Chapter 3 : A Global Production System

Introduction (Convergence to Divergence):

- The development project was built on the idea of parallel national programs of economic development; nation states would raise their standards of living by production a "national product".
- The development project was to "catch up with the West" and meant raising living standards and emulating the US model of balanced growth.
- agro-industrial
- The nation states were to be assisted by multilateral and bilateral assistance programs.
- Involved restructuring the world economy along particular lines.
- Initially there was the idea of "one worldism" by Roosevelt (global unity would be expressed politically in the UN and be organized economically through the Bretton Woods institutions). As the Cold War intensified, this gave way to "free worldism" under Truman.
- Containment of Soviet and Chinese power was the focus - the world economy and the development project came to rest on the twin foundations of freedom of enterprise and the US dollar as the international currency (bilateral disbursements of dollars wove together the economies of West and Japan).
- The former colonies pursued the universal project of development with political regimes ranging from military dictatorship through one-party states to parliamentary rule.
- Even though the political regimes were different, the image was of a convergent world of independent states at different points along a single path of modernization.
- However, divergent forces were at work:
  - Growing, rather than diminishing, gap between the 1W and 3W living standards
  - Substantial differentiation within 3W states as the NICs shot ahead of the rest
- These 2 factors signaled a dramatic reorganization of the international economy as an emerging global production system spun a giant web across the world.

Divergent Developments:

- Between 1950 and 1980, the rate of 3W economic growth exceeded that of the 1W, but when we consider population growth and per capita income, the game of "catch-up" appears to be a game only
- Industrial growth fueled by international assistance brought about eco. growth by reliance on imported capital-intensive technologies at the neglect of food production
- As a result, growing numbers of urban and rural poors were deprived of the benefits of economic growth (the severity depended on the country's political regime)
- Brazil:
  - Economy expanded at 10% from 1964 to 1974
  - But, there was net loss of industrial jobs and growing number of people (50% to 80%) below the poverty line
- South Korea: authoritarian regime, smaller population
  - Enlarged domestic market and consumer purchasing power by controlling the differentiation between the rich and the poor
  - Comprehensive land reform program; setting a floor on rural incomes; enjoyed preferential access to the US market for manufactured exports (strategic geopolitical advantage being on the fringe of the Cold War areas)
- Differentiation among 3W increased: NICs grew at rates of 7% to 10% (average of 3W was 4.6%). Also, per capita growth rates were higher for NICs
- NICs are: Hong Kong, Singapore, Taiwan, South Korea, Brazil, and Mexico
- The rise of NICs revealed 2 sides of the development project:
  - Lent legitimacy to the development project (individual living stds would be raised by industrialization)
  - Selectivity of the development project: NICs cornered the bulk of private foreign investment; also, the distribution of industrial growth was concentrated in these countries
- Standardized measures designed to help developing countries as a group were not effective for the least-developed countries (the notion of a universal blueprint was fading)
- Also, there were strong geopolitical forces contributing to the success of NICs (some states were more equal than others in their global position):
  - HK and Singapore were port cities in South China and the Malaccan Strairs
  - Taiwan, SK, Mexico, and Brazil held strong geopolitical positions in the international order
    - Transfer of enormous amounts of direct and indirect economic assistance from the West
    - Military aid and preferential access to the US market (US troops in SK and Taiwan due to proximity to NK and China, respectively)

NIC Phase in Context

- Rise of the NICs is part of a new historical phase of industrialization, in many ways extending the passage from the 1st to the 2nd industrial revolution
- 1st IR: Great Britain: Mfg textiles and processed food
- 2nd IR: (late 19th century) Germany, France, US, Japan: Production of steel, chemicals, and machinery
- NICs continued this combining both phases
- Early 3W industrialization has been termed ISI:
  - First phase: Shift from importing mfg goods to local mfg of basic consumer goods such as textiles, clothing, footwear, and food processing
  - Secondary ISI: Consumer durables such as automobiles, petrochemicals and steel, and capital goods (heavy machinery)
- Asian NICs financed their ISI with a phase of primary EOI (export of labor-intensive products). Later, graduated to secondary EOI (export of higher-value-added products) once their industrial base had matured. EOI also made available a ready supply of forex that would allow the country to purchase capital equipment technologies from the 1W (needed to sustain industrialization).
- The passage of the 2nd IR from the 1W to 3W followed a pattern of "technological shedding":
  - As 1W moved up the technological ladder, they shifted their 2nd IR industries such as shipbuilding, steel, and chemicals to 3W sites (adoption of older technology)
  - This movement occurs as:
    - Firms upgrade technologically
    - Wage bill rises as workers organize and find a political voice
    - Polluting industries come under scrutiny (Japanese chemical plants moved to Southeast Asia, and US chemical plants to Puerto Rico)
- In East Asia, this product cycle effect has been termed the "flying geese pattern" (refer figure 3.1 in book):
  - Japan -> SK (shipbuilding), SK-> Malaysia (Electronics production)
  - Japan -> Taiwan (Steel works), Taiwan -> Indonesia (Textile machinery)
  - Technology exports to lower countries; product exports in return

EOI displaces ISI

- Factors for pursuing EOI:
  - Mounting forex bill (due to import of capital intensive technologies)

- Broadening of markets (due to saturation of domestic markets - especially in Latin America)
- Started with labor intensive goods (textiles and footwear) and then processing of local primary goods (foostuffs, tobacco, leather, and wood)
- This was really a process by which 1W shed the production of consumer goods, beginning with textiles and electronics items, and graduating to machinery and computers

- EOI (buoyed by 1W rising incomes) nurtured the phenomenon of NICs
- From 1960 to 1979, the growth rate of exports of 2W countries increased and also its composition broadened (from textile,s toys, footwear, and clothing to electronics, steel, electrical goods, machinery, and transport equipment)
- The destination of these products diverged - light mfg goods went to 1W and heavy to 3W
- Also, a significant subdivision among the 3W exporters: faster growth in the East Asian states (mostly due to the fact that East Asian states lack a natural resource base compared to LatAm and have comparatively smaller domestic markets)
- NICs of Asia were exception because of geopolitical reasons:
  - NICs of Asia were on the periphery of the Cold War areas and was a strategic zone in the US Cold War security system (military alliances with these states were matched by economic concessions by the US) - also, as a result, these had to spend less on military
  - Japan's trade links with these NICs became more robust as Japan itself became a consequential world economic power.
  - These NICs also had access to the markets of the US and Japan
  - Thus, global and regional context has been as influential in their growth as domestic policy measures and economic cultures

The World Factory:

- There was a new "fast track" in mfg exports, which was superseding the traditional track of exporting processed resources.
- This new export arrangement resembled a "world factory". It involved production for the world, rather than domestic, markets, through chains of production sites differentiated by their function in the global production system.
- For example, garments sweatshops in Mexico, etc.
- Competing TNCs in US, Europe, and Japan made strategic use of the export platforms in 3W by outsourcing the assembly. As these sought lower-cost labor, the export platforms spread, driven by developments in the electronics industry.
- Thus, in pursuing their EOI strategy, the NICs sponsored the world factory system.

The 3rd IR:

- The world factory system is nourished by the technologies of the 3rd IR.
- Semiconductor advances (IC chips) and advances in communications and IT
- These allow rapid circulation of production design blueprints to subsidiaries in offshore plants. Instantaneous reorganization of production methods in offshore plants is possible using the new IT and telecomm technologies.
- These allows firms to organize along global lines, moving components and software among offshore sites and selling end-products in world markets.
- Rise of the globally integrated production system
- The 3rd IR globalized the conditions under which the first 2 industrial phases extend to the 3W.

The 3 IRs:

- 1 IR: In Great Britain: simple mechanization of cotton spinning and weaving to form clothing and textiles for export. Also, iron goods. Steam-driven machinery enabled advances in transportation.
- 2 IR: Late 19th century: Europe, US: Steel, chemical technologies; emphasis on machine production than consumer goods.
- 3 IR: Based in IT and telecomm: global reach of TNCs and TNBs; this IR has depended on the proliferation of industrial assembly of electronic products in the NICs

The Global Production System

- GPS are hierarchically ordered, and the hierarchies are fluid
- TNCs sometimes organize production hierarchies based on JVs with firms in other countries through capital investment or technological licensing.
- TNCs subdivide production sequences according to technological or labor skill levels. Labor-intensive activities are moved to 3W. High-end tech remains monopolized with 1S - component processes, component goods (auto parts), consumer goods (cameras, TVs) moved offshore for production in the 3W.
- GPS depends on a technological division of labor **within** industrial subsectors rather than a social division **between** economic sectors like industry and agriculture (unlike under colonialism).
- See figure 3.2 in book
- Social division of labor continues (esp. in Africa - 3W depend significantly on agricultural commodities for export revenues), but the tech division of labor associated with the hierarchies of the GPS now overlays the social division.
- Instead of countries specializing in an export sector (mfg or agri), production sites in countries specialize in constituent part of a production process spread across several countries.
- Change was from producing a national product to producing a world product.
- From 1960s to 1970s, marked relocation of industrial investment from 1W to 3W. This industrial decentralization was the combined result of:
  - Declining profitability on investments made in the 1W
  - Deals made by 3W to attract foreign investors to their EOI programs

The EPZ

- One such deal was the EPZ - specialized industrial export estates that had minimal custom controls, were exempt from labor regulations and domestic taxes.
- EPZs served firms seeking lower wages and 3W govts seeking capital investment and forex to be earned from exports.
- India estd. the first 3W EPZ in 1965.
- Governments were beginning to favor export mkt considerations over the development of domestic markets (local production and consumption).
- These are built to receive imported raw materials and to export the output directly by sea or air.
- Rights are usually denied to the workers.
- TNCs obtains concessions such as: free trade for imports and exports; infrastructural support; tax exemption; local convenience for reexport.
- EPZ is separated from domestic laws and contributes little to domestic economic growth (other than forex earned on exports) - it serves the export markets.

The TNC Market

- Export or world markets concentrate in the 1W - markets are a great deal denser than in 3W (e.g., population owning a TV or car)
- Export markets are organized by the TNCs. Much of the world trade is now controlled by the TNCs. The top five in each major market (aircraft, automobile, etc.) account for between 35 to 70% of all world sales.
- Components move between subsidiaries and parent corporations in the construction of a final product.
- The scale of TNCs is enormous (e.g., Pepsico - more than 500 plans, 335000 workers, 100 countries)
- The growing weight of TNCs in international trade has increased the pressure on other firms to go global. Firms do to this reduce labor costs or to expand sales by gaining access to broader markets.
- The revolution in telecomm and development of transport and financial services has allowed firms to tap into the global labor force.

Mfg and the Global Labor Force

- Because of urban bias of the development project, there was depeasantization. Many displaced peasants moved to the urban centers (for 2W, this process has been compressed into a few generations). Rural migrants have overwhelmed the cities.

- These enter the global mfg workforce as a cost-saving strategy for the major producers.
- Once 1W firms developed technologies for mass production, they began relocating mfg to employ cheaper 3W labor. Mass production developed around large, routinized production runs that could be broken down and subdivided into specialized tasks (e.g., the assembly line where every worker did a simplified task). This simplification of specialized tasks is known as the deskilling of work.
- Tasks deskilled through specialization are often relocated to cheap labor regions. At the same time, the technologies to coordinate those tasks generate needs for new skilled labor (such as managerial, scientific, engineering, and technical labor).
- This bifurcation means that the skipped labor concentrates in the 1W, and unskilled is often consigned to the 3W.
- The relocation of deskilled tasks to lower-wage regions was so prevalent in the 1970s that the concept of the New International Division of Labor (NIDL) was coined to describe this development (See Figure 3.3.
- The conditions for this were:
  - Availability of endless cheap labor in the 3W
  - Technical possibility of relocating unskilled portions of mfg processes to 3W
  - Development of transport, comm, and orgn. technology, reducing the significance of distance in the coordination of activities by global firms.
- Skilled labor input concentrated in the North - except in the Asian NICs - which used public investment to upgrade work-force skills. Upgrading was necessary as their wage levels were rising compared to others who were also embracing export production (Malaysia, Indonesia, and the Philippines).
- Asian NICs improved their competitiveness by specializing in more sophisticated types of export mfg for the 1W markets, using cheap skilled labor (rather than cheap unskilled and semi-skilled labor).
- As skilled work came to these, these states became HQs of new regional division of labor patterned on the production hierarchy between Japan and its East and SE Asian neighbors.
- Product design and sales promotion are reserved for Nike's US HQ
- Saipan sweatshops: Chinese workers who passports were confiscated; 84-hours working week; subminimum wages. Levi Strauss responded by establishing new subcontract guidelines requiring improved conditions.
- Children working 14-hours a day in crowded and unsafe workplaces.

Global Agribusiness

- Some of the global labor force has been generated by the expansion of agribusiness on a world scale.
- Agribusiness firms also use global sourcing strategies. The food trade is one of the fastest-growing industries in the world (especially in processed foods like meat and flour products; fresh and processed fruits and vegetables). Food companies stretch across the world, organzing producers on plantations and farms to deliver products for sale in the higher-value markets of the 1W.
- E.g, the World Steer:
  - From conception to slaughter, the production of the steer is geared entirely to the demands of the global market.
  - Central American states complemented their traditional exports (coffee and banana) with beef.
  - The world steer production has redistributed cattle holdings and open-range woodland from the peasants to the ranchers supplying the export packers. This not only reinforces inequality in the producing regions, but also threatens craftwork and food security.
  - Also, domesticated animals have traditionally provided food, fuel, clothing, transport, fertilizer. The world steer production undermines traditional cattle raising (other cattle breeds) - elimination of woodlands reduced hunting possibilities.
  - Peasants lose access to side products (tallow and leather).
  - Thus, the spread of the world seer industry supplies distant consumer markets at the same that it undermines local agro-ecologies.
- Also, agribusiness firms HQed in US operate meat-packing operations across the world, feeding the animals on feedstuffs supplied by their own grain markets.
- Meat produced in Mexico, cut-up in US - leg quarters shipped to Mexico where these are processed for sale in the Japanese market.

The NACs

- Agribusiness investments concentrated in select 3W countries such as Brazil, Mexico, Thailand. These are called NACs - they are analogous to the NICs - their govts promote agro-industrialization for urban and export markets.
- These agro-exports have been called nontraditional exports because they either replace or supplement the traditional tropical exports of the colonial era. (Non-traditional exports comprise high-value foods such as animal protein products and fruits and vegetables).
- The term NIDL has been extended to these because they supersede the exports associated with the colonial division of labor.
- For example, Thailand is a NAC:
  - Traditional exports: rice, sugar, pineapples, rubber
  - Now, cassava (feed grain), canned tuna, shrimp, poultry processed meats, and fresh and processed fruits and vegetables
  - Processed food now represents 30% of mfg exports; Raw agricultural exports down from 80% to 30%
  - Poultry production also
  - Typically, Japanese food companies enter into JVs with Thai agribusinesses, providing hitech production facilities and market access abroad.
  - Its agro-exports are lined to the rich and growing markets in the Pacific rim (Japan, SK, Taiwan), accounting for over 60% of Thai's forex reserves in the early 1990s.

The Second Green Revolution

- Basic grains to feedstuffs, to horticultural crops, to geed-grain substitutes (cassava)
- High-input agriculture with high-value markets
- It extends green revolution technology from basic to luxury foods and has been termed the 2nd green revolution.
- This is an indicator that high-income, consuming classes are increasing in the 3W, adopting the affluent diets associated with the 1W. It involves substituting feed crops for food crops (this creates further social inequalities).
- Also, globalization of markets for high-value foods such as off-season fresh fruits and vegetables. High-value foods have become the locus of their growth ("cool chain distribution systems").
- Fresh fruits as well as processed food for expanding consumer markets in Europe, North America, Pacific-Asia.

Global Sourcing and Regionalism

- Global sourcing used by TNCs to improve their world market position and secure predictable supplied of inputs. But during 1980s, the rate of TNC investment in 3W declined (destabilized due to the debt crisis).
- A corporate restructuring in the 1W : a new direction in firm marketing strategies : market segmentation.
- This represents a shift from standardized mass production to flexible production (using smaller and less specialized forces).
- Flexible production is due to modern computer technologies and automation - product design can be more easily altered by computing, and inventories can be reduced.
- Segmentation of the beef market into high-value beef-steak and low-value hamburger (similarly, for auto industry)
- Responding to changing consumer preferences - life span of commodities declines - quick shifts in consumer tastes emphasize time as a strategic dimension of marketing
- JIT (Just-In-Time) system of "destandardized or flexible mass production in which, at any given time, a wide variety of product types is being produced, and their character or config also changes rapidly and continually over time.

- JIT replaces "just-in-case" system (simultaneous engg replaces the seq. process of mass production)
- E.g., Gap changes its inventory and look every 6 weeks
- Response time is critical - so JIT concentrates these activities spatially. Firms locate near the big markets.
- Shift to flexible production encourages economic regionalism (e.g., Mexico due to NAFTA and Malaysia due to APEC)
- Investment going to regionally significant states (because they have large domestic markets or hare near other large, affluent markets).
- The world economy has tendencies toward both global and regional integration.
- World economy is divided into 3 macro-regions (currently) centered on US, Japan, and Germany / Western Europe

Summary

- In the 1970s, the WB redefined "development" as successful "participation in the world market"
- Prescription was for the 3W to follow the example of the NICs
- Specialization in the world economy rather than specialization of economic activities within a national framework was emerging as the criteria of "development".
- NICs successfully rode the world economic curve as a result of which there was a growing differentiation among 3W countries on the economic development index.
- TNCs built a truly global economic system in mfg, agri, and services.
- The global economy is no longer set in national economies. It is largely organized around the web of TNCs, a web that is constant flux due to competition.
- No one state can regulate this economy - states organized EPZs
- As states absorbed global economic activity into their internal orgn, the 3W has subordinated its future to the global economy.
- Development has begun to shed its national identity and to change into a global enterprise in which individual states must participate - but tenuously.

Chapter 4 : A Global Infrastructure

Introduction:

- The separation of the NICs from the rest of the 3W forced a reevaluation of the development project blueprint, which had viewed the non-European world as homogeneous and offering one model for its development.
- Because of the rise of NICs due to their EOI, development was redefined (by the WB) as successful participation in the world market.
- However, colonies and states had always participated in the world market. So, what was different?
- It was the institutional changes in the world economy. The rise of a global banking system, its overextended loans to state managers, and the resulting debt crisis of the 1980s. This reframed development possibilities.
- States no longer looked inward for their development stimulus; they looked outward, where they found an international structure bent on managing a global economic system.
- This chapter focuses on whether and to what extent a global infrastructure is overriding national development possibilities.

What is a Global Infrastructure?

- It is an institutional complex that organizes global economic activity. This infra has been a key development in the late 20th century.
- It has several dimensions, both public and private:
  1. Networks estd. by the TNCs and TNBs conveying commodities and money around the world
  2. Multilateral financial institutions - WB and the IMF
  3. Bureaucratic entities like states, regional FTAs, WTO - these regulate the movement of goods, services, labor, and money through rules estd. in international forums
- The private networks estd. by the TNCs and the formation of the GPS changed the orgn. of the world economy.
- Expansion of the networks of intra-firm transfers (commodity chains) provide one part of the new global infrastructure.
- The value of international production by TNCs exceeded the total exports of all market economies.
- The infrastructure shapes development possibilities as it organizes the world economy. As it has grown in significance, it has also lent weight to the argument of the successor to the development project - the **globalization project**.
- **The globalization project is a world order in which states implement rules of global economic mgmt.**
- The present systems of economic accounting, however, are nationally framed. Exchanges internal to firms are recorded as market transactions, but are recorded as such.
- TNCs eliminate market exchanges as they swallow up more and more economic activity around the world. These transfers and chains compromise national boundaries (national economic integration declines). Global networks of exchanges expand at the expense of national or local networks. (can be compared to what happens to the fate of small businesses in small towns that disappear in the path of the large national retail chains such as WalMart).
- If we continue to examine and measure change only on a national or local level, we will misunderstand its wider sources and directions.
- Power of the TNCs: the world top 200 TNCs had an annual turnover exceeding USD 3 trillion (equivalent to about 30% of the gross world product). Also, global brands, cultural icons...
- TNBs have had an even more profound impact. Their entry onto the global scene follows the rise of world financial markets in the 1970s.
- Global fin. power challenges national sovereignty and thus the framework of the development project.
- Global financiers are setting the new rules; the states are willingly accommodating the new requirements in order to establish their creditworthiness with the global fin. establishment, even when this comes at the expense of their integrity as self-governing nations.

Financial Globalization

- TNBs formed in the 1970s helped by the flourishing offshore capital market that evaded the regulatory power of the states. In these banks, deposits were beyond jurisdiction or control of any govt or deposits that were in a country that offered a haven from regulation (e.g., Switzerland, the Bahamas, or the Cayman islands).
- TNBs used these deposits to make massive loans to the 3W govts. throughout the 1970s (Figure 4.1).
- International bank lending: USD 2 billion (1972), peaked at USD 91 billion (1981), fell to USD 50 billion (1985) as a result of the debt crisis (overextended, or undersecured, loans)
- Under the world order, national eco. growth depended on the international circulation of USD. The Bretton Woods arrangement maintained stable exchanges of currency between trading countries. To accomplish this stability, the USD was used as the international reserve currency (WB and IMF disbursed payments in USD).
- Fixed currency exchanges stabilized the countries' domestic interest rates, which in turn stabilized the countries' economies. Govts. could therefore implement macro-economic policy w/o interference from the ebb and flow of international capital movements or flights of hot money.
- Within this stable monetary framework, 3W countries were able to pursue development programs with some predictability.

The Offshore Money Market

- Foreign aid investment was in the form of USDs, but it also bred a growing offshore dollar market. By depositing their earnings in this foreign currency market, TNCs evaded the central bank controls associated with the fixed exchanges of the Bretton Woods system. The Bretton Woods controls limited the movement of capital across national borders, constraining the global activity of the TNCs.

- Eurodollar deposits grew from USD 3 billion to USD 75 billion. These dwarfed US gold reserves and became a liability for the US govt. if chased in for gold. In 1971, President Nixon declared the dollar nonconvertible. This was the end of the gold-dollar std...currencies would now float in relative value with the USD as the dominant (reserve) currency. This was more volatile than the gold standard had been as it fluctuated with changes in the US domestic and foreign policy.
- The termination of the Bretton Woods system of fixed currency exchanges was the opening wedge in breaking down the institutional structure of the development project and consolidating the global infrastructure.
- This ushered in an era of uncontrolled and heightened capital mobility as speculators anticipated variation in values by buying and selling different currencies. Financial markets, rather than trade, began to determine currency values and speculation on floating currencies destabilized national finances.
- By 1990s, world financial markets traded roughly USD 1 trillion in various currencies daily, all beyond the control of the national governments.
- Mexico peso hemorrhage and US bailout
- The dramatic loss of currency control by governments threatens nations' economic and political sovereignty. National planners cannot adequately regulate the value of their national currency because currency traders and financiers can influence policy just by moving funds around the world in search of financial profit. (there is also no way for a nation to opt out).
- The next shock to the international fin. system was the OPEC oil price rise (leading to dollars earned on oil prices by the oil sellers)
- Overseas profits of banks climbed from 22% to 60%. By the end of 1970s, trade in forex was more than 11 times greater than the value of the world commodity trade.
- The circulation of money around the world continually altered profitability conditions by changing currency values. TNCs reduced their risk by diversifying their operations across the globe. Thus, the fin. revolution accelerated the formation of a GPS.
- As oil prices rose, so did food and mfg prices. The 1W went into recession.
- The banks looked towards 3W govts. eager to borrow and considered unlikely to default. By encouraging massive borrowing, the banks brokered the 1970s expansion in the middle-income 3W countries, which functioned now as the engine of growth of the world economy.

Banking on Development

- A second departure from the original development project: the move by banks into 3W - commercial bank lending effectively displaced official loans from bilateral and multilateral sources
- Presence of the willing private lenders was a golden opportunity for 3W states to exercise some autonomy from the official financial community (no strings attached; easy repayment terms)
- Dramatic advances in telecommunication meant that global banking was an option for national and subnational banks
- With the collapse of Bretton Woods monetary regime, financial regulation was practically non-existent. Govts. were even borrowing to finance short-term correction of their balance of payments following the oil shock
- Enormous borrowings during the 1970s - public foreign debt grew twice as fast as private foreign debt in Latin America
- Excessive debt financing inflated the foundations of the developmentalist state
- Elaborate here
- All this deepened the vulnerability of the developmentalist state to the banks and the global debt managers, who began appearing on the scene in the 1980s.

Departures from the Development Model in the 1970s

1970s was the decade of transition away from the terms of the development project. Indicators of this were:

- Floating of the dollar (earlier it was fixed to the gold) - fixed currency exchanges ended - stable national macro-economic planning affected
- Displacement of official, multilateral lending to 3W states by unregulated private bank lending
- Producing mfg and agri products for the world market rather than the domestic market
- Devt. establishment institutions began to reformulate the ideas of development with greater emphasis on poverty alleviation

Developmentalist State functions:

- A developmentalist state takes charge of organizing economic growth by mobilizing money and people
- Mobilizing money: by various taxes to finance public building of transport systems, state enterprises (steel works, energy exploration); also, by borrowing in pvt capital markets
- State capitalism: Predominance of state enterprises (financed with public monies, but run on market criteria - like USPS)
- State entrepreneurialism: State enterprises complement private enterprise
- Corporatist State: Govt. integrates labor unions and business into a 2-way alliance with govt. economic programs designed to stimulate pvt. enterprise
- Mobilizing people: Political coalitions of citizens from different social groupings (workers, capitalists, professionals, small-business people).
- Political loyalty was obtained by the guarantee of certain kinds of social resources to these various groups: public services, price subsidies, easy credit terms to small businesses, tax exemption for capitalists, wage increases for workers.
- The developmentalist state used these coalitions to support its program of industrialization

The NIEO Initiative and the Politics of Development

- NIEO = New International Economic Order
- In 1974, the 3W states attempted to accomplish publicly their formal demand for a NIEO in the UN General Assembly. They demanded reform of the world economic system to improve their position in international trade and their access to technological and financial resources.
- Political strategy behind this was Third Worldist: it identified "underdevelopment" in the 3W as the result of historical conditions. Instead of blaming the victims, 3W wanted the international community to acknowledge the inequality in the organization of the world economy.
- The legitimacy of Third Worldism rested on 4 conditions:
  - This had roots in the decolonization movement, where colonialism was blamed for global inequality.
  - Despite exceeding the growth rate of 5% per annum (in aggregate) set by the UN for the 2nd development decade of the 1960s, economic and social indicators suggested that most 3W countries were not achieving the rising living standards promised by the development project.
  - The dependency school of thought: some argued that the more the 1W invested in and traded with the 3W, the more exploitative this relation became. Inequality also increased within the 3W countries (growing metropolitan urban centers and stagnating peripheral rural hinterlands)
  - Multilateral and bilateral programs were quite selective. Aids funds were unequally distributed across the world with the smallest amounts reaching the neediest cases
- Responses to these conditions took 2 different directions:
  - A new strategy of development taken by the international aid community called "basic needs approach" - development redefined as "realizing the potential of human personality" (has been viewed as an alternative to current globalist prescriptions)
    - For a poor country to reduce poverty, economic growth is a necessary condition, but not sufficient
    - Development redfined as targeting basic human needs than simply raising income levels
  - The 2nd response (of the 3W) was to argue that focusing on inequalities in the 3W as the source of poverty neglect global inequalities
- The NIEO charter demanded reform of:
  - international trade

- the international monetary system (to liberalize development financing, debt relief, and increased financial aid)
  - technological assistance
  - It also proclaimed sovereignty of states and the right to collective self-reliance among the 3W states
- The 1W response to this demand combined moral themes with governance, but the master theme was to really buy time. As it passed, so did the energy of the NIEO initiative.
- In the short term, the unity of the 3W fragmented as the prospering OPEC states and the NICs assumed a greater interest in the upward mobility in the international order.
- In the long term, the redistributive goals of the NIEO would be overridden by the new doctrine of monetarism that ushered in the 1980s debt crisis through drastic reductions in credit and, therefore social spending by the govts.
- To summarize, the 3W attempted to assert its *political unity* in the world at just the time when *economic disunity* was spreading, as middle income states and poorer states diverged. The 1W managed to sidetrack the 2W's collective political initiative and assert the market solution to its development problems.
- The market differentiation in the growth patterns of countries intensified in the ensuing debt crisis of the 1980s.

The Debt Regime

- The 1980s debt crisis consolidated 2 distinct trends that had been emerging in the 1970s:
  - The undoing of the 3W as a collective entity, as economic growth rates diverged among states
  - Global managerialism, in which the world economy was managed through coordinated, rule-based procedures - the **debt regime**
- Rescheduling of terms of debts (to ease the conditions of payment) by several countries including Argentina, Brazil, Indonesia, etc.
- Debt servicing (paying off the interest) consumed more than two-thirds of the new lending in Latin America and Africa by 1960s
- Reasons for debt trap for many 3W countries:
  - In 1980s, the US Federal Reserve Board to stem the fall in the dollar value due to overcirculation in the 1970s lending binge reduced the money supply. This increased interest rates - 3W could no longer keep borrowing to service their debts
  - This credit crunch also resulted in a recession in the 1W - meaning that 3W exports fell.
  - 3W would need to drastically cut imports and raise their exports.
  - But curtailing imports would jeopardize their economic growth; expanding exports was also problematic since the commodity prices were at their lowest
  - Some commodities such as sugar were being substituted in the 1W with substitutes (e.g., sugar with fructose corn syrup in soft drinks, glass fiber for copper in telecomm, soy oils for tropical oils, and synthetic alternatives to rubber, jute, cotton, timber, coffee. and cocoa.
  - Therefore, the market alone was not going to solve these problems. The chosen course of action was "debt management" - explained next.

Debt Management

- The Bretton Woods institutions were once again in the driver's seat even though around 60% of the 3W debt was with private banks. The IMF took charge and now it had a supervisory status that individual banks did not have in the financial system at large
- Debt management took several forms:
  - Stabilization measures: focused on financial mgmt (such as cutting imports to resolve a country's imbalance of payments)
  - Structural adjustment measures: a more comprehensive approach by restructuring production priorities and govt. programs in a debtor country (reorganizing the economy)
  - SAL (Structural readjustment loan): Restructuring conditions on borrowers to allow them to reschedule their loans and pay off their debt
  - By mid-1980s, loan conditions demanded a restructuring of economic policy - debtors should follow multilateral prescriptions for political and economic reforms to ensure economic growth and regular debt service
  - Global managers placed the blame on the policies of the debtor countries rather than on the orgn, of the global financial system.
  - Mexican bailout became a model for other bailout programs (the Mexican govt effectively implemented the stabilization measures the IMF demanded in return for debt rescheduling)

Reversing the Development Process

- As countries adopted the rules of the debt managers and restructured their economies, they reversed the path of the development project.
- These rules had 2 key effects:
  - They institutionalized the new definition of development as participation in the world market (debt managers pushed for export intensification as the first order of business)
  - Rescheduling conditions brought dramatic adjustments in economic and social priorities within indebted countries. These adjustments tended to override the original development goal of managed national economic growth, substituting it for managed global economic growth.
- Results:
  - Reduction of public spending (food subsidies), currency devaluation, export price reduction, privatization of stated enterprises, reduction of wages to attract foreign investors and reduce export prices
  - These affected the poorest and least powerful social classes. Poverty rates climbed and there was erosion of living standards; increase in unemployment; migration of skilled labor (e.g., from Africa), infant mortality increased, nutrition problems
  - 1980s also called the "lost decade" of development
  - Pacific Asian states were relatively immune because their debt service to exports ratio was lesser; also had geopolitical advantage
  - The debt crisis exacerbated the demise of the 3W - govts. yielded sovereignty to global managers - fractured into several zones including the emerging 4W (impoverished regions esp. in sub-Saharan Africa)
  - The debt crisis enhanced the infrastructure of global management.

Global Managerialism

- Global managerialism refers to the relocation of the power of economic mgmt from nation-states to global institutions (not absolute relocation, but not mutually exclusive either). National institutions embrace global goals.
- Govts. are often making policy on behalf of the global managers - officials of the multilateral institutions and executives of the TNCs and TNBs
- Global managerialism need not always come from outside; it can be adopted into the policies and procedures of the states (as they attempt to reposition their producers in the global economy)
- Global managerialism embraces the whole world - not just the former colonial countries (even 1W and 2W)
- An impact of debt mgmt policies: unemployment (e.g., in the US due to fall in the exports from US to 3W due to collapse of economies in the 3W)
- The debt crisis was handled primarily as a banking crisis, leaving national economies to respond however they could

Challenging the Developmentalist State

- Treating the debt crisis as a banking crisis means that global fin. health overrode other considerations (including the viability of govt mgmt of national economies)
- Market was given a free reign, Public expenditure fell, wage levels fell (due to cheaper labor / imports in the NICs)
- The debt regime directly challenged the developmentalist state. Debt managers demanded a shrinking of states of the former 3W through reduction in social spending as well as privatization of state enterprises.

- Privatization accomplished 2 radical changes:
  - Reduced public capacity in developmental planning and implementation, thereby privileging private initiative
  - It extended the reach of foreign ownership of assets in the former 3W (precisely the condition that govts had tried to overcome in the 1970s)
- The debt regime transformed the discourse of the development in 2 distinct ways:
  - There was no longer the question of pursuing the goals of the original development project; rather, wholesale restructuring was necessary to guarantee payment of debt
  - Austerity measures, such as privatization, and export expansion, renewed the global economy rather than individual national economies
- Each measure potentially undermined the coherence and sovereignty of national economies (e.g., Dominican Republic was turned "inside out")

Restructuring States

- Reform policies are routinely imposed by the global agencies with little or no scrutiny by the citizens of the state undergoing restructuring (faceless bureaucrats)
- The power of the global managers is typically institutionalized through the administration of adjustment programs.
- Central bank and trade and finance ministries become more powerful
- Economic criteria replace the social criteria that define the national project
- When states restructure, they may improve their financial standing and their export sectors, but the majority of citizens and poorer classes find their protections stripped away in the country's rush to participate in the world market (e.g., Restructuring the Mexican State)
- External control of countries in the name of financial orthodoxy
- The state sheds its accountability to its citizens, who lose input into their own govt.
- National policy is subordinated to the demands of the global economy.
- WB dictates legal and institutional change through its lending process, and since 1989, it now asserts that evaluating governance in debtor countries is within its jurisdiction
- WB remains unaccountable to the citizenry in developing countries
- After a loan is approved, US corporations and citizens are given access to economic and political intelligence reports prepared by the bank
- Global rule without law is being institutionalized
- These conditions imposed standard rather than locally tailored remedies on indebted states

Summary: The debt crisis was a rehearsal for the globalization project.