

Industrial policy in the periphery.

Structural transformation, developmental constraints, and transnational class relations.

1. Introduction

After being discredited by the proponents of the Washington consensus and “structural adjustment” for decades, interventionist industrial policy has in recent years seen a sort of renaissance in development economics. The belief that any country will remain stuck in its current comparative advantage if left to the workings of the free market can again be heard. In fact, even the World Bank now admits that most of recent poverty alleviation must be attributed to targeted industrial policy, primarily in China, where almost 800 million people have been lifted out of severe poverty over the last four decades, amounting to more than three quarters of global poverty reduction (World Bank 2022). Despite this number likely being inflated for ideological reasons and the global poverty threshold (\$1.90 per day) being far too low, even in China, to guarantee for a good life, these are remarkable developments. In short, “[t]he CCP has achieved the feat of moving hundreds of millions of former peasants to new and expanding cities, while growing enough food and building enough adequate housing to nearly keep pace with the galloping demand” (Perez 2021: 113). While there is certainly a lot to criticize about China, no other country in the world – and certainly not those adhering to the neoliberal consensus – has ever achieved anything similar.

However, while industrial policy is no longer a taboo word in international development, there are still little signs of structural change throughout the rest of the developing world. Poverty and extreme inequality remain rampant. The capitalist world economy continues to produce uneven and asymmetric development outcomes around the globe, adversely affecting millions (if not billions) of people’s opportunities to live a good life without deprivation. In fact, global inequality between countries, which had been diminishing for decades, has in recent years started to rise again (Kanbur et al. 2022). The central question of this paper is thus: why is industrialization not happening; or in other words: what are today’s main constraints to structural transformation and industrial policy in the global periphery?

The structure of this paper will be as follows: in the next chapter, dependency theory and the concept of strategic selectivity will be introduced. These theoretical foundations will guide the rest of the paper. Chapter three will then outline common arguments in favour of industrialization and industrial policy as well as illustrate crucial institutional conditions and the practical side of industrial policymaking. After that, chapter four will focus on some of the key constraining factors – primarily economic and global governance related – which hinder industrialization in the periphery. The paper will conclude with a class-conscious perspective on the role of (transnational) class relations for the success or failure of structural transformation.

2. Dependency theory and strategic selectivity

In order to analyse prospects and limitations of industrial policy in the periphery, we must assess both peripheral states' policy space as well as the “inner workings” of the capitalist state. This paper thus combines a dependency approach to global development with a critical state theory perspective, both of which are grounded in a historical materialist ontology.

Historical materialism is a theoretical and philosophical standpoint which that takes power and class relations seriously and remains critical of capitalist exploitation. A key tenet of this view of society is that the collective modes of production and reproduction form “the material basis for all forms of social existence, and [...] affect all other aspects of social life” (Cox 1987: 1). Additionally, historical materialism posits that human societies are fundamentally composed of different classes that are characterized by their relative role in the productive system. Within the contemporary mode of production – capitalism – there are two main classes, although many sub-divisions or class fractions can be identified. These are the working classes on the one hand, which have to sell their labour power to earn the means of survival, and the ruling capitalist class on the other, which accumulates wealth through the exploitation of workers. With these distinct standpoints come specific class interests that are related to a class's position in the economy (Grumiller & Raza 2019: 9). From a historical materialist perspective, it is thus crucial to look at the material class interests related to the societal production process and how these shape the ways in which economic activity is organized on a global scale. If we wish to understand industrial policy, we must take these considerations seriously.

As related to the difficulties of industrial development, dependency theory can prove a useful perspective. At its core, the dependency approach tries to explain the persistence of global asymmetric power relations and enduring underdevelopment (Cardoso 1972). The fundamental

starting point is that “there are constraints related to being a part of the global economy as a relatively weak economy“ (Kvangraven 2020: 78). Dependency scholars use a relational framework to conceptualize hierarchical relationships between prosperous core countries (so-called industrialized nations) and poorer peripheral regions (developing countries). For Theotonio Dos Santos, one of the founding figures of the Latin American dependencia school, dependency is “a situation in which the economy of certain countries is conditioned by the development and expansion of another” (Dos Santos 1970 cited in Kvangraven 2020: 78). In this understanding, it is not mainly endogenous factors within the periphery that cause chronic poverty and underdevelopment. Rather, it is the specific (i.e., peripheral) kind of integration into global production processes that leads to an unequal distribution of all produced value between core and periphery, and thus, to development and underdevelopment, respectively (Weissenbacher 2018: 34). Peripheral countries are thus “characterized by their historically grown subordinated integration in the (neoliberal) global political economy” (Grumiller & Raza 2019: 12). Accordingly, there are qualitative differences between core and periphery economies that are related primarily to their respective structures of production and their role in the global economic order (Perez 2021: 103). The productive structures of a given country are characterized by the technological capabilities of firms and workers and by the organization of labour markets, resulting in varying levels of productivity and specific product specializations. This is reflected in the kinds of goods that are produced in (and exported by) a country (Kvangraven 2020: 85). Whereas core countries have diversified economies with many firms at the technological frontier, the periphery is marked mainly by the production of low-complexity goods such as agricultural products as well as by a reliance on foreign technology (ibid.: 97; Perez 2021: 103). None of this is a natural state of being but the historic result of social struggles. Trying to understand these uneven relations and how they shape the developmental outlooks for peripheral countries is a central tenet of dependency research. For Kvangraven (2020: 81), it is four essential theoretical characteristics that define dependency theory: 1) a global historical approach; 2) an attention to the polarizing tendencies of capitalism; 3) a focus on productive structures; and 4) a view of the specific constraints that peripheral economies face in the global economic system. This perspective thus makes it possible “to unpack and explain the persistence of asymmetries and constraints in the global economy that adversely affect the development prospects and opportunities of peripheral economies” (ibid.: 100), making dependency theory an adequate approach to the question of what is holding peripheral industrialization back.

A related but distinct question relates to why industrial policy is conducted in the first place. Fundamentally, for a state to pursue any policy strategy, there need to be certain social actors’

interests behind it. As mentioned, different forces (such as classes and class fractions) have conflicting material interests related to the social organization of production. The way these interests translate into state policy is best analysed through the concept of strategic selectivity developed by Bob Jessop (1999). In Jessop's historical materialist understanding, which is heavily influenced by the work of Nicos Poulantzas, the capitalist state is not a neutral actor or a mere arena for the articulation of interests. Rather, the state is conceptualized as a social relation resulting from historical struggles between competing actors or classes. It is "the material condensation of a relationship of forces" (Grumiller & Raza 2019: 10). Here, strategic selectivity describes how a state privileges the interests of certain classes or class fractions over the interests of others as well as the ways in which social forces strategically pursue their goals via state policy. Any state structure is thus constituted by a specific constellation of strategic selectivity, which reflect the balance of power between classes and other social actors, and which in turn determines whose interests and what policies will be pursued (ibid.: 11). In the context of industrial policy, this means that there must be social forces with material interests in industrial development which are driving for industrialization. At the same time, as with almost any policy direction, there will be actors – both domestic and global – opposing these processes. The interests of these competing groups and the extent to which they manage to influence the state thus relate to both the question of how an industrial policy orientation emerges as well as to historical moments where industrial policy is abandoned.

To summarize, the prospects of progressive industrial policy in the periphery will be determined both by the specific constraints related to a subordinate position of dependency and by the power relations between competing social forces which pursue or obstruct industrialization, respectively. Therefore, dependency theory and the concept of strategic selectivity offer useful tools for analysing the possibilities and limitations of transformative politics.

3. Theory and practice of industrial policy

This chapter focusses first on the theoretical basis for industrialization, i.e., the question of why, within the confines of capitalist development, structural transformation of the economy is considered necessary to achieve higher standards of living. It then outlines why state intervention is deemed crucial to achieve such transformation. This is followed by practical questions on institutional set-up for industrialization as well as concrete policies.

3.1. The argument for structural transformation

This section presents the main arguments commonly made in favour of industrialization. For this purpose, I draw on different approaches pointing to the necessity of industrial development. These include the developmental state (DS) approach, popularized by scholars such as Alice Amsden in the context of the “East Asian miracle”, the Latin American structuralists as well as some strands of heterodox development economics (Perez 2021: 105; Prebisch 1950; Chang 2002). For convenience’ sake, I will group these together as a neo-developmental approach, one that is distinctly different from both the neoliberal orthodoxy and Marxist anti-imperialism. Another, more critical, approach to the prospects and limitations of industrial policy can be found in dependency theory. Besides their differences (to which I will return throughout the text), what all these schools of thought share to a degree is a particular understanding of development, one in which the structure, organization and complexity of economic in a country determine to a large degree its developmental status and wealth, including living standards, health care, education etc. (Kvangraven 2020: 87). Since, in this understanding, different economic activities carry varying potentials for generating higher incomes and employment (Whitfield et al. 2015: 39), the structure of peripheral economies – often characterized by agriculture, raw materials, and low-complexity manufacturing – is identified as the main characteristic of underdevelopment. Changing these structures through industrialization is the key to overcoming underdevelopment. The goal is, in Perez’ words, “to rise through the hierarchy of production” (Perez 2021: 112) in order to retain a larger share of the globally produced value within the country, some of which can – but does not necessarily have to – benefit the working classes through higher wages. In the process of structural transformation, an economy thus moves away from low-complexity economic activities to higher-complexity ones. This involves particularly the development of a competitive manufacturing sector which is able to sustain higher-value exports (Whitfield et al. 2015: 4).

Since the last quarter of the 20th century, a global fragmentation of industrial production has taken place, significantly altering the conditions under which countries industrialize (ECA 216: 143). Under such circumstances, capitalist development is no longer about industrialization at large (at least not in the beginning), but about strategically inserting domestic firms into more profitable market segments (Whitfield et al. 2015: 51). Today, “connecting into global production networks on relatively more favourable terms” (Carmody 2017) is by many deemed the most feasible approach to industrial policy. In this context, “upgrading” is the process of

strengthening domestic firms' capacities to move up specific value chains towards higher-complexity activities where more value can be captured (Eder et al. 2018: 7).

To summarize, both neo-developmentalism and dependency theory argue that industrialization – i.e., the GPN-specific development of a manufacturing sector and thus the structural transformation of an economy towards increasingly higher-complexity activities – is crucial for global poverty alleviation and the transcendence of peripheral underdevelopment.

3.2. The role of industrial policy

Structural transformation – especially from a peripheral position – does not happen on its own. The reason for this lies mainly in the fact that capital only flows where there is reasonable expectation of profitability, regardless of sectors and their respective developmental prospects. The key for capitalist transformation, however, is to incentivize investments into the development of strategic sectors. The goal is thus to move capital away from unproductive or otherwise undesired economic activities and into higher-complexity ones, as explained in the last section. Whitfield et al. (2015: 52) contend that “[m]ore often than not, private investment in industries new to a less developed country does not happen spontaneously [...]. Governments have to facilitate it”. Facilitating such transformations is what is referred to as industrial policy. More specifically, this variant of policymaking is called vertical, interventionist, or selective industrial policy and it is “based on targeted strategies which support specific activities, sectors or technologies while discriminating others” (Eder et al. 2018: 8). This is in stark contrast to the neoliberal economic orthodoxy which considers such state intervention as ineffective and inappropriate. Instead, mainstream economics favours so-called horizontal industrial policy which is primarily aimed at maintaining “fair” competition between firms.

Neo-developmentalism (as understood here) utilizes a “carrots and stick approach” (Grumiller & Raza 2019: 13) to industrial policy, i.e., it strategically combines investment incentives with strong oversight on the direction of capital accumulation and its developmental impact. The state thereby facilitates the channelling of capital (and thus labour) into new strategic sectors, mainly into manufacturing, where it might otherwise not go to due to high uncertainty (Whitfield et al. 2015: 52). A neo-developmental state is thus characterized by “the ability to discipline what is frequently the most powerful social force in many societies – private capital” (Carmody 2017), enabling it to engage in what Clapham (2018: 1162) calls “long-horizon centralised rent management”. In this context, rents can be understood as excess incomes or “surplus funds” (ibid.: 1156) that arise, e.g., in the form of what Marx called super-profits, or which

stem from a (state's) monopoly over a certain sector. A crucial challenge to industrial policy is finding and mobilizing such rents for the purpose of structural transformation.

Rents for industrialization can arise from the process of primitive accumulation, which can be understood as “the non-market transfer of assets from non-capitalist classes to pre-capitalist classes who may become capitalists over time” (Khan 2004, cited in Grumiller & Raza 2019: 11). Primitive accumulation is driven by the state's strategic selectivity towards the goal of industrialization. It relies on the expropriation of certain classes to the benefit of a potential industrial capitalist class and often results in considerable social costs (Grumiller & Raza 2019: 11). Today, as opposed to the times of the British enclosure movement, these initial transfers of wealth towards the creation of an industrial capital stock do not necessarily have to come from non-capitalist sectors but can also arise from other sources, for instance from natural resource rents (Whitfield et al. 2015: 15). However, primitive accumulation is not only the transfer of funds from one sector to another but also comes with the proletarianization of large parts of a population. In the interest of capitalist development, small-scale agricultural producers are being deprived of their means of subsistence and forced to sell their labour power in emerging industries in order to sustain themselves and their families. “Economic transformation necessarily means that some smallholders will not remain farmers, but rather become wage laborers” (ibid.: 58), a reality which – despite all prospects for long-term development – historical materialists must remain critical of. Carmody (2017) captures this contradictory nature of structural transformation: “Capitalist industrialization is often a brutal process. However through the development of the productive and social forces (particularly the working and middle classes) it offers the prospect of higher living standards and new forms of social compact and accountability”. Thus, in the context of primitive accumulation, the role of industrial policy is to create the necessary conditions for the development of a manufacturing sector by facilitating the transfer of wealth – and labour – from non-productive to productive economic activities. Clearly, this is never a harmonious process, but rather a heavily contested issue where different classes and class fractions are advantaged and disadvantaged to varying degrees (Grumiller & Raza 2019: 5). However, before discussing the class relations inherent to industrial policy in a later chapter, the next section will look at some institutional conditions necessary to implement industrial policy and facilitate structural transformation.

3.3. Institutional conditions and the practice of industrial policymaking

After establishing the need for both industrialization and industrial policy for achieving capitalist development, this section focusses on how these processes tend to play out on a more

concrete level. For this, I will elaborate first on key political conditions necessary for successful industrial policy implementation and second on the practical side of policymaking.

Whitfield et al. (2015: 17f.) identify three domestic-institutional conditions that are crucial for industrial policy to succeed: mutual interests between the state and industrial capitalists, pockets of efficiency within the state bureaucracy, and firms learning for productivity. First, as mentioned in relation to the strategic selectivity of the state, any form of policy orientation will be pursued only if there are social forces both interested in and capable of influencing state decision-making in such a way. Thus, what is necessary for an industrialization project to emerge are mutual interests which lead to political alliances of pro-development state elites and fractions of industrial capital. Such collaboration is needed since capitalists rely on the “right” policy to secure capital accumulation (Grumiller & Raza 2019: 16). Second, there need to be so-called pockets of efficiency within state bureaucracies active in industrial policy. Historically, bureaucrats, i.e., non-elected government officials working in ministries, agencies etc., have played important roles in most late industrialization project, such as those of Japan, South Korea, or Taiwan (Ashman et al. 2020: 200). In most cases, however, peripheral states’ strategic selectivity (a reflection of the balance of power between social forces and of their relative ability to influence state policy) does not allow for comprehensive, all-encompassing industrialization projects (Grumiller & Raza 2019: 22). Instead, pockets of efficiency are smaller segments within the state, often concentrated in individual ministries working towards industrialization. To function as intended, these bureaucratic bodies need to possess what is called embedded autonomy: they need to both be embedded in the relevant economic sectors (i.e., be knowledgeable of how an industry works and which specific constraints it faces), but also relatively autonomous and prone from being captured by particularistic demands (Eder et al. 2018: 6; Whitfield et al. 2015: 20). Third, learning for productivity refers to the necessity for capitalist firms to actually use the funds that are channelled into the sector for building their technological capacities and shifting into higher-value production, or in other words: “linking policy-generated rents to increases in productivity” (Grumiller & Raza 2019: 8). This is again where the “carrots and stick” approach to industrial policy becomes important. There must be monetary incentives for capital to increase productivity and invest into technological upgrading, but at the same time, any potential government support or funding would need to be withdrawn if this does not yield the expected results. Accordingly, in East Asian development, “[t]he state protected and supported domestic business [...] yet by disciplining capital ensured that the rents from this were reinvested in investment, upgrading, and expansion” (Ashman et al. 2020: 200). Here, embedded autonomy is again crucial, as bureaucrats need to understand how to strengthen

a sector while at the same time ensuring that the enforcement of “letting losers go” (Eder et al. 2018: 6) is not undermined by particularistic interests. In short, besides effective collaboration between pro-developmental political elites, bureaucrats and industrial capitalists, there must exist capable bureaucratic bodies which lead the transformative processes of industrial policy. These three factors – mutual interests, pockets of efficiency, and learning for productivity – are thus necessary preconditions for an industrialization project to emerge. The absence of these institutional conditions poses distinct obstacles for the prospects of industrial policy.

As seen, in order to change a country’s pattern of economic specialisation and its role in the international division of labour, specific and targeted policies are necessary. Generally, we can distinguish between import substitution (e.g., levying duties on industrial imports) and export promotion (e.g., subsidizing the export of manufactured goods) strategies (Perez 2021: 105). Both of these policy orientations favour domestic producers over foreign ones with the goal of helping the former develop their technological capabilities. Industrial policy can also include providing the necessary infrastructure for firms to compete on the world market. Additionally, the state can establish research and development capacities, subsidize the cost of education and training, provide the necessary liquidity for firms to invest as well as finance losses in initial learning phases (Grumiller & Raza 2019: 20f.; Whitfield et al. 2015: 5). State-owned enterprises can also be an important tool for starting or developing infant industries (ECA 2016: 116). The ways in which such policies are actually implemented and combined can vary to a great extent, depending on, among other things, the state’s strategic selectivity or on the manufacturing sector’s current technological capabilities. Generally, import substitution strategies have in many cases preceded export-oriented ones. The East Asian countries, for instance, switched from protectionist import control policies to more liberalized ones, once their firms achieved international competitiveness (Whitfield et al. 2015: 50). At any rate, industrial policy cannot simply follow blue-print formulas for industrialization but must instead be pragmatic and context-specific. In fact, throughout history, “economic transformation was not achieved through grand strategies implemented by states, but rather by numerous improvised decisions and ad hoc policy changes” (ibid.: 9).

Since technological capabilities are usually not very highly developed in the beginning, many countries try to attract foreign direct investment (FDI) into strategic sectors. This can be a double-edged sword for the industrialization project of a peripheral country. On the one hand, FDI can result in higher employment, bring in the technologies needed to participate in high-value production, and be an important way to raise the necessary investment funds. On the other hand,

however, FDI often reproduces existing dependencies. As global production networks mirror the hierarchical organization of the world economy, a small number of core-based lead firms appropriate the largest shares of the profits generated. Peripheral countries' FDI-driven integration into GPNs generally remains at the lower end of the ladder, meaning that they are mostly active in primary commodity production or low-complexity manufacturing steps (ECA 2016: 145-151). The UN's Economic Commission for Africa (ECA 2016: 153) contends that the extent to which FDI can be beneficial to industrial development depends on how states manage it. In a similar vein, Whitfield et al. (2015: 54f.) stress the importance of FDI-induced linkages, related to employment, demand for domestically produced inputs and supply of inputs for domestic industry. The term linkage describes the idea that investments in certain key industries will call forth the development of other, related sectors (Ashman et al. 2020: 188). Without such linkages, there will be no technological spill-over effects and thus no upgrading or domestic learning for productivity. Industrial policy can influence this by strategically allowing FDI where linkages can be expected or by mandating the establishment of joint ventures between foreign and domestic capital, a strategy China used extensively to achieve technology transfers (ECA 2016: 146).

To sum up, industrial policies can take on a variety of forms. They must be planned and implemented in context-specific ways and continually developed to sustain economic transformation. However, some of the policies discussed here – above all export subsidies – are not as applicable as they used to. The question of how peripheral countries' policy space for conducting industrial policy has been circumscribed in recent decades will now be discussed in further detail.

4. Constraints to peripheral industrialization

Constraints to industrialization can include a myriad of factors, both on the domestic and the global level. Without claiming to provide an exhaustive account, this chapter tries to identify some of the most important difficulties for effective development. They will be roughly divided into structural and global governance related constraints, I will first look at structural factors that are inherent to the peripheral position of poor countries (i.e., balance of payments constraints, deteriorating terms of trade, and difficulties to upgrading in GPNs) and then discuss the active role of core states and international organizations in undermining (or in certain cases promoting) peripheral development.

4.1. Structural constraints

Some of the main economic constraints to development are related to peripheral economies' balance of payments (BoP), which is an illustration of a country's exports and imports as well as its financial relations, and thus reflects its structure of production. Especially during the process of active industrial policy, peripheral countries are frequently running trade deficits, i.e., importing products of higher value than they export (Kvangraven 2020: 95). However, without sufficient foreign exchange (due to low-value exports), peripheral economies cannot sustain importing expensive capital goods which are often needed for industrialization. The necessity to import such products in the first place is in itself a sign of peripheral countries' technological dependency vis-à-vis core countries. Additionally, the already unfavourable BoP constraints are exacerbated by deteriorating terms of trade between high-tech and low-tech products. This describes the fact that the prices of peripheral countries' exports tend to decline relative to core countries' exports (Ashman et al. 2020: 181). The result is a gradual worsening of development potentials: “[t]rapped in global market sectors suffering secular relative price declines (apart from oil) and short-term revenue volatility, Southern states were unable to generate the large and stable export revenues needed to finance development“ (Radice 2008: 1165). It is thus the structure of production itself, reflected in technological dependency and the export of low-value products, that hinders its own transformation by not generating enough funds. To finance development, such trade deficits have often resulted in high sovereign debt, the repercussions of which will be discussed in a later section of this chapter.

The proliferation of global production networks (GPNs) has also resulted in a range of structural constraints to industrialization. As mentioned, GPNs are highly hierarchical structures, in many cases characterized by unequal power relations between core-based lead firms and subordinated peripheral producers or contractors (Kvangraven 2020: 101). Transnational corporations (TNCs) have in past decades outsourced some parts of their production process but have largely maintained or increased their profit shares. They usually control the whole production process through technological dominance, brand name recognition, and easy access to cheap credit (ECA 2016: 150). High-value activities, i.e., those with the highest barriers to entry such as research and development, design, or marketing have remained in core countries, whereas low-complexity mass production steps were relocated to the periphery. This division of labour is merely the GPN-specific reflection of core and peripheral structures of production, respectively. In some sectors, such as the apparel or automotive industries (Weissenbacher 2018), core-based TNCs have obtained oligopolistic market domination, allowing them to set prices, which

resulted in heavy competition between contractors (Whitfield et al. 2015: 56). And indeed, many labour-intensive manufacturing goods, such as clothing, shoes, or toys have experienced relative declining prices, i.e., deteriorating terms of trade. This results in a global race to the bottom between supplier firms where competitiveness can only be maintained by lowering wages, which is the exact opposite of what peripheral countries should expect from industrialization. Another issue concerns the replaceability of low-tech suppliers. TNCs can simply relocate production or buy from other producers if costs become too high (ECA 2016: 151f.). This is yet another indicator of the importance of structural transformation for reducing economic dependency. However, upgrading within GPNs, i.e., engaging in higher-value activities, is not an easy process, as lead firms are eager to protect their position within the production process. Knowledge flows within GPNs tend to be very limited and there may also be fear of retaliation from powerful buyers in the form of production relocation, as mentioned above (ibid.: 152). In the 1950s, Prebisch had already stressed the power of core countries to maintain control over the benefits of technology (Ashman et al. 2020: 187). This has not changed with the spread of GPNs and, to some degree, has even been exacerbated with the strict enforcement of intellectual property rights, which will be discussed shortly.

To summarize, some of the main economic constraints associated with the peripheral status of poor countries include “structural import dependencies and associated chronic current account deficits, over-indebtedness and limited access to foreign exchange” (Grumiller & Raza 2019: 12) as well as the hierarchical nature of GPNs and the resulting difficulties for moving into higher-value economic activity.

4.2. “Allowing” or “outlawing” transformative policy

It is, however, not only structural conditions that hamper peripheral countries’ industrialization efforts. Instead, industrial development has long been and still is actively undermined by powerful state and inter-state actors. Core countries of the Global North and multilateral organizations such as the International Monetary Fund (IMF) or the World Trade Organization (WTO) have effectively prevented many peripheral countries from pursuing transformative industrial policy (Eder et al. 2018: 4). This has been most pronounced in the context of so-called structural adjustment programs (SAPs). After gaining independence, many post-colonial governments in peripheral countries had been committed to structural transformation and had made significant progress during the 1960s and 1970s. This, however, came at the cost of growing international indebtedness (Whitfield et al. 2015: 2). Due to their financial dependency on international creditors, peripheral countries became vulnerable to external pressure which ultimately resulted in

the sovereign debt crisis of the 1980s (Perez 2021: 106). With debt rescheduling came “the re-emergence of the Bretton Woods institutions as global debt collectors for capital” (Radice 2008: 1163). As a consequence, peripheral countries were forced to liberalize and accept severe de-industrialization. Whitfield et al. (2015: 50f.) see this as the crucial moment in which some of today’s highest developed regions diverged from their peripheral peers at the time. Whereas the East Asian economies, primarily South Korea and Taiwan, had already become internationally competitive and had entered export markets before the onset of the debt crisis, Latin American and African countries were still in the phase of import substitution and their firms had not yet developed the necessary technological capabilities to compete in a liberalized world market.

There are, however, additional and perhaps more important reasons for why East Asian countries could develop the way they did while many others remained poor. The geopolitical interests of world powers play a crucial role for the development or underdevelopment of peripheral countries. From this perspective, it becomes apparent that SAPs are only one way of preventing industrialization, and arguably a more subtle one, when compared to more violent forms of intervention: “[t]he US [...] obstructed dozens of attempts by governments in Africa, Latin America, Asia and the Middle East from challenging their role in the global economy [...] through sanctions, invasions and coups” (Perez 2021: 112). Indeed, the role of imperialist hostility for obstructing industrialization cannot be overstated. Likewise, the interests of powerful countries have heavily influenced the development trajectories of South Korea and Taiwan. Both countries were strategic allies to the US in its Cold War containment policy and benefited from its financial support. In fact, South Korea could only run such significant trade deficits because US aid and other external finance for development was so easy to obtain, which loosened the BoP constraints most peripheral economies face (Kvangraven 2020: 95). It is thus crucial to understand that “US foreign policy did not simply facilitate Taiwan and Korea’s development; it *allowed* it to happen” (Perez 2021: 112, emphasis in original). The fact that, in most other cases, industrialization has not been “allowed”, is where dependency theorists tend to depart from neo-developmentalists, who are often oblivious to imperialist power dynamics.

Today, the influence of core countries on the developmental prospects of the periphery can be seen most clearly in the rules of the World Trade Organization (WTO). Here, almost any state intervention in the economy is deemed a trade-distorting measure that gives unfair price advantages. Peripheral countries are thus relentlessly encouraged or pressured to further liberalize their economies and to abstain from transformative policy. WTO rules are binding for member states and they “systematically restrict the choices developing countries have for conducting

industrial policy” (ECA 2016: 117). Many of the measures that today’s core countries used in the past have since been banned or significantly circumscribed under WTO rules, resulting in much higher constraints for policymaking (ibid.: 114). The most notable regulation relates to the complete ban of export subsidies, which are crucial tools for encouraging firms to develop their technological capabilities and move into export markets (Whitfield et al. 2015: 59). Additionally, sector-specific subsidies of any kind as well as the enforcement of local content requirements for manufacturing FDI (meaning that foreign investors would have to use a fixed amount of domestic input) are prohibited. The WTO’s TRIPS agreement mandates countries to acknowledge intellectual property rights (IPRs) such as patents and copyrights, which protect some of the highest-value economics activities (ECA 2016: 130). IPRs have become a contentious issue to such a degree that much of the contemporary tension between the US and China is believed to stem from Chinese violation of IPRs through industrial espionage (Perez 2021: 114). Although peripheral countries would need to “rely on borrowing, stealing and perfecting foreign technology to work their way up global value chains” (ibid.: 111) – the same way as today’s core countries had – this has become all but impossible. While strategic sectors can still be supported through carefully targeted and sometimes concealed policies (such as research and development subsidies or mandatory joint ventures for FDI), peripheral countries policy space has shrunk considerably over the last few decades. Such legal constraints severely limit the prospects of industrial policy by making it much harder to move into higher-technology sectors.

This last section showed how powerful actors on the international level can and do influence peripheral states’ ability to implement industrial policy. It illustrated that, not only do peripheral states have to implement the right policy, but their industrial development must also be “allowed” by imperialist powers as well as not be legally impaired, or “outlawed”, by multilateral organizations such as the WTO. For most of today’s peripheral countries, this is not the case. This clearly shows that there are powerful social forces opposing industrialization in the periphery. The interests of such groups and the way they influence industrial policy cannot be fully understood unless we look at them from a class perspective.

5. Transnational class relations and industrialization

Institutional arrangements and concrete policymaking are important considerations for implementing effective industrial policy. Likewise, identifying the specific constraints peripheral countries face in the process of industrialization is crucial. Ultimately, however, we need to

take class interests and the struggles between opposing social forces seriously. In this chapter, I will therefore discuss the previous findings from a class-conscious perspective.

As shown, structural transformation does not happen on its own and neither is it primarily grand national plans that determine which kinds of industrial policy will be implemented. Rather, for an industrialization project to emerge, it must be in someone's interest. From a strategic selectivity perspective, a development-orientated state must privilege the interests of certain classes or class fractions while discriminating against others. In such a case, dominant social forces have succeeded in influencing state policymaking in their favour (Grumiller & Raza 2019: 10). This leads Radice (2008) to assert that, within industrial policy,

“key social actors are not states or interstate organisations or TNCs, but classes: without denying the role of the former as institutions of capitalist governance, we cannot discover who does what to whom in global neoliberalism unless we reinstate class at the centre of our critique.” (ibid.: 1168)

The struggle between classes over the benefits of economic activity is at the centre of industrialization. Any type of policy invariably influences the distribution of wealth and incomes. Interventionist industrial policy does this via the process of primitive accumulation whereby resources are channelled from sources such as agriculture or natural resource rents towards industrial activity. Unsurprisingly, large landowners or rentier capitalists will not approve of such policy. Likewise, class fractions that accumulate capital via import trading will generally oppose tariffs, import restrictions, or other policies which may be used by the state for infant industry protection (Whitfield et al. 2015: 19). On the flipside, classes with material interests in the development of the manufacturing sector, i.e., primarily the industrial capitalist class, will push for such measures (Grumiller & Raza 2019: 10). Only if they succeed in forging alliances with political leaders and bureaucratic elites, an industrialization project can emerge. The extent to which such projects can be constructed and maintained is thus fundamentally a question of power relations between competing class fraction, and in particular between the national bourgeoisie and its comprador counterpart (Perez 2021: 104). While the former describes what has so far been referred to as industrial capitalists, i.e., an emerging class fraction engaged in manufacturing, the latter accumulates capital in mostly non-productive or low-technology sectors and most importantly, it is allied to dominant social forces from core countries. Comprador class fractions “help to organise the extraction of natural resources and exploitation of local labour on behalf of foreign capitalists but are never in control of the domestic accumulation process and therefore cannot develop technological and financial autonomy” (ibid.).

Together with ruling classes from the core, i.e., with imperialist capital whose interests lie in the continued exploitation of the periphery, comprador bourgeoisies are mainly responsible for the persistence of underdevelopment throughout the world.

Structural adjustment programs and the concomitant end of many past industrialization projects in the periphery can only be understood in the context of such class relations. The balance of payments constraints related to peripheral industrialization and the often-resulting debt crises “are precisely the points at which the cherished plan for a bourgeois national development goes wrong and gives way to a recompradorisation of the local bourgeoisie’ (Amin 1990, cited in Perez 2021: 106). In the face of such crises to state-directed transformation, dominant class fractions have often abandoned the industrialization project in favour of renewing their ties to imperialist capital. Here, the strategic selectivity of the peripheral state shifts again towards privileging the interests of the comprador bourgeoisie and its international allies over those of domestic capitalists. Once comprador classes are back in power, structural transformation is largely off the table and dependency prevails. Thus, whereas the goal of a national development project is to change a country’s area of economic specialization and hence its position in the global division of labour, recompradorisation (which can and does also happen via imperialist invasions or externally financed military coups) leads to a reification of peripherality.

This view is finally where dependency theory completely departs from neo-developmental schools of thought. If we accept the difficulties of sustaining and defending a progressive industrialization regime against the dangers of recompradorisation and imperialist hostility, the prevailing naivety amongst many neo-developmentalists becomes apparent. Take for instance the position of Ha-Joon Chang, who co-authored a report on industrial policy for the UN’s Economic Commission for Africa. Here, Chang attributes the willingness of many peripheral governments to voluntarily liberalize their economies to the fact that “either [...] they are misinformed about the existence of policy space, or they are too lazy to undertake proactive industrial projects, or they are far too indoctrinated in neoliberal ideas” (ECA 2016: 142). In no way does he see that liberalization – i.e., recompradorisation – may be pursued by peripheral states because their strategic selectivity favours the interests of comprador and imperialist class fractions over transformative policy options; or in other words, that apart from ideology, there may be, for some social forces, real interests in liberalization. Dependency theory shows us that the distinction between the domestic and the global, as for instance in the framing of underdevelopment as either endogenous or exogenous, does not hold up to scrutiny (Kvangraven 2020: 93). Instead, it is precisely the interactions between the internal and the external, manifested in

such transnational class alliances, that shape the outcomes of development and the prospects of industrial policy.

To sum up, in order to understand the success or failure of industrial policy, we must look at opposing class interests working towards or against structural transformation. In particular, the extent to which either national or comprador bourgeois class fractions succeed in gaining access to state decision-making fundamentally determines the longevity of developmental efforts as well as which policies are pursued in the first place. “Industrial policy-making hence is subject to social struggle and depends on power constellations among social forces with different interests towards industrial development and policy” (Grumiller & Raza 2019: 11). From a dependency perspective, the class-related fragility of pro-industrialization projects thus appears as a central constraint to overcoming peripheral underdevelopment.

6. Conclusion

Despite rapidly changing world economic conditions, underdevelopment and dependency remain widespread phenomena around the globe. Peripheral economies are still characterized by adverse structures of production and economic specializations in unproductive sectors. Industrial policy is increasingly (re-)gaining traction as a possible strategy for meaningful, albeit capitalist, structural change. However, signs of true transformation remain rare, which must invariably raise the question of why this is the case. The principal goal of this paper was therefore to identify some of the key constraints to industrial policy in the global periphery. For this purpose, dependency theory and the concept of capitalist states’ strategic selectivity were introduced in chapter two. Chapter three laid the theoretical groundwork regarding industrialization. It was shown why structural transformation, i.e., firms moving into higher-value production, is deemed a necessary process for overcoming underdevelopment and widespread poverty and why state intervention is needed to achieve this. After this, some crucial institutional conditions were discussed. These are mutual interests between the state and industrial capital, efficiently working bureaucratic bodies, and domestic firms learning for productivity, i.e., upgrading towards more complex technology. In the absence of these factors, no comprehensive industrialization project can emerge. The prospects of industrial policy are further constrained by additional structural and global governance related factors, which were introduced in chapter four. A negative balance of payments (BoP), itself a sign of structural dependency, and worsening terms of trade make it particularly hard to finance the industrialization process.

Hierarchical relations in global production networks also severely restrict technological learning for peripheral countries. As a result of mounting BoP deficits, the widespread problem of peripheral economies' growing indebtedness opens the door for the demands of international creditors whose interests are often misaligned with industrial policymaking. This could be witnessed in the 1980s debt crisis and the concomitant "structural transformation programs", which led to de-industrialization throughout the periphery. Today, the binding rules of the World Trade Organizations (WTO) have further restricted the policy space for industrialization by prohibiting, or "outlawing", key policy options, such as export subsidies, which had in the past been used in the development process of today's richest countries. Beyond the WTO, international hostility towards peripheral industrialization can be felt in a myriad of ways, including through sanctions, coups d'état, or full-scale military invasions. In fact, the real peculiarity might not be the persistence of underdevelopment but the fact that, in some instances, industrialization has been "allowed" by powerful countries and international organizations. This was the case in South Korea, which had several of the main constraints to industrialization loosened due to its geopolitical role for the US. To understand the influence transnational actors have on the outcomes of industrial policy, a class-conscious perspective has to be taken, which was elaborated on in chapter five. A key determinant of developmental success or failure lies in peripheral states' strategic selectivity towards either a national or a comprador bourgeoisie. The latter functions as a mere junior partner to imperialist capital and it profits from sustained underdevelopment. Even if pro-industrialization projects do emerge and start to successfully challenge their country's peripheral position in the world economy, they face the constant danger of recompradorisation, i.e., the imperialist re-integration into a subservient role. This class-related fragility of developmental endeavours, together with imperialist hostility and the institutional (lack of mutual interests, weak bureaucracy, and stagnating productivity), structural (BoP deficits, terms of trade, and difficulties to upgrading), and global governance related (SAPs and WTO rules) factors are among the key constraints to industrial policy in the periphery.

7. References

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