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Diagnosing Constraints to Industrialisation in the Arab World: A Predatory Perspective

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A journey through the past, wrote Gerschenkron, citing Bertrand Russell, destroys the 'dogmatism of the untraveled' (Gerschenkron, 1962, pp. 27–27) by allowing a wider perspective on the challenges of economic development. In his comparative analysis, he went on to examine Russia's experience against those of England, France, Germany and other European countries, only to qualify the usefulness of those experiences in the light of new and momentous problems that his country was facing in the early 1960s. The *peculiarities*, he said, of each economy uniquely constrain economic development. This chapter takes a different approach in treating initial conditions that have become much the same due to conventions that blanket the South. The AW is no exception. Peculiarities have faded in relevance. It would be liberating to once again discover the peculiarities that constrain economic development but, as this chapter will discuss, that will not be possible for many countries until the constraints that we have artificially imposed on ourselves through convention are wiped away.

1. North–South

The AW at the time of writing is victim to a recrudescence of less than subtle forms of foreign intervention, and eventually, as overt violence subsides, other forms of international pressures are likely to resume, with ongoing implications for economic policy space in the years ahead. Two currents which can influence the quality of alternative economic frameworks in the near future will include economic vision and, more fundamentally – since integration in an economic framework

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dominated by the North is part of the initial conditions of the region – some form of mediation of the North–South relationship.

The integration with the North that we take up here is confined to a distilled focus on trade. A benchmark for gauging economic self-determination for an open economy can be found in Keynes' 1943 plan, following World War II, which set as its ultimate aim stable international employment based on the arrangement of a compatible trade regime.[1]

In a comprehensive treatment, Keynes assessed that full employment would be possible with a payments arrangement that puts the onus of adjustment on surplus countries, to respond with increased purchases of goods from debtor countries. Keynes introduced his plan in response to the failure of the gold standard to enable full employment, precisely because it imposed deflationary adjustment on deficit countries.[2] Keynes further maintained the imperative that capital not to be allowed to flow freely as it would induce debt,[3] and he considered debt to be the single greatest detriment to full employment.[4] This is why, in the Clearing Union, the name for his payments arrangement, trade debt which was not offset by creditor adjustment was to be forgiven on an annual basis.[5]

Today's international trading system continues to put the burden of international trade adjustment on debtor countries. Moreover, trade between North and South is severely out of balance, characterised by what Keynes referred to as 'forced' exports of natural resources in order to pay for dire capital goods and manufactured imports in a long-going series of short-term horizons that characterise a state of continued dependence. It would seem that the chief problem with this system is that it adjusts in a contractionary fashion, since adjustment occurs through reduced imports by the dependent and not increased imports by the industrial leaders. But that is only part of the problem. It is not just in cutting its imports that a debtor's situation and that of others is aggravated: it is also the short-term forcing of exports rather than the long-run building-up of industry that reduces imports (Keynes, 1980, p. 46).

In the long run, Keynes believed that manufacturing trade would decrease to negligible levels and that international trade would be dominated by basic goods since natural endowments would always differ. Manufactures, since they could be produced anywhere, would decline as countries or regions grew independent of manufacturing needs from others (Rayment, 1983).[6]

History has shown this did not happen. In fact, trade today is heavily dominated by manufactures. This has occurred more for technical reasons than for reasons to do with the nature of intra-industrial trade, and it does not speak to or refute the chain of causality as understood by Keynes. For an excellent discussion of intra-industry trade see Rayment (1983). What can still be gleaned from Keynes' understanding is that neither loans nor prices are enough to generate trade in any way that is conducive to full employment. It is not uncommon to cite competitive devaluation and beggar-thy-neighbour policies that lead to a race to the bottom and systemic contractionary global economy. What the mainstream of profession does not take from Keynes is his observation that, where full employment is not adhered to by all, non-discriminatory trade policies were, in no uncertain terms, referred to by Keynes as unsound and unreasonably harmful to deficit nations.[7]

Keynes, it might be ventured, probably recognised that the *political aspects of full employment* were not so conducive to his plan. His posturing in this case can be seen to presage Kalecki's famous paper by that title. In this regard, the Keynes Plan can be seen as a utopian benchmark, drafted in order to throw into high relief the necessary reality of integrated trading blocs, and to give a fighting chance to full employment through regional prioritisation of expenditure and industrialisation.

Keynes' plan calls for a radical renewal of consciousness for the development challenge in the South today. Development tools currently in use, even drawing from those proposed in heterodox camps, lack adequacy inasmuch as they do not address this binding constraint found in the trade balance. The manipulation of prices for goods, capital and labour through exchange rates, interest rates and wages, on one hand, and a ready supply of loans on the other, as critical as all of these tools can be, do not of themselves generate full employment or broad-based growth. Regional banking, trade facilitation and currency arrangements too have increasingly come to define the policy space across the South, and have an important role for price and income stabilisation, as do counter-cyclical, lender-of-last resort and long-term financing – not to mention frequently beyond-the-pale distributional policies. It would be difficult to underestimate the importance of this list of facilities, particularly since the Bretton Woods Institutions have not served, and have only slowly begun to recognise, the need in many of these vital areas for development. That being said, these policies alone are not sufficient to generate full employment.[8] This is the bottom line for Keynes, which deserves to be brought back into the policy discussion.

2. Political economy of trade

Foreign predatory interests leverage trade as far as possible by appending to it many non-trade matters, such as intellectual property rights, services and investment rights (Raghavan, 1990, p. 44; Prashad, 2012, p. 106). In the 23 years since Raghavan's lament of the abuses of power in the GATT (the General Agreement on Tariffs and Trade, the WTO's forerunner), Northern power has continued to be wielded blatantly (Wyly, 2009; Khor, 2013) at the macroeconomic level (Wade, 2013), most critically subsuming the commodification of scientific knowledge and the expansion of international property rights to the complete disregard for the scientific commons (Liodakis, 2006, p. 195, cited Perelman, 2001, 2003).

What are the options for industrial development in the South given Northern domination of material and immaterial resources? Complete withdrawal has never been seen as a viable option:

> The autonomy of developing countries in pursuing their development policies will be seriously compromised unless of course they decide to withdraw completely from the international economic system which does not seem to be a feasible option.
>
> (Raghavan, 1990, p. 40)

At Raghavan's time of writing, trade in capital goods within the South had long been proposed as an alternative (Lewis, 1979). The difficulty with W.A. Lewis' South–South trade framework, which Lewis himself recognised in good measure, is that any country with open borders for trade and capital can only be realistically considered on an ad hoc basis through its unique trading relationships with the advanced economies with which it trades.

Trade blocs provide the singular advantage of increasing market size while avoiding the risks that that market size be encroached from the outside, as is inherent in free trade. This was obvious to industrialists throughout in the interwar years in Europe.[9] How trading blocs alleviate this constraint imposed by free trade, however, is rarely an issue on the table of industrial policy strategies since WTO rules preclude their consideration. The need for the South to trade within itself in capital goods comes from the substantial leakages of income to the North for goods that it does not produce. A constraint to producing these goods cited by Lewis is the extent of the market, since production of high-technology goods requires greater economies of scale.[10] A critical element of scale is access to own markets, but scale is only part of the issue. To overstate the value of scale is to end up with the perspective that foreign markets will always offer producers a greater potential bonanza than domestic markets. But the rewards of scale, no matter how great, rarely amount to much at the country/regional level unless 'enlarging the market for one commodity produced under increasing returns [...] has the net effect of *enlarging the market for other commodities*' (Rayment, 1983, p. 21; emphasis added).[11] The benefit of this latter effect, as Rayment clearly illustrates, exists mainly in intermediate goods. But developing countries' exports, especially Arab countries, lack this effect inasmuch as they are constrained to activities spun off by Northern industry or consisting of primary goods.

In low-tech manufactures, for which export markets are generally non-existent (with the exception of production for lead firms, which will be addressed later in this section), markets are created for agricultural and low-level industrial commodities, including basic machinery. But the possibility of *enlarging the market for the production of other commodities* opens up considerably with the production of capital good – that area which defines the South's dependence on the North.

Closely tied to the focus on scale and exports is the emphasis today on specialisation. The call for specialisation à la Adam Smith's pin factory model is due to commonly recognised production efficiencies. But if specialisation results *from* producing for industry as a whole, and develops when the size of the industry is such that it can support separate specialist firms of a certain type (Argyrous, 2004), and if this causality does not generally hold in reverse, that is, when specialisation drops from the sky – then it does not cause industrial burgeoning,[12] and this limitation presents difficulties for climbing up value chains.[13]

To illustrate this latter point, consider the case of suppliers of machine parts. As a rule, they will find it difficult to enter into the making of machines because the machine maker will not forfeit what he has learned to others. Cowling and Sugden cite a 'centripetal' tendency in this regard where activities gravitate to the centre, away from the periphery (Cowling and Sugden, 1994; Branston et al., 2006), even where the spin-off of activities is widely observed, since spin-off only leads to development opportunities in intra-industry trade in those instances that it occurs among countries with similar industrial structures and for reasons that are due to the nature of intra-industry trade. Activities that are spun off to the developing world for their labour costs, of which there are few in the AW, do not generally pave the road to diversification, the quintessential measure of development.

This is not to deny the possibilities of catch-up growth that are frequently discussed in the literature (Veblen, 1915; Gerschenkron, 1962; Abramovitz, 1986; Gomulka, 1990). The emphasis here rather is that global trade rules, and the power of ideology behind them, have themselves become the constraint obstructing the mechanisms that lead to catch-up growth. As far as the developing world is concerned, the spin-off of activities creates islands of capital stock that are designed to serve a hierarchy of industrial activities strategically run by lead firms. This type of industrial capital provides very little impetus for increases in domestic demand since it is not linked to local industrial needs. Intrasectoral trade consists of highly specialised divisions upon divisions of existing activities where 'each successive stage is a finer subdivision of the previous'. The importance of this observation for self-expanding industrial production which results in greater efficiencies and labour-saving technology cannot, in this immediate context (Arab development), be overstated.

This begs the question: How can existing capital and the organisation of production provide a reference point for embarking on industrial diversification? Drawing out the argument would imply a need to eliminate capital imports up to very basic levels in order to start from scratch, giving credence to Raghavan's lament. In reality, the path lies somewhere between the polar extremes of total renewal and total dependence. But resources are less an issue than processes.

This framing of development constraints bears relevance for much of the South, from African least developed countries (LDCs) to the industrial economies of Asia that have stopped short of diversification and are threatened by the middle income trap. But it is particularly relevant to the AW. Currently, 6 per cent of the AW's exports are machinery and transport equipment, while 4 per cent of exports make it into the medium- to high-tech category. The example of machinery is not arbitrary. Machinery poses a daunting challenge of entry for new producers, with its barriers of advanced technology and large capital investment. It also constitutes the core of dependency by the South on Northern markets. So, if there is a key area that could alleviate economic dependency, it includes machinery.[14]

Rayment's discussion on the nature of intra-industry trade expansion underscores key constraints, but it offers hope as well that the more an economy adapts existing technology indigenously, the less it would be subject to competition from intermediate imports, as it creates new specialisations within specialisations and as production processes are lengthened and made more 'roundabout' (Rayment, 1983).

Diversification therefore requires a capital stock in the South that produces *for* the South. Short-run costs and trade-offs will exist in terms of higher costs for locally-made products. This has to be expected. Meanwhile, fully reaping the benefits of existing capital stock that is produced for Northern markets will also be key. Existing export activities will remain a national priority in generating lucrative income flows, but it does not follow that they lead to the full potential of diversification that we find in producing for own markets.

The policy implication is that, if domestic demand is to lead to industrial transformation then non-market generative processes must be found. Industrial sectors, as Edith Penrose said of firms, 'do not grow automatically, but in response to human decisions' by the corporate and national elite which higher demand calls forth, as cited in Dunn (2010, p. 194). As Galbraith the elder similarly recognised, in order to install an industrial component, high technology and heavy capital use cannot be subordinate to the ebb and flow of market demand (Galbraith, 2007, pp. 212, 391). Furthermore, it is the state that needs to absorb major risks since it can provide or guarantee a market for the product, and can underwrite costs of development (Galbraith, 2007, p. 23).[15]

3. Role of government

Within its broad industrial strategy, a government's role should generally be to assure the firm that there is a commitment to industrial development. To the extent that industrial leaders are unwilling to be brought to the service of national industrial aims – not so unlikely in Keynes' assessment of socially necessary investment – government will better aim to more directly foster activity with public enterprise. This notion of planning can be adjusted to any level of institutional culture because the strategy framework is sufficiently broad. At one extreme, it requires little technical expertise, inasmuch as it merely sends a message to investors that the rules of the trade now favour diversification and domestic production. (Of course, the problem always remains that powerful foreign interests will pressure the government to change the rules back. The graveyard is filled with unsuccessful attempts.)

The degree of sovereignty and the quality of existing foreign trade heavily predetermine the policy space, taking into consideration merely domestic interests. Strikes by established merchants plagued Salvador Allende's strategy to boost domestic industry. Here we direct the reader's attention from this question with its inherent complexity in the institutional diversity across the developing world *qua* AW. Determining the season for ambitious industrial efforts, and more or less blanket policies of this sort that aim to offset import leakages, can be complimented with slightly more discreet intersectoral policies.

4. Intersectoral considerations

Kaldor recognised, in his Mattioli lectures, the necessity of intersectoral linkages between subsistence and advanced sectors, showing that manufacturing industry is determined 'by the growth of the exogenous components of demand originating outside the sector' (Kaldor, 1996, p. xxii):

> [In . . .] a steadily growing economy where the steady growth of physical capacity to produce output (resulting from past investment) [goes] hand-in-hand with the growth of the demand from consumable output, which in turn [is] 'fed' by the growth in the volume of investment which generate[s] an increase in the demand for consumer goods; and the latter, in turn, justified new investment decisions on an increasing scale.
>
> (Kaldor, 1996, p. 39)

Demand can limit industrial transformation because there is a limit to which the manufacturing sector can produce for its own consumption. Its deficiency of 'own' demand means that demand from somewhere else has to be found – from persons with incomes earned outside the sector, and therefore, necessarily in services or agriculture.

There is an important distinction between the implications for demand that come from this framing of the problem by Kaldor and the framing made by Keynes in *The General Theory*. The latter focused on how economic activity settles down at levels below full capacity utilisation and therefore called upon government investment as the principal guarantor of full employment. But Kaldor turns our attention to the problem of finding endogenous demand. To force a distinction, Keynes' analysis emphasises the reasons why capacity utilisation will perennially not tend to full capacity and looks for the exogenous adjustment. Kaldor's specification directs our attention to a situation where, given constant exogenous demand, the internal relationship of sectors can result in contractionary or expansionary economic activity. Government investment is therefore the *sine qua non* to sustaining production levels, as Keynes recognised. But Kaldor's analysis helps to scrutinise how, once demand dissipates and the economy comes to rest at a lower level of economic activity, a chicken-and-egg dilemma surfaces between demand and investment. In an open economy, Keynesian public stimulus can be lost to imports for the obvious reasons associated with a lack of diverse production structure. Synthesising these observations of Keynes and Kaldor suggest that, above and beyond sustaining production levels, government expenditure can target sectoral proportions (see Rada, 2007). Furthermore, constraints such as conventionally determined fiscal 'appropriateness' and the 'loud' provisioning for domestic industrial priorities can be sidestepped by discretionary policy that is less politically adversarial, and can create room to manoeuvre in a given policy space.

Similar to the ineffectuality of fiscal expenditure, so too demand arising in others sectors is not a sufficient condition for industrial transformation in an open economy (Kaldor's specification was elaborated assuming a closed economy). This point is particularly binding for the AW today, where the challenge is one of producing things that they do not already produce. A surge in demand does not imply that industry will start producing in areas where it does not currently produce. This holds true whether higher demand comes from changes in income distribution à la Kalecki or from changes in prices that make domestic output more attractive compared to foreign alternatives.[16]

For new producers to come into existence, the industrial structure has to create that possibility. Take, for example, an individual machinist. To enter new production, the entrepreneur will face an initial challenge in terms of higher costs, which will raise the costs elsewhere in the economy since his production (unlike the established foreign supplier's) is limited by the costly heterogeneity of inputs associated with producing for a limited number of buyers. Nor will it be empirically obvious at what point higher costs are offset at the economy level, due to additional income accrued by substituting production for the lower cost import. But such worries are strictly short term in nature. As his or her production grows, the machine maker begins to combine various inputs for different kinds of machines.

Short-run costs, and the economy-wide challenge, mean that innovation becomes central to the planning system to create the possibility for roundabout production. The constraint is a general one. It is merely that of the sovereignty of the domestic producer to begin producing goods that are imported. Although the machinist is the agent of change, his presence is a result of this broadest notion of 'planning', though this term is a misnomer. An institutional approach to technological innovation must supplant the entrepreneurial approach (Chiesa, 2001). The economic implications for this are open ended. As Rayment's focus on intra-industry production highlights, since production begins to expand in intermediate goods including capital goods, once the genesis of intra-industry trade is underway, it exhibits a *sui generis* expansion that is blind to political fault lines. Regionalism then comes into its own – assuming away *conventions* that stunt or redirect it. Integration in this way can be seen to be technically constrained in early stages of industrial advancement due to the presence of capital goods suppliers from *outside* the region. But the nature of specialisation within specialisation of intra-industry goods makes this constraint quickly fade once production has begun to advance from its own capital base. This very realisation is enough to explain why a vehemently defensive deflection of such activities by global producers at the gates of industry is fierce. It also explains Veblen's comment that 'there is no longer any necessary coincidence between productive efficiency and competitive success' (Darity Jr et al., 2003, p. 125). Regional integration presents a threat to international liberalism in the latter's rush to open all markets 'to all producers equally'. The planning problem of industry is now clearly an international problem of political economy and not really an issue of planning after all.[17]

But to return to the relevance of the two-sector framework, it calls forth the need to focus on the euphemistically labelled subsistence sector, which contains pools of unemployed to be integrated into the economy. Key interactions between the two sectors have been recognised in the literature, since Lewis and Kaldor, by Prabhat Patnaik, Singer and Roy, Codrina Rada and Lance Taylor (Singer and Roy, 1993, p. 24; Rada, 2007; Ocampo et al., 2009).

Formal treatment of the two sectors provides the key insight that counter-intuitive and perverse effects can arise, such as domestic demand being undercut or boosted by changing levels of income at various sector levels. Determining the intersectoral relationships that hold in a given country at a given time depends on the specific relationships of wage earners in the different sectors, their consumption patterns and to what extent consumer demands can be met by domestic industrial output. Schema set forth by Ocampo and colleagues (2009, pp. 121–141) help to unfold issues of causality and sustainability that are relevant (as helpful as typologies can be) exclusively at the country level. Not only data limitations, but drastic changes in institutions in the AW, make any meaningful estimations of the schedules presented in Taylor and Rada's formal presentation extend far beyond what might be presented here. At the current level of generality, it suffices to observe that the underemployed 'pools of labour' in the AW populate mainly a few sectors: public services, retail and transport sectors throughout the region, with larger shares in agricultural sectors in the larger countries of Egypt, Iraq, Syria and Yemen.

A more important general lesson from the two-sector framework is the *relatively* low esteem for the role of resources. The policymaker's attention is directed towards how the various activities are connected. The priority lies not in the identification of endowments in order to build on them, but in behaviours that shape and are shaped by the structure itself, that is, to borrow a term from philosophy and mathematics, mereologically. The whole includes internal and external relationships between the parts (μερος), which together simultaneously and dynamically determine output and growth or decline.

Reflection on the role of sectoral analysis for development underscores the point of view that if economic policy wants to become more sophisticated than setting rules on trade and protection, which it need not necessarily do if it does not have the capacity (since blanket rules that enable diverse industrial production, if not at the country level, then at least at the regional level), then policymakers engaged in planning will benefit from delving into serious formal analysis at the sectoral level.

5. Agency, convention and logos

To translate the heretofore cursory observations into a framework would be distinctly against the intentions of this chapter. A final aim intended here is to expose an all too ubiquitous *lack of agency*. The core of a structuralist approach might be symbolised by Keynes' utterance about the 'dark forces of time and ignorance which envelop our future'.[18] It should come as no surprise, therefore, that the so-called Keynes Plan, when it was written down, came with a list of 'false approaches' and the advice to let experience tell us how to do the rest (Keynes, 1980).

For similar reasons, it will suffice here to highlight unsound conventions that constrain the policy space rather than to prescribe a to-do list or to work within universal and exclusionary frameworks like those of GATT. It is not clear to this author how the provisions of GATT 1994 for infant industry protection, which are set up as universal rules with exceptional treatment, can attain to the characteristics of 'liberality'. Liberating policymakers to promote free choice from a wide range of tools is the way to begin a new upbuilding of policy space.

One specific tool, however, deserves special attention. As Keynes positively referred to them, tariffs are 'free from the problem of putting the burden of adjustment on the debtor' (Keynes, 1980, p. 28). This point is interesting given that he also referred to protection as one of the false approaches. The point he makes, not without due irony, is that tariffs are second best, and are only given preference when the global trading system fails to promote equity – such is the status quo today.

Growth across developing country experiences today not merely characterised by Hirschman's theory of unbalanced growth, rather it is pathetically lopsided. In the best of circumstances it remains vulnerable to the middle income trap (countries that get bogged down at a middle level of development). If we borrow Galbraith's measure of success – diversification – then there are no true success stories. Pools of isolated masses throughout the South continue to reside in certain sectors, such as unproductive retail activities in urban centres or traditional rural activities, that act more like dumping grounds for workers formerly employed in modern sectors who have lost their jobs due to deregulation. Recent growth is both irregular and unreliable, and gives a misplaced optimism in an insufficient repertory of policy responses. These constraints cannot be overcome without a gnawing away at institutionalised international trade conventions. The global organisation of production and its demand structures are the determining starting point of today's development challenges.

Public policy should therefore involve itself with three going concerns that are well recognised in the predatory perspective of economic activity: markets can be captured by domestic producers; encroachment into those markets can be made by established producers; and fierce financial competition can destroy industrial initiative. The response to this environment is not 'efficiency'. A needs- and employment-based industrial production is vital – even where it 'inefficiently' esteems employment before short-run profits (Galbraith, 2009).

In order to counterbalance the all too prevalent tendency to direct blame to the private sector's lack of innovation as a major constraint to growth, it is important to recall Keynes' trust in the efficacy with which producers explore the limits of profitability *given* their environment. The producer adapts very well to conditions of the environment, which makes for a corresponding futility, and sometimes even condescension, in calling for innovation and technological advance. Keynes is often remembered for emphasising how investors run low on animal spirits, but he is seldom recalled for his observation that investors are, by definition, overly confident and their activities were considered a risky trip to the South Pole – today's corresponding analogy would be somewhere beyond the moon. It is not the investors that need to be conditioned, it is the environment.

A strong awareness of the unlikelihood of development under the constrained policy space leads all too quickly in one of two directions in the literature. It makes domestic activities look like viable alternatives without addressing fundamental trade constraints.[19] It also makes playing the value chain game relatively attractive, as can be seen even in recent heterodox analysis of the sort by Milberg and Winkler (2013). The value chain story is a key development strategy today, and even in the most thorough of presentations (Milberg including), it tends to emit from a developed country perspective more so than from that of a developing country. Clearly value chains are here to stay. Spinning-off activities from the North in an unprecedented environment of cheaper global shipping costs deceptively represents an open range of possibility. But the analytical power of a policymaker situated in this framework is restricted to the normative and does not think in terms of counterfactual policymaking. As a development approach, the value chain development seems internally consistent inasmuch as it recognises the need for market access, the power of lead firms and the interventions that are called for in response. But a sufficiently external vantage point by which the value chain development approach can be assessed is through Keynes' recognition of the significance of trade balances. Participating in value chains will not empower the developing world to grow out of its trade dependence because value chain development does not recognise the nature of intra-industry trade, and the constraints and opportunities therein. Nor does value chain development sever the link between investment and mark-up pricing, a key element that restricts the potential for the independence of the South from Northern economic activity.[20] Global value chains offer little *new* hope in responding to long-standing constraints inherent in the global economic structure.

Trade as a forced policy by a public elite racing to meet its short-run accounts is not the same as trade that grows from healthy diversification. 'Kick-starting' industrial transformation is a naive notion. The Lewis approach to industrial diversification can best be couched in Keynes' emphasis on the dangers of trade balances. Keynes did not leave even a suggestion that countries could grow by trading basic goods with more advanced economies. Dystopian pragmatism based on frameworks that suggest it is possible restrict the possible to a very narrow band: 'it is time to recover the impossible' (Prashad, 2013). Today's industrial policy for the developing world frequently refrains from addressing constraints we have imposed on ourselves.

Realistic proposals encounter a dilemma between feasible action that is immediately feasible within a restricted focus and a certain faithfulness to the act of diagnosis. A reduced form of the problem can be presented. But if sacrificing diagnosis for prognosis is a danger to be avoided then framing of the problem can proceed independent of any foreseeable remedy. This is not the same as falling prey to the double-edged danger characterised by dogmatism on one hand and scepticism on the other. In this highly constrained space, critical thought can bring to the fore alternatives present in existing practice and policy discussion that are conducive to *thinking* about the problem anew. This is our objective.

As global development institutions phase out of the Millennium Development Goals (MDGs) and into the post-2015 development agenda, it is timely to reflect on a key determinant of the past that is about to be brought forward. MDG-8 begins with the target to 'develop further an open, rule-based, predictable, *non-discriminatory* trading, and financial system' (emphasis added) and then makes special provision that LDC exports receive tariff- and quota-free access. That this goes against the grain of the conceptualising framework put forth specifically by Keynes at Bretton Woods should come as no surprise, and it is perfectly in line with the 'Bretton Woods Consensus' as it unfolded in reality. It is helpful and analogous to recall how policy prescriptions of New Classical macroeconomics and mainstream finance render inutile any effort to change the level of effective demand because the rate of capacity utilisation cannot, by their theoretical assumptions, lie above its 'equilibrium' level 'in the long run'. MDG-8 similarly confines long-run relevance of trade policy to the free market, with minor exception for LDCs.

Elsewhere, a policy prescription which tends to be somewhat more directly relevant in spirit at least is the call for a world financial authority (WFA) (Eatwell, 2000; Nayyar, 2000; Eatwell and Taylor, 2001). With all the deficiencies of finance-led globalisation, the call for a WFA, despite reasonable hesitation (Akyuz and Cornford, 1999), seems commensurate with the complexity of the challenges posed to development in today's global environment.

Outside the specifically financial realm of global economy, calls for a world economic authority are scarcely present, with a few historical exceptions. The league against imperialism launched in Berlin in 1926 (Hargreaves, 1993) constituting members of the Ligue des droits de l'homme,[21] as well as the papacy (Pontifical Council for Justice and Peace, n/d) have also raised the call for a world economic authority. But neither of these speaks directly to the cornerstone of trade in the Keynesian vein presented. Not even in the Havana Charter (UN, 1948), which sought to safeguard the provision of full employment, do we find a sufficient framing of trade.[22] For readers still sceptical of going against the grain of conservative liberal tradition, it is worth considering Keynes' conviction that full employment and non-discriminatory trade were generally rendered contradictory, particularly in the absence of adjustment mechanisms which could eliminate trade deficits and surpluses by fiat. Freedom of the market has never taken precedence over the role of production, except for the powerful nations and for those who have mindlessly adopted the conventional language of free trade. This radical turn taken in the twentieth century, despite being flatly rejected across much of Europe in the interwar period (Boyce, 2009), was made feasible by American economic power that fully extended its arm. How it came to be sold as a universal science by the economics profession, and its turn away from Keynes, are well documented.[23]

For better international institutions to become a reality, they will need to be based on a more universal approach. The trading system that we have inherited is the result of the abandonment of a universal approach in favour of what might be charitably described as the pragmatism of New Deal internationalism. The New Deal notion that the leaders can institutionalise a fairer deal for the people was never extended to an American role in international affairs besides, perhaps, in its embodiment in central figures like Harry White, Franklin D. Roosevelt (FDR) and LaGuardia. The collective view that America exhibited in the 1940s at the formation of Bretton Woods and GATT on the role of both government and foreign markets in promoting economic growth was subject to fluid interests that coalesced to hammer out a new rule-based bilateralism. But the New Deal internationalism, to be sure, faced hard, conservative business language in response, and a collective social outlook characterised by the central claims of private property, with only the occasional (if then growing) recognition that a rising international tide can lift all boats. The struggle between America and imperial power over trade took what can be considered the most obvious arguments on both sides. The right to one's own production is always foremost recognised. The universal even-handedness that recognises others' rights to production has been a perennially endangered species.

The consensus was borne out of three very different approaches to issues of tariffs and the conceptualisation of an international trade organisation, that were borne of their respective emphases on: (1) politics, (2) economics and (3) a political economics that goes back to Adam Smith's recognition of the dark risks of war generated by vying national economies and prickly matters of trade.[24] Holding for the business cycle, the gradual accumulation of advanced capital stock in the US can be considered as the primary determinant for declining opposition to tariffs, and therefore as commensurate with American economic power internationally – it was only with growing US dominance internationally that tariff barriers declined.

If there is one single term in contemporary economics discourse that needs revaluation, it is the ubiquitously abused term 'non-discriminatory trade'. Throughout the corridors of the G77's home at the United Nations (UN) in Geneva, this term remains standard usage. It even served as the cornerstone of the Havana Charter within the first Conference on Trade and Development. By intention, it is used today by citizens of the South with concern for Northern agricultural protectionism, but, despite this particular meaning, which is not universal, it cannot serve the interests of the developing world.

It has been the aim here to reflect critically on a variety of key constraints that are too seldom discussed. The uniqueness of each country's development challenge will resurface, à la Gerschenkron, once the current blanket of restrictive trade conventions is cast away. In spite of the particularities, more diversified manufacturing independence can, for the greater part of the developing South, and the AW in particular, be a universally valid goal.[25]

Notes

1. For the unfamiliar, Keynes' Plan proposed the creation of an international clearing union (ICU) for registering and settling all international payments, using a virtual common unit of account – the bancor – for invoicing trade operations. See also Keynes Plan in IMF, 1969; also Keynes, 1980; Fritz et al., 2010.
2. > Under the gold standard, adjustment was compulsory for the debtor and voluntary for the creditor, and led as a result to austerity by debtors while creditors could hoard their surpluses. Hoarding is aggravated by capital flight from debtor to surplus countries. The flow of speculative funds brought the whole system to ruin.
   >
   > (Skidelsky and Joshi, 2010)
3. 'Each central bank to have unqualified control over the *outward* transactions of its nationals' (Keynes, 1980, p. 34).
4. 'Moreover, that foreign bank credit cannot generally fund industrialisation when capital markets are free. *The very forces that make a country seem credit-worthy* – its adherence to the policy line favoured by the bankers – undermine the competitiveness of industrial investment and drive the proceeds of new lending into consumption' (Galbraith, 2009, p. 75).
5. The creditor issue today is not about China vis-à-vis the North, but the North vis-à-vis the rest of the South. While the North cannot be expected, politically, to accept eliminating its trade balance with the South, through highlighting the relevance of this end, it can, at the very least, be forced to support politically the right to economic self-determination in the South.
6. Keynes had very much in mind a notion that value is created à la Adam Smith ('There is no such thing as free trade': Galbraith, 2009, p. 22) and

was not swayed by the mercantilist myth that wealth is generated by the zero sum game of trade, which continues to mislead (Taylor, 2010, p. 31).

7. Keynes famously referred to these as the 'lunatic proposals of Mr Hull', and yet he proceeded to produce a plan that would permit free trade, but which guaranteed full employment. First, Keynes hoped to get the US to do its duty as a creditor, by spending its surpluses as Britain had done in the nineteenth century (Skidelsky and Joshi, 2010).
8. The stark difference in how Keynes as a cornerstone helps to frame the challenges to the Middle East here given can be compared to the absence of a structural approach in the mainstream policymaking halls of the UN, see for example ESCWA and EU (2013).
9. The perspective from capital market interests aside, much of the European push for internationalisation was intent on a European bloc. Nobody, however, wanted to sour their relationship with the Americans, so while the European flavour of internationalisation intended to compete with the US, it was packaged in more universal terms. Even industry in the slipping British Empire (particularly steel and wool) sought protections, even if they were not unified in one voice (Boyce, 2009).
10. For any given 'size' economy, developing countries are much smaller than wealthy ones due to the lower income levels associated with earlier stages of development. As developing countries begin to produce for each other, combining their markets, the size constraint recedes. This is very much in line with Allyn Young's (1928, p. 529) reading of Adam Smith notion that 'the division of labour depends upon the extent of the market'.
11. Expressed slightly differently:

    > The restructuring processes underway also raise the question of whether what is good for the 'competitive firm' is good for national development more broadly, since what works for a subset of firms may make the national economy more prone to balance-of-payments crises and slower growth in the short to medium run.
    >
    > (Shapiro, 2005, p. 18)

12. 'This is not to deny the importance of specialisation. As Young had argued, increasing returns were essentially a macroeconomic phenomenon: 'increasing returns arise because of increasing specialisation between firms, the emergence of new subsidiary industries and new processes' (Young, 1928, p. 539, in McCombie et al., 2003).
13. For other work that questions the value chain approach see UNCTAD (2014).
14. Not all activities offer the same type of linkages. A unique set of linkages is observed when producers for consumer goods gradually induce the development of the capital goods producing sector. At the heart of this transformation is machinery (Argyrous, 2004, pp. 244–248).
15. Measures to maintain a desired level of aggregate demand are part and parcel of the task of industrial planning (Galbraith, 2007, p. 248).
16. The most drastic imaginable improvement in the terms of trade of primary products – a doubling in the price of agricultural products, metals, other materials – in relation to the products and services of the rich countries would not alleviate the poverty of the masses of India, Pakistan, Indonesia,

Egypt, Mexico or other similarly situated countries. Price is not decisive if you have little or nothing to sell (Galbraith, 1981).

17. Keynes, for example, referred to giving up protections as analogous to signing away the British Navy (Keynes, 1980, p. 27), and elsewhere complained bitterly of a United States proposal to get Europeans to buy its flour and eat only white bread (Keynes, 1980, p. 24).
18. The General Theory of Employment, Interest and Money, Palgrave Macmillan 1936, London. Page 155. Here we refer less to that of Prebisch and Latin American Structuralism and more to that of Lance Taylor, with a wholesale discounting of the economics by that name as presented by Justin Lin. For one account of 'Late' structuralism that is a mixture of the first two, see Gibson (2002).
19. In this recent Trade and Development Report by UNCTAD, incomes policies were considered as the key potential driver to development and change, which could result in diversification without addressing trade rules (UN, 2013).
20. This observation has been made in discussions based on North–South models by Taylor.
21. For Marxian criticisms of the bourgeois character of Ligue des droits de l'homme, see Löwith and colleagues (1982).
22. Even in the Havana Charter one encounters the call for the 'elimination of discriminatory treatment in international commerce'.
23. As Taylor has fully laid out, the transition from Keynes took several stages (Taylor, 2004). Whether one wants to interpret the divergence away from Keynes as an intentional marauding by revanchist conservatism which similarly rebelled against Marxian thought, or merely as an ingenuous misreading of diverse works that contain within themselves many ambiguities, is another issue. What continues to be relevant for policy discussion is the perennial presence of 'fact-grubbers insensitive to the refinement of a new thought' (Löwith et al., 1982, p. 57). The discourse will have to open up to more thinking than the so-called 'science' of economics has engendered.
24. These three are represented in the temporary marriage between the New Deal dirigisme of FDR, the business interests in foreign markets of American International Trade Organization (ITO) delegation head Will Clayton (whose main ambition was the elimination of imperial preference), and the peace-seeking internationalism of, say, Cordell Hull.
25. This is very much in line with the outlook of UNCTAD IV, which recommended that, 'in order to supplement national efforts and to promote collective self-reliance among themselves, the developing countries take action at the subregional, regional and international levels, in an integrated and complementary fashion' (UNCTAD, 1976, p. 18).

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