countries, in the name of SDT, obtained a transition period for phasing out TRIMs only three years longer than that applying to developed countries. The vast development gap between developed and developing countries cannot be bridged in three years.

Therefore developing countries should seek exceptions based on a low level of industrialization at the TRIMs Review Article 3(3) of the Agreement could be amended to provide this exception, linked to a per capita manufacturing value-added (MVA) threshold. All the countries with MVA per capita below that threshold level should qualify for exemption from the provisions of TRIMs. The Agreement would, in this way, have taken care of the development dimension as well as the graduation.

The Review of TRIMs should also be used to address other asymmetries present in the TRIMs Agreement. One such asymmetry pertains to its failure to curb trade related restrictions imposed by MNEs on their subsidiaries that are as trade-distorting as the government-imposed restrictions. Given the trade-distorting effect of these restrictions, developing countries should seek in the TRIMs Review to discipline the restrictive conditions that MNEs impose on their foreign affiliates.

Yet another asymmetry in the TRIMs Agreement is its failure to discipline the investment incentives given by host governments to attract FDI inflows. The empirical evidence has shown that these incentives tend to distort investment patterns in much the same way as export subsidies do patterns of trade (see Kumar 2003). Industrialized countries have largely indulged in the incentive wars to attract foreign investments to particular locations and have been offering substantial subsidies to MNEs to attract investments.

Finally, and more importantly, developing countries should resist the attempt of developed countries to expand the list of TRIMs that are proscribed under the Agreement.

Analyses of the developmental consequences of the current neoliberal global regime correctly emphasize the ways in which global ideology, legal rules, and economic power structures limit and distort the policy options available to the global South. Yet global neoliberalism is not likely to be an exception to the rule that any system of domination contains opportunities for challenge and transformation. Identifying these opportunities is, if not logically prior, still just as important as critiquing the regime. Seized creatively, such opportunities have the potential not just to improve the circumstances of the less privileged, but to transform the global system itself.

Anti-development Effects

Setting out neoliberalism's anti-developmental effects makes the importance of the opportunities it creates all the clearer. A variety of other negative aspects of the current global system could be highlighted. A hegemonic cultural/ideological paradigm proffers theoretically and historically unfounded prescriptions that reduce the likelihood of policy success while simultaneously stifling developmentally promising local institutional innovation (see Chang 2003a; Evans 2004). The current behavior of the United States as an irresponsible and crassly self-seeking hegemon dramatically exacerbates the negative structural features of the global system. A variety of other effects could be highlighted. Since the primary purpose of this chapter is to focus on positive possibilities, I will restrict my critique to a quick look at three negative aspects of the current global political economy: the simultaneously fragile and oppressive character of the global financial system; the “rigged rules” of the
global trading system (see Oxfam 2002); and, perhaps most important, the political enforcement of the economic privilege of transnational corporations based primarily in the rich countries of the North, as epitomized by recent policies with regard to “intellectual property rights.”

The International Monetary Fund (IMF) provides a good centerpiece for a sketch of the simultaneously fragile and oppressive character of the international financial system. Staffed by one of the largest concentrations of economic expertise on the planet, the IMF has, nevertheless, been guilty of imposing policies on the countries of the global South that have increased rather than reduced their vulnerability. Admonitions to open capital markets in the absence of an adequate regulatory framework are perhaps the most clear-cut example (Singh, in this volume; Stiglitz 2002b).²

While the oppressive aspects of the IMF’s role are the usual focus of its critics, they are ultimately less threatening to the long-term interests of the global South than the Fund’s weakness. The IMF’s resources are far too small in relation to current global levels of capital flows to stabilize the system or serve as a true lender of last resort (Kelkar and Chaudhry 2004; Rubin and Weissberg 2003). The absence of global capacity to dampen volatilty and protect markets from crises raises the cost of capital to all, but particularly to capital-starved countries of the global South.

Real power in the current international financial system lies with the private financial firms that dominate international capital markets. These firms have an undeniable collective interest in maintaining the stability of the global financial system, but their behavior is much more irresistibly shaped by short-run pressures to achieve profit rates at least equal to those of their competitors. This, combined with powerful tendencies toward herd behavior, generates a structural bias toward volatility and crisis that is potentially disastrous (Wade and Veneroso 1998a).

Even if crises are averted, the assessments of the most powerful global financial actors are systematically biased in a way that stifles developmental initiatives in the global South. The plummeting value of the Brazilian real during the run-up to Brazil’s 2002 elections offers a dramatic case in point. As the Worker’s Party (PT) gained electoral strength, the major banks’ aversion to the possibility of redistributive developmentalism was translated into negative recommendations with regard to Brazil’s currency (Martínez and Santiso 2003). Having experienced a 40 per cent fall in the value of Brazil’s currency in the course of a few months, the Worker’s Party (PT) “learned its lesson” and, once elected, pursued only the most timid macroeconomic policies for the next two years. The PT chose to suffer low growth, high unemployment and flat levels of social expenditure rather than risk retribution from the global financial actors who constitute “the markets.”

The current international financial system forces developing countries to conform to the strictly limited set of developmental strategies that meet the approval of international bankers, none of whom is likely to have any direct experience confronting the challenges of development on the ground. At the same time, neoliberal financial arrangements foster a level of volatility and systemic risk that limits capital flows and increases the vulnerability of the global South to destructive financial crises. The South suffers from both national-level constraints and global fragility.

Like the rules of the international financial system, current trading rules have been crafted to reflect the interests of politically powerful constituencies in the global North. As Singh (in this volume) points out, there are powerful arguments, theoretical as well as historical, for “special and differential treatment” of the South with regard to trading rules. Instead, neoliberalism preaches the false universalism of “free trade” for all, while, in reality, the contemporary neoliberal trading system does not even offer the South a “level playing field.” Oxfam (2002: 98) estimates losses to poor countries resulting from developed country trade barriers of over US$100 billion a year. Subsidies and tariffs protections to agricultural producers in the North are the most obviously hypocritical violations of the North’s supposed principles, with supports for corporate agribusiness in the United States being the most difficult to defend.³

Nor is agriculture a unique aberration. Even in manufacturing, local industrialists in the South are likely to find themselves confronting tariff “peaks” located in exactly the areas in which they have managed to become competitive (Abreu 2004: 432). Likewise, when confronted with the possibility that WTO rules might prevent the US from protecting its manufacturers from China’s new manufacturing prowess, US policymakers’ immediate response is to threaten to stop playing the rules (see, for example, Bradsher 2004). Such blatantly self-interested definitions of what constitutes “free trade” make it extremely difficult to defend the proposition that neoliberal practice is aimed at maximizing global welfare.

While unfair trade rules hit immediate incomes, neoliberalism’s equally unfair political construction of property rights may end up having a larger long-run effect on the North–South income divide. This is most clear in the case of so-called “intellectual property rights,” whose inviolability over time and space are one of the most stoutly defended principles of the neoliberal global regime. The right of the owners of ideas and images (primarily large corporations in the North) to continue to appropriate returns not only from the sales of the ideas and images themselves but from any associated product or activity has now become enshrined in the global trading system.

From the point of view of neoclassical theory, the status of intellectual property rights (like the status of knowledge itself) is quite ambiguous (see
Lall, Stiglitz, in this volume). In principle, “free trade” would best be embodied in a regime that restricted monopoly returns on ideas to the minimal degree necessary to reward invention. In practice, the corporations whose returns are based on their monopoly control of intangible assets are the most powerful non-financial actors in the global political economy, and maximal rather than minimal protection reflects their interests.5

The most salient and outrageous case is the stubborn resistance of US pharmaceutical companies to allow producers in the global South to provide more reasonably priced drugs to the victims of AIDS. This particular example is useful, not only because it makes it clear that Northern property rights take precedence over Southern health and well-being, but also because it underlines the fact that neoliberal rules are written not primarily to benefit ordinary citizens in the North but rather to benefit the corporate capital that is disproportionately housed in the North. Global availability of inexpensive, non-proprietary life-saving drugs produced in the South would be a benefit, not a cost, to ordinary citizens in the North.

Whether we look at finance, trade, or property rights, there is a strong case to be made that the global neoliberal regime is anti-development, protecting entrenched interests at the expense of both economic dynamism and equity, yet failing to construct a sufficiently robust institutional structure to protect even the privileged against volatility and the threat of economic crisis. At the same time, highly selective and distorted invocations of economic theory are used to portray the regime as being in the general interest.

Critics of neoliberalism have made these points many times before. What is more politically interesting is to look at the potential for change that is contained in neoliberal rules and institutions. Any set of theories and institutions designed to preserve privilege creates opportunities for the less privileged, which, if effectively exploited, can transform the existing order into one that is more just, equitable, and supportive of innovation. Invocations of the “end of history” aside, neoliberalism is as vulnerable to being changed from below as any previous global regime. I will focus here on potential opportunities at two levels.

First, I will argue that the rules and institutional structures that neoliberalism has generated at the global level are double-edged: they provide potential sources of political leverage for the unprivileged at the same time that they serve as institutional and organizational instruments for the defense of privilege. Compared to the anarchy of “might makes right” relations among nations, even biased efforts to establish some sort of “rule of law” have advantages from the point of view of the unprivileged. Most important, the current neoliberal regime creates powerful incentives for the nations of the South to act collectively.

Current institutions of global economic governance might be compared to early governance institutions at the national level, which were also designed to favor oligarchic control by the privileged. If intense political mobilization and long years of struggle at the national level could turn institutions dominated by property qualifications, racial exclusion, and gender privilege into the means of defending minority rights and constructing welfare states, then the transformation of global governance institutions should also be possible.

At the national level, I will agree with Amsden and Lall that while neoliberal constraints impede a variety of valuable instruments for industrial policy, they do not exclude a range of equally useful innovation-oriented policies. Insofar as crude versions of industrial policy become more difficult, “smart” industrial policy becomes relatively more attractive, which may, in the long run, benefit the South. Perhaps even more important, by providing ideologi-cal (and structural) impetus for loosening the developmentally burdensome hold that uninnovative and ineffectual industrial elites have often had on the political allocation of rents in the South, neoliberalism may actually help states achieve the “reciprocal control mechanisms” that Amsden (2001b: 87 and in this volume) advocates as central to effective development strategies. Finally, and most speculatively, I will argue that neoliberal constraints may lead states in the South in the direction of “capability-centered” development strategies that would imply a broader distribution of public investments and greater returns to ordinary citizens than current “accumulationist” strategies.

Let me begin with the opportunities created by global rules and global economic governance organizations like the WTO, returning later to the ways in which neoliberal constraints might turn out to be political springboards for more progressive development trajectories.

The Double-edged Potential of Global Governance

The rule of law has important generic advantages for the powerful. Most important, it protects them from each other, or at least increases the probability that they will be able to call on their confrères when a rogue rival violates shared norms. It also diminishes the cost of disciplining the less privileged. Once social organization has grown beyond the most minimal scale, obedience to established general rules (whether in the form of informal norms and traditions or formal legal strictures) is more reliable and less costly than conformity based coercion applied individually.

Current global rules are no exception. Even for a global hegemon like the United States, an endless series of bilateral trade agreements are a second-best solution compared to first negotiating a single global trade agreement
through the WTO and then being able to rely on the WTO itself to organize enforcement. Bilateral bullying is likely to produce more favorable agreements (especially with small, poor countries) but the overall transaction costs are very high. The gains from general agreements apply much more unequivocally to other, smaller, and less powerful countries in the North, which lack the economic (and potentially military) clout necessary to bully bilateral partners effectively.

Yet the rule of law, even when the law is designed by the powerful to suit their own interests, has costs. In principle, even the powerful themselves are subject to the law, and, even when this principle is honored primarily in the breach, it is still a source of constraint. Recent US experience with respect to the WTO offers a number of examples. In 2003, the WTO ruled that President Bush’s 2002 special 30 per cent increase in steel tariffs violated WTO rules. In June of 2004, the WTO decided in favor of a group of cotton-producing countries from the global South, ruling that US cotton subsidies were in violation of GATT rules. In August of 2004, the WTO panel favored Brazil’s brief against sugar subsidies (the case targeted the EU but has ominous implications for US sugar subsidies). This is not to say that either the WTO dispute settlement mechanism process or the GATT rules on which cases must be based are a “level playing field” – far from it. Nonetheless, the fact remains that small, poor countries can occasionally win significant rulings against large powerful ones, in contrast to their virtually zero chance of securing redress on the basis of bilateral bargaining. Even more important, since all poor countries confront the same set of rules and the same global institutions, there is a clear incentive to develop a collective response.

Neoliberalism’s avowed goals of building a global economic system based on universalistic rule of law has advantages for the global South relative to the obvious alternative of unconstrained realpolitik, but getting the North to live by its own rules is only a first step. Winning disputes in the WTO may help curb the most blatant and capricious Northern abuses of economic power, but it won’t change the biased character of the rules themselves. The bigger issue is whether there is any possibility of generating more democratic rule-making processes that would reflect the interests of the majority of the world’s citizens rather than the interests of Northern corporations. Recent experience suggests that the system is obdurate but not impervious to change.

The WTO is the most obvious target. Preserving informal oligarchic control in an organization with formally democratic procedures – one country, one vote in this case – requires that the unprivileged accede to their own exclusion, or at least be willing to sacrifice common interests in return

for individual “deals.” Over time, the North’s control of WTO politics has become increasingly precarious. In 1998, the South stubbornly refused to let the North continue the tradition of WTO directors automatically coming from the North. The North backed down, leading to the appointment of the current WTO director, Supachai Panitpapak (Evans 2003). In 1999, the struggle moved from organizational form to policy substance as the South blocked the initiation of a new trade round in Seattle. At the fifth Ministerial meetings in Cancun in 2003, the South was able to move further, from simple blockage to pushing collective demands for more equitable trading rules. This process continued in Doha, and there is every reason to believe that collective action from the South will increasingly become a characteristic of future WTO negotiations, especially if, as expected, the North continues to drag its heels on agriculture while pushing its own interests with respect to services and intellectual property.

The claims to universalism put forward by neoliberal institutions create both incentives for collective action and potential political leverage that the global South would lack in an anarchic international arena. Overcoming collective action problems, developing common positions, and sticking to them in the face of real threats require immense policy determination and consummate consensus-building skills. Long-run success can by no means be assumed. Nevertheless, neoliberalism has proved to be the most effective system to date in teaching the South how to work together to defend its interests.

This conclusion still leaves the ominous question, “Would the democratization of neoliberal governance institutions simply result in their abandonment by the North?” Would the “takeover” of the WTO and the IMF be a pyrrhic victory? The recent international behavior of the Bush administration has made this specter more concrete. At the same time, US actions have had the effect of discrediting unilateralism, dramatically among the broader international community and significantly even within the United States. At home, would-be empire builders have been forced to recognize that ceding some power to the UN might have advantages after all. Abroad, the value of being able to subject the United States to collective constraints is apparent to even the staunchest US allies. Threatening to opt out of the WTO or the IMF would be extremely damaging to US international alliances, even if it were in response to the reduced economic usefulness of these organizations to the North as a result of an increasingly organized South. From the point of view of the smaller countries of the North, the case against pulling out is unequivocal.

It is entirely plausible that the South will succeed in increasing its collective power at the global level, but the politics of such a process will involve
more then simply resolving collective action problems at the international level. International negotiations are a “2-level game” (Evans et al. 1993). Northern negotiators traditionally invoke their inability to counter politically powerful domestic constituencies (classically agriculturalists) to make their positions credible. If negotiators from the South begin to experience more success, invoking engaged domestic constituencies is likely to become more important to them as well.

Indeed, popular mobilization has already played an important role in the South’s limited victories. The South was successful both in Seattle and in Cancún in part because business as usual at the WTO was made more difficult by social movement activists with roots in both North and South. In the same way, a highly organized network of civil society organizations in both North and South America have helped to keep the Northern corporate agenda at bay in the ongoing FTAA (Free Trade Area of the Americas) negotiations (Anner and Evans 2004). To the degree that the character of the political process of global negotiations continues to evolve in the direction of greater popular involvement, the content of the negotiations is likely to change as well.

The economic officials who currently do the negotiating at the global level are likely to share similar economic assumptions whether they represent the South or the North. Indeed, they all are likely to have studied in the same elite economic departments. Southern officials may be counted on to defend their countries’ interests in the face of blatant Northern departures from standard economic theory – as in the case of agricultural subsidies – but when it comes to challenging more fundamental propositions, such as the value of allowing free rein to investors or the value of unrestricted corporate claims to returns from intellectual property, they will start from the same assumptions (if not the same corporate pressures) as the Northern officials with whom they are bargaining. Insofar as popular involvement becomes part of the process of winning basic nationalist victories, there is also likely to be pressure to expand the negotiating agenda.

It would be truly ironic if the North’s “over-reaching” by trying to enforce rules that violate the basic free-trade principles it claims to defend and reconstruct property rights in an obviously self-interested manner ended up creating a global politics that began to question corporate prerogatives more generally. Even more ironic would be neoliberalism’s contributing to the expansion of public investment in capability-enhancing public goods in the South. Such a result is unlikely, but the connections are less implausible than they might at first appear.

Development Politics at the National Level

One of the most persistent critiques of neoliberalism is that it has robbed governments in the South of a set of tools – roughly dubbed “industrial policies” – that are of proven historical effectiveness and are amply justified by modern economic theory. Chang, Cho and Dubash, Kumar, Lall, and Wade all make the point forcefully in this volume. Policies that have produced positive developmental results – in the now developed countries as well as in the South – are now proscribed. These restrictions present another opportunity for collective organization at the international level. There is no reason why Northern hypocrisy with regard to industrial policy should be any less subject to attack than Northern hypocrisy with regard to trade policy. At the national level, another strategy is also available. As Amsden (2003b and in this volume) and Lall (in this volume) emphasize, “smart” industrial policies, which focus on national systems of innovation, have largely been exempted from neoliberal proscriptions. Neoliberalism is not just constraining industrial policy, it is redirecting it.

The current redirection of industrial policy is not just driven by regulatory policy. It reflects the changing face of the global economy, created in part by neoliberal policy and ideology, but also by technology-driven changes in the nature of production and consumption. Interpreting this redirection and its implications requires reflection, not just on the successes of past industrial policy, but also on its failures.

Starting from the political underpinnings of the failures of past industrial policy, I would like to offer a series of arguments suggesting that there may be some non-obvious progressive opportunities associated with neoliberal constraints at the national level. The first step in my case is to suggest that the roots of traditional industrial policy failures – and by extension the limits of traditional developmentalism – were political, reflecting the excessive political and ideological privilege granted local elites, particularly industrial elites. The larger and more controversial step is to suggest that contemporary changes in the nature of “industry” have political as well as economic implications. As the physical transformation of goods cedes its primacy in the process of economic growth to the manipulation of bits of information, it should become more difficult for owners of capital to retain the same level of political privilege, especially in the global South.

The final positive leap is to raise the possibility that there is an “elective affinity” between these same economic changes and the potential for shifting development policy toward investments in collective goods with widespread benefits in terms of both economic dynamism and well-being, which I have labeled, following Sen (1999), “capability-centered” development. Then, in
the last substantive section of the chapter, I will explore the ambiguous, but unfortunately on balance negative, relation between neoliberalism and the possibility of capability-centered development. First, let me take the easiest step, a brief retrospective look at the political problems of developmentalist industrial policy.

The failures of traditional industrial policies were often failures of what Amsden (2003b: 87) calls “reciprocal control mechanisms.” It is definitional of entrepreneurship that some proportion of the undertakings fostered by successful state policies will be mistakes that end up absorbing resources without contributing to development, growth, or the national welfare. “Negative value-added” assembly industries in Latin America are a notorious case in point. Unfortunately, even in such extreme cases it takes an unusually disciplined and effective state apparatus to be able to withdraw subsidies and protection from the mistakes and refocus resources on the successes. In short, the failures of traditional industrial policy flow not primarily from the predictable inability to pick winners, but from the political inability to jettison losers.

To enjoy such “failures” would, of course, be a privilege for large areas of the South. A politically privileged industrial elite is vastly preferable to no industrial elite at all. Arguments about the “failures” of traditional industrial policy are primarily relevant to the South’s more successful industrializers. Nonetheless, as industry spreads more widely in the South (Amsden 2001), the relevance of these arguments spreads with it. Even more important, these specific failures were symptomatic of a more general flaw in industrial successes in at least a number of countries in the South. Even in countries which succeeded in creating very sophisticated industrial sectors capable of competing with advanced industrial manufacturers in the North (such as Brazil and Mexico), the accumulation of industrial capital did not generate commensurate changes in the well-being for the majority of their populations.

Local industrialists managed to lay claims to politically allocated rents, even when these rents were diverted to consumption rather than invested in developmentally effective new productive endeavors. Their claims to be the main agents of welfare-enhancing economic progress went unquestioned even when they didn’t deliver and absorbed public resources that could have been invested in collective goods with demonstrably superior returns — like basic education.

Defenders of a traditional focus on the accumulation of industrial capital can, of course, claim powerful empirical support in the form of the East Asian Tigers, but these claims only reinforce political conclusions derived from more flawed successes. Industrialization in East Asia unquestionably delivered improved general welfare, but the political relation between the state and the private sector was quite different. During the period of most rapid industrial transformation, states were able to enforce “reciprocal control mechanisms” making the privileges of local capitalist elites contingent on performance rather than taken for granted (Amsden 1989; Wade 1990; Evans 1995).

For other governments, too politically dependent on local capitalists to engage in the “reciprocal control mechanisms,” neoliberalism could be an ally, allowing state officials to claim credibly, “We would like to support your ineffectual enterprise, but the Bank, the Fund, or ‘The Markets’ will punish us if we do.” This neoliberal service is, of course, no advantage if neoliberalism prevents the state from fostering local enterprise to begin with. With no fledglings in the nest, increased ability to push them out of the nest and force them to learn to fly is superfluous. Reducing the cost of failures by eliminating the possibility of successes is not a winning strategy.

To evaluate the overall effects of neoliberalism on industrial initiatives in the South, three channels of influence must be considered. The first is the set of global regulatory constraints that have been enshrined in WTO rules. The second channel is the more diffuse cultural and ideological effects that shape the behavior of technocrats and state managers in the South. Third, and arguably most important of all, is the way in which the structure of the neoliberal global economy, which has been shaped by technological as well as political changes, has changed the opportunity set of new industrial ventures in the South.

Regulatory effects have already been discussed. The basic argument, following Amsden (2003b and in this volume), is that neoliberal regulatory rules push in the direction of “smart” industrial policy but still leave plenty of policy space. If local developmentalists maintain their intellectual independence, read the rules carefully, and exploit aggressive interpretations of what is allowed, they will find that there is still a gamut of policies open to them that avoid the regulatory restrictions imposed by the WTO and deliver more consistent results than old-style industrial policy.

Instead of picking sectors and ending up forced to support losers as well as winners, “smart” industrial policy tries to catalyze entrepreneurship at both a more general and a more specific level. At a general level it focuses on providing productivity-enhancing collective goods, education and research being the obvious examples. At a specific level it focuses on facilitating the innovative activities of individual firms with strategies ranging from science and technology parks (such as those Amsden describes in the Taiwanese case) to collective provision of information about international markets for local products. 8

Even if neoliberalism’s regulatory effects are supportive of smart industrial policy, its more diffuse cultural and ideological effects may still impede the effective implementation of even “smart” industrial policy. Local officials
may “overconform” to the strictures of neoliberal ideology, failing to initiate efforts to stimulate transformative investments, not because they are prohibited from doing so, but because their own training and ideological presuppositions lead them to share the belief that any variety of industrial policy is not just ineffective but welfare reducing. Overcoming this kind of problem involves combining the compilation of evidence and logical arguments on the one hand with intra-elite ideological struggles on the other hand. It is a struggle against cultural/ideological hegemony rather than against coercive political and economic power, and the chapters in this volume suggest that it is eminently winnable.

The third of neoliberalism's effects — the structural pressures of the global economy in which neoliberal rules and ideology are embedded (and which they helped construct) — is consistent with the push toward smart industrial policy. These structural effects also complement the political effects discussed earlier, undercutting the claims of local industrialists to exceptional political privilege. Most interesting, they may be supportive of a policy shift in the direction of “capability-centered development.”

The opportunity set currently available to entrepreneurs is dramatically different from the one that presented itself in the mid-twentieth century. As Stiglitz (in this volume) notes, contemporary entrepreneurs take advantage of the ease of technologies generated elsewhere, depend less on local markets to provide demand for their products, and are correspondingly more subject to non-local competition. In part as a result of the imposition of neoliberal rules, but also as a result of revolutionary changes in technologies of communication and information processing (as well as technological progress in other areas), the nature of products and markets is radically different than it was a half-century ago, throughout the world.

To begin with, as Lall (in this volume) points out, even in industries where physical transformation is still central (from apparel to autos to electronic equipment), “larger parts of industrial value added consist of ‘weightless activities’ like design, marketing, and networking.” Intangible assets — ideas and images — are increasingly the most important source of returns for these “industries.” For a growing set of sectors from software to entertainment, the physical transformation of products is only ancillary. Bits of information, not atoms, are what firms in these sectors rearrange. Overall, growth is “bit-driven” (Negroponte 1996).

These changes don’t just privilege “high technology” manufacturing, they force acknowledgement that manufacturing in the sense of the physical transformation of goods may no longer play the central role in development that has been attributed to it for the past two hundred years. For two centuries, theorists of capitalist growth have assumed that the manufacturing sector was the primary driver of both technological change and the possibility of improved welfare. Now we are experiencing a sea change comparable to the earlier shift from agriculture to industry.

Some of the eighteenth century’s most brilliant economists, the physiocrats, were convinced that land was the only source of wealth and only agriculture could yield a surplus. To the physiocrats, industry was at best an auxiliary to agriculture, a subsidiary branch of the economy which could never be the primary driver of developmental transformation. The nineteenth and twentieth centuries showed how wrong the physiocrats were. The twenty-first century is likely to be equally unkind to those who remain fixated on manufacturing as the essential driver of changes in wealth, incomes, and welfare.

For one thing, it is clear that manufacturing will only provide employment for no more than a small minority of the world’s workers. As a source of employment, manufacturing is following the path that agriculture has already traversed in the developed North. As agriculture becomes more capital-intensive in the South, the overwhelming majority of the world’s people will be paid for delivering services, not making goods. In addition, it is becoming ever clearer that the historic association of high, stable incomes with manufacturing employment was the product of political struggle as much or more than it was the product of technologically determined “higher productivity.” The ability of manufacturing workers to organize collectively at the industry level and gain political power at the national level was essential to making manufacturing employment synonymous with high standards of living.

In the current century, it will take more than locating an ever larger number of the machines that transform physical goods in your national territory to deliver higher levels of income and welfare. Indeed, many argue that manufacturing had already ceased to be a generalized vehicle for reducing the North–South income gap by the end of the twentieth century. Arrighi, Silver, and Brewer (2003) point out that if simply shifting an economy toward a greater reliance on manufacturing were sufficient to generate increased levels of wealth and income, the North–South income gap would have closed dramatically instead of remaining at the same glaring level. The share of manufacturing as a proportion of GDP has actually increased in the global South to the point where, by their calculations, it has now exceeded the share of manufacturing in GDP in the North, while overall levels of income in the South remain a persistently small fraction of those in the North (see Figure 10.1).

A less manufacturing-centric vision of development is consistent with a move toward “smart industrial policy,” but it has implications that go well beyond it. So far, the sea change in the character of production and consumption has yet to be reflected in politics and ideology. Owners of capital
continue to receive the same privileges that they did in the “age of the machine.” In the longer run, however, the shift should undercut the most long-standing and well-established claims of local capitalists – those based on their role in industrialization – to being the most important agents of improved economic well-being. The question remains how the increased political autonomy relative to local elites that should follow from this undercutting will be used by political leaders in the South.

Has the world wrought by technological change and neoliberalism helped create an opportunity for states, political leaderships, and policymakers in the South to gain greater independence from the industrial elites that were the principle beneficiaries of earlier developmentalism? The answer may well be “yes.” Might the current neoliberal political economy turn out to have an “elective affinity” with a shift toward “capability-centered” development? Sadly, the answer is probably “no.” While the changing dynamics of global economic growth may favor “capability-centered” development, the political prejudices of neoliberalism are likely to undercut the public investment necessary to make it possible. Even so, the possibility is worth exploring.

**Capability-centered Development**

The idea of capability-centered development draws on Sen’s (1999) thesis that the expansion of human capabilities is definitional of development and that expanding capabilities requires, in turn, provision of capability-enhancing infrastructure – primarily health and education, broadly defined – to the citizenry as a whole. Freedom from oppression and access to income-producing activities are central to the possibility of exercising capabilities, but it is the expansion of human capabilities themselves rather than the accumulation of capital that defines development.

In nineteenth- and twentieth-century developmentalism, the road to capabilities led through machines and the technology they embodied. Crudely put, “If there is enough technologically up-to-date machinery available, both widely-shared incomes and resources for investing in social infrastructure will follow naturally.” Bestowing political privilege, including the allocation of politically created rents, on those who owned the machines was a logical corollary. If we now live in a world in which manufacturing, like agriculture, has become only a key element in economic growth, no longer either the central driver of growth or the main source of employment, then, logically, the political calculus should change along with the economic one. The political implications of “bit-driven” growth are still seen through a glass darkly at best, but there would seem to be a connection between “bit-driven growth” and capability-centered development strategies.

Especially when the ultimate outputs are likely to be intangible, maximizing the rate of innovation depends on developing the capabilities of the broadest possible set of potential innovators. What is somewhat misleadingly called “human capital” takes priority over physical and financial capital. If the ownership of machines is a relatively straightforward concept, the idea of owning knowledge is more problematic, and owning the knowledge that sits in other people’s heads more problematic still.

Unless people can be compelled to focus on the most commercially rewarding implementations of the knowledge they hold and prevented from taking their knowledge from one firm to another, assets that are located in people’s heads are hard to capitalize fully. Consequently, capitalists on their own will underinvest in human capital. The innovative activities of traditional corporations are obviously essential to bit-based growth, but focusing too heavily on traditional corporate forms is likely to be insufficient if not counterproductive. Maximizing the rate of innovation is likely to require a combination of organizational forms of which the traditional firm is only one.  

All of this implies that neoliberalism, in its efforts to enthrone markets and privilege capital, may have facilitated “behind its own back” an economic transformation that undercut the basis of capital’s political privilege. In the North, these tendencies may be counterbalanced by the fact that neoliberalism has simultaneously opened up global opportunities for profit and correspondingly enhanced corporate economic power. In the South, neoliberal policy
reinforces the decentering of local capital’s political position. Neoliberalism’s bias toward the rights of Northern corporations undercuts capital in the South, as does its regulatory proscription of the traditional relations of subsidy and protection that connected local capital to the state. In short, neoliberalism may have inadvertently created an opportunity to diminish the political power of capital relative to other social groups in the global South.

Unfortunately, this does not in itself expand opportunities for capability-centered development and the political inclusion of a more encompassing set of social groups. If capitalists are likely to underinvest in human capital, collective investment must compensate. Public investments in capability-enhancing collective goods must move to center stage. Education is central and the provision of information infrastructure – traditionally the public library, now high-speed Internet access – also becomes a key public good. Childcare and health services can be seen as underlying supportive investments in future “human capital.”

Such a scenario is quite consistent with the success of East Asia, where the foundations of success lay in a potent combination of income spreading, productivity-enhancing interventions in agriculture (primarily land reform), and massive public investment in education and knowledge production. One way of reading the lessons of the East Asian cases is to focus on the question, “How might ‘reciprocal control mechanisms’ be established in countries where the political privilege of private elites has not already been jarred loose by war or revolution?” An alternative reading might focus on the centrality of “capability-enhancing” public policies to creating the foundation for successful development in East Asia.

Unfortunately, it is at this point in the process that neoliberalism’s positive potential is likely to disappear. Neoliberalism may favor Northern over Southern capital but it unquestionably favors any kind of capital relative to the state. If increased public investment in collective goods that expand human capabilities is the essence of capability-centered development, then neoliberalism is a problem. There are two axes along which neoliberalism is likely to have an effect on possibilities for the expansion of capability-enhancing public investments. The first is the allocation of whatever public expenditures is allowed. The second is the overall level of public resources.

On the allocation question, neoliberal “rules of the game,” by impeding direct subsidies to local capital, may actually facilitate a larger share of government expenditures being allocated to capability-enhancing infrastructure. Insofar as the neoliberal global economy makes it structurally harder for states to deliver jobs and incomes by supporting local manufacturers, it may reinforce the effects of policy prescriptions in making subsidies to local capital less politically attractive. Collective goods like health and education have, after all, the peculiar quality of being both immediately satisfying consumption goods and growth-producing investment goods. In a neoliberal world, this combination may begin to trump the old winning combination of politically rewarding subsidies to capital universally justified by prospective increases in gainful employment. Insofar as the connection between knowledge-based (or “bit-driven”) economic growth and capability-enhancing collective goods becomes “common sense,” investments in capability-enhancing infrastructure become even more attractive.

The effects of more general neoliberal ideological opposition to the state’s role and the strictures on fiscal deficits that are enforced by international financial markets are harder to paint as positive. Their practical effect to date has been to make valuable investments in collective goods more difficult and to push governments to privatize delivery of services, even when private delivery involves higher overheads and lower quality. At the same time, neoliberalism’s ideological assault on the state exacerbates inherent tendencies to underinvest in collective goods by helping to destroy confidence in the ability of public institutions to deliver.

It is true that by introducing politically exogenous constraints on fiscal deficits, neoliberalism may make two potential contributions (beyond the vaunted benefits of such constraints in terms of macroeconomic stability). Most conventionally, “fiscal discipline” should encourage state agencies to think carefully about how to get the most “bangs for their buck” and avoid undertakings that are beyond their capacity (organizationally as well as fiscally). As long as the state is careful to avoid cuts that undermine its long-run institutional capacity (for example, by cutting public-sector salaries and driving away competent civil servants), fiscal discipline could help stimulate the efficiency of public institutions, which would increase the state’s ability to deliver collective goods in the long run.

Equally important, credible exogenous constraint on deficit spending provides both an incentive and a rationale for taking tax collection seriously. In the end, increased revenues are the only solution to the problem of underinvestment in collective goods. “Soft budget constraints” give incumbents a way to avoid tackling the revenue side of the equation. Neoliberalism could help focus the attention of state elites on the fundamental problem of getting elites to contribute to the provision of collective goods at a level commensurate with the services that they receive.

Does neoliberalism expand political opportunities to move in the direction of capability-centered development? The effects are mixed and depend on the response of local political leadership. Undercutting the relative political privilege of local capital could push political elites to form more encompassing alliances with civil society and reallocate expenditures in the direction
of capability-enhancing infrastructure, but it by no means assures that they will do so. Developing dependent relationships with global capital would be an equally rational response. The effects of overall constraints on state spending are also contingent on local political response. If political leaders use the existence of credible external constraints to argue for the necessity of increased revenues, effects could be positive. If not, negative effects of neoliberalism’s anti-state ideology will dominate. It short, trying to extend the argument for neoliberalism as a political opportunity to the construction of capability-centered development is a useful exercise, but one whose results are tenuous and contingent at best.

Neoliberalism’s Political Opportunities

The global South (and ordinary citizens in the North) could benefit immeasurably from an alternative global political and economic regime that was more democratic, less driven by the particular interests of Northern corporations, more in tune with contemporary economics (particularly with regard to the central role of knowledge and other collective goods), and based on recognition that the essential foundations of development are social and institutional. Compared to the potential of such a regime, the current global hegemony of neoliberalism is a disaster. Be this as it may, looking for opportunity makes more sense than lamenting disaster.

Precisely because it is a global system, the most important contribution of neoliberalism may well be that it will succeed in convincing the states (and, even more importantly, the citizens) of the global South that their struggles can’t be fought simply on the basis of nationalism but must be fought globally and collectively by all the nations of the South. Rhetorical solidarity must be superseded by carefully organized concrete political actions, focusing first of all on the transformation of neoliberalism’s own institutions of global economic governance.

By trying to construct a global system of economic governance based on a supposedly universalistic set of rules, neoliberalism has made the case for collective action obvious and compelling. The recent evolution of global trade negotiations suggests that the South is beginning to respond. If the South continues to develop its ability to surmount collective action problems and uses what it learns to expand the fight from trade and the WTO to finance and the IMF, neoliberalism will have helped generate unprecedented changes in the organization of international politics.

What is involved in these changes should not be seen as gains by one set of parochial interests vis-à-vis another set of parochial interests. It is rather an opportunity to create a global system in which the political construction of economic rules is more democratic, rule of law at the global level is more genuinely universalistic, and the fruits of global productivity are most justly distributed. In short, the South’s victories will move the global political economy forward from everyone’s (or almost everyone’s) point of view.

At the national level, as at the international level, the primary thrust of neoliberal policies is to strengthen the hand of Northern corporations, especially financial corporations, by expanding their legal rights and using international financial markets to punish nations that interfere with those rights, while at the same time impeding the possibility of using public policy tools that we have solid historical and theoretical reasons to believe would help accelerate development and circumscribing the state’s ability to act on behalf of development. Nonetheless, at the national as at the international level, neoliberalism creates certain kinds of political space.

Neoliberalism does help insulate states from the more irrational (negative value-added) sorts of excesses that were part of earlier efforts to industrialize and pushes them in the direction of “smart” industrial policy. Neoliberalism may also provide leverage for diminishing the disproportionate political privileges of local elites. In much of the South, local elites have managed in the past to use state support to enhance their own returns and consumption without generating commensurate returns for society as a whole. If used strategically by local political leaders, the exogenous constraints imposed by neoliberalism could allow states to gain more policy autonomy vis-à-vis local elites.

The question is whether this space will be used to spread the benefits of development and create more encompassing political alliances. Here the association of neoliberalism falters. Important features of the neoliberal global political economy open a path toward “capability-centered” development that would spread returns more widely, while at the same time enhancing the South’s ability to take advantage of the possibilities for “bit-driven” growth. Where neoliberalism fails to support new political opportunities is in its inadequate appreciation of the importance of public investment in collective goods and its consequent failure to support the necessity of increasing public revenues.

When the political debate over development policy in the South reaches this point, political leaders will have to create their own opportunities.

The positive possibilities that have been raised here, at both national and global levels, are no more than possibilities, contingent on the imaginative and determined exercise of political entrepreneurship. Nonetheless, there is no reason to believe that the South is politically hamstrung as long as the global structure of power that sustains neoliberalism remains in place. Promising paths for political action are not only available but beckoning.
Notes

1. "Neoliberalism" is an ill-defined term. The more formal and easily specified side of "neoliberalism" is simply the set of trade and regulatory rules that have prevailed in the world since the formation of the WTO. The economic policy prescriptions that the US Treasury, the IMF and, to a lesser extent, the World Bank have attempted to impose on the world's nations (particularly in the South) represent a less consistent complement to the WTO rules. More amorphous, but equally powerful, are the ideological presumptions and preferences that prevail in both global policymaking circles and among elite private financial actors. Opinions in these circles are far from homogeneous, but certain basic assumptions, such as the generalized superiority of markets over allocational systems rooted in political decision-making, are widespread. Weeding out anachronisms and inconsistencies in the current ideological and policy environment in order to distill the precise topology of the rules, policy prescriptions, and ideology that epitomizes "neoliberalism" is a worthwhile project that this chapter does not pretend to embark on. Here, I examine the impact of rules, policy prescriptions, and ideology that prevail in the currently hegemonic global regime, using "neoliberalism" as an admittedly crude, but still useful, cover term.

2. It is worth noting that the IMF's own research is not very supportive of aggressive generalized rules forcing the South to open their capital accounts (see Prasad et al. 2003).

3. While Japan and the European Union are at least equally guilty of depriving the global South of the markets for agricultural products that they would enjoy under "free market" trade rules, at least in these cases the protection of agriculture is in some measure in the service of social and cultural protection of agrarian communities, as opposed to primarily enhancing the profits of large corporations as in the United States (see Losch 2004).

4. As Cho and Dubash, Chang, and Kumar all note in this volume, a similar hypocrisy prevails in the area of industrial policy, with the official global policies of the North condemning policies that have already been used to good development effect in the North.

5. As Wade (in this volume) points out, "the TRIPS agreement was propelled by a few industries - mainly pharmaceuticals, software and Hollywood." One of the boldest assertions of the extent to which intellectual property rules are interest-based artifacts was the recent move of the US Congress to extend for additional decades the Disney Corporation's monopoly over the economic returns from the images of Mickey Mouse and Donald Duck, from which the company had already extracted more than half a century of monopoly profits. Only the most tortured rendition of neoclassical theory could justify such blatant disregard for the positive externalities created by initiating normal market rules.

6. The case of the IMF, which can only be noted here, is more complicated. Its "historic property rights" system of voting means that even fully-fledged unity on the part of the South could not generate sufficient votes to push through any significant changes in policy. At the same time, the actual practice of decision-making in the Executive Board is one of consensus. Any substantial coalition of Southern countries would be sufficient to destroy the appearance of consensus. The greater salience of individual country interests on a day-to-day basis and the consequently greater difficulty of building consensus across countries may in the end be as much of a problem as the "democracy deficits" in the formal voting rules. Even so, collective action on the part of the South is much more likely in relation to the Fund than in relation to the private financial corporations that now control the overwhelming bulk of the capital flowing to the South (see Evans and Fennemore 2001).

7. The term evokes Guillermo O'Donnell's (1973) famous hypothesized "effective affinity" between capitalist industrialization and authoritarianism in Latin America in the 1970s.

8. For an interesting analysis of possibilities of "smart" industrial policy in one of the South's more complex industrial environments, see Castro and Avila 2004. Castro and Avila emphasize that the heterogeneity of Brazilian firms dictates an equally diverse set of policies but that stimulating and supporting efforts at various kinds of innovation are an overarching theme.

9. Obviously these statistics require careful interpretation. The category "manufacturing" is sufficiently heterogeneous that increased share of manufacturing in Africa may mean something entirely different than increased share of manufacturing in Korea. Arrighi, Silver, and Brewer themselves acknowledge that East Asia, the region of the global South in which income growth has made the most progress in catching up to Northern income levels, is also the region with the highest share of manufacturing in GDP. Obviously manufacturing remains a key element in any successful development strategy. What Arrighi, Silver, and Brewer's analysis underlines is that increased reliance on manufacturing per se is no panacea. See Amsden 2003b; Firebaugh 2004 for further discussion.

10. One of the best examples of the efficacy of radically different organizational forms is the surprising commercial success of open source software, whose production is based on networks that don't subject individual workers to the control of traditional hierarchies and that locate the ownership of the resulting intangible assets with a diffuse collectivity rather than allowing a single owner to claim the returns (see Weber 2004).

11. Less central to the current argument, though perhaps more important in terms of overall economic effects, is the most hypocritical form of neoliberal constraint on state expenditures: the opprobrium from both the IMF and private markets directed at standard Keynesian counter-cyclical deficit spending during downturns in the business cycle. While governments in the North continue to avail themselves of this tried and true strategy (most notably the Bush administration in 2003), governments in the South are expected to respond to cyclical crises by cutting government expenditures rather than increasing them. The only reasonable response to these strictures would seem to be a collective political campaign for IMF endorsement of counter-cyclical strategies. Private financial markets might, of course, still choose to punish counter-cyclical strategies but the markets' response would certainly be dampened if the IMF were on the other side of the issue.