HUMANISTIC INSTITUTE FOR CO-OPERATION WITH DEVELOPING COUNTRIES, NETHERLANDS
HUMANISTISCH INSTITUUT VOOR ONTWIKKELINGESSAMENWERKING, NETHERLANDS

LOCAL DEVELOPMENT IN A GLOBALIZING WORLD

OCTOBER, 1996

J. Mohan Rao

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"The poor, the unemployed and the marginalized, who bear the current burden of such policies, all too often find that the future never arrives. In many countries, these top-down growth policies have failed to overcome serious problems of low life expectancy, poor health, illiteracy or even low private purchasing power. Meanwhile, the increased inequality of wealth that they promote and the wider participation of people that they inhibit frequently detract from growth itself. Nor have they always yielded political liberation from diverse sources of oppression. Trickle-down growth also delays the demographic transition, shrinks the resources available for subsistence activities and engenders environmental degradation from the above and below".
J. Mohan Rao

HIVOS

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Hivos Publications

These publications are part of the Hivos - India Regional Office's effort to participate actively in the debate and dialogue in India on issues of human development and emancipatory interests. They consist of monographs, working papers and Hivos conference proceedings. The publications reflect policy concerns of Hivos regarding issues of human interest in India and other third world societies and address the problems faced by the marginalised in developing countries, such as in the areas of humane governance, enviornment, gender, the politics of development, technology choices and economic activities.

Series Editor : Shobha Raghuram

Hivos

PREFACE

This monograph "Local Development in a Globalizing World" by J. Mohan Rao belongs to a process Hivos is currently engaged in with partners and independent development thinkers in the preparation of its Five Year Strategic Plan (Hivos Asia/CIS 'Kaderplan' 1997-2001). This document will guide and assist Hivos in prioritizing its interventions in the Asian region, which includes India, Sri Lanka, Indonesia, Malaysia, Kyrgyztan and Kazachstan. This strategy policy document states the priorities for Hivos countrywise and policywise, thereby providing guidelines for support of development organizations and activities in the highly differentiated Asian countries. The Kaderplan provides a framework of policy commonalities and at the same time allows for sufficient differentiation in country-specific priorities. The five special themes to which Hivos gives priority, namely, economic self-reliance, culture and the arts, gender, women and development, sustainable development and lastly human rights and HIV/AIDS will all be given attention, reflecting not only the range and richness of the issues within each sector but also country-specific needs and profiles. The overall major policy thrusts of Hivos will finally provide the unities for the production of a regionally coherent programme. Also covered will be the sweeping changes wrought in the post-cold war era globally and in Asian countries in particular. These changes have had far-reaching implications for several development sectors - particularly for international development aid, trade, North-South relations, and the role of governments and institutions in civil society. The road ahead for non-government organizations as they cope with these changes and implement strategies for the future is being debated widely by development institutions. So dramatic have been the changes that the implications of liberalization, globalisation, development aid, progressive poverty levels in some south countries, transition economies and human development concerns are being extensively debated.

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This monograph "Local Development in a Globalizing World" by J. Mohan Rao belongs to a process Hivos is currently engaged in with partners and independent development thinkers in the preparation of its Five Year Strategic Plan (Hivos Asia/CIS 'Kaderplan' 1997-2001). This document will guide and assist Hivos in prioritizing its interventions in the Asian region, which includes India, Sri Lanka, Indonesia, Malaysia, Kyrgyztan and Kazachstan. This strategy policy document states the priorities for Hivos countrywise and policywise, thereby providing guidelines for support of development organizations and activities in the highly differentiated Asian countries. The Kaderplan provides a framework of policy commonalities and at the same time allows for sufficient differentiation in country-specific priorities. The five special themes to which Hivos gives priority, namely, economic self-reliance, culture and the arts, gender, women and development, sustainable development and lastly human rights and HIV/AIDS will all be given attention, reflecting not only the range and richness of the issues within each sector but also country-specific needs and profiles. The overall major policy thrusts of Hivos will finally provide the unities for the production of a regionally coherent programme. Also covered will be the sweeping changes wrought in the post-cold war era globally and in Asian countries in particular. These changes have had far-reaching implications for several development sectors - particularly for international development aid, trade, North-South relations, and the role of governments and institutions in civil society. The road ahead for non-government organizations as they cope with these changes and implement strategies for the future is being debated widely by development institutions. So dramatic have been the changes that the implications of liberalization, globalisation, development aid, progressive poverty levels in some south countries, transition economies and human development concerns are being extensively debated.

In India since 1991 the policy debates on the nature of the reforms initiated by the government and multilateral-lending institutions have dwelt on structural adjustment policies and growth-oriented strategies in the economy, the withdrawal of the state from social sector spending, the failure of the public sector, growing unemployment and the prospects for the poor. Several of Hivos's partners have been involved in public debates on the economic health of the country, and strategies for countering the short-term effects of SAP policies. Some of the debates resulted in the collaborative effort of a book on 'Structural Adjustment: Economy, Environment and Social Concerns' published by Macmillan Press, New Delhi last year. The contributors in this volume dealt extensively over a wide range of issues- from erosion of political self-reliance and global inequities to the chronic problems of an agrarian economy and the effectiveness of existing social security systems. The overall sufficiency of the reforms and their efficacy in the present dispensation was dealt with keeping in mind the road towards growth with distributive justice. J. Mohan Rao was a contributor with a paper, 'Liberalization and Growth'. In that he maintained that the reforms, defined via a neo-liberal agenda were unsuitable to countries such as India, "in which we have a severely deficient infrastructure, low levels of education and health, agrarian backwardness, structural dualism, persistent technology lag in industry and a weak home market".

This monograph on globalisation is the result of continued collaboration. It is set on a broader canvas where the author translates the growing understanding of the forces of globalisation into a broad framework for actions which may limit marginalisation and exclusion. He cogently overviews the issues that provide the elements of a process called globalisation when viewed from the developing countries' perspectives. Rao dwells on the politics of exclusion that are inscribed in policy changes and assumes positions that have clear political implications, while detailing North-South imbalances, the trends for trade flows under the new regime of WTO, and the hierarchical fragmentation of world markets. He examines the globalised market system to see whether the system is characterized by divergence rather than convergence and goes

on to decode some of the high notes of the liberalization 'mantra' to unravel the social costs of liberalization for developing countries. The author looks at the issues that face large sections of the populations in low income countries - labour regimes and exit policies, issues of consumption and the crisis of natural resource degradation, and draws up an agenda for collective action best promoting Southern interests in what he terms, as a "South-oriented working international order". He argues that unregulated global integration cuts into political autonomy at the local (national) level. State commitments to public spending on development needs such as health, food, education etc are eroded at the altar of growth, fueling in the long run a market theocracy that perpetuates the lowering of labour rights and wages, environment standards and equity goals. It is clear that only a highly empowered population can bring from below the reforms badly needed at the national (local) levels - proper utilization of public resources, a high level of political accountability and a state that protects and delivers public goods.

The study recently completed by Leela Gulati and R. Ramalingam 'Poverty and Deprivation: Some Inter-State Comparisons' and published by Hivos shows that poverty levels have been virtually stagnating for the whole of India between 1987-88 and 1993-94, that the proportion of children engaged in work increased between 1971 and 1981 in the whole of India and that the incidence of maternal mortality is at unacceptable levels, not to mention various other areas of social development that call for radical interventions. It is clear that if the future must arrive, wide-ranging reforms in a variety of institutions (both State and private) have to be implemented on a war-footing along with the State's commitment to a genuine process of democratization, so that growth and equity are not conflicting.

We decided to publish this study for the internal use of not only Hivos but also that of our partners. We hope that partners will find it useful. We would like to thank Welmoed Koekebakker, Head of Bureau for Asia, Hivos, The Hague, for the extensive collaboration with the Regional Office on the making

of the Kaderplan. Our thanks also to J. Mohan Rao for the serious engagement on development policies.

Shobha Raghuram
Dy. Director, Regional Office

October 31, 1996

1. INTRODUCTION

Although international flows of goods, technologies and particularly finance have grown rapidly in the past two decades, the national economies of the world are far from constituting a single economic system and far from being closely integrated by global markets. International differences in production technology, capital availability, goods prices and especially factor prices and living standards remain large and persistent. Accordingly, two central questions present themselves: first, what are the forces impeding global integration? second, is every movement towards integration necessarily beneficial to rich and poor nations alike? This paper aims to present a perspective on these central questions from the viewpoint of the poorer nations of the world and to draw out the implications for national and international policies that are conducive to their economic development.

The growing flow of global transactions has been strongly associated with national and international economic restructuring. In the North, this is traceable to the unraveling of the 'Fordist' regime of production and accumulation that underpinned a quarter century of high economic growth while in the South, it is additionally due to the debt crises accompanied by creditor conditionalities pushing for so-called globalization. The increased mobility of capital together with a sharp rise in worldwide unemployment and informalization in the periphery define the environment within which this restructuring has occurred. Thus, moves toward liberalization and global integration define the central tendency in North and South alike. Neo-liberal theory holds liberal policies and openness, whether for the North or for the South, to be a guarantee of global economic integration and of convergence in national living standards.

But historical and contemporary experience argue strongly against the neo-liberal prescription and prediction. Neo-liberal theory suffers from an undifferentiated, even Panglossian, view of how markets function in poor and

rich nations alike which is responsible for the uniform policy conclusions it reaches for both. On the other hand, the structuralist alternative presented in this paper recognizes important sources of asymmetry between North and South that are fundamentally related to their respective stages of development. In turn, these asymmetries condition the sorts of policy response that can promote development. The forces of divergence rather than convergence in a globalized market system are inherent to that system rather than the exclusive and extraneous results of mis-informed interventionism by states. Structural asymmetries between North and South, the localization of major sources of growth in the form of external economies and increasing returns, and the hierarchical fragmentation of world markets, particularly in finance, help explain the weakness of the global forces of convergence.

The paper is organized as follows. Section 2 sketches out the causes and consequences of the growing competition in and integration of international markets and the varied responses in the developed North and the developing South. It also outlines the neo-liberal case for liberalizing domestic markets and for removing all artificial barriers to a complete integration of national and global markets. Section 3 and 4 develop an alternative framework emphasizing North-South asymmetries in the structure of internal markets and the fragmentation of international markets in goods and finance. Building on this framework, the final section analyzes the value of national autonomy and the policy choices required for promoting development in the periphery.

2. GLOBALIZATION: A PERSPECTIVE FROM THE SOUTH

The crises of Fordism in the North and of debt in the South hastened a process of international and national restructuring of both production and policy regimes which is still under way. The increased mobility of capital together with a sharp rise in worldwide unemployment and informalization in the periphery define the environment within which this restructuring has occurred. Neo-liberal theory holds liberal policies and openness, whether for the North or for the South, to be a guarantee of global economic integration and of convergence in national living standards.

2.1 Globalization

There can be no doubt that international flows of goods and especially of finance capital have increased very sharply over the past decade or two. The costs of transactions across national frontiers-the movement of money, knowledge and materials have been greatly reduced by the information and communication revolutions. Non-traditional manufacturing exports from the newly industrializing countries (NICs) of Asia to the advanced capitalist countries (ACCs) have scaled new heights. The rapid growth of national incomes in China, Malaysia, Thailand and Indonesia has been accompanied by an accelerated expansion of foreign direct investments (FDI) from outside and within the region. Formal processes of market integration have been initiated in North America and are reaching their culmination in western Europe. A new GATT accord has been signed which phases out important areas of managed trade and protectionist policy. Many among the economies of the South and in eastern Europe have shifted policies, in some cases radically, towards opening up their economies to global markets.

Despite great uneveness in the spread of participation by nations and groups of people, the balance of forces seems to point in the direction of globalization

at least in the descriptive sense of a process increasing international resource and goods flows. The forces driving this process were evident both during the quarter century following 1945 and in the subsequent quarter century of slowed growth, heightened instability and widespread changes in economic institutions and policies in both North and South. Though the unraveling of the monetary arrangements of the post-War era in 1971, the productivity growth deceleration of the ACCs starting in the late 1960s and the oil price increase of 1973 had a definite impact on the shape of international economic relations during the past two decades, these are themselves best seen to have been effects of anterior causes. The latter are located in the crumbling of the particular political-economic regime (termed Fordism) in the ACCs that maintained stable national and international regimes of rapid growth (the Golden Age)[1].

As Fordism successfully diffused from the US to western Europe and Japan, high growth was led and sustained by rising wages which enlarged home markets in the ACCs. The coincident growth of home demands, together with US hegemony and the Bretton Woods institutions, also ensured the rapid growth of international trade without threatening conflicts between external and internal balance. The convergence of productivity and income levels in Europe and Japan to those prevalent in the US accelerated the growth of intra-industry trade and investments. Protectionist barriers to trade also came down in successive rounds. In other words, converging incomes produced market integration, not only the other way around. But by the same token, the maintenance of export competitiveness began to emerge as a new imperative rivaling the Fordist concerns about maintaining real wage growth and the welfare state.

The new imperative arose at the same time that the internal growth potential of Fordism was petering out. Attempts at fine-tuning the economy led to

[1] Recent accounts of the constituents of the Fordist Golden Age and of the paths out of that regime of accumulation are given in Boyer (1995) and Lipietz (1995).

structural inflation and external imbalance and, in response, businesses demanded fiscal and labor discipline (Cox, 1994). Inflation control on the macro side and all-round 'flexibility', including deregulation, on the supply side became the hallmarks of new conservative policy regimes. Assaults on the welfare state, more or less extensive, have followed in their wake.

Countries in the South played diverse parts in this unfolding Northern drama. Not all of them have been at the 'receiving' end or, at least, not in the same sense. The expansion of world trade during the Golden Age provided ample if unexpected opportunities for commodity exports and industrialization. As a group and individually, countries in the South enjoyed respectable rates of economic growth. Growth in the ex-colonies surpassed their dismal performance during the colonial era. This difference was not simply due to the global economic environment of the Golden Age alone; rather, a large if variable share of the difference must be accounted for by the transition from colonialism to sovereignty and the developmental role of the state. The growth momentum was maintained even through the 1970s in part because of better export prices for many raw material exports. Whereas the first oil price increase had produced a severe crisis of macro management in the ACCs, the recycling of petro-dollars to the South also supported continuing growth there. But the eventual crash turned out to be far more costly in the South, particularly in Sub-Saharan Africa and Latin America, than the earlier one had been in the North. It was brought on by the crushing rise in interest rates and the sharp adverse movement in the South's terms of trade which followed the Reagan-Volcker policies of the early 1980s.

In East and Southeast Asia, the crisis did not produce economic collapse. Instead, the state managed a quick if difficult adjustment and growth resumed. The East Asian NICs had enjoyed special external and internal political circumstances in the decade or two following the second World War. These compelled and enabled their states to launch successful land reforms (in Taiwan

and Korea), invest in mass education and health, and in other ways establish a growth regime that spread the fruits of rising incomes. The unusual mix of authoritarianism and an inclusive social base for growth, by design and circumstance, allowed the state to discipline capital and labor without posing excessive problems of disciplining the state itself. Following Japan's lead, the East Asian NICs were able to give a good account of this social capital in achieving export competitiveness in manufacturing. In many ways, China appears to have followed a similar course though lagging behind its neighbors by a decade or two. On the whole, the 1980s proved to be an exceptionally good decade for most Asian countries. Though eventually hit by a major external crisis a decade after Mexico's in 1982, even India's per capita income grew at over 3 per cent per annum through the 1980s which was a decade lost to development in Africa and Latin America.

2.2 Liberalization

In response to the crisis-inducing globalization of the past decade or two, there has been a remarkable convergence of formal policy regimes in the South toward a neo-liberal order. Three salient factors explain this tendency. First, the substantial influence that neo-liberal ideology assumed in the Bank-Fund ministered stabilization and structural adjustment programmes. The crises greatly weakened both official and popular resistance to the dismantling of policies and programmes that were the symbol and substance of third world autonomy. Second, neo-liberalism, of which state minimalism has been the kingpin, furnished an intellectual basis for these states to make a virtue out of necessity. In many cases, it also provided ideological cover for the political project of elite minorities to jettison social commitments. Third, neo-liberal influence has grown cumulatively: the pursuit of liberalization in individual countries not only affected their internal economies but also altered the global environment facing each of them, an alteration that made the pursuit of autonomous policies increasingly precarious or, at least, increasingly unfashionable.

Liberalization is anchored in five basic assumptions: 1) that a politically unconstrained market regime is feasible (distributional problems can be resolved without 'distorting' the market); 2) that the market can fully coordinate individual decisions (the state can only get in the way); 3) that public investment is an inefficient substitute for private investment in the growth process (complementarities are negligible); 4) that the unhindered import of technology can provide an adequate basis for developing competitiveness (a level playing field imposes no handicaps in building up dynamic competitive advantage); and 5) that the free movement of finance and enterprises across the national border will produce internal and external balance (globalization is good for the South).

The agenda of liberalization in the South draws primarily on the orthodox economic critique of state-directed development policy. As championed by the Bretton Woods institutions, structural adjustment is effected through market-oriented measures designed to improve supply-side flexibility and performance. The main instruments include trade policy reform (dismantling quantitative restrictions, reducing tariff rates and ensuring currency convertibility), openness to capital and technology flows, unhindered flow of domestic investment and labor across sectors (flexibility and free exit), financial reform to permit market-determination of investment and saving, and public sector disinvestment. It presumes that import-substituting industrialization and state interventions distort resource allocation and reduce resource utilization. Improved resource efficiency is to be secured from exposure of enterprises to internal and external competition and through a drastic reduction in the scale and discretionary component of government interventions in enterprises and markets. The success of market liberalization requires as a cornerstone a labor regime that is free from distortions and rigidities. At the level of state policy, this is usually defined in terms of the absence of 1) direct interventions in wage-setting and indexation including legislated non-wage elements of compensation; 2) exit barriers on firms in the form of job tenure legislation

or restrictions on employer's freedom to lay off or retrench workers; 3) soft budget constraints or other ways of rescuing firms that fail.

Clearly, this agenda implies that external openness and internal liberalization are strictly complementary. It promises benefits to all participants in global markets: the achievement of efficiency and the diffusion of technology are the bases for both absolute benefits and the equalization of productive powers. Inequalities among nations pose no impediments to any of them in deriving these benefits. On the contrary, the integration of product and capital markets even without global labor mobility implies equalization of living standards across the globe.

3. ASYMMMETRIES BETWEEN NORTH AND SOUTH

The forces of divergence rather than convergence in a globalized market system are inherent to that system rather than the exclusive and extraneous results of mis-informed interventionism by states. Structural asymmetries between North and South, the localization of major sources of growth in the form of external economies and increasing returns, and the hierarchical fragmentation of world markets, particularly in finance, help explain the weakness of the global forces of convergence.

3.1 Uneven Development

International inequalities have risen massively during the past century. Living standards over much of the old world were proximately similar around 1600. Even as late as 1800, per capita income in Europe and North America was roughly the same as that prevalent in Asia (Schwartz, 1994). But by 1900, incomes in the center were around 10 times as large as in the periphery and the gap had widened even more by 1960.

For the period 1965-1989, GNP per capita in the low-income economies increased 2.9 per cent per annum, compared to 2.3 per cent per annum in the middle-income and 2.4 per cent in the high-income economies. While this represents a very modest amount of convergence, large parts of the low-income periphery (representing nearly 40 per cent of the world population) have grown less rapidly than the high-income nations: the faster average growth in the low-income economies is heavily weighted by China's impressive growth acceleration; India and other low-income economies grew substantially less rapidly than did China. Uneven development, North-South and South-South, is also manifest during the 1980s when world growth slowed. Whereas the rate of growth of per capita income in the world economy fell by 0.8 percentage points between 1965-80 and 1980-89, the decline in growth rates

in developing countries was 1.8 percentage points. In the same period, growth in East and South Asia accelerated by 1.3 and 1.5 points respectively but growth in Sub-Saharan Africa, the Middle East and North Africa, and Latin America decelerated by 2.6, 3.2 and 4.0 percentage points respectively (Griffin and Khan, 1993: p.7).

In an important sense, the world today bears a much stronger resemblance to the world of a century ago than of a half century or even a quarter century ago. Trade and capital flows relative to world income are roughly comparable. Markets in the periphery were largely open then; investments in the periphery, though confined to exploiting natural resource-based comparative advantage and to infrastructure such as the railways that this required, were in significant measure financed by the richer countries, especially Britain. As extensive as the globalization of the past two decades has been, the world economy in 1900 was not measurably less globalized than it is today.

The differences, though, are also notable. Most peripheral states lacked sovereignty in the earlier period and were subjected to colonial exploitation. Even the convergence among people of European origins may have been largely secured through labor mobility in respect of which the end of this century greatly differs from the end of the last. There was scarcely any sign of convergence among non-European countries, certainly none comparable to the experience of the NICs in recent decades. India's per capita income, for example, precisely stagnated under the Crown-imposed policy of laissez faire and virtual free trade; a modest beginning in modern industry was balanced by agricultural decline and the near-demise of her artisanal industries due to the competition from cheap industrial imports. By contrast, a strongly regulated import-substitution regime after independence served to more than double India's per capita income. There were significant episodes of peripheral industrialization, in Brazil, Mexico and India among others, during the Great Depression and World War II, when the world economy had virtually ceased to be global.

These comparisons are valuable in suggesting links between unequal development and the development of international markets. Global market forces by themselves appear to have generated substantial, even immiserizing, international inequalities. Throughout the past century, sovereign state power has been necessary though not always sufficient to overcome the unequalizing tendencies in global markets or at least to effect absolute economic improvements. But the historical comparisons cannot account for the effects of real, particularly, 'world' time. Has catching up with the leaders become easier over the past century or more difficult? Is successful state tutelage of 'late' industrialization more probable today or less?

3.2 Reasons for Uneven Development

The neo-liberal position provides one set of answers by denying each of the above hypotheses. The global market system, in this view, equalizes national living standards if not absolutely, then, at least relative to each nation's 'development potential'. Not only are protection, selective promotion and graduated linking with world markets unnecessary for catching up; on the contrary, they are the only impediments to achieving it. Careful consideration shows, however, that the mechanisms adduced in favor of this position do not bear scrutiny[2]. North-South inequality must be understood in terms of uneven development instead i.e., dynamic factors making for persistently or even progressively different resource endowments, particularly of physical and human capital. Structural asymmetries between North and South, the localization of major sources of growth in the form of external economies and increasing returns, and the hierarchical fragmentation of world markets, particularly in finance, help explain the weakness of the global forces of convergence.

Given the very large inequality of investment in research and development (arising from unequal endowments of capital), wealthier countries enjoy a

[2] This is not the place to review the extensive literature that establishes thisproposition.

persistent technological advantage. But there are other forms of the localization of development that may be just as important. One concerns the costs, particularly in transport and transactions, attached to market integration. The costs of tapping markets or resources (including labor) decline with localization and serve as natural barriers to integration. Another concerns knowledge in the form of an unplanned public good. Though some spillovers of knowledge are international, they are more often confined to national or local networks of enterprises, universities and workers. Furthermore, much of the knowledge generated in such locally connected networks are embodied in workers and managers who are not internationally mobile. Localization of such unplanned public goods is aided also by language and nationality/cultural barriers. A third source of localization arises from infrastructure and services which tend largely to be non-tradables: transport, communication, power, water, publicly-funded research and even educational and financial institutions. A final source of localization is market information. This is particularly important in the capital market where reputations and knowledge are critical to enforcement of transactions.

The chief implication of localization is that the forces of the global market are fragmented rather than uniform. Although competition, exchange and the size of the market are important determinants of the gains from specialization (and vice versa), gains also accrue from inter-connectedness, non-exchange and localization. If the economies of local connectedness are stronger than those of global market size, then, uneven development must be the result. Global market integration does not produce (has not in two centuries) global convergence; rather, the locally divergent development process produces the characteristic types of global integration (North-South versus North-North) that we witness. Global markets have been the conveyor belts rather than the motors of uneven development.

4. MARKETS AND MARGINALIZATION

Historically, free trade has been a luxury pursued by the strong; laggards have always practiced a kind of mercantilism, protecting their nascent industries or subsidizing exports. The present world juncture appears to mark a departure from precedent. The rush to liberalize and integrate, however, ignores history as well as contemporary reality: as presently constituted, the markets for goods, technologies and finance promise profoundly unequal outcomes unless market forces can be directed and channelled to meet the needs of the South. The worst effects of such unequal integration are already manifest through the processes of marginalization in the periphery.

4.1 Markets for Goods and Technologies

The North, faced with the imperative of competitiveness and the South, under the compulsions of debt, decline and creditor conditionalities, have both been obliged to go global in recent years. Meanwhile, the NICs, which have made significant inroads in the North's markets at home and abroad, are being held out as a model for the rest of the South to follow.

But in a world in which the growth process remains powerfully localized, openness benefits the strong; the weak must continue to sell primary commodities or standard manufactures. Competition in the markets for the latter has been accordingly fierce. During the 1980s, export prices of LDC manufactures have fallen in relation to the manufactures they import. At the same time, their commodity export prices have been lower in real terms at any time during the past 10, 40 or 120 years (Avramovic, 1993: preface).

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technologies and of trade-based gains from specialization has been highly dependent on creating an indigenous process of cumulative learning and utilization (Hikino and Amsden, 1993). Among these local determinants, early land reforms, investments in infrastructure and human capital, stabilization of social relations by agreement or coercion, and the nature of the state have been particularly important. Given these local effects, it is unsurprising that (a) very few among the LDCs succeeded in their late industrialization efforts; and (b) a period of rapid growth in world trade enabled the few successful ones to pull away rapidly from the rest in terms of both growth and export success.

Although some economists contend that competition from abroad is necessary and sufficient to promote industrial productivity growth, the problem frequently is the reverse: there is too much domestic competition for efficient production. Many nations have succumbed to competitive challenges rather than meet them; competitive pressure by itself fails to account for the outcome. Contrariwise, phases of protected industrialization are necessary but hardly sufficient to achieve competitiveness. Indeed, without the careful cultivation of the above-mentioned local effects, protected industrialization becomes part of the problem rather than part of the solution.

Technology markets pose a different order of challenges to the South. Few would dispute the gross advantage of late industrialization viz., the import of technology rather than invention ab initio. However, converting the gross advantage into a net advantage depends on advancing local learning and adaptation capacities. To this effect, East Asian economies practiced both explicit and implicit protectionism of national firms from the start. By requiring TNCs to produce mainly for export (in export processing zones), national industry was allowed to grow by producing for the home market. Given complementary policies to develop the localization process, domestic firms were thus strengthened and later compelled (through conditional credit and other subsidies for exports) to themselves graduate to selling in export markets

as well. Contrary to neo-liberal interpretations, the 'level playing field' between foreign and national firms in these countries was largely a product rather than the pre-condition of development.

4.2 Financial Markets

There is an obviously profound imbalance in the capital available per worker or consumer between the rich and poor countries. Coupled with the large differences in technologies employed, the potential economic returns to making finance available to the South are large. Though the objective need and opportunity for saving and outside finance for physical, human and infrastructural capital formation is evident, it does not follow that the market, whether internal or international, is willing and able to supply these. In the context of structural asymmetries in the growth process, the fragmentation rather than integration of capital markets is both symptom and cause of those asymmetries.

Long-term financial flows seem to follow development rather than lead it. This reflects not only the importance of local development processes but also of the related localization of financial markets. The location of production depends on the comparative costs of immobile factors which are not confined simply to raw labor and land, the obvious ones. The (local) development process is also intensive in human capital accumulation and investments in infrastructure. It is not merely that the services provided by such investments are attached to the immobile factors and strongly complementary to movable capital investments in tradable sectors. It is also the case that there are financial market failures which place these investments largely outside the scope of both indigenous and especially international market finance.

Consider investments in human capital. In developing countries, expenditures on nutrition, health and education are major productivity-raising factors. While they are certainly privately 'profitable', poverty and the lack of collateral render market financing either impossible or costly. Far from financing such

productivity-raising expenditures, the utter inadequacy of credit markets forces a reliance upon self-provisioning and self-insurance which detract from productivity. The lack of credit and insurance markets is a critical factor, for example, behind 'accumulating' precautionary and old-age saving in the form of children. This only serves to raise the dependency burden in the form of higher current consumption requirements while also reducing current incomes (by increasing wage competition from low-paid child labor) which, in turn, aggravate the initial market failure.

Similarly, the low levels and quality of infrastructure help explain the low overall productivity, including low rates of return to capital, in LCDs. Free trade obviously cannot enable a country to specialize away from its requirements of these non-traded goods. But the pertinent question here is whether global finance can help. Many elements of infrastructure are characterized by external benefits and long payoff periods. Hence, by rational design or institutional default, infrastructural services must be extensively subsidized. The private financing of such investments is rendered as problematic as public regulation (if not public ownership) is made economically necessary.

To sum up, national financial markets within the South present a picture of deep structural fragmentation. Finance flows unevenly among the modern industrial sector where much of the learning process must concentrate, the informal and agricultural sectors which are the prime sources of employment and livelihoods and the public sector which must play the leading role in creating infrastructural and human capital. The asymmetries that underlie the lack of financial integration within nations are rooted in both political and market failures. In turn, indigenous financial markets, even when not closed by policy, are but poorly connected with global markets. Besides, openness itself is constrained by the weak domestic fiscal and financial structure. In short, the hierarchical fragmentation of global financial markets is both constitutive of and caused by the localization and unevenness of development.

By comparison with capital mobility, integration via labor mobility would provide a far more reliable and powerful mechanism for reducing international inequalities. But as small as North-South capital movements are, the South-North movement of labor remains smaller still. Besides, the selectivity of immigration policy favoring the skilled is largely inimical to the interests of the South while the liberalization of labor immigration is hardly on the North's agenda.

4.3 Marginalization

The crises of Fordism in the North and of debt in the South have hastened a process of international and national restructuring of both production and policy regimes which is still very much under way. In the North, the breakdown of the social accord has allowed enterprises to take the lead in their search for competitiveness and flexibility while accommodating new technologies: structural unemployment and foot-loose capital have followed. In the South, the foreign imbalances have been joined by massive fiscal crises: retrenchment in the modern public and private sectors has forced increased unemployment and a substantial growth of low-wage informalization. The growing internationalization of production from the North and the expanding informalization of production in the South are linked together in a hierarchical, three-step restructuring among core, semi-periphery and periphery, a hierarchy in which wages, skill levels and job security decline from core to periphery.

The phenomenon of jobless growth and skilled labor displacement associated with this restructuring is in part the result of the new technological changes demanding higher physical and human capital intensities and flexibility. However, neither accumulation nor new employer strategies have been conducted in a rudderless market vacuum. In the North, as we have noted, 'flexibility' has been actively promoted by conservative policies: the political assault on the Fordist compromise, through macro and micro policies, has permitted capital to pursue the new rationality of flexible restructuring. This political-

economic environment has enabled footloose capital to wrest further concessions from both labor and the state. In the South, straitened fiscs (due to the debt crisis) have undermined state capacities to pursue indigenous models of modernization: even the pretense (in many countries of the South, it was not much more than that) to include the marginalized majorities has been all but given up. Conditionalities imposed by international creditors, in the form of orthodox stabilization and structural adjustment programmes, have been the major instrument for opening up these economies to the winds of global competition. "Adjustment with a human face" appears as a "human mask" (Guhan, 1995:p. 243) for the actual adjustments carried out.

Parts of the South are faced with yet another crisis, a crisis of natural resource degradation and ecological destruction that has rendered subsistence production increasingly fragile. Some of this grows out of the extractive state strategies that have taxed the poor without compensatory investments to augment productive capacities. Some of it has arisen, as in parts of Sub-Saharan Africa, from destructive civil wars and extended droughts. But the economic crises and structural adjustments forcing the mining of natural resources for export production have also been responsible. This fragility has delayed the demographic transition in what may be called the Fourth World which, in turn, compounds that fragility in a destructive spiral.

5. GLOBAL THINKING FOR LOCAL ACTION

The value of national autonomy in the South arises from the structural and market asymmetries identified in the preceding section. The projects of national integration and locally-oriented development must, as in the past, continue to take precedence over the project of globalization. The quality of public interventions and participation is fundamental to the realization of these possibilities. We conclude the paper with an examination of the political economy of interests in or against liberalization and globalization, and the policy alternatives that most conduce to economic development in the poor nations.

5.1 Autonomy of Action

States have played a pivotal role in capitalist transformations throughout the world. The development of the market system has required the simultaneous development of institutions, including the state itself, to support it. Late developers have found it necessary to fashion state institutions and policies that are more actively engaged, both qualitatively and quantitatively, in the development process. Nurturing local development against competing global forces has become a progressively more delicate affair. Strategic direction of the economy, macroeconomic management to secure internal and external balance and selective engagement in global markets to exploit its opportunities and thwart its constraints have been added to the tasks of establishing new forms of property relations and associated legal and enforcement systems, ensuring order, supplying infrastructural and educational services, and, above all, resolving the fundamental political conflicts arising in the process of constructing a market system.

Yet, the central tendency under globalization is toward reducing political autonomy at the 'local' i.e., national, level. The national choice of goals as

well as means is liable to be strongly compromised. The South differs from the North in this respect not so much in the goals pursued but in the means necessary to realize them: the imperative of local development is far greater while, at the same time, local development is much more vulnerable in the face of globalization. Unregulated global integration cannot be in the best interests of the weak.

But the choice of goals as well as means is also subject to the conflict of interests between have and have-nots within the poor nations. This affects not merely the outcome of growth but also growth itself. These effects play out through both markets and government policy. Trickle-down theory, which is the basis of policies of liberalization, takes conflict between growth and equitable outcomes to be axiomatic. Inequality is alleged to promote faster growth by providing incentives for elite savings, effort and enterprise: for the rest, this is supposed to mean gains in future employment and consumption that more than compensate for the current sacrifice. This argument is employed to justify low taxes, low wages and labor repression. Policies to utilize surplus labor by promoting labor-intensive techniques are viewed as detracting from profits and saving. Public spending or subsidies for health, education, employment, food consumption, social security and poverty alleviation programmes are also considered inimical to growth. On the other hand, expenditures on defense and on the repressive apparatus of the state, tax give-aways and public sector employment for the middle class are overlooked as areas where fiscal economies might be affected and savings raised.

The poor, the unemployed and the marginalized, who bear the current burden of such policies, all too often find that the future never arrives. In many countries, these top-down growth policies have failed to overcome serious problems of low life expectancy, poor health, illiteracy or even low private purchasing power. Meanwhile, the increased inequality of wealth that they promote and the wider participation of people that they inhibit frequently detract from growth itself. Nor have they always yielded political liberation from diverse sources of oppression. Trickle-down growth also delays the

demographic transition, shrinks the resources available for subsistence activities and engenders environmental degradation from the above and below (Rao, 1995b).

If local development effort under the cloak of state direction and external protection is riven with conflict, the process of liberalization and globalization can hardly be otherwise. Attempts at liberalizing domestic economies and integrating with world markets impose costs on some groups while benefiting others; hence they pose political problems. In many countries, political resistance to integration has been overcome only because of political and economic pressure from the outside. Structural adjustment with proliferating conditionalities (trade and financial liberalization, devaluation, deregulation, privatization and cuts in public investment and social sector outlays) has sought to reduce national autonomy. Nevertheless, market-oriented reforms have remained incomplete in many cases because they face inherent economic barriers or because the transition has run into rough weather. More to the point, global integration is apt to be stymied or reversed by national political projects. In Sub-Saharan African countries, for example, which have had to bear the brunt of structural adjustment programmes, a reviving civil society is making demands for new forms of local, national and continental self-reliance (Shaw and Inegbedion, 1994).

5.2 The Struggle over Standards

The drive for competitiveness in a globalized economy has heightened international conflict over standards in such areas as labor relations and the workplace, the relations between trans-national corporations and nations and environmental impacts. Tensions have emerged between globalized capital and national interests. Concern about fraud in global securities markets, the security of banks, the unruliness of exchange markets, the lack of standards in telecommunications, safety, health and environment has grown apace. Some

of these areas are clearly beyond the control of individual nation-states; attempts at control can only damage whatever benefits they may derive from the operation of the relevant enterprises or resource flows. In regard to trans-national enterprises, even the assignment of profits to subsidiaries or other nodes in their international networks, is resolved internally and must therefore reflect the powers and interests of their managers, an arbitrary element that has significant implications for taxation and other policies (Vernon, 1993). Competition for foreign capital in the form of lowered tax rates and other forms of fiscal concessions must follow with particularly adverse effects in the South.

In the North, where intra-industry trade among similar countries predominates, low-wage competition from the South remains a serious and growing threat to aggregate employment if not to competitiveness in the lead sectors or to overall productivity growth. Political repression in the NICs has served to maintain wage growth below productivity growth, and low workplace standards. The relocation of labor-intensive processes has been a factor in widening income inequalities and in the growing assault on the Keynesian welfare state in the North. Competition in labor standards (including wages) may also help undermine cooperation between workers and employers: the short-term gains secured will erode the "negotiated involvement" that alone can secure durable productivity-based gains (Lipietz, 1995).

The development of the maquiladora zone of export-oriented industries on the US-Mexico border though fueled above all by low wages in Mexico has also benefited from the "neglect of corporate social obligations" in the form of tax concessions (which undermine the provision of public goods), dangerous working conditions, the use of child labor and the degradation of the surrounding environment (Greider, 1993: p. 325). Wages in the North have fallen due to the decline of well-paid industrial jobs; in Mexico, because of the inability of public action to maintain minimum wages and other conditions of work under the twin pressures of repaying global debts and reducing domestic fiscal deficits.

Conflicts over labor and environment standards have centered on the North-South divide. In regard to the environment, the South has asserted the following principles: (1) pollution sinks to be assigned taking into account past emissions: full rather than marginal pro rata shares requires major reductions in the North only; (2) national autonomy to exploit natural resources unless financially compensated; (3) compensations and subsidies to be controlled by full representation of the South nations (Glover, 1994). In recent years, Trade-Restricting Environmental Measures have grown to include eco-labeling, bans on the use of tropical timber in municipal construction (in Germany) and the like. The inclusion of environmental issues in the agenda of the World Trade Organization (WTO) " despite the near unanimous opinion among environmental groups that liberalization of global trade would itself be ecologically damaging" is seen as a generalization of the present misuse of such issues to protect the trade interests of the industrialized nations (Sahai, 1995). Environmental standards may be enforced internationally through trade measures for example; but besides requiring micro-management of the particular standards concerned, such measures impose enormous monitoring costs in developing countries where producers (leather tanneries or peasants or small manufacturers) are numerous and dispersed.

The linking of labor standards, as defined by the ILO conventions, with international trade was unanimously rejected by developing countries in early 1995. Following this rejection, the WTO has decided to temporarily delink the social clause from trade. The ILO conventions include freedom of association, right to organize and bargain collectively, prohibition of child labor, non-discrimination in employment, equal pay for men and women and freedom from forced labor. Although most developing country states have endorsed these conventions, they are far from implementing and enforcing them. Many countries, including some in the North, have also rejected the new proposed convention regarding home-based workers (Bhowmik, 1995).

At least prima facie, the international conflict over standards is not over markets but over the social and external effects of production arrangements, not about market ends (the volume and value of goods produced and sold through freely entered contracts) but about social ends (enforced through the collective regulation of such contracts). What the market treats purely as means, society sometimes chooses to treat as ends. The social embedding of markets within a national context involves state or other collective action to enact norms or standards for regulating markets. Absent the wherewithal for similar action in a globalized economy, the increasing mobility of capital is capable of driving out socially acceptable standards by the sole criterion of cost advantage; or rather, standards are reduced to the internationally lowest common denominator by that criterion. This is effected through the actual or threatened relocation of production: thus, either capital will move to where costs (including those pertaining to local standards) are lowest or national standards are lowered to sustain competitiveness .

However, given income and production asymmetries among nations, this Law of the Lowest Common Standards, is apt to have asymmetric effects between rich and poor nations and to be politically resisted. Indeed, if prices of goods and factors actually converge, then, it might be argued that standards would regress not to the minimum across nations but to the mean unless social preferences regarding standards vary across nations even with identical material living standards. But while the competition in standards is itself a force for convergence (after all, the poor nations cannot catch up overnight through learning and productivity improvements but they can certainly seek to catch up through lowered standards), it is probably considerably weaker than the forces of localization and divergence discussed in section 3. A divergence in standards is therefore to be expected.

This is not to say that the competition in standards will have no effects; nor to say that it will not be resisted in other ways. With their higher incomes and generally higher standards Northern nations will seek to maintain their social and environmental standards without losing competitiveness by (a)

specializing in industries where those standards are a smaller element in competitiveness; (b) accepting lower incomes or employment levels ; and (c) pushing for internationally regulated standards closer to their own levels. They may also lower their standards of course. It does not follow, however, that the responses in the South will be the exact opposite of these Northern responses. To be sure, economic diversification in the South will be facilitated by maintaining low standards or lowering them further and thus serve to raise incomes and employment. Internationally imposed improvements in standards will also be resisted. But social and political counter-resistance to such actions has also gathered pace in the South.

Conflict over international standards is not alleviated by the suspicion and mistrust generated by competition in global markets. Empirically, it is difficult to draw a line of distinction between a Northern concern for Southern workers' rights or for environmental quality from disguised mercantilism (the erection of subtle non-tariff barriers including imposed standards to weaken competition from the South). Politically, structural adjustment programmes that have elevated openness in trade and finance virtually to the position of an all-consuming end have strengthened export interests which, together with the calls for state minimalism, are important factors opposing the indigenous demands for enforcing standards within the South[3].

5.3 Development Choices

Though the world economy provides valuable opportunities for economic development in the South, poor nations cannot realize their full development potential by giving free rein to internal and external markets. Productivity growth based on increasing returns and external economies is, for the most part, a local process. Exploiting this potential requires extending the domestic

[3] The defense of "cultural" specificity has, in this context, served as a new subterfuge for the violation of human rights or workers' rights while the long-established double standards in applying rights clauses or boycotts continue.

market through public investments in infrastructure, modernizing state institutions, developing human resources and creating incentives for workers, enterprises and public institutions to cooperate in a process of learning and adaptation to imported technologies.

Internal markets do not provide an adequate mechanism of coordination and incentives to effect these tasks. Market failures arising from wealth-related inequalities, externalities, information asymmetries and the paucity of infrastructure have to be remedied through an appropriate choice of policy interventions in markets, institutional design and direct public action.

Opening up the economy to external market forces is not the optimal route to promoting local development processes as this will not remedy the aforementioned internal market failures but, on the contrary, jeopardize the policy, institutional and direct actions required. Nor is unrestrained globalization the avenue for making the best use of global market opportunities. Global markets remain fragmented with their weakest links being in the South. Attempts to freely integrate weak local economies with the global economy will increase their internal dis-integration and external fragility. Openness also detracts from the ability of states to pursue locally appropriate policies for equity, poverty alleviation and conflict resolution. National autonomy is functional in the South for both productive and distributive purposes. In purely economic terms, therefore, the projects of national integration and national development must, as in the past, continue to precede the project of globalization.

The quality of public interventions and participation is fundamental to the realization of any of these possibilities. But these depend on the political compromises, consensus or conflicts that a society inherits or has to contend with i.e., on the structure of interests. While a society may not be 'free' to choose the sort of state or other public institutions it will have, the desiderata of good politics (in effect of valuable structures) seem quite clear. A basic requirement for an inclusive and participative regime of development is

democracy. But formal democracy is insufficient. The biased representation of interests and implementation of policies that must inhere in unequal societies with both political and economic power heavily concentrated cannot be remedied by voting alone. A broadly egalitarian distribution of wealth, effective decentralization of public (including state) decisions and their implementation, and agile mechanisms for the accountability of such concentrations of public and private control as remain provide the most complete set of sufficient conditions for human development[4].

In most poor countries, stepping up domestic capital accumulation is a key priority. However, this is not just a matter of tapping sources of saving sources; the inducement to invest may be held back through a lack of factors complementary to directly productive capital or access to finance or insufficient demand. Both structural factors and desirable policies (as discussed below) render investment dependent on the strength of the home market. For the modern industrial sector, the strength of demand from the rural hinterland (typically infrastructure-limited) and informal sectors (typically finance-constrained) is often more important than demand from its own incomes. Hence, public investment in supply-constrained sectors and channeling credit to finance-constrained sectors can relieve both supply and demand bottlenecks simultaneously and boost industrial investment and growth (Rao, 1993 and 1995c)[5].

This said, it is still necessary to know the conditions of saving supply and the mechanisms of its allocation. Is financial liberalization likely to promote

[4] This is not to say that authoritarian alternatives are non-existent. Indeed, authoritarian but inclusive regimes appear to provide the most successful instances of late industrialization. But inclusiveness is rare indeed under modern authoritarianism. By contrast, democratic polities seem to have a better chance of achieving a broad-based economic regime. At any rate, viewing regime types merely as alternative means for arbitrarily defined ends such as ' industrial competitiveness' is unwarranted.

[5] The view of wages solely as an element of cost and the neglect of the rural-urban demand nexus is only encouraged by the obsession with competitiveness in a 'globalized' setting often taken to mean perfectly elastic global demands.

saving and improve investment quality? Is financial openness desirable to increase financing for investment? Following the discussion in section 4.2, financial openness (for which internal liberalization is necessary) promises little benefit and potentially large losses in terms of both development and autonomy. Given market fragmentation, there is no assurance that openness will deliver either more finance or more financial stability. Countries that have good policies and, more important, good performance are rewarded by the international capital markets; those that do not are not. FDI flows largely to LDCs which have high rates of domestic saving anyway. The mere removal of barriers to its flow does not appear to make much difference to the rather perverse pattern of global flows. That is, foreign finance follows development. The fast-growing developing economies all managed to achieve high rates of domestic saving and investment without notably liberalizing or opening up their financial systems.

Nor will openness ensure that local priorities are met. Absent fiscal constraints, globalization need not imperil local development, equitable distribution or macroeconomic stability. Yet, fiscal capacity tends to be inherently weak relative to the demands placed upon it. This forces a heavy reliance on proxies for strong fiscal policies which directly conflict with globalization. So long as the fiscal take remains inadequate to meet development priorities, the trade balance is fragile owing to volatile export earnings and inelastic import requirements, and the means to ensure price stability limited to monetary controls, capital controls must remain in place. Fiscal weakness is rooted in the political and economic structures of these economies while development demands go unmet by fractured financial markets. Besides a bureaucracy of high levels of competence and honesty, strong public finances will require structural reforms or already high levels of income (or both). Reducing trade vulnerability requires an adequate industrial or other non-traditional export base which cannot be established unless the country has already reached a threshold level of development. But if the state is deficit-prone, domestic financial regulation (or 'repression') becomes essential for inflation to be

tolerable. At the same time, without the resolution of the deep-seated development constraints, low-income economies in the South can scarcely afford to weather the storms that capital account liberalization must inevitably produce. Indeed, without steady and stable development of the home market, periodic capital flight cannot be stemmed. Contrary therefore to the neo-liberal mantras of liberalization and globalization, repression and capital controls become mutually supportive. A financial 'playing field' that is level is not the basis but the result of development success. None of this is an argument for relaxing fiscal effort. Indeed, the best policy for the private financial system is high fiscal effort which will also permit borrowing from abroad to finance the 'life-cycle bulge' of public investment.

Apart from the macroeconomic framework, selective credit policies can serve as a powerful device to correct for specific market failures and for strategic direction of development. Deregulation, in the orthodox view, is aimed at widening access to finance throughout the economy, increasing the competition for finance and promoting efficient intermediation and greater capital mobility. Wider access to finance is predicted to have a major impact on the capital intensity of development by permitting labor-intensive but capital-starved firms, that have hitherto been excluded from the formal financial system, to grow rapidly. But unequal access to finance is not an artefact of regulatory constraints alone. The segmentation and fragmentation of financial markets are largely the product of technological and organizational differentiation of enterprises and sectors typical of late industrialization, and exacerbated by inequalities of wealth (Rao, 1995a). Liberalization, under the circumstances, may well contribute to further deepening of unequal access by pulling even more resources into the formal financial and real sectors[6].

[6] Deregulation also risks diverting resources to unproductive and speculative uses. Strict restraints on funds allocation, over and above those required for maintaining prudential norms, are required to hold this tendency in check.

The mobilization of a rural surplus for investment and the expansion of the rural market, characteristic of the early stages of East Asian development, require reorganization and restructuring of the agrarian economy. Apart from land reform (giving the land to the tiller), local cooperative institutions to create and manage productive infrastructure, supply credit, purchase inputs and market outputs will facilitate rural productivity increases. The relationship between town and country must be viewed in dynamic terms-ensuring that agriculture is not squeezed to the point that it stagnates is critical for generating dynamic growth of both internal savings and of the home market.

Financing local public investment can also be efficiently arranged by impositions on tradable goods particularly when user charges are either difficult to collect or will cripple demand for externality-producing services. Liberalizing food prices can be costly in distributive and productive terms. A crucial component of food security especially in a fiscal context of declining food subsidies is keeping the price of foodgrains low. This, however, is not incompatible with sustaining incentives for farmers. But the latter is ensured not by a high output price but by cost-reducing, yield-raising technologies that enable farmers to improve their income terms of trade along with a reduction in real food prices. In other words, a double distortion of prices with input subsidies on the one hand and low output prices on the other.

Economic development hinges crucially on improving the utilization of resources that are accumulated and allocated. Apart from dynamic external economies, productivity growth under late industrialization accrues largely from improved learning and scale economies. In other words, growth involves moving from low levels of utilization of mostly purchased technologies to high levels rather than developing new technologies or new products. The exploitation of this potential is by no means automatically assured by accumulation and allocation. Nor is it simply the product of coordination by domestic and external market signals. East Asian success, for example, came from the combination of (1) an interventionist state which frequently got the prices wrong and intervened heavily in resource allocation but disciplined

enterprises to move continuously up the learning curve; and (2) technologically diversified conglomerate-type of industrial enterprise (Amsden, Kochanowicz and Taylor, 1994). Failures in this respect account for the slow advance of productivity in many less developed countries despite the mobilization of capital and foreign technologies.

Cooperation in production is crucial to effective resource utilization. The learning and adaptation process is a social one which is not promoted by state repression of labor, managerial authoritarianism within the enterprise or conflict-prone industrial relations at the firm or industry levels. A contented and secure workforce and cumulative productivity growth are not mutually antithetical: as argued in section 4.1, learning 'embodied' in labor is a central instance of localized development. Nor are they inherently incompatible with enterprises' ability to respond quickly and flexibly to market changes. In the dynamic sectors of industry with a few large firms in each industry, indeed with large industrial combines of the East Asian type, and relatively secure product markets, "flexible rigidities" combining job security and dynamically responsive production systems promote growth while rapid growth facilitates rent-sharing between firms and their workers. Job security appears as an obstacle to efficiency most when firms are atomized, labor regime norms - whether spontaneous or legally enforced - are suppressed and the employment relationship becomes a pure commodity transaction.

Unfortunately, the rhetoric of liberalization limits labor regime restructuring to the demand for a submissive and easily dispensable workforce without the protection of legislation or collective action and subject to the arbitrary rule of management prerogatives. 'Flexibility' in this sense may provide short-term gains but, by sacrificing job security and commitment within enterprises, it erodes the gains that come from learning. Unbridled competition from external trade is liable to disrupt industrial relations with damaging effects on utilization.

Labor regime also affect economic performance through their impact on the relative importance of the formal and informal sectors of production[7]. The persistence of dualism and the widely prevalent employment lag in the formal sector are both related to the trajectory of late industrialization, caught between competition based on cheap labor from the informal sector on the one hand and a tenacious technology and utilization lag in relation to industrialized countries on the other. By and large, the scope for productivity growth is significantly more limited within the informal sector than in the formal sector. The implementation of minimum wage laws and of the ILO's labor conventions in the formal and informal sectors is necessary not merely to improve worker well-being and prevent exploitation but also to ensure that the learning process is promoted. Tighter implementation of labor standards obliges firms not to take the path of 'flexibility' and cheap labor and hence permits the formal sector to expand at the expense of the informal[8]. An essentially unregulated labor market, to the extent that any real world labor market approximates this liberal ideal, also exerts a powerful downward pressure on wages, demand and hence accumulation.

Whereas the search for alternative paradigms of work and industrial organization in industrialized countries is driven by the saturation of growth potential of the Fordist model, in poor countries it is not the exhaustion of the Fordist potentials but their frustration that appears to have held back growth. Market liberalization does little to address this frustration. At best, it increases the scope for changing the mix between Fordist mass production on the one hand and, on the other, informal and small-scale modes thriving on cheap labor. There is need and scope for shaping new labor relations and work organization that maximize utilization. Apart from persisting with the Fordist or Taylorist model of mass production, new organizations based on the development of

[7] This argument is developed for the Indian case in Rao (1995d)

[8] For example, legal labor standards are similar in both Costa Rica and the Dominican Republic while implementation is effective in the former and lax in the latter. Yet, the informal sector is significantly smaller and overall economic performance better in Costa Rica than in the Dominican Republic.

cooperative networks of small enterprises in 'industrial districts' would enable developing countries to combine a high employment with productivity growth (Rao, 1995a).

The orthodox theoretical arguments for the static gains from the trade and non-interventionism, as pointed out in section 3.2, can hardly support the fundamentalist position for trade liberalization. The evidence linking openness with dynamic gains is also heavily disputed. Apart form the usual benefit of allocative efficiency, export orientation is alleged to be decisively more advantageous than import substitution in capturing learning and external economies. But empirical attempts to verify 'externality' benefits from exports have been mostly unsuccessful.

The putative gains from improved resource allocation boil down in practice to the advantage of specialization based on cheap labor. While liberalization in a low-wage economy may allow a nation temporary advantage in gaining entry into tight export markets, such a policy cannot secure dynamic gains in productivity, especially in high-value-added products. There is little reason to believe that the industries or enterprises that have the most learning potential will also be the ones that a liberalized trade regime will favor; that, in other words, competitive and comparative advantage will coincide. The concentration of non-traditional exports in a few Southern countries despite their relatively higher wages than other less-developed countries is not explained just by specialization in labor-intensive industries with mature technologies It is explained instead by their success in achieving high utilization through learning both in production and in market penetration efforts.

Foreign trade presents opportunities as well as constraints for steady growth. Foreign exchange bottlenecks hurt both resource accumulation and utilization. Avoiding these ought to be a primary aim of trade and macro policy. In small countries, scale economies in operating many modern industries coupled with the limited size of the home markets favor an early push into export growth.

But such economies warrant openness or export orientation only if they are specific to industries rather than to the whole economy. In fact, selectivity and protection may both be required to capture such economies even when they are industry-specific: the one to ensure that resources are not spread too thinly and the other to provide the initial market to develop the growth momentum.

The value of avoiding foreign exchange constraints and the opportunities of export orientation also justify intra-South trade on a preferential basis. 'Global import substitution' within the South is beneficial just as intra-North intra-industry trade is, though the source of the benefit is not the same. Generalized overvaluation in developing countries together, with intra-South preferences is a strategy for diversification away from traditional goods while rationing foreign exchange for the import of capital goods for industrialization. It will also help improve the terms of trade for LDCs.

While autonomous development in Southern countries, both severally and jointly, remains valuable, the need for collective action for Southern interests in particular and for the joint interests of all nations has grown in a globalizing world. Globalization has increased the scope for damaging forms of competition which also circumscribe autonomy. A South-oriented "working international order" must fulfill four key functions: (1) a center that generates balance of payments surpluses to sustain deficits in the periphery; (2) financial institutions that can convert surpluses into loans and investments and the center as a lender of last resort; (3) the development of industrial and technological capacity to produce capital and intermediate goods for industrialization; and (4) strong military power to enforce contracts and keep the peace (Streeten, 1995). In a multi-polar world, these conditions are best secured in a pluralistic rather than a hegemonistic framework to avoid the undersupply of global public goods (financial stability for example) and the oversupply of global public bads (competitive lowering of social and environmental standards for instance). As much as the nation state is a critical element for industrial growth and

human development in the third world, unabridged sovereignty, North and South, has nonetheless become an obstacle to a better world.

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3. Technical Report Series 1.2, ***Development Policies: Issues and Challenges for the '90's,*** Editor: Shobha Raghuram, 1992.

4. A Reference Manual ***Management and Accounting Systems in the Voluntary Sector,*** Editor: Sangeetha, 1992.

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6. Proceedings of a Consultation Gender and Development ***Women in India:Reflecting on our History Shaping our Future,*** Editor: Jamuna Ramakrishna, 1993.

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9. Technical Report Series 1.4, ***Rethinking Population***, Jointly organized by Hivos Regional Office South Asia, Bangalore, Co-ordination Unit, Bangalore and the Center for Reproductive Law and Policy, New York, Editors: Shobha Raghuram, Anika Rahman, 1996.

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The Editor

Hivos

Hivos, the Humanistic Institute for Co-operation with Developing Countries, is a development agency established in 1968 by representatives of the Humanist movement in The Netherlands. Hivos is inspired by the humanist, secular outlook. Hivos co-operates with Non-Governmental Organisations (NGOs) and social organisations in the South. It supports organisations that enable marginalised people to assert their rights and improve their access to decision-making.

In its policy Hivos gives priority to the following five special themes: economic self-reliance, culture and the arts, gender, women in development, environment and development, human rights and HIV/AIDS. For the first two sectors separate funds have been set up, viz., the Hivos Triodos Fund and the Hivos Culture Fund.

In order to have an impact, Hivos wishes to focus its funding efforts. One way in which this is done is by limiting the geographic area in which Hivos works. In 1995, Hivos provided support to 550 organisations in 29 countries concentrated in Southern and East Africa, Central America, the Andes, and Asia. In Asia, Hivos concentrates its efforts in India, Sri Lanka, Indonesia, Malaysia and the Central Asian Republics of the former Soviet Union. India is the largest country programme in Asia. Hivos supports organisations in the following states: Tamil Nadu, Karnataka, Andhra Pradesh, Orissa, Gujarat, Goa, Maharashtra, Rajasthan and New Delhi.

As one of the four Dutch co-financing agencies, Hivos receives a large part of its funds from the co-financing budget line of the Ministry for Development Co-operation. Hivos's total expenditures for 1995 amounted to Dfl.61.2 m, of which Dfl.48.7 m, consisted of co-financing funds. Other funding sources were the European Union, Dfl.1.7 m, the additional project-based funding from the Dutch government, Dfl.7.6 m, and private donations, Dfl. 3.2 m. The value of the loans portfolio of Hivos and the Hivos Triodos Fund amounted to Dfl. 6.7 m, on 31 December, 1995.

"The quality of public interventions and participation is fundamental to the realization of any of these possibilities. But these depend on the political compromises, consensus or conflicts that a society inherits or has to contend with i.e., on the structure of interests. While a society may not be 'free' to choose the sort of state or other public institutions it will have, the desiderata of good politics (in effect of valuable structures) seem quite clear. A basic requirement for an inclusive and participative regime of development is democracy. But formal democracy is insufficient. The biased representation of interests and implementation of policies that must inhere in unequal societies with both political and economic power heavily concentrated cannot be remedied by voting alone. A broadly egalitarian distribution of wealth, effective decentralization of public (including state) decisions and their implementation, and agile mechanisms for the accountability of such concentrations of public and private control as remain provide the most complete set of sufficient conditions for human development".
J. Mohan Rao

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