

Equally, postdevelopment thought has called for a return to the stress on people as both the measures and the determinants of development. In the past, the single-minded determination to rapidly develop economies and strengthen states led to abuses, at times, of individual freedom; ordinary lives could quite readily be sacrificed on the altars of national independence. Saddam Hussein's draining of the marshes of southern Iraq, which destroyed a people's way of life (not to mention the lives of a good many of the people themselves), could find justification in some of the more energetic reasoning in the canon of development thought. But the call for people to be restored to the front and center of development thought was not peculiar to postdevelopment thought. After all, neoclassical economics, with its call for macroeconomics to be replaced by microeconomics, always placed its faith in the operations of an economy filled with liberated individuals, even if its practices paradoxically sometimes led to the loss of liberty by those same individuals.

Moreover, the very concept that justified national development—the principle of state sovereignty—has come into question in a global age. Sovereignty, the basic principle that there is an ultimate authority in every country—the state—and that it not only enjoys authority over all other authorities in its land, but can also resist the efforts of all foreign sovereigns to meddle in its affairs, has arguably had a rough ride of late. Postdevelopment suspected its intentions, and neoclassical theory tended to celebrate its perceived demise in a “borderless world.”<sup>4</sup> But the reality is that in a global age, sovereignty has increasingly come to be contested by agents both above and below the state who have gnawed away (often with its consent) at its powers. Even if it wanted to spearhead national development along Keynesian lines, a state today would find it difficult to do so.

So out of this seemingly unlikely meeting of postdevelopment thought and neoclassical economics, a new consensus seems to be emerging. Just as the radical left's call to smash capitalism was in the postwar period subsumed into the moderate left's campaign to use the state to make capitalism more humane, so too has postdevelopment theory's call to reject development remained marginal, while its calls for decentralization, participation, and emancipation have gained widespread acceptance.

At the same time, some of the evident failings of neoclassical theory in practice have caused its theorists and practitioners alike to reconsider some of their assumptions. In the wake of the Asian financial crisis, a wave of unrest in developing countries, coupled with the vehemence of

street demonstrations at international financial gatherings, drew attention to the inequitable gains of the age of free markets.<sup>5</sup> At the same time, third-world countries began to balk at a world trading system that had been operating largely in favor of the rich countries. At the 1997 summit of the World Trade Organization (WTO), refusal to go along with a US-imposed fast-track approach that threatened to further marginalize developing countries brought the talks to collapse. Subsequent WTO meetings reinforced this refusal by third-world governments to go along with trade negotiations that they believed excluded their concerns. Eventually, the rich countries came to accept the necessity of putting the concerns of third world countries on the agenda if there was to be any hope of rescuing the trade talks. Hence the Doha round came to widely be seen as the turn of the third world.

Meanwhile, the management of the Asian crisis by the International Monetary Fund, which for a brief time seemed to become a virtual arm of the US Treasury Department, came under harsh criticism from within the ranks of neoclassical thought, the most powerful and influential critique being Joseph Stiglitz in his book *Globalization and Its Discontents*.<sup>6</sup> Although the IMF would respond to this attack in a celebrated media exchange, it did appear to shake the confidence of the institution in its neoclassical remedies. Concern at the harsh social effects of structural adjustment, as well as at the iniquity of a global financial system that spreads risk between borrowers and lenders in private markets but compels governments to bear the full risk involved in bond issuance, began to percolate into even the IMF.<sup>7</sup>

Finally, the concern with individual well-being also began to work its way into development theory. In his highly influential book *Development as Freedom*,<sup>8</sup> Amartya Sen returned the focus of scholars to the human individuals who were to benefit from the greater freedom that development was to bring. Raising incomes was one way to augment individual liberty, but there were others as well, and repressing those liberties in a blind quest to raise output was exposed as a Pyrrhic victory. Meanwhile, the neoclassical focus on decentralizing administration to make government leaner, more flexible, and better adaptive left room for the sort of participatory development celebrated by postdevelopment theorists.

This coalescence of scholarly opinion around the needs of both people and poor countries, away from programmatic commitments to more (or less) government and toward pragmatic commitments to better government, happened to occur at a time when the power balance between the first world and the third world had shifted in important ways. The

key factor driving this new development was the rise of China and, more recently, India. Following China's gradual reinsertion into the global economy, beginning in the late 1970s, its resurgence has been nothing short of spectacular. From a relatively small and isolated economy at the height of its Maoist phase, China is on track to resume its place as the world's largest economy in the coming decades. More recently, India has been powering ahead, recording growth rates well in excess of what had long been derided as the "Hindu rate."<sup>9</sup> These developments have had two significant effects on the world economy, both of which have conspired to open a potentially beneficial window to developing countries. China's surging manufacturing sector has dramatically expanded the globe's manufacturing capacity, while driving up demand for primary commodities. The result has been a global disinflation, and even deflation, for many manufactured goods, at the same time that commodity prices are rising. In short, the terms of trade may have shifted in favor of primary products for the first time in decades. This effect may only be cyclical. Meanwhile, the terms of trade may have shifted particularly strongly against *labor-intensive* manufacturing, which will have negative implications for some developing countries. But for the time being, countries that rely on primary exports for much of their revenue—which is to say, many third-world countries—may enjoy a few bright years.

Meanwhile, in both China and India, diasporas have played vital roles in the resurgence of their countries. Much of the capital driving the China boom has come from offshore Chinese, while Indians have been instrumental in forging linkages between service firms in India and contractors back in the industrial countries. This would seem to offer a model for the future, and it is interesting to note the context in which these émigré-driven investment booms have occurred. During the Asian financial crisis, masses of capital fled the third world and parked in the safe haven of US Treasury securities; this was what produced the great US boom of the late 1990s. But this capital drove security prices higher in the US, lowering rates of return. It was to be expected that, sooner or later, this "global saving glut"<sup>10</sup> would go into reverse, bringing a flood of investment capital back into the third world. The early signs of this began to emerge at the start of the twenty-first century as "emerging markets" came back into vogue among US investment houses.<sup>11</sup>

Taking all this into account, it is not out of the question that a new development age, as propitious as the two decades that followed the Second World War, may have begun with the twenty-first century: world prices began to favor the third world; a palpable desire to make trade

operate to its advantage emerged; the major multilateral agencies began showing a growing sensitivity to the plight of poor people at a time when neoclassical academics had equally started to place them back in the center of development thought;<sup>12</sup> capital flows started to move in favor of the third world; and development theory as a whole became more people-focused, or certainly more people-sensitive, than it had been for a long time.

Still, all is not rosy on this morning horizon. Grave challenges have emerged to confront not only developing countries, but indeed the entire planet. Most significant is the environmental challenge. Two decades ago, environmental issues were still fairly marginal in development thought. Now they are front and center. And while theorists may generally agree on the problem and its solutions—that rapid economic growth has led to pollution at rates the planet cannot presently absorb, and thus that capping and ideally reversing these emissions are central—practitioners have so far found it difficult to confront the difficult decision involved.

But so, too, the reinsertion of China into the world economy has altered the prospects of many third-world countries. China's resistance to democracy has enabled it to repress labor, keeping wages low and giving it an important comparative advantage in low-wage manufacturing. Many countries cannot compete. The traditional model that was employed in many third-world countries—moving up the product life-cycle chain by doing what first-world countries had already done, but more cheaply—will no longer be an option for all but the lowest-wage economies (that is, unless and until Chinese wages begin to catch up with the country's growth). Moreover, the consistent rise of the knowledge quotient of manufactured goods, globally, will attach a growing skills premium to output. Cheap labor alone will not be the asset that it was to many poor countries in the twentieth century. They will need cheap labor that is also increasingly skilled. This will raise the cost of human capital formation for governments that already struggle to adequately educate their people.

Furthermore, a case could be made that the sensitivity of the multilateral agencies has come too late, and is too little to make a difference. The International Monetary Fund is currently a shadow of its former self. The World Bank's influence has diminished greatly too: outside Africa, fewer and fewer governments borrow from the Bank to the extent that they look to it for guidance. The increased recourse by the world's governments to bond issuance (itself a by-product of financial globalization) and self-insurance—governments that once could have

turned to the IMF during payments crises but now have accumulated large foreign reserves to do the task themselves—has reduced the influence of the IMF. The World Trade Organization has become more marginalized by a growing tide of protectionist sentiment in many first-world countries, which coexists with an increasing skepticism among academics toward the benefits of trade agreements.<sup>13</sup> Development theory may have gone a long way toward consensus. But its ultimate implementation depends on political leadership, including global leadership. And it remains to be seen if the twenty-first century will produce the kind of leadership required to truly bring an end to the kind of poverty and oppression that so filled the twentieth.

### ■ Outline of the Book

Chapter 2 charts the rise of statist development theory in the early post-war period, and Chapter 3 charts the theory's failures in practice. Chapter 4 looks at the neoclassical prescription for remedying the third world's underdevelopment, and Chapter 5 considers the uneven results that the neoclassical recipe produced. Chapter 6 examines the contemporary development debate, focusing on the "last stand" of state-led development, which arguably ended with the Asian financial crisis. Chapter 7 considers the feasibility of this statist model in a globalized world, and concludes that its time has more or less passed. Chapter 8 looks at postdevelopment thought, assessing both its feasibility in practice and the insights that it has given to the discipline of development studies. Chapter 9 concludes the book by looking at the elements that current research tells us will have to be brought into development theories, examining in particular the capacity of the global political economy to meet the challenges of environmental degradation.

### ■ Notes

1. Leong H. Liew describes China as being engaged in a "loose hug" at best of neoliberalism. Its large market gives the government bargaining power in international negotiations over industry support and market access, while the Chinese Communist Party has effectively co-opted the new middle and entrepreneurial classes that its reforms have created, and which elsewhere have served as the natural constituency for liberalization and democracy. This, he says, accounts for the persistence of a state-led (and successfully so) economy where elsewhere it has fallen from fashion. See Leong H. Liew, "China's