

9.

Political Structure and Change in the International Economic Order: The North–South Dimension

JOHN GERARD RUGGIE

THE PRECEDING CHAPTERS in this volume have focused on the national structures and strategies vis-à-vis the international economy by means of which a variety of countries have sought to achieve significant and sustainable welfare gains. We opted for a comparative rather than a global approach largely to balance the recent bias in the political economy literature, which has come to stress the determin-

I acknowledge with appreciation the material support provided by the Institute of War and Peace Studies at Columbia University, the research assistance of Jay Speakman, and the comments of Jock Finlayson, Jeff Frieden, Ernst Haas, Robert Keohane, and Mark Zacher.

ing role of international factors. We concluded that international factors constitute constraining and disposing forces, to be sure. But the ability to compensate for the one while exploiting the other is not itself simply a reflection of systemic determinants, as our case studies have shown. In this final chapter, however, we turn back to the international realm, in the attempt to discern the evolving patterns of systemic constraints and opportunities that await currently emerging and future industrializers.

Accordingly, my focus is the international economic order. This term is meant to comprise international economic regimes, on the one hand, and the international division of labor, on the other. Both depict institutional features of international economic relations. Broadly speaking, international economic regimes are governing arrangements, constructed by states, to coordinate their expectations and organize aspects of their behavior in such economic issue areas as monetary and trade relations. And the international division of labor refers to the configuration of productive capacity in the world economy, together with the patterns and terms of transaction flows among its constituent units. The relationship between the two, as the balance between authority and market domestically, is not fixed permanently but varies over time.

Protagonists in the so-called North–South Dialogue have tended to polarize around one or the other component part of the international economic order as embodying the key to enhancing the welfare of developing countries. The Group of 77, through its proposal for a New International Economic Order, has sought to restructure international economic regimes on the basis of redistributive principles. From their vantage point, changes in the international division of labor may alter the forms but not the fact of dependency. On the other side, those adhering to liberal economic principles stress the progressive contribution to national economic change that inheres in the international division of labor, which can be captured by instituting out-

ward-oriented development strategies. From this vantage point, international regime change of the sort proposed by the developing countries is both politically unrealistic and economically inefficient.

My purpose here is to discern how much elasticity there is in *either* international economic regimes *or* the international division of labor to accommodate the welfare demands of developing countries. This purpose involves me in two tasks. The first is to *describe* the recent evolution of international economic regimes and the international division of labor, with an eye toward any patterns of change that materially affect the developing countries. The second task is to *explain* such patterns of change that I uncover. To anticipate the gist of my argument: I find that neither international economic regimes nor the international division of labor is as elastic as the respective protagonists assume. At the same time, neither is quite as rigid as its detractors maintain. And in both cases, the range of possibilities is circumscribed by the deeper political structure that gives shape to the international economic order.

The paper is divided into three parts: first, I take up the issue of international economic regimes and regime change; second, I examine recent trends in the international division of labor; and third, I conclude with a brief depiction of the relationship between political structure and the international economic order, from which I infer future prospects for developing countries.

INTERNATIONAL ECONOMIC REGIMES

No representative of the developing countries claims that negotiations on the New International Economic Order have been a success. A recent report by the United Nations Director General for Development and International Economic Cooperation offers this assessment:

International economic co-operation since the sixth special session [of the UN General Assembly, held in 1974] has largely failed to overcome the world economic crisis and to move towards putting in place a viable economic program of international development. In particular, progress towards achieving the objectives of the new international order has been limited. Advances have been registered in several areas, but in some crucial fields, including money and finance, protection of the purchasing power of exports of developing countries and access to markets, the process of change is at an early stage. Most developing countries continue to be at a fundamental disadvantage in the principal markets in which they are either suppliers (commodities, manufactures and labour) or customers (finance and technology). Participation by the developing countries in the management of the international economic system remains inadequate.¹

And yet, despite this record, and despite the inability of participants after three years of preliminary talks on the so-called global round of negotiations to agree to its terms of reference, representatives of the developing countries persist in their expectation that fundamental change in the world economy can be accomplished through negotiations that would create new international economic regimes in areas where none now exist (commodities, transnational corporations, transfer of technology), and restructure existing regimes (as in monetary and trade relations) to reflect their particular needs. They have gained support from Northern social democrats, who maintain that a more equitable set of international economic relations would also be a more efficient one, in that the redistribution of wealth to the developing countries would, for example, trigger non-inflationary recovery in the world economy as a whole.²

1. Report of the Director General for Development and International Economic Cooperation, *Towards the New International Economic Order* (New York: United Nations, 1982), pp. 4–5; cf. Note by the Secretary General, "Reports of Organs and Organizations of the United Nations System on Progress Made Towards the Establishment of the New International Economic Order and Obstacles that Impede Its Success," UN Document A/S-11/6, July 25, 1980.

2. See, for example, the Report of Brandt Commission, *North-South: A Programme for Survival* (London: Pan Books, 1980).

The major industrialized countries have responded to demands for international economic regimes in new domains largely in a damage-limitation mode: drawing out negotiations as long as possible, making sure that their final instruments do the least possible harm to the ongoing conduct of private international economic transactions, and introducing their own concerns where and when possible. As for the second objective, the existing international regimes for money and trade were constructed by the capitalist countries to regulate critical aspects of their own behavior, and they directly affect their own collective welfare. Accordingly, one would expect this domain to be even more inhospitable to Third World demands for fundamental change. And it has been on such questions as internationally created reserves, the link between reserve creation and development assistance, and majoritarian control over the International Monetary Fund (IMF) and the World Bank. But there have also been some changes, as in the increased quantity and flexibility of IMF assistance, and in the granting of tariff preferences to developing countries. None of these changes fully reflects the substance of Third World demands, but, at the same time, they indicate that *some* change is possible even in the core regimes.

In sum, the continued commitment by the developing countries to the collective strategy of international regime change, together with the fact that the very core regimes have not been entirely immune to change, occasion the first set of analytical questions I hope to answer in this paper: what is the degree of elasticity in international economic regimes to accommodate the welfare demands of developing countries, and what explains it? I proceed by analyzing in some detail the evolution of the monetary and trade regimes, which, because of their centrality in the international economic order, serve as critical test cases, and then drawing on this experience to fashion a more general response to the questions I have posed. But first a definitional prolegomenon.

A more or less precise—and what is perhaps most important, a shared—definition of international regimes now exists in the literature: regimes are “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice.”³ These distinctions are important, if we are to keep track of what has and has not changed. Changes in principles and norms—in what I will call the normative structure of regimes—amount to a change *of* regimes. Changes in rules and procedures—in what I will call the instrumentalities of regimes—amount to a change *within* regimes. Since the challenge of the Third World is to the very principles of the monetary and trade regime, this will be my point of departure.

Governing Principles

In the earliest days of their respective ruminations about postwar international economic arrangements, both Harry Dexter White and John Maynard Keynes had concerned themselves with the problem of international investment.⁴ One of the mechanisms of systemic equilibration that had broken down during the interwar years was the timely provision of sufficient sums of investment capital. Great Britain

3. Stephen D. Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” *International Organization* (Spring 1982), 36:186; Krasner’s paper is the introduction to a special issue of *IO* on the topic of international regimes.

4. Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective* (New York: Columbia University Press, 1980); Armand van Dormael, *Bretton Woods: Birth of a Monetary System* (London: Macmillan, 1978); and Sir Roy Harrod, “Problems Perceived in the International Financial System,” in A. L. K. Acheson et al., eds., *Bretton Woods Revisited* (Toronto: University of Toronto Press, 1972).

had supplied them before World War I; after that war, the United States, having the capability to do so, instead behaved erratically, and succeeded in becoming an unbalanced creditor country.⁵ Neither White nor Keynes thought that private sources of investment funds could do the job alone. Accordingly, they both turned to intergovernmental schemes. White's first draft plan for an "Inter-Allied Bank" was even more ambitious than the corresponding design he produced for an "Inter-Allied Stabilization Fund." The Bank would have a capital stock of \$10 billion, the Fund's resources being set at \$5 billion. The Bank would have the short-term purpose of aiding postwar reconstruction, relief, and recovery. But, for the longer term,

It was designed also to eliminate worldwide fluctuations of a financial origin and reduce the likelihood, intensity, and duration of worldwide depressions; to stabilize the prices of essential raw materials; and more generally to raise the productivity and living standards of its members. It was specifically empowered to buy and sell gold and securities of participating governments, to discount and rediscount bills and acceptances, to issue notes, and to make long-term loans at very low rates of interest.⁶

Keynes' proposal was more tentative, since for him much would hinge on the fate of his "Clearing Union," a vastly more substantial version of a stabilization fund based on liberal overdraft provisions. Keynes had first addressed the problem of international investment in the series of prescriptive commentaries that he published on the occasion of the World Economic Conference in 1933, recommending concerted efforts by national authorities to provide sufficient levels of investment capital via loans.⁷ He returned to this theme and carried his recommendation a step further when, in draft plans for the Clearing Union, he made reference to

5. Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973).

6. Gardner, p. 75. The very first draft of this plan is undated, but apparently was produced in late 1941 or early 1942.

7. J. M. Keynes, *The Means to Prosperity*, as cited by Harrod.

a separate "International Development Board." This was an institutional analogue of White's Inter-Allied Bank, though presumably it would have done more coordinating of national investment plans and less international lending.⁸

The point to note about these schemes is their underlying vision: apart from dealing with immediate reconstruction needs, both sought to internationalize a measure of public authority so as to facilitate the counter-cyclical management of the international economy as a whole. As implied by the term Keynes chose to describe the institution he proposed, the result would have been a regime with the *development of the world economy* as its mission—much the sort of thing the Brandt Commission would propose again forty years later. Neither the United Kingdom nor the United States were interested in so constraining their national discretion or the future of their national capital markets. And the International Bank for Reconstruction and Development (World Bank) that ultimately emerged from the Anglo-American negotiations of course was barely a pale shadow of White's first draft plan.

Development in a different sense than that denoted by Keynes' Development Board become an issue of contention during the negotiations on postwar monetary and trade arrangements. Here, the developing countries urged that specific references to the objective of *their* development be included in the instruments being negotiated. In the event, such references were systematically excluded from the Final Acts.

For example, in the monetary negotiations, the working draft of Article I (ii) of the International Monetary Fund, delineating the Fund's second of six purposes, read as follows: "To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which

8. I say "presumably" because the terms of reference of this Board were never clearly stipulated.

must be a primary objective of economic policy.”⁹ The Indian delegation contended that the concepts of high levels of employment and real income had little meaning in countries like India, and urged that the draft article be amended so as also to reflect the special conditions and needs of developing countries. This was resisted by the United States and the United Kingdom, on the grounds that it would confuse the functions of the Fund with those of the Bank. Debate continued until the very end of the Bretton Woods conference; in the final compromise, helped along by Australia, “promotion” was added before “maintenance” of employment and income, and “the development of the productive resources of all members” inserted as a third presumed by-product of the facilitation of the expansion of international trade.¹⁰

On the trade side, during the negotiations on the Charter of the International Trade Organization (ITO), Britain succeeded in having the pursuit of full employment raised to an international obligation of governments, and to gain exceptions to nondiscrimination and the nonuse of quantitative restrictions on imports for a variety of specified purposes. At the Geneva and Havana sessions of these negotiations, the developing countries sought similarly to have their economic development raised to the level of one of the primary objectives of the ITO, and to gain specified exemptions so as to safeguard national economic development plans. “The United States and Britain joined forces in opposing these exceptions.”¹¹ While many of the former

9. This debate is discussed in detail in Joseph Gold, “. . . To Contribute Thereby to . . . Development . . .”: Aspects of the Relations of the International Monetary Fund with its Developing Members,” *Columbia Journal of Transnational Law* (Fall 1971), vol. 10.

10. The final version of Article I (ii) thus reads: “To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”

11. Gardner, p. 365.

provisions found their way into the General Agreement on Tariffs and Trade (GATT) after the defeat of the ITO Charter, none of the latter did. Nor, of course, did the GATT encompass several areas of commercial policy included in the ITO Charter which were of particular importance to developing countries, above all international commodity agreements.

Thus, we can readily see the effects of *state power* in the negotiations on the postwar economic regimes. But—if toward neither the development of the international economy as a whole, nor the development of what were then called economically backward or underdeveloped countries—toward what *collective purpose* or “actors’ expectations” was state power deployed? The answer lies in a particular configuration of forces that had emerged in the international political economy by the end of World War II. This configuration was the product of two transformations, one in interstate power and the other in domestic authority. The first was reflected in the ascendancy of the United States, which assured that liberalization would be part of any postwar institutional reconstruction.¹² The second was reflected in the shift that had occurred in all of the advanced capitalist countries, in the mediating role of the state between market and society, whereby the state had come to assume far greater responsibilities for securing high levels of domestic income and employment. This transformation assured that domestic stabilization would be part of any postwar institutional reconstruction.¹³ The conjunction of these two principles defined the fundamental parameters—the collective purpose—of the postwar economic regimes.

12. This was particularly important on the trade side of the negotiations, where liberalization would have been unlikely without extensive U.S. prodding. It was less important on the monetary side, where broad consensus existed on the general features of a desirable postwar arrangement.

13. The shift in domestic authority occurred unequally among the major capitalist countries, and remained most ambivalent in the United States. This difference complicated negotiations on postwar arrangements, as well as their subsequent evolution, but did not fundamentally alter the fact that stabilization would be one of their two integral components.

Under the classical gold standard, levels of domestic prices and economic activity were strongly conditioned if not directly determined by the balance of payments. The adjustment process ultimately was geared toward securing external stability, that is, the gold parity of one's currency, an objective that was widely adhered to in the last third of the nineteenth century. The interwar period had established the primacy of domestic economic and social objectives over external financial discipline, but by the 1930s the international economic order lay in ruins. The task of postwar institutional reconstruction was to maneuver between these two extremes, and to resolve the dilemma between internal and external stability by striking a compromise between the two rather than by sacrificing one to the other. An institutional formula was devised that I have elsewhere termed the compromise of embedded liberalism: "unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism."¹⁴ Under this compromise formula, the postwar regimes for money and trade would be designed to provide, at one and the same time, vehicles for liberalization as well as means for stabilization. And they would be designed to stabilize, at one and the same time, the *domestic consequences of external developments* that impinged on the pursuit by governments of their new economic and social objectives, as well as the *external consequences of*

14. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* (Spring 1982), 36:393; the following paragraph paraphrases pp. 393–97 of that paper. The concept is adapted from Karl Polanyi, who distinguished two polar types of economic orders: *embedded*—wherein economic relations are systematically constrained by and made to serve broader social relationships and ends, like redistributive exchange for the sake of social integration and harmony; and *disembedded*—wherein economic relations are taken to be autonomous and responsive only to their own endogenous laws of motion. Laissez-faire liberalism falls toward the latter end of the continuum; the notion of embedded liberalism is designed to denote a modification in the direction of the other polar type. Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944), ch. 4.

the *domestic measures* that governments undertook in the pursuit of these objectives.

This formula was reflected in the terms of reference of the IMF and the GATT. Briefly, the IMF provided for free and stable exchanges, on the one hand, and, on the other, a "double screen" to cushion the domestic economy against balance of payments constraints. The double screen in turn consisted of short-term assistance, made available "conditionally" by the IMF,¹⁵ to finance payments deficits on current account, and so as to correct "fundamental disequilibrium," the ability to change exchange rates with Fund concurrence. If the exchange rate change was less than ten percent, the Fund could not object, nor could it oppose *any* exchange rate change on the grounds that the domestic social or political policies of the country requesting the change had led to the disequilibrium that made it necessary. As for the GATT, it made obligatory the most-favored nation rule and prohibited quantitative restrictions on imports. But it allowed a blanket exception for all existing preferential arrangements and quantitative restrictions were deemed suitable measures for safeguarding the balance of payments—explicitly including payments difficulties that resulted from domestic full employment policies. The substantial reduction of tariffs was also called for but not made obligatory, and it was coupled with several escape mechanisms that would make it possible under specified circumstances to protect domestic producers or to avoid altogether obligations assumed under the GATT. Multilateral surveillance of

15. References to IMF conditionality in the form it subsequently took are nowhere to be found in the Articles of Agreement. Countries were required to make "representations," but there was no clear indication what, if anything, the Fund could do if it disapproved of such representations. At the insistence of the United States, the Executive Directors adopted an "interpretation" of the Articles in 1947, to the effect that the Fund could "challenge" or "postpone or reject the request, or accept it *subject to conditions*." The relevant documents are excerpted in J. Keith Horsefield, *The IMF, 1945–1965*, vol. 3 (Washington, D.C.: International Monetary Fund, 1969); the citation is from p. 227, emphasis added.

most escape mechanisms was also provided for, as were procedures for the settlement of trade-related disputes.

What specific arrangements were made, then, for the developing countries in the initial postwar scheme of things? Once the World Bank discovered that it had little if any role to play in European reconstruction, it turned to become an agency for concessional project lending exclusively to developing countries.¹⁶ The United Nations instituted what it called an Expanded Program of Technical Assistance in 1949, and in 1957, after much resistance by the industrialized countries, created a modest and voluntary Special Fund for the purpose of stimulating capital investment in developing countries. (Eventually, these two bodies were merged to form the United Nations Development Program.) From these beginnings in the limited provision of international technical and financial aid for specific projects in developing countries, a “quasi-regime” for international development assistance gradually came into being. It included a generalized commitment to increase the aggregate volume and the concessional component of resource flows to developing countries, to share the burden of these flows equitably among donor countries, and to ensure that the terms of assistance not give a competitive advantage to any of the donor countries.¹⁷ Andrew Shonfield dates the advent of this quasi-regime to coincide with the creation of the Organization for Economic Co-operation and Development (OECD) and its Development Assistance Committee in 1961 – which also marked the first year of the First United Nations Decade

16. The early evolution of the Bank is traced by Raymond F. Mikesell, “The Emergence of the World Bank as a Development Institution,” in Acheson, et al., *Bretton Woods Revisited*. Mikesell points out that the Bank got off to a slow start: by 1950, it had authorized only \$350 million in loans to developing countries, and disbursed but \$100 million.

17. I use the term “quasi-regime” for three reasons (1) it was fully understood by the donor countries that certain norms, particularly those concerning the quantity of aid (0.7% GNP for ODA, for example), represented aspirations rather than commitments; (2) the various component parts of the would-be regime were al-

for Development. However, even at this late date, Shonfield maintains,

That nations should seek to establish international rules and conventions about it [development assistance] was an unfamiliar idea. The colonial empires were still in the last stages of being dismantled, and the natural answer seemed to be to leave it to each of the Western nations concerned to take the lead in looking after its colonies or ex-colonies. It was the United States which insisted that the issue was a serious international problem. Its practical aim was to induce other nations, particularly those without colonial ties and traditions, like Germany, to share with the Americans the burden of providing aid for development.¹⁸

In sum, the interstate ascendancy of the United States, coupled with the prevailing form of state/society relations that emerged in the advanced capitalist world from the Great Depression, produced a mutually conditioning relationship between international liberalization and domestic stabilization as the governing principles of the postwar monetary and trade regimes. The norms of uniformity and reciprocity defined the fundamental standards of behavior in the two regimes. Development of the international economy as a whole remained collectively unregulated. And development assistance to the developing countries became the subject of a quasi-regime, the informing logic of which initially derived from potential inter-capitalist competition and the desire for burden-sharing as much as it did from a positive commitment to the goal of development.

Regime Performance

Until the concept of a New International Economic Order came to constitute the agenda for the North–South Dia-

most completely unrelated; and (3) the compliance mechanisms were few and weak (e.g., the prisoner's dilemma situation with regard to avoiding competitive terms of aid was partially attenuated by OECD collective review processes).

18. Shonfield, "Introduction: Past Trends and New Factors," in Shonfield, ed., *International Economic Relations of the Western World* (London: Oxford University Press, for the Royal Institute of International Affairs, 1976), 2:10.

logue, the major efforts by developing countries to change the institutional arrangements of the monetary and trade regimes were devoted to appending “developmental” components to them. That is to say, they sought to take care of their own particularistic needs *within* the two regimes. This began to change in the trade field with the creation of the United Nations Conference on Trade and Development (UNCTAD), and with the advent of the NIEO the objectives of developing countries came to encompass nothing short of recasting the very normative structure of the two regimes. This is to be accomplished by redefining their governing principles, so that the liberalization-stabilization nexus would yield to redistributive concerns, and by operationalizing the principle of redistribution as norms of positive discrimination in favor of developing countries, to replace the norms of uniformity and reciprocity. My intent below is to discern and assess the patterns and determinants of change in the two regimes toward accommodating the developing countries.

To assess patterns of regime change, it is necessary first to establish a baseline in the actual performance of the regimes in question. For obvious reasons, no comprehensive examination of the monetary and trade regimes can be attempted here. Nor, however, is one necessary for present purposes. Both of these regimes allocate tangible resources that are easily measured and summarized, and the distribution of which yields indicators that speak to the specific issues at hand.

1. IMF Drawings. One set of convenient indicators is the drawings made available by the IMF. As noted above, they are one of the “stabilization” components of the post-war monetary regime, designed for short-term balance of payments assistance (historically for one year, though back-to-back arrangements were evolved) to cushion the domestic economy from temporary imbalances in its external accounts. I therefore begin my brief baseline sketch with an

overview of IMF drawings by several groups of countries between 1947 and 1981.¹⁹ These years can be divided into three analytically distinct periods: reconstruction (1947–60), growth (1961–73), and adjustment (1974–81). Table 9.1 presents various summary measures.

As is well known, the IMF got off to a slow start as a lending institution. Countries benefiting from Marshall Plan aid were prohibited from drawing on the resources of the Fund, and in those early years the Fund made it extremely difficult for developing countries to qualify for assistance. As a result, new drawings dropped to zero in 1950, and did not exceed 1947 levels again until 1956.²⁰ For the period as a whole, the total drawings disbursed by the IMF were not quite \$3.7 billion, a very modest sum.²¹ The pattern of drawings indicates few surprises. The United States of course required no assistance at this time. The industrialized “primary exporters” also emerged from the war with relatively strong economies, and drew very little. The small European industrialized states drew a proportion of Fund resources that was roughly commensurate with their quota. The major beneficiary was the group of “other” major industrialized countries, which utilized by far the largest proportion of Fund resources. However, as a ratio of quotas (and, even more so, of their share of world trade), the non-oil developing countries drew more heavily.

During the second period, a time of rapid growth in the

19. Two criteria determined the categorization of groups. First it had to reflect distinct attributes of countries in terms of foreign trade and, presumably, therefore, in terms of their respective needs for payments financing. Second, I wanted as much as possible to have the categories reflect similar distinctions used elsewhere in this book. No major anomalies resulted from applying these two different criteria; Denmark, which by the first criterion might have been placed in the industrialized “primary exporters” category, remains in Katzenstein’s group of “small European industrialized” countries.

20. Fred L. Block, *The Origins of International Economic Disorder* (Berkeley: University of California Press, 1977), ch. 5; and Susan Strange, *International Monetary Relations*, vol. 2 of Shonfield, ed., ch. 4.

21. For example, even in nominal terms, the amount was less than the \$3.75 billion stabilization loan from the United States to Great Britain in 1945.

TABLE 9. 1: Drawings from International Monetary Fund, 1947–1981 (All Facilities)

	1947–60				1961–73				1974–81			
	% Total Quotas (1960)	% Total Drawings	$\frac{D}{Q}$ (%) ^a	$\frac{\%D^b}{\%Q}$	% Total Quotas (1973)	% Total Drawings	$\frac{D}{Q}$ (%)	$\frac{\%D}{\%Q}$	% Total Quotas (1981)	% Total Drawings	$\frac{D}{Q}$ (%)	$\frac{\%D}{\%Q}$
United States	28.0	–	–	–	23.0	16.3	53.0	.71	20.8	6.4	18.0	.31
Other major industrial ^c	29.1	44.2	37.9	1.52	27.7	44.7	120.3	1.61	24.5	21.9	52.5	.89
Small European industrial ^d	8.2	7.6	23.3	.93	8.4	1.5	13.3	.18	8.0	.7	5.3	.09
Industrial "primary exporters" ^e	7.8	3.2	10.2	.41	8.5	6.4	56.4	.75	7.6	4.9	37.8	.64
Non-European NICs ^f	not applicable ^h				5.1	1.8	26.7	.35	4.4	5.9	127.7	1.34
Other non-oil LDCs ^g	20.3	33.8	44.1	1.67	17.3	22.3	96.4	1.29	19.5	43.4	130.7	2.22

SOURCE: International Monetary Fund, *International Financial Statistics, 1947–81*.

NOTE: Drawings are cumulative drawings during each period, from all available facilities. Quotas are as of the last year of each period. As a result, ratios involving the two have no precise meaning in absolute terms, but do indicate general orders of magnitude and permit valid intergroup comparisons to be made.

^a Cumulative drawings during the period, divided by end-of-period quotas, multiplied by 100.

^b Column 2 divided by column 1. This is a measure of "relative use," which averages to 1.0 for all members.

^c France, Germany, Italy, Japan, United Kingdom.

^d Austria, Belgium, Denmark, Netherlands, Norway, Sweden.

^e Australia, Canada, Finland, New Zealand, South Africa. This is a group of industrialized countries for which agriculture constitutes a relatively high proportion of GDP and the export of primary products a relatively high proportion of total exports.

^f The OECD currently categorizes as non-European NICs Brazil, Mexico, Hong Kong, South Korea, Singapore, and Taiwan; all but Hong Kong, which is not an IMF member, are included here.

^g Non-oil developing countries are defined as non-OPEC LDCs (Mexico is included among the non-European NICs); the category therefore does include some net exporters of oil, though all of them are capital deficient.

^h Since the term NICs was not applicable before the 1960s, this row has been merged with "other non-oil LDCs." In any case, only Brazil and Mexico from among the future NICs made drawings, and Brazil accounted for over 80% of their combined total.

world economy, the Fund disbursed almost \$22 billion. Two new low-conditionality facilities were established within the IMF during this period to benefit primarily the developing countries. In 1963, a Compensatory Financing Facility was established to help finance payments deficits due to shortfalls in export earnings from primary products over which the exporting country had no control. And a Buffer Stock Facility was added in 1969, to be used under certain circumstances to help finance national contributions to existing multilateral buffer stocks. Access to the former was so restrictive that it was little used until the 1970s, when it was made more flexible; and the eligibility rules of the latter were such that total drawings during its entire first decade barely exceeded SDR 100 million. The most striking feature in the distribution of drawings in the second period is its utter dominance by the industrialized countries. Of all industrialized groups, only the small European states decreased their proportionate claims on Fund resources, and the decrease was substantial.²² The United States, which had been financing its growing payments deficits unilaterally by virtue of being the reserve currency country, drew on the Fund. The share drawn by the industrialized "primary exporters" doubled. And the "other" major industrialized countries, due largely to successive sterling crises, exceeded every group on every measure.²³ The newly industrializing countries

22. This is consistent with Katzenstein's hypothesis in chapter 2, above, concerning the greater reliance by these countries on internal adjustment mechanisms.

23. For the purposes of lending to the largest industrialized countries, and particularly out of fear of the possible consequences of a simultaneous run on sterling and the dollar, the General Arrangement to Borrow was instituted in 1962. By means of this arrangement, the so-called Group of 10 industrialized country members of the IMF plus Switzerland, agreed among themselves to supplement allocations of resources to themselves. The Fund formally initiates the process and administers the drawing in accordance with its standard procedures, but serious negotiations on the lending package are confined within the group. It should be noted that Fund borrowing from its member countries and Switzerland for the purpose of relending has since become common; in 1981, a higher proportion of Fund commitments involved borrowed resources than ordinary resources (*IMF Survey*, August 30, 1982, p. 269). The GAB is distinct, however, in formally cir-

emerged as a distinct subset of developing countries during this period; their use of Fund resources was relatively slight. The share of other non-oil developing countries, of whom there were far more than in the first period, was considerably less in relative terms than it had been in the first period.

The period of turbulence and adjustment since 1974 exhibits a sharp reversal from previous patterns. The Fund disbursed more than \$35 billion. And it established several new facilities: a low-conditionality Oil Facility (1974–75), from which the industrialized countries drew some 60 percent of the total available, and the high-conditionality Extended Facility (1974) and Supplementary Financing Facility (1977), aimed primarily at developing countries. The relative share of total drawings accounted for by the non-oil developing countries, including the NICs,²⁴ more than doubled during this period. The relative shares of all groups of industrialized countries declined with small European states virtually disappearing from the scene. These overall patterns, however, mask the suddenness of shifts within the period. Between 1974–78, drawings by all industrialized and all developing countries were roughly even. Indeed, in 1977 and again in 1978, the developing countries actually repaid the Fund more for previous drawings than they took out in new drawings. Then came 1979. From 1979 to 1981, the industrialized countries made no drawings at all; they had come to rely exclusively on private capital markets for their payments financing.²⁵ Drawings by the developing countries doubled from 1979 to 1980, and then rose by another 50 percent from 1980 to 1981. New commitments ap-

cumscribing eligible recipients and in limiting the decision-making power of the IMF Executive Directors as a whole essentially to ratifying an arrangement reached by one of its subgroups. (At the time of writing, there are reports of negotiations to transform the GAB into an emergency fund with no a priori access restrictions.)

24. As a group, the NICs drew relatively little; over half of their combined total is accounted for by South Korea alone.

25. For a general discussion of this trend, see Benjamin J. Cohen, "Balance-of-Payments Financing: Evolution of a Regime," *International Organization* (Spring 1982), vol. 36.

proved by the IMF during 1981 totaled SDR 15.2 billion, all to developing countries.²⁶ This total included a drawing by India in the amount of SDR 5 billion, the largest drawing in IMF history and equivalent to 291 percent of India's quota, made for the purpose *not* of traditional short-term balance of payments assistance, but to facilitate "structural adjustment . . . with a view to achieving balance of payments viability in the medium term."²⁷

In sum, the patterns of IMF drawings over the course of the past thirty-five years do indicate some degree of change affecting the developing countries. The questions of *how* much change there has been in this direction, what has determined it, and what are its limits, are taken up after a corresponding overview of the postwar trade regime.

2. *Trade Liberalization, Preferences, and Escape Mechanisms.* On the trade side, several convenient indicators exist that can be appropriately utilized for our purposes. One of these is simply the effect of trade liberalization over time on the distribution of world trade. A major purpose of the GATT has been to reduce tariff barriers to trade. And, as a result of seven rounds of multilateral negotiations since 1947, industrial tariffs have been virtually eliminated as trade barriers. Though it is not possible to establish a direct cause/effect relationship, it is the case that world trade during these same years has grown at historically unprecedented rates, both in absolute terms and proportionately to world production.²⁸ Despite these trends, however, the share

26. *IMF Survey*, January 25, 1982, table, p. 28.

27. *IMF Survey*, November 23, 1981, p. 365.

28. For example, from 1963 to 1973, world exports of all products rose at an average annual rate of six percent, of manufactures by eleven percent; world production of all products during that decade rose at a corresponding rate of three percent, and of manufactures by seven percent. During 1973–80, the rate of increase of both exports and production was smaller, but, except for 1975 (and again in 1981), trade continued to outpace production. "World Interdependence: Trade," *OECD Observer* (January 1982), no. 114, p. 6, and *IMF Survey*, August 16, 1982, p. 241. The problem of relating liberalization directly to gains in trade

of world exports accounted for by developing countries decreased steadily from 1950, when it stood at just under one-third, until 1973, when it stood at less than one-fifth. The non-oil developing countries accounted for roughly one-fourth of world exports in 1950, one-tenth in 1973. Overall shares of developing countries have since risen, led by the oil-exporting countries, and followed by a modest increase for the newly industrializing countries. The relative share of all other developing countries continues to decline.²⁹

Ironically, while the only claim that can be made about the impact of the trade regime on trade expansion "is that since World War II it has provided a favourable environment for the expansion of trade, within which all factors tending towards this expansion have been given a pretty free rein,"³⁰ the character of the trade regime can be related more directly to the declining share of the developing countries. The overwhelming proportion of the expansion in world trade from the 1950s into the 1970s resulted from simultaneous increases in exports and imports within the same industrial sectors, that is, from intra-sectoral or intra-industry specialization.³¹ Thus, the division of labor reflected in international trade flows increasingly was based on "individual firms narrowing their product range," not individual countries dif-

volume is one of multiple collinearity: too many factors were pushing in the same direction; see Gerard Curzon and Victoria Curzon, "The Management of Trade Relations in the GATT," in Shonfield, ed., *International Economic Relations*, vol. 1. A review of econometric studies going back to 1959 suggests that the direct effects of specific tariff reductions in fact have been modest: Mordechai Kreinin and Lawrence Officer, "Tariff Reductions Under the Tokyo Round," *Weltwirtschaftliches Archiv* (1979), no. 115.

29. UNCTAD, *Trade and Development Report, 1981* (New York: United Nations, 1981), table A.4, p. 116. The effects of the Tokyo Round are not expected to alter this trend: Peter J. Ginman, Thomas A. Pugel, and Ingo Walter, "Tokyo Round Tariff Concessions and Exports from Developing Countries," *Trade and Development* (August 1980), vol. 2.

30. Curzon and Curzon, p. 143.

31. For a good discussion of intra-industry trade in the context of developments in the trade regime, see Charles Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," *International Organization* (Spring 1982), vol. 36.

ferentiating their export structures.³² This division of labor until recently bypassed the developing countries, except in their derivative capacities as suppliers of raw material inputs and as marginal export markets. And it is a division of labor that has been strongly shaped by the successive rounds of GATT tariff reductions, which "very much favor intra-industry over interindustry specialization."³³ A variety of economic explanations have been advanced to account for this departure from the classical case for free trade,³⁴ but on reflection it may be seen as a direct and even necessary consequence of the governing principles of the post-war trade regime. For governments pursuing stabilization along with liberalization, it was quite safe to liberalize this kind of trade. As a recent GATT study has found, in relative terms domestic adjustment costs have been "surprisingly" low.³⁵ Moreover, intra-sectoral specialization poses none of the political vulnerabilities to states that inter-sectoral specialization poses. And all the while it offers gains from trade. In contrast, the GATT has made little progress in liberalizing agricultural trade. And where international trade is based on a more classical notion of comparative advantage, as with the newly industrializing countries exploiting the advantage of low labor costs, quantitative restrictions on exports ("voluntary export restraints") and imports ("orderly marketing arrangements") abound.

The GATT has initiated no major changes to reverse the declining share of developing country exports. In 1957, it adopted a new text for Article XVIII of the General Agree-

32. Richard Blackhurst, Nicolas Marian and Jan Tumlrir, "Trade Liberalization, Protectionism, and Interdependence," *GATT Studies in International Trade* (November 1977), no. 5, p. 11.

33. Gary C. Hufbauer and John C. Chilas, "Specialization by Industrial Countries: Extent and Consequences," in Herbert Giersch, ed., *The International Division of Labour* (Tübingen: J.C.B. Mohr, 1974), p. 6. This and related sources are cited by Lipson.

34. For an early but still pertinent discussion, see Richard N. Cooper, *The Economics of Interdependence* (1968; New York: Columbia University Press, 1980).

35. Blackhurst et al., p. 11.

ment, which made it easier for developing countries with development-related payments difficulties to invoke this escape provision. And in 1964, coincident with the convening of the first UNCTAD, the GATT added a new chapter to the General Agreement concerning "Trade and Development." This chapter released members from the obligation of reciprocity in trade negotiations with developing countries without requiring anybody to undertake preferential action, and it established a Trade and Development Committee to scrutinize trade restrictions affecting the exports of developing countries without mandating it to seek their reduction.³⁶ UNCTAD, on the other hand, at its very first session in 1964, initiated a set of proposals for generalized, non-discriminatory, and nonreciprocal tariff preferences in favor of all developing countries. The Generalized System of Preferences (GSP), it was hoped, would stimulate industrialization in developing countries through increased exports to the industrialized countries.³⁷ In 1971, the GATT agreed to waive the provisions of Article I of the General Agreement, initially for a ten-year period, to permit this departure from the most-favored-nation norm. (The Tokyo Round of trade negotiations instituted a permanent enabling clause to this effect.) During the course of the GSP negotiations, the concept of all developing countries benefiting equally under a common system was replaced by individual national and regional schemes, within which the separate preference-granting parties would differentiate among beneficiaries and products. The last of the major schemes, that of the United States, was implemented in 1976.

Table 9.2 gives some indication of the effective coverage of the U.S. GSP, which differs in detail but not signifi-

36. For a recent overview of the relationship between international trade organizations and the developing countries, see Jock A. Finlayson and Mark W. Zacher, "International Trade Institutions and the North/South Dialogue," *International Journal* (Autumn 1981), vol. 36.

37. Branislav Gosovic, *UNCTAD: Conflict and Compromise* (Leiden: A. W. Sijthoff, 1972), ch. 3.

TABLE 9.2: United States Imports from GSP Beneficiaries, 1979

	(US \$ Million)				Percentage Shares		
	Total (1)	MFN Dutiable (2)	Covered by GSP (3)	Actual Preferential Imports (4)	(4)/(1)	(4)/(2)	(4)/(3)
All Beneficiaries	94531.7	38163.8	11725.2	6280.0	6.6	16.5	53.6
Major suppliers ^a	24597.6	16630.0	9581.8	4955.1	20.1	35.8	51.7
Least developed ^b	812.6	215.1	118.1	43.5	5.4	20.2	36.8

SOURCE: UNCTAD, Trade and Development Board, Special Committee on Preferences, "Generalized System of Preferences: Replies Received from Preference-Giving Countries: United States of America," UNCTAD Document TD/B/C.5/PREF/8 (February 20, 1981), Annex, table 1.

^aIncludes Argentina, Brazil, Chile, Dominican Republic, Hong Kong, South Korea, Mexico, Philippines, Singapore, Taiwan.

^bIncludes some twenty-four of the poorest developing countries.

cantly in order of magnitude from the other two major schemes, those of the EEC and of Japan (together, the three account for roughly 90 percent of all preferential imports by OECD countries). The GSP, of course, grants preferential treatment only to dutiable imports from beneficiary countries; as table 9.2 shows, these imports represent less than half of all imports from these countries, since raw materials and nonagricultural primary products, the major exports of many of them, by and large enter duty free to begin with. The table shows furthermore that only a fraction of dutiable imports are eligible for GSP treatment. So-called *ab initio* exclusions are based on a variety of criteria, including product type, country of origin, quotas, ceiling limitations, and safeguards to protect industry in the importing country. Lastly, the table shows that not all covered products actually obtain preferential status, since they may be subject to further exclusions based on, for example, how competitive a particular beneficiary is becoming with respect to a particular product.³⁸ The table also differentiates between the more

38. A good review of the various exclusion criteria and their effect may be found in UNCTAD, Trade and Development Board, Special Committee on Prefer-

industrialized and the least-developed of the developing countries, indicating that the former not only do better in relative terms, but account for nearly 80 percent of all preferential imports into the United States; the five newly industrializing countries listed in table 9.1 plus Hong Kong in turn account for fully 90 percent of all preferential imports from the “major supplier” category. The question that the table cannot answer is the extent to which the GSP has expanded developing country exports as opposed to having diverted them from one set of sectors to another. Specific findings vary widely, depending on the assumptions and methods of analysis used. The general consensus appears to be that the GSP has expanded developing country exports compared to what they would be in its absence, but only modestly so.³⁹

A third set of trade-related indicators is the use of GATT escape mechanisms. A number of these, it will be recalled, reflect the stabilization side of the embedded liberalism compromise, conditioning, and in turn being conditioned by, the counterpart principle of liberalization. These mechanisms give countries in difficulty the opportunity to control the extent of short-term adjustment and the pace of long-term adjustment necessitated by economic fluctuations and changes in international specialization. And they give the international trading community the opportunity to monitor their use and to insist that certain standards of behavior be adhered to. Table 9.3 summarizes patterns of invocation of

ences, “Differential Treatment in the Context of the Generalized System of Preferences,” UNCTAD Document TD/B/C.5/74, February 23, 1981.

39. Cf., Tracy Murray, “Evaluation of the Trade Benefits Under the United States Scheme of Generalized Preferences,” issued as UNCTAD, Trade and Development Board, Special Committee on Preferences, “Review of the Operation and Effects of the Generalized System of Preferences, Including the Effects on the Least Developed Among the Developing Countries, Landlocked and Island Developing Countries,” UNCTAD Document TD/B/C.5/66, February 20, 1980; Ginman et al., “Tokyo Round Tariff Concessions”; and Gerald K. Helleiner, “The New Industrial Protectionism and the Developing Countries,” *Trade and Development* (Spring 1979), vol. 1.

TABLE 9.3: Invocation of Major GATT Escape Clauses, 1947-81

	1947-60 (n = 213)					1961-73 (n = 217)					1974-81 (n = 150)				
	Balance of Payments ^a	Domestic Injury ^b	General Waiver ^c	% Total	% World Trade	Balance of Payments	Domestic Injury	General Waiver	% Total	% World Trade	Balance of Payments	Domestic Injury	General Waiver	% Total	% World Trade
	United States ^d	—	12	1	6.1	.44	1	4	2	3.2	.26	—	9	—	6.0
Other major industrial Small	29	1	1	14.6	.51	7	5	—	5.5	.17	2	—	—	1.3	.04
European Industrial "primary exporters"	25	1	1	12.7	.99	4	3	—	3.2	.22	—	1	—	.7	.05
Non-European NICs	42	5	4	23.9	2.7	34	22	—	25.8	3.3	4	30	—	22.7	3.6
Other non-oil LDCs						9	—	—	4.6	1.0	12	—	1	8.7	1.5
	55	—	5	28.2	1.7	46	1	13	27.6	3.7	50	—	3	35.3	4.4

SOURCES: For escape clauses: Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Documents*, vol. 1 - 4 and Supplements 1 - 28, 1952 - 1981; *idem.*, *GATT Activities, 1959 - 81*, 1960 - 82; GATT, "Modalities of Application of Article XIX," GATT Document L4679, July 5, 1978; Indexes to GATT Documents, INF Series, 1955 - 81.

For trade statistics: IMF, *International Financial Statistics*, Yearbook, 1982; United Nations, *Monthly Bulletin of Statistics*, August 1982; The Economist Intelligence Unit, *Quarterly Economic Review of Taiwan*, Annual Supplement, 1982.

NOTE: Coverage includes entire universe of cases, save for purely technical uses of the General Waiver provision (e.g., Canadian delay in full implementation of Kennedy Round concessions due to dissolution of Parliament), and its use by industrialized countries to permit preferential treatment of specific imports from individual developing countries. Repeated waivers for the same exemption are not counted separately. Except where indicated otherwise, the figures reflect the actual number of cases.

^aArticles XII and XVIII, the former being the standard balance of payments safeguards clause, the latter specifically tailored for the developing countries.

^bArticle XIX, permitting emergency action to protect domestic producers threatened with injury from import competition due to past tariff concessions. The emergency action cannot exceed the magnitude of the injury which is due to past concessions.

^cArticle XXV, granted by 2/3 vote of the contracting parties.

^dCountry groupings are defined as in table 9.1.

three such mechanisms, for various groups of countries, from 1947 to 1981. The entire era is again divided into the periods of reconstruction, growth, and adjustment.

During the period of reconstruction, the non-oil developing countries availed themselves most often of these GATT escape mechanisms, usually on balance of payments grounds. The industrialized "primary exporters" were close behind in the frequency of invocation, but as a proportion of world trade they were much more frequent users. The United States claimed domestic injury on twelve occasions, five of which involved Japan.⁴⁰ Balance of payments problems are reflected in the figures for both "major" and small European states; their use of GATT escape mechanisms no doubt would have been higher had they not also maintained exchange controls until 1958.

During the period of rapid growth, from 1961 to 73, the industrialized "primary exporters" increased both their absolute and proportionate use of the three escape mechanisms, domestic injury being an increasingly important cause. The non-oil developing countries also increased the frequency of their invocation of these mechanisms, but there were many more such countries in this period than there had been in the previous. There is little difference in the uniformly low rate of the United States and the other two groups of industrialized countries. But only for the small European states does this fully reflect the actual situation. In the case of the United States, and even more so the major European states, toward the end of this period governments increasingly went "straight to the heart of the problem by negotiating a minimum price agreement, or a 'voluntary' export restraint arrangement with the presumably reluctant exporter who has previously been 'softened' with threats of emergency action under GATT."⁴¹ Japan was the first country to be targeted by these initiatives, and tex-

40. It should be kept in mind that until 1960 or thereabouts, the United States absorbed much of the adjustment cost of Japan's entry into the GATT in 1955.

41. Curzon and Curzon, "Management of Trade Relations," p. 225.

tiles the first sector. By the end of the period, a growing number of "new entrants," from Eastern Europe and the non-European NICs, faced similar quantitative restraints on the unimpeded flow of their exports into developed country markets. And the sectors included a wide array of labor-intensive, wage-sensitive, and standardized manufactures and basic industries.

A similar pattern has continued throughout the third period. The industrialized "primary exporters" and the non-oil developing countries still make frequent use of the formal GATT escape mechanisms. The major European states and to a lesser extent the United States press for safeguarding devices outside the GATT with greater frequency.⁴² And the small European states manage to get by without either. Brazil and South Korea account evenly for the entire non-European NICs total.

This table suggests the following conclusion. Since the late 1960s, the use of GATT escape mechanisms has been concentrated among those countries that lack either the external negotiating power of the major industrialized states or the capacity for internal adjustment of the small European states. Whether or not their invocation of these mechanisms is economically wise, presumably the same deficiency would make it difficult for these countries to

42. While such agreements may not be sanctioned by the GATT, it does not follow that they necessarily violate the governing principles of the postwar trade regime. In point of fact, they may be the quintessential expression of these principles, particularly in times of rapid change. The boundary between embedded liberalism and "illiberal protectionism" is not a precise one, as others have pointed out (see Lipson, "Transformation of Trade," p. 425), but keep in mind that most such agreements have allowed for a continued increase in imports. Private agreements between the respective industries in importing and exporting countries are more pernicious because they violate the norm of transparency; in some bilateral trade relations they seem to have proliferated even more rapidly than intergovernmental agreements. Their effect has been noted in British imports from Japan, and Japanese imports from developing countries, by Thomas R. Graham, "Revolution in Trade Politics," *Foreign Policy* (Fall 1979), no. 36, p. 60. The more frequent recourse to Article XIX ("domestic injury" in table 9.3) by the United States may simply indicate that U.S. firms are legally constrained from striking such deals.

safeguard domestic economic activities were the mechanisms not to exist. Thus, this feature of the GATT provides some degree of international compensation for domestic economic and institutional weakness, though neither its existence nor its operation has anything to do with instituting redistributive concerns.

In sum, the relative distribution of benefits under the trade regime has not shifted over time in the direction of the developing countries, though it exhibits a partial response in the form of the GSP.

Regime Change

The first and most obvious generalization suggested by these cases is that the mechanisms of the monetary and trade regimes examined above have operated largely for the direct benefit of the industrialized countries.⁴³ The industrialized countries as a whole have benefited from liberalization, and different groups among them have been the major beneficiaries of the different stabilization mechanisms. With the exceptions of the post-1979 period in the monetary regime, and the GSP in the trade regime, there have been no significant departures from this baseline in favor of the developing countries. Therefore, our analysis of regimes changes that accommodate the developing countries, a task to which I now turn, can commence by exploring further these instances of change. For reasons that will become clear momentarily, I will discuss first the case of the GSP; then the increase in the volume of IMF lending to developing countries; and lastly changes in the conditionality provisions of IMF assistance to developing countries. I conclude with an analytical summary on the conditions under which the monetary and trade regimes have accommodated what kinds of Third World demands.

43. This generalization is not meant to exclude the possibility that the developing countries may be *absolutely* better off as a result of indirect benefits derived from these regimes than they would be in their absence.

1. *The GSP.* In theory, the GSP represented a violation of the norm of non-discrimination, thus requiring a GATT waiver to bring it into existence. "That decision constituted a landmark in trade relations between developed and developing countries, because for the first time the developed countries had agreed to grant tariff concessions exclusively to developing countries without seeking reciprocity from them."⁴⁴ Moreover, the GSP implies a shift in the governing principles of the trade regime, to accommodate redistributive concerns. In practice, however, the departure is not nearly so far reaching. Briefly, how did the GSP come about, and what does it signify?

The United States was vehemently opposed in 1964 to the UNCTAD-initiated scheme, and would have remained so had it not been for two interrelated factors. First, individual European countries had maintained selected trade preferences as a remnant of colonial ties with certain developing countries. The EEC was contemplating extending such preferences to the Mediterranean region in an arrangement that would involve reverse preferences for the EEC. Latin American countries, who would be excluded from this arrangement, as a result sought compensation for potential export losses to European markets by obtaining preferences from the United States. The United States came to perceive the GSP as a means to counter both.⁴⁵ United States support for the GSP was announced in 1967, though it took another nine years for its scheme to be implemented.

The design of the GSP that was ultimately instituted by the industrialized countries made it clear that the major purpose of the arrangement was to avoid discriminatory trade diversion among themselves, *not* to strive for trade creation between themselves and developing countries. Most

44. UNCTAD, "Differential Treatment in the Content of the Generalized System of Preferences," p. 2.

45. The change in the U.S. position is traced effectively by Ronald J. Meltzer, "The Politics of Policy Reversal," *International Organization* (Autumn 1976), vol. 30.

agricultural products are excluded from the GSP, and the exclusion provisions affecting the products that are included were determined by the desire for equal burden-sharing among the importing countries. Once it became clear that the GSP was not likely to disrupt the pattern of world trade flows, some of these restrictions were relaxed.⁴⁶ But in the final analysis, the GSP is a diminishing asset, as individual beneficiaries become internationally competitive in specific products and thereby “graduate” to lesser and lesser preference margins, and because multilateral tariff reductions have eroded all margins of preferences and eliminated some altogether.⁴⁷

Thus, the GSP does not represent any fundamental shift in the governing principles of the trade regime to reflect redistributive concerns, but an extension of existing principles to regulate a potentially destabilizing phenomenon. Moreover, while the GSP technically violates the regime norm of nondiscrimination, it is a temporary violation involving a relatively small proportion of world trade, and one necessitated by the desire to maintain nondiscrimination as a standard of behavior among the industrialized countries themselves.

2. *Increased IMF Lending to LDCs*

The sheer magnitude of recent IMF drawings by and new commitments to developing countries represents a striking departure from past patterns of IMF lending. What is more, the change was accomplished by the effective erosion of one of the rules of the monetary regime, that access to balance of payments assistance from the Fund be strictly determined by the size of a country’s quota. This rule has been

46. UNCTAD, “Differential Treatment in the Context of the Generalized System of Preferences, p. 3; United Nations, *Operation and Effects of the Generalized System of Preferences* (New York: United Nations, UNCTAD Document TD/B/C.5/71, 1980), ch. 1.

47. *Ibid.*, ch. 4.

stretched to the point where it is now possible for all countries to draw up to 450 percent of their quota over a three-year period, and for some developing countries to go as high as 600 percent.⁴⁸ How did this change come about, and what does it signify?

To answer these questions, we have to look back to the mid-1970s. Between 1974 and 1978, the cumulative balance of payments deficits of all non-oil developing countries was \$182.3 billion; net drawings from the IMF by developing countries during the same period came to but SDR 5.3 billion.⁴⁹ What little the developing countries did draw from the Fund they obtained largely from the low conditionality Oil Facility and Compensatory Financing Facility, so that there was minimal conditional lending to developing countries during this time. Developing countries had long chafed under the conditionality provisions of the IMF. And in view of the low level of resources the Fund had available relative to the massive payments imbalances of the mid-1970s, the developing countries avoided using the high conditionality credit tranches if they could.⁵⁰ The Fund subsequently came to see its own "recycling-oriented approach" via the Oil and Compensatory Financing Facilities to have been in error, because it delayed the necessity to make domestic adjustments to the new international energy terms of trade. But it also realized that it would need a "critical mass" of re-

48. The difference is accounted for by the fact that the 450 percent figure does not include drawings under the Compensatory Financing Facility and the Buffer Stock facility, which traditionally have been regarded as LDC facilities. Note, however, that South Africa in the autumn of 1982 made the largest single drawing ever under the low-conditionality Compensatory Financing Facility arrangement. *New York Times*, October 15, 1982.

49. Balance of payments figures calculated from *IMF Survey*, September 21, 1981, table, p. 287; net drawings calculated from *IMF Survey*, January 25, 1982, table, p. 28.

50. That this avoidance of the Fund was a deliberate choice by some developing countries, in part irrespective of the availability of alternative sources of payments financing, is documented in Sidney Dell and Roger Lawrence, *The Balance of Payments Adjustment Process in Developing Countries* (New York: Pergamon Press, 1980), ch. 1 and 2.

sources in order “to entice member countries to agree on meaningful and realistic programs. . . ,”⁵¹ that is, to accept the Fund’s conditionality provisions. According to the IMF, the second oil shock, of 1979–80, provided the catalyst for change. By 1980, the scale of assistance the Fund could make available had been increased substantially, thanks to a 50 percent quota increase and the new “enlarged access” guidelines allowing countries to draw higher multiples of their quotas. And these resources were made available on the basis of strict conditionality, as indicated by the fact that the number of upper credit tranche arrangements in effect by 1981 was four times the annual average between 1974 and 1978.⁵²

Though the IMF makes no explicit reference to it in official accounts of these developments, a second catalyst clearly has also been at work. One reason some developing countries managed to avoid high conditionality borrowing from the Fund in the mid-1970s was their greater access to private international capital markets. Indeed, throughout this same period, the external debt of developing countries has soared: according to World Bank figures, their medium- and long-term debt increased from \$117 billion in 1973 to \$426 billion in 1980;⁵³ an unofficial source put their long-term debt alone at \$524 billion by the end of 1981;⁵⁴ a third source has estimated their debt to private banks to have been roughly \$280 billion as of early 1981.⁵⁵ By 1980, the

51. “A Conversation with Mr. de Larosière” (Managing Director of the IMF), *Finance & Development* (June 1982), 19:5.

52. In 1981–82, some three-fourths of new commitments by the Fund involved high conditionality, whereas in the mid-1970s two-thirds of the resources provided by the Fund were extended on a low conditionality basis. “Fund Can Play an Important Role in Providing Conditional Finance to Support Economic Adjustments.” Statement by J. de Larosière, Managing Director of the IMF, to the annual meeting of the Board of Governors of the Fund, September 29, 1981, as reprinted in *IMF Survey*, October 12, 1981.

53. IBRD, *World Debt Tables* (EC-167/81, December 1981), p. xv, table 1.

54. “A Nightmare of Debt: A Survey of International Banking,” special supplement to *The Economist*, March 20, 1982, p. 99.

55. These are figures reported by the Bank for International Settlements, as

standard profiles of past debt problem cases came to describe an ever-larger number of developing countries,⁵⁶ and the exposure of some private banks was such that the stability of the international financial system became and remains an issue of serious concern to the industrialized member states of the IMF.⁵⁷ Though the payments deficits of the non-oil developing countries have begun to decline again, after reaching a record \$99 billion in 1981, an additional IMF quota increase to take effect in 1983 has been negotiated. Several major industrialized countries favored a doubling or more. The United States initially favored only a modest quota increase, together with the creation of a new "borrowing arrangement which would provide additional resources to the IMF in the event a potential disintegration might occur that would threaten the international monetary system."⁵⁸ Under this new arrangement, the industrialized and capital surplus developing countries would make the additional resources available to the IMF in case of such need, and the IMF in turn would lend them out on condi-

cited in IBRD, *Private Bank Lending to Developing Countries*, World Bank Staff Working Paper, no. 482 (August 1981), p. 3, table 2.

56. An IMF staff report has analyzed twelve countries that required debt renegotiation between 1972–79, examining a number of standard debt-related and more general macroeconomic indicators; IMF, *External Indebtedness of Developing Countries* (Occasional Paper No. 3, May 1981). A look through the *World Debt Tables* reveals, for example, that the *average* debt service/exports ratio of *all* non-oil developing countries now is roughly what used to be thought of as dangerously high for any individual country. And, in point of fact, twenty-five countries were in payments arrears on their external debt in 1981, compared to three in 1974, and there were more debt reschedulings in 1981 than in any previous year. IMF, *External Indebtedness*, and *The Economist*, March 20, 1982.

57. "Governors' Statements Express Strong Support for Expanded Assistance by Fund Members," Summaries of statements made at annual meeting of Board of Governors of the Fund in September 1982, *IMF Survey*, October 4, 1982. The \$80 billion Mexican external debt in particular was very much on their minds, as reported in *The Economist*, September 11, 1982, pp. 61–62.

58. Transcript of an exclusive interview with Beryl W. Sprinkel, Under Secretary of the Treasury for Monetary Affairs, conducted by Frederic Eckhard, editor and publisher of *The Interdependent*, October 19, 1982; I am grateful to Mr. Eckhard for sharing this transcript with me prior to publication of the interview in his newspaper.

tions at least as strict as those now prevailing in the upper credit tranches. In the end, a 47.5 percent quota increase *and* a new emergency facility were agreed to.

What, then, do we make of these changes? The value of Fund quotas relative to total national reserves has declined steadily since 1966, so that inadequate Fund resources alone explains little.⁵⁹ Apparently, this factor had to interact with more proximate catalysts before producing change. There were two such catalysts. One was that those developing countries which could do so avoided using the regular credit facilities of the Fund at the very moment of the greatest turmoil in the postwar international economy. This was institutionally disconcerting to the Fund. And it denied the monetary regime access to the only part of the adjustment mechanism over which it had exercised any direct control.⁶⁰ The second catalyst was provided by the growing threat the external debt of certain developing countries posed to the international financial system. The 1980 changes were initiated primarily by the first set of concerns, together with a generalized apprehensiveness about the latter. Negotiations on the 1983 quota increases and the new borrowing facility proposed by the United States explicitly reflected the concern with international financial stability.⁶¹

In sum, the post-1979 pattern of IMF lending exhibits a partial rule change in the monetary regime in favor of de-

59. In fact, the decline has barely leveled off: "Payments Needs of Members Have Outpaced the Growth of the Fund's Usable Resources," *IMF Survey*, July 5, 1982; on the ratio of quotas to reserves since 1948, see chart, p. 199.

60. That is to say, no multilateral influence has been exercised over the policies of surplus countries, or of deficit countries that have had means other than Fund drawings to finance their deficits. The developing countries, therefore, have borne the brunt of multilateral adjustment policies under the Bretton Woods regime.

61. The interview with Under Secretary Sprinkel, cited above, suggests that the American administration's initial position at least in part was inspired by the so-called moral hazard problem, whereby the provision of adequate and easily accessible insurance may increase risk by reducing prudence. For a general discussion, see Kenneth J. Arrow, *Essays in the Theory of Risk-Bearing* (New York: Elsevier, 1974).

veloping countries, in that "enlarged access" goes some way toward severing the link between quotas and access to Fund resources. But, as we have seen, this is a rule change that remains well within the normative structure of the regime. It may be that a more fundamental departure is occurring in the role of the IMF itself. Reluctantly but ineluctably, it is coming to play a part in a broader effort to provide lender of last resort facilities for the international financial system. This effort includes industrialized country governments, the IMF in conjunction with private banks, and the Bank for International Settlements in conjunction with central banks. Such an institutional innovation of course would affect developing countries, but only by regulating their behavior as borrowers more closely than was possible in the past.

3. *Changes in IMF Conditionality.* Another departure from past patterns of IMF drawings was signaled by the "extended arrangement" entered into with India in 1981. India can draw up to SDR 5 billion over a three-year period and take up to ten years to repay, thus making this the largest and longest drawing in IMF history. The request from India was triggered not by an immediate crisis in its balance of payments, but by "the gloomy outlook for medium-term external payments." And it was granted not to finance a temporary deficit, but to enable India to undertake the "early adoption of adjustment measures, with a view toward structural change" in its economy. Moreover, the investment program that India proposes to undertake as part of these adjustment measures "envisages a continued key role for the public sector," with 53 percent of total gross investment being earmarked for it. The macroeconomic emphasis is on expanding the supply potential of the economy, with demand management being assigned the complementary task of mobilizing greater domestic resources for this purpose. The objective of rapidly expanding exports and liberalizing the import regime is coupled with promoting efficient import substitution. And no currency depreciation is called

for.⁶² Each of these provisions stands in stark and pointed contrast to traditional “IMF orthodoxy.” How did these changes come about, and what do they signify?

The factors that explain the Fund’s reassessment of conditionality provisions include those that account for the expansion of lending to developing countries.⁶³ But they go well beyond them, into the realm of economic theory and ideology. Jürgen Habermas has defined legitimacy as “a political order’s worthiness to be recognized,” where recognition implies the willing acknowledgment of authority.⁶⁴ So defined, the legitimacy of the Fund has long been questioned by representatives of developing countries as well as by sympathetic Northern observers.⁶⁵ To these critics, the irreducible essence of the problem is that the Fund was born with an “original sin”:

The Fund’s financial mechanisms were designed to cope with a typical problem of industrialized economies: to provide short-term breathing space to enable countries to work their way out of payments deficits. . . . A deficit in the balance of payments of an industrialized country normally implies the existence of stocks of unsold goods and services, or of idle production capacities. An occasional deficit is considered a simple “maladjustment”. . . . The IMF could extend credit to such a country in the legitimate expectation that deflation would make its exports more competitive and the above-mentioned stocks or idle capacities would enable the economy to respond almost immediately. . . . Deficits in Third World countries, on the contrary, are of a structural character. Hence the inanity of persisting with treatment for “malad-

62. Abstracted from In-Su Kim, “India’s Program Seeks Higher Rate of Growth, Improved Payments Position, Lower Inflation,” *IMF Survey*, November 23, 1981, pp. 374–77. I have deliberately emphasized what I perceive to be discontinuities from past practice.

63. They are so treated in Manuel Guitian, *Fund Conditionality: Evolution of Principles and Practices* (IMF Pamphlet no. 38, 1982).

64. Jürgen Habermas, *Communication and the Evolution of Society* (Boston: Beacon Press, 1979), p. 178.

65. See Cheryl Payer, *The Debt Trap: The International Monetary Fund and the Third World* (New York: Monthly Review Press, 1974).

justment". . . . To try to "correct" the development deficit is to halt the development effort itself.⁶⁶

The norm of "uniformity" institutionalized in the Fund's past program parallels what Albert Hirschman has called the "monoeconomics claim" held by mainstream economists, admitting only quantitative but not qualitative differences between economies at different levels of development.⁶⁷ Under this norm, acceptance of the notion that there exists any "structural" or "development deficit," and that the balance of payments problem of developing countries therefore required a fundamentally different approach, was out of the question. However, neoclassical trade theorists have come to work with and accept the validity of asymmetrical models of Northern and Southern economies.⁶⁸ And a quasi-official account of recent changes in Fund conditionality states that "central to these modifications was the premise that the prevailing payments imbalances were *structural* and unlikely to be transitory."⁶⁹ Has the Fund abandoned uniformity and thus gained absolution from its "original sin"? Only in part.

During the mid-1970s, the Fund staff was finding that, by its own criteria, the success rate of its conditionality provisions had dropped precipitously. One published study reviewed the experience of twenty-one conditional drawings made by developing countries between 1973 and 1975. It concluded that only about a third could be deemed to have

66. Ismail-Sabri Abdalla, "The Inadequacy and Loss of Legitimacy of the International Monetary Fund," *Development Dialogue* (1980:2), pp. 38–40. Abdalla, a former professor of economics and Minister of Planning in Egypt, is chairman of the Third World Forum.

67. Albert O. Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (New York: Cambridge University Press, 1981), ch. 1; on the norm of uniformity in the Fund, see Joseph Gold, "Uniformity as a Legal Principle of the International Monetary Fund," *Law & Policy in International Business* (Summer 1975), vol. 7.

68. An analytical overview of this evolution may be found in Ronald Findlay, "Growth and Development in Trade Models," in P. B. Kenen and R. W. Jones, eds., *Handbook of International Economics* (Amsterdam: North-Holland, forthcoming).

69. *IMF Survey*, March 8, 1982, p. 70, emphasis added.

been successful, and they were qualified successes. On balance of payments targets, for instance, fourteen of the twenty-one countries did as well as or better than expected. But of these fourteen, eleven did *not* put into effect “adequate domestic policies.” And three countries that *did* put “adequate” policies into place *failed* to achieve their balance of payments targets.⁷⁰ The failure of its programs, together with the relatively minor role in the international adjustment process to which the Fund had been relegated at this time indicated that not simply its worthiness to developing countries but its worth to the international monetary system as a whole was at issue. The Fund faced a serious legitimation problem, in that its official doctrine and the outcomes its programs produced were increasingly disjoined. The new conditionality provisions, in part modifying the doctrine, were its result.

However, three qualifying factors circumscribe the scope of the subsequent change. First, not all new drawings by developing countries will be of the “extended arrangement” type, so that the Fund has by no means accepted the argument that payments deficits of developing countries are inherently “structural” in character.⁷¹ Second, the “structural imbalances” to which the Fund refers are not those envisaged by its Third World critics, but the “brutal” deterioration in developing countries’ terms of trade brought about by the second oil shock, the global recession, and high interest rates prevailing in international capital markets.⁷² There

70. T. M. Reichman, “The Fund’s Conditional Assistance and Problems of Adjustment, 1973–75,” *Finance & Development* (December 1978), vol. 15; the one-third success rate compares to a 76 percent rate, for seventy-nine programs, between 1963 and 1972, as calculated by the same author; Thomas Reichman and Richard Stillson, “How Successful are Programs Supported by Stand-By Arrangements?” *Finance & Development* (March 1977), vol. 74.

71. To date, the Indian extended arrangement stands out as the exception in size of drawing, though not in duration; as of the end of 1981, other three-year arrangements had been made with Yugoslavia (SDR 1.66 billion), Romania (SDR 1.1 billion), and Zaire (SDR 912 million). *IMF Survey*, January 25, 1982, p. 28.

72. Speech by Jacques de Larosière, Managing Director of the Fund, *IMF Survey*, October 12, 1981, p. 313; see also the Interim Committee Communiqué, issued after the 1981 annual meeting of Board of Governors, *ibid.*, p. 302.

is more involved in this distinction than salvaging a theoretical/ideological point. Acceptance of the notion of "development deficits" would imply a more-or-less permanent state affairs, with the new lending policy remaining in effect so long as there are developing country economies exhibiting fundamental qualitative differences from the industrialized economies. The structural imbalances invoked by the IMF are expected to be a more temporary sort, so that the new conditionality provisions conceivably could be revoked more readily as the economic climate changes. Third, the increased quantity of resources and the extended arrangements now made available by the Fund have been accompanied by a much more rigorous application of performance criteria, with new commitments that become "inoperative" because countries are unable to meet specified targets rising more rapidly than the number of instances of expanded and extended assistance.⁷³

In sum, though it remains highly constrained and contingent, the extended arrangement program of the Fund, granting medium-term assistance to facilitate structural adjustment in developing country economies, comes closest to reflecting a basic norm change in favor of the developing countries.

An Analytical Reprise

Each of these three instances of change reveals a different mechanism of change. In the case of the GSP, the benefits gained by the developing countries and the temporary and partial norm change effected in the trade regime were by-

73. For example, for the first six months of 1982, canceled arrangements exceeded by SDR 1.1 billion new commitments made by the Fund. And at the end of fiscal 1981-82, undrawn balances from outstanding commitments totaled 68 percent of those commitments; this figure in part reflects the fact that drawings are phased over the life of an arrangement, but also that a great many arrangements became inoperative because countries were unable to meet performance criteria. *IMF Survey*, July 19, 1982, p. 215 and August 30, 1982, p. 269, respectively.

products of the desire by the industrialized countries to minimize the competitive advantages and equalize the burden-sharing of particularistic trade ties with developing countries. The initiative by UNCTAD sought to generalize past preferences that were selective and entailed reverse obligations, and to gain them on the basis of nonreciprocity. It succeeded only in part, and only because the United States came to see the scheme as contributing to its own material interests and to its defense of a more central regime norm. Thus, the potential for rivalry and competition among the industrialized countries comprises one mechanism of change that developing countries, in exceptional circumstances and to a limited degree, are able to exploit. However, the impetus for change remains with the regime-making states.

In the case of increased IMF assistance to developing countries and the erosion of the regime rule that access to Fund assistance be determined strictly on the basis of national quota, the developing countries played a somewhat more active role in producing change. The inability of the Fund to exercise “corrective” influence over the policies of developing countries without substantially increasing its allocation of resources to them, together with the growing threat posed by developing countries to international financial stability, provided them with a source of negative power—that is, the power to create systemic disturbances. This capacity has served as a second mechanism of change for the developing countries, with potentially more far-reaching effects than the first, though their opportunities to utilize it are limited by the relatively small number of points at which either monetary or trade relations are susceptible to disturbances emanating from the developing countries.

The legitimation problem faced by the Fund reveals the workings of a third mechanism of change, which potentially affects the very normative structure of the monetary regime in a manner long advocated by the developing countries. The developing countries may be said to have initiated the

process that ultimately led to the adoption by the Fund of the program of medium-term, structural adjustment assistance, through their long-standing rejection of the norm of uniformity and their insistence that the balance of payments problems of industrialized and developing countries are fundamentally dissimilar. However, the loss of legitimacy by the Fund and the subsequent reformulation of its program also required that its worth to the monetary regime as a whole be questioned on terms that the regime-making states themselves regarded as being legitimate. Hence, though this change approximates the kind of change hoped for by advocates of the NIEO, the number of occasions on which such a conjunction of forces can be expected to occur is not likely to be large.

No claim can be made that these mechanisms exhaust the full range of possibilities. But they do serve to illustrate the range of possibilities, which in turn suggests two partially contrary conclusions. On the one hand, international regimes are not nearly as elastic as proponents of the regime-change strategy appear to assume. There is no sign that the liberalization-stabilization nexus of principles has yielded in any instance to redistributive concerns, either in response to warnings of the perils that lie ahead, or to the prospects of mutual gains that could be reaped. Instead, what we see is that the existing set of principles govern the adaptive redeployment of regime rules and, in a more limited fashion, regime norms so as to accommodate new situations.

On the other hand, international regimes are not quite as rigid as critics of the regime-change strategy imply. Each of the cases examined here has materially enhanced the level of regime resources allocated to the developing countries. This suggests that redistributive *consequences* to some extent can be achieved without redistributive *principles* being instituted as a motivational force. Moreover, the cases show, perhaps paradoxically, that while the core regimes in general may be particularly inhospitable to Third World de-

mands for fundamental change, precisely because these regimes do matter to the regime-making states, their adaptive redeployment is a prize not entirely beyond the reach of the developing countries.⁷⁴

THE INTERNATIONAL DIVISION OF LABOR

It is now a widely accepted proposition that the world economy, in addition to facing its worst conjunctural crisis since the Great Depression, is undergoing profound structural shifts. And these structural shifts, some would argue, are offering new and perhaps historically unique opportunities to those developing countries that are prepared to take advantage of them. Here is how the World Bank has put it:

In a certain sense, the 1970s may be remembered for giving new shape to the world economy. This is not the product of the search through negotiation for greater equality of economic opportunity among nations which the developing countries have pursued; little progress has been made along that route. Rather, what has evolved is a different pattern of economic power, with new centers of production, finance and trade, and new forms of interdependence.⁷⁵

74. Although I have not analyzed it here, I would contend that the same set of generalizations holds for the evolution of the quasi-regime of development assistance as well. Its multilateral component, especially that part of it represented by the World Bank, has been expanded, but the ODA results are mixed, with some of the smaller donors approximating the agreed targets but the major donors falling far short. For an analysis of the changing patterns of the World Bank lending which complements my discussion of the monetary and trade regimes, see Robert L. Ayres, "Breaking the Bank," *Foreign Policy* (Summer 1981), no. 43; Ayres argues that "the underlying political rationale behind the Bank's poverty focus is the pursuit of political stability through what might be called defensive modernization" (p. 111).

75. IBRD, *World Development Report, 1981* (Washington, IBRD, 1981), p. 7. The Bank does not assume that success is automatic for all comers: "the 1980s will determine whether the opportunities can outweigh the difficulties, even for the poorest countries."

My purpose here is to sketch a brief overview of these new patterns, so as to provide some basis for informed speculation about how fundamentally they are likely to alter the matrix of constraints and opportunities the developing countries face in the international division of labor. Since the documentation of these new patterns perforce remains fragmentary and often impressionistic, we shall have to settle for indicative "stylized facts" that address the issue at hand.

Trends in World Industrial Production

The notion of "post-industrial society" has embraced a great many attributes since Daniel Bell first introduced it nearly twenty-five years ago,⁷⁶ some expressing insight, others folly. It is enjoying a resurgence because, leaving aside questions of intellectual history, recent trends in world industrial production do reflect several of the specifically economic dimensions of change that Bell had in mind. The final report of an OECD project known as "Interfutures" documents these dimensions of change.⁷⁷ The role of manufacturing industry in national production and employment in the advanced capitalist societies is shown to be on the decline. A new generation of industries, especially those organized around the so-called electronics complex of automation, data processing, and telecommunications, is emerging as central future growth poles. And the very concept of industrial activity is becoming increasingly blurred at the frontier, because of the close links there between industry and scien-

76. Bell traces the roots of the concept in his book, *The Coming of Post-Industrial Society* (New York: Basic Books, 1973), ch. 1. The five dimensions of post-industrial society, as he saw them in 1973, were a change from a goods-producing to a service economy; the preeminence of professional and technical classes; the centrality of theoretical knowledge as a source of innovation and policy formulation; the deliberate social control of technology; and the greater use of what he called "intellectual technology" or technology-based management systems (*ibid.*, p. 14).

77. OECD, *Facing the Future* (Paris: OECD, 1979).

TABLE 9.4: Regional Distribution of Industrial Value Added (%)

	1970	2000	Assumed Growth Rate 1970–2000
OECD	68.5	50.5	3.4
Third World (including China)	11.3	26.3	7.2
Eastern Europe/USSR	19.3	23.2	5.6

SOURCE: Adapted from OECD, *Facing the Future* (Paris: OECD, 1979), table 49, p. 331, Scenario B2.

NOTE: Moderate growth rate scenario.

tific research on the one hand, and between industry and many service activities on the other.

This transformation of industrial structures involves not only the advanced capitalist economies, but also Southern Europe, to some extent Eastern Europe, and parts of the Third World as well. Table 9.4 summarizes OECD projections of the regional distribution of industrial value added by the year 2000. The OECD scenario is somewhat more optimistic about the prospective share accounted for by the developing countries than corresponding projections by UNIDO, whose political constituency is the Third World.⁷⁸ But both foresee a demonstrable “southward” shift. However, this shift is expected to remain concentrated among a relatively small number of newly industrializing countries, primarily in East Asia and Latin America. And it is likely to bypass altogether large parts of South Asia and much of sub-Saharan Africa.⁷⁹ At the same time, within the areas that are affected by this shift, the current newly industrializing countries have already gone beyond competing solely on the basis of low wages and labor-intensive products, such as tex-

78. Mytelka cites the relevant UNIDO figures in chapter 5 of the present volume (table 5.8 and text, p. 269). The discrepancy in starting bases (a higher 1970 Third World share in my table 9.4 than the 1975 share reported by UNIDO) is due to my having included China in the Third World category; UNIDO treats China as a category apart. The differences in the shares projected for the year 2000 are also due to somewhat different growth assumptions.

79. OECD, *Facing the Future*, part 5, ch. 2.

tiles, apparel, and footwear, to produce consumer durables, including automobiles and electronic products, as well as capital goods, such as steel and some basic petrochemical products.⁸⁰ And there is evidence to suggest that other developing country suppliers are making marginal gains in commodity groups in which the shares of the first tier of newly industrializing countries are leveling off.⁸¹

Trends in World Production Processes

This shift in industrial deployment has coincided with a transformation in the global organization of production processes. At the heart of this transformation are changes in the magnitude, character, and role of direct foreign investment. I first summarize some overall quantitative trends.⁸² Since the mid-1970s, the extraordinary rate of growth in direct foreign investment that had prevailed from about 1960 on has moderated considerably, though it has remained more buoyant than domestic investment and GNP growth rates in the advanced capitalist countries, and it has kept pace with world trade. Moreover, there is a somewhat greater balance among countries now than there was before. The share of outward flow accounted for by the United States in the period 1974–79 was approximately 30 percent, or half of what it had been in the 1960s, whereas its share of inward flows, insignificant earlier, now is nearly one third of net international direct investment flows. The share of inward flows accounted for by developing countries has also increased, thus reversing a postwar trend that had held up to 1974, though two thirds of these flows are captured by only thirteen countries, and direct investment flows to developing countries in the 1970s were substantially outdis-

80. *Ibid.*

81. "OECD and the NICs: Current Trade Patterns," *OECD Observer* (November 1981), no. 113.

82. This summary is based on OECD, *International Investment and Multinational Enterprises: Recent International Direct Investment Trends* (Paris: OECD, 1981).

tanced by private bank lending. In addition, Third World countries today are more likely to be the “home” countries of multinational corporations than they were in the 1960s,⁸³ though the most important newcomers by far are Germany and Japan, and six OECD countries continue to account for more than 80 percent of the total stock of direct foreign investment. Lastly, there have been significant sectoral shifts. Mining has declined in importance everywhere. The service sector has increased in importance everywhere. And the share of total direct foreign investment accounted for by manufacturing in the OECD area is declining, while the share of world total accounted for by manufacturing in the developing countries is increasing.⁸⁴

Even more indicative of the transformation of global production processes are two recent institutional changes exhibited by direct foreign investment. Neither was specifically designed with the developing countries in mind, but both are becoming more prominent in the North–South context. The first is an increasing fragmentation of the productive process, making it possible to transfer specific parts of it to new locations and thereby to exploit the relative advantages of different production sites worldwide. This innovation has its origins in a reorientation of multinational corporations in the 1960s:

During the early postwar period business investment abroad was predominantly designed to serve the local market and replace imports. There was comparatively little attempt to establish an inter-

83. According to a report published in the Harvard Business Review, as cited in the *New York Times*, the number of LDC-based MNCs on *Fortune* magazine’s “Largest Overseas 500” list more than doubled to 34 between 1974 and 1979; of the top eighteen, those with 1977 sales of approximately \$1 billion or more, ten were exclusively in petroleum; one in petroleum, electronics, and appliances; two in copper; one in textiles; one in industrial equipment, electronics, and textiles; one in steel; one in shipbuilding; and one in motor vehicles. Clyde H. Farnsworth, “Third World Companies Achieving Global Reach,” *New York Times International Economic Survey*, February 3, 1980, p. 20.

84. Not every country in each group reflects the aggregate trends; for a fuller treatment, consult OECD, *International Investment* (1981).

dependent and integrated production operation abroad, and so trade between the affiliates of any given company was limited. But from about the mid-1960s onwards these companies increasingly turned toward exports and developed an integrated strategy for worldwide production and sales.⁸⁵

First employed in the automobile and electronics industries, the incidence of segmented production networks has since become more common: "large multinational firms with production units in different countries producing semi-products to be further processed by the same company or group in another location in the framework of regional or worldwide networks of integrated production units, rendered possible by modern information processing and transmission systems."⁸⁶ A closely related tendency is toward a greater concentration of production capacity at each stage of the production process, thereby making possible the fuller exploitation of economies of scale offered by increasingly integrated world markets, so that local production units truly become "world market factories."⁸⁷

The second fundamental institutional change is the evolution of new forms of international investment, in which the investor does not hold controlling interest in terms of equity participation.⁸⁸ Instead, investment may take the form of joint ventures, turnkey operations, international subcontracting, licensing agreements, or management contracts.

85. Andrew Shonfield, "International Economic Relations: The Western System in the 1960s and 1970s," *The Washington Papers* (Beverly Hills and London: Sage Publications, 1976), 4:72.

86. OECD, *International Investment* (1981), p. 3.

87. This term is used by Folker Fröbel et al., *The New International Division of Labour* (New York: Cambridge University Press, 1980), which contains the most detailed case studies yet available of the phenomenon. The general tendency is also described in OECD, *Facing the Future*, part 5, ch. 2.

88. The following discussion draws heavily upon Charles Oman, "Changing International Investment Strategies: The 'New Forms' of Investment in Developing Countries—A State-of-the-Art," OECD, Development Centre, Foreign Investment and International Banking Research Programme, CD/R(80)1314—Working Document No. 7, a summary of which is published as "New North-South Investment Strategies," *OECD Observer* (September 1981), no. 112.

These arrangements may be said to constitute investments rather than sales because the investor provides capital in *some* form, though not necessarily in the form of financial flows, and returns on this capital at least in part derive from the value created during the life of the arrangement. The new investment forms reflect the increased shares of outward flows accounted for by European and Japanese firms, who have long displayed a greater willingness to depart from the U.S. norm of establishing foreign subsidiaries; as well as factors in host countries, such as the East European's insistence on joint ventures or turnkey operations, and greater pressure in developing countries for participation in or control over direct foreign investment in their territories. No quantitative estimates are available of the overall magnitude of these new forms of international investment, but it is known that they have grown substantially since 1973, both in absolute terms and relative to traditional forms. Accordingly, the fact that international financial flows now exceed direct foreign investment flows to developing countries does not necessarily mean that the latter have therefore become less important.⁸⁹ These new forms of investment represent an unbundling of the traditional investment package that facilitates an optimization of functions for the international firm, a new role for the financial sector, and greater involvement in ownership and operation by host countries and local entrepreneurs.

89. Cf., Jeff Frieden, "Third World Indebted Industrialization: International Finance and State Capitalism in Mexico, Brazil, Algeria, and South Korea," *International Organization* (Summer 1981), vol. 35. There is no question but that bank lending increasingly outpaced direct investment flows to developing countries during the 1970s. However, and leaving aside the fact that recent levels of bank lending have proven to be unsustainable, a simple comparison of the two sets of figures tells only part of the story. This is so because direct foreign investment statistics understate the flow of nonequity capital from international firms, and they exclude altogether direct investment financed by reinvested earnings, which have become the single most important source of asset acquisition abroad by international firms. Moreover, international firms themselves have increasingly turned to borrowing as a source of their foreign asset acquisition. OECD, *International Investment* (1981), pp. 28–29.

Thus a new division of responsibilities may be emerging among the three actors in which the *firms* will tend to concentrate more on provision of technology, some aspects of management, and control over access to international markets, as their major activities. The *banks*, on the other hand, will increasingly control the financial aspects of the international investment process, and the *host country* will retain ownership over the investment operation and be responsible for those managerial tasks (industrial relations is one) which they are best equipped to handle.⁹⁰

In some cases, international firms may lose effective control as a result of this "new division of responsibilities." But in other cases, the reverse may be true. The risk of nationalization is reduced, the mechanisms of control that are embedded within worldwide production and distribution networks remain unaffected and, because they are less obtrusive and are operated in conjunction with the state or local entrepreneurs, the new forms of investment may be able to penetrate sectors of the host-country economy that were beyond the reach of traditional direct foreign investment.⁹¹

Trends in World Trade

The 1970s have also witnessed substantial shifts in patterns of world trade. Many of these can be attributed to the role of the OPEC countries as a source of imports to, and the destination of exports from, all other groups of countries. But beyond these effects of new international energy terms of trade, recent world trade patterns reflect as well the changes in world industrial structures and in the global organization of production processes which were described above.

In terms of overall geographical distribution, the major impact of these changes has been on the growing share of world trade in manufactures accounted for by the newly in-

90. OECD, "New North-South Investment Strategies," p. 15.

91. Oman explores these and related possibilities with a good deal of sensitivity and sophistication.

TABLE 9.5: Total OECD Imports of Manufactures from NICs (%)

	1963	1973	1977	1979
OECD NICs ^a	0.8	1.6	1.8	2.1
East Asian NICs ^b	1.2	3.8	4.8	5.3
Brazil and Mexico	<u>0.3</u>	<u>0.9</u>	<u>1.0</u>	<u>1.1</u>
Total NICs ^c	2.6	6.8	8.1	8.9

SOURCES: For 1963: OECD, *The Impact of the Newly Industrializing Countries on Production and Trade in Manufactures* (Paris: OECD, 1979), table 4, p. 23. Other years: "OECD and the NICs: The Current Trade Pattern," *OECD Observer* (November 1981), no. 113, p. 13.

^a Greece, Portugal, and Spain.

^b Hong Kong, South Korea, Singapore, Taiwan.

^c Includes all of the above plus Yugoslavia.

dustrializing countries. Table 9.5 summarizes OECD-NICs trade in this sector since 1963. If Greece, Portugal, Spain, and Yugoslavia are included among the newly industrializing countries, their total share of OECD imports of manufactured goods now is more than 9 percent, compared to less than 3 percent in 1963. The rate of increase has been most rapid for the four East Asian NICs, which now account for nearly 60 percent of OECD imports of manufactures from all newly industrializing countries. The non-European NICs have also made impressive inroads into OPEC markets, and have made moderate gains in the manufactured imports of the non-oil developing countries. At the same time, however, it should be noted that more than 85 percent of manufactured imports of the OECD countries still come from among themselves. Every OECD country except the United States and Canada has a surplus in its trade balance with the NICs, thanks largely to exports of investment goods, and the overall surplus has been increasing.⁹² Moreover, only twenty-two developing countries earn one-fifth or more of their export earnings from manufactures. And nearly half of all developing countries earn less than 5 percent of their

92. "OECD and the NICs"; "World Interdependence: Trade," *OECD Observer* (January 1982), no. 114.

export earnings in this manner.⁹³ Lastly, to put recent changes into their broadest context, the share of total world exports accounted for in 1980 by all non-oil developing countries, including the NICs, was still *less than half* their share in 1950.⁹⁴

The growth in industrial output and trade among the industrialized countries during the 1960s and 1970s was marked, as we have seen, by intra-industry specialization, whereby an expansion of trade often involved simultaneous increases in exports and imports within the same industrial sector. There are some indications that this pattern of specialization may be extended to the newly industrializing countries in the 1980s and beyond.⁹⁵ Recent sectoral diversification in exports by the NICs lends some support to this notion. For example, the share of NICs imports into the OECD accounted for by the products with which they first penetrated OECD markets, such as textiles and "miscellaneous manufactures," has declined markedly in recent years, while the relative importance of the two product groups in which their share of OECD imports in 1977 was highest (clothing and leather, footwear and travel goods) has either stabilized or declined slightly. "In contrast, substantial increases were registered [between 1977 and 1979] in practically all product groups where NICs were fairly small suppliers in 1977."⁹⁶

Finally, the recent changes in global industrial structures and production processes are also reflected in the

93. Kathryn Morton and Peter Tulloch, *Trade and Developing Countries* (New York: Wiley, 1977), pp. 155–58.

94. UNCTAD, *Trade and Development Report, 1981*.

95. OECD, *Facing the Future*, part 5, ch. 2.

96. "OECD and the NICs," p. 12. The earlier OECD survey of trade with the NICs, referenced in table 9.5, found that the NICs tended to concentrate on very specific products within sectors (for example, their 12 percent share of "electrical machinery" imports into the OECD in 1977 masked the difference between a 30 percent share for "electronic components and radio receivers" and a 1 percent share for "medical and radiological apparatus"). Their pattern of specialization therefore remains both for weaker internally and more vulnerable externally than that of the OECD countries.

growing importance of intra-firm trade. Here, the data are extremely sketchy, and it is not universally agreed even what range of phenomena ought to be included in them. What little systematic data there is, is most complete for the United States. The United Nations has estimated that imports into the United States by U.S.-based multinationals from their *majority-owned foreign affiliates* was roughly one third of total U.S. imports in the mid-1970s.⁹⁷ Gerald Helleiner has found that if the less restrictive category of *related-party* imports is employed, the figure was nearly one half of total U.S. imports for all sectors in 1977, and over one half for manufactures.⁹⁸ There is every reason to believe, therefore, that if the new forms of direct foreign investment, discussed above, were to be included, what we might call *corporate-administered trade* accounts for perhaps as much as 60 percent of all U.S. imports, particularly in the manufacturing sector.⁹⁹ Fragmentary data for other countries and for world totals, even when the centrally planned economies are excluded, suggest similar general tendencies.¹⁰⁰

As for the geographical distribution of this type of trade, to date its relative importance is clearly greater for intra-OECD trade than for North – South trade. However, since, in

97. United Nations, *Transnational Corporations in World Development: A Re-Examination* (New York: United Nations Sales No. 78.II.A.5, 1978), p. 220, table III-16.

98. Gerald K. Helleiner, *Intra-Firm Trade and the Developing Countries* (London: Macmillan, 1981), table 2.2, p. 28. Related-party trade is defined as trade among parties where one holds 5 percent or more of voting equity in the other.

99. This is a guess-estimate based on the growing use of nonequity forms of investment, as discussed above, and on the rapid expansion of manufactured imports from developing to industrialized countries under so-called off-shore assembly provisions (OAP). Under the latter, the industrialized countries export components, which are assembled in the developing countries, with the end-product then being exported back to the industrialized countries. No customs duty is charged on the reimported components. Between 1966 and 1972, OAP manufactured imports into the United States from developing countries grew at 60 percent per annum, compared to the corresponding growth rate for non-OAP imports of 12 percent per annum. OECD, *International Investment*, p. 31. This kind of trade of course is tied in some fashion, generally by subcontracting.

100. U.N., *Transnational Corporations*, pp. 41–45.

the case of the United States at any rate, there appears to exist a positive correlation between the level of manufacture of imports on the one hand, and related-party trade on the other, it is reasonable to expect that further industrialization in the Third World will also increase its share of related-party trade.¹⁰¹ Some sectoral trade figures, as well as the rapid rate of growth in manufactured imports from developing countries under "offshore assembly provisions," seem to bear out this expectation.¹⁰²

Helleiner concludes that "it is unfortunately not yet possible—because there are not yet enough observations—to establish rigorously whether intra-firm trade behaves significantly differently from arms-length (market) trade."¹⁰³ Speculation has focused on the "corporate internalization" of economic mechanisms and functions that arms-length market transactions performed in the past, which some believe to result in worldwide "zones of administered economic systems within which the notion of market has little if any meaning."¹⁰⁴

101. Helleiner, *Intra-Firm Trade*. Elsewhere, Helleiner points out that while the manufactured exports of developing countries at present are less subject to being "managed" by private firms via related-party transactions, compared to intra-OECD trade in manufactures, they are more likely to be subject to intergovernmental management via such devices as orderly marketing arrangements. Indeed, Helleiner's sectoral figures suggest an inverse relation between the two types of "managerial efforts," as he calls them. Gerald K. Helleiner, "The New Industrial Protectionism and the Developing Countries," *Trade and Development* (Spring 1979), vol. 1.

102. For example, three fourths of U.S. imports of "electrical machinery, apparatus, and appliances" from developing countries in 1977 was conducted by related parties, chemical fertilizers were equally high, and several other sectors of industrial products fell into the forty to sixty percent range. Helleiner, *Intra-Firm Trade*, table 23. For OAP imports, see fn. 97.

103. Gerald K. Helleiner and Real Lavergne, "Intra-Firm Trade and Industrial Exports to the United States," *Oxford Bulletin of Economics and Statistics* (1979), vol. 41, no. 4.

104. Constantine V. Vaitsos, "The Visible Hand in World Production and Trade: Corporate Integration," paper presented to the Conference on Integration and Unequal Development: The Case of Western Europe, Institute of Development Studies, Sussex University, May 1979, p. 11.

A New International Division of Labor?

In sum, the structural shifts affecting the world economy today involve changes in patterns of international specialization, together with the global integration and rationalization of networks of production and exchange. These changes in the real economy in turn are paralleled and reinforced by corresponding changes in the world financial system.¹⁰⁵ The question of concern to us here is how extensively and profoundly these changes alter the matrix of constraints and opportunities faced by developing countries.

There are two prevailing interpretations, both of which stress the natural unfolding of intrinsic laws of capitalist development. The first interpretation is reflected in the statement by the World Bank which I cited at the outset of this section, and it expresses the position of neoclassical economics more generally. From this vantage point, these changes are concrete manifestations of the inherently progressive character of the international division of labor, responding to the laws of comparative advantage and yielding gains from trade. Moreover, they are viewed as signaling a new era in North–South relations, as successive tiers of developing countries now have the opportunity to upgrade their niches in the international division of labor. Lastly, the institutional transformations in production and trade that have

105. Good overviews of the evolution of the Euromarkets may be found in M. S. Mendelsohn, *Money on the Move* (New York: McGraw Hill, 1980), and Eugene Versluysen, *The Political Economy of International Finance* (New York: St. Martin's Press, 1981). Jeff Frieden has made the interesting observation that the worldwide interpenetration of financial markets to some extent reinforces global shifts in comparative advantage, on the assumption that finance capital will seek out ascending and avoid declining industries. "It seems clear that the increased importance of finance has . . . quickened the pace and deepened the impact of the structural transformation of the U.S. economy and, given the international commitments of U.S. finance, has tied this structural transformation very tightly into trends in the world economy." Frieden, "International Finance and the U.S. Economy," paper presented at the annual meeting of the International Political Science Association, Rio de Janeiro, August 9–14, 1982, esp. pp. 19–23, at 23. However, the relationship between productivity, profitability, and lending decisions by banks are too indeterminate for any direct correspondence between sectoral shifts and credit allocation to hold.

coincided with the sectoral shifts are thought to be beneficial, more effectively transferring technology to Southern producers and in turn securing access for them to Northern markets.

The second interpretation is inspired by neo-Marxist economic theory and the dependency perspective. Not surprisingly, it offers the mirror image of the first. From this vantage point, the recent changes in the international division of labor reflect the laws of "valorization and accumulation" of capital on a world scale.¹⁰⁶ Until recently, "the reproduction of capital on a world scale merely generated the 'classical' international division of labor: a few industrial countries producing capital-goods and consumer goods on one hand, confronting the vast majority of underdeveloped countries which were integrated into the world economy as producers of raw materials."¹⁰⁷ Under this arrangement, capital was able to "valorize" itself in the developing countries only in the primary sector. By the 1960s, however, capital had produced the conditions which now permit a much more effective and complete global accumulation process: "the chief of these conditions are the existence of a worldwide industrial reserve army, the possibility of far-reaching subdivision of the production process into fragments, and an efficient transport and communications technology."¹⁰⁸ Once these conditions were in place, the "traditional bisection" of the world economy was undermined and made to yield to "the new international division of labour."¹⁰⁹ Forms of exploitation and dependency have been altered as a result, but the phenomena themselves if anything have been strengthened.¹¹⁰ Those variants of this perspective which

106. Fröbel et al., *The New International Division of Labour*. The term "valorization" comes from the German *Verwertung*, used by Marx; in everyday language it translates roughly as "realization of value."

107. *Ibid.*, p. 44.

108. *Ibid.*

109. *Ibid.*, p. 45.

110. It is not completely clear, though, who benefits from these relations, since in the scheme developed by Fröbel et al., the periphery loses via exploitation

draw on the work of Stephen Hymer foresee intra-corporate hierarchies being reproduced as the dominant patterns of economic and social stratification within the world system as a whole.¹¹¹

Both interpretations highlight important dynamic aspects of recent structural shifts in the world economy. But both exaggerate the determining role of the international division of labor by magnifying out of proportion those aspects of these changes that reflect their own a priori views. The neoclassical perspective stresses the sectoral shifts. These have been important for individual developing countries. However, when viewed in a global context, they remain relatively modest, shallow, and highly concentrated. Moreover, while there have been some spillover effects from the upgrading of exports by the first tier of newly industrializing countries for subsequent tiers of developing countries, the OECD itself has described these as “marginal.”¹¹² In point of fact, one reason the first tier of NICs shifted out of certain sectors and other developing country suppliers have had difficulty simply stepping into the niche vacated thereby is precisely because trade barriers have been erected in the industrialized countries so as to slow the pace and limit the extent that the laws of comparative advantage are allowed to operate. This fact suggests two further sets of constraints. The first is the so-called fallacy of composition, which I addressed in the Introduction to this volume: for future industrializers to follow the route taken by the first tier of NICs, the absorptive capacity of world markets would have to increase by an order of magnitude the realization of which is difficult to foresee. Second, even the sustainability by the first tier of their own past trajectory depends critically

but the core also loses via the export of jobs to the periphery. Where the abstract “capital” that gains is located remains unspecified.

111. Stephen Hymer, “The Multinational Corporation and the Law of Uneven Development,” in Jagdish Bhagwati, ed., *Economics and World Order* (New York: Macmillan, 1972).

112. “OECD and the NICs.”

on what the OECD euphemistically calls "positive adjustment policies" in the industrialized countries. That is to say, it would require state intervention there so as to give greater play to the laws of comparative advantage in allocating economic resources.¹¹³ In no small measure, positive adjustment policies would entail governments in the industrialized countries going well beyond the compromise of embedded liberalism in two directions: first, to "disembed" liberalization from the sociopolitical constraints that have guided it throughout the postwar era; and second, to redirect the economic activities of affected individuals, regions, and sectors more actively and extensively than the major capitalist states have been willing to do in the past.¹¹⁴ It is not surprising that some developing countries, in a striking reversal of their previous ideological posture, have recently sought to raise "a system of trade based on a dynamic pattern of comparative advantage" to the level of "a fundamental objective of the international community."¹¹⁵ However, as the first part of this chapter has demonstrated, the embedded liberalism compromise, at least as it is reflected in the evolution of the monetary and trade regimes, remains relatively robust and has held up under increasingly unfavorable international economic circumstances.

113. "Positive Adjustment Policies (PAPs)," *OECD Observer* (July 1979), no. 99. The economic rationale for these policies is argued by Stephen Marris, Economic Advisor to the OECD Secretary General, on the grounds that "we can improve our living standards by trading capital-intensive for labor intensive products." Consumers in the OECD countries "are able to buy the same quantity of goods as before while employing fewer people. And the people thus freed can be employed producing something else which is more capital-intensive and where labour is more productive." Marris, "The Case of the Newly Industrializing Countries (NICs)," *OECD Observer* (January 1979), no. 96, p. 10, and "OECD Trade with the Newly Industrializing Countries (NICs)," *OECD Observer* (July 1979), no. 99, p. 30.

114. That is, it would require that the major capitalist countries adopt policies similar to those of the small European states, as described by Katzenstein in chapter 2, above. For a listing of recommended policies, see "Positive Adjustment Policies."

115. *Report of the Preparatory Committee for the New International Development Strategy* (New York: United Nations), p. 176.

If the neoclassical perspective exaggerates the sectoral shifts, the neo-Marxist view distorts the scope, effects, and determinism of the institutional changes in production and trade. First of all, the picture of the newly industrializing countries supplying masses of cheap labor, in free production zones, under subcontracting arrangements with foreign capitalists, importing industrial inputs and converting them into standardized products for export, in a manner that neither requires nor teaches skills and yields few if any other economic or social benefits, is a caricature of their actual experience. Moreover, it exaggerates the developing country share in intra-firm trade and the share of intra-firm trade in developing country exports. It ignores altogether the opportunities in developing countries created by the new institutional arrangements for indigenous entrepreneurs, the state, and the process of local capital accumulation. Lastly, the sudden intellectual conversion that this interpretation requires is somewhat disconcerting: neo-Marxists have been insisting all along that it is an iron law of capital for developing countries to be cast in the role of a primary-producing hinterland;¹¹⁶ now this iron law turns out to have been a mere inconvenience not a necessity of capital, waiting only for the appropriate technological breakthrough in production processes in order to be transcended by the *real* iron law, which had simply lurked behind the scenes for the duration. The notion that many of the institutional changes in production and trade reflect changing balances of economic power among the OECD countries, and between investors and host countries, is discounted.¹¹⁷

In sum, I conclude my assessment of the elasticity of the international division of labor to accommodate the wel-

116. For a classic statement of *that* law, see Paul A. Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957).

117. The outlines of an approach that combines a focus on accumulation with greater sensitivity to domestic and international political factors may be found in James A. Caporaso, "Industrialization in the Periphery: The Evolving Global Division of Labor," *International Studies Quarterly* (September 1981), vol. 25.

fare demands of developing countries on much the same note as my assessment of international regimes. It is not nearly as elastic as its advocates assume, but not quite as rigid as its detractors insist. And its degree of elasticity, as in the case of regimes, depends ultimately on the political structure that shapes both component parts of the international economic order.

POLITICAL STRUCTURE

Domestic and international society differ fundamentally in the extent to which distributive justice and the laws of economic specialization can take hold. The difference is structural. In domestic society, patterns of economic opportunity and outcomes can be altered by the desirability of the greater social good, as defined and enforced by central agencies. And economic units can feel free to go about trading cloth for wine because any vulnerabilities that result from their mutual differentiation can be regulated by central agencies. Due to its political structure, domestic society can achieve what Durkheim called "organic solidarity."¹¹⁸ Legitimate authority is not centralized in international society. No one by virtue of authority is entitled to command; no one in turn is obliged to obey. International society, therefore, remains a self-help system, limited to expressions of

118. Emile Durkheim, *The Division of Labor in Society*, translated by George Simpson (New York: Free Press, 1964). The distinction is between organic solidarity, linking highly differentiated units in a complex society, and mechanical solidarity, linking like units in a segmental society—that is, units that are alike in the tasks they pursue, though not necessarily in their ability to perform them. Organic solidarity represents a quantitatively greater extent and qualitatively higher form of interdependence. This distinction was first applied to the comparison of domestic and international society by Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979). A more elaborate theoretical exploration of this model of international society may be found in my paper, "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis," *World Politics* (January 1983), vol. 35, which is a review article of Waltz's book.

“mechanical solidarity.” As a result, what is desirable and acceptable in domestic society remains problematical in international society. And, due to the political structure of international society, its institutional orders closely reflect prevailing configurations in the relations of force. The international economic order is no exception to this rule.

The international economic order at any moment reflects three configurative attributes of the relations of force. The first is the degree of concentration or diffusion of economic capabilities among the major powers. Through the projection of *state power*, this determines whether a single international economic order prevails, or whether several such orders coexist. The second is the degree of congruence in the ends and means of state intervention in the economies of the major powers. Through the projection of *social power*, this determines the collective purpose that is instituted in the international economic order. The third is the degree of adherence by the major powers to a body of economic theory on the basis of which to formulate and legitimate economic policy. Through the projection of *epistemic power*, this determines how collective purposes are operationalized and the apparent limits of the possible circumscribed. A situation in which the three are in equilibrium may be termed a hegemony, in the Gramscian sense of the word.¹¹⁹

The *pax Americana* of the post World War II era comprised such a hegemony. U.S. economic and military predominance forged an invisible empire, which, while it never achieved the status of a singularity in the world economy, nonetheless completely overwhelmed its rival in scope and economic strength. Moreover, a sufficient degree of congruence existed in prevailing state-society relations among the major economic powers for the embedded liberalism compromise to define the social objectives in pursuit of which

119. For a useful introduction to Gramsci's concept, see Joseph Femia, "Hegemony and Consciousness in the Thought of Antonio Gramsci," *Political Studies* (1975), vol. 23, no. 1.

state power was deployed in the international economic order. It was reflected in the liberalization-stabilization nexus of governing principles of the regimes for money and trade, and in the sociopolitical constraints that shaped the evolution of the international division of labor by, to cite but one example, providing incentives for intra-industry specialization. Lastly, Keynesian demand management came to provide the scientific basis on which to operationalize the prevailing collective social objectives into specific policies, while at the same time serving as a mode of legitimation that allowed predominantly capitalist societies under the pressure of universal political participation to respond to distributional challenges without fundamentally altering the domestic social relations of production.

This hegemony has eroded. But the international economic order that was its expression has not collapsed, notwithstanding premature announcements of its demise. The balance of economic power among the major industrialized countries has shifted. As a result, the transnational economic order that was initially generated by U.S. predominance is becoming a more truly multinational one, within which economic processes are organized in an evermore complex fashion, and within which rivalry and competition among the major powers will continue to be an engine of change. But the constitutive basis of this order has not altered fundamentally, in part because the major beneficiaries of the relative decline of U.S. economic power, Western Europe and Japan, thus far continue to share with the United States a commitment to the maintenance of a single, integrated, capitalist world economy. At the level of collective social purpose there has been little fundamental discontinuity, which means that the governing principles of the monetary and trade regimes remain largely in place, even though the United States has abandoned its earlier role as the guarantor of both regimes.¹²⁰ The current conjunctural

120. I am referring to the decision taken by the United States in 1971 to abandon the gold-convertibility of the dollar, and the less discrete but no less

crisis in the world economy has tempted governments in several of the major industrialized countries to depart radically from the prevailing balance of state-society relations, toward both the left and right. To date, however, it seems that the class structure of these societies, together with the pressures of international competition on their domestic economic policies, have served to restrain these would-be departures and to keep policies more or less within the framework of the embedded liberalism compromise. Third and finally, the efficacy of Keynesian demand management in all probability has been permanently undermined. But even this development is muted in its impact by virtue of the legitimation role that Keynesianism played, for which any alternative would have to provide a substitute. Fred Hirsch has put this well:

Keynes's opponents, from the beginning, have seen his system as an engine of inflation, above all because of its manipulability. The charge can now be seen to be basically correct, and yet misplaced, reflecting a blinkered vision. . . . Both Keynesianism and inflation can be seen as defensive responses by capitalist societies challenged by the new political and economic imperatives of a democratic age. If these defences are now losing force, the underlying stresses will become more exposed. . . . But that the convulsion of both systems has been held back for so long is a reminder of the fecundity of their defence mechanisms and their capacity for mutation.¹²¹

In conclusion, then, what does all of this signify for the developing countries? I simply enumerate four major implications.

visible reluctance to accept a disproportionate share of the costs of trade liberalization. The latter is demonstrated by Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," *International Studies Quarterly* (December 1979), vol. 23.

121. Fred Hirsch, "The Ideological Underlay of Inflation," in Fred Hirsch and John H. Goldthorpe, eds., *The Political Economy of Inflation* (Cambridge, Mass.: Harvard University Press, 1978), pp. 283–84; see Goldthorpe's contribution in the same book, entitled "The Current Inflation: A Sociological Account." I have benefited from both papers in my discussion of the dual nature of Keynesianism.

First of all, in any self-help system, effective demand is the chief allocative mechanism. Not cries of anguish, not a sense of peril and doom, and not the promise of mutual gains *alone* can alter patterns of outcomes. Each "may lead to a clear definition of ends that must be achieved. Their achievement is not thereby made possible. . . . Necessities do not create possibilities."¹²² The possibility of effective action depends on the ability to project effective demand. Where and when effective demand has been projected by the developing countries, as we have seen, the international economic order does exhibit a degree of elasticity to accommodate it. But at best the international economic order, whether via international regimes or via the international division of labor, provides a facilitative framework for change, which must rest, in the final analysis, on self-help measures.

The niche in the international division of labor that the newly industrializing countries have come to occupy reflects a permanent transformation. These countries are unlikely to be able to sustain their own past rates of increase in exports to the industrialized countries, but most now exhibit sufficient internal economic strength, diversity of external ties, and potential for systemic disturbance that their place in the "semi-periphery" seems secure.

The same is not true of the next tier of would-be newly industrializing countries. They are unlikely to benefit from the same degree of access to OECD markets as the first tier, whose "take-off" coincided with a booming world economy. If, therefore, the countries in the next tier adopt export-led strategies, the capital surplus oil exporters and the NICs will have to absorb an increasing share of those exports. Whether such a redirection of trade flows is characterized as resulting from regional growth poles, sub-imperialism, or collective self-reliance is merely a matter of rhetorical preference; the facts, as indicated by econometric studies

122. Waltz, p. 109.

of the recent past, suggest only limited growth to date of trade in this direction.¹²³

Last, and least, we come to the poorest of the developing countries. The United Nations includes thirty-one countries in the category of least developed, having an average per capita income of \$183 per year.¹²⁴ Any beneficial effects of the sorts of changes and tendencies discussed in this chapter are likely to bypass them altogether. Indeed, attempts through multilateral assistance agencies and other means to incorporate them into the international division of labor may do more harm than good for the foreseeable future. This is so because, if the European historical evidence is any guide to their future, market relations will undermine and erode self-provisioning and communal support arrangements long before their promised benefits begin to materialize.¹²⁵ Thus, if the advocates of unorthodox, basic-needs oriented, self-reliant development strategies have any province, this surely is it.

123. For a recent survey of patterns of LDC trade flows from 1963 to 1977, see Oli Havrylshyn and Martin Wolf, "Promoting Trade Among Developing Countries: An Assessment," *Finance & Development* (March 1982), vol. 19.

124. Some of the other characteristics of these countries include a population growth rate that averages 2.7 percent annually; infant mortality rates of 142 per 1,000 live births, compared to 94 per 1,000 in all developing countries and 30 in the industrialized countries; life expectancy of 45 years; two of every three children malnourished; literacy rates of roughly 25 percent of the male population; and access to safe water limited to one third of the population. United Nations, "UN Conference on the Least Developed Countries," DPI/DESI NOTE/585, August 17, 1981.

125. Some of the relevant statistics are cited the second section of the Introduction to this volume. The most compelling "soft" account of this experience remains that by Polanyi, in *The Great Transformation*, chs. 6–10. Cheryl Payer presents persuasive illustrative materials that this outcome has been produced by the World Bank's lending program to small farmers in developing countries, though I remain unconvinced by her general argument that the Bank's underlying purpose is the deliberate appropriation of land to serve the markets of the core countries. Payer, "The World Bank and the Small Farmer," *Journal of Peace Research* (1979), vol. 16, no. 4.