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Immiserizing Growth – Note #1
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Gary Gereffi requested a written comment on this subject.

My observation is limited to the following proposition: recent East Asian experience provides no evidence of immiserizing growth.

Economists have long argued that interregional trade improves material welfare by increasing output value and consumption possibilities in all participating regions (the theory applies to “regions” within a single economy as well as to different national economies).

Economic change, including the opening of trade, generally creates both “winners” and “losers.” The proposition that gains from trade accrue to all trading partners means that there is net growth of both GDP and of consumption possibilities. If “winners” can compensate “losers” without expending these gains, economists conclude that trade increases material welfare.

The possibility of compensating losers provides no assurance that compensation will be forthcoming. Since we can cite many examples in which losers do not share in gains from trade, the possibility of immiserizing growth is undeniable under standard assumptions – there is no need to claim that terms of trade move against poor nations (this is the chief theoretical context of immiserizing growth), that global institutions tilt toward the interests of rich nations, etc.

In the context of globalization, we can plausibly define immiserizing growth in the following terms:

When a country (or region) becomes more deeply involved in the global economy, as measured by its “trade ratio” (sum of exports and imports as a share of GDP), if large numbers of citizens experience reductions in real income, we can call this immiserizing growth.

With this definition, what’s the experience of East Asia?

1. Japan, Taiwan, Korea, Singapore, and Hong Kong massively expanded their involvement in global markets in the decades after World War II. Note that all but Japan were ex-colonies (Hong Kong maintained its colonial status until 1997). Each experienced the same outcome: enormous increases in real incomes and living standards. With limited income inequality, the result was universal increases in material welfare benefiting the entire population without the slightest indication of immiserizing growth.

2. Economic stagnation during the 1990s produced many losers in Japan. However it is widely agreed that exports supported Japan's weak economy – indeed Japan is pilloried for keeping its currency undervalued to promote commodity exports and essentially to “export unemployment.” The notion that reducing trade intensity could have increased Japanese economic welfare during the 1990s makes no sense.

3. This brings us to China. At the start of reform in the late 1970s, the majority of rural Chinese (who accounted for about 80% of the population) were undernourished; my research indicates that average rural incomes in 1978 were roughly equal to the World Bank's US\$1 per day absolute poverty income standard. Chinese citizens experienced large across-the-board gains in material welfare during the first 15 years of reform (i.e. late 1970s-early 1990s). There was no identifiable group of “losers.” The number who escaped absolute poverty probably exceeded 500 million – an all-time record for poverty alleviation both in terms of head count and of percentage of national population.

Beginning in the early 1990s, layoffs of redundant urban workers produced the first substantial group of losers. By now, total dismissals have cumulated to more than 50 million, with more to come. Many laid-off workers have not found satisfactory re-employment and should be counted as worse off now than 10 years ago. Even those who have found new positions have often lost job tenure and part (sometimes all) of benefits attached to their former positions. If we include the families of laid-off workers, one could easily conclude that reforms have created a class of losers that approaches 5% of the total population. Most of these people originally stood in the upper echelons of China's income distribution. Most of them, including most of the losers, still remain well above the lowest rungs of China's income ladder.*

However the costs to these losers are only partly due to China's increased participation in the global economy. A more general picture includes huge gains from trade that are widely (but not universally and certainly not evenly) shared. To be specific:

- Average Chinese in all regions have experienced huge material gains.

- These gains are strongly correlated with regional participation in the global economy: provinces and districts most deeply involved in international trade and investment have experienced the largest gains in material well-being. As a result, they attract massive inflows of domestic migrants (Chinese sources refer to the “tide” of individual workers). Less dynamic regions clamor to share in the policies that have enriched China's coastal provinces.

- Data on manufacturing for 2002 show the correlation between trade and material welfare at the microeconomic level. I can calculate

average wages for exporting firms and for firms with no exports at the provincial level. In every case that I have investigated, firms with positive exports pay higher average wages than firms reporting no exports. In most cases, the wage differential favoring workers in export-oriented firms is considerable. Note that these calculations appear to avoid some difficulties affecting aggregate indicators of wage levels. Although such wage indices may omit low-paid migrant workers, the results displayed below do not – these calculations reflect quotient of total wages paid by relevant firms divided by total employment for the same firms.

- Partial results (below) covering about 90,000 firms in 6 provinces accounting for over 2/3 of total exports are very clear: without exception, wages paid by firms reporting positive exports exceed wages in non-exporting firms. Except for Zhejiang (8% differential), the differential wage accruing to workers in export-linked firms exceeds 15 percent. Differential wages in export-linked firms appear in provinces with high (Shanghai, Guangdong, Jiangsu), medium (Shandong, Zhejiang) and low (Hebei) exposure to global influences. Again, we see no sign of immiserizing growth.

I hope this overview will explain my impatience with the whole notion of immiserizing growth, a theoretical possibility that is indeed grotesquely counterfactual in East Asian historical perspective (I use the word “historical” advisedly – backward extension to earlier periods will provide no comfort for proponents of immiserizing growth).

Of course, East Asia is not the world. But the populations involved are large. East Asian experience includes large and small economies; ex-colonies and one ex-colonizer. East Asian economies are deeply involved in both global markets and cross-border investment. Consideration of this region explodes pessimistic views claiming that involvement in trade and investment cannot open the door to sustained development, that doors are closed for newcomers, etc. By demonstrating the availability and potential of globalization opportunities in the 1950s (Japan), 1960s (Taiwan, Hong Kong), 1970s (Singapore, Korea), 1980 and 1990s (China), East Asian experience supports the view that development prospects depend primarily on internal circumstances. From an East Asian perspective, the argument that malign international forces have stymied development is difficult to take seriously.

Notes:

*Information from the *China Statistics Yearbook 2003* shows that ownership of consumer durables for “lowest income” urban households is far above the rural average: color televisions (1.02 sets per household for the poorest urbanites vs. 0.60 for average villagers), refrigerators (0.87 vs. 0.15), washing machines (0.92 vs. 0.32),

air conditioners (0.51 vs. 0.02), bicycles (1.43 vs. 1.21) etc. Data (for 2002) from pp. 354 and 376-77.

Average Money Wages in Manufacturing Firms by Province and Export Status, 2002

| Province | Share of Exports 2002 | Average Wage Bill per Worker (RMB 1000 - excludes benefits/fringes) | | | Wage Index for Exporters Wage in Non-Export firms = 100) |
|-----------|-----------------------|--|-----------|------------|---|
| | | All Firms | Exporters | Non-Export | |
| Guangdong | 36.0 | 13.82 | 14.46 | 12.12 | 119.3 |
| Jiangsu | 12.0 | 11.31 | 12.46 | 10.15 | 122.8 |
| Shanghai | 14.0 | 19.17 | 21.66 | 15.83 | 136.9 |
| Hebei | 0.9 | 8.41 | 10.07 | 7.53 | 133.7 |
| Zhejiang | 5.0 | 12.08 | 12.42 | 11.48 | 108.3 |
| Shandong | 5.4 | 7.99 | 8.76 | 7.22 | 121.5 |

Sum

Source: 2002 data base

Firms included only if employment, wage bill and sales are all greater than zero

Exporters are firms for which export procurement is above zero

file /prcdata/enterprise data 2002/workfile/chinadata/export wages by prov 2002 created 16 June 2002