

Some Trends and Factors of Economic Development*

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When we start analyzing the processes of economic growth — or, still better to say, of economic development — nowadays, in our dynamic and ever-changing times, and try to discover their general trends, factors and limits, many methodological difficulties arise. Aside from the fact that the natural and historical conditions which we find in individual countries can vary dramatically, as do the stages of economic development they are in, the whole concept of “national economy” has been gradually losing its real meaning, at least within the higher-developed and richer areas of the modern world, such as Europe and North America. Instead of individual national economic systems, an ever more integrated “regional economy” has been emerging and taking their place, while at the same time undergoing changes — in many instances quite deep and far-reaching ones — under the growing impact of the even wider, almost omnipresent and all-embracing, processes of globalization.

The classical theory offered not a few approaches to the analysis of economic development, for one — paying enhanced attention to its pro-

* This is an enhanced English version of a chapter which will appear in the first, theoretical, part of the collective monograph “Russia in the Diversity of World Civilizations” to be published by the Institute of Europe of the Russian Academy of Sciences (Moscow, 2007).

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claimed cyclical character (the object of a truly passionate infatuation among the economists and ideologists, both of marxist and antimarxist varieties, during most of the 20th century), as well as to the issues such as securing foreign sources of raw materials and foreign markets for finished products, or to various aspects of state regulation, including the choice of development strategies the country in question might pursue. Among such strategies we can name, as some examples, primary goods specialization, import substitution, balanced production and trade, and concrete industrial (manufacturing) specialization.¹ Some of the traditional concepts remain intact and useful until now — like those based on distinguishing various development stages and building up models of economic growth and restructuring.

Some Remarks Concerning the Stages Approach

Especially appropriate and useful seems to be the four-stages model of industrial development and economic restructuring discussed in the famous book written by John H. Dunning (1992), which, by-the-way, is very well compatible with the classical five-phases classification worked out by Walter Rostow (who, however, did not live long enough to see the modern — sixth — ‘post-industrial’ growth-cum-development stage). In this scheme, a country’s success in the first phase of industrialization (i.e., its “diamond of competitive advantages”) rests mainly on the possession of natural resources. In this phase (which approximates to Rostow’s two pre-take-off stages of growth), the country’s inward investment is likely to be directed to the primary product sector and to the labor-intensive manufacturing sectors supplying relatively simple consumer goods, either to local or to export markets. The second phase of development (which represents the equivalent of Rostow’s take-off stage) is marked by the grow-

ing importance of investment capital in value-added activity and, in some cases, by the size and quality of domestic market. During this investment-led stage of development, the structure of a country's revealed comparative advantage is likely to shift towards medium to large scale, capital-intensive sectors, such as basic chemicals, iron and steel, and shipbuilding; some smaller scale and specialized mechanical engineering activities; and the production of labor-intensive, but moderately knowledge-intensive consumer goods (electrical products, clothing, leather goods, processed foods, etc). This stage is also likely to be marked by a sharp increase of expenditure on secondary education, public utilities, transport and communications.

The transition to the third stage of development on which the country approaches economic maturity and its income level and industrial structure are beginning to resemble those of a developed society, is usually marked by a switch of emphasis from investment-led to innovation-led growth, as shown by a sharp increase in urbanization and expenditure on innovatory activities. The production of high quality and differentiated products rises, while low cost resource-intensive goods become less competitive in world markets. The role of inward investment continues to be valued in some spheres, while outward investments gains in importance adding to the competitiveness of domestic firms and efficiently enabling them to secure new foreign markets. Stage 3 economies are also marked by a noticeable increase in government expenditure on tertiary education and communication facilities.

The fourth, and so far most advanced, development stage J.H. Dunning calls 'the information processing stage' and notices that this phase has also been named the post-industrial or service stage of development. So far, it has been reached by only a small number of advanced industrial countries, where radical advances in computing and telecommu-

nications technology have hastened the blurring of the traditional frontiers between manufacturing and services, particularly the service content of innovative activities.² The role of government continues to be important, but its emphasis is now less directed to minimizing structural market distortions and more to assisting firms to overcome endemic market failures (including those arising because of the increasing technological complexity of goods and services). On this stage, there are by far more cross-border inter- and intra-firm linkages, while the role of the firms' ability to coordinate their resources and capabilities at regional and global levels also goes noticeably up.

If we take this classification as the base for our analysis of modern Russia, we shall notice — after all the historical peripetia and repercussions of the 20th century — a predominant presence of the features associated with the first two aforementioned stages, one of which can be called resource-based and the second — investment-led. Indeed, the contribution of the resource sector (to a bigger extent) and of the primary processing industries (somewhat lesser) to Russian GNP is truly enormous. From all the advanced nations of the industrial West, only Canada and Australia share with my country this rare specificity of economic structure. It is exactly because the resource sector is so capital-intensive, the country itself so big, its climate so rough and its dispersed regions so disconnected, that tremendous capital outlays into infrastructure become so necessary and important. As a result, the investment potential — enhanced by big revenues from the raw materials export — goes on serving the country as its main motor of economic development.

Since the beginning of the 21st century, the secondary manufacturing industries, which are also rather capital-intensive, have been making an ever larger contribution to Russia's macroeconomic indicators. President Vladimir Putin mentioned this fact in his interview given to the

Dutch TV channel “Netherland 1” and to one of the Dutch central newspapers, and emphatically underlined that Russia is going to further diversify its economy. For this purpose, Russia created a stabilization fund and annually has been placing into it considerable sums originating from its oil and gas exports (the same way the Netherlands does with a part of its revenues from the gas sales, by the way) — in order to be able “to sustain high level of macroeconomic indicators and to accumulate funds necessary for economic diversification as well as solution of certain social problems”.³ This looks like a positive trend, although sometimes we can hear apprehension that the abundance of “petrodollars” and their clumsy use may provoke destructive inflation, while, on the other hand, a too strict approach to their use may turn out as unforgivable thrift. In this situation, it becomes even more important to clearly decide what exactly kind of diversification the country needs, who and using what resources should secure its progress, and toward what economic model does Russia want to proceed.

Legacy of “Practical Socialism” and Current Situation

It is well-known that during most of the 20th century the then Soviet Union gave absolute priority to various aggregate indicators — value-based and natural — of economic growth, such as those concerning the GDP (calculated for the so-called material production only — which embraced the production of goods but mostly ignored the service sector), the production of coal and steel, of crude oil and round-wood, etc. Sure, the topic of social and economic progress has been receiving some lip service as well — but hardly more than that and only in too general terms. In other words, by no means did it enjoy the proper attention it deserved. For example, some run-of-the-mill slogans did mention the goals in “rising the

people's wellbeing," while various matter-of-fact indicators of life quality, as well as Western concepts of human capital (and of the investment its successful development requires) were ignored and criticized, often simply by declaring them "bourgeois-inspired" and false. Thus, the social and economic progress tended to be treated in quantitative terms only — as the growth of material production, and even narrower — of heavy industry (which was labeled "A-group"), while the qualitative — structural and social — aspects of economic development have been basically ignored (at least in concrete — for example, budgetary — practice, if not in ideologically colored party documents).

In a paradoxical way, the shadow economy, or the "black market," as the well-known dissident writer Lev Timofeyev aptly labeled this phenomenon in the context of Russia's social history,⁴ did help upkeep such an unnatural state of affairs — by enhancing the inadequate family incomes (quite often — in purely natural form) and by at least minimally satisfying the private demand in some consumer goods and elementary services. Though it have happened illegally or semi-legally, though the private business and initiative have been hunted underground, but they showed themselves able — at least partly — to compensate for the underdevelopment of the "B-group" of industries (the consumer-oriented branches) and serve as substitute for the primitive, puny and also state-controlled service sector (which has been based on administrative organizational principle thus servicing mostly "nomenclatura" itself).

It is necessary to note that also in post-Soviet Russia one may still find a lot of illusions concerning the ability of "neftyanka" (oil export) and of "oboronka" (munitions industry), first of all, however, — of "vooruzhenka" (arms export) to save the day and richly feed the public coffers (which actually occurs to a certain extent, we must admit). Striving to erect his notorious "vertical of power," Russia's President pays

special attention to establishing — or rather re-establishing — central control over the natural resources and “natural monopolies,” in other words, over the use of the country’s natural riches and of growing revenues springing from the resource export. This goal reminds us of the post-NEP efforts “to concentrate the commanding heights of the economy” in the hands of the Soviet state — a resemblance which Andrey Illarionov, the then economic adviser of Mr. Putin, has been pointing to, seeing a certain affinity between 2004 and 1929, which figures in history as the “year of the great change.”⁵

On the other hand, Russia’s President has been repeatedly complaining that our science allegedly makes a too small contribution to the country’s GNP. According to the figures President used during the founding session of the newfangled Council for Science, Technology and Education (October 2004), this contribution has amounted to about 8 percent annually (I wonder just who could have calculated this figure and how they could do it with such precision in the very mixed-up and non-transparent economic conditions prevailing in modern Russia — *A.B.*), against not less than 60 percent in the leading nations (generally, a more realistic, and still somehow a too arbitrary estimate, as it seems). Although Mr. Putin had hardly received any distinct answer to the question just why it is like it is — not at the Council’s session nor later, — it does not mean that the problem how to “thoughtfully modernize” Russian science is not an extremely topical and important one, especially if we remember another President’s task, set in May 2003, of doubling the country’s GDP within ten years — the task which is “not a slogan but a guide to action.”⁶ Unfortunately, this last-mentioned task is again a particularly quantitative one which gives us an impetus to take it with a grain of salt.

Are the leading nations “deindustrializing ? ”

Russia is by far not the only country in the world that has been facing the problem of choice concerning its further development path and an optimal production and export profile. For example, Japan, which so far remains the world's second economic power, has been for some time concerned with structural problems and searching for an adequate development strategy for the future. Its export structure also tends to display serious disproportion, in this country's case — a strong shift toward science-intensive manufacturing products like cars and household electronics (not such a bad feature in itself). The main problem for Japan, however, is connected with the necessity to make a critical choice — whether to keep its traditional manufacturing specialization using advanced information technologies, or to actively diversify and re-profile the domestic part of its economy focusing on information and software industries, thus following the U.S. example.

It is worthwhile to notice that the author of the article in which Japan's dilemma has been put in just those terms, Takamitsu Sawa, holds the opinion that to keep the manufacturing profile “would be the wiser choice judging from the nation's traditional skill at producing goods.”⁷ In his view, Japan's economy can be likened to a man who has reached a landing on a long staircase after climbing a series of flights at breakneck speed. Beyond that platform lies another series of flights — a more advanced process of industrial development, or the postindustrial society. Thus, today's situation can hardly be considered as a “pause.” It is a crucial period in which the systems and practices designed for the industrial society are being transformed for the coming postindustrial society. Under this term T. Sawa understands “a society where industries that deal with things like information, software and services play a more important role than those

that produce goods using massive quantities of materials and energy.” Industries that can move quickly to low-cost overseas locations are limited to those that mass-produce standardized products which can be made by unskilled workers almost anywhere in the world. To a great extent, this has already happened through the creation of Japan’s off-shore production — in East Asia and elsewhere. By contrast, the manufacture of high-tech products, especially parts that require cutting-edge technologies, cannot be easily standardized and it will take at least ten years, even by conservative estimates, before such manufacturing can be shifted to developing countries. By that time, however, a new generation of high-tech products will have been developed in industrialized countries, and Japan will be able to focus its attention on this promising direction. For that to happen, however, it is essential for Japan to keep trying, on both the public and private level, “to open up high-tech frontiers” — the only way for it to prevent the erosion of the domestic industrial base. This is, according to T. Sawa, where the so-called re-engineering comes in. It involves reordering production and management processes using information technologies which, consequently, is expected to bring about large cost reductions that will more than offset the disadvantage of high labor costs. Such an effect can be achieved if innovations in electronic communications and related sectors make steady progress and lead to the development of more advanced information networks. The postindustrial society will put Japanese-style management systems and practices, such as life-time employment, seniority-based pay and “keiretsu” business groupings, to the acid test. Also, most probably, the Japanese-style education system, which emphasizes uniformity, will be doomed — just because the postindustrial society will lay greater stress on diversity and individuality.

All in all, the beginning of 2006 has found the Country of the Rising Sun in a relatively good shape. After more than ten years of stagnation, its

economy has begun growing again. The forecast for 2005 stated that the GDP would grow 2.4 percent in real terms, while the figures for 2006 and 2007 were also estimated around 2 percent. It was noted that Japan's economic expansion has been broadening and spreading to domestically oriented activity, while its dependence on exports has been declining.⁸ Yet, all this still leaves much to be desired — according to aforementioned T. Sawa. His judgement, contained in another article, is as follows: Japan will be unable to sustain economic growth of more than 3 percent unless it transforms itself into a postindustrial society. “The question is when that transformation will occur,” he points out in his concluding remarks.⁹

If we look at Japan's economy in a global context, we can notice an important change — a reversal of roles between trade and investment, a shift from an “export behemoth” to a “creditor colossus.” In other words, Japan appears set to earn less from exports than from overseas investment, deriving its external incomes chiefly from interest, dividends and other returns on assets abroad.¹⁰ In 2005, the surplus in the income balance, or profits from overseas investments, exceeded the merchandise trade surplus by an unprecedented 1 trillion yen.¹¹ “From here on, what really counts is who makes those products, rather than where they are made,” concluded the Japan Times editorial.¹² “In other words, we shouldn't worry much as long as the given products are made by Japanese or Japanese-affiliated companies.” Profits from products they make and sell abroad are sent home, as are interest and dividends from loans and investment abroad. Britain, for one, has followed this path. Now Japan is poised to take a similar course as a mature investor-creditor nation. It looks like nowadays Japan owns and controls — at home and abroad — industrial assets and financial funds by far exceeding those registered in the previous peak years of the early 1990s, after which the bubble burst and the economy entered the “lost decade” characterized by a rare combination of

industrial stagnation and price deflation (a thing maybe even worse than notorious American “stagflation”).

At this moment it looks worthwhile to cast a glance toward the United States. It comes as no surprise that exactly America was the first to begin the historic transition to an “information society” which, however, has in store not only new productivity levels and new wealth but also a severe structural shake-up with a nightmare scenario of “deindustrialization” (or “delocalization” — a new word to describe the concrete form of this process in a globalized economy) and an acute necessity of re-educating the national workforce on a mass scale. On the one hand, such deep and universal restructuring, proceeding according the Joseph Schumpeter’s recipes of “creative destruction,” brings about a growing demand for high-level brainwork and can be regarded as a step forward in the development of the American society and the whole of mankind. On the other hand, however, it can turn out that the future of the U.S. economy really lies in unlimited outsourcing of actual production and substituting it with the function of supplying “high-value brainpower, innovation and inventions, software and services to other countries to be incorporated into their own industrial economies.”¹³ It would mean “an end to American factories making *things*, offering good jobs, with good wages and assured pensions,”¹⁴ in other words, an end to the U.S. industry as we know it — manufacturing cars, computers, electrical household appliances and consumer electronics. Such *things* will be produced elsewhere, in other countries located worldwide and enjoying the fruits of such peculiar type of global industrialization. However, a vital question which arises is: Will such a directly international and even global industrial system really need any mass-scale services supplied by those who invented it all in the first place, i.e., will it organically need an American contribution? During the last couple of years, such “high-level brainwork” and the benefits of

selling its products have been rapidly moving abroad as well, with well-educated and ambitious young Chinese, Indians, Russians and Brazilians stepping in to take over such important and profitable functions within the global system of international division of labor. Thus, the answer to the above question is by far not clear in advance, and America should really think twice before further proceeding along the global outsourcing path.

Meanwhile, there are many signs that during the last several decades the U.S. has actually been “deindustrializing.” The manufacturing employment now accounts for only one in nine jobs, down from one in three in 1950. However, this decline mostly reflects higher efficiency rather than any degradation of the industrial structure. Americans simply make more things with fewer people. Today, the U.S. steel industry produces more than in the 1980s, though it has lost two-thirds of its jobs. From 1990 to 2000, manufacturing output rose 61 percent while employment fell 2 percent. “This is generally a good thing,” Robert J Samuelson, well-known columnist of the Washington Post Writers Group, offers his comment and continues: “It frees more workers to produce services (software, education, health care) that Americans want.”¹⁵ Of late, however, the news about manufacturing has seemed particularly dismal. Since mid-2000, 3 million jobs have vanished, profits have drastically fallen, while imports represent a growing share of Americans’ consumption of manufactured goods. Yet, “the fate of American manufacturing lies largely in American hands,” Samuelson believes. “Of course, some labor-intensive production will go abroad. But in many industries job losses and cost cutting — though devastating to individuals — can sustain production and restore profitability.”¹⁶ However, one giant unknown clouds everything: China. According to Samuelson, the combination of low wages, a huge market and an artificially low currency confers staggering competitive advantages. Unless China’s currency rises substantially, the United States could lose

many industries that, by all other economic logic, it shouldn't.

Yet, the U.S. simply cannot afford losing some manufacturing facilities, and first of all — its world-famous carmaking. “No industry did more to build the American middle class than the big domestic auto manufacturers,” Ronald Brownstein of Los Angeles Times stated.¹⁷ It was General Motors that established such crucial benchmarks, as cost-of-living raises, pensions and health-insurance benefits. Yet exactly carmaking seems to be most strongly threatened — for one, because of the crushing burden of health-care costs (GM spends \$1,500 per car on health care). Before, GM's market power made it less sensitive to cost increases, especially labor costs, because these could usually be recovered in higher prices — before but not now, when the market is full of Japanese and European brands. Foreign manufacturers already assemble in the U.S. about 44 percent of the cars they sell there, up substantially since the 1980s, and use on average less locally manufactured parts in the cars they put on the market (in other words, their “domestic content” is lower).¹⁸ So, most probably the automaking will not entirely leave America. The question is, would it be justified to call it “American” then, after all the forthcoming developments...

And one more notion concerning structural changes in the U.S. At least for the last decade of the 20th century, information technology has been serving as a significant source of corporate competitive advantage. Nowadays, however, some analysts declare that this period is over and prophesize “the death of the corporate IT departments.”¹⁹ What happened? All is logical. The principles of outsourcing are going to embrace the realm of information. Like in the early years of electricity, in the 1890s, an adviser to Thomas Edison came up with the insight that the energy could be provided more efficiently, even for the biggest users, from centralized plants that realized economies of scale, now the same considerations

began transforming the world of information technology. Instead of each company buying, maintaining and upgrading its own hardware and software, it will buy computing services from a utility-type company, paying for only what it uses while enjoying the lower costs that come from scale economies. There is no guarantee, however, that such mighty and centralized information-processing systems will be predominantly located in today's postindustrial economies, because the Internet and "dirt-cheap" communication will allow them to develop practically everywhere, at any spot the users of information would fancy to chose.

In the U.S. in particular, "there is a widespread fear of 'commoditization' of jobs in the modern, information technology-driven global economy."²⁰ For one, W. Pfaff, well-known U.S. columnist residing in Paris, expressed his concern that "the notion of the knowledge society is dangerous because education and brainpower are highly portable resources." It is all very well for American corporations to concentrate on finance and research, outsourcing production, "so long as what they are providing is indispensable." But the time approaches when "the manufacturing countries may no longer need American research and design. They will have their own."²¹ In 2004, the Boston Consulting Group has published a report in which it has been exhorting U.S. companies to speed up 'offshoring' operations to China and India, "including high-powered functions such as research and development."²² The report cited General Electric Co., Motorola Inc., Alcatel and Simens AG as examples of companies that have set up research and development centers in both India and China "to leverage the substantial pools of engineering talent" that are based in the two countries. Globalization in action, one is tempted to say, and about America in particular — "Be careful what you wish for !"

India: Choices Regarding Diversification

However, both the theory and practice of choice the postindustrial leaders of the modern world have to make regarding their economic strategies and development paths can offer Russia and other “post-socialist” countries by far less valuable tips than, say, India, which is now also facing a similar dilemma and has to make difficult political decisions. It is well known that this great country also paid its tribute to the socialist economic doctrine and to the idea of primacy of the heavy industry, first of all — of the iron- and-steel production (one may remember that the construction of the steel-smelting facilities at Bhilai figured as the pinnacle of the Soviet-Indian economic cooperation). Nowadays, however, India’s rate of macroeconomic growth is about 7 percent (on the same level as Russia’s, by the way), and the country has been pursuing the ambitious goal of rapidly and decisively becoming a “manufacturing superpower” (just like Japan half a century ago). In a country with more than 1 billion people, of which not less than one-third survives on an income of one dollar a day or less, manufacturing tends to be regarded as the leading element of the economic structure and “a perfect place to create jobs.”²³

This new wave sometimes dubbed the “manufacturing campaign” is “not about Gap T-shirts or Dell laptops, the poster children of the light industries that already have global supply chains,” Sebastian Mallaby of the Washington Post writes and continues: “And it is not about software and/or call centers, the industries for which India is famous.”²⁴ Instead, this ‘new globalization’ is about heavier manufacturing, particularly cars. At least in three locations — around Chennai, Delhi and Mumbai — new automotive hubs emerged and have been rapidly growing. The largest of India’s auto-components firms located in the Chennai region, the TVS Group, now exports around a third of its output — proof that it meets international

standards (although it still has to master the just-in-time manufacturing culture, like its Chinese counterparts at Ningbo have already done). One of the TVS companies, Sundram Fasteners, has won a General Motors “Supplier of the Year” award five times, and it delivers 100 percent of GM’s radiator caps. The rival Rane Group reports that it has reduced defects from 10,000 parts per million to 250 and that 28 percent of its engine valves are now exported. Ford and Hyundai have opened factories in Chennai, BMW recently announced that it would follow, while Volkswagen and GM seem interested. Multinational partsmakers are arriving too, strengthening Chennai’s attraction as a hub. Saint-Goben, a French glassmaker, has built a new production line that may foretell Chennai’s future. It is designed so that the initial capacity of 500,000 windshields can be cheaply scaled up to 3 million. The McKinsey consultancy projects that the outsourcing of car parts, relatively limited until now, will sextuple from \$65 billion in 2002 to \$375 billion in 2015, with India’s share soaring from around \$ 1 billion to \$25 billion. “If you think Detroit is ailing now, wait until you see what’s coming,” S. Mallaby states in the concluding sentence.

However, some analysts are worried that “a new India still aspires to do it the old way — the manufacturing way,” according to Stephen Roach, chief economist of Morgan Stanley.²⁵ He has big concerns about India achieving a manufacturing-led solution to its daunting unemployment and poverty problems. In today’s intensely competitive world, manufacturing success is all about high productivity. It is an intrinsically laborsaving endeavor. Services, meanwhile, remain labor-intensive, especially in the case of the knowledge-based activities driving growth in India’s most vibrant companies. Squeezing high productivity out of a laborsaving operation requires huge scale, something that is working for China. Given India’s deficiencies in infrastructure and foreign direct investment, achieving that kind of scale is a huge challenge. Labor-intensive services, by con-

trast, need less scale to create jobs. India shouldn't turn away from manufacturing, but it may be best to view it as a complement to the economy's other strengths — not as a primary focus. The trick, Roach says, is creating enough jobs to narrow the income gap between the haves and have-nots without stifling India's thriving service industries. Thus, popular is the idea of further building up on success that India has been achieving in the area of modern software and intercontinental communications by luring consumers worldwide with low prices and high quality of such mass services. For example, William Pesek (Jr.), a Bloomberg News columnist, in whose article the above considerations of Roach have been profusely quoted, added his regrets that India may lose the unique opportunity to become “the first country in modern history to make the transition from agriculture to services without going through a manufacturing phase.” In his view, hopes for such an achievement “dimmed a bit in recent years.”

However, one can also discover more optimistic judgements to this account. For example, the aforementioned S. Mallaby noted that Indian agriculture has indeed shrunk from 30 percent of output to 22 percent since the reforms — often dubbed the “Indian economic miracle” — began. In contrast, manufacturing has not increased its share of roughly 20 percent, and the entire shift has been to services, which now account for more than half of India's GDP. As a result, Mallaby believes, India “has scrambled the classic transition from agriculture to manufacturing and then eventually to services.”²⁶

Weak infrastructure and lack of new foreign direct investment often figure as the two main obstacles on India's development path. In this connection, it is worthwhile to notice that Japan also needs to do much rethinking in order to quickly overcome the ungrounded prejudice against the presence of foreign firms in its economy and learn how to attract overseas investment. In 2003, Japan received just \$6.2 billion compared

with \$ 39.9 billion for the U.S., and \$15.5 for the U.K.²⁷ In this light, it looks quite disappointing that, in spring 2005, Japan's ruling party scrapped plans to make acquisitions easier for overseas companies. The reason, or rather pretext, was: it wants to give Japanese companies more time to adopt takeover defenses. W. Pesek believes that "delaying until 2007 changes that allow overseas companies to use stock traded in other nations to pay for takeovers in Japan dashes one of the best hopes for Japan in the long run. A mergers and acquisitions boom is badly needed to unearth hidden value in companies, reduce over-capacity in the economy and trim debt."²⁸

All this shows how difficult the choice of economic strategy may be and how wide is the scope of alternatives. In India, such choice is made even more difficult because of hypertrophied state control over the economic realm, particularly — over the labor market and the influx of foreign funds. Small and medium-size companies with fewer than 1,000 employees should obtain the right to hire and fire, without consulting government departments. As of end of 2005, the Indian government has been set to open the economy more to foreign competition despite opposition from powerful leftist allies. A special panel of ministers has been created to hammer out a consensus on the proposals, which include simplifying procedures, raising caps on foreign equity in some sectors and opening electricity trading and mining activities to foreign investment.²⁹

Christopher Lingle, author of "The Rise and Decline of the Asian Century," called for "dismantling the license-permit-quota raj" and advancing the convertibility of the rupee. He also noted that India suffered from crumbling physical infrastructure and an inflexible labor regime. "India suffers from too little economic liberalism and too many government interventions based upon misguided socialist precepts," he believes, although it also has some strengths in comparison with its main rival — China (such as well-developed "institutional infrastructure," which includes legal

and judicial systems).³⁰

Economic Freedom and Market Institutions

It is well known that liberal ideas have been serving as a mighty factor transforming social conditions and state order in many countries and the whole world's regions. "In historical terms, the great liberal achievements have been the spread of democracy, the establishment of the rule of law, the respect for human rights and the expansion of market economy," according to Ronald Mainardus, a well-known commentator on Asian affairs residing in the Philippines.³¹ As liberalism is a concept of freedom, it aims at establishing a framework that permits the citizens to manage their lives according to their own preferences. To boot, liberal governance is a decentralized governance: liberals support local autonomy and, where applicable, federalism. Local and regional authorities should be given the powers to decide on all matters relevant to their constituencies. Of course, the preference for decentralization and "small government" influences also the economic-policy agenda. Government should stay out of the economy as much as possible, interventions should be minimized. In the economic field, government's main purpose is to uphold the rule of law and a legal framework that safeguards competition, prevents monopolies and eliminates corruption. "That government is best that governs least," Thomas Paine, English-born American author, whose writings were important influences on the American Revolution, once wisely noted.³² Finally, liberals reject the concept of "investing" scarce public resources in huge government handouts and other populist programs. They would rather invest in modern health care and universal education that empowers people.

The **economic liberalism**, which should not be confused with the

classic *laissez-fair* principle, “denoting government abstention from interference with individual action,”³³ represents judicious freedom of economic action in the conditions of law and order. As such, it is the absolutely first and most important factor of social and economic progress. This factor seems to figure more often than any other in the context of economic development and the global battle against poverty. It also serves as the basic criterion for the most popular and authoritative of global country rankings (of which there are many — by economic freedom, by international competitiveness, by the prevalence of e-commerce, etc.). “The path to prosperity is simple — liberty,” sounds the striking aphorism of Doug Bandow of the Cato Institute, with which he concludes his analysis of available development strategies.³⁴ According to the latest volume of “Economic Freedom of the World,” written by James Gwartney, Robert Lawson and Dexter Samida, the average income of people in the top fifth of economically free countries is nine times as high as that of those in the bottom fifth.³⁵

Experience shows that societies that keep government small and limit state interference are more successful — and richer — than those with bloated bureaucracies. Empirical data provide evidence that “economic freedom fans economic growth,” while “free markets are the best way to produce wealth.”³⁶ We can add that it is exactly *economic* liberty that matters. The two “Asian tigers” — Hong Kong and Singapore — traditionally open the list of world’s economic leaders but may by no means be named among democracies with blossoming political freedom and a perfect human rights situation.³⁷ It is worthwhile to notice that Yegor Gaidar, Russia’s first democratic prime minister, once noticed: “How democratic or undemocratic a regime is usually doesn’t bother investors. All they need and care about is stable, predictable rules.”³⁸ As a matter of fact, Singapore is routinely rated “partly free” with a dismal 4 or 5 score for

political and civil liberties (1 is the best, 7 is the worst). Singapore is rated 4.5 overall, in the same league as Kuwait and Nigeria. The international media organization Reporters sans Frontiers (RSF) ranked Singapore 147th in press freedom, while North Korea came in last at 167th.³⁹ At the same time, Singapore is ranked the second most global country in the 2004 A.T. Kearney Globalization Index, as well as in the competitive ranking of the International Institute for Management Development report. In 2005, Singapore has been placed third in the annual index by the Swiss Business School IMD, while its eternal rival Hong Kong has risen sharply, moving from sixth into second place, just behind the United States — the long-standing No 1 in the IMD table of 60 economies, “thanks to its technological infrastructure, domestic economy and capital market.”⁴⁰

It is interesting to notice that almost all economies leading in wealth, economic freedom and openness, with the exception of the U.S., are —“bonsai states”, i.e., quite tiny economic entities (at once, Switzerland, Luxembourg, Ireland, Denmark and Iceland spring to mind). As for the United States, it “has pulled off the trick of governing itself like a confederation of tiny statelets.”⁴¹

Overall, America can be complimented for its mighty market institutions, which emerged and gathered strength with the help of the state but were not suppressed by it in any way — such as the stock exchange, servicing the mass-scale M&A activities and the energetic development of venture capital; such as the effective bankruptcy rules, securing “creative destruction” (according to the Schumpeter recipes) and speedy restructuring and modernization; such as the mechanism of accelerated amortization, enabling rapid and effective capital renovation; such as the antitrust legislation, restricting the propensity of the big business to stiffen competition and stimulating the creative initiative of the small and mid-size businesses at home and abroad; such as the rich pension funds, serving as vital

sources of capital for structural modernization; finally, as the speculation mechanism on the commodity and currency markets — the notorious futures trade, enhancing the dynamism of the stock exchange and supplying it with necessary reference-points.⁴² In the U.S., shareholder's value takes the central position in corporate strategy and psychology, around which the whole pragmatically oriented system of corporate governance has been turning, while another basic criterion of business success — market capitalization — determines the company's current position in the U.S. industrial and financial hierarchy. However, even on America's corporate sun there are regrettable spots, which we shall discuss a little later.

Thanks to the strength of its market institutions, the U.S. economy is capable of a speedy response to changes and of timely modernization, its investment potential is mighty and flexible, its job-creation ability is high, while the Americans live with one of the world's lowest saving rates and one of the very highest spending rates among all industrial countries. It looks like exactly this last feature — very specific indeed — also explains the huge and chronic U.S. trade deficits — not the mounting state debt and the current budget deficits as believed by some critics of the American economic system. “The two are only loosely connected,’ noted Robert J. Samuelson in an analytic article in which he compared the American economic model with the rest of the world. “Americans’ low saving and high consumption offset foreigners’ high saving and low consumption. The huge U.S. trade deficits result because our strong spending sucks in imports, while their weak spending hurts our exports.”⁴³ Japan (with its saving rate of about 28 percent) and France (which uses an ever-bigger share of its savings for investment abroad) may serve as two typical examples.

Industrial history has shown that a state-controlled and strictly centralized economy, though in some cases capable of securing the country's

survival in extraordinary circumstances of a great war, can hardly be of any practical use in “normal” peaceful times. At least, the efficiency and effectiveness of more or less free market systems, in comparison with the “planned” economy conditions, is quite obvious. It is exactly private initiative — in its individual or collective (group) forms — which secures good social results, while failures represent rare and annoying exceptions. Economic freedom may cause inconveniences (for example, for those in power — by breeding omnipotent and unpredictable “oligarchs” with their political ambitions), but it creates necessary prerequisites for successful economic and social development.

However, the relationship between market economy and political democracy is not a simple and straightforward one, because “capitalism thrives on change — it inspires new technologies, products and profit opportunities,” while “democracy resists change — it creates powerful constituencies with a stake in status quo.”⁴⁴ Nevertheless, capitalism, by which R.J Samuelson means “an economic system that relies heavily on markets and private ownership,” on the one hand, and democratic social arrangement, on the other hand, are in need of each other. The first “generates rising living standards,” the second “cushion’s capitalism’s injustices and, thereby, anchors public support.” However, it is not easy to achieve harmony and effective interaction of the two — a fact the recent history, and by far not only European, repeatedly confirms offering a lot of unequivocal evidence. For one, if democratic prerogatives are overused, they may strangle economic dynamism.

Civilized “Socially-Oriented” Regulation

In this connection, it is appropriate to recall that the famous system of American management has been going through a certain moral and

institutional crisis as of late, a crisis manifested by a series of scandals involving CEOs of such well-known U.S. corporations as Enron, Computer Associates, Global Crossings or Tyco International. According to aforementioned W. Pfaff, “American capitalism in particular has suffered a pathological mutation” into what can be described as “managers’ capitalism replacing owners’ capitalism.”⁴⁵ This mutation occurred when managers realized that for practical purposes they controlled the corporations that nominally employed them. They were accountable in principle to boards of directors, but were increasingly in a position to control those boards through rewards, and by reciprocal appointments to other companies’ boards. The scandals of recent years have demonstrated how complaisant auditing firms could become with corporations that paid them, and for which increasingly they became policy consultants, developing the strategies — or stratagems — they would subsequently themselves audit. The law firms that managers consulted were obliging and ingenious. All of this served the personal and career interests of the managers themselves, which were not the same as the interests of the corporation, or its stockholders — or its employees. For example, “pension funds supposedly held in trust for corporation employees were usually invested in the company itself, making them the subject of manipulation, mismanagement and in some cases actual looting.” W. Pfaff, together with John C. Bogle, whose book “The Battle for the Soul of Capitalism” has been richly quoted in the article, looks for a solution in the nation’s sense of morality, appealing for a National Commission to examine what went wrong and how the United States could return to “traditional standards” of management and duty toward investors and employees.

In other words, what is needed is more socially oriented corporate management, which can be secured only with the help of public and governmental institutions. These recipes bring to mind the ideology, if not

always the reality, of management how it took shape in Japan, which for decades has been practicing “a soft-hearted capitalism that sacrifices jobs and growth for economic security” — in contrast with the U.S. model of “a hard-hearted capitalism, in which workers are sacrificed at the altar of lower prices and higher profits.”⁴⁶ If we consider that also Japan, in its turn, borrows from the U.S. ever more elements of its corporate governance, the conclusion springs to mind that something like “universal management culture” is in the making — an analog of the “third way,” advocated by the proponents of moderate state and public regulation, — though applied to the realm of private business.

These recipes have a resemblance also with pre-monetarist, basically — Keynesian doctrine, which has prevailed in the U.S for almost four decades, before the ideas of Milton Friedman and the “Reaganomics” ascended the throne. It was the time when the interests of stakeholders, i.e., employees, investors and local communities, were placed much closer to the center of the corporate policy and the corporation was regarded as “a social institution with duties other than profit-maximization.”⁴⁷ In contrast, in the modern epoch the absolute preference is given to the immediate financial gains of the owners of capital, summed up under the mask of “shareholder’s value” (under the pretext that “creating value for investors generates prosperity for everyone”). “People are tired of downsizing, outsourcing, canceled medical insurance and confiscated pension funds,’ W. Pfaff stated and put forward his opinion that “we are witnessing the first signs of the end of monetarism and the rule of markets.”⁴⁸ In his much-talked-of book, Donald Kalff, a former corporate businessman now teaching at the Leiden University School of Management in the Netherlands, advocates such a model of “new European corporation” where “shareholders have no privileged standing over management, employees or social and environmental considerations.”⁴⁹

Many American political analysts speak unfavorably about the European and the Japanese social and economic models, which are allegedly too strongly focused on social security and stability to the detriment of the healthy dynamism of the economy, its productivity and efficiency. Contemplating this topic, R. J. Samuelson brings up the United States as a positive example of the healthy relationship between the economy and the state system, while Germany and Japan figure as countries where the government regulation “strangles capitalism,” securing average economic growth of about 1 percent annually, roughly a third of the U.S. rate.⁵⁰

Turning to the area of the European Union, one can notice that in the last few years both its Commission and the economic organs of individual states have been mainly occupied with four vital problems — the lack of economic dynamism, the chronically high unemployment, the social and economic aspects of mass labor migration, and the aforementioned delocalization, i.e., losing manufacturing which moves to other countries and regions (and the same problems are in the focus of the competing political parties). “The Europeans see in ‘delocalization’ something hostile which must, at the very least, be restricted and controlled,” stated Russian “virtual journalist” Michael Mayatsky. “Individualism and growing comprehension of the human rights in Europe rendered effective exploitation incompatible with worthy human existence.”⁵¹ This contributed to the transfer of manufacturing activities to the countries, in which “consumerism is still young, green and smart” thus capable to offer “attractive remuneration for sweatshop work conditions.” M. Mayatsky believes that the classic proletariat can be found in developing countries only, while in Europe we see “decorative proletariat, or alibi proletariat, which is becoming more and more multilingual, living according its own laws, and sometimes outside any law.”

Stormy events in France in autumn 2005, as well as preceding them the social unrest in the Netherlands — a country, which is obviously going through a deep crisis of its peculiar brand of multiculturalism, have shown that the whole of the EU faces extremely complicated social issues nowadays. The most immediate and acute of them is concerning the eventual integration of laborers from poor North-African and Asian countries into traditional European society — an issue that looks farther from its solution than ever before. It becomes more and more clear that “in addition to imposing demands and constraints on minorities to join the mainstream, society must be willing to demand of itself that it make room for all its citizens.” An opinion has been aired that “as a potential model to be followed Europe should look at the so-called ‘affirmative action’ policies that America enacted to provide opportunities to blacks.” Affirmative action, or “positive discrimination,” as some have called such policies, began with the university admissions and has been effective, in particular, in creating a large African-American middle class.⁵²

Many European nations, especially those with a big and relatively homogeneous population, such as France and Germany, turned out to be unprepared for the foregoing transformation. France, for one, has been taking changes in its ethnic stock quite hard, while its “demographic profile” — with practically zero population growth for decades — looks awful indeed. *La Stampa*’s Paris correspondent described France as “Sunset Boulevard,” and noted the “darkness” descending over the country and the fear that follows in its wake.⁵³ Germany remains the world’s trade leader (top exporter of merchandise and the second-largest exporter of goods and services). No other country can offer its international clients such a broad variety of industrial products. Germany is home to 15 of the 20 biggest trade fairs in the world. However, its once extraordinary role as a manufacturer of finished high-tech products underwent a visible erosion.

According to Hans-Werner Sinn, director of the IFO Institute for Economic Research in Munich, “Germany is gradually becoming a bazaar economy in a different sense, because nowadays it specializes in packaging and selling its products, while outsourcing an ever-larger share of its high value-added manufacturing to low-wage countries. In other words, Germany’s role in the world economy is shifting from that of a producer to that of a merchant.”⁵⁴ From 1995 to 2004, Germany has lost 1.26 million steady jobs, while the lion’s share of this reduction has occurred in manufacturing. The German economy’s rate of growth, its job-creation ability, as well as the country’s domestic investment went down, while the redundant savings and the giant trade surplus have been leaving the country on a growing scale. The demographic trends look highly unfavorable as well. The number of Germans has declined by 3.2 million — the population of Berlin — over the last 30 years, the birthrates have been below the replacement rate for 35 years, while by 2050 the country’s overall population, which includes 7 million foreigners, can shrink from 75 million to 50 million (it is interesting to note that Japan may lose the same number of people — about 25 million — over the same period).⁵⁵ Thus “Old Europe’s” expectations for the future leave much to be desired. It is not surprising that British parliamentarian David Willett presented research showing that, by 2050, Europe’s share of world output will fall from 18 percent (2003 estimate) to a meagre 10 percent and concluded that “Europe’s demographic profile has put an end to hopes that the continent might become a cultural or economic alternative to the U.S.”⁵⁶ Writing in the newspaper *La Repubblica*, columnist Carlo de Benedetti noted that “the center of the world is shifting from the Atlantic to the Pacific,” while “Europe seems unable to stop marginalization of its culture, like Athens and Rome.”⁵⁷

Many analysts see the roots of Europe’s political and economic malaise in a very specific model of state regulation, which is by far more

“dirigist” (especially, in France where that term comes from) than that of the United States and does not create necessary stimuli for structural modernization. According to Athanassios Karapetsas, economic and commercial councilor at the Greek Embassy in Japan, “Europe’s enemy is in Europe itself,” and because of this it needs “deep social reforms and a new development model to be able to compete again with regions like Asia.”⁵⁸

At the London EU Summit in autumn 2005, British Prime Minister Tony Blair reminded his colleagues that five years earlier, in Lisbon, they had set themselves a bold strategic goal — for the EU “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion.”⁵⁹ To move closer to achieving this goal, it is necessary for Europe to “modernize” its economy along the lines of what T. Blair called the “British economic model,” which allowed the U.K. to bring down the unemployment to 4 percent and secure a growth rate much higher than those of its European neighbors. In other words, the economic model of Old Europe should be transformed in the free enterprise spirit, which has triumphed in post-Thatcher Britain.

However, the radical proposal of the British Prime Minister met at once with a strong French reaction. “European model is a socially-oriented market economy,” said Jacques Chirac. “The dignity of man should remain at the center of our social project. France will never agree for Europe to become merely a zone of free exchange.” It looks like Old Europe is still not quite ready to give away its “welfare state,” even if this world construction more often than not tended to describe an ideal rather than the reality (a “European dream”, according to Jeremy Rifkin, a prominent U.S. economist⁶⁰).

However, changes seem to be inevitable. “Many Europeans agree that the major economies of the EU are growing too slowly — and their

elderly populations are growing too quickly — to preserve the traditional welfare state and provide adequate jobs today, or to offer the prospect of genuine competitiveness in the global economy tomorrow,” Robert G. Kaiser of the Washington Post stated and went on: “In this view, the countries invest too little in education, research and development and do too little innovating. But there is no consensus on a course of action to fix these problems”⁶¹ In fact, it is not easy to work out realistic and prudent solutions. In France and Germany, and in Scandinavian countries as well, from 50 to 70 percent of GDP pass through the state coffers — more than in “paternalist” Japan (45 percent). But even in Japan it is believed that “to uniformly pursue ‘small government’ in every sphere of state activity would disrupt the basic fabric of society and leave the government unable to adequately fulfill its duties.”⁶²

In this connection, fundamental questions spring to mind: Can we say that in the *époque* of social market economy the high efficiency of government policies and of the state mechanism as a whole is far less important than that of the production system per se ? Or: May the European economic experience be really confined to the deficient growth figures of France and Germany ? Let us look, for example, at Nordic countries. “The business community has traditionally regarded high taxation and spending on social security — a feature of many Nordic economies — as a burden for financial performance.”⁶³ And yet, better known for providing a high degree of social protection, they dominate the list of the most competitive economies as well. In 2004, the United States was placed second in the World Economic Forum’s annual ranking, but ahead of it we could see Finland, while Sweden, Denmark and Norway took third, fifth and sixth spots. The WEF — an elite think tank funded by about 1,000 corporations — underlined budget surpluses there, as well as low corruption, a steady legal environment for business and a high degree of technological innova-

tion. By the way, in 2004, the Finns put 3.5 percent of their domestic product into R&D, second in the world to Sweden (about 4.3 percent) and far ahead of the U.S. (about 2.6 percent) and the EU as a whole (less than 2 percent).⁶⁴ It is also interesting to note that from all the ten countries that joined the European Union in 2004, the tiny Baltic state of Estonia was regarded “by far the most competitive” and praised for its “stellar performance.”⁶⁵

In the list of the most competitive and economically effective countries with a population under 20 million, compiled by the Swiss business school IMD for 2003, Finland was again placed first, while in the opening dozen all other positions but one (Singapore) were also occupied by European mini-states.⁶⁶ However, among the “big” countries the ranking was opened by the United States, Australia and Canada, while Germany was placed fifth; Britain, France and Spain took the positions from seventh to ninth; and Japan occupied the eleventh spot (immediately ahead of “mainland China”). In another list, released by the Economist Intelligence Unit and ranking countries according to their achievements in e-commerce development, the first spot was unexpectedly given to Denmark, while the U.S. was placed sixth, and Japan — only 25th. Overall, there were seven European countries among the first ten. It was stated that among the factors that allowed Europe — and especially Scandinavia — to excel, “smart government initiatives” were the most important, while the not very favorable placing of the U.S. occurred because of the relative stagnation of its “e-enabled but uncoordinated markets.”⁶⁷ Besides, the Nordic EU members — Denmark, Finland and Sweden, — together with such “newcomers” as Slovakia and the Czech Republic, were hailed by the European Commission for their strict fiscal discipline as “a shining example” to be followed by other countries, struggling to meet the bloc’s budget rules — France, Germany, Italy, and also Britain — “the latest to join the deficit

miscreants.”⁶⁸

Small European countries are among the world’s leaders in creating wealth in form of per-capita GDP (although international comparisons according to this basic indicator are aggravated by the considerable short-term fluctuations of currency exchange rates). At the head of the 2004 list of countries ranked by their average per-capita income were: the European bonsai-state of Luxembourg (\$70.499), Norway (\$55.269), Switzerland (\$47.923), Ireland (\$45.422) and Denmark (\$45.118), while the United States was placed seventh (slightly above \$39.000). Japan fell out of the top ten and took the 11th spot (\$35.922), and Britain, Germany and France occupied the 12th, 15th, and 16th spot, respectively.⁶⁹

And yet, despite all its unwillingness to do so, Old Europe will, most probably, be obliged to introduce changes in its approach to economic policy-making. Challenged by China and India, as well by their own new partners in the EU, its founding members must undergo deep economic reformation and modernization. According to Alexander Rahr, expert of the German Society for Foreign Policy, the growing competition will make many countries of continental Europe follow the example of Britain and open their economies more widely, reduce social expenditure, and bring down taxes.⁷⁰ However, integration notwithstanding, each country will have to work out its own reformation program or find means which would allow them to avoid it. In Germany, for example, the emergence of a grand coalition headed by Angela Merkel, the female leader of the Christian Democratic Union (CDU), brought about widespread worries in connection with adopted government policies, which include such measures as an increase in the value-added tax, a heavier tax burden on high-income earners, older age at which people can begin receiving pension benefits, and a reduction of these benefits — all this in an effort to achieve “a fiscal balance.” In contrast, in Finland, its president, incidentally also a lady, 62-

year-old left-leaning politician Tarja Halonen, who campaigned on a platform of equality, under the slogan “the president for all the people,” was reelected for the second term as voters rewarded her for “her down-to-earth touch and promises to preserve the welfare state.”⁷¹

It seems that not only in Europe, but also in Japan, where the “greying population” problem looms ever higher, both politicians and businessmen will have to rack their brains over just how to reconcile the needs of economic development with preserving the basic elements of the existing social policies. The immediate dilemma involves the welfare state. It requires fast economic growth to generate the income and government revenues to pay all the promised benefits. But the mounting costs of those benefits — especially as populations age — may stifle growth through higher taxes and budget deficits. If so, the welfare state may cause the stagnation, while “poor growth feeds prejudice, class conflict and antidemocratic tendencies”, according to Benjamin Friedman, a Harvard economist and author of the hugely provocative book “The Moral Consequences of Economic Growth.”⁷² It looks like nobody knows the way out of this vicious circle and how to create conditions in which rapid and sustained economic growth would not only bring about a rising standard of living for the clear majority of citizens but also — more often than not — improve the overall social situation by fostering “greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy.”

China’s Lessons

There are not a few lessons China can teach the international community, and some of them are especially important in the global context, when we contemplate the world’s economic future. At the same time, China’s development experience is unique and only rarely can find practi-

cal application in other countries' social and business environment.

The first, and probably the most important conclusion we can draw of China's economic reformation since 1978 — while admiring the high results it has been securing and, first of all, the decades-long and shockingly rapid macroeconomic growth — is as follows: the emergence and strengthening of a market economy system — especially in a country with virtually giant human and natural resources — can create a snowballing effect — and on a long-term basis to boot. In fact, during the last 20 years, the average annual rate of growth of China's GDP has been routinely estimated at an extraordinary high level of over 9 percent.⁷³ More, in late 2005 the official growth figures for 2004 have been revised upward (by \$278 billion, or by 16.8 percent). Following the revaluation, the government said China's economy had expanded at an average rate of 9.9 percent between 1993 and 2004, up from 9.4 percent reported previously, with growth of 10.1 percent in 2004.⁷⁴ In the context of our analysis, it means that the world's most populous country with a totalitarian political system and a traditionally hypertrophied and corrupted bureaucracy has, nevertheless, actually created economic conditions favorable for the realization of investment projects designed and financed by foreign TNC, as well as of private — individual and group — initiative of local entrepreneurs. In other words, foreign capital could make practical use of the stable and favorable “rules of the game,” while large strata of unpretentious and industrious Chinese were set free to “spin,” as the Russians say, i.e., to try and do their best to rise their living standards.

The second conclusion, arising from the first, can be formulated as follows. No country, even from among the economically strongest and most successful, can take for granted its position in the world economy once and for all. From the point of view of the division of economic strength in the world, modern China's ongoing “great leaps” can lead to

profound changes in the years to come. For example, the aforementioned revaluation of the growth figures for 2004 alone moved China, with a stroke of a pen, from seventh place in the global economy into sixth, ahead of Italy, and — if we include Hong Kong which, in fact, has become not only a part of China but its mighty outpost on the trade and economic front — even into fourth position, immediately after the United States, Japan and Germany, and ahead of Britain and France.⁷⁵ However, even without figures for Hong Kong, China's rate of growth has been sustained on a level about five times higher than in Europe — so, most probably, it has already outrun Britain in 2005. Various research centers and statistical bodies are using different methods of calculation and comparison while dealing with national macroeconomic indicators — the result of which their rankings of individual countries also vary. Thus, in international comparisons using the purchasing power parities (PPP) as the base for calculating the individual countries' GNPs, China has been placed third as of late — behind the United States and the European Union (but already ahead of Japan !), or even second — immediately after the U.S. but ahead of Japan and individual European countries.⁷⁶

The next theoretical conclusion is also connected with the China's GDP figures' revision: in the course of economic development of the aforementioned “snowballing” type, structural adjustments and improvements of the national economic model can occur and — in China's case — have been practically taking place. As a result of this revision, China has found within its borders “an economy roughly the size of Austria's or Indonesia's.”⁷⁷ More, it turned out that the service sector accounted for 93 percent of the revision. The tertiary sector, covering services from street food stalls to teaching and accounting, made up 40.7 percent of the economy at the end of 2004 instead of 31.9 percent previously announced, while another vital economic indicator — the fixed-asset investment to GDP

ratio — went down to about 40 percent (before the revision, the corresponding figures hovered around 45 percent).

It is difficult to overestimate the consequences of these changes. Before, economic growth analysts have been worried about China's immediate economic future because it "is investing too much and consuming too little, resulting in an unbalanced economy and potentially unsustainable growth mix that is skewed too much toward heavy industry"⁷⁸ (in 2005, private consumption accounted for 39.8 percent of China's GDP, far below the 65 percent norm for most major economies⁷⁹). Nowadays, in the light of the revised macroeconomic indicators, a greater diversity of ownership in China has been unearthed, while its economic structure is now believed to be "more reasonable and healthy" and the sustainability of growth "much better than many people thought."⁸⁰ The findings could also make China's policy-makers more relaxed about letting the yuan rise, which tends to favor consumption and services growth. In its turn, the "pro-consumer tilt" of the new China's economic strategy should "boost the country's demand for imports and its willingness to allow appreciation of the yuan to increase the consumer purchasing power."⁸¹ Let us recall that on July 21, 2005 China ended the yuan's decade-long peg to the dollar, allowing it to appreciate by 2.1 percent and saying it would manage the yuan against a basket of currencies including, among others, the euro and the Japanese yen.⁸²

The ongoing "critical correction" in China's economic policy aimed at leaving behind a clear-cut export- and investment-led growth mode of development and creating a more balanced model characterized by healthy consumer spending is tightly connected with the processes on the labor market and mirrors growing interest in issues of human capital and of investment in its development. There is little new in the notion that a sound economic mechanism — both in a national and a wider regional

framework — is unthinkable without due attention toward labor resources. Human capital represents a mighty factor of economic development and, at the same time, one of the major criteria to measure its success. Even if the economy is expanding but the country's labor force is in a bad condition, while the quality of manpower is not improving, it hardly can be called economic progress. Such indicators as the absolute size and the structure of labor resources and employment, as the share of urban population and that of trained and well-educated manpower, as figures describing the country's job-creation ability routinely figure among the most important economic criteria. But only thanks to recent Chinese experience have we learned that a country's annual need of new jobs can amount to something like 22 million (a rough equivalent of all U.S. employment growth since 1987).⁸³ According to other sources, in the next decade "China may have as many newly unemployed people as the rest of the world put together" and will have to create up to 300 million new jobs "to keep unemployment from rising to untenable levels."⁸⁴ The unprecedented scale on which the rapidly growing city population was being involved into "sweatshops" of China's modern industry also prepared a shock for the sociologists — as well as a rather high degree of satisfaction the newfangled industrial workers displayed while describing their new social situation, which represented for them a big step forward in their personal destiny. The average family income in the "rich" coastal regions of the country exceeds that in the rural inner regions more than tenfold (in Brazil, during the period of its active urbanization, there was only a fivefold gap between incomes of the unqualified workers in the cities and in the countryside).

China's boom which has been strongly stimulated by its giant export revenues (in 2005, the trade surplus tripled to a record \$102 billion⁸⁵) and by the large-scale foreign direct investment (about \$60 billion in the same year⁸⁶) may remind us of some pages in the U.S. industrial history. Like

America of old with its “New Frontiers” spirit, modern China’s economy “is the world’s sexiest as evidenced by the gold-rush mentality driving investors, executives and pundits the world over to get a piece of the action,” stated W. Pesek.⁸⁷ Accordingly, R.J. Samuelson quoted from a paper written by two U.S. university scholars: “In late-19th-century America, factory work was typically 10 hours a day, six days a week, and layoffs were usually at the whim of foremen...Jobs were monotonous and grueling... Health and safety protections barely existed.” To this, he adds his own conclusion: “China is now in a similar upheaval.”⁸⁸ No wonder that China’s industrialization — at first, of a socialist type, and later, of rough early-capitalist type — has its terrible underside. According to the World Bank, 16 of the world’s 20 most polluted cities are in China. 60 million Chinese have difficulty securing enough drinking water each day and 600 million drink contaminated water on a daily basis. As many as 300 million Chinese die prematurely from diseases related to air pollution.⁸⁹ Most factories built before 1980 lack pollution-control equipment.⁹⁰

This critical situation has begun to influence China’s domestic economic policy. In March 2004, the National People’s Congress approved the “socialist theory of development,” which emphasizes “a shift from hardware alone toward a more balanced development of both hard and software.”⁹¹ This theory underscores the development of China’s human resources to complement its growing infrastructure, which the previous team of Jiang and Premier Zhu Rongji had placed at the heart of China’s economic development. The present team of Hu and Premier Wen Jiabao wants to emphasize education, health and social reforms, poverty alleviation (according to the World Bank, in 2000, about 47 percent of China’s population still had incomes of about \$2 or less a day⁹²) and environmental protection, all deemed to be the “softer aspects of development and growth.” It focuses more on social justice through education reform,

health and welfare programs, and the revamping of the civil service, the judiciary and legal systems.

However, debate is growing between those who call for social equality and those who advocate further liberalization of the economy. The former, the so-called “socialist economists” from the “new left,” do not only argue for greater “socialization” of the economy to reduce social disparities, but also place emphasis on wealth redistribution policies and social justice to battle corruption. They have openly criticized “rampant economic development” for upsetting the country’s “social balance” and warn that a more socially equitable approach is needed to maintain stability.⁹³ In view that the present “get rich” philosophy and economic liberalization are inevitably accompanied by an ever wider spread of liberal ideas, some of the Chinese leaders want to place stringent controls on such ideas. Professor Liu Guogong, one-time alternate member of the Central Committee of the Chinese Communist Party, former vice president of the Chinese Academy of Social Sciences, has even called for the teaching of Western liberal market-based economic theory and practices to be banned in Chinese universities.⁹⁴ Hu repeatedly has hailed “China’s Marxist roots,” dismissing Western-style democracy as “a blind ally” for China. He also called for “new ways of looking at Marxist doctrine to bring it in line with China’s modern reality.”⁹⁵ However, all this looks like a mere policy switch toward a more “socially-oriented” economic course rather than like a radical turn back, to the Maoist past. As it seems, there is the fundamental difference in the Chinese rulers’ approach to the issues of social and economic development, on the one side, and to the principles of inner policy, on the other. As before, this policy is based on the loudly hailed hegemony of the CCP and aimed at keeping the status quo, thus not letting anything happen like the “orange revolution” in the Ukraine, or other-colors revolutions in Georgia and Kyrgyzstan, which have been so strongly destabilizing

the situation in the post-Soviet area.⁹⁶

Such are — or at least thus are proclaimed — some new priorities in China's domestic social and economic policy. In this connection, it looks appropriate to note that in by far more “well-to-do” Japan there also does exist a problem of income inequality and an obvious need to improve some parameters of the working people's life (for one, the housing situation). Thus, T. Sawa believes that the next goal for Japan should be to transform itself “from a rich nation with poor living standards into an affluent nation with a high quality of life.”⁹⁷ Nowadays, there has been even aired — though not in Japan, but in Bhutan of all places — the idea to introduce a new macroeconomic indicator characterizing a nation's “life satisfaction,” as Ed Diener, American professor of psychology, calls it, in terms of GNH (from “gross national happiness”) which should serve as an addition to or a substitute for the traditional per-capita GDP or GNP.⁹⁸

The shift toward further “humanization” of economic development can have in store for China and the world especially far-reaching consequences — exactly because of the giant scale of the country, its population and economy. Each dollar added to the average per-capita income of the 1,300 million plus population brings about a direct or indirect, but always considerable, growth in demand for food, raw materials, energy, industrial goods and various services. According to Lester Brown, head of the Earth Policy Institute in Washington D.C., China is already becoming the world's leading consumer of resources. “among the five basic food, energy and industrial commodities — grain and meat, oil and coal, and steel — consumption in China has already eclipsed that of the U.S. in all but oil,” he says.⁹⁹ In 2004, China consumed 382 million tons of grain, compared with the U.S. consumption of 278 million tons. Chinese ate 63 million tons of meat, compared to 37 million tons eaten in “meat-loving” America. China's use of nitrates, phosphates and potash for fertilizer was more than twice

the 19.2 million tons that were used in the U.S. In 2003, China also used more than twice as much steel as the U.S. (258 million tons vs. 104 million tons), and its annual consumption of coal was 25 percent more than in the U.S. (800 million tons versus 574 million tons) Only in oil does the U.S. still hold the lead, with consumption triple that of China's — 20.4 million barrels per day to 6.5 million barrels a day (2004). While the oil use in the U.S. expanded by only 15 percent from 1994 to 2004, use in China more than doubled. Having recently eclipsed Japan as an oil consumer, China is now second only to “over-motorized” America. If, or rather when, China will reach the level of motorization typical for a developed country, however, the situation may change radically. L. Brown believes that “the economic model that evolved in the West — the fossil fuel-based, auto-centered, throwaway economy — will not work for China, simply because there are not enough resources.” This sure gives food for thought. If, as expected, the Chinese reach the today's U.S. income level in 2031, and choose to consume grain at the same annual rate as Americans do today, then grain consumption per person in China would climb to 935 kg needed to sustain a U.S.-style diet and the country would need 1,352 million tons of grain which equals to two-thirds of the entire 2004 world grain harvest. “Our planet is simply unable to sustain billions more humans consuming at the same rate as today's Americans and Japanese.” Stephen Hesse, the author of the article containing all these interesting figures, concludes.¹⁰⁰ Maybe, this can be regarded as still another lesson which can be drawn from China's recent economic history, in particular, by India.

Be that as it may, so far China manages to supply its population with food, and the rapidly growing industry — with raw materials. Well known is the big stimulating influence of China's export to the U.S., to Japan and to the European countries on its economic development. Much less comprehended is, however, the fact that China's import is expanding

at annual rates quite comparable with those of its export and that foreign firms are playing a paramount role in supplying China's industrial machine which serves as the backbone of its "socialist" economy but is to no small degree created and now controlled by foreign capital. China's prolonged industrial boom wouldn't have been feasible without mighty outside factors — without foreign investment bringing not only money but modern equipment and new technologies as well, without export markets for a considerable part of manufactured goods, without outside sources of energy and industrial materials, and also without a steady supply of parts, component, accessories, etc. within the networks of international industrial cooperation.

According to its official statistics, China absorbed roughly half the world's cement production in 2003, one-third of its steel, one-fifth of its aluminum and nearly one-fourth of its copper. Once a major coal exporter, China is now consuming almost all of its production, putting pressure on the global supply. China's "insatiable demand for raw materials is reshaping commodity markets worldwide and straining the systems that move goods on land and sea," Peter S. Goodman of the Washington post noted.¹⁰¹ Suddenly, around the world, stockpiles of everything from copper to coal disappeared. "The world needs more freighters because China's growth is tying up much of the fleet. But the shipyards can't get the steel they need, because there aren't enough ships to move the ore to the steel plants."¹⁰² Hiring a giant freighter to run coal from Australia to Japan costs nearly \$50,000 a day, up from about \$20,000 in January 2003.

In recent months, Chinese oil companies have made a string of moves aimed at securing overseas reserves. State-controlled CNOOC Ltd., which had to abandon its bid for Unical after it triggered political opposition in Washington, aired its plan to spend \$2.3 billion for a large stake in a Nigerian oil field. Last fall, China's largest oil company, China National

Petroleum Corp., took control of PetroKazakhstan for \$4.2 billion, and later it teamed up with India's Oil and natural Gas Corp. to buy Petro-Canada's stake in Syrian oil fields. "Wherever there is oil, that's where we'll go," said Gong Jinshuiang, a senior engineer at China National Petroleum.¹⁰³ China's oil companies have been involved into negotiations with Ecuador and Bolivia,¹⁰⁴ with Saudi Arabia and the OPEC,¹⁰⁵ they regard Africa as "another key area,"¹⁰⁶ and also show their interest for China's closest neighbor — Russia (in particular — for the assets of ill-fated Yukos).¹⁰⁷ In about a decade, China has gone from being from net exporter of crude oil to one that relies on imports for 40 percent of its needs. By 2030, China's dependence on foreign oil is expected to rise to 60 percent, which is the current level for the U.S.¹⁰⁸

Analyzing the economic course of modern China, researchers note that corporate China's situation bears some similarities with Japan's roughly 30 years ago. As has been the case with Japan, PRC's trading policy is structured around "a cheap currency, a protected home market, a government pursuing an export-your-way-to prosperity economic model," W. Pesek stated in an article,¹⁰⁹ where he compared the modern "Chinese challenge" with how Japan has been challenging America in the 1980s. As Japan of old, China answers the demands to revalue its currency not only with an ever more active export expansion, but also with growing investment activities abroad. In 2004, its outward investment has shot up 93 percent, while in 2005 China's FDI rose by 26 percent more, to the record \$6.9 billion. The government has been encouraging companies to pursue overseas acquisitions and other investments as part of a "going out" policy aimed at countering the country's huge trade surplus and burgeoning foreign reserves.¹¹⁰ "Get ready, America," says Joseph Quinlan, chief market strategist at Bank of America Capital Management. "Corporate China is coming."¹¹¹ Watching the ongoing boom in China's carmaking analysts

draw international comparisons and forecast eventual severe consequences for America. “As you realize, it took the Japanese maybe 20 years to get a real foothold in the U.S.,” noted David Elshoff, a Chrysler spokesman in Auburn Hills, Mich. “It was 10 years for the Koreans. We fully anticipate the Chinese could do it in less than five.”¹¹²

From any point of view, China’s economy has been undergoing strong “globalization,” the consequences of which can’t be fully seen yet. According to aforementioned L. Brown, “China is no longer just a developing country. It is an emerging economic superpower, one that is writing economic history.”¹¹³

Globalization, Regional Integration, Growth-Limiting Factors

In regard to individual economies, their globalization means ever wider involvement into the system of international economic relations on a long-term basis, accompanied by a gradual erosion of economic borders between nations which results from their steady cooperation and growing interdependence. Meanwhile, there are serious differences between the initial — and still remaining unique — American model of globalization and what can be called “Chinese-style globalization.”

From the very beginning, the former has been based on the desire of the United States to secure for itself steady and unhampered access to world’s resources and to make other countries satisfy its various needs while accepting payments in its own currency, i.e., in the dollars. The U.S. has generally prevailed in this bold endeavor, and thus a situation emerged when many countries — directly or indirectly — participate in the straining but profitable efforts to satiate the insatiable demand of the American consumers. “For the United States, globalization has meant building its economy into a giant consumption machine,” Clyde Prestowitz, president

of the Economic Strategy Institute, wrote in Newsweek. “American buying drives most of the world’s growth because the United States is virtually the only net consuming country in the world.”¹¹⁴ As a result, the global economy is very asymmetric, and its balance too much depends on the situation in the U.S. economy and on its markets. The United States still holds “a pivotal place in the world economy as the biggest consumer of final products.”¹¹⁵ It is, first of all, on this ground that the United States can be called an “economic superpower” and “main engine of the economy growth.”

The prospects are bleak and disturbing, however. Burdened by domestic and international deficits, the U.S. entirely depends on the steady influx of foreign capital and on its concrete size. “What makes unsustainable U.S. budget and current-account deficits appear sustainable is Asian central banks’ holding more than \$1 trillion of U.S. Treasuries,” W. Pesek noted in one of his recent articles.¹¹⁶ In that situation, the “nightmare scenario” would be for Japan and China to start releasing themselves from the American government bonds — a step that might produce chaos on a global scale. The “greenback” remains the No. 1 currency, but is unstable and visibly loses power against the euro, all the U.S. government’s assurances of its steady adherence to the “strong dollar” policy notwithstanding. “The world might drift toward a multiple reserve currency system shared by the dollar, the euro and the yen, or indeed the yuan at some time in the future,” according to one of the Economist magazine forecasts.¹¹⁷

As for the Chinese model of globalization, it is in principle rather similar to those of other export-led economies, such as Germany¹¹⁸ or Japan. However, China’s economic expansion has an even more reliable foundation (China’s resource base is incomparably richer than that of its main export rivals) and is actually in its very beginning. High growth rates

both of exports and imports, a steady trade surplus (\$102 billion in 2005¹¹⁹), a mighty influx of investment capital while China itself has been set to purchase promising companies and real estate abroad, — all this allows us to conclude that this country's integration into the global economy is proceeding in a more or less balanced and harmonious way.¹²⁰ What, however, makes us recall exactly America when thinking of China is the giant influence their tremendous demand for natural resources and correspondingly tremendous supply of finished goods have on commodity markets and the economic situation in other countries. That is why some analysts regard an eventual spontaneous shift in China's economic situation from an "overheating" to its very opposite — "deflation" (understood as much lower growth rates or an absolute stagnation) as another "nightmare scenario," in which "investment in China plunges, exposing a huge industrial overcapacity. Consumption collapses as workers lose jobs. Trade frictions with the U.S. worsen as Chinese companies scramble to export more. China's central bank is unable to restore confidence among consumers, executives and investors."¹²¹

In this connection, it is time to mention some limits (or restricting factors) influencing economic growth — both of objective and subjective nature — which all the countries, big and small, rich in resources and almost fully devoid of them, have to deal with on their development paths. We have in mind such natural and social factors as the limited character of sources of raw materials and of human stock, as the inadequate quality of environment and unfavorable trends in its evolution, as the size of available and potential markets, as the availability of own and borrowed capital for development purposes, finally, as the weakness of industrial and social infrastructure and the inadequate financial and material base of R&D. It is worthwhile to mention that among such factors, which may stimulate development or set limits to it — depending on the situation — some are

on the supply side (such as explored natural resources, accumulated economic potential, size and quality of infrastructure, world commodity prices, etc.), while others are on the demand side (actual income and inflation levels, savings and consumption ratios, tax burden for different tax payers, etc.).

In view of the rapidly ongoing globalization and the high degree of interdependence of states, the problem of the resource availability must be faced and solved in a quite different context than that which existed before the giant military and other perturbations of the 20th century. Sure, to possess large, approachable and reliable sources of oil and gas, for example, remains a very good thing (like it always has been). However, the examples of Germany and Japan clearly show that, nowadays, the energy supply of a rapidly growing and modernizing economy can be solved on the basis of predominantly outside sources — with the help of international trade (in particular, through long-term outsourcing contracts), of FDI and joint ventures, of international industrial cooperation schemes, etc. However, the rivalry between the developed industrial economies in regard to international sources of raw materials becomes especially acute, while the influence of commodity and energy prices on the market situation grows dramatically as well. The terrorist threats, as well as the unexpected appearance of the practice of closing the gas taps on international routes, make the search for reliable energy sources topical as never before. The nuclear energy again begins to figure in national development programs, while “non-traditional” oil fields, such as the famous Athabasca oil-sands in Alberta, Canada, as well as ocean resources, draw ever more attention.¹²²

On the other side, let us recall what a strong impact any, even temporary, disturbance of energy and /or raw materials supply may have on the technical and technological progress, on the sphere of R&D, and thus

on the whole qualitative side of the economic system. It is well known, for example, how strong the global influence of the two oil shocks of the 1970s has been, what a push, in particular, have they given to the new developments in the field of energy-saving technologies. By-the-way, recent experience shows that environmental limits and threats may have a similar impact. “Generally speaking, technical innovation is driven by constraints and shortages,” T. Sawa noted in an article devoted to the issues of how to secure what he called “sustainable development.”¹²³ The global boom around “hybrid” cars, which has been springing up recently in all three major regions of the industrial world (with Toyota in the leading position), can serve as a good example of the creative impetus coming from resource limitations and environmental challenges.

Market limitations can influence the development processes in a major way too, as many countries around the world going through industrialization (most of all — in Africa) have found out. In a situation when foreign markets are out of reach, while the domestic market remains underdeveloped, a regular industrialization effort — as well as economic development in general — may become virtually impossible. And vice versa, new trade opportunities can strongly push upward economic growth rates. For many a country, globalization means exactly the “export-led growth,” and not much else. “Particularly in Asia, ‘catch-up’ development policies have focused on creating production and export machines,” according to C. Prestowitz.¹²⁴

Modern economic history confirms the notion that foreign markets and foreign financing are able to play a considerable, and often even an outstanding, role in the economic development of certain countries. Let us recall Japan’s contribution to South Korea’s industrialization, or the assistance of the EU in the industrialization effort of Spain and some other member-states, or South East Asian nations’ expectations regarding

regional cooperation within “ASEAN plus Three,” i.e., with China, Japan and South Korea.¹²⁵ There is so much money freely circulating in the world nowadays that only countries most deprived of natural resources and unattractive for investors (as well as those with the most untalented and lazy governments) must rely on inner funds only.

While the multilateral efforts within the WTO aimed at trade and investment liberalization have been facing serious obstacles, bilateral, regional and inter-regional free trade initiatives in different parts of the world prosper and grow in number. We may also notice that international factors and processes often move to the forefront when, for example, countries have to deal with such issues as the need to replenish their inadequate labor resources — through the institute of “gastarbeiters” and some other forms of labor migration, including those connected with regional economic integration.¹²⁶ Together with elderly people and women, immigrants ever more often figure nowadays as an integral part of “latent workforces” thus adding to the available sources of manpower.¹²⁷ Not only in Europe but also in Japan with its rapidly “graying” population, attracting manpower from abroad begins to be regarded as a “necessary evil.” In another context — for example, in that of the safekeeping of natural environment — such “necessary evil” can materialize in the need to spend a lot on earth- and water-purification effort, as well as in the necessity to undertake special government measures and introduce new legislation regulating the use of natural resources. In some cases, the application of prudent environmental restrictions may serve as an additional factor of harmonious and sustainable economic and social progress (i.e., of economic growth and of social development regarded in their indissoluble totality).

There are not so many countries left in the world which haven’t yet been embraced by globalization and/or involved into processes of regional

economic integration — be it in the form of customs and economic unions or less obliging but equally effective free trade areas. The difference between these two forms from the point of view of their international impact is not very big, but it still exists. As we see it, generally, globalization has less direct and less concentrated influence on the economic development of individual countries than regional integration which figures nowadays as the highest form of the internationalization of economic life. At the same time, it may be noticed that globalization tends to favor the strongest and most promising players (today, those surely are the U.S. and China) offering them additional advantages and exactly through them influencing the other world, though inevitably leaving some “stepson nations” behind (as we find in Sub-Saharan Africa, for example). In contrast, economic integration, being restricted by a certain regional area, usually is capable of distributing its benefits among the member countries more equally — in a manner in which a high wave entering the harbor rises both mighty liners and small fishing boats moored in it.

On the whole, internationalization of economic life in both its main forms — as globalization of economic processes and as economic regionalism — enhances the size of the “economic pie” to be shared between nations. As a rule, it is not a “zero-sum game” indeed. Which means that the international success story of, say, Asia as represented by China and India does not necessarily mean losses for other regions and nations, in particular — for Europe and America (though, in individual cases, such losses can sure occur or be pending, as we have seen in the example of North American carmaking).¹²⁸ According to W. Pesek, “Asia’s rise will lead not to an exclusive Asian or Pacific century, but a dynamic and globally connected Asian community spurring growth in the rest of the world through a network of trade and investment relationships” (thus turning “the so-called Asian Century into the Global Century”). “At some point,

Chindia (a recently introduced nickname for “China plus India” — *A.B.*) will generate huge demand for consumer and capital goods produced around the globe... Far from siphoning prosperity from rich nations, it could increase the global economic pie to everyone’s benefit.”¹²⁹

Yet, the global economy is a capricious lady which favors the “young, long-legged and well-educated ones,” using the words of the protagonist of a well-known Russian novel. Thus, much depends on the “fitness” of a country’s “economic organism” and on its system of priorities. In particular, they predestine what effects for its economic and social development the nation in question can expect from its involvement in global and regional systems of international economic relations.

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- 1 As regards the types of development paths proposed by Hollis Chenery (1979), see: Dunning J.H. *Multinational Enterprise and the Global Economy*. Wokingham, Reading et al., Addison-Wesley Publ. Co., 1993, P. 272.
 - 2 See: *Ibid.*, P. 272-274. Obviously, the so popular IT can serve as the best example of an obvious convergence between industry and services nowadays.
 - 3 See: Путин назвал основу роста российской экономики. — Известия.ру (01.11.2005).
 - 4 See: Тимофеев Лев. *Технология черного рынка или крестьянское искусство голодать*. М., 1989.
 - 5 See: Илларионов видит «командную экономику» в России. — BBC Russian.Com (11.11.2005).
 - 6 See: Путин призвал к «вдумчивой модернизации науки». — BBC Russian.Com (26.10.2004).
 - 7 See: Sawa T. Technology key in postindustrial society. — The Japan Times (27.04.1996).
 - 8 See: OECD expecting steady 2% growth in economy. — The Japan Times (01.12.2005).
 - 9 Sawa T. Japan's education disability. — The Japan Times (05.11.2005)
 - 10 See: A mature investor-creditor nation (editorial). — The Japan Times (28.05.2002).
 - 11 Foreign income exceeds trade. — The Japan Times. (15.02.06).
 - 12 A mature investor-creditor nation...
 - 13 See: Pfaff W. U.S. may miss manufacturing one day. — The Japan Times (02.11.05).
 - 14 *Ibid.*
 - 15 Samuelson R.J. Moment of truth for U.S. manufacturing. — The Japan Times (23.11.2005).
 - 16 *Ibid.*
 - 17 Brownstein R. U.S. automakers too important to let fail. — The Japan Times (05.11.2005). The idea is quite correct, with one reservation, however. Since the late 1960s at least, there is no such thing as a “domestic auto manufacturer” and more appropriate would be to use such a word combination as the “U.S. segment of the North American carmaking,” in line with its Canadian and Mexican segments.
 - 18 See: *Ibid.*, and also: Samuelson R.J. A model of inertia and overconfidence.

- The Japan Times (04.12.2005).
- 19 See: Perlstein S. Economies of scale seen as next step for info-tech industry.
— The Japan Times (05.11.2005).
- 20 Shiller R.J. Guard against obsolescence. — The Japan Times 9 23.05.2006).
- 21 Pfaff W. Brainpower is a shaky prop. — The Japan Times (12.03.2006)
- 22 See: Report urges U.S. companies to move more jobs overseas. — The Japan Times (05.07.2004).
- 23 See: Pesek W. (Jr.). India's push toward manufacturing a risk. — The Japan Times (09.11.2004).
- 24 Mallaby S. Next threat to U.S. automakers: India. — The Japan Times (10.12.2005).
- 25 Quoted by: Pesek W. Op. cit.
- 26 See: Mallaby S. Op.cit.
- 27 Pesek W. How to kill an economic recovery, Japanese-style. — The Japan Times (22.03.2005).
- 28 See: Ibid.
- 29 See: India eyes eased foreign business rules. — The Japan Times (30.11.2005).
- 30 See: Lingle C. China leads but don't count India out. — The Japan Times (09.11.2004).
- 31 Meinardus R. In defense of a liberal agenda. — The Japan Times (01.11.2004)
- 32 Electronic version — http://en.thinkexist.com/quotation/that_government_is_best_which_governs_least/225692.html.
- 33 Oxford Paperback Encyclopedia. Oxford, N.Y., 1998, P. 786.
- 34 Bandow D. It's simple: Economic freedom is the key to prosperity. — The Japan Times (23.02.2000).
- 35 Ibid.
- 36 See: Meinardus R. Op.cit.
- 37 The Heritage Foundation. The Wall Street Journal. 2005 Index of Economic Freedom (www.heritage.org/research/features/index/countries.cfm — 59k).
- 38 Gaidar Y. Killing growth in Russia. — The Japan Times (01.02.2005). It is worthwhile to notice that Russia has been placed in the little flattering 126th place in the economic freedom ranking in 2005.
- 39 See: Hong C.M. Rights do matter for Singapore. — The Japan Times (18.12.2004).
- 40 See: Hong Kong moves up to No. 2 in rankings of competitiveness. — The Japan Times (14.05.2005).
- 41 See: Hannan D. Blue-eyed sheikhs. — Spectator, 09.10.2004, P. 19.

- 42 Let us notice that in primitive and mercantilist post-Soviet Russia there are yet no such institutions and instruments, or they remain extremely immature and working badly. According to Sergei V. Martynovsky, well-known economic analyst residing in Odessa, the average age of the fixed capital in Russia's industry exceeds 35 years. Visiting Sakhalin in the early 1990s, the author has seen with his own eyes newsprint-making machines — made in Japan in 1908 and still in working conditions at that time.
- 43 Samuelson R.J. Surplus saving behind trade imbalances. — The Japan Times (01.05.2005)
- 44 See: Samuelson R.J. Day of reckoning is shelved. — The Japan Times (02.10.2005).
- 45 See: Pfaff W. A mutant form of market capitalism. — The Japan Times (07.12.2005).
- 46 See: Pearlstein S., Blustein P. In global economy, nations seek 'third way' to do business. — The Japan Times. (24.06.1997).
- 47 See: Pfaff W. Western workers lose stake in society. — The Japan Times (14.06.2006); Pfaff W. U.S. business downsizes moral values. — The Japan Times (31.05.2006).
- 48 Pfaff W. End of monetarism in sight. — The Japan Times (01.12.2005).
- 49 See: Kalff D. An UnAmerican Business: The Rise of the New European Enterprise (Kogan Page Publ., 2005). Quoted by: Pfaff W. Trust in leadership plunging. — The Japan Times (22.12.2005).
- 50 See: Samuelson R.J. Day of reckoning is shelved...
- 51 Маяцкий М. Пролетарии! Соединяйтесь против пролетариев всех стран. — PROGNOSIS.ru (02.12.2005).
- 52 Van der Ploeg R., Mees H. A model for EU integration. — The Japan Times (11.12.2005). In this connection, one is tempted to add that also in Russia, and especially in its regions behind the Ural mountains, it is time to stop drawing a deep watershed between the Russians, Ukrainians, Yakuts, Buriats and Chukchas, on the one side, and the Chinese or Koreans, on the other side (and the same is, of course, true regarding investors — "our own" Germans, on the one side, and the "incomprehensible" Japanese, on the other side)..
- 53 See: Glosserman B. Europe rues decline amid shift to Asia. — The Japan Times (31.10.2003).
- 54 Sinn H. —W. Germany's bazaar economy. — The Japan Times (21.10.2005).
- 55 See: Kirschbaum. German leaders wake up to shrinking population — The

- Japan Times (25.01.2006); Arudou D. Taking the 'gai' out of 'gaijin'. — The Japan Times (24.01.2006).
- 56 See: Glosserman B. Op. cit.
- 57 See: Ibid.
- 58 See: Wijers-Hasegawa Y. METI's Asia-Oceania FTA pitch surprises but is predictable. — The Japan Times (19.04.2006).
- 59 See: Борщевская Л. Закат Европы будет экономическим. — RBC daily (31.10.2005).
- 60 Quoted by: Rotella S. French author fuels a 'lazy' rebellion. — The Japan Times (03.11.2004).
- 61 Kaiser R.G. Finnish innovation offers new model for old Europe. — The Japan Times (20.07.2005).
- 62 Small government vs. welfare (editorial). — The Japan Times (14.12.2005).
- 63 Nordic countries dominate list of most competitive economies. — The Japan Times (15.10.2004).
- 64 Kaiser R.G. Op. cit.
- 65 See: Nordic countries dominate...
- 66 U.S., Finnish competitive prowess tops survey. — The Japan Times (16.05.2003).
- 67 See: Denmark world's e-commerce leader. — The Japan Times (23.04.2004).
- 68 EU hails Nordic nations as shining model of fiscal discipline. — The Japan Times (14.01.2006).
- 69 Yen drop kicks Japan out of top 10 in per capita GDP. — The Japan Times (18.01.2006).
- 70 See: Borshyevskaya L. Op. cit.
- 71 See: Grand coalition with hazy prospects (editorial). — The Japan Times (29.11.2005); Finland re-elects Halonen to second term. — The Japan Times (01.02.2006).
- 72 Quoted by: Samuelson R.J. Worship of growth faces a predicament. — The Japan Times (15.01.2006).
- 73 As an example, see: Chelala C. China's environmental health challenges. — The Japan Times (05.11.2005).
- 74 China's economy has likely soared to world's top five after strong 2005. — The Japan Times (25.01.2005).
- 75 China's economy nearly 17 percent bigger than thought. — The Japan Times (22.12.2005). It is interesting to recall that, on the eve of the 21st century, the question as to when totalitarian "red" China will completely swallow and digest tiny "golden" Hong Kong served as the favorite topic for discussions

- and political forecasts. However, a little more than five years went by, and the world has been witnessing the emergence of this Special Administrative Region of China as a mighty catalyst of PRC's own transformation — so far, toward a more mature model of market economy, while later — who knows? — maybe, even some motion toward political pluralism can be in the cards...
- 76 As an example, see: *www.geographic.org* (Country Ranks 2004, 2005), or the “index mundi” grouping in: *www.photius.com/rankings/economy/gdp_2005_0.html*. Let us also mention that in such ratings modern Russia usually occupies the last place among the ten biggest economies.
- 77 See: Pesek W. China just got bigger — a lot bigger. — *The Japan Times* (26.12.2005).
- 78 See: China's economy nearly 17 percent bigger...
- 79 Roach S. S. The Untold China Story. — *Newsweek*, 08.05.2006, P. 35 (also see: Clarification. — *Newsweek*, 29.05.2006, P. 13).
- 80 See: China's economy nearly 17 percent bigger...
- 81 See: Roach S. S. Op. cit.
- 82 U.S. says China not manipulating yuan, upsetting critics. — *The Japan Times* (01.12.2005).
- 83 С.М.: Samuelson R.J. Will China help or hurt world trade? — *The Japan Times* (26.10.2003).
- 84 See: Economic miracle a myth for Chinese workers. — *The Japan Times* (11.12.2005).
- 85 China's trade surplus triples to 102 billion. — *The Japan Times* (13.01.2006). In 2005, China's foreign exchange reserves jumped to a record \$818.9 billion. Only Japan, with \$846.9 billion, had a larger stockpile (China foreign exchange reserves leap to record high. — *The Japan Times* (17.01.2006).
- 86 China's economy has likely soared to top five...; also see: Finding the real facts in China's statistics. — *The Japan Times* (22.05.2006).
- 87 Pesek W. China's copper crisis tells a bigger story. — *The Japan Times* 28.11.2005).
- 88 Samuelson R.J. Today's China resembles America of old. — *The Japan Times* (04.04.2004).
- 89 See: China's environmental challenge (editorial). — *The Japan Times* (30.11.2005). Because of its large territory and giant economy, China's environmental situation directly influences its neighbors (it is enough to recall the perilous benzene spill in the Songhua and the Amur rivers in winter 2005, or acid rains the winds from the continent bring to Japan endangering its

- forests and farms).
- 90 Chelala C. *Op. cit.*
- 91 See: How to stabilize China, according to Hu. — *The Japan Times* (02.04.2005).
- 92 Samuelson R.J. Today's China resembles America of old...
- 93 See: Cheow E.T.C. China juggles growth, stability. — *The Japan Times* (01.12.2005).
- 94 See: Wall D. Cry for about face in China. — *The Japan Times* (22.11.2005).
- 95 See: Communists set out to modernize Chinese Marxism. — *The Japan Times* (07.12.2005).
- 96 See: Ching F. No changing colors in China. — *The Japan Times* (02.11.2005).
- 97 Sawa T. Japan's paradox of wealth. — *The Japan Times* (31.05.2005).
- 98 See: Tallying national happiness (editorial). — *The Japan Times* (25.10.2004).
- 99 Quoted by: Hesse S. China's growth sums just don't add up for the planet. — *The Japan Times* (24.06.2005).
- 100 Hesse S. *Op. cit.*
- 101 Goodman P. S. World scrambles to satisfy China's ravenous appetite for raw materials. — *The Japan Times* (28.05.2004).
- 102 *Ibid.*
- 103 Quoted by: Lee D. China continues to prowl the globe for energy resources. — *The Japan Times* (03.02.06).
- 104 See: Bolivian president-elect invites China to develop gas reserves. — *The Japan Times* (11.01.2006).
- 105 See: Oil-hungry China courts Saudi ruler. — *The Japan Times* (24.01.2006).
- 106 Chinese state company to buy 45% stake in Nigerian oil field. — *The Japan Times* (12.01.2006).
- 107 See: China interested in buying \$10 billion of Yukos' assets. — *The Japan Times* (10.12.2005).
- 108 Lee D. *Op. cit.*
- 109 Pesek W. Chinese about to become target of U.S. fear and loathing. — *The Japan Times* (02.11.2004). In this connection, let us note that PRC's joining the WTO hasn't yet brought any big changes in its rather protectionist and nontransparent customs system.
- 110 See: China's economy has likely soared to world's top five...
- 111 Quoted by: Pesek W. Chinese about to become...
- 112 Quoted by: Lee D. China's fledgling automakers get set for global competition. — *The Japan Times* (05.11.2005).

- 113 Quoted by: Rapidly growing China overtakes U.S. as world's leading consumer. — The Japan Times (19.02.2005).
- 114 Prestovitz C. The world is tilted. — Newsweek special issue (Issues 2006, P. 17).
- 115 See: China again top Japan trade partner. — The Japan Times (28.01.2006).
- 116 Pesek W. Bush can't see Asian forest for its to biggest trees. — The Japan Times (06.02.2006). Also see: China losing confidence in dollar as value falls. — The Japan Times (12.01.2006).
- 117 Quoted by: Ishida M. Key to a common currency. — The Japan Times (01.02.2005).
- 118 According to the authors of a recent article devoted to a slight improvement in German economic situation, it is the “global economic miracle” that inspires German business nowadays, not its own “German miracle” (See: Foroohar R., Thel S. Europe Is a House Divided. — Newsweek (13.02.2006, P. 38).
- 119 China's trade surplus triples to \$102 billion... It is worthwhile to notice, however, that in trade with Japan China still shows a steady deficit — thanks to the large-scale purchases of modern Japanese technology and of high-valued durable consumer goods (See: China again top Japan trade partner...).
- 120 Actually, China has already solved many problems over which Russia will have to rack its brains while preparing to join the WTO.
- 121 See: Pesek W. Deflation looms as simmering China cools off. — The Japan Times (05.11.2005).
- 122 See: Asia embraces the atom as its answer to energy shortage. — The Japan Times (11.07.2006); Canadian oil sands seen as leading crude source in future. — The Japan Times (13.01.2006); Canada's oil-sands mining bring riches and environmental destruction. — The Japan Times (15.06.2006).
- 123 Sawa T. Bet on the sustainable option. — The Japan Times (08.02.2005). Let us emphasize that such issues have been widely discussed in Japan nowadays.
- 124 Prestovitz C. Op.cit., P. 17.
- 125 For example, see: Steppingstones to economic integration. — The Japan Times (13.12.2005); also: Asia summit seen as first step toward economic integration. — The Japan Times (08.12.2005).
- 126 See: Browne A. Invasion of the New Europeans. — Spectator (28.01.2006, P. 12- 13); Brophy B. , Arudou D. Japan and the immigration issue. — The

- Japan Times (15.09.2004).
- 127 See: Women, immigrant, elderly workers needed as society ages. — The Japan Times (23.06.2006); W. Pesek. ‘Womonomics’: an answer to many of nation’s ills. — The Japan Times (07.11.2005).
- 128 For example, see: Mano T. Globalization is a trend fraught with both positives and negatives. — The Japan Times (22.02.2005); also see: Tannock C. Coaxing Europe out of a trade fortress. — The Japan Times (16.02.2006). At the same time, it must be acknowledged that the ongoing Asian economic boom bears not only positive consequences for the world economy. Thus, according to the author much quoted in these pages, “developments in China and India are boosting commodity prices and affecting global labor costs in unprecedented ways” (Pesek W. Meet the man bringing Asia together. — The Japan Times (20.02.2006).
- 129 Pesek W. Why fret when all roads lead to ‘Chindia’ ? — The Japan Times (19.06-2006).