced by the large southern labour reserves, the vector of world wages becomes rigid upwards even as labour productivity rises, leading to a rise in the share of world surplus. This tendency is further reinforced by the weakening of trade unions (again for the same reason). Since the consumption ratio out of the surplus is lower than out of wages, this redistribution from wages to profits (and other surplus incomes), creates a tendency towards over production in the world economy.

State intervention to counter this tendency cannot be resorted to, because finance capital, as already mentioned, prefers "sound finance", and the whims of finance capital prevail under globalization: finance capital being international and the States being nation-States, any State violating its wish runs the risk of a capital flight away from its shores. The only possible counter to the tendency towards over-production in the world economy under these circumstances is provided by the formation of "bubbles". But these cannot be made to order, and just as their formation can stimulate the level of world economic activity, their collapse has the opposite effect of plunging the world economy into acute crisis, as we have been seeing.

The world economy in the coming period therefore is likely to witness a state of near-stagnation, with occasional brief recoveries being followed by collapses. The southern economies, linked under the regime of globalization to the world economy, are not going to fare much better. A remarkable aspect of their past high growth is that even in that period there was little impact of this growth on their state of unemployment and underemployment and hence on the state of acute poverty of their people; indeed the dispossession of peasants and traditional petty producers that occurred, even worsened poverty in many countries. In the stagnation that threatens them in the coming years, since this dispossession will not stop (but may even get accentuated), the condition of the people will worsen even further.

The popular revolt against a regime that produces such a result may be stalled for a while by recourse to fascism in various forms, but it will soon become clear that the promise of globalization for the south was a chimera, that there is no alternative to a widening of the home market as the means of expanding the economy and that the structural changes required for it such as an egalitarian asset redistribution, which the Left has always emphasized, are unavoidable for progress.