One of the most compelling and convincing arguments made by critics of ‘third worldist’
accounts of transnational companies and foreign investment is that while TNCs are not
necessarily white knights, on course for resolving the problem of poverty in the global
South, the fact remains that it is better to have a job – and be exploited – than not have
one. This is not an argument only made by neo-liberal apologists for international
capitalism. Rather, it has often been associated with Marxist critiques of a certain brand
of third world nationalism, often associated in the past with dependency theory. In the
current era of transnational capitalism, where manufacturing production has increasingly
been globalized, these earlier 1970s debates have a wider resonance, for they imply that
increasing investment in the South is at last bringing about a global diffusion of the
benefits of capitalist development.

This article takes issue with at least part of this argument. While accepting that a blanket
anti-TNC approach is hardly useful, my argument suggests that the dichotomy between
being exploited and not being exploited, and being globalized and not being globalized, is
too rigidly made. Indeed, again drawing on earlier debates from development studies, I
suggest that whatever the merits of the argument, ultimately it constructs an
unconvincing dualism between the formal and informal sectors, and relatedly, ‘non-
globalization’ and globalization, and assumes that development is simply a process in which the latter is progressively integrated into the former. I suggest that this is unconvincing, and do so by then examining in detail the continued hierarchies associated with the globalization of production, and the implications these have for labour – both formal and informal – in the South. The article takes issue with analyses that suggest a uniform levelling up process, but also problematizes analyses which suggest a uniform levelling down. Instead, the article emphasizes the centrality of uneven development, both global and local.

This argument is outlined in three sections. First I briefly outline the argument that it is better to be exploited than not be exploited, and show how this argument has been (implicitly) updated in the context of debates over the globalization of production. Second, I briefly revisit earlier debates concerning the question of dualism, or two sector models of the (national) economy, and use this discussion to provide an alternative interpretation of the idea that it is better to be exploited and /or globalized than not, and I use this alternative to then discuss in detail the contemporary globalization off production. This section shows the reality of continued hierarchies in the world economy, and how these undermine dualist accounts of exploitation and /or globalization. Finally, I draw some conclusions based on an alternative understanding of globalization and labour.

**Better to be exploited….**

The argument that it is better to be exploited than not is associated with Marxist critiques of dependency theories. Challenging the idea that the problem of underdevelopment is
caused by foreign capital investment, Marxists argued in the 1970s that while such investment was not necessarily a panacea for the Third World, simplistic opposition to it ignored the fact that countries with high rates of foreign investment tended to have higher rates of capital accumulation and social development. Indeed, rather than presenting a socialist analysis of capital accumulation, opposition to foreign investment was based on a reactionary mixture of nationalism and populism (Kitching 1982; 2001). Some Marxists even suggested that this foreign investment was necessary and progressive because it led to the development of the productive forces, and the creation of an organized working class, who would presumably sow the seeds of a socialist future. On these grounds, the likes of Warren (1980) welcomed imperialism as the pioneer of capitalism in the third world, and Sender and Smith (1986) argued that the obstacle to the development of capitalism in Africa were internally generated, not least by nationalist and populist ideologies that resisted foreign investment. In this analysis, capitalism developed through a process of primitive accumulation in which the producers were separated from the means of production, thereby giving rise to generalized commodity production, and a resultant competitive accumulation of capital. The act of dispossession simultaneously served to provide industrial capital with a growing labour force, while an agrarian surplus could be used to finance further industrial development. Productivity increases in agriculture – facilitated by the use of more advanced technologies provided by industry and economies of scale provided by larger farms – would cheapen food costs, and thereby the costs of reproduction of labour, thus further increasing the rate of (relative) surplus value. For Warrenites, development is essentially concerned with replicating
these processes associated with the classic agrarian question (Kitching 1989; 2001; Sender and Smith 1986; Sender 1999; Sender and Johnston 2004).

One did not have to agree with the implicit ‘stagist’ analysis of these writers to accept that they may well have had a point. While it was unlikely that development in the developing world was simply repeating earlier historical patterns that emerged in the already developed capitalist economies, it was clearly the case that some of the most successful developers were also progressing in terms of social development. In particular in East Asia, high rates of growth coincided with important advances in life expectancy, health care and education (though the treatment of organized labour has been very different, a major problem for those stagist Marxists who claimed to champion organized labour and trade unions). Moreover – and here the case is perhaps most compelling – for all the talk of super-exploitation of labour in world market factories (Frobel et al. 1980), usually located in export processing or free trade zones, the fact was that people were desperate to find work in these factories, in preference to the drudgery and poverty of (rural) alternatives.

This final point brings the argument up to date, for it is now various advocates of globalization who support the growth of world market factories. These views are far from identical with those of stagist Marxists in the 1970s, the latter of whom remain suspicious of rapid trade liberalization, and neo-liberal concerns with (neo-classical, populist inspired) land reforms which champion small farmers (Sender and Smith 1985; Sender 2002; Sender 2003; Sender and Johnston 2004). Where there is some convergence of
views however, is the way that earlier dualist analyses have pervaded questions of whether or not ‘to globalize’ (see Seers 1978). Usually associated with a variation of neo-liberal economics, the argument is now made that the best route to development for the former third world is to promote open policies towards foreign investment, alongside trade (and perhaps financial) liberalization, and this will allow labour surplus countries to absorb labour into factories producing labour intensive goods. In this way, so-called new trade theory suggests (Grossman and Helpman 1991; Krugman 1986), the developed world can specialize in higher value, skilled, high technology goods, while labour abundant economies can focus on labour intensive goods. Once labour is absorbed, wages will increase, and upgrading will occur. In the short term there will be hardship, but this is a necessary starting point – without these policies there will be hardship without any long term development, and this is basically how it happened in the developed countries. Those who reject such a policy are simply condemning the poorer countries to low growth and low development, and to a life in rural areas which is even worse than that which exists in factories. Just as 1970s Marxists dismissed opposition to foreign investment as romantic populism, so today’s globalization advocates dismiss anti-sweat shop, anti-globalization campaigns as backward looking, well meaning, but ultimately dangerous and counter-productive (Wolf 2003; Bhagwati 2004). This is a view also endorsed by some theorists of globalization otherwise highly critical of neo-liberalism. Ulrich Beck (2000: 92-4; 2006: 108-9) advocates such an international division of labour, in which low skilled jobs are concentrated in poor countries, and skilled jobs concentrate in the developed world.
The rest of the article takes issue with these arguments. It does so by taking seriously the critique of populism that this position takes, but also suggests that the argument outlined in this section is problematic on its own terms. I do so by re-examining another older debate over development, that of dualism, in the next section, and then applying this concept to a detailed analysis of the contemporary globalization of production in the section after that.

**Revisiting Dualism**

One of the key arguments of development economics in the 1950s onwards was that in the third world, there was a two sector, dual economy. On the one hand there was an advanced sector, and on the other a backward or traditional sector. The former is characterized by high rates of productivity and output, the latter, composed largely of subsistence farming has low productivity and output (Lewis 1954). Development is ultimately the growth of the former at the expense of the latter, in part through the absorption of the latter into the former.

This dualist analysis tends also towards a unilinear account of social change, in which the process of labour absorption that is said to have occurred in the developed countries will repeat itself in the developing countries. This view is most closely associated with Walt Rostow’s (1960) stages of economic growth model, which although is often said to be hopelessly outdated, is, I will suggest below, still implicit in some mainstream accounts of globalisation. But it is also influential among some Marxists who, as we have seen, see imperialism as promoting the diffusion of capitalism in the developing world so that, the
developed countries show to the less developed the image of their own future. For these Marxists, current anti-globalization protests are simply the latest reactionary response to the progressive spread of global capitalism (Sender and Pincus 2006). These criticisms are usually made without any effort to examine the actual content of debates among anti-globalizers. More important for the purposes of this article, though lip service is paid to the idea of uneven development, there is no attempt to concretise this concept, nor to examine how this may manifest itself in a neo-liberal era. Indeed, at times this context appears to be ignored as the fact that states play a role in all processes of capitalist development – something with which few neo-liberals would disagree – is sufficient, and the continued progressive diffusion of capitalism in an era of neo-liberal globalization is emphasised (Sender and Pincus 2006: 49; but see Sender 1999).

Perhaps most interesting in this regard is Kay’s (1975) statement, derived from Joan Robinson (and Marx), that capitalism created underdevelopment, not because it exploited the third world, but because it did not exploit it enough. As we will see in the next section, a similar argument has been applied to globalization, but first we need to unpack the meaning of this statement. It could be interpreted in a ‘Warrenite’ way, in order to suggest that the way forward for developing countries is to find new ways of being exploited (in Marxist terms, shifting from absolute to relative surplus value extraction), so that a process of catching up with the developed countries may take place. In neo-liberal terms, this would mean opening up to foreign investment and exercising comparative advantage through trade liberalization. Whilst for Marxists this would certainly constitute exploitation, the extraction of relative surplus value is also compatible
with the increased consumption of goods (Bettelheim 1972), and therefore with the alleviation of absolute poverty.

But an alternative interpretation of Kay’s argument is possible, one that is in fact closer to his original argument, and which in some respects is the polar opposite of the Warrenite position. The argument here is that while it may be true that capital has not exploited the third world in the same way that it carried out the exploitation of labour in the developed countries, it is unlikely to do so no matter what state policies are adopted. Therefore, a similar process of exploitation will not occur in the developing countries. In other words, capital may not have sufficiently exploited the developing countries, but equally it is unlikely to ‘sufficiently exploit’ them. This is because the transition from absolute to relative surplus value extraction in the developed world has made it likely for capital to concentrate in these established areas of accumulation, and related to this point, the process of absorbing unlimited supplies of labour in the developing world is bound to be hindered as capital flows from capital poor to capital rich areas. This has enormous implications for labour, a point I return to in the conclusion.

For now though we need to consider how this argument works in the context of the rise of manufacturing in the developing world? Does this mean convergence with the developed countries and the absorption of labour supplies in labour abundant areas? This is discussed in the next section.

**Dualism and the globalization of production.**
In recent years, an increasing proportion of the value of exports from developing countries comes from manufacturing. In 1970, 18.5 per cent of the total exports from the developing world were manufactured goods; with the phenomenal rise of China since the early 1990s, this figure had increased to over 80 per cent by the end of the 1990s (Baker et al. 1994: 7; UNCTAD 2002: 5). This is seen as good news as the globalization of production is said to lead to the dispersal of manufacturing across the globe, thus fulfilling Warren’s prediction that so-called imperialism is the pioneer of capitalism and/or the view that (neo-liberal) globalization is good for development.

The globalization of production is often linked to liberalization policies since the early 1980s, which are said to have rendered older import substitution industrialization policies redundant. Following earlier neo-liberal work which attacked state-guided development in the third world (Little et al 1970; Krueger 1974; Lal 1983), a number of writers have suggested that export promotion of manufacturing has been a resounding success, and this is often linked to the argument that global poverty has been reduced in recent years (Krueger 1998; Ben-David and Loewy 1998; Bhagwati and Srinivasan 1998). Following an argument consistently made, albeit with some qualifications, by the World Bank since at least 1987, the argument is that trade and investment (and perhaps capital account) liberalization allow developing countries to exercise their comparative advantage and attract foreign investment and savings (World Bank 1987; 1993; 1994; 2002). In contrast, those countries that have failed to develop are said to be insufficiently globalized, as they have failed to capture the opportunities presented by globalization, and instead continued with poor, globalization unfriendly policies (World Bank 2002).
This notion of insufficient globalization (Giddens 2002) closely parallels Kay’s contention (above) that countries are poor because they are insufficiently exploited. But as we saw in discussing this statement, it is far from clear that Kay meant by this that states, regions or workers can simply become more exploited by adopting appropriate policies. Rather, this ‘lack of exploitation’ in part reflects the greater opportunities for exploitation through investment in established areas of accumulation, or in Marxist terms, through the extraction of relative surplus value (Jenkins 1984; Kiely 1994). This is the heart of the dualist fallacy discussed above. Much of the mainstream literature on globalization, exemplified by Giddens’ implicit neo-liberalism, assumes on an *a priori* basis that globalization is by its nature inclusive. Therefore the problem for poor countries must be internal to those countries. Giddens (2000: 129) suggests that the problems of underdevelopment “don’t come from the global economy itself, or from the self-seeking behaviour on the part of the richer nations. They lie mainly in the societies themselves – in authoritarian government, corruption, conflict, over-regulation and the low level of emancipation of women.” Many of the problems identified on this list would actually apply to the first tier east Asian NICs, or indeed to China. Moreover, though sub-Saharan Africa may receive low levels of global foreign investment, some of the main recipients have been conflict ridden countries like Liberia, Sierra Leone, and Congo (Reno 1999; Ferguson 2006: 41). Furthermore, although the trend has been partly reversed in recent years, which is attributable to the resurgence of populist developmentalist regimes in Latin America, the unmistakable trend across the developing world since 1982 has been towards liberalization of trade and investment, and thus away
from ‘over-regulation’ (UNCTAD 2006). Clearly, for all the talk of globalization’s association with hybridity, difference and so on, there is also a narrative of an undeveloped ‘before’ and developed ‘after’, once countries are – and crucially choose to be – globalized. This linearity, like Rostowian modernization theory before it, bears no resemblance to the realities of globalization, and the uneven and unequal forms these take in different locations (Ferguson 2006: ch.1). For the dominant discourse, globalization is an external reality to which nations must adapt, and therefore it cannot “bear responsibility for its consequences.” (Cameron and Palan 2004: 140) Globalization is regarded as a benign force, to which countries simply choose to integrate. The reality is much murkier however, for as Ferguson (2006: 14) suggests for Africa, its participation in globalization “has certainly not been a matter simply of ‘joining the world economy’; perversely, it has instead been a matter of highly selective and spatially encapsulated forms of global connection combined with widespread disconnection and exclusion.” In other words, rather than theorizing in terms of being sufficiently or insufficiently globalized, an approach which lies at the heart of dualist analyses, we need to better understand the forms of global integration, and how these are unequally structured, and in so doing move beyond the renewed dualism of much of the mainstream globalization literature.

How then does this alternative understanding apply in an era where production has undoubtedly become increasingly globalized? The first point is that this varies across developing countries, and following the OECD (see UNCTAD 2002: 65), we can divide exporters into at least 5 categories of goods exported: primary commodities, labour
intensive and resource-based industries, and products of low to medium, medium to high, and high levels of skill, technology and scale requirements. On the face of it there is good news: developing countries’ exports in the high level category increased from 11.6 per cent in 1980 to 31 per cent by 1998 of total developing country exports, and their share in this sector in total world exports increased from 20.2 per cent to 30.2 per cent over the same period (UNCTAD 2002: 68).

However, if we further breakdown these categories, then a rather different picture emerges. Based on a detailed study of 46 developing countries at different stages of industrial development, Shafaeddin (2005a and b) suggests that around 40 per cent (20/46) of these countries have experienced rapid export expansion, and 11 of these countries have had high output growth. Of these 20 success stories, two had moderate output growth and seven had low output growth. The next twenty countries had moderate export growth and the bottom six had low levels of export growth. 50 per cent of the sample actually experienced a level of deindustrialization, which could not be attributed to industrial maturity and diversification into services, but rather ‘forced diversification’, based on the decline of some industries. Where new industries had emerged, these was often in resource-based or labour intensive sectors, and where on paper, developing countries did see a considerable increase in participation in medium to high skill/technology/scale sectors, this was actually misleading as “for the most part developing countries’ involvement in skill and technology intensive products is confined to the labour intensive parts, frequently just assembly, of vertically integrated production systems,” with the result that “while developing countries are becoming increasingly
similar to major industrial countries in the structure of their exports, this is not the case for the structure of their manufacturing value-added.” (Kozul-Wright and Rayment 2004: 11-12) By the end of the 1990s, the fifteen fastest growing exports from developed countries were all in the top 20 of most dynamic global exports, while only eight of the top twenty exports from developing countries were in the top 20 list of most dynamic global exports – and in most of these cases (with the partial exception of east Asia), these were concentrated in the labour intensive, assembly stages of production (UNCTAD 2002: 71). Perhaps most tellingly, since the reform period started in the 1980s, while the developed countries’ share of manufacturing exports fell (from 82.3 per cent in 1980 to 70.9 per cent by 1997), its share of manufacturing value added actually increased over the same period, from 64.5 per cent to 73.3 per cent. Over the same period, Latin America’s share of world manufacturing exports increased from 1.5 per cent to 3.5 per cent, but its share of manufacturing value added fell from 7.1 per cent to 6.7 per cent (Kozul Wright and Rayment 2004: 14). For developing countries as a whole, manufacturing output’s contribution to GDP has barely changed since 1960: it stood at 21.5 per cent in 1960, and increased to just 22.7 per cent in 2000. There was significant regional variation: sub-Saharan Africa saw a decline from 15.3 per cent to 14.9 per cent; West Asia and North Africa increased from 10.9 per cent to 14.2 per cent; Latin America saw a decline from 28.1 per cent to 17.8 per cent (with the southern cone decline being 32.2 per cent to 17.3 per cent); South Asia’s increased from 13.8 per cent to 15.7 per cent; East Asia (excluding China) increased from 14.6 per cent to 27 per cent; and China’s increased from 23.7 to 34.5 per cent (Kozul Wright and Rayment 2004: 32). By the end of the 1990s, developing countries as a whole accounted for only 10 per cent of
total world exports of goods with a high Research and Development, technological complexity and/or scale component (UNCTAD 2002: 56). In many cases, participation in global production networks is negatively correlated with manufacturing value added, while some countries with substantial rates of manufacturing production but low rates of participation in global production networks have higher rates of manufacturing value added (UNCTAD 2002: 78-80).

This analysis suggests that the Prebsich-Singer thesis (Singer 1950; Prebisch 1959; Sarkar and Singer 1991; Maizels et al. 1998; Robbins 2003), which argued that there was a tendency for the terms of trade to decline for primary producers against manufacturing exporters, needs updating. The basic contention of this thesis was that primary goods exporters tended to suffer because of the low income elasticity of demand for their products, which essentially means that as average incomes increase, so consumers spend a decreasing proportion of their income on primary products. This argument was reinforced by the fact that there was intense competition between primary producers, where barriers to entry into the marketplace were low, and by the fact that industrialized countries had relatively fuller employment and higher wages, as against low wages and ‘unlimited supplies of labour’ in the developing countries. With the rise of manufacturing exports from the developing world, this argument could be regarded as out of date, but in fact it can be fruitfully used to look at the terms of trade between different types of manufacturing exports (UNCTAD 2002: 118; Kaplinksy and Santos-Paulinho 2005).

Based on a study of trade in manufacturing goods from 1970 to 1987, Sarkar and Singer (1991) have claimed the price of manufacturing exports from developing countries fell by
an average of 1 per cent a year. This has been challenged on methodological grounds, and particularly the use of the category of non-ferrous metals when examining price movements (Athukorala 1993), but a further study has suggested that the price of this category made no difference to the overall movement of manufacturing prices (Rowthorn 2001). Other studies have supported the claim that the price of simple manufacturing exports from developing countries have tended to fall against more complex manufacturing and services from developed countries (Maizels et al 1998). One study of Chinese exports suggests that the net barter terms of trade fell by 10 per cent against developed countries from 1993-2000, but improved as against other developing countries (Zheng 2002).

The reason for these movements can easily be linked to the globalization of production. Essentially, developed countries still tend to dominate in high value sectors, based on high barriers to entry, high start up and running costs, and significant skill levels. In the developing world, where there are large amounts of surplus labour, barriers to entry, skills and wages are low. While this gives such countries considerable competitive advantages, at the same time the fact that those barriers to entry are low means that competition is particularly intense and largely determined by cost price, which also means low wages. Thus, the clothing industry, where developing countries have achieved considerable increases in world export shares in recent years, has a very low degree of market concentration. In contrast, sectors like machinery (such as non-electric engines, motors, steam engines) and transport equipment (aircraft, ships, boats, motor cars and
motor bikes) have very high degrees of market concentration, and are mainly located in the developed world (UNCTAD 2002: 120-3).

The dualist argument is that production in these labour intensive sectors is only a starting point, allowing countries to upgrade as more developed countries shift to higher value production. This flying geese model is thus seen as a useful starting point for developing countries. However, it assumes that upgrading is a more or less inevitable process, and one that can be driven by the ‘natural’ workings of the market. But actually in practice upgrading has occurred by states deliberately protecting themselves from import competition from established producers, via a process of import substitution industrialization. In the context of a tendency towards free trade, upgrading is far from inevitable and indeed, faced with competition from established overseas producers, is unlikely to occur.

Furthermore, developing country exporters still face considerable protectionism from developed countries. While there has been considerable liberalization, for instance in the textiles and clothing sectors, through the WTO, this has not eliminated practices such as the implementation of non-tariff restrictions, including subsidies and various products standards, some of which relate to safety issues, but some of which are open to abuse. In particular, developed countries have entered into bilateral agreements which by-pass the WTO. For instance, the US has recently entered an agreement with China which allows the US to unilaterally impose import quotas after a 90 day consultation period on the grounds of ‘market disruption’, which led to China voluntarily agreeing to restrict textile
exports until 2008. Similarly, the European Union’s early warning system for monitoring Chinese imports has led to new quantitative restrictions, and the much derided ‘bra wars’ of 2005, in which Chinese garments were left stranded in EU ports. While this eventually led to a renegotiation of China’s quota ceiling, this increased was at the cost of a decrease in its quota for the following year (Heron 2006: 10-11). The continued existence of trade restrictions, both tariff and non-tariff in nature, particularly discriminates against some developing countries, as some of “the products of export interest to developing countries face the highest barriers in developed country markets.”(UNCTAD 2006: 75)

At the same time, import intensity within developing countries has grown, further encouraged by the high import content of global production networks, a shift to high income luxury goods as liberalization has intensified inequality, and cheap imports fuelled by (short-lived) consumer booms on the back of financial flows entering a country encouraged by high interest and exchange rates (Santos Paulinho and Thirlwall 2004; Saad-Filho 2005). At the same time as encouraging imports, these inflows do little to stimulate investment in the context of high interest rates, and so they eventually lead to deteriorating trade deficits, loss of confidence in local currencies and a flight of capital out of the country. In this sense then, the supposedly failed import substitution policies of the 1950s and 1960s have been replaced by policies of ‘production substitution’, based on new, short-lived neo-liberal ‘models’, rapidly replaced by financial crashes that are blamed on insufficient liberalization, when it is these very policies that contribute to and exacerbate financial crises.
Moreover, apart from East Asia, though foreign investment levels had increased, this had often reflected a shift in ownership from the state to private sector, rather than genuinely new, greenfield investment. Indeed, investment/GDP ratios were lower across the board since the reform process started in the early 1980s. Thus, investment/GDP ratios for sub-Saharan Africa fell from a peak of around 23 per cent in the early 1980s, down to around 15 per cent in 1985. By 2000, the figure stood at around 17 per cent. For the big Latin America five (Argentina, Brazil, Chile, Colombia and Mexico), the investment/GDP ratio of peak of close to 25 per cent in 1981 fell to 16 per cent by 1984. By 1989, just before the FDI boom, it stood at 19 per cent, and by 2000, it had only increased to 20 per cent (Kozul-Wright and Rayment 2004: 30).

The implications that follow are therefore different from Akamatsu’s flying geese model (see above), or Raymond Vernon’s product cycle model (1966), which both tend to imply that some form of convergence will eventually occur, as early industrializers dispense with earlier forms of industrialization, thus allowing later developers to follow. As we have seen, it also differs from new trade theory, which has influenced social democracy’s current accommodation to neo-liberalism, and particularly the strategy of progressive competitiveness, which supposedly encourages win-win situations through free trade and the exercise of comparative advantage (for a critique, see Albo 2004).

But the argument presented here suggests something else altogether. Even if we leave aside the limited development of skilled jobs in the developed countries, the fact is that an international division of labour of this kind is not one that is as mutually beneficial as
this scenario suggests. The outcome may not be zero-sum, but it is highly unequal. Drawing on Schumpeter’s theory of innovation, Arrighi et al. (2003: 17-18; see also Schumpeter 1954) suggest that early innovators have ‘locked in’ advantages over later developers, and so they tend to accrue a disproportionate amount of the benefits, for “it is the residents of the countries where the innovation process starts who have the best chances to win (Schumpeter’s) ‘spectacular prizes’, that is, profits that are ‘much greater than would have been necessary to call forth the particular effort’. The process tends to begin in the wealthier countries because high incomes create a favorable environment for product innovations; high costs create a favorable environment for innovations in techniques; and cheap and abundant credit creates a favorable environment for financing these and all other kinds of innovations. Moreover, as innovators in wealthy countries reap abnormally high rewards relative to effort, over time the environment for innovations in these countries improves further, thereby generating a self-reinforcing virtuous circle’ of high incomes and innovations.” In other words, we can re-interpret the claims of the flying geese model, product cycle theory, and new trade theory, on the grounds that convergence does not occur because the innovating country not only ‘refuses’ to stand still and instead continues to innovate, but also because the earlier process of innovation makes further innovation more likely in these locations. Once the innovations are diffused, that is, “by the time the ‘new’ products and techniques are adopted by the poorer countries”, such products “tend to be subject to intense competition and no longer bring the high returns they did in the wealthier countries.” (Arrighi et al. 2003: 17-18)
Thus, with the globalization of production, manufacturing in the developing world is overwhelmingly concentrated in lower value production characterized by low barriers to entry, intense competition and diminishing returns. It is in these sectors – clothing, textiles, toys, and so on - that developing countries have a cost advantage, particularly in low wages. But precisely because they are characterized by low barriers to entry, they do not provide the basis for upgrading to sectors with higher barriers to entry, where rents can be accrued to the most dynamic producers (Kaplinksy 2005; Kiely 2007). Indeed, since 1990, the growth of China’s exports in absolute amounts has exceeded that of the rest of the top 10 leading manufacturing exporters from the developing world, and since 2000, the latter nine countries combined export share has fallen whilst China’s has risen (Eichengreen et al 2004). This reflects the fact that competition in low value sectors is particularly intense and not necessarily a springboard to further development. This is not lost on the Chinese Communist Party, which combines a policy designed to draw on foreign investment while at the same time trying to continue the promotion of industrial policy – ISI - in order to upgrade into higher value activity (Nolan 2001). It is far from clear that this will be a successful process, as it is probably incompatible with membership of the WTO\textsuperscript{ii}, and China faces competition from established producers in these higher value sectors, which presumably require full access to the Chinese domestic market.

In an otherwise very useful analysis of the impact of China in the world market, Glyn’s (2006: 84) assertion that ‘China will at some stage move up the ‘value chain’ in the same way as did Japan and the Asian NIEs; when wage levels grow industries can no longer
compete so effectively in ‘low value’ markets where low wages for unskilled workers are the main source of competitive advantage” seems unconvincing. It downplays the difficulties of upgrading in a neo-liberal context, and assumes that wages will increase as labour is progressively incorporated into formal employment. His own discussion of a growing reserve army of labour suggests that this is far from guaranteed, either globally or within China (Glyn 2006: chs.4 and 5). In opposition to earlier debates over the links between de-industrialization in the developed world and the rise of manufacturing in the developing world, one interesting development in recent years (1995-2002) has been a decline in formal sector manufacturing, not only in the developed world, but also, it appears in China (1995-2002) and India (1996-2002). While there are certainly question marks over the reliability of figures, especially for China, the likelihood is that the fall from around 98 million to 83 million is actually an under-estimation, as many workers in the state sector and town and village enterprises are effectively unemployed (Kaplinksy 2005: 214-15). The sustainability of a scenario in which deficit led developed countries like the US and Britain, continue to boom on the basis of debt-led growth and cheap imports from China, while workers are employed in the latter fuelled by demand in the former, is questionable to say the least. This adds weight to the argument of this article, which has shown a marked scepticism concerning both global integration and labour absorption in the developing world (Kiely 2007: chs. 7 and 9).

The globalization of manufacturing production therefore does not constitute a substitute for policies associated with import-substitution-industrialization, because the former leads to late developers specializing in low value activity, while the latter is an attempt to
shift towards higher value production. The theory of the new international division of
labour (Frobel et al 1980) undoubtedly exaggerated the mobility of productive capital,
and thus over-generalized the extent to which manufacturing was relocating from
developed to developing world, and especially to the first tier East Asian newly
industrializing countries (Jenkins 1984; Kiely 1994). But it is perhaps now the case that
the theory is more valid as an explanation for later industrialization processes in the
developing world, at least when applied to low value labour intensive manufacturing.

Perhaps more important, where does this leave the case for import-substitution-
industrialization? Insofar as a revival of ISI is likely take place, this would constitute a
significant challenge to neo-liberal hegemony in the international economic order, as well
as established policies that have operated through adjustment policies and WTO
agreements. In this sense then, ISI would constitute a challenge to the neo-liberal
‘imperialism of free trade’, which prevents developing countries “from using the tools of
trade and industrial policies that they (developed countries R.K.) had themselves so
effectively used in the past to promote their own economic development.” (Chang 2007:
77; Kiely 2009) What then, of the prospects for a challenge to neoliberalism, based on a
revival of development strategies that ‘guide the market’ rather than promote market
friendly intervention’? Here perhaps we need to look again at how the globalization of
production may reflect a new era of ‘transnational capitalism’ (Robinson 2004). A full
examination of this thesis lies beyond the scope of this paper (see Kiely 2005; 2006), but
whatever the problems with this theory, its central contention that dominant classes are
more ‘transnational’ today is convincing. In the context of global integration, dominant
economic and political actors in the developing world and in Europe, want access to international circuits of capital, and therefore may support neoliberal policies (Albo 2003). Crucially however, these circuits of capital do not necessarily involve the promotion of productive capital investment such as would be necessary for ISI to be revived. Put simply then, the question of the potential revival of ISI does not just involve the technical efficiency of such a policy, but whether or not there are social and political agents that are willing to carry it out. This does not mean that ISI has ended – the Chinese Communist Party is clearly committed to some version of it, and current political trends in Latin America suggest some kind of revival there. But it does mean that the globalization of circuits of capital has undermined the prospects of the emergence of a ‘national bourgeoisie’, committed to nationalist, productive capitalist development. This suggests that (technocratic) models of development based either on neo-liberalism or the revival of the developmental state are problematic.

**Conclusions: dualism, and the debate on labour and globalization.**

The implications for my argument should be clear. Rather than promoting convergence between developed and developing countries, whereby the latter catch up or at least follow similar stages of development through upgrading, we have continued divergence based on a changing but unequal international division of labour. The question is thus not about choosing whether or not ‘to globalization’, but rather the uneven and unequal form taken by actually existing globalization. While the anti-globalization argument that there
is a race to the bottom is problematic, in that it assumes convergence through a process of leveling down rather then neo-liberal upgrading and leveling up, this argument does at least capture something of the intensity of competition within sectors characterized by low barriers to entry, and the pressure to reduce labour costs in order to remain competitive. The problem faced by developing countries competing in such sectors is that what works for one country cannot work for all.

For labour, this alternative analysis suggests that sweat shop production is not a sacrifice made now for a better future. Rather, it is an ongoing condition which reflects not only labour’s subordination to global capital, but continued North-South inequalities in the context of global uneven development. Thus, rather than an optimistic scenario for contemporary globalization, based on three closely related processes of convergence with developed countries, upgrading to higher value production, and the gradual absorption of labour based on the shift from absolute to relative surplus value extraction, we have a far darker picture. As Arrighi and Moore (2001: 75) suggest, “the underlying contradiction of a world capitalist system that promotes the formation of a world proletariat but cannot accommodate a generalized living wage (that is, the most basic of reproduction costs), far from being solved, has become more acute than ever.” Crucially, and in contrast to the dualist analyses criticized in this paper, this impacts on all forms of labour, formal and informal, free and unfree, organized and unorganized. Ultimately it reflects the reality of the contemporary era of capitalism, in which a neo-liberal globalization ensures an intensification of the concentration of capital, even as it simultaneously unequally incorporates other parts of the world through low value production (Dicken 2007). These
processes generate an intensification of the global fragmentation of labour (Bernstein 2004) in the context of heightened uneven and unequal development. For these reasons, the search for a simple replication of the classic agrarian question, which was never resolved (for capital) by one singular process anyway (Byres 1991), is no longer relevant (Bernstein 2004).

In terms of development, upgrading is a far from inevitable process, not only because of the ‘developmental’ lead established by earlier developers, but also because neo-liberal policies of trade liberalization undermine the prospects for upgrading to higher value production. Once such production processes are shed by developed countries, these processes are no longer high value. This is the problem of the dualist fallacy operating at a global level. Furthermore, the existence of a global reserve army of labour reinforces these processes as producers can continue to pay low wages and draw on the unemployed and underemployed. Therefore, to suggest that it is better to be exploited than not, may be true but it also rigidly separates those employed in the formal sector from those trying to make a living in the informal sector. The reality is that the high rate of exploitation that exists in the formal sector rests in part on the very existence of these high rates of unemployment and underemployment. This is the problem of the dualist fallacy at a local level. Perhaps most telling in this regard is that many trade unions have responded to the fragmentation of labour over the last twenty to thirty years by developing new strategies, sometimes described under the all inclusive term of social movement unionism. This is an unwelcome development for those advocates of neo-liberal globalization, but ironically it is one that should logically be dismissed as irredeemably populist by those
still clinging to old stagist dogmas. But then their commitment to the cause of labour was always compromised by support for a global diffusion of capitalism that flies in the face of reality, a reality denied by stagist Marxists in the 1970s and (neo-liberal) globalization theorists in the early twenty first century.

References.


The flying geese model, based on the idea of East Asian states flying in unison, was first developed in the 1930s, but it was not until the 1960s that the main English language publication of its pioneer first came out. See Akamatsu (1962). Balassa (1989) gave the idea a more explicitly neo-liberal theoretical direction. For a critique, see Kasahara (2004).

A growing source of concern to the US. For instance, US Commerce Secretary Carlos Gutierrez claimed in 2006 that “(t)he bottom line is that our companies do not have their rightful access under the terms of China’s WTO commitments” and suggested that this “only strengthens those who want to build protectionist barriers around the US market.” (see Breslin 2007: ch.3)