Integration and Late Industrialisation: The Effects of Neoliberal Economic Globalisation on Development and Late Industrialisation

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Introduction

Globalisation leads to both challenges and possibilities for developing countries. The uniting of nations on a global scale can in itself be seen as positive, but in an international environment characterized by highly uneven levels of development and power, it can also be damaging to the weakest parts if their special needs are not taken into consideration. This paper will focus on neoliberal economic globalisation, and the problems this causes for development in economically poor countries. This, it will be claimed, is first and foremost due to the fact that neoliberalism discredits an active industrial policy, instead focusing on the benefits of trade liberalisation and comparative advantage. This paper will claim that trade liberalisation at an early stage of development is detrimental to economic development, mainly through hindering continuing industrialisation towards more advanced production of manufactures, something that has proven essential for sustainable economic development.

In order to perform this analysis, first an exploration of the concept of late industrialisation will be made, before briefly commenting on the concept of globalisation, and how this came to take a neoliberal shape from the late 1970s. This being done, the Bretton Woods institutions will be located as the main drivers of neoliberal economic globalisation, before considering the special role of the World Trade Organisation and how its agreements affect the developmental policy space of developing countries. Here, attention will be given to the TRIPS, TRIMS, and GATS. The fundamental problem will be located as the neoliberal unconditional belief in free markets and free trade, and the last part of the paper will thus focus on the theory and problems of trade liberalisation, and how this discredits, and through the WTO deems illegal, development policy and strategies that have historically been proven to be crucial for economic development. Being a paper on industrialisation, it will not focus on the potential short-term economic gains of neoliberal policies.

Globalisation, Late Industrialisation and Industrial Development Strategies

Industrialisation has, historically speaking, proven to be the only way to escape the global periphery and sustain high levels of economic development. The concept of late industrialisation can relate to any industrialisation taking place after the establishment of the first industrialised countries, and has been used to describe various paths to industrialisation after the industrial revolution in Britain from the end of the 18th century. In this way Gerschenkron (1962) used the concept for explaining the modernization of Germany, France and Russia in the 19th century. The concept can also refer to a particular form of industrialisation taking place in the countries industrialising in the 20th century (Amsden, 1989). After the Second World War a number of countries outside the North, what Amsden (2001) refers to as 'the rest', managed to rise to the level of competitors on the global market of mid-technology industries. This was the case with China, India, Indonesia, South Korea, Malaysia, Taiwan, and Thailand in Asia; Argentina, Brazil, Chile, and Mexico in Latin America; and Turkey in the Middle East. Amsden sees this rise as 'one of the phenomenal changes in the last half of the twentieth century', since it meant that backwards countries for the first time in history managed to industrialise without proprietary innovations. Instead, late industrialisation was a case of pure learning, since the late industrialisers were initially totally dependent on more advanced countries' commercialised technology (Amsden, 2001: 2). Similar to all these successful industrialisers was an active developmental state where the state controlled distribution and the market, and with industrial policies based on various degrees of controlled import substitution and export promotion. This saw the use of different protectionist policies, such as tariff barriers, quotas, industrial licensing, and subsidies, in an effort to move their economies from primary commodities towards manufacturing (Chang, 2006).

Throughout the history of industrialisation, opposed to the orthodox economic take on history with its emphasis on free trade and comparative advantage, protectionism, especially of new industries, rather than free markets, has been the main strategy for successful industrial development (Chang, 2007). The argument for infant industry protection is an old one, first raised by Alexander Hamilton in 1791 (Chang, 2002), and later by Frederick List towards the end of the 19th century (List, 1966 [1885]; Chang, 2002; Shafaeddin, 2000), but has later been used in various forms in trade theories relating to developing countries (Shafaeddin, 2000). Infant industry protection has played a crucial role as a policy tool, and, with the special exception of Hong Kong, no country, whether early or late industrialised, has managed to successfully industrialise without protecting its new industries[1] (Shafaeddin, 2000; Chang, 2002; 2006; 2007; Deraniyagala & Fine, 2006).

[1] For a thorough discussion on the strategies used by the early industrialisers, see Shafaeddin (1998) and Chang (2002; 2007).

Globalisation, or the 'reconfiguration of social geography marked by the growth of transplanetary and supraterritorial connections between people' (Scholte, 2005: 8), affects the opportunities for countries to develop their own industrial policy. This is true particularly for economic globalisation, which can most simply be defined as increasing economic integration of national economies (Fischer, 2003; Stiglitz, 2002; Callinicos, 2007). Although globalisation has a long history, there seems to be some agreement to the fact that the globalisation as seen after WWII has been especially intense (e.g., Lechner & Boli, 2000; Scholte, 2005; McGrew, 2008). This period also saw a major shift in the late 1970s, when economic globalisation in many ways became synonymous with neoliberal globalisation. Neoliberalism can be seen as a specific political and economic project (e.g. Peck & Tickell, 2002), based on competitive self-reliance, where the individual, and not society, is in focus, and where everyone is responsible for oneself. Although the market has always been a central aspect of capitalism, with neoliberalism the market is viewed as both the means and the ends of economic development. Growing out of the Chicago school and introduced to international politics mainly through the administrations of Reagan and Thatcher, neoliberalism quickly rose to the position of mainstream within the international development policy establishment (Harvey, 2005; Gamble, 2001). Neoliberalism favours the rolling back of the state and letting the market flow freely, claiming that private markets will always perform better than the state. This means that private ownership should be encouraged, and that production should be depoliticized. This promotion of laissez-faire policies has led to neoliberalism being characterized as 'market fundamentalism' (e.g. Stiglitz, 2002), where free markets are associated with *freedom*, and thus are intrinsically desirable. Within this view, any economic intervention by the state is destined to have negative effects since this would mean interrupting the natural flow of the market, and thus an active industrial policy is generally refused as development strategy.

The neoliberal shape of globalisation has seen the free market ideology spread globally through the many engines of globalisation. An essential driver of neoliberal economic globalisation has been the Bretton Woods Institutions, and these are arguably also what mainly affect the prospects of industrialisation in developing countries. The Bretton Woods Institutions consist of the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO, which replaced the GATT, or the General Agreement on Tariffs and Trade, in 1995), and were formed at the Bretton Woods conference in 1944. The three organisations were created to serve different purposes, and their strategies and policies have changed with the change in ideology of its most powerful members. As, from the late 1970s, neoliberalism rose to become the dominant economic ideology of the US and the UK and later the rest of the advanced capitalist countries (Steger, 2005), the same was the case of the Bretton Woods institutions. This led to a merging of the goals and strategies of the three institutions, and in recent decades they have imposed a very similar set of neoliberal economic policies on countries all over the world (Peet, 2003). These policies have come to be known as 'the Washington consensus'. John Williamson, widely considered to have coined the term, summarizes the policies as 'prudent macroeconomic policies, outward orientation, and free market capitalism' (Williamson, 1990: 18)[2].

[2] It is now also possible to talk of a post-Washington Consensus, based on new institutional economics and focusing more on the role of institutions. Although in some aspects different from the old Washington consensus, especially through giving more importance to the role of the state in development, much has stayed the same, and the two recommend very similar policies for developing countries (e.g., Saad-

Liberalisation policies and free trade were advised by liberals from the mid-1960s, against what was seen as the many flaws of import-substituting industrialisation, and the failures of developing nations were seen as a problem of misguided government intervention (Haggard, 1990). From the early 1980s, when many developing countries encountered serious economic problems following the debt crisis, the advice for free trade instead turned into a requirement (Chang, 2006). The main way in which this was done was through the Structural Adjustment Programmes (SAPs) of the IMF and the World Bank, through conditions attached to loans and aid, as well as requirements for membership in international trade agreements (Peet, 2003). Rather than strategies, the required policies became ends in themselves, and were pushed 'too far, too fast, and to the exclusion of other policies that were needed' (Stiglitz, 2002: 54). The SAPs have later been replaced by Poverty Reduction Strategy Papers (PRSPs), without this changing much of the demands for adjustment (Gottschalk, 2004).

The Role of the WTO: TRIPS, TRIMS and GATS

A central role in promoting free trade has been played by the WTO, which took a more 'egalitarian' position than the earlier trade regime, in the sense that all countries were to be treated equally, with less focus on the situation of developing countries. Under the GATT there was attention given to the special needs for protection in developing countries (Wade, 2003). Much of this drastically changed in the transformation to the WTO, and variety of trade agreements relevant for this discussion came out of the Uruguay Round, with the TRIPS, the TRIMS and the GATS being the most crucial.

Filho, 2005). This makes Rodrik (2005) rather speak of it as an 'augmented Washington Conensus'.

The TRIPS, or The Agreement on Trade-related Aspects of Intellectual Property Rights, entered into operation in 1994, and covers protection of trademarks, copyrights, industrial designs, data secrets, and patents. When it comes to patents, it limits the states' ability to deny patents to many types of products, as well as their flexibility in the use of products or technologies patented within their territory (Wade, 2003). Through raising the prices on patentable knowledge, this has negative effects on developing countries and positive effects on developed countries, since the former are the net consumer of patentable knowledge and the latter the net producer. The idea is to create higher returns to the knowledge generation leading to more innovation in the North that in turn will diffuse to the South, but there is no clear evidence that this will happen (Helpman, 1993). It is also supposed to oblige developed countries to make technology available for developing countries, but there is no method for enforcing this. It is possible to force developing countries to meet their obligations though, since failure to do this can be taken to the costly dispute settlement mechanism[3], where decisions have a tendency to tip in the favour of the rich countries (Wade, 2003).

What the TRIPS in essence leads to, is more favourable conditions for trans-national corporations (TNCs) and at the same time less developmental space for developing countries. It gives the big TNCs less chance of being undercut by cheaper rivals in developing countries. It basically outlaws products that use copies of patented technology (Buckman, 2004), leading to a wide array of problematic issues for poorer countries, particularly within the production of cheap medicines (Buckman, 2005). This also removes a major tool for development used by earlier industrialisers, which copied technology

[3] For a discussion on the dispute settlement mechanism of the WTO, see e.g. Lee, 1999.

from more advanced countries on a large scale (Chang, 2007). The Doha Round in 2001 relaxed the TRIPS regarding essential medicines, but it did not expand developing countries' options in industrial transformation, leaving in place 'a much more restrictive environment for technology transfer than the older industrialized countries enjoyed during their early stages of industrialization and the new industrialized countries of East Asia enjoyed during theirs' (Wade, 2003: 626).

The Agreement on Trade-related Investment Measures (TRIMS) was created 'to eliminate trade-distorting effects of foreign investment restrictions in either low- or high-income countries' (Buckman, 2005: 60). This moves the trade rules away from the 'most favoured nation' principle of the GATT building on the principle of avoiding discrimination, to a principle of avoiding trade and investment distortions. Among more it bans performance requirements related to export requirements, local content, and trade balancing (Wade, 2003). This prohibits investment laws that may favour local businesses in areas of local investment and ownership in relation to trade (Buckman, 2004). Altogether the TRIMS limits the possibilities for governments to regulate foreign direct investment (FDI), something that is necessary in order to benefit from it and make sure the investment is consistent with their policy goals and that it contributes to their respective countries' development (UNDP, 2003).

The GATS, or the General Agreement on Trade in Services, 'regulates the cross-border flow of trade and investment in services' (UNDP, 2003: 155). It is both a trade and an investment agreement, extending WTO rules from trade in products to trade in services, and is supposed to increase inflows of FDI (Wade, 2003), although this increase has not been seen (UNCTAD, 2000). The GATS can be seen by design as 'a formidable instrument to encourage and to entrench the commercialization of services, including public services' (Sinclair and

Grieshaber-Otto, 2002: xii), and intrudes further into domestic political economy than both the TRIMS and the TRIPS (Wade, 2003). It requires from governments to treat firms from all members of the WTO equally, strongly limiting the possibility of favouring domestic firms in the name of development. It also requires national treatment of all foreign service providers, so that, unless local firms are under the same constraints, they cannot be forced to use local staff or local suppliers (Wade, 2003). In sum, the GATS further reduces the policy space of developing countries (UNDP, 2003).

The TRIPS, TRIMS and GATS together make many of the industrial policy instruments used both by the early industrialisers and by the successful late industrialisers illegal, through removing the possibility of nurturing and protecting own industrial and technological capacities (Wade, 2003). Through forcing them to eliminate quotas, reducing their tariffs considerably, and by limiting their ability to regulate foreign investment, the WTO has pushed developing countries towards free trade (Chang, 2006). Through stricter patent rules, industrialising through learning also becomes harder, since this requires certain amounts of copying of the technology of more advanced countries. Another problem is, as stressed by Wade (2003), that many bilateral agreements between developed and developing nations take the GATS, TRIMS and TRIPS merely as a starting point to induce even harsher demands, leading to even less independent space for policy making. In essence, these three agreements, as well as the WTO itself, have their roots in the strong belief in the desirability of free trade within neoliberalism, a topic that deserves a more thorough discussion.

Trade Liberalisation: Fundamental Theory and Problematic Aspects

The first and most important policy of the Washington consensus is trade liberalisation, and this has been both a main cause and effect of economic globalisation. The fascination with free trade writes back to the classical economists, even though neither of them seem to have been dogmatic about the issue (Dunkley, 2004). Ricardo's theory of comparative advantage has been of special importance, and this is to some extent considered valid today. This theory shows that trade can potentially be beneficial for all partners. It is based on the assumption that every country has a comparative advantage in something depending on differences in price-ratios between two goods in two different countries, and can gain from trading in that speciality. Heckscher and Ohlin later built on this to develop a comparative advantage theory based on abundance rather than relative opportunity costs (as had been the case of Ricardo's theory). This has come to be known as the Heckscher-Ohlin model, and holds a central position in neo-classical theory. Simply put it says that countries trade from their comparative advantage in factors that they are abundantly supplied, and the model shows that, under restrictive assumptions, trade liberalisation can lead to optimal resource allocation (Krugman & Obstfeld, 2006). The rise of neoliberalism starting in the 1980s saw a renewed belief in liberalisation, much as a response to what was seen as the failures of import substitution industrialisation, that probably undeservingly was blamed for the poor performances of developing countries after the mid-1970s (Deraniyagala, 2005).

According to the orthodoxy, trade liberalisation leads to a range of beneficial outcomes. First of all it increases trade. Further on, and because of this, it optimizes global resource allocation, maximizes consumer welfare, increases productivity growth, and promotes economic growth. Full trade liberalisation is supposed to lead to a Pareto optimum, where everyone is better off without making anyone worse off (Dunkley, 2004). In the words of George (2010): 'If every country's trade grows in the same proportion as global trade, its economy will grow in the same proportion as the global economy' (7). Since trade liberalisation ostensibly leads to economic growth, since the 1990s trade liberalisation has also been seen as essential for poverty reduction (Winters, McCulloch & McKay, 2002).

Many of these assumptions are problematic. First of all, the standard Ricardian approach to comparative advantage assumes that all countries can produce the same goods, and is therefore based on a logical fallacy (Patnaik, 2005). Most trade between developed and developing countries arguably take place because the former are not able to produce the raw material they import. The Heckscher-Ohlin model covers for some of the flaws of the Ricardian version, but still rests on restrictive unrealistic assumptions when it comes to factor mobility and factor homogeneity (Smith and Toye, 1979). Also later extensions of the model, such as by Adrian Wood, are based on over-simplifications, and empirical tests controlling for a wider range of factors have failed to prove his position (Elbadawi, 1999).

It is highly questionable if trade liberalisation leads to economic growth at an early stage of development. First of all, it is hard to determine causality when speaking of trade and growth. It is possible that higher growth leads to increased openness, instead of, as is assumed by conventional trade theory, the other way around. The theoretical arguments favouring trade liberalisation are based on specific conditions and assumptions that are not necessarily compatible with real life experience (Deraniygala & Fine, 2006; George, 2010). A large amount of research has failed to find a link between liberalisation and economic growth (e.g. Winters, McCulloch & McKay, 2002; Rodriguez & Rodrik, 2000; Rodriguez, 2006), without this having changed the orthodox belief in 'the growth-enhancing potential of free trade'

(Deraniygala & Fine, 2006: 50). In reality, empirical data on the issue are inconclusive. As stated by Rodriguez (2006): 'Perhaps the fact that the link is so hard to find can serve as intellectual stimulus to uncover techniques that will allow us to confirm the intuitions of basic trade theory. Or perhaps the link is so difficult to find because it does not exist' (14). He finds that many relatively closed economies have high growth rates, such as Lesotho, Botswana and Ghana, and that at the same time many have low growth rates, such as Sierra Leone and Burundi. Similarly, open economies such as Luxembourg and Ireland, have high growth rates, while others have low growth rates, such as Moldova and Mongolia (Rodriguez, 2006). This could imply that countries at a high level of economic development can achieve growth through liberalisation, but that this is not the case for countries at low level of development.

Deraniygala & Fine (2006) find the most robust conclusion from research on the link between liberalisation and growth to be that 'the more asymmetric the trading countries, the more likely growth effects are to be asymmetric' and that 'the gains from trade are largest for countries at similar levels of development' (58). As Shaikh (2005) shows, economists accept that domestic competition leads to winners and losers, but somehow abandon their own theory when competition takes place between nations. Developed and developing countries are supposed to trade on a level playing field, but the developed countries are at another level both in technological and economic power. As in domestic markets, free international markets favour the strong market players, and these are usually placed in the global North. This goes for both country-level market power, and the fact that the vast majority of transnational corporations (TNCs) originate and have their headquarters in the North (Scholte, 2005). The uneven playing field used to, at least to a larger extent, be taken into consideration under earlier international trade regimes, giving distinct treatment for the disadvantaged (Wade, 2003; Gibbon & Ponte, 2005). But under neoliberalism total free trade has been the mantra, and the WTO does not, as we have seen, take many such considerations, other than to give the poorest countries longer time to comply with the rules (George, 2010).

The above arguments do not mean that it is impossible for developing countries to develop and increase their power in the global market. Several countries, such as China, India and the so-called Asian Tigers (Korea, Singapore, Taiwan and Hong Kong), have done this. What they do mean is that this is not likely to happen by following liberalisation policies. As already mentioned, historical experience shows that economic development requires protectionist policies, at least at an early stage (Shafaeddin, 2000; Chang, 2002; 2006; 2007; Deraniygala & Fine, 2006). Trade could well have played an important role at early stages, but not free trade.

Empirical studies show the role of strategic trade intervention by the government in achieving manufacturing growth, upgrading of technology, and industrial deepening in the East Asian newly industrialising countries (Wade, 1990; Lall, 2003). Korea, for instance, used a complex combination of different forms of protection and open trade, and used infant industry protection to make sure its industries did not prematurely have to compete in the global market (Chang, 2007). One of many examples of this is how Korea went against the advice of orthodox economists and policy-makers and managed to create the world's most efficient steel-maker without having a comparative advantage in steel (Deraniygala & Fine, 2006).

Evidence shows that sustainable economic development requires a development towards manufacturing (Chang, 2002; 2007). In a country with little or no experience in manufacturing, industrialisation will not take place ''according to the natural cause of things' in the face of foreign competition' (Shafaeddin, 2000: 8). In addition, since establishing new industries involves great risk, there have to be extra incentives for the producer. If the industry is open to foreign competition from the onset, the new industry will be ruined and the producers will suffer. In this way, the market will not succeed in promoting industrialisation in the least developed countries (Shafaeddin, 2000), and the industry should not be exposed to the international market until it is strong enough to sustain this. In the words of Chang:

> The problem is this – producers in developing countries entering new industries need a period of (partial) insulation from international competition (through protection, subsidies and other measures) before they can build up their capabilities to compete with superior foreign producers. […] If they are exposed to too much international competition too soon, they are bound to disappear. (Chang, 2007: 73).

If Korea (as well as Taiwan and Singapore) had followed the logic of trade liberalisation, it is unlikely that they had achieved the developmental success they did (Chang, 2007; George, 2010)

Naturally, the Asian Tigers have not been the only ones using protectionist policies. Japan and China have done the same, as have basically any other successful developers (George, 2010). Their protectionism followed the old logic of infant industry protection already proposed by Alexander Hamilton as the first Treasury Secretary of the USA in 1791[4], and the USA heavily protected its own industries until at least World War II (Chang, 2002). All the European early industrialisers did the same. Britain preached free trade in the 19th

[4] Frederick List advocated the same in Germany towards the end of the 19th century (List, 1966 [1885]), and is often, mistakenly, considered the founder of the concept (Chang, 2007).

century, but itself followed a very restrictive trade policy (Chang, 2002; Shafaeddin, 1998). This was what made List argue:

> Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth (List, 1966 [1885]: 368).

This argument has been followed up by contemporary scholars such as Chang (2002) and Wade (2003), seeing the neoliberal pressure for trade liberalisation as a modern version of List's removal of the ladder, with the developed countries trying to ban the very tools they themselves used in their own development. The push for trade liberalisation within the WTO and the other Bretton Woods Institutions, as well as through aid conditionality, can severely limit the chances for developing countries to achieve sustainable economic development. Naturally, protectionism does not in any way guarantee success, and often requires both long-term planning and wise decisions from the government. As Chang (2007) states: 'Protection does not guarantee development, but development without it is very difficult' (82).

From this we see that the main way that globalisation affects late industrialisation is through shrinking the liberty of developing countries to follow their own industrialisation paths and policies. This would arguably not be so harmful had it not been for the fact that the routes they are forced to choose are not the ones that have proven successful in the past. The international development policy establishment seems to be ignoring, or failing to understand, the history of industrialisation.

Economic liberalisation has historically speaking rather been the outcome than the cause of economic development (Chang, 2007), and the fact is that many developing countries actually saw higher level of growth during the old periods of ISI than they have seen since the demand for liberalisation from the 1980s (Chang, 2002; Wade, 2003; Deraniyagala & Fine, 2006). All this being said, it is important to note that there is still some space for interventionist trade and industrial policy within the international system, if one manages to use the system to one's benefit. As an example, the developed countries have been eager to use subsidies to protect their industries within agriculture. There is also room for the poorest countries to use export subsidies (e.g., Chang, 2006). A problem here is the power structures in international politics, and the pressure from more powerful countries on developing countries to liberalise their trading systems (Chang, 2007). Another problem is that the remaining space is shrinking, with especially the United States pushing for even stricter trade rules (Chang, 2006).

Conclusion

This paper has analysed how globalisation affects the opportunities for late industrialisation. It has located the globalisation of the last three decades as neoliberal globalisation, and seen how this has led to a mainstreaming of neoliberal ideas in the international development policy establishment. This has led to a refutation of earlier interventionist industrial policies that, despite its flaws, have proven to be the most successful path away from the global periphery and towards successful industrialisation. The analysis has given special attention to trade liberalisation, as well as to the Bretton Woods Institutions, since these can be seen as some of the main drivers of economic globalisation and proponents and enforcers of neoliberal policies, in addition to the immense influence they have on developing countries. Of special importance to late industrialisation is the WTO, and three of its controversial agreements have been analysed, namely the TRIPS, the TRIMS, and the GATS. Together the shift to neoliberalism and the policies pushed on developing countries by the Bretton Woods institutions have led to a shrinking of the space for independent policy making, and this can be seen as the main negative effect of globalisation on late industrialisation. Through loan conditionality and different demands for liberal adjustment, the sovereignty of developing countries is reduced, and through international trade agreements many aspects of protectionist strategies pursued by generally all earlier industrialisers are deemed illegal. This suggests either a lack of understanding of the history of industrialisation, or a favouring of already industrialised countries, or possibly a combination of both, within the international development policy establishment. Together this hinders many of the potential beneficial outcomes of increased global integration and cooperation, and calls for greater attention to be given to developing countries within the international trade regime.

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