A Comparison of Two Cycles in the World Economy: 1989-2007

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I. *Introduction*

This paper attempts to compare and analyse some of the quantitative indicators of the world economy during the 1989-2007 years. It will, hopefully, illuminate some aspects of the paths of articulation of peripheral economies with the imperialist system during the past two decades.

The world economy is analysed on the basis of the conventional division of the imperialist system between ***the metropole*** and ***the periphery*** and their major sub-groups. The focus will be on some of the linkages, predominantly those reflecting capital and resource flows between the two poles of the system. Further in-depth analysis of national economies is not the objective. However, some emphasis (limited to aggregated economic indicators) on USA and on a group of large peripheral economies is undertaken.

This period is divided into two cycles, namely 1989-1997 and 1998-2007. The following section defines and delineates the two cycles. An analysis of the distinctive features of metropole-periphery linkages (and crucial changes therein) in terms of current account balances of the relevant groups during the two cycles follows (Section III). Macro-economic relationships which are behind the changing picture (e.g. leading into the so-called "global imbalances" during the latter period) are also investigated in the same section. These imbalances during the second cycle led to differing *patterns of adjustment in the South*. This is the theme which is investigated in Section IV. The foregoing analysis is developed into the estimations and analysis of *net resource transfers* between the major country groups (Section V). The concluding section emphasizes that differential trajectories followed during the last cycle by peripheral economies are important because they affect degrees of vulnerability of countries as they confront international crisis conditions during 2008-2009.

II. The Two Cycles defined

The neo-liberal mode of regulation has been dominating the world economy during the past three decades. Electoral victories of Thatcher and Reagan representing the radical shift in economic philosophy and the appointment of Paul Volcker to the Chair of Federal Reserve representing the move toward monetarism, all in 1979, are events which can be considered as the starting point of the neo-liberal era.

The following years can be divided into three periods each of which appears to exhibit cyclical patterns for major groups of the world economy. The cycles are observed from changing growth rates in the world economy or in one (or both) of its major "blocks", i.e. the *metropole* and the *periphery*. Hence each cycle as depicted in this paper includes a *downward* and an *upward* phase. The cycle, as defined here, starts at the beginning of the "downturn", i.e. the year immediately following a "peak" in average annual GDP growth rates. The downturn incorporates declines in GDP *levels* for one or two years in individual economies and lower *growth rates* in most. Changes in aggregated averages are mild which, however, do not eliminate the cyclical nature of the overall picture.

Leaving aside the incidence of the ideological counter-revolution reflected by the class orientations of Thatcher-Reagan administrations, it was the monetarist shift of FED under Volcker which directly affected the "first cycle" through astronomic rises in interest rates contributing to the debt crisis in the periphery. The latter was instrumental in bringing IMF with the new agenda as the major external agent shaping economic and social policies in the Third World. Data quality, quantity and coverage for this period are not suitable for the type of comparative analysis undertaken in this paper. The first neo-liberal cycle is, hence, excluded in this study.

The periodization proposed for the following two cycles are 1989-1997 and 1998-2007. At the time of writing it is evident that 2008 marks the starting point, i.e. the first year of the downturn, of a new, fourth cycle as defined in this paper.

Table 1: GDP Growth rates during two cycles and sub-periods (%)

	1989-1997	1989-1992	1993-1997	**1998-2007**	1998-2001	2002-2007
World	**3.0**	2.5	3.3	**3.9**	3.2	4.3
Metropole	**2.7**	2.7	2.8	**2.6**	2.8	2.5
Periphery	**3.3**	2.3	4.1	**5.7**	3.9	6.9

Source: IMF, *World Economic Outlook* (WEO) April 2008 Database.
Notes: "Metropole" and "periphery" include "advanced" and "developing" economies of IMF's grouping. Exponential growth rates are derived from IMF's weighted annual growth rates based on constant local prices.

Table 1 presents average growth data on the last two periods for the world, metropole and periphery. Additionally, Table 7 which presents growth data for nineteen large "emerging" (non-oil) economies should be considered. The following notes can be emphasized:

(a) The cyclic pattern of the two periods divided into a *downward* and *upward* phase can clearly be observed for the world economy and the periphery. The exception is the metropole during the second cycle when growth during the first phase marginally exceeds the rate during the second phase. This does not affect the cyclic character of aggregated national income movements of the world economy. As for the first cycle, the two phases are valid for all three major groups. Peripheral economies (Table 7) fit in with the typical cyclic pattern[1].

(b) Peripheral and world growth rates rise during the second cycle; but deceleration of growth is observed for the metropole. Can rising growth performance for the periphery during the second period be assessed as the favourable (albeit belated) benefits of neo-liberal globalisation for the developing world? A further breakdown of the periphery hints that this optimistic interpretation is not valid: Looking into the findings for the two major peripheral groups, it is observed that average growth rates decline for the 15-country group. Hence improved growth rates for the periphery and the larger sub-group thereof may be essentially due to the impact of the differential performance of Russia and former socialist economies (which are included in the "emerging & developing countries" group in IMF data) during the two periods: Economic decline and recovery have characterised these economies during the first and second periods respectively.[2] This observation does not provide ammunition for partisans of neo-liberal globalisation. On the contrary, it reflects economic regression during the collapse of the socialist system –a theme outside the agenda of the present paper.

Table 2: Capital Flows to the Periphery. Current Billion $s & %

	1989	1992	1997	2001	2007
IMF, GFSR	**73.4***	**166.8**	**480.7**	**182.7**	**1929.4**
IIF	**---**	**162.4**	**339.5**	**169.3**	**918.6**

Notes: (*): IMF, WEO, October 1997, Table A33, "net external financing" for developing countries. *First row*: IMF, *Global Financial Stability Report*, various isues, ending with October 2008, Table 1. *Second row* (which covers only thirty large emerging economies): Institute of International Finance, *Capital Flows to Emerging Market Economies,* various issues, ending with October 12, 2008, Table 1.

Table 3:Capital Flows, constant (1988) $s to the periphery: Annual rates of change (%)

	1990-1997	1990-1992	1993-97	**1998-2007**	1998-2001	2002-2007
IMF, WEO	**24.3**	107.3	6.1	**7.2**	-26.5	19.9
IMF, GFSR	**24.8***	60.0**	21.9	**15.4**	-10.9	45.6
IIF	**---**	---	12.8	**9.4**	-14.7	34.0

Notes: (*):1992-1997; (**). 1992. *Row 1:* IMF, WEO, October 1997 and other issues, "net external financing" for developing countries. The figures pertain to "net" capital flows to developing economies. *Row 2 and 3:* Same source as Table 2. The deflator used is USA CPI based on 1988 IMF, WEO, April 2008 Database.

[1] Note that changes in growth rates for the nineteen countries covered in Table 7 fit in with the "downward / upward" characterisation in 69 (out of 76) observations in the table. The overall averages for the whole group and the fifteen-country sub-group reflects the cyclic pattern as well.

[2] See Table 7 and the discussion in Section IV on the growth performance of four Central and Eastern European countries. Russia, a large "peripheral" economy on the basis of IMF's grouping (for which national income data is provided from 1992 onward) records an average annual 5.9% GDP *decline* for the 1993-1997 period, and an average 6.2% *positive growth* for 1998-2007. The only other significant positive contribution from large developing economies covered in Table 7 to the "peripheral" performance emanates from India through an improvement from 5.5% to 6.7% averages in the two cycles.

Increased integration of the different components of the world economy leading to parallel, at times cyclical GDP movements during the neo-liberal era operated *via* increased liberalisation of international trade and of capital movements. The impact of external trade is not covered in the present paper. The impact of capital movements between the metropole and the periphery, liberalised during the post-1988 years, is central for the present agenda. Changes in such flows are, also, (in addition to GDP movements) helpful in delineating the cycles and different phases thereof. **Tables 2 and 3** are presented with this objective in mind.

Table 2 presents metropole-periphery capital movement figures in current dollars at peak / trough moments of the two cycles. It should be noted that liberalisation of the capital account for most developing economies was launched around 1989 which is also considered to be the starting point of our first cycle. Table 3 presents capital movements in terms of constant (1988) US dollars and uses period average rates of change instead of absolute values.

Two observations are to be noted:

(a) The 1989-1992 sub-period covers the immediate liberalisation of capital at the periphery. An explosive growth rate of capital inflows roughly doubling each year, is observed. Perhaps paradoxically, astronomic growth in capital inflows are accompanied with low, and declining GDP growth rates at the periphery. The second phase (1993-1997) of rising growth at the periphery, on the other hand, corresponds to higher, but decelerating, capital inflows.

(b) The downward phase of the second cycle (1998-2001) corresponds to the financial crises at the periphery in which "sudden stops or reversals" in capital inflows were instrumental. In terms of absolute values, the decline observed between peak (1997) and trough (2001) (Table 2) or negative growth rates of capital movements (Table 3) for the same period are clear. Thereafter, annual growth rates in both capital inflows and GDP exhibit parallel movements.

"Sudden stops and reversals" of capital inflows to the periphery occured during the last quarter of 2008. Conditions similar to the East Asian crisis of 1997-1998 are being observed although the current crisis, unlike the preceding one, has emanated from the metropole –a fact which will inevitably generate different outcomes at the periphery. Within the agenda of the current paper, the extremely favourable phase of 2002-2007 requires a separate analysis. How far capital inflows rising between 20 and 46 percents per annum in constant prices led to improved and lasting growth performance at the periphery? This is the theme which will be addressed in Section 4.

III. Growing Imbalances

The phenomenon of "growing imbalances" in the world economy has been discussed at length by concentrating on the changes in current accounts of the major actors, with special emphasis on rising US deficits. Such an investigation contributes to our understanding the cycles as defined in this paper. The current account balance of a national economy or a group of economies is a statistical construction which illuminates cross-border linkages of productive processes (through external trade) and capital/labour movements (through interest, profit and wage remittances). Moreover, current account balance is also the starting point in estimating net resource flows from and towards a national economy (or a group thereof).

Table 4 presents the current balance of *the metropole* and *the periphery* of the world economy as well as their major sub-groups (including three countries) for the beginning and terminal years of each cycle and their mid-points (corresponding to the last year of the "downturn"). 2006 representing the "extreme" position reached during the upward phase of the second cycle is also included. **Table 5** presents the average current balance / GDP ratios of the relevant phases (based on cumulative sums thereof).

Table 4: World Economy, Current Balances, Billion $

	1989	1992	1997	2001	2006	2007
Metropole	**-91.2**	**-47.6**	**69.8**	**-251.8**	**-608.0**	**-565.6**
USA	-99.5	-50.1	-140.4	-384.7	-811.5	-738.7
Japan	63.2	112.3	96.6	87.8	170.4	212.8
Others	-55.0	-109.9	113.6	45.1	33.1	-39.7
Periphery	**-14.1**	**-66.9**	**-69.6**	**87.9**	**689.5**	**733.1**
China	-4.3	6.4	37.0	17.4	249.9	360.7
Oil-Exp	4.5	-32.1	21.7	85.1	410.7	404.4
Others	-14.3	-41.3	-128.2	-14.5	28.9	-31.9
E&O	**105.3**	**114.6**	**-0.2**	**163.8**	**-81.5**	**-167.6**

Source: IMF, *WEO Database* from various dates, the latest, April 2008.
Notes: The "newly industrialising countries" group covering four countries (South Korea, Singapore, Taiwan, Hong Kong) included within "advanced economies" in the IMF tables is shifted into the "periphery" and "others" therein. "Oil exporters" (Oil-Exp) are defined as Middle East *minus* Egypt *plus* Russia, Algeria, Nigeria, Venezuela. E&O (Errors and omissions) is the figure which balances out the current accounts of all the groups.

Table 5: Current Balance/GDP Ratios (%), Derived from Cumulative Sums of Periods

	1989-1997	1989-1992	1993-1997	**1998-2007**	1998-2001	2002-2007
Metropole	***-0.1***	*-0.4*	*0.2*	***-1.2***	*-0.8*	*-1.3*
USA	**-1.3**	-1.0	-1.6	**-4.7**	-3.5	-5.4
Japan	**2.3**	2.2	2.3	**3.3**	2.6	3.7
Others	**-0.2**	-1.1	0.4	**0.4**	0.3	0.5
Periphery	***-1.1***	*-0.8*	*-1.3*	***2.8***	*0.7*	*3.7*
China	**1.3**	1.6	1.1	**5.7**	1.8	7.0
Oil-Exp	**-0.3**	-3.5	1.2	**11.3**	6.4	12.9
Others	**-1.5**	-0.8	-2.1	**0.1**	-0.6	0.3

Source and Notes: See Table 4. GDP data in current US dollars.

It can be observed that the last cycle (i.e. 1998-2007) produced a significant change in the periphery's current account positions which had prevailed during the fifty years following the second world war. The typical pattern between the two poles of the imperialist system during that era was *current deficits at the periphery* (sometimes including oil exporters as well) and the corresponding *surplus* at the metropole (sometimes including USA). For example, annual current balance data (obtained from UNCTAD data base) on large 15 non-oil peripheral economies[3] between 1980 and 1997, produce 232 current deficits our of 269 observations. Tables 4 and 5 show that the same situation prevails for the periphery as a whole (including oil exporters) up till the end of the first cycle.

With respect to the metropole, a crucial change occurs with the current balance of the American economy whose surplus gradually disappears in the late 1970s and totally after 1981-82. The world economy gradually adjusted, without undue stress, to this new phenomenon generated by the super-imperialist position of the USA based, in part, on the privileged position of the dollar. The adaptation took place thanks to the generation of significant current surpluses from Japan and, at times, from the rest of the metropole[4] and (after 1992) from oil-exporters enough to cover the ongoing deficits of the periphery and the USA.

Table 4 shows that the first cycle data roughly corresponds to this pattern. The US deficits are large, but not large enough to wipe out peripheral deficits, particularly those of the non-oil group. 1997, the final (peak) year of the first cycle is typical: Significant current deficits of the non-oil peripheral economies are accompanied by equally significant US deficits, but surpluses from the metropole (with some contribution from oil exporters and China –emerging as a surplus country during this phase) enable the world economy to function through conventional linkages evolved throughout he preceding decades without generating serious imbalances.

A dramatic, anomalous, non-sustainable deformation starts to emerge after 1997 starting with the Asian crisis when American current deficits exhibit a dramatic "explosion". The extreme position is observed in 2006 when all major economic groups in the world economy undertake the function of financing and "covering" US deficits. The "world" savings compensate for the absence of savings in US economy. This is a much-discussed

[3] Countries covered are: Argentina, Brasil, Chile, Colombia, Egypt, India, Indonesia (from 1981 onward), South Korea, Malaysia, Mexico, Pakistan, Peru, the Philippines, Thailand, Turkey.
[4] The deficit position of "the others" within the metropole during 1989-1992 is due to a somewhat temporary deterioration in the current balances of UK, Italy, Spain (experiencing significant increases in current deficits) and of Germany (erosion of currrent surpluses possibly due to unification problems).

situation which involves "covering" US public deficits (due, *inter alia*, to Iraqi war) and supporting US household consumption (absence of US private savings).

This is the deformation which has been depicted as "growing imbalances" of the world economy. At this stage the contribution of "the other metropole" to finance US deficits becomes marginal and it rests predominantly with China, oil exporters and Japan to fulfill this function. The adaptation of "the others" in the periphery to the new situation as "current surplus generating economies" generates a number of problems and pressures. Differen trajectories followed within this group will be overviewed in the fourth section.

Hence, in terms of current account positions of major groups, the abuse of the privileged position of the super-imperialist economy is behind the reversal of the pre-1998 metropole-periphery linkages. Towards the end of the second cycle, pessimistic forecasts on the unsustainability of the situation became widespread. The debates were limited to the "location" of the initial "correction" (US economy or abroad) or its ferocity (a "soft" or a "hard" landing). It turned out that "the correction" started from the US economy and evolved into an international crisis of major proportions.

It was the attraction of US financial assets that enabled rising imbalances to be financed: The dollar's position as the *de facto* reserve currency of the world economy created an unrivaled and privileged position to assets in dollars everywhere. Consequently, US Treasury bills and bonds serving as the main haven for central banks of surplus economies[5], equities (NY Stock Exchange) and various forms of "paper wealth" issued by American financial capital provided the channels through which countervailing capital inflows to the American economy were realised.

The same channels, on the other hand, contributed to the unsustainable growth of the financial bubble in the American economy and built up the route leading to the financial crisis of 2008. The catastroph would have been impossible without the "astronomic" expansion of the American current deficit. Inflows to the US economy from the surplus countries contributed to the malignant growth of the stock exchange, to the pursuit of easy money policies by the FED and prevented excessive erosion of the value of the dollar. These factors were instrumental in the explosive diversification, innovation and growth of financial instruments and in the emergence of the housing bubble. Therefore, search for the responsible

[5] Rising levels of reserve accumulation was observed not only by surplus countries, bur by almost all developing economies. Significant portions of net capital inflows were allocated to reserves as a precautionary measure following the unhappy experiences of post-1998 crises.

party on the emergence of growing imbalances in the world economy also points at the root causes of the present crisis.

"Low savings rates (overconsumption) in the US *versus* a savings glut in the periphery (Asia in particular)" is, at first sight, a false question. Within the context of world balance of payments, a deficit at one of the major blocs has to be covered or compensated by a surplus everywhere else. And well-known macro-economic identities show us that such a situation signifies low savings with respect to investment in the former and *vice versa* in the latter. Aggravation of global imbalances occurs when the gulf between the two ratios have been rising. Search for causality may be an impossible task since the two processes are supposed to be simultaneous.

However, a more detailed disaggregation may provide hints on the origins of the "original sin" behind the growth of global imbalances. A brief overview of savings and investment ratios of nine economic entitites (four countries of the metropole and five regional groups of the periphery) will be helpful for a discussion on those lines (**Table 6**). Even if we limit the comparison between the terminal years of the two cycles, significant suggestions emerge.

Changes in investment and saving rates of the metropole and the periphery presented in Table 6 are consistent with the direction of change in current account balances between the two poles of the world economy observed earlier: The saving/investment gap of the metropole moves from a slight surplus to a moderate deficit between 1997 and 2007. The reverse is the case for the periphery where both investment and savings rates rise, with a faster pace for the latter resulting in a shift from a deficit to a surplus situation.

Although the overall trend can clearly be observed from the changing investment/saving rates of the two poles of the world economy, diverging trajectories of different sub-groups within each major bloc provides a more defined picture. Within the metropole, it is the substantial decline in saving rates in the American economy, which has aggravated "global imbalances". Saving/investment gap as a ratio of GDP rises by three percentage points to 5.2% within ten years. It should also be pointed out that the narrower category of net savings (net government savings plus personal savings plus undistributed profits) as a ratio of US national income has declined from 6.5% in 1998 to 1.7% in 2007[6] and the ratio of personal savings was a mere 0.4% by then.

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[6] The difference between gross national savings (presented in Table 6) and net savings is equal to the "consumption of fixed capital" in US national accounts. See Tables 5.1 in *National Income and Product*

Table 6: Investment(I), Gross National Savings(S) as % of GDP(Y)

	1997	2007
METROPOLE, I/Y	***22.0***	***21.1***
METROPOLE, S/Y	***22.2***	***20.0***
USA, I/Y	**19.8**	**18.8**
USA, S/Y	**17.6**	**13.6**
UK, I/Y	**17.5**	**18.5**
UK, S/Y	**17.4**	**13.6**
Germany, I/Y	**21.1**	**18.3**
Germany, S/Y	**20.6**	**23.8**
Japan, I/Y	**28.4**	23.8
Japan, S/Y	**30.7**	28.6
PERIPHERY, I/Y	*25.6*	*28.8*
PERIPHERY, S/Y	*24.3*	*33.0*
Central & Eastern Europe, I/Y	**24.0**	**25.0**
Central & Eastern Europe, S/Y	**20.6**	**18.7**
Latin America, I/Y	21.1	20.8
Latin America, S/Y	17.6	21.2
Asian NICs, I/Y	32.6	25.7
Asian NICs, S/Y	33.2	32.0
Developing Asia, I/Y*	33.5	37.9
Developing Asia, S/Y*	34.0	44.7
Middle East, I/Y	22.7	24.9
Middle East, S/Y	25.3	44.7

Notes: See Table 4 for sources. (*): Excludes Asian NICs.

The U.K. is the only major economy within the metropole with a chronic current account deficit and Table 6 shows that she has followed the footsteps of USA with respect to the investment/savings gap which has risen from 0.1 to 4.9 percent within ten years. Like the Americans, this is essentially due to a dramatic decline in the savings rate; but unlike their cousins, the British have managed to raise their investment rates, albeit modestly, i.e. by one percentage point. However, given the relative sizes of the two economies, it was the American performance which contributed to the aggravation of the "deformation" in the world economy.

The other two major economies of the metropole covered in Table 6, Japan and Germany, have, on the other hand, raised their contributions to the savings pool of the world economy. By the end of the 1990s Germany had overcome the incidence of unification burdens on her external accounts and had moved into a chronic surplus position. It is thanks to

Accounts, U.S. Department of Commerce, Bureau of Economic Analysis. See also Marshall B. Reinsdorf, "Alternative Measures of Personal Saving", *Survey of Current Business,* February 2007.

these two economies that the “rest of the metropole” (“metropole minus USA”) still manages to generate an overall current account surplus.

Within the periphery**,** the trajectories are followed during the second cycle by non-oil countries in will be classified and examined in the following section and in Table 9[7]. Here, brief observations on changing saving/investment rates will suffice.

With respect to oil exporters, it is observed that rising price of crude oil is transmitted into world balance of payments by the substantial surplus generated by the Middle East, through nearly a doubling of the savings rate accompanied by very modest increases in investment ratios. If China[8] and India had been excluded from the Asian data, the overall ratios would, probably, have resembled the Asian NICs, a group which was dramatically affected by the East Asian crisis of 1997-1998. The crisis-ridden economies in Asia and Latin America move into a surplus position through substantial declines in capital accumulation and rising (or preserving the already high) savings rates. The Central and Eastern European (CEE) group, including Turkey, on the other hand, passively accommodated to the dramatic rise in capital inflows. National savings rates declined with (roughly) unchanged rates of capital accumulation[9].

IV. Different Trajectories Followed in the Periphery

It will be interesting to disaggregate parts of the foregoing analysis into a larger group of peripheral economies. Detailed country-level investigation is beyond the agenda of the present paper. Our investigation will be limited to a comparison of *growth* performance with *current account* positions of major (non-oil exporting) peripheral economies during the two cycles. Differential trajectories followed particularly during the upward phase of the second cycle helps to illuminate the degree of vulnerability these countries are experiencing during the current international crisis.

Table 7: Peripheral Economies: GDP Growth Rates during the Two Cycles, %

	1st Cycle: 1989-1997	Downward Phase 1989-1992	Upward Phase 1993-1997	**2nd Cycle 1998-2007**	Downward Phase 1998-2001	Upward Phase 2002-2007
Egypt	**3.1**	2.0	4.5	**4.6**	5.7	4.7
Czech R.	**-0.2**	-3.7	3.3	**3.6**	1.8	5.0

[7] IMF, WEO databases provide savings and investment data for regional sub-groups of developing economies, but not for individual countries. Country-level patterns of change and adjustment to the changing conditions during the second cycle will be investigated in Section 4.

[8] Chinese savings and investment rates have been around 50 and 45 percents respectively during the period in question.

[9] The slight increase in investment rates in the CEE group reflects, essentially, the move into the post-crisis period of regime change in the former socialist economies. In the other large economy of “emerging Europe”, i.e. Turkey, gross fixed capital accumulation in current prices as a ratio of GDP declined from 22.9 percent to 21.9 percent between 1989 and 2007 accompanied by an even faster decline in the savings ratio.

Hungary	**-1.2**	-5.2	2.4	**4.3**	4.6	4.0
Poland	**2.0**	-3.2	6.0	**3.8**	3.9	4.6
Romania	**-2.3**	-8.5	2.9	**4.5**	0.4	6.2
Turkey*	**4.3**	4.4	4.5	**3.6**	-1.3	7.2
S.Korea	**7.6**	8.1	7.4	**4.9**	4.6	4.7
China	**10.7**	7.5	11.4	**9.4**	8.0	10.4
India	**5.5**	4.8	6.4	**6.7**	5.7	8.1
Indonesia	**7.1**	7.0	7.3	**3.7**	-0.3	5.3
Malaysia	**9.3**	9.2	9.4	**4.8**	2.9	5.9
Philippines	**3.0**	2.0	4.6	**4.5**	3.0	5.5
Thailand	**8.2**	10.0	6.7	**4.3**	0.9	5.6
Argentina	**4.6**	3.2	3.8	**1.9**	-1.4	6.6
Brasil	**2.3**	-0.5	4.1	**2.8**	1.6	3.6
Chile	**8.0**	8.0	7.7	**3.8**	2.6	4.7
Colombia	**4.2**	3.6	4.3	**3.0**	-0.02	4.9
Mexico	**2.7**	4.4	1.7	**2.9**	4.1	3.1
Peru	**3.1**	-3.8	7.3	**4.0**	1.1	6.1
Average 19	**4.3**	2.6	5.6	**4.3**	2.5	5.6
Average 15	**5.6**	4.7	6.1	**4.3**	2.5	5.7

See Table 1 for data source. (*) National (TUIK) data base. Unweighted simple averages of logarithmic growth rates of each country based on constant local prices. The last row exludes the four countries given in rows 2-5.

Table 7 presents the growth performance of nineteen peripheral economies during the two cycles and the two (i.e. "upward" and "downward") phases of each cycle. The overall (19-country) averages are accompanied by a 15-country average which excludes the Central and Eastern European (CEE) economies. This separation is necessary because of the adverse impact of the post-socialist transition process on their growth performance. As can be observed from the table, the growth average of the four economies had risen from -0.4 per cent in the first cycle to 4.1 per cent during the 1998-2007 period. This particular impact was absent for the remaining peripheral economies and this is the justification for the separation between the 19 and 15-country groups.

As discussed in the first section, the cyclic pattern (i.e. downward / upward phases) within each period is clearly observable for the overwhelming majority of the countries and observations including the CEE economies. On the other hand, the overall (19-country) growth average is unchanged between the two periods; but, the exclusion of the CEE group, generates a downward shift (from 5.6 to 4.3 percents) in growth performance of the large peripheral economies. Including the CEE group, rising growth is observed in 10 out of 19 countries; but its exclusion changes the scoreboard to 6 out of 15. During the second cycle declining growth was the case for countries which were most seriously affected by crisis years of the early phase (1998-2001): Turkey, East Asia, and the majority of Latin Americans.

Table 8: Growth (g) and Current Balance/GDP (CD/Y) (%) during the Two Cycles

	g: 1989-1997	**CD/Y: 1989-1997**	**g: 1998-2007**	**CD/Y: 1998-2007**
Egypt	**3.1**	**1.4**	**4.6**	**0.7**

Czech R.	**-0.2**	**-1.7**	**3.6**	**-4.4**
Hungary	**-1.2**	**-3.5**	**4.3**	**-7.8**
Poland	**2.0**	**-0.1**	**3.8**	**-4.0**
Romania	**-2.3**	**-3.9**	**4.5**	**-7.7**
Turkey*	**4.3**	**-0.2**	**3.6**	**-2.4**
S.Korea	**7.6**	**-1.2**	**4.9**	**3.3**
China	**10.7**	**1.2**	**9.4**	**4.5**
India	**5.5**	**-1.4**	**6.7**	**-0.4**
Indonesia	**7.1**	**-2.2**	**3.7**	**3.4**
Malaysia	**9.3**	**-5.0**	**4.8**	**13.0**
Philippines	**3.0**	**-4.0**	**4.5**	**0.4**
Thailand	**8.2**	**-5.9**	**4.3**	**5.1**
Argentina	**4.6**	**-1.6**	**1.9**	**0.8**
Brasil	**2.3**	**-0.9**	**2.8**	**-1.6**
Chile	**8.0**	**-2.8**	**3.8**	**-0.1**
Colombia	**4.2**	**-1.8**	**3.0**	**-1.7**
Mexico	**2.7**	**-3.7**	**2.9**	**-2.2**
Peru	**3.1**	**-5.3**	**4.0**	**-1.4**
Average 19	**4.3**	**-2.2**	**4.3**	**-0.1**
Average 15	**5.6**	**-2.2**	**4.3**	**1.4**

See Tables 1 and Table 7.

Table 8 brings together average growth rates of the two periods presented in Table 7 (columns 1 and 3) with the period-average current balance/GDP ratios.

The two sets of data generate, essentially, four patterns of change from the first to the second period for individual countries covered in Tables 7 and 8. The typology is presented in **Table 9**. A distinciton is made between *positive/negative adjustment* in external linkages on the basis of improved/deteriorating current account performance as defined in notes to Table 9. Another distinction is between a *dynamic/stagnant growth* performance (i.e. rising or very high vs. declining or very low growth rates – "high" and "low" growth once again defined in Table 9).

Table 9: Trajectories Followed Between the Two Cycles

	Very high*or rising growth	***Very low** or declining growth***
Improved current balance* **	**Positive/Dynamic** China, India, Philippines, Peru	**Positive/Stagnant** Malaysia, Korea, Thailand, Chile, Indonesia, Colombia, Mexico, Argentina
Deteriorating current balance* **	**Negative/Dynamic** Egypt, Romania, Hungary, Poland, Czech R.	**Negative/Stagnant** Turkey, Brasil

See Table 8. (*) Above 6% in the 2nd cycle (only China and India included). (**) Below 3% in the second cycle. (***) "Improvement" ("deterioration") signifies rising surplus or lower deficit (declining surplus or higher deficit) ratios. Country ranking is on the basis of growth rates (e.g. the first country has highest growth in the group etc.)

The positive/dynamic pattern incorporates four countries. China and India are the significant cases. Wellknown factors positively affecting competitiveness, i.e. very low labour costs and respectable productivity levels are reinforced by absence of trade arrangements with the metropole plus targeting real exchange rates thanks to relatively controlled capital accounts. China has also attained historical records on rates of capital accumulation and growth. The growth performance of the other two countries in this group (i.e. the Philippines and Peru) despite some improvement during the recent period, is moderate (4.5 and 4 per cents respectively) at best.

The positive/stagnant trajectory was followed by the crisis-ridden economies in East Asia *plus* three countries in Latin America. "Improvement" of current balances is transformed almost into a policy target which facilitated servicing the external debt during the immediate post-crisis phase and substantial building-up of international reserves. Declining growth rates followed in most cases averaging 3.8 per cent for the seven countries, almost equal to that in the preceding group. Average current balance / GDP ratio is *plus* 2.9 per cent.

The negative/dynamic category incorporates five economies which raised their growth rates to moderate levels accompanied with deteriorating external balances during the second cycle. This incorporates the four CEE countries and Egypt. The average growth attained by this group during 1998-2007 is only marginally higher than the former group, i.e. 4.2 percent; and their average current balance / GDP ratio is *minus* 4.6 per cent. This is, in one sense, "a refusal to adjust" to the changing circumstances in the world economy, particularly during the upward phase of the second cycle. Under a regime of high real interest rates, substantial capital inflows provided the main impetus for domestic demand (predominantly consumption) expansion. Appreciation of domestic currencies under liberal (i.e. EU) trade regime led to rising rates of trade (and current account) deficits in CEE economies. Together with a fast growth of the external debt, this region confronted the 2008 crisis in a vulnerable situation. It is significant that the majority of standard stand-by agreements signed and negotiated with IMF after November 2008 were with countries in this region[10].

Turkey[11] and Brasil are categorised under the negative/stagnant group. The two economies with rising deficits, but a declining (or "very low") growth rate share the policy models and vulnerability to crisis conditions exhibited by the preceding group.

During the second phase (i.e. 2002-2007) of the second cycle some erosion took place between the distinctive features of the preceding three adjustment patterns. Declining current

[10] See note 21 in Section VII.
[11] Turkey's customs union with EU is essentially identical with the CEE members of EU.

deficits (or moving from deficit into small surpluses) were accompanied with slightly rising growth in Egypt, Czech Republic, Poland and Brasil[12]. On the other hand, rising growth rates in the East Asian- (and some Latin American) group resulted in some erosion of current surpluses (or higher deficits)[13].

Despite this, the groups distinguished in Table 9 in terms of their patterns of adjustment and growth performance confronted the international economic crisis in distinctly different degrees of vulnerability. This theme will be taken up and discussed in the concluding section of the paper.

V. Net Resource Transfers

The relationship between the metropoles and the periphery of the imperialist system rests on two pillars: *Exploitation* and *dependency (*or*, domination)*. Unless it is outright plunder, exploitation pre-supposes an initial transfer from the metropoles to the periphery. This initial transfer also contributes to the generation of dependency/domination relations between two poles of the world system. The emergence of structural dependency affects patterns of exploitative relationships thereafter.

Relations of exploitation are generated through three channels: International trade, foreign investment leading to ownership of means of production (or, in more conventional terms, foreign direct investment) and lending/borrowing (finance capital).

Exploitation via industrial and financial capital at the metropoles is represented by surplus in the form of profits and interest revenues (and realised capital gains). When surplus extracted within the peripheral economies is transfered abroad and when the magnitude exceeds net inflows, *net resource transfer from the periphery to the metropoles* becomes the dominant pattern.

Hence, when quantitative estimations are undertaken, *net resource transfers* (NRT) from or to an individual country or between two groups of economies (e.g. the metropole and the periphery) can be defined as the balance between net net profit-interest remittances[14]. Data

[12] Romania and Turkey experienced rising growth accompanied with higher current deficits whereas declining growth with lower deficits took place in Hungary.
[13] Of the seven countries in this group this was the case for all the Asians and (with rising deficits) for Colombia. Argentina and Chile, on the other hand, experienced higher growth, and moved from current deficit into current surplus situation. Movement into a quasi China-India pattern was observed for Argentina: Average annual rate of growth changed from -1.4% during 1998-2001 into 6.6 for 2002-2007. Current balance / GDP ratios changed from -3.8% to +3.8% from the first to the second phase. Turkey, on the other hand, in terms of growth, moves from -1.3 per cent during the first phase into +7.2 per cent during the latter phase, accompaniedby a dramatic deterioration in her external accounts.
[14] This definition is related to the category of *net transfers* used and measured by the World Bank in its *Global Development Finance* which is, however, incomplete and misleading because of the exclusion of interest remittances on short-term debt and of certain capital inflow and ouflow items. For more detail, see Korkut

on *incomes balance* of the current account as well as net capital movements emanating from both residents and non-residents are required. When international comparisons are on the agenda, problems for such comprehensive measurement are overwhelming .

An alternative approach is using the current account balance as an indicator of net resource flows, i.e. deficits implying net resource flows into the economy and *vice versa*[15]. Such an approach implies that the analysis of changes in current account balances of country groups (e.g. the so-called global imbalances analysis) is equivalent to the empirical specification of net resource transfers thereof. However, such an approach is misleading as well because one of the four major components of the current balance, i.e. the "incomes balance", is different than the others: A positive "incomes balance" item (net balance of profit and interest remittances to and from the economy) signifies resource flows into the economy (and *vice versa)* whereas a positive sign for the rest of the current account balance implies resource flows out of the economy (and *vice versa*.) Hence, the current balance *net of the incomes balance* should be interpreted as one quantitative indicator of net resource flows. To be more specific, *net resource transfer (NRT)* is defined as *the current account deficit* ***plus*** *the incomes balance* of balance of payments. Negative (positive) values signify net transfers abroad (from abroad)[16].

It should be re-emphasized at this point that the presence, magnitude and direction of NRT should not be confused with the presence, magnitude and degree of exploitation of the peripheral economies. Exploitation, i.e. surplus extraction from direct producers takes place regardless of the transfer of the surplus. Surplus can be reinvested, redistributed within the peripheral economy. On the other hand, the bourgeoisie of the peripheral economy can invest at or lend to the metropole and elsewhere by mens of which exploitation by peripheral capital takes place.

Table 10: World Economy, Net Resource Transfers, Billion $

	1989	**1992**	**1997**	**2001**	**2006**	**2007**
Metropol	**96.5**	**23.7**	**-39.3**	**299.2**	**751.6**	**705.1**
USA	113.4	72.4	161.1	416.4	848.1	812.9
Japan	-39.8	-76.9	-38.5	-18.6	-52.2	-74.6
Other Metropol	23.0	28.3	-161.9	-98.6	-44.3	-33.3
Periphery	**-47.2**	**28.8**	**-16.50**	**-205.7**	**-912.7**	**-966.6**
China*	4.3	-6.4	-37.0	-36.6	-238.1	-360.7

Boratav, "Net Resource Transfers and Dependency: Some Recent Changes in the World Economy", *Neoliberal Globalization as New Imperialism: Case Studies on Reconstruction of the Periphery*, Editord: A.H. Köse, F. Şenses and E. Yeldan, New York 2007, Nova Science Publishers, pp.4-5.

[15] IMF's *Global Financial Stability Reports* use current account deficits and surpluses implicitly as indicators of net resource flows.

[16] A current surplus takes negative sign in this definition.

Oil Producers**	-6.4	33.6	-17.9	-97.2	-435.6	-436.3
Other Periphery	-45.1	1.7	38.3	-72.0	-239.0	-169.7
E&O	**49.3**	**-52.6**	**55.8**	**-93.4**	**161.1**	**261.6**

See Table 4 for sources and group coverages. (*)**:** Only current accound balance between 1989-1997.

Table 11: Net Resource Transfers / GDP, %

	1989	1992	1997	2001	2006	2007
Metropol	**0.6**	**0.1**	**-0.2**	**1.2**	**2.2**	**1.9**
USA	2.1	1.1	1.9	4.1	6.4	5.9
Japan	-1.3	-2.0	-0.9	-0.5	-1.2	-1.7
Other Metropol	0.3	0.3	-1.6	-1.0	-0.3	-0.2
Periphery	**-0.9**	**0.6**	**-0.2**	**-2.7**	**-6.5**	**-5.7**
China	1.0	-1.3	-3.9	-1.4	-9.0	-11.1
Oil Producers	-1.5	5.4	-1.7	-9.1	-17.3	-14.2
Other Periphery	-1.0	0.1	0.7	-2.8	-2.7	-1.6

See Table 4. Total GDP in current US dollars are used for countries, group totals and averages.

More relevant within the context of the current paper is the direction of NRT flows. We are investigating the internal mechanisms of the imperialist system. Exploitation by metropolitan capital is its universal feature. Without an initial resource flow (i.e. direct investment or lending[17]) preconditions for exploitation cannot be generated. Thereafter, the direction of NRT between the metropole and periphery changes depending on the conjoncture prevailing in the world economy. The permanent feature is, however, the absence of a uni-directional NRT in favour of the metropole. The pendulum of NRT moves one way or another in irregular fashion. However, the metropole has the obligation to transfer net resources at certain junctures and benefits from the consequent “right” of exploiting peripheral direct producers and reverse transfer of surplus. The super-imperialist economy, i.e. USA in contemporary era, may have the privilege of dispensing with the conventional obligations of imperialism: Uni-directional NRT in favour of the American economy has been the typical feature of the world economy throughout the two cycles covered in the present paper. **Tables 10 and 11** provide the magnitude and direction of NRT between the major countries and country-groups.

On evaluating NRT between the metropole and the periphery, emphasis will concentrate on USA and “other periphery”. However, the exceptional situation of China as a country which has been pumping increasing levels and ratios of NRT abroad every year, from

[17] An improvement in terms of trade for the peripheral economy following a move into a free trade regime (i.e. reduction of protective barriers) is another case of initial resource flow facilitating the emergence of the classical pattern of specialisation between the two poles of the imperialist system. However, the mechanisms which follow require a different analytical framework than the more direct relations of exploitation through industrial or financial capital. See Boratav (2007), p.2 for a discussion of international trade within the foregoing context.

1994 onward must be noted[18]. This quasi-imperialist economic behaviour pattern for a poor peripheral economy has taken place at the cost of extremely depressed levels of consumption and the dismantling of the preceding social safety networks for hundreds of millions of workers and peasants.

Uni-directional NRT in favour of US economy have been ungoing too long historically. Astronomical current deficits are reinforced by a positive balance of American incomes account[19]. "Tolerable" NRT/GDP ratios moving around 1-2 per cents during the first cycle are replaced by 4-6 per cents in favour of US economy from 2000 onwards. During the decade between 1998-2007, total NRT to the American economy reached 5.6 trillion US dollars averaging 4.9% of cumulative US GDP. This reflects the increasingly heavy burden of US imperialism on the rest of the world economy. The rising levels of real resources required by the exceptional expansion of American finance capital were, thus, in a great degree sustained by the external world. Otherwise, transfers from non-financial sectors of the American economy and depressed US wage levels would have been insufficent to provide resources utilised by the expanding financial sector and the ensuing bubble. The same process was gradually contributing to the ripening of the pre-conditions of the current crisis as well.

During the two past two decades the "other periphery" benefited from net resource transfers, averaging less than 1 per cent of their aggregated GDPs, only during 1992-1997. During the second cycle, the same group transfered net flows reaching 1.0 and 3.2% of their total GDPs every single year to the metropole, predominantly to the US economy.

Hence, it was only during six years out of the 19-year period covered in the paper that *NRT* in favour of the "other periphery" took place. It is significant to note that *current account deficits* for the group was observed for fourteen years (i.e. 1989-2001, 2007) during the same period. This shows the non-identical, even divergent characteristics of the two concepts. NRT out of the periphery dominated the two cycles of the post-1988 world economy when the expansion of financial capital knew no bounds. This was how the apparently unlimited appetite of US consumers and imperialist aggression of the US state was sustained.

It is anomalous when NRT from the periphery to the metropole continues for a long time. The 1998-2007 years constituted such an "exceptional" period. Unless the situation represented a qualitative shift in the relations between the poles of the imperialist system, it

[18] China exhibits positive NRT abroad every year from 1994 onwards and its incomes balance has been negative up till 2005 but moves into positive area thereafter. This is, essentially, due to returns from China's astronomical official reserves.

[19] American investments abroad have benefited from higher rates of return than that of non-resident investment in American assets.

had to be reversed sooner or later. The current economic crisis of the world economy is currently affecting the linkages which characterised the preceding cycle. However, as the crisis spreads to the South, NRT from the "other periphery" to the metropole may intensify. This is what had happened during the 1998-2001 crisis period in the periphery. The anomaly was that a "correction" in terms of the direction of NRT was not realised during the post-crisis years. If history, in this sense, is repeated, the anomalous situation of the South experienced during the past decade may be extended far into the current cycle which started with the 2008 crises.

VII. Conclusions

The nature of external linkages on the basis of which peripheral economies confronted the 2008-2009 upheaval determines their degree of vulnerability *vis a vis* the international crisis. The metropole, without exception, quickly moved into Keynesian expansionary policies both on the monetary and fiscal fronts. The astronomical external deficit of the American economy did not prevent, even the Bush administration, into taking this route. Peripheral economies which have kept up large current account deficit / GDP ratios throughout the final phase of the preceding cycle are unable to follow the footsteps of USA because they do not enjoy the privilege of possessing the reserve currency of the international economy.

CEE economies, Turkey, South Africa and some countries in Latin America which had "enjoyed" from chronic and large current deficits during the past cycle had also experienced speedy expansion of their external debt[20]. For international finance capital under crisis situation, the uninterrupted servicing of external debt obligations (as well as the foreign currency requirements of short-term, e.g. "hot", capital outflows) of these countries has the priority. Expansionary macro-economic policies which will generate further current deficits and the financing requirements thereof have to be prevented. That is why from November 2008 onward, stand-by agreements incorporating the typical contractionary neo-liberal recipes have been realised essentially with countries in this group[21].

[20] A typical example is Turkey: The external debt stock climbed from 84.2 billion dollars in 1997 to 247.2 billions by the end of 2007, an average 11.4 increase per annum during a period when national income grew by 3.6 per cent. By September 2008, immediately before the reversal of capital inflows, the figure had reached almost $290 billions.

[21] At the time of writing (April 2009), following the first shock waves of the crisis into the periphery, seven stand-by agreements between IMF and "emerging economies", i.e. Hungary, Pakistan, Ukraine, Latvia, Byelo Russia, Serbia and Romania, have been finalised. Standby negotiations between Turkey and IMF is continuing and $47 billion under the IMF's new Flexible Credit Line (FCL) will most likely be lent to Mexico. If we use

On the other hand, developing countries which have confronted the current crisis without heavy external debt obligations[22] or without chronic deficits (preferably under conditions of current surpluses) are recommended to refrain from pro-cyclical (i.e. contractionary) measures by the Group of 20 and engage in fiscal expansion by the IMF. Vulnerable countries with high debt and a high degrees of trade openness where "*fiscal expansion will lead to a deterioration of the trade balance*" are excluded from this "generous" recipe[23]. Regardless of (and much before) IMF recommendations, peripheral countries with favourable external accounts moved into expansionary macro-economic policies following the early shock-waves of the current crisis.

The two apparently opposite policy recommendations, i.e. *contractionary-neo liberal* for the vulnerable and *expansionary* for the rest, aims at satisfying different interests. Finance capital, the initial and major victim of the crisis, is in urgent need of the full and uninterrupted servicing of the external obligations of the peripheral economies, particularly those with high and risky external debt positions. Where the external situation of peripheral economies are stronger, expanding the domestic market through fiscal/monetary policies is expected to spill over to higher import demand, restraining the downturn of output in the metropoles. This is why different trajectories followed during the 1998-2007 cycle have relevance on the incidence of the current crisis on peripheral economies.

China, as the extreme case of the current-account surplus generating peripheral economy, adopted an expansionary fiscal stimulus and investment program for 2009 and 2010 approaching 600 billion dollars and a number of social measures benefiting the retired, the unemployed, the rural and urban poor. Rising public spending on education and health is also envisaged.

China's combination of two-digit growth with high and rising current account surpluses has been characterised in the preceding section as a "positive/dynamic" pattern of adjustment to changing conditions ("growing imbalances") in the world economy. The

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rates of increase (%) in the exchange rate for US dollar (national currency per US dollar) between the end of August 2008 and March 2009 as a simple measure of "reversal in capital inflows" of the 19 peripheral economies covered in this study, the first five countries are as follows: Poland (54.7), Hungary (41.9), Turkey (41.6), Brasil (40.5), and Mexico (39.2) (http//wsj.com. Weekly data on US $ per national currency). Comparison with Tables 9 and 10 are interesting.

[22] The ratios of external debt stock or of debt service to GDP and to exports; of short-term external debt to reserves and to total debt; the ratio of short-term debt **plus** current deficit (current surpluses taken as zero) to reserves are indicators used to measure the degree of risk related to external debt of developing economies.

[23] A. Spilimbergo, S.Symansky, O. Blanchard and C. Cottarelli, "Fiscal Policy for the Crisis", *IMF Staff Position Note,* SPN/08/0, December 29,2008 See some of the statements of Strauss-Kahn and IMF's Chief-Economist Blanchard following the G-20 meeting late in 2008. A fiscal stimulus of about 2% of GDP is recommended. It is paradoxical that developing countries for which fiscal stimulus is recommended are those which refrain from IMF standby agreements and the recommendation does not have operational effect.

capacity of adaptation of China to crisis-conditions and a possible modification of her preceding linkages to the world economy is now being tested. It should have been clear to the pragmatic Chinese leadership that the export-led growth pattern could not be a permanent feature and their past experience with strategical planning based on sectoral priorities must have prepared them to the conditions of declining (if not collapsing) export demand. The current and coming years will show whether the past two decades of two-digit growth have created the fundamentals of a qualitative leap in productive forces to carry Chinese economy to a sustained and long-term dynamic progress.

On the other hand, the Chinese economy transfered 1.1 trillion US dollars abroad, about 6 per cent of her cumulative national income from 1998 onwards. This was made possible thanks to astronomical savings/GDP ratios in China, a historical record, made possible, at least, to some degree, by extremely low consumption levels of Chinese households combined with their relatively high savings enforced by the past dismantlement of *socialist* safety networks of workers and peasants. This was part of the "commodification" of labour (incorporating measures to "commodify" parts of the medical/educational services and social security) in China during market-based "reforms". The Chinese premier, Wen Jiabao, in an interview given to Financial Times in Davos on February 2, 2008, made the following comments: "*About 12m migrant workers have chosen to return to the countryside because of the financial crisis. As this is a floating population, it is easy to understand that they will come to cities when there are job opportunities there and they will choose to return to the countryside when there aren't. When they have returned to the countryside you can see that, for most of them, they still have their piece of land in the rural areas. I think land provides the most impo tant safeguard for the lives of those farmers in China*[24]*. We should thank those Chinese migrant workers because they made an enormous contribution to China's modernisation drive and, in times of this financial crisis, they have also become a big reservoir of the labour force.*"

This is not only an implicit admission of the past commodification of labour, but also the almost "primitive" character of accumulation in China. It remains to be seen whether CCP leadership will use the current crisis as an opportunity to take the first steps toward the re-establishment of socialist relations of distribution. This requires going beyond the palliative and apparently temporary measures for the rural and urban poor as part of expansionary policies.

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[24] This depiction of subsistence farming at the countryside as a "safeguard" for the livelihood of low-wage urban workers is reminiscent of the "Bantustan" system of exploitation under apartheid in South Africa.