

WITHER THE 'WASHINGTON CONSENSUS', THE  
'DEVELOPMENTAL STATE' AND THE 'SEATTLE PROTESTS':  
CAN 'MANAGED FREE TRADE AND INVESTMENT' BECOME  
AN ALTERNATIVE DEVELOPMENT MODEL?

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*Abstract*

*This article explores the possibility of a different development model to those that have typified the debate about economic development in the last thirty to forty years. What has come to be known as the 'Washington Consensus', involving neo-liberal de-regulation, privatization, and liberalization. Equally, the major alternative to this policy programme, that of the 'Developmental State' approach, has had its own obvious successes. In addition, there has always been a radical alternative to both of these which has stressed a range of oppositional policies and critical engagements with the 'orthodoxy', whether that be market-led or state-led development. This can be characterised in the contemporary period as the anti-globalization sentiments of the 'Seattle and Genoa protestors'. This is a rather disparate amalgam of disaffected groups and interests, but one whose main policy outcome would be a new 'protectionism' of some kind, it is suggested. Thus, it is argued, the challenge is to find an alternative easily understood, viable, sustainable and attractive development model to suit the present circumstances of that international system.*

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*The author's suggestion is that the seeming oxymoron – 'managed free trade and investment in the interests of economic development' — could provide a basis for thinking about this alternative. The second part of the article outlines what the characteristics of this alternative approach might be.*

**Key words:** 'Washington consensus', neo-liberal policy programme, developmental state, anti-globalization protests, 'managed free trade', models of development.

#### Resumen\*

*Este artículo explora la posibilidad de un modelo de desarrollo distinto a los que ha tipificado el debate sobre el desarrollo económico en los últimos treinta o cuarenta años. Lo que se conoce como el 'Consenso de Washington', que involucra la desregulación neoliberal, la privatización y la liberalización. Igualmente, la alternativa más importante para este programa político, denominado enfoque del 'Estado de Desarrollo', también ha tenido sus éxitos claros. Adicionalmente, siempre ha habido una alternativa radical para ambas vías que ha provocado una gama de políticas de oposición y compromisos críticos con la 'ortodoxia', bien sea de desarrollo orientado a mercado o a Estado. Esto puede ser identificado en el periodo contemporáneo como los sentimientos de antiglobalización de 'los protestantes de Seattle y Génova'. Esta es una amalgama dispar de intereses y grupos antagónicos, pero cuyo principal resultado político, sugiere algún nuevo tipo de 'proteccionismo'. De esta forma, se argumenta que el desafío es encontrar un modelo de desarrollo alternativo fácilmente entendido, viable, sustentable y atractivo que se ajuste a las circunstancias actuales del sistema internacional.*

*La sugerencia del autor, es que el oxímoro aparente –'libre comercio administrado e inversión por los intereses del desarrollo económico'– podría proporcionar una base para pensar sobre esta alternativa. La segunda parte del artículo plantea las características que este enfoque alternativo podría contener.*

**Palabras claves:** 'Consenso de Washington', programa de política neoliberal, estado de desarrollo, protestas antiglobalización, 'comercio libre administrado', modelos de desarrollo.

\*Trad.: RCSD'T

Introduction: Two Models of Development

Two literatures dominate the contemporary debate about 'economic development'.

In the first case there is the discourse of conventional neo-liberal economics, which in its present configuration has condensed around the idea of 'international openness'. In large part this idea of openness refers to the external environment for economic relationships: trade, investment, technology, and less centrally, migration. Alongside such an emphasis on openness sit a whole panoply of supplementary criteria and appeals; for transparency, good governance, rule driven policy making, market access, competition, etc. The best known summary phrases for the policy implications of this emphasis on openness are probably the triptych: liberalization, privatization and de-regulation, which also sometimes go under the name of the 'Washington consensus'. No matter the actual way this is nuanced or presented in the literature, countries have been pressed to accept these policy prescriptions and to become more internationally open if they are to move along the road to advanced economic status. Developing countries in particular must accept these criteria if they are not to incur the wrath of the institutions of international governance as and when those counties seek help with their balance of payment difficulties or when seeking other forms of aid assistance. International competitiveness, economic growth and openness go together.

For the purposes of this paper there is not a lot more that needs to be said about this policy programme other than two quick points. First, it is heavily disputed as to whether there are any successful examples of this approach to development actually working in the contemporary era. In many cases the emphasis on the policy mix of the neo-liberal programme has just meant in practice an obsession with 'stabilization programmes', which have displaced genuine development strategies. But given the relatively recent emergence of its policy agenda onto the international agenda there is always the excuse that there has not been enough time for it to fully bear fruit, or that it just has not been pressed with enough enthusiasm and vigour by those countries that have been the subject of its strictures. Secondly, in a recent book Ha-Joon Chang (2002) has carefully demonstrated that the already developed countries – who are the ones pressing this policy programme on the present developing countries – never followed this policy advice themselves as they

embarked upon their own development processes. The developed countries did not get where they are now through the kinds of 'good policies' and institutions that they are strongly recommend to the developing countries today. Rather they actually operated 'bad policies' involving trade barriers, industrial policy, infant industry protection, export subsidies, etc.

Thus there remains a lot of cant in the openness casebook. In certain key areas, for instance, the advanced countries have not even met their own strictures about openness and the commitment to free trade. They continue to maintain high tariff barriers on commodities like agricultural products and textiles/garments that might be thought to be where the LDCs still have a comparative advantage (though see below). Nor did these countries adhere to the present stress on a single institutional mix that is appropriate for all developing country situations. Instead they developed a range of institutional configurations each tailored to their own history and needs, and the particular circumstances they faced.

The second major approach to the process of development that has gained strong support over the post-war period is one that emphasises the role of the 'developmental state' (Johnson 1982, Wade 1990). This development state literature has two main aspects. First it involves a strong discursive component stressing the distinctiveness of a form of state that has as its particular mission the fostering of economic development. State elites establish a singular principle for their legitimation: the ability to promote sustained development, understood as high and steady rates of economic growth, structural change and industrialization. Social forces are singularly mobilized by the state with this aim in mind. The second component is an emphasis on the capacity to implement—and a demonstrable efficiency in implementing—developmentalist policies. This is determined by a certain autonomy claimed and exercised by the state—so the state is not dependent on any particular configuration of social forces that directly capture or control it—. Rather it relies upon a technocratic elite who exercises relatively autonomous institutional, technical, administrative, and political capacities geared up to the modernization of society and the strategic direction for economic policy. This process is not antithetical to private business, the market or the forces of economic competition, but it is antithetical to the 'market friendly' *laissez-faire* variant of these. Markets and competition are 'governed' to ensure high levels of accumulation, technological absorption and above all the conquest of foreign markets, involving variations of all

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the 'bad policies' mentioned above. Market failure and poor performance can be built into and tolerated by this process, but these are seen as requiring active intervention and conscious direction to re-launch the cycle of dynamic growth.

While this model of development is heavily indebted to the East-Asian experience, it has acted as a focus for the advocacy of similar strategies for development elsewhere, particularly in Latin America and lately Africa (e.g. Mkandawire 2001). In addition, this model is similarly subject to dispute as that of the neo-liberal 'openness at any cost' model discussed above. For those not disposed to the implications of its emphasis on a state-sponsored development strategy, the developmental state is simply just another 'rent seeker' looking to siphon off surpluses into grand schemes, wasteful interventions and petty corruption. Sooner or later it will fall prey to 'bureaucratic failure' to match the 'market failure' arguments advanced by those advocates wishing to secure the legitimacy of an active developmental state idea. The East-Asian experience itself has been the source of much controversy as to whether Korea, Japan and much of the rest of East-Asia actually travelled down the developmental state route rather than followed their own shadowy versions of the neo-liberal alternative (e.g. World Bank 1993 and subsequent disputes about this report). But the general consensus of opinion must be that this particular model has had at least some relevance and is not just the figment of the imagination of a few academics.

To my mind these two 'models' have provided the most compelling and effective competing summaries of the developmental alternatives facing the LDCs over the last thirty years or so. They are not the only ones of course, but they have served to focus attention on two broad possibilities, both of which have attracted strong and determined support. In a sense then they represent summary outlines of two possible routes to economic development around which other variants have tended to coalesce or been measured against.

#### Anti-Globalization as an Alternative?

It is important to remember that these two models have sat astride the whole emergence of the globalization process that has hit the intellectual world over the last twenty years or so. And it is this globalization process that has raised some fundamental issues associated with the viability of these models, as I will suggest in a moment. Of course, it could be argued that the globalization process is what in

large part is responsible for the rise of the neo-liberal 'openness at any cost' model at the expense of any alternative, and that has put the developmental state possibility very much on the defensive. But in the wake of globalization there has arisen a critique of both models, particularly the neo-liberal one. The 'anti-globalization' movement provides a strong critique of the neo-liberal openness model particularly as it pertains to the way the international economy is managed and affects the most disadvantaged in the LDCs. And as the developmental state model would wish to emulate the advanced level status of the existing rich countries, if achieved by very different means, then this is also implicitly (and explicitly) criticised by the anti-globalization movement. The developmental state model is no more necessarily friendly to the environment than is the neo-liberal alternative, and it sees the engagement with MNCs as crucial to its development trajectory in the long run. The developmental state option is just as interested in developing *its own* MNCs and brands. It also sees the advantages of economic growth, advance country status, continuation of the international mechanisms of economic governance, etc., all things criticised by the anti-globalization movement.

Thus although the anti-globalization movement could mount a critique of both these models, its main weakness in the development debate is its failure to construct a more sensible, attractive and realistic alternative vision for development than provided by the two models outlined so far. The anti-globalization movement remains essentially negative. It provides a worthy and sometimes telling critique of many of the excesses of the international economy but that is about it (Thompson 2003b). It does not have a positive alternative model of development. In fact the anti-globalization movement is a disparate amalgam of many mutually contradictory elements and positions. It can 'unite' the extreme Marxist left with the far Right, along with disaffected environmentalist, human rights campaigners and debt-forgivers in between. This is not a recipe for a coherent alternative position. In fact, as far as any consistent position from this quarter can be discerned it amounts to little more than the call for a 'new protectionism'. The desire to break up the international agencies of economic management like the IMF, The World Bank and the WTO, would inevitably lead to this result. Whilst these agencies have their pernicious aspects and are not to be simply endorsed in their present form, they at least have the virtue of preventing a devastating destruction of international trade

and investment, and the likely formation of antagonistically poised trade blocks as arose in the inter-War period.

#### A Methodological Aside: The Nature of Processes

And here is the opportunity for a slight but necessary methodological detour. Many in the anti-globalization movement and others might argue that there is no need for a clearly articulated 'alternative' simple model for development. The time for these models is over. We live in a complex world, a kind of open system where the future is unpredictable and unknowable. The key to understanding the present is to recognise that *the process* of change is the central issue. There can be no recognisable 'end-points' or models to aim for, or aim at (Thrift 1999, Thrift and Dewsbury 2000). The 'becoming' has an epistemological precedence over the 'being' from this perspective, where the dynamics of performance displace the statics of representation.

As against this kind of open systems methodology (of which there are many variants not mentioned here) I would like to mount a defence for a relatively closed system of both thought and existence. Whilst the idea of the open systems approach is attractive in one sense, it is also a difficult one to handle and to sustain in the long run. It is attractive because it seems to prevent the ossification of thought and practice and an unimaginative, non-innovative analytical approach. But the problem with such open-systems methodology in general is that they inevitably display a high degree of redundancy. As they are expansive and always threatening to collapse (because of the continual threat of leakages, over-flowings and undoings built into their dynamic) it becomes difficult to stabilise the networks they embody. Where and when do the performances of the actor's stop and a relatively fixed representation emerge? Yet another opening could always be potentially attachable to the existing configuration, so that there is a never ending cascading of opportunities to disrupt and to re-configure. This sets up high levels of redundancy as the 'system' must over-compensate for the inevitable experimental 'failures' that are written into its evolutionary dynamic.

But high redundancy comes at a cost. Such 'systems' are expensive to run (intellectually and practically) and therefore relatively inefficient. Continual intellectual or social experimentation implies substantial waste, as failure has to be paid for. The advantage of a differentiated and more limited intellectual and organizational

horizon offered by model building is that this presents the opportunity to compartmentalise the 'organisation of the social' and, to some degree at least, to stabilise it. It means actors can find out where they are and what they are doing. An intellectual and organisational constancy and consistency is installed – at least for a reasonable period of time. This is useful in that it means experiences and reflections can be assessed, knowledges consolidated and re-produced, successful models copied and compared. Not everything is under continual scrutiny and in a continual state of flux.

Take the long, rich and enormously complex history of industrialisation for instance. This can be conveniently divided into several different phases that capture the essential characteristics of different 'little models' of the productive process: 'craft production', 'the American system of manufactures', 'mass (or Fordist)-production', 'flexible (or lean)-production'. With each of these models we know broadly what they entail and the characteristics of the production and distribution systems involved, their typical firm type, labour relations regime, accumulative and regulatory form and capabilities, etc. These models can be used to draw contrasts between their different aspects, to stabilise knowledge about them, help place particular developments in a context, and aid in the general business of suggesting what can be done to enhance things or change things. Thus there are real benefits to be gained from being able to produce the kinds of guidelines that are embodied in models of this type, and there is therefore good reason to continue this activity in the case of the development process being considered here<sup>1</sup>.

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<sup>1</sup> In my view all social processes require the following attributes to render them into useful analytical devices and to make them manageable. First they need to be periodized to divide them up into meaningful phases for contrasts, comparisons, etc., as summarised by the discussion of 'little models' just undertaken. Second, they need to be given some 'structure' (elements and levels involved, relationships between these, etc.) so as to generate the periodization just mentioned. Thirdly, there is a need for some theory about how change occurs (rapid discontinuities, disjunctures, smooth passages, slow evolution, the agency involved, etc). Third, there needs to be some idea as to 'where' the process is going, not in the sense of an 'end to history' or teleological 'final destination', but in terms of a meaningful objective or aim. Thus in the case of a 'peace process' there is some idea of what peace means. And similarly, in the case of the 'globalization process' there is some idea of what globalization means as a concrete manifestation of a societal form. Without this I do not see how one can sensibly do analytical work. Finally, there is a need to continually ask the question 'where are we in this process?' (which itself



The question this begs is what is the current status of the two models described in summary form so far? My argument is that *both of these* are now largely redundant despite the intellectual and political attachment that still adheres to them. I will argue that events sometimes associated with globalization but which are actually largely 'structurally-conjunctural' have rendered these—or are in the process of rendering them—increasingly unattractive (in the case of the neo-liberal openness variant) or unsustainably robust (in the case of the developmental state variant). In addition, I will argue that there is a desperate need for an attractive, easily understood and realistically viable alternative positive model that suits the present circumstances of the international economy.

#### What is Neglected 1: A 'Prosperous Peasantry'?

Providing a full critique of the neo-liberal openness model in the context of this paper is not my main aim. Rather I want simply to draw attention to some of its most obvious shortcomings and serious consequences. What the model has done has skewed all economic activity and attention in the LDCs towards the external environment in a way unparalleled in previous periods. The extraordinarily single-minded emphasis on participation in international trade and on attracting international investment from abroad has produced the most dramatic imbalances in the domestic economies of these countries<sup>2</sup>. To mention only one example, but a crucially important one, the case of agriculture (itself a severely neglected area in the

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requires the notion of an 'end' in the sense just indicated). It is in the spirit of this approach to processes that the discussion of the development process is undertaken here, and this adds to the strictures about the need for simple and well understood 'analytical models' for development in the present period. Elsewhere, with my co-author Paul Hirst we have tried to provide this notion of a process in the case of the idea and development of (or non-development of) 'globalization' (Hirst and Thompson 1999 – see also Thompson 2003a, chapters 7 and 8). This has been subject to a critique by those who do not share, in particular, the idea that a process needs an 'end state' in the sense that I have identified it here (see Perraton 2001). But I would strongly defend our position against this critique, which misunderstands these points about the nature of a process.

<sup>2</sup> Of course, this emphasis on the international dimension also has its secondary effects that directly impact on the domestic environment in terms of policy pressures. To become 'internationally competitive' requires an internal reform process just as dramatic in terms of structural and institutional change as signalled by the overemphasis on external connectivity.

contemporary development debate). Neo-liberal policies have all but eliminated agricultural subsidies in the LDCs (Bryceson, et al., 2000). This has meant that local producers are now increasingly forced into supplying cash crops that suite the tastes of advanced country consumers (sweet peas from Kenya, mangetout from Thailand, tiger prawns from Bangladesh) and that have to meet all the stringent conditions of Western supermarket chains that are obsessively concerned with price and quality standards. As a result prices are continually forced down and standards continually up, which itself requires expensive equipment investment and supply chain expertise and organisation. The question needs to be asked whether this is the best way of stimulating rural incomes and encouraging the much-neglected rural-urban agricultural product supply chain in the LDCs themselves (and their 'emerging market' economy cousins). This problem is confounded by the rapid rural to urban migration found in the LDCs, which is one of the most serious and intractable social, political and economic problems to be confronted in these countries<sup>3</sup>.

And here is where a lesson that could have been learned from the past about how to deal with the inequalities associated with 'globalization' arises. The present period of globalization has seen an increase in both internal inequalities within countries and in inequalities between countries (O'Rourke 2001, Milanovic 2002, Dikhanov & Ward 2002, but see Clark, Dollar & Kraay 2001 and Sala-i-Martin 2002 for a contrary view)<sup>4</sup>. The reasons for this are various, and are not all directly associated with the neo-liberal policy programme. Amongst the reasons put forward are long term structural ones like differential population growth between the developed and the less developed economies, the fall in non-oil commodity prices (which may also be partly conjunctural or cyclical), and technological change which has concentrated

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3 There has also been a move out of agriculture and into rural non-farm occupations rather than into the urban labour pool (Reardon, *et. al.* 1998 and 2001). Wages in these rural jobs vary significantly but are highly dependent upon educational attainment and rural infrastructure development. Cuts in public sector expenditures because of neo-liberal policies have severely affected rural education and infrastructure investment, holding back the growth of better paid non-farm rural jobs.

4 The degree and trends in global inequality are the subject of intense dispute. A general consensus is emerging, however, that it has increased during the recent period of 'globalization' (though this is a fragile conclusion). This does not necessarily mean, however, that *global poverty* is increasing, though this is again heavily disputed. Here the generally accepted view is that poverty has neither increased nor decreased very much in the recent period (see below in the main text).

the high value-added components of the supply chain in the advanced countries. Shorter-term reasons are the aggregate debt traps in which the emerging market economies and the LDCs have found themselves caught because of a too rapid liberalization of their financial systems and the rise of short term borrowings, the growth of FDI, etc. Clearly, this reason is not unconnected to the rise of the neo-liberal policy programme.

But whatever the causes, it is clear that the recent round of 'globalization' with all its attendant policy initiatives has not served the poor and disadvantaged in the LDCs as well as was predicted. Indeed, it may have aggravated their problems and there is no strong evidence that 'leaving things as they are' will reduce the still gross income inequalities existing in the international system. But one thing that seems to be completely off the policy agenda in mass international migration, which was a major reason for the reduction in international inequalities across the Atlantic during the previous period of globalization in the late 19th Century (O'Rourke & Williamson 1999).

Thus what we have experienced with the present cycle of globalization is a massive increase in *internal* migration, from rural areas to urban ones, but a 'blockage' in terms of mass *international* migration. If nothing else this is the source of a major imbalance in the LDCs and emerging market economies. And the source of this, I would suggest, is a relative neglect of rural incomes and the agricultural peasantry. One of the key lessons from past successful development processes has been lost here. *That is the importance of a thorough going land-reform programme and the attendant stimulation of a prosperous peasantry.* Gearing up the domestic agricultural sector in the LDCs to look 'outwards' towards international markets is a recipe for disaster. Only by closely attending to land reform and rural incomes could rural-to-urban migration be prevented and a balanced growth in overall aggregate demand in the LDC and emerging market economies be secured. This is a key road towards developmental success which is all but ignored by the current neo-liberal obsessive emphasis on 'international openness', technological advance and FDI growth in the manufacturing sectors. Nor is it that the rural populations in these countries are now small and insignificant. In China there are still over 800 million persons in the countryside. In Mexico, the rural economy still comprises 25-30% of GDP and the agricultural sector is the single most important source of employment. Similar proportions of agricultural employment and output typify other large

developing countries like Brazil, India and South Africa. Until this issue of the 'prosperous peasantry' is properly grasped there will be no serious economic development in these and other countries.

An additional aspect to this call for a softening of the neo-liberal model is the fact that after the Asian financial crisis, various false starts and debacles in Eastern Europe and the Soviet Union, and the very recent Argentinean crisis, the 'open-economy at any cost' model looks increasingly unattractive from the point of view of political and elite leaderships in the LDCs and late emerging market economies. If nothing else these countries are going to look twice at ever embarking along the road marked out for them by the extreme versions of this model. They will be looking for something else. But can this still be the developmental state option?

#### What is neglected 2: An Impossible Protectionism and State Capacity

One thing the developmental state model has not neglected is the issue of land reform and the promotion of a prosperous rural economy. Whilst this may not have been the centre piece of the developmental state model, fostering a balanced growth path between rural and urban areas and the careful management of urbanization has figured strongly in that model. But the problems now confronting this model are different ones. They have to do with the different era and circumstances facing countries that are currently trying to move along a development route.

Putting this crudely, the classic developmental state was able to operate behind a relatively benign set of what are now termed 'bad policies', as mentioned in the early part of this article. These policies comprised various forms of often informal trade barriers, industrial policy, infant industry protection, export subsidies, preferential access to finance, state patronage, etc. The question is whether these kinds of policies are still open to countries in the present era. Whether we like it or not, it is very unlikely that the 'international community' would tolerate a widespread adoption of these kinds of policies amongst the large and important developing countries that are the models for the present process of development: China, India, Brazil, South Africa, Mexico, etc. In addition all these countries are now members of the various institutions of international economic governance that police the domestic policy regimes of developing countries with an added vigour.

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They are just not going to be allowed to embark upon a route marked out by the developmental state idea even if they wanted to or could do.

And this serves to raise another equally important issue, the capacity of these countries to adopt a developmental state strategy. Would they know what a developmental state strategy really meant even if it confronted them directly in the face, as it were? Do they have the where-with-all to embark upon such a route? In part, an answer to this must be a matter of judgement, but when one looks around at the countries included in my list of large and important candidates mentioned above one is less than convinced. Take the case of China. This country is in a mess, though it probably presents the most important case for a development strategy, and what happens there is going to be of vital importance to the rest of the world in terms of the image of development that it can project. What one has, however, is a moribund political leadership desperate to cling onto political authority at any cost, large and vital chunks of the industrial infrastructure still in public control (owned directly by the central state, municipal authorities or the PLA) which are for all intents and purposes insolvent and impossibly inefficient, an almost unreformable financial system which is also effectively insolvent and overburdened with bad debts, a serious neglect of the rural peasantry, rapid and unplanned urban and coastal migration with attendant gross inequalities (which may be growing), and a classic 'open door' policy towards international trade and investment<sup>5</sup>. What ever else it is this is not the vision likely to foster a developmental state strategy, only more economic confusion and disappointment.

So the burden of the argument here is that in respect to the two aspects of a developmental state model outlined above; the ideological/discursive and the practical capacities elements, there is little evidence that any of the current key emerging market economies could mount an effective claim to be able to advance along this route. And what is more, the constraints upon this are now so burdensome in terms of the contemporary international economic environment in which the LDCs

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<sup>5</sup> This assessment of China is base upon a reading of Becker (2000), Chang (2001) and Studwell (2002) in particular. These are what might be termed 'popular pot-boilers' and the academic community because of this often scorns them. However, whilst they often exaggerate for their own purposes they have the virtue of being based upon first-hand experience and they are able to cut through the 'balanced' assessments of more academic tomes to get straight to the point.

exist – and which they have voluntarily joined, it must be added – that there is little prospect for any serious developmental state activity in the near future. The burden of the following section is to suggest that there is now a real need to provide an alternative, perhaps less ambitious developmental model that meets both these external constraints under which countries operate in the international system, and their changed ideological outlooks and internal capacities for action. However, this is not to abdicate the call for radical action and fierce struggles needed to launch a sensible development strategy. Constraints are there to be operated on and currently accepted outlooks to be changed.

Is There an Alternative Model? The '(re)Discovery' of Poverty  
and 'Managed Free Trade and Investment'

There are some signs of a softening of the neo-liberal stance from its ultra openness beginnings. This has come about through the international agencies rather sudden '(re)discovery' of poverty right at the end of the twentieth century (e.g. World Bank 2000 and 2002, HMSO 2000, HM Treasury 2002). Targets for poverty reductions have now become the common currency of international organization speak, institutionally embodied as the Millennium Development Goals (MDGs) (Devarajan, Miller & Swanson 2002)<sup>6</sup>. These are also attached to the new official 'development round' of WTO trade negotiations finally launched at Doha (after a false start in Seattle). Added to this we have a growing official concern with the consequences of disease and poor health for macroeconomic growth, poverty and development (WHO 2001). This 'rediscovery' of poverty after twenty years of globalization should not simply be cynically dismissed. It does serve to open up a new uncertainty about the outcomes from the neo-liberal turn in economic matters. But, of course, it remains double-edged. The emphasis on 'poverty' allows the issue of 'inequality' to be backgrounded. There has been a desperate flurry of activity to bolster the 'we have all benefited from globalization' thesis with a display of evidence that absolute poverty has been reduced internationally (or not got worse). But international

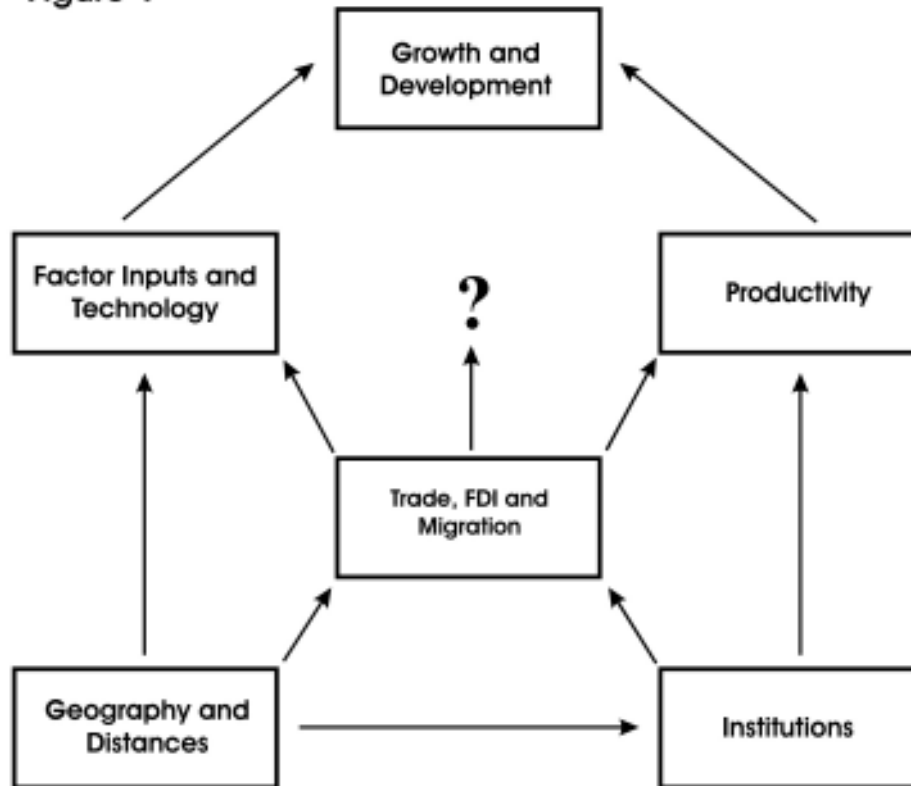
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<sup>6</sup> These MDGs involve a range of welfare indicators, involving improvements in health, education, gender equality, the environment, as well as poverty as such. They were inaugurated at the UN Millennium Summit in September 2000 (see UN 2001 and Devarajan, Miller & Swanson 2002). There is now even an official World Bank poverty web-site.

inequalities are a somewhat different matter, and here the evidence is much less sure-footed (see above). Indeed, it looks as though the trend in international inequalities has worsened during this period of globalization. In addition, this reassessment of the consequences of neo-liberal globalization programme has not totally broken with its intellectual underpinnings. That programme is still in place, if now hedged and nuanced in different ways (see in particular the British Governments ringing endorsement of the fight against poverty whilst still adhering to the basic model of open globalization – HMSO 2000 and HM Treasury 2002). The supposed link between 'openness' and growth is still strongly reaffirmed at the official level, but even this is now subject to a serious challenge. Indeed, it is one of the great services to a new conception of economic development that Dani Rodrik has provided with his challenge to the centrality of a necessary relationship between openness and growth (Rodrik 1999, 2002). Rodrik's analysis has become increasingly sensitive to the particular institutional settings in developing countries, recognizing that there is no single institutional configuration that guarantees economic success. All successful economies have developed their own distinctive style of capitalist development. And similarly with capital account convertibility. An open trade and investment regime will not, on its own, set the path for economic development.

The spirit of Rodrik's corrective to the classic neo-liberal model can be summed in a diagram like that shown as Figure 1. On the first line we have the traditional 'closed economy' model of factor inputs and technological embodiments combining to produce economic growth (usually presented in a production function type framework). The introduction of an 'external sector' raises the issues about how and to what extent trade, FDI and migration affect these factor inputs/technological embodiments and productivity, and how these in turn enhanced the growth process. This is the subject of the intense debate about globalization and growth referred to above, which is not settled. But this is about as far as the conventional approach goes. What are increasingly being pressed into the analysis are two further considerations, however. The first of these is the role of institutions in affecting these matters, and here it is recognized that this does not mean just the institutions of 'good governance' so beloved of the IMF and the World Bank, but a range of differentiated institutional mechanisms as suits national circumstances. Finally there is a growing concern with how geography and distance affects these other elements, which included things like the role of disease and

Figure 1



health mentioned above (which is broadly related to geography) (see Thompson 2002).

Thus, whilst it would be tempting to dismiss all this out of hand as yet just another attempt to re-affirm a traditional approach, this is no longer possible in quite that way. A more complex and differentiated story is emerging. For the rest of this paper I outline the components of what could amount to an alternative 'little model of development' that meets some of the implications of the analysis conducted earlier in the article and which is presented in the spirit of the issues just considered in this section. It is not directly linked to all of these, it is not comprehensive in its coverage, nor is it that coherent. Trying to think about these issues is a very difficult matter I find, but a necessary one. What is described here, therefore, is still preliminary to some large extent.



For want of a better terminology I call this 'managed free trade and investment in the interests of economic development'. This seeming oxymoron is designed to sum up a series of features that precisely capture the sometimes contradictory and necessarily ambiguous nature of development policy possibilities in the current era.

1) The idea of '*managed free trade*' is meant to signal that *protectionism* should be considered without any merit. Thus, although governments might take a strategic view of their trading links and policies, this has got to be done within the basic framework of WTO rules and negotiations (which are not necessarily set for all time). In particular LDC governments should press for the greatest openness by the USA and the EU, which are the real markets for LDC goods. The successful East Asian 'developmental state' economies of the past were the ones that could penetrate these markets most effectively, even within a regime of hostile trade barriers, and this remains true under contemporary conditions. It should also be remembered that tariff reductions on agricultural products—a staple claim made on behalf of the LDCs—is unlikely to benefit them much in the first instance since this would affect the large and efficient agricultural producers of the Cairns Group foremost. This is part of the critique of the neo-liberal emphasis on 'external trade barriers' as the key to economic success. The key, rather, is wider market access, not 'at border' barriers to trade as such.

2) A second broad area for consideration involves financial issues. Here debt relief has become a key demand. But, in the case of the UK for instance, this has been linked with further liberalization and openness associated with the supposed benefits of continued and deeper 'globalization' (HM Treasury 2002). And debt relief by itself is not going to launch a serious development programme. It is only an amelioratory and purgative policy. What should be considered more fully under this heading are innovative measures to 'control' short-term capital flows, which have proved to be destabilizing to any well constructed development programme, and no rapid move to complete capital account convertibility for long-term capital. There are various quite legitimate methods of management available here, which should be strongly reconsidered.

In addition, in this context, a strategic engagement with FDI and MNCs is called for, not a policy of complete 'openness' to any advance from foreign based capital. Licensing, domestic content agreements, technological partnerships, and the like can be invoked here. In addition, a key to a sustainable domestically based investment

strategy is domestic savings. Everything possible should be done to generate and preserve the domestic content of savings. This was another central feature of successful developmental state activity.

3) An especial emphasis on education is needed. Human capital will prove to be the major positive benefit for a future successful developmental process. And this needs to be considered alongside a reasonable, universal, but modest 'welfare benefit system' that cushions those who fall through the development net, or whose security is threatened through no fault of their own, etc.

4) The maintenance of rural incomes was pointed out above as a neglected priority. How is this to be achieved? Targeted agricultural price support mechanisms are one obvious policy, as are focussed and time limited subsidies to aid transition situations. The advanced countries can hardly complain about this given their own policies towards agricultural support.

5) Added to this are issues of environmental standards. Here it seems perfectly reasonable to press these upon the LDCs if those who want them are prepared to pay for them, which means that consumers in the rich countries must bear the burden. It is unfair to expect the LDCs to meet all the costs themselves. The same goes for 'labour standards'.

The LDCs have got to export *something*. They cannot generate foreign currency otherwise. Thus to restrict them with too many unaided constraints involving standards of various kinds is pointless. Equally in the case of their involvement with 'branded' production. Branded manufacture is in many ways much better than non-branded production, the only real alternative in most cases. Non-branded production is more easily hidden in domestically owned 'sweat-shops' and the like, where working conditions are likely to be much worse than in those plants linked in one way or another to an MNC supply chain. These latter can at least be more easily exposed and pressure brought to bear to change intolerable working practices.

6) Probably what is a more pernicious aspect of the neo-liberal model than its emphasis on 'free trade' and 'openness' is the push for a single institutional complex that has to be adhered to by all LDCs and emerging economies alike if they are to receive favourable attention by the international organizations of governance in terms of 'conditionality' requirements, sanctioning of policy initiatives, short-term financial support, etc. And here is the opportunity to press and support a diversity of local and regional institutional responses to development needs. In particular

there can be a series of regional initiatives, involving free trade areas, development banks, the emergence of regional capital markets, alternative balance of payments support mechanisms, etc., all of which can go to help support countries in difficulties from outside of the traditional global institutions. The East-Asian example is useful here where there is an active programme for developing a regional bond market and a regional IMF-type body. The construction of alternative and to some extent 'competitive' regional bodies of this type can be used to stimulate debate about institutional innovation and bring some pressure to bear on the existing global bodies for their accountability and 'democratization'.

#### Conclusions

These are not a very unexpected set of priorities perhaps. But seen together they could make up the beginnings of a sensible and realistic package of measures. This is one better attuned to the circumstance of the contemporary world, one that does not foster the now unrealistic expectations of a developmental state model or the pernicious and self-defeating policies that further deepening of the neo-liberal programme would produce.

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