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# Neoliberalism and Development

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## TABLE OF CONTENTS

<b>LIST OF FIGURES AND TABLES.....</b>	<b>p.6</b>
<b>ABSTRACT.....</b>	<b>p.7</b>
<b>INTRODUCTION.....</b>	<b>p.9</b>
<b>PART 1 – <u>THEORIES OF NEOLIBERALISM</u>.....</b>	<b>p.15</b>
<b>1.1 IS THERE REALLY NO ALTERNATIVE?.....</b>	<b>p.16</b>
<b>1.2 WHAT IS THE NOVELTY OF 'NEO'-LIBERALISM?.....</b>	<b>p.20</b>
<b>1.3 THE SPHERES OF APPLICATION OF NEOLIBERALISM.....</b>	<b>p.23</b>
<b>1.3.1 The Role of the State.....</b>	<b>p.23</b>
<b>1.3.2 The Market.....</b>	<b>p.25</b>
<b>1.3.3 The Opposition Market / State.....</b>	<b>p.31</b>
<b>1.3.4 Upper Class Power.....</b>	<b>p.33</b>
<b>1.4 THE TWO ECONOMIC SCHOOLS OF THOUGHT.....</b>	<b>p.38</b>

1.4.1	The Austrian School.....	p.40
1.4.2	The Chicago School.....	p.43
1.5	CHRONOLOGY OF NEOLIBERALISM.....	p.46
1.5.1	Colloque Walter Lippman.....	p.46
1.5.2	Mont Pelerin Societ.....	p.47
1.5.3	Embedded Liberalism.....	p.53
1.5.4	The 1973 Chilean Coup d'état.....	p.57
1.5.5	The Consolidation of Neoliberalism.....	p.62
<b>PART 2 – <u>GEOGRAPHY OF NEOLIBERALISM</u>.....</b>		<b>p.64</b>
2.1	HOW NEOLIBERALISM AFFECTS DEVELOPMENT IN THE GLOBAL SOUTH.....	p.65
2.1.1	Trying to define development.....	p.65
2.1.2	Neoliberalism defied by the East Asian Miracle.....	p.73
2.1.3	A departure or a deepening of neoliberalism?.....	p.75
2.1.4	Neoliberalism and development civil society actors.....	p.78
2.1.5	Conclusion.....	p.84
2.2	THE RELATIONS BETWEEN CORE – PERIPHERY.....	p.86

2.2.1	Neoliberalism and the periphery: six geographical themes	p.90
2.2.2	Conclusion.....	p.110
2.3	CASE STUDY: MALAYSIA AND NEOLIBERALISM.....	p.112
2.3.1	Malaysian Socio-Economic Growth.....	p.112
	CONCLUSION.....	p.143
	BIBLIOGRAPHY.....	p.148
	WEBSITES.....	p.157
	ACKNOWLEDGEMENTS.....	p.160

## LIST OF FIGURES AND TABLES

### FIGURES

- **Fig. 1** World Wealth Levels, 2016. Source: Credit Suisse Research Institute, Global Wealth Report 2016

### TABLES

- **TABLE 1.** Structural Change in GDP (% share) Source: The World Bank, World Development Indicators Online, <http://data.worldbank.org/country/Malaysia>
- **TABLE 2.** Inter-Ethnic Average Income Ratios, 1970-2009 Source: Official Malaysia Plan documents.
- **TABLE 3.** Resource Balance 2000-10 (% of GDP) Source: Malaysia, 2006, 9MP and 2011, 10MP.

## **ABSTRACT**

Despite the stifling financial crises and the always more frequently increasing criticisms, Neoliberalism is still enduring. Nevertheless, it has hitherto proven to be inadequate and irredeemable; global vulnerability and uncertainty, angst and widespread economic disparities demonstrate the unreliability of the beforehand promised outcomes of the globalized neoliberal society. Hence, neoliberalism interferes with the welfare of the majority; as a matter of fact, just a handful of certain persons definitely achieve economic prosperity. With neoliberalism, unnatural laws and practises typical of the market ideology, for instance, the logic of competition, have progressively penetrated in the everyday life of individuals. Moreover, the process of neoliberalization, in order to effectively implement democracy and mulishly boost economic growth in developing countries, has frequently been characterized by violence and coercive brutality.

So, despite all of this, why is neoliberalism still regulating our logic when dealing with our idea of future? How is it possible to modify it or, alternatively, replace it, finding a new way to conceive the government of human beings?

In this thesis we will firstly try to provide a comprehensive analysis of the theories, historical evolution and application of the neoliberal doctrine. Secondly, a focus on the geographical development of this phenomenon will be unpretentiously introduced, in attain to describe the consequences of the controversial application of neoliberal policies in developing countries in different parts of the world.

Finally, a more detailed attention will be devoted to the specific case of Malaysia. Precisely, we will investigate the last fifty years of the country's economic growth, to understand the effects and consequences due to the neoliberalization process which involved the country.

## INTRODUCTION

The meaning of the term “neoliberalism” has changed during history, also evolving to negative significations. It is a deceitful concept, suggesting different things to different people. Commonly we intend with “neoliberalism” a series of principles, philosophical, political and economic, which are not accurately specified. Generally, this theory promotes free market and few interference by the state on public life. Moreover, personal freedom and private property are among the individual rights neoliberalism firmly defends. Due to its derivation from the nineteenth century current of classical liberalism, the neoliberal theory is connected with the “laissez-faire” ideas. The appellation was spread globally from Chiapas, Mexico, after the Zapatista's collisions with neoliberalism. Over the last two decades, this theory has developed increasingly as a field of study.

Neoliberalism has been largely criticised. Not only in the exploited global South, yet in the global North as well; as a matter of fact, there are many episodes to mention in different fields. One field I am really fond of is music. Many musicians of the “Western countries” have protested towards the new polices, especially during the 1980s in UK. As a case in point, after a failed attempt by Margaret Thatcher in 1980 to ban in her country the word “sandinista” – referred to the Nicaraguan guerrilla fighters who had dismissed the president Anastasio Somoza Debayle – the punk band *The Clash* decided in December 1980 to label their album *Sandinista!*, in which there are

songs including references to the politics of the iron lady.<sup>1</sup>

Nevertheless, despite all the criticism, neoliberalism is still enduring at the present day. The promises of globalization turned out to be highly unreliable. The nowadays situation is, to my opinion, disastrous: a report by Oxfam revealed that only eight persons possess the wealth of half population on earth<sup>2</sup>. This is definitely a consequence of the global capitalism and, therefore, neoliberal logics, which have increased the level of inequalities in favour of a handful of capitalists, bankers and multinational owners. These are somewhat a class of “untouchables”: they get even more and more rich, also thanks to the fact that they evade taxes and know how not to be punished (by several escamotages) (Hardoon 2017). Conversely, common people, who are getting increasingly poorer (the middle class is slowly disappearing), are severely punished when not paying taxes; in addition, there is always less assistance and welfare for average citizens (Hardoon 2017). Notwithstanding our socio-cultural progress, we still live in a reality where we have to fight to survive. To me, it is desirable to reach the point in which nobody will never be forced to exploit someone else in order to strive to earn a living.

Throughout this thesis I attempt to provide a valid discussion of how neoliberalism endangers the international social equilibrium, especially when imposed

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1 <http://www.panorama.it/musica/joe-strummer-margaret-thatcher/>

2 Hardoon, Deborah, *An Economy for the 99%: It's time to build a human economy that benefits everyone, not just the privileged few*. (Jan 2017), Oxfam Briefing Papers, Oxfam.

in developing countries, distancing itself from the welfare of the majority and from the logic of cooperation at the base of our social life. Hence, we will investigate the theories of neoliberalism, as well as the impacts it produces, in concert with globalization, on the process and advancement of democracy in the global South, during this contemporary scenario of global capitalism.

“If you tremble with indignation at every injustice then you are a comrade of mine.” (Che Guevara). I personally feel moved when I learn about injustices. My aim is that as many people as possible may grasp the complexities of the present global situation.

The topic of my thesis is really vast, hence I modestly hope that my work, dealing a theme so frequently tackled, may be adequate and readable. Furthermore, the subject of my thesis follows the specialisation in my international relation studies – developing policies – and issues which I personally feel interested in.

The decision of adding the case study on Malaysia is due to my personal work experience in Venice with tourism – the encounter with several Malaysians in the city, allowed me to discover the remarkable transformation which involved the Malaysian country in the last decades; for that reason, I wanted to find out the motives of this rapid socio-economic growth.

The thesis is organized around two principal parts – *Theories of Neoliberalism and Geography of Neoliberalism*.

Starting at the beginning, in the first part, issues dealing with the theoretical aspects of this orthodoxy are presented, such as its definition, its early formation and historical

evolution. This thank to the works of many prominent scholars, among them, David Harvey, Pierre Dardot and Christian Laval.

“Is there really no alternative?” is the question labelling the first section, where a discussion about the neoliberal present situation reveals an urgent need for alternative world-views; secondly, I try to define what is the novelty of neoliberalism in respect of the previously formed doctrine from which it should be originated, liberalism.

Thirdly, we investigate the definition and theory of this philosophy by analysing the role of the state, the role of the market and their respective opposition. In addition, the issue of upper class power is considered, in order to find the eventual motives behind this phenomenon, together with a mention of the frequent violent exertion of it.

Then, in the fourth section, two main economic schools of neoliberalism are presented: the Austrian School and the Chicago school and their main theorists. To conclude this former part, a brief chronology of liberalism is presented, starting from the very first establishment of this doctrine during the early colloquiums among distinguished scholars in the decades 1930-40s, until the consolidation of this orthodoxy in the 1980s right after the 1973 Chilean golpe.

In the second part of the thesis, *Geography of Neoliberalism*, neoliberalism is described through the geographical aspect, with a focus on developing countries and their experience with the implementation of neoliberal policies.

In the first section of this part, *How Neoliberalism affects Development in the global South*, I deal with the issue of development and neoliberalism, considering the

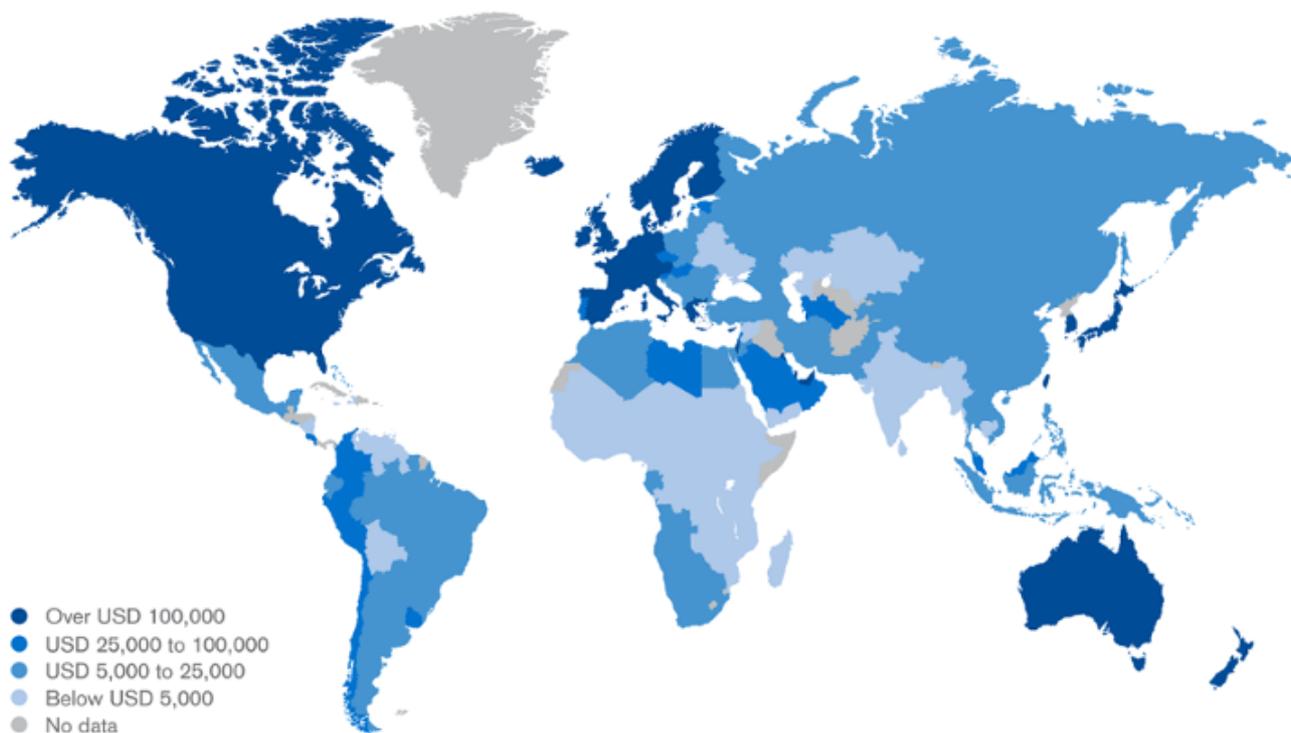
transformations that have occurred during the post-World War II period, in which neoliberal thoughts have come to spread through everywhere in the current practice of conventional development.

Secondly in this part, there is a contemplation of how the peripheries of the global economy have been profoundly involved in, and influenced by, neoliberalism. This section, enriched principally by a study of the eminent work of Warwick E. Murray and John Overton, analyses how neoliberal reforms were promoted and frequently pushed on countries marginalized from the centres of global supremacy, together with peripheral developing economies, and the repercussions in reference to uneven development. With this consideration of the involvements of neoliberalism in the core-periphery relations, we realize the interrelating processes which reveal and mirror a world of flagrant inequalities.

In the very last section, a case study is devoted to Malaysia and its experience with neoliberal reforms during its social and economic transformation from a developing country to a more and more advanced one, introducing its present ailments and plans for future betterments.

**Fig. 1**

**World Wealth Levels, 2016**



World Wealth Levels, 2016 (levels of per capita wealth in US\$)

Source: Credit Suisse Research Institute, Global Wealth Report 2016

**PART 1 – THEORIES OF NEOLIBERALISM**

## 1.1 IS THERE REALLY NO ALTERNATIVE?

*“I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable.”*

*John Maynard Keynes – The End of Laissez-Faire*

What do we think about when we are talking about *neoliberalism*? Probably, the first things that come to mind are Mrs. Thatcher – and additionally, or alternatively, Mr. Reagan – and the politics implemented in their countries during the 1980s; a weakened role for the state, privatization, free market, tax cuts, and several social and economic features which are generally in opposition with Keynesianism and the welfare state. Moreover, someone might think about what happened *before* the 1980s; how this theory was conceived and how it evolved, yet how it was first tested in developing countries (willingly or unwillingly) in order to implement it later in the developed ones.

We are here in attempt to deal with a theoretical framework which includes various spheres of our living together, at the same time. First born principally in the theoretical and economic field, this structured set of ideas has soon penetrated in our personal sphere, modifying the standards with which we measure merit.

“The claim that neoliberalism is profoundly destructive to the fiber and future of democracy in any form is premised on an understanding of neoliberalism as something other than a set of economic policies, an ideology, or a resetting of the relation between state and economy. Rather, as a normative order of reason developed over three decades into a widely and deeply disseminated governing rationality, neoliberalism transmogrifies every human domain and endeavor, along with humans themselves, according to a specific image of the economic. All conduct is economic conduct; all spheres of existence are framed and measured by economic terms and metrics, even when those spheres are not directly monetized.”

(Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution*, p.9)

Looking at our biological evolution, we have adapted ourselves to the natural environment.

The same goes with our cultural evolution, until the moment in which neoliberalism's logic started to alter the habitat where we live, reaching the point in which we have to accommodate ourselves to the system we specifically created for us<sup>3</sup>. This with the illusion of being able to adopt the laws of the selection of the species – introducing the issue of competition – and apply them in this new context, that is far away from the logics we can encounter in nature<sup>4</sup>.

In this thesis it will be discussed how the neoliberal approach, in particular its application as a mean of political control, especially in developing countries, is

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3 See Andrew W. Lo, *Survival of the Richest*, March 2006, *Harvard Business Review*.

4 About “Social Darwinism”, see P. Dardot, C. Laval, *The New Way of the World*, p. 39-43

distancing itself from the logic of cooperation that is at the basis of social life – acting against the welfare of the majority – and why this is a risk for the international social equilibrium.

The French writers Pierre Dardot and Christian Laval, in their work *The New Way of the World: On Neoliberal Society*, present what they reckon as a “diagnostic error”: the erroneous thought of many that the financial crisis had led to the ending of neoliberalism, clearing the way for a 'return of the state' and market regulation:

“The profound error made by those who have announced the 'death of liberalism' is to confuse the ideological representation accompanying the implementation of neo-liberal policies with the practical normativity that specifically characterizes neo-liberalism. As a result, the relative discredit surrounding the ideology of laissez-faire today in no way prevents neo-liberalism from prevailing more than ever as a normative system possessed of a certain efficiency – that is, the capacity to direct from within the actual practice of governments, enterprises and, in addition to them, millions of people who are not necessarily conscious of the fact. For this is the crux of the matter: how is that, despite the utterly catastrophic consequences in which neo-liberal policies have resulted, they are increasingly operative, to the extent of pushing states and societies into ever graver political crises and social regression? How is that such policies have been developed and radicalized for more than thirty years without encountering sufficient resistance to check them?”

(Dartot, Laval, *A Diagnostic Error*, in *The New Way of the World*, p.7-8)

“There is no alternative”: this is a slogan (*TINA*) with which Margaret Thatcher used to stress the inevitability of neoliberal implementation (Margaret Thatcher, *Press Conference for American correspondents in London*, 1980, Jun 25). But how about *today*? Is still neoliberalism the only path to travel through again? Is there really no alternative?

## 1.2 WHAT IS THE NOVELTY OF 'NEO'-LIBERALISM?

The expression “neoliberalism” has reformed its definition throughout time, acquiring a negative significance too. With the term “neoliberalism” we intend a set of philosophical, political economic concepts not exactly defined, which aspire to an acclamation of free market and to a diminution of state's weight on public life. Neoliberalism contemplates some fundamental individual rights such as personal freedom and private property. (Harvey, 2005)

David Harvey, in his *A Brief History of Neoliberalism*, defines this political and economical current:

“Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.2)

The neoliberal theory derives from the nineteenth century classical liberalism; as a consequence, neoliberalism is associated with the the ideas of “laissez-faire” economic liberalism. But which is the novelty in the neoliberal current, and why there was the need to renovate the original liberalism current?

The French scholars Pierre Dardot and Christian Laval, write that there is not actually a real continuity between the two currents, and that neoliberalism can not be

considered as a 'return' or 'restoration' of liberalism. Original liberalism – formed in the eighteenth century – focuses on the *limits* of government, as well as it “involves a shared conception of man, society and history” (P. Dardot. C. Laval, 2013, p.22). However, during the nineteenth century, because of different directions taken by liberals, the unity of classical liberalism started to become uncertain, producing a deep crisis of this dogmatism.

“[...] from its birth, during the great crisis of the 1930s, neo-liberalism marked a distance from, even a clear break with, the dogmatic version of liberalism established in the nineteenth century. This was because the seriousness of the crisis of that dogmatism encouraged an explicit, fully acknowledged revision of the old laissez-fairism. Combating socialism and every version of 'totalitarianism' dictated endeavouring to rework the intellectual bases of liberalism. It was in this conjuncture of economic, political and doctrinal crisis that a 'neo-liberal' reworking of the doctrine was undertaken, which did not yield to a wholly unified doctrine.”

(P. Dardot, C. Laval, *The New Way of the World*, 2013, p. 22)

Hence, the two writers warn us that we are concerned with an abundance of diverse processes resulting in the establishment of this 'new governmental *rationality*'.

“[...] the neo-liberal rationality actually deployed in the 1980s and '90s is not the mere implementation of the doctrine developed in the 1930s. With it, we do not make the transition from theory to its application. A kind of filter, which does not betoken as conscious, deliberate selection, retained some elements at the expense of others, depending on their operational or

strategic value in a given historical situation.”

(P. Dardot, C. Laval, *The New Way of the World*, 2013, p. 23)

Instead of following the concern on the limits of government, central to the classical liberalism investigation, neoliberalism follows its own path by asking itself different questions, not on how to limit political government, market, or rights, but on “how is the market to be made the principle of the government of human beings and self-government alike?” (P. Dardot, C. Laval, *The New Way of the World*, 2013, p. 23).

### 1.3 THE SPHERES OF APPLICATION OF NEOLIBERALISM

*“Socialists cry "Power to the people", and raise the clenched fist as they say it. We all know what they really mean - power over people, power to the state.”*

*Margaret Thatcher*

#### 1.3.1 The Role of the State – The Neoliberal State

“The role of the state in neoliberal theory is reasonably easy to define. The practice of neoliberalization has, however, evolved in such a way as to depart significantly from the template that theory provides. The somewhat chaotic evolution and uneven geographical development of state institutions, powers, and functions over the last thirty years suggests, furthermore, that the neoliberal state may be an unstable and contradictory political form.”

(D. Harvey, *A Brief History of Neoliberalism*, p.64)

Commonly, neoliberalism is retained as completely opposite to Keynesian Economy – where the state reforms the economic system – and to the other forms of mixed economy till the limit case of planificated economy; hence, it is usually retained that the state has a weakened role in the neoliberal society, in order to favour the *free market* (Harvey 2005).

According to the neoliberal philosophy, the state has the duty to formulate and sustain the institutional framework, besides it has to ensure property rights and the appropriate

functioning of markets (by means of force if necessary). Where there is absence of market, the state is responsible to create it; after that, the impact of the state on the market should be at the lowest level (Harvey 2005).

Moreover, the state should have rare interference on public life; in point of fact, neoliberalism aims at slighter government involvement in individual choices. In addition, public action should not limit individual freedoms by way of regulations and exercise of laws as well as menacing private property using fiscal taxes policies (Harvey 2005).

### 1.3.2 The Market

Michel Foucault, in his *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, presents the market as “site of the formation of truth” (M. Foucault, 1978-79).

The scholar, in his second lesson (17 January 1979) reveals that it is not the economic theory, but the market that from the eighteenth century came to be a place and a system of the “formation of truth”. And that, in place of going on to glut it with an “unlimited regulatory governmentality”, it is acknowledged that “it must be left to function with the least possible interventions precisely so that it can both formulate its truth and propose it to governmental practice as rule and norm.” (M. Foucault, 1979, p.30)

Moreover, he states that the market, in the exact common meaning of the term, as it functioned in the Middle Ages, and in the sixteenth and seventeenth centuries, was, in short, “essentially a site of justice” (M. Foucault, 1979, p.30); here he explains in what sense the market was a *site of justice*:

“In the first place it was, of course, invested with extremely prolific and strict regulations [ ... ] It was also a site of justice in the sense that the sale price fixed in the market was seen, both by theorists and in practice, as a just price, or at anyrate a price that should be the just price, that is to say a price that was to have a certain relationship with work performed, with the needs of the merchants, and, of course, with the consumers’ needs and possibilities. The market was a site of justice to such an extent that it had to be a privileged site of distributive justice, [ ... ] then at least some of the poorest could buy things as well as those who were more well-off.”

(M. Foucault, *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, p. 30)

Then, at long last, Foucault specifies what was that fundamentally had to be guaranteed “in the market, by the market, or rather by the regulation of the market” (M. Foucault, 1979, p. 30), and which turns it into a site of justice – and that is not at all the truth of prices:

“What had to be ensured was the absence of fraud. In other words, it was the protection of the buyer. [ ... ] This system—regulation, the just price, the sanction of fraud—thus meant that the market was essentially, and really functioned as, a site of justice, a place where what had to appear in exchange and be formulated in the price was justice. Let’s say that the market was a site of jurisdiction.”

(M. Foucault, *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, pp. 30-31)

Hence, we learn that the market, as a site of justice, could be reckoned as a *site of jurisdiction*. Anyway, Foucault adds that the market, during the middle of the eighteenth century, no more looked like, or to be exact no more had to be a site of jurisdiction.

“On the one hand, the market appeared as something that obeyed and had to obey “natural,” that is to say, spontaneous mechanisms. [ ... ] On the other hand—and this is the second sense in which the market becomes a site of

truth—not only does it allow natural mechanisms to appear, but when you allow these natural mechanisms to function, they permit the formation of a certain price that Boisguilbert will call the “natural” price, the physiocrats will call the “good price,” and that will later be called the “normal price,” that is to say, a certain price—natural, good, normal, it’s not important—which will adequately express the relationship, a definite, adequate relationship between the cost of production and the extent of demand. When you allow the market to function by itself according to its nature, according to its natural truth, if you like, it permits the formation of a certain price which will be called, metaphorically, the true price, and which will still sometimes be called the just price, but which no longer has any connotations of justice. It is a certain price that fluctuates around the value of the product.”

(M. Foucault, *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, p. 31)

The relevance of economic theory – the relevance of the theory of the price-value relationship is thank to the reason that it allows economic theory to identify something that will turn out essential: “that the market must be that which reveals something like a truth.” (M. Foucault, 1979, p.32).

Since prices are decided in agreement with the natural processes of the market, they represent a model of truth which permits us to distinguish which governmental customs are right and which are wrong. That is to say:

[ ... ] it is the natural mechanism of the market and the formation of a natural price that enables us to falsify and verify governmental practice

when, on the basis of these elements, we examine what government does, the measures it takes, and the rules it imposes. In this sense, inasmuch as it enables production, need, supply, demand, value, and price, etcetera, to be linked together through exchange, the market constitutes a site of veridiction, I mean a site of verification-falsification for governmental practice. Consequently, the market determines that good government is no longer simply government that functions according to justice. The market determines that a good government is no longer quite simply one that is just. The market now means that to be good government, government has to function according to truth.”

(M. Foucault, *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, p. 32)

In this narration and establishment of a new type of government, political economy does not thus “owe its privileged role to the fact that it will dictate a good type of conduct to government” (M. Foucault, 1979, p.32). Political economy was fundamental, also in its theoretical expression, on the grounds that it identified to government where it had to proceed to get the concept of truth of its own governmental method. To make it simple, Foucault states that:

“from being a site of jurisdiction, which it remained up to the start of the eighteenth century, the market, through all the techniques I discussed last year with regard to scarcity and grain markets, etcetera, is becoming what I will call a site of veridiction. The market must tell the truth (*dire le vrai*); it must tell the truth in relation to governmental practice. Henceforth, and merely secondarily, it is its role of veridiction that will command, dictate, and prescribe the jurisdictional mechanisms, or absence of such

mechanisms, on which [the market] must be articulated.”

(M. Foucault, *The Birth of Biopolitics – Lectures at the Collège de France 1978-79*, p. 32)

As far as neoliberalism is concerned, it endorses the economic integration among the diverse nations, as a harbinger of more choice opportunities and fulfilment of own interests by individuals (Harvey 2005). Paul Treanor, while giving a final summary definition of neoliberalism as a philosophy, states:

“Neoliberalism is a philosophy in which the existence and operation of a market are valued in themselves, separately from any previous relationship with the production of goods and services, and without any attempt to justify them in terms of their effect on the production of goods and services; and where the operation of a market or market-like structure is seen as an ethic in itself, capable of acting as a guide for all human action, and substituting for all previously existing ethical beliefs.

(P., Treanor, *Neoliberalism: Origin, Theory, Definition*, 2005, p.19)

David Harvey, in *A Brief History of Neoliberalism*, interprets Paul Treanor's writings where he describes market exchange in neoliberalism:

“In so far as neoliberalism values market exchange as 'an ethic in itself, capable of acting as a guide to all human action, and substituting for all previously held ethical beliefs', it emphasizes the significance of contractual relations in the marketplace (P. Treanor, *Neoliberalism*). It holds that the social good will be maximized by maximizing the reach and frequency of

market transactions, and it seeks to bring all human action into the domain of the market. This requires technologies of information creation and capacities to accumulate, store, transfer, analyse, and use massive databases to guide decisions in the global marketplace.”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.3)

In this way, David Harvey illustrates the profound regard and vocation of neoliberalism respecting information technologies. Harvey talks about “time-space compression” to portray the “intensive burst” these technologies have produced , compressing the “rising density of market transactions in both space and time” (Harvey, 2005, p.4). Hence the stress on “globalization” as a “new economic configuration” to evidence the promptness of market contracts, no matter the wideness of the geographical extension:

“A general characteristic of neoliberalism is the desire to intensify and expand the market, by increasing the number, frequency, repeatability, and formalisation of transactions. The ultimate (unreachable) goal of neoliberalism is a universe where every action of every being is a market transaction, conducted in competition with every other being and influencing every other transaction, with transactions occurring in an infinitely short time, and repeated at an infinitely fast rate. It is no surprise that extreme forms of neoliberalism, and especially cyberliberalism, overlap with semi-religious beliefs in the interconnectedness of the cosmos.”

(Treanor, *Neoliberalism: Origins, Theory, Definition*, 2005 p.7-8)

### 1.3.3 The Opposition Market / State

Generally, as stated before, it is possible to find interpretations of neoliberalism which simplify the relations amidst the state and the market, reducing them in a mere opposition between the two, where the state loses power to favour the empowerment of the market. Opportunely, Dartot and Laval affirm that the antagonism between market and state is not the right approach to an effective representation of neoliberalism:

“To tackle the issue of neo-liberalism via political reflection on modes of government alters our understanding of it. First of all, it makes it possible to refute simplistic analyses in terms of the 'retreat of the state' in the face of the market, because it emerges that this Market/State opposition is one of the main impediments of to an accurate characterization of neo-liberalism. Contrary to first impressions and the overly simple idea that it is markets which have conquered states from without and dictated policy to them, it is states – in the first instance, the most powerful among them – that have introduced and universalized the logic of competition and the enterprise model in the economy, society, and even themselves.”

(P. Dartot, C. Laval, *The New Way of the World*, p.10)

Therefore, it is the state that intervenes in order to favour the expansion of market finance; citing Marx, Weber and Polanyi, the two writers declare that “the modern market does not operate on its own, but has always been backed by the state” (Dardot, Laval 2013, p.10). As a matter of fact, also Paul Treanor stresses the necessity of regulation for the market:

“It is possible for 'the state' to suppress 'the market', but also to promote it. In fact, the free market emerged in Europe under the protection of the state, and the market needs the state, more than the other way around. The market needs internal regulation, in order to function: the state, in the form of the legal system, ensures contracts are enforced. In the form of the police, it prevents theft and fraud. It establishes uniform systems of weights and measures, and a uniform currency. Without these things there would be no free market, no market forces, and no resulting market society.”

(P., Treanor, *Neoliberalism: Origins, Theory, Definition*, p.2)

### **The welfare state**

With the neoliberal turn, the welfare state is inevitably weakened. The whole system of union powers, health and care apparatuses, structures and institutions devoted to solidarity and assistance are curbed and restricted, in concert with the drastic privatization of the totality of their services.

In effect, neoliberalization has considerably produced substantial “creative destruction” of antecedent institutional schemes and strengths yet additionally it dismantled the rationing of labour, community relations, welfare facilities and services, technological compounds, reproductive activities, affection to the land, opinions and approaches to life, thoughts and beliefs (Harvey, 2005).

### 1.3.4 Upper class power

In *The Crisis of Neoliberalism*, Gérard Duménil and Dominique Lévy argue that neoliberalism is the new and most recent phase – precisely the third – of modern capitalism, which developed in the wake of the 1970s structural crisis. The writers describe the intentions of neoliberalism, partly devoted to accomplish a restoration of economic power to the upper classes. In fact, this new stage of capitalism “expresses the strategy of the capitalist classes in alliance with upper management, specifically financial managers, intending to strengthen their hegemony and to expand it globally” (G. Duménil, D. Lévy, 2011, p.1).

The writers explain that if neoliberalism is to be considered the new phase of capitalism, this means that there have been previous stages in the past and that there might be new ones in the future:

“Neoliberalism should be understood as a new phase in the evolution of capitalism. As such, it can be described intrinsically – its basic mechanisms and contradictions. The reference to a most recent phase raises, however, the issue of *previous* phases. The comparison with earlier periods reveals the traits proper to the new period. The analysis of the social, political, and economic trends that led to the establishment of neoliberalism is also telling of the nature and fate of this social order. Symmetrically, the notion of a crisis of neoliberalism implies a possible transition to a new phase, and the nature of the society that will prevail in the wake of the contemporary crisis is a major component of the investigation here.”

(Gérard Duménil, Dominique Lévy, *The Crisis of Neoliberalism*, 2011, p.5)

During the 1970s, Communism and Socialism were obtaining appreciation and favour across Europe and even United States. Hence, upper classes all over the world perceived this as a menace – politically and economically – to their dominance and influence. One of the solutions adopted to cease the spread of these political parties was to back and assist several *golpes* in countries approaching the left like Chile (with the Pinochet's coup against Salvador Allende) or Argentina (through the military takeover), habitually encouraged and promoted by the USA, as David Harvey explains:

“The coup in Chile and the military takeover in Argentina, promoted internally by the upper classes with US support, provided one kind of solution. The subsequent Chilean experiment with neoliberalism demonstrated that the benefits of revived capital accumulation were highly skewed under forced privatization. The country and its ruling elites, along with foreign investors, did extremely well in the early stages. Redistributive effects and increasing social inequality have in fact been such a persistent feature of neoliberalization as to be regarded as structural to the whole project.”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.16)

Therefore, in accordance with Duménil and Lévy's data reconstructions, we can reaffirm that the reinstatement of class dominance was from the very start the most desired outcome of the neoliberal plan.

However, in opposition to this statement, we find Dartot and Laval, drawing the attention to the main imprecisions and misconceptions in the interpretations of Marx,

of Duménil and Lévy, as well as of Harvey's:

“While they did indeed anticipate the financial crisis of 2008, Marxist interpretations do not always succeed in grasping the novelty of neo-liberal capitalism. Trapped in a conception that makes the 'logic of capital' an autonomous motor of history, they reduce the latter to the sheer repetition of the same scenarios, with the same characters in new costumes and the same plots in new settings. The history of capitalism is never merely the unfolding of an essence that is always self-identical beneath its phenomenal forms and phases, and which, at bottom, is leading us from crisis to crisis until the final collapse. Thus construed, neo-liberalism is both the mask and tool of finance, which is the real historical subject. For Gérard Duménil and Dominique Lévy, neo-liberalism 'has restored the strictest rules of capitalism', enabling the power of capital to continue its centuries-old advance in forms that are renewed in and through crises.” (P. Dartot, C. Laval, *The New Way of the World*, p.12-13)

Dartot and Laval seem to dismiss the idea of Duménil and Lévy that the emergence of neoliberalism has been previously programmed at the time of its conception by the elites. Conversely, Dartot and Laval demonstrate to have a more indulgent analysis towards Harvey:

“Albeit much more attentive to the novelty of neo-liberalism, David Harvey continues to adhere to an explanatory schema that is decidedly unoriginal. If we believe him, the crisis of accumulation in the 1960s, marked by stagflation and falling profits, incited the bourgeoisie to take its 'revenge' by

implementing, on the occasion of this crisis and in order to resolve it, the social project formulated by the theoreticians of Mont Pelerin. Over and above its specific features, and despite its interventionism, the neo-liberal state continues to be viewed as a mere tool in the hands of a capitalist class intent on restoring a favourable balance of power vis-à-vis workers, thereby increasing its share in the distribution of income. The scale of the inequalities and the growth in the concentration of wealth and income evident today supposedly confirm the existence of this initial intention.”

(P. Dartot, C. Laval, *The New Way of the World*, p.12-13)

With the term “revenge of the bourgeoisie”, Dartot and Laval are moving a mild accusation of conspiracy against Harvey.

“In truth, there was no large-scale conspiracy, nor even a ready-fashioned doctrine cynically and resolutely implemented by politicians to meet the expectations of their powerful friends in the world of business. The normative logic that ended up being imposed was constructed through battles that were initially uncertain and policies that were frequently groping. The neo-liberal society we live in is the fruit of a historical process that was not fully programmed by its pioneers. Its constituent elements were assembled gradually, in interaction with one another, and in the consolidation of some by others. Just as it is not the direct result of a homogeneous doctrine, so it is not the reflection of a logic of capital that creates the social, cultural and political forms corresponding to it in the process of its expansion.”

(P. Dartot, C. Laval, *The New Way of the World*, p.14)

### **The violent exertion of power**

The imposition on neoliberal policies often took place by all available means, including absolute lawless brutality, especially in South America (P. Dardot, C. Laval, 2013).

However, Dardot and Laval, criticising other interpretations of neoliberalism – peculiarly of Marxist ones – underline the fact that the accomplishment of the neoliberalization process do not always require the exertion of power via violent means:

“Nevertheless, we would be on the wrong track if we reduced neoliberalism to the implementation of the Chicago School's economic programme by means of military dictatorship. In fact, we must not confuse general strategy and particular methods. The latter depend on local circumstances, the balance of power, and historical phases. They can just as easily involve the brutality of the military putsch as the electoral seduction of the middle and popular classes; they can use and abuse blackmail over jobs and growth and exploit deficits and debts as pretexts for 'structural reforms', as has long been the case with the IMF and the European Union. Challenges to democracy take different forms, which do not all pertain to 'shock therapy', but also and above all involve what Wendy Brown has rightly called a process of 'de-democratization', which consists in emptying democracy of its substance without formally abolishing it.”

(P. Dardot, C. Laval, *The New Way of the World*, p.11)

## 1.4 THE TWO ECONOMIC SCHOOLS OF THOUGHT

Two economic schools are responsible for the formation and spreading of ideas and economic principles which led to the creation of the neoliberalism doctrines. One school, the Austrian one, originated in Europe at the end of 1800; the other one, named the Chicago School, was formed in the United States after the Second World War.

Friedrich von Hayek and Ludwig von Mises, two of the most prominent economists of the Austrian School, participated to the Walter Lippman Colloquium in 1938, where the term *neoliberalism* was first conceived. Moreover, Hayek was one of the founders of the Mont Pelerin association in 1947, to which Mises and Milton Friedman – valued member of the Chicago school of economics – actively took part.

The two schools criticised ideologies such as Marxism and Keynesianism.

As a matter of fact, the Austrian School, during the *Methodenstreit* against the German Historical School, produced – thanks to Eugen Böhm von Bawerk – important critiques of Karl Marx.

As far as Keynesianism is concerned, it had a big success during the 1950s; yet because the Chicago school was in opposition with these theories, it was considered out of the mainstream. For Keynes, the market had to be controlled by the government; conversely, Chicago economists think market should be freed from any restrictions, rejecting state interventionism. Therefore, Chicago macroeconomic theory was preferring monetarism (however, the Chicago school experienced a return to neoclassical macroeconomics during the 1970s).

In the same way, Harvey as well thought that Marxism, Socialism, state planning and Keynesian interventionism had to be subdued; thanks to him, a revival of laissez-faire occurred during the 20<sup>th</sup> century.

During the late 20<sup>th</sup> cent, when a division of the Austrian School took place, Friedrich von Hayek represented the faction agreeing to neoclassical methodology and to an involvement of the government in the economy; the other faction, represented by Ludwig von Mises, inveighed against neoclassical methodology.

Needless to say, Milton Friedman and the Chicago School are responsible of the first experiment of *neoliberalization* – in Chile – where they actively participated by training Chilean economists who later would implement neoliberal policies in the country.

### 1.4.1 The Austrian School

The Austrian School is an acknowledged school of economic thought; as its name suggests, it sprang in Vienna, in the Austrian Empire, during the late 19<sup>th</sup> and early 20<sup>th</sup> century.

In 1871, Carl Menger wrote “Principles of Economics”, a work which is commonly reckoned as the establishment of the Austrian School. Furthermore, the title was one of the first modern disquisitions introducing the theory of marginal utility. As a matter of fact, with the launching of the subjectivist approach in economics, the Austrian School was partly responsible for the marginalist revolution of the 1870s. Menger's economic theories were shortly pursued and enriched by Eugen Böhm von Bawerk and Friedrich von Wieser; the three intellectuals constituted the “first wave” of the Austrian School.

The Austrian School adheres to *methodological individualism*, an approach which assumes that social and economic circumstances arise from the reasons, motives and deeds of individuals. Ludwig von Mises, in his book “Human action” (1949) classified a variant of methodological individualism with the label “praxeology”.

Because of its *modus operandi*, the Austrian School was in opposition with the Hegelian doctrines of the German Historical School, in a conflict recognized as *Methodenstreit* (methodology struggle), where the Austrians supported the function of theory in economics as separated from the study or collection of historical circumstances. Eugen Böhm von Bawerk participated at the methodology struggle composing during the 1880s and 1890s considerable critiques of Karl Marx (E. Böhm

von Bawerk, *Karl Marx and the Close of his System*, 1896).

The leaders of the Historical School, in order to denigrate the rival school as pariah, regional and narrow-minded, coined the label “Austrian School”; the term remained and was commonly adopted by the advocates of the school.

Even though nowadays advocates of these economic theories are situated in various different places, their works are still referred with the *Austrian* denomination.

Several theories of the outset of the Austrian School have definitely been incorporated in mainstream economics – these are the subjective theory of value, marginalism in price theory, and the formulation of the economic calculation problem.

In the 1920s, at the University of Vienna, many valued Austrian economists studied and subsequently took part in exclusive lessons conducted by Ludwig von Mises – among these scholars there was the talented Friedrich von Hayek. The ideas of the early Austrians had been supported and adopted by nearly all economists by the mid-1930s. (Boettke, Peter J.; Peter T. Leeson, 2003)

However, in the mid 20<sup>th</sup> century, after World War II, the Austrian School commenced to be criticised by numerous economists because it denied mathematical and statistical methods in the study of economics. (Roger E. Backhouse, *Austrian economics and the mainstream: View from the boundary*, 2000)

The critics believe that the Austrian refusal of the econometrics and aggregate macroeconomic analysis is to be external of the mainstream economic theory (or *heterodox*). In the same way, Austrian are disapproving towards mainstream economics.

In the late 20<sup>th</sup> century, we come across a division of the Austrian economics into two different schools of economic thought. One faction of Austrians, represented by Mises, considers neoclassical methodology to be irreversibly incorrect; the other faction, represented by Friedrich von Hayek, agrees to a substantial part of neoclassical methodology and is more complying with government involvement in the economy. (Caplan, Bryan, *What's Wrong With Austrian Business Cycle Theory*, 2008)

Despite the fact that, since the late 1930s, the Austrian School has been reckoned heterodox, it started to allure reaffirmed significance and reputation during the 1970s - partly thank to the contributions of Israel Kirzner and Ludwig Lachmann at New York University. In addition, the school gained more public recognition when, in 1974, Friedrich von Hayek shared the Nobel Prize in Economic Sciences with Gunnar Myrdal<sup>5</sup> for “their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena.”<sup>6</sup> The work of Hayek was important in the resurgence of laissez-faire ideas during the 20<sup>th</sup> century. (Raico, Ralph; *Austrian Economics and Classical Liberalism*, 2011)

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5 Gunnar Myrdal (1898-1987) was a Swedish economist, sociologist and politician; he is known for his study of race relations and for his contribution and influence for the establishment of welfare state in Sweden.

6 [http://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/1974/](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974/)

### 1.4.2 The Chicago School

The Chicago school of economics originated around the faculty at the University of Chicago, as a neoclassical school of thought. The name was created in the 1950s to allude to economists giving lessons in the Economics Department of this university, and other associated academic fields like the school of business and the school of law. Repeated active conferences were organized among these academics leading to the formation of a group outlook on economic topics, grounded on price theory. Because in the 1950s there was a peak of success for the Keynesian school of economics, the associates of the Chicago School were regarded out of the conventional.

Keynesianism was refused by Chicago macroeconomic theory, opting for monetarism; nevertheless, by mid-1970s, the Chicago School returned to neoclassical macroeconomics strongly founded on the idea of rational expectations. (Emmet, Ross; *The Elgar Companion to the Chicago School of Economics*, 2010)

Considering macroeconomics, the University of Chicago is linked to the “freshwater school” of macroeconomics, in opposition to the “saltwater school”, rooted in areas near the coast, such as Berkeley, Harvard and MIT. Nowadays this distinction is no longer so strong, as the theories and ideas from the two factions have been heavily assimilated and integrated to each other. Precisely, New Keynesian economics arose as a reaction to new classical economics, choosing to include the understanding of rational expectations without abandoning the customary Keynesian concern on imperfect competition and sticky wages.

Among the economists most famously affiliated with the school there are Milton

Friedman, George Stigler, Ronald Coase and Gary Becker. (Mirowski, Philip, *The Road from Mont Pelerin*, 2009)

Non-intervention from government is stressed by the Chicago School, which commonly denies regulation in markets as wasteful, apart from central banks regulation of the money supply (i.e. , monetarism).

Even if the school's juxtaposition with neoliberalism is occasionally refused by its advocates, (Emmet, Ross; *The Elgar Companion to the Chicago School of Economics*, 2010) its stress on weakened government involvement in the economy and *laissez-faire* principles have produced a coalition between the Chicago School and neoliberal economics.

In addition, also other disciplines have been intellectually influenced by Chicago economists, especially for the development of *public choice theory* and *law and economics*, that have resulted in radical transformations in the study of political science and law. Additional Chicago-associated economists have also influenced areas as various as social economics and economic history. Therefore, there is not an explicit outline of the Chicago school of economics, a label that is more usually employed in the mass media than in intellectual niches. However, the typical features of the school are described by Bruce Kaufman as follows:

“A deep commitment to rigorous scholarship and open academic debate, an uncompromising belief in the usefulness and insight of neoclassical price theory, and a normative position that favors and promotes economic liberalism and free markets.”

(Bruce, Kaufman; Ross B. Emmett; *The Elgar Companion to the Chicago School of Economics*, 2010, p. 133)

The Economics department at the University of Chicago, besides being one of the most valued economics department of the world, is the one that has collected most Nobel Prizes laureates in economics – precisely 12 – than any other University ever.

However, the Chicago School has also been largely criticised; one of the most intense blaming was for training economists (labelled the “Chicago Boys”) who counselled the Chilean government in the 1970s and 1980s. Needless to say, this happened – even if to a lesser extent – in other Latin-American countries as well. Although these economists were attributed to convert Chile into South America's best performing economy, with GDP rising from US\$693 at the beginning of 1975 (the year of the encounter between Milton Friedman and Augusto Pinochet; among 12 Latin American countries, Chile was the 9<sup>th</sup> highest) to \$14,528 (the 2<sup>nd</sup> highest in Latin America) by the end of 2014 (World Bank, *World Development Indicators*, Jan 2016), attackers answer there was an equivalent raise in income inequality and that the improvements had a counteractive effect on the economic policies of Ronald Reagan and Margaret Thatcher. In the following years after the reforms were launched, the economic structure carried out by the Chicago Boys mainly endured in order.

## 1.5 BRIEF CHRONOLOGY OF NEOLIBERALISM

### 1.5.1 Colloque Walter Lippman

The term “neoliberalism” was first coined in 1938 by the German scholar Alexander Rüstow, during the Colloque Walter Lippman, in Paris, France. The colloquium delineated the notion of neoliberalism as presupposing the primary issue of the price processes, free enterprise, the scheme of competition, and an effective unbiased state. Being “neoliberal” signified promoting a present-day economic policy with state involvement. However, the intrusion of the neoliberal state produced a conflict with the divergent laissez-faire faction of classical liberals, inclusive of Ludwig von Mises. (O. M. Hartwich, 2009)

The 1930s global Great Depression contributed to notable unemployment and extensive poverty, and was broadly considered as a downfall of economic liberalism. In order to reaffirm liberalism, a congregation of 25 experts arranged the Walter Lippman Colloquium in August 1938. Among the participants there were: Walter Lippman, Louis Rougier, Friedrich von Hayek, Ludwig von Mises, Wilhelm Röpke, and Alexander Rüstow. Nearly all accepted that liberalism of laissez faire had been unsuccessful and that a modern liberalism was required to replace it with a leading function for the state. Ludwig von Mises and Friedrich von Hayek rejected to disapprove laissez faire, nevertheless the totality of participators were unanimous in their demand for a new plan, which was labelled “neoliberalism”. They engaged the Colloquium into a long-term think tank entitled *Centre International d'Etudes pour*

*la Rénovation du Libéralisme* located in Paris.

Profound discrepancies in the company divided “true (third way) neoliberals” near Rüstow and Lippman on one side and old school liberals near Mises and Hayek on the other.

“Two major currents were to emerge at the Lippman Colloquium in 1938: the current of German ordo-liberalism, mainly represented by Walter Eucken and Wilhelm Röpke, and the Austro-American current represented by Ludwig von Mises and Friedrich A. Hayek”

(P. Dardot, C. Laval, *The New Way of the World*, p.22-23)

The true neoliberals longed for a powerful state to monitor, while the old school liberals persisted that the single reasonable function of the state was to eliminate limitations to market entry. Rüstow reported that Mises and Hayek were remnants of the liberalism that produced the Great Depression. Mises attacked the other coalition, lamenting that Ordoliberalism<sup>7</sup> absolutely indicated “ordointerventionism” (O. M. Hartwich, 2009).

### **1.5.2 Mont Pelerin Society**

In 1947, neoliberalism began increasing in relevance with the constitution of the Mont Pelerin Society. The association was founded by the Austrian political philosopher Friedrich von Hayek together with other academics, historians and economist who first

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<sup>7</sup> Ordoliberalism is the German version of social liberalism which underlines the necessity for the state to guarantee that the free market generates outcomes near to its theoretical capability. [Philip Mirowski, Dieter Plehwe, *The road from Mont Pèlerin: the making of the neoliberal thought collective*, 2009]

encountered in a Swiss Spa named “Mont Pelerin”. This new club reunited the completely dispersed free market thinkers and political figures: Ludwig von Mises, Milton Friedman and Karl Popper among them; the Colloque Walter Lippman was widely left behind.

“Hayek and others believed that classical liberalism had failed because of crippling conceptual flaws and that the only way to diagnose and rectify them was to withdraw into an intensive discussion group of similarly minded intellectuals.”

(Philip Mirowski, Dieter Plehwe, *The road from Mont Pèlerin: the making of the neoliberal thought collective*, 2009)

With principal arrangements in the influence all over the world and scarce ways to persuade policy-makers, the group helped to gather single defenders of neoliberalism as a “rallying point” - as Milton Friedman termed it. Assembling once a year, this congregation would shortly become an important occasion of encounter for every classical liberal and neoliberal intellectuals. Even though at the first meeting in 1947 the majority of participants was American, by 1951 the Europeans were prevailing. In fact Europe would continue to be the heart of the society with Europeans leading the supervision (P. Mirowski, D. Plehwe, 2009).

In the founding statement of the Mont Pelerin Society we read:

“The central values of civilization are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have

already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own.

The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.

Believing that what is essentially an ideological movement must be met by intellectual argument and the reassertion of valid ideals, the group, having made a preliminary exploration of the ground, is of the opinion that further study is desirable *inter alia* in regard to the following matters:

1. The analysis and exploration of the nature of the present crisis so as to bring home to others its essential moral and economic origins.
2. The redefinition of the functions of the state so as to distinguish more clearly between the totalitarian and the liberal order.
3. Methods of re-establishing the rule of law and of assuring its development in such manner that individuals and groups are not in a position to encroach upon the freedom of others and private rights are not allowed to become a basis of predatory power.
4. The possibility of establishing minimum standards by means not inimical to initiative and functioning of the market.

5. Methods of combating the misuse of history for the furtherance of creeds hostile to liberty.
6. The problem of the creation of an international order conducive to the safeguarding of peace and liberty and permitting the establishment of harmonious international economic relations.

The group does not aspire to conduct propaganda. It seeks to establish no meticulous and hampering orthodoxy. It aligns itself with no particular party. Its object is solely, by facilitating the exchange of views among minds inspired by certain ideals and broad conceptions held in common, to contribute to the preservation and improvement of the free society.

Mont Pelerin (Vaud), Switzerland, April 8, 1947”<sup>8</sup>

Because of their prime adherence to ideals of personal freedom, the disciples of the society portrayed themselves as “liberals” (in the traditional European sense). As their neoliberal classification indicated, they observed the neoclassical economic free market morals which had appeared in the second half of the nineteenth century with the purpose to replace the classical theories of Adam Smith, David Ricardo, and Karl Marx.

However, they also held to the idea by Adam Smith that “the hidden hand of the market was the best device for mobilizing even the basest of human instincts such as gluttony, greed, and the desire for wealth and power for the benefit of all.” (David Harvey, *A Brief History of Neoliberalism*, 2005, p.20).

Therefore, neoliberalism was acutely against the theories of state interventionism, for instance those of John Maynard Keynes, that became renowned in the 1930s as an

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8 See the website <https://www.montpelerin.org/statement-of-aims/>

answer to the Great Depression. After the Second World War, Keynesian theory was chosen by several policy-makers to preserve the business cycle and recession under restraint. Theories of centralized state planning (for example Oscar Lange's, close to Marxism) were even more cause of firm disapproval by advocates of neoliberalism. They disputed that state decisions were certain to be politically distorted basing on the power of the interest groups implicated (such as unions, environmentalists, or trade lobbies). On questions of investment and capital accumulation, state decisions were certain to be inappropriate because the knowledge accessible to the state could not compete with that incorporated in market signals.

David Harvey as other several commentators<sup>9</sup>, points out that this theoretical framework has some incoherences:

“The scientific rigour of its neoclassical economics does not sit easily with its political commitment to ideals of individual freedom, nor does its supposed distrust of all state power fit with the need for a strong and if necessary coercive state that will defend the rights of private property, individual liberties, and entrepreneurial freedoms. The juridical trick of defining corporations as individuals before the law introduces its own biases, rendering ironic John D. Rockefeller's personal credo etched in stone in the Rockefeller Center in New York City, where he places 'the supreme worth of the individual' above all else. And there are, as we shall see, enough contradictions in the neoliberal position to render evolving neoliberal practices (vis-à-vis issues such as monopoly power and market

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9 From Harvey, *A Brief History of Neoliberalism*, p.208, note 16. : “A judicious review can be found in H.-J. Chang, *Globalisation, Economic Development and the Role of the State* (London: Zed Books, 2003). But as Peck, 'Geography and Public Policy', points out, neoliberalism has often absorbed other elements within its frame so that it is hard to conceive of it as a 'pure' theory.”

failures) unrecognizable in relation to the seeming purity of neoliberal doctrine. We have to pay careful attention, therefore, to the tension between the theory of neoliberalism and the actual pragmatics of neoliberalization.”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.21)

Harvey continues mentioning that Hayek's point of view was that the battle of ideas was essential, and to win that battle it would presumably take at least a generation, not only to defeat Marxism, but to defeat socialism, state planning, and Keynesian interventionism.

Financial and political protection was reserved to the group of Mont Pelerin. This happened in particular in the USA, where a group against regulation, state interventionism, and internationalism, constituted by opulent personages and corporate leaders commenced to gather together in opposition to mixed economy's growing consensus. The company stayed offstage for a while, but then gained weight in the US and Britain when the problematic years of 1970s came. The prestige was spreading in the academic world especially at the Chicago University, in which Milton Friedman was highly influential. Moreover, it is necessary to remind that clearly neoliberalism achieved even more recognition when Hayek and Friedman won the Nobel Prize in economics; the Austrian philosopher was awarded in 1974, while the American economist was granted in 1976. Yet it would be 1979 the year in which neoliberalism reaches the actual consolidation as a new way to implement economic policies in the United States and Britain.

### 1.5.3 Embedded Liberalism

After the Second World War, there was the strong need to restructure the international relations among states as well as their form of government. The Great Slump of the 1930s, which threatened the capitalist order, was a nightmare that states did not want to experience another time, moreover they felt the need to prevent the resurgence of new conflicts caused by inter-state geopolitical rivalries. Therefore, in order to ensure a serene environment constituted by peace, well-being and stability, governments had to guarantee the right blend of democratic institutions, state and market, developing a “class compromise between capital and labour” (David Harvey, 2005, p.10).

In addition, after the WWII, in Europe happened to be a surfacing of social democratic, christian democratic and dirigiste states. Even the USA were undergoing a liberal democratic turn. For all these state forms, the state should focus on full employment, economic growth and welfare. The state, to achieve these ends, has the duty of intervening in market processes or even substituting them. In consequence, the softening of business cycles and the ensuring of full employment occur thank to the implementation of Keynesian fiscal and monetary policies, where “states intervene in industrial policies and set standards for the social wage by variety of welfare system” (David Harvey, 2005), producing what is known as *Embedded Liberalism*.

It is quite easy to reckon that embedded liberalism is in strong contrast with the neoliberalist conception of state apparatus. Embedded liberalism is in fact a form of political-economic organization in which “market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a

regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy.”<sup>10</sup>

During the 1950s and 1960s, embedded liberalism brought high rates of economic growth in the advanced capitalist countries. Harvey explains that in part this depended on the fact that USA were prepared to run deficits with the rest of the world and to absorb any excess product within its borders.

One of the benefits of embedded liberalism is the expansion of export markets for Japan, South America and some south-east Asian countries. However, the “development” was complicated to be exported in the rest of the world. For instance, in the third world, and more precisely in Africa, embedded liberalism was practically impossible to implement. On the contrary, in the advanced capitalist countries embedded liberalism went hand in hand with relatively high rates of growth.

Embedded liberalism translated into redistributive politics, controls over the free mobility of capital, expanded public expenditures and welfare state building, active state interventions in the economy, and last but not least, some degree of planning development. Needless to say, the interventionist state fostered the social and moral economy as well as the

sense of national identity. “The state in effect became a force field that internalized class relations.” (David Harvey, *A Brief History of Neoliberalism*, 2005, p.11). In addition, working class institutions (labour unions and political parties of the left) had

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10 From David Harvey, *A Brief History of Neoliberalism*, 2005, p.208, note 10. : “S. Krasner (ed.) *International Regimes* (Ithaca, NY: Cornell University Press, 1983); M. Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002).”

a real influence within the status apparatus.

With the end of the 1960s, embedded liberalism is teetering on the edge of breakdown, and Keynesian policies are no longer being effective. With the crisis of capital accumulation, unemployment and inflation, a new phase labelled “stagflation” - the combination of stagnation and inflation – springs and will persist throughout the 1970s. Moreover, in 1971 the system of fixed exchange rates is definitely abandoned; as a consequence, currencies commence to flow. At this time, it becomes evident that the necessity to find a valid substitute for embedded liberalism is crucial.

While attempting to encounter a replacement to the broken-down embedded liberalism, socialist and communist parties in Europe were gaining ground; the left was strong not only in the European continent, yet it was spreading to USA too. The intentions of left parties were to adopt corporatist strategies in order to intensify state control and dictates of the economy. However, as David Harvey reckons, left parties did not fulfil the promised requirements:

“But the left failed to go much beyond traditional social democratic and corporatist solutions and these had by the mid-1970s proven inconsistent with the requirements of capital accumulation. The effect was to polarize debate between those ranged behind social democracy and central planning on the one hand (who, when in power, as in the case of the British Labour Party, often ended up trying to curb, usually for pragmatic reasons, the aspirations of their own constituencies), and the interests of all those concerned with liberating corporate and business power and re-establishing market freedoms on the other. By the mid-1970s, the interests of the latter

group came to the fore. But how were the conditions for the resumption of active capital accumulation to be restored?”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.13)

In this circumstances, neoliberalism was able to emerge, becoming the only apparent solution.

Due to the crisis of capital accumulation during the 1970s, unemployment and inflation perturbed everyone, causing sweeping discontent. In addition, almost everywhere in the modern capitalist sphere, the combination of labour and urban social campaigns seemed to train in the direction of the surfacing of a socialist preference instead of the social give-and-take between capital and labour which had swimmingly established capital accumulation during the post-war stage.

With the dissemination of communist and socialist parties, upper classes in a large part of the world felt economically threatened. In almost the totality of countries, one requisite of the post-war resolution was that the economic power of the upper classes had to be controlled and that labour had to be awarded a greater share of the economic pie.

As stated here before, after 1970s, with the implementation of neoliberal policies, the elites finally gained restoration, clarifying in part why neoliberalization happened to develop and be confirmed.

#### 1.5.4 The 1973 Chilean coup d'état

In the 1950s, in order to take part in a Cold War plan of action to prevent left-wing inclinations in Latin America (David Harvey, 2005), the University of Chicago began to train South-American economists. In fact, in 1955, an exclusive band of Chilean students were convened at Chicago University to perform post graduated studies in economics. They would be later known as the “Chicago Boys”, economists learning and acting personally under Friedman, and at the same time being manipulated by Hayek. The justification for their summoning was the formation of experts able to support the reconstruction of the Chilean economy.

In the 1960s, the Chicago trained economists returned to Chile. They commenced to be influential at Santiago de Chile University and started a strenuous attempt to proliferate the ideology and procedural guidances of the Chicago and Austrian schools, broadcasting in like-minded media and funding think tanks.

Academics of Latin America started during the 1960s to observe the theories of ordoliberalism; these academics frequently used the label *neoliberalismo* – a Spanish word – to allude to this school of thought. What excited them most was the social market economy and the German economic miracle (*Wirtschaftswunder*<sup>11</sup>), and considered the chance of realizing in their own countries comparable policies. In the 1960s, neoliberalism represented basically a thought which was less extreme than classical liberalism and that preferred employing state policy to restrain social inequality and oppose a drift towards monopoly. (Taylor C. Boas, Jordan Gans-Morse,

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11 *Wirtschaftswunder* is the German translation for “economic miracle” (“Wirtschaft”, economy, and “Wunder”, miracle) and it indicates the sudden rebuilding and growth after the Second World War of the economies of West Germany and Austria – implementing an Ordoliberalism-based social market economy.

Neoliberalism: From New Liberal Philosophy to AntiLiberal Slogan, 2009)

On 3<sup>rd</sup> November 1970, Salvador Allende is democratically elected president of Chile. He is recognized as the first Marxist president in a Latin American country voted by means of open elections. (BBC, *Profile of Salvador Allende*, 2003)<sup>12</sup>

During the 1970s, the hostility to Allende by a certain part of the population gave rise to the constitution of an oppositional group. This congregation, the “Monday Club”, was composed by domestic business elites – imperilled by the new president and his trend towards Socialism – in concert with the Chicago-trained economists – aiming to organize a *golpe*.

Augusto Pinochet, Allende's appointed army chief, led the coup, which was backed by US corps., CIA, and Henry Kissinger (the US Secretary of State). The aim of the *golpe* was to “repress all social movements and political organizations of the left and dismantlement of all forms of popular organizations.”(David Harvey, 2005, p.7-8) The coup took place on 11<sup>th</sup> September 1973 and it is considered as a fundamental event in the history of Chile and Cold War. Allende was overwhelmed by the Chilean armed forces and died on the same day, presumably by committing suicide inside the *Palacio de La Moneda*.

Pinochet introduced the economists trained at Chicago University into the Chilean government. The Chicago Boys had as one of their tasks the bargaining of loans with the IMF; moreover, they “restructured the economy according to their theories” (David Harvey, p.8). Under Pinochet and his military dictatorship, characterized by grave social repression, an extreme economic reform was carried out by the Chicago Boys.

12 <http://news.bbc.co.uk/2/hi/americas/3089846.stm>

Sudden and considerable privatization, deregulation, and decrease in trade limitations were perceived during the second half of the 1970s. In 1978 happened the launch of specific policies with the result of a minimizing of the function of the state and an injection of individualism and competition into sectors such as labour relations, health, education and pensions. (Taylor C. Boas; Jordan Gans-Morse, *Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan*, 2009)

The end result of these policies was an extended inequality; as a matter of fact, the new protocol had a counteractive effect on wages, welfare, status and working conditions of the Chilean working class.

The military rule under Augusto Pinochet lasted from 1973 until 1990. During this time, the Chilean scholars who were against the dictatorship related the Chicago Boys and their economic reforms using the term “neoliberalism” (Taylor C. Boas; Jordan Gans-Morse, 2009). Hence, before being spread into the English-language study of political economy, this new expression started to be commonly utilized first among Spanish-speaking scholars (Taylor C. Boas; Jordan Gans-Morse, 2009).

The 1973 Chilean coup d'état was the very first test of neoliberal state establishment. It served as an experiment - realized during the 1970s in one of the countries of the “periphery” - in order to create the model to implement in the “centre” of the world (Britain and USA during the 1980s):

“The first experiment with neoliberal state formation, it is worth recalling, occurred in Chile after Pinochet's coup on the 'little September 11<sup>th</sup>' of 1973 (almost thirty years to the day before Bremer's announcement of the regime

to be installed in Iraq).”

(David Harvey, *A Brief History of Neoliberalism*, 2005, p.7)

While the other South American countries had been tormented by military Juntas<sup>13</sup> and Caudillismo<sup>14</sup>, Chile had for a long time been acclaimed as an example of democracy and political firmness, before the *golpe* took place. With the falling down of Chilean democracy, a tradition of democratic governments concluded in the country, which had, since 1932, conducted democratic elections. (Weiner, Tim, *Legacy of Ashes: The History of the CIA*, 2008)

The 1973 Chilean coup d'état is considered one of the most cruel episodes in the history of Chile. A feeble disobedient group hostile to Pinochet leadership was preserved inside the country by factions in sympathy with the previous Allende administration. Pinochet was finally discharged from power through an internationally promoted referendum in 1988.

As a result, the military absolutism in Chile came to an end in 1990. Hayek claimed that enhanced economic liberty had put distress on the autocracy over time and boosted political liberty. Years before, he asserted that “economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends.” (Friedrich, Hayek, *The Road to Serfdom*, 1944)

This discussion was discarded by the Chilean academics Javier Martínez and Alvaro

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13 A junta is a military government that has taken power by force, and not through elections. / a group of military officers holding the power in a country, esp after a coup d'état (<http://www.collinsdictionary.com/dictionary/english/junta>).

14 Caudillismo is a pejorative term and it indicates a political system organized under the rule of a caudillo, a military or political leader in Spanish-speaking countries. (<http://www.collinsdictionary.com/dictionary/english/caudillismo>).

Díaz, who called attention to the long custom of democracy in Chile. The Pinochet reign, even though it had been central in recovering capitalism, was totally needed to be overwhelmed in order to restore democracy. The cardinal backing came from radical mass revolts, and eventually, dated party elites employing dated institutional means to revive democracy (Javier Martínez Bengoa; Alvaro H. Díaz Pérez, *Chile, The Great Transformation*, 1996).

### 1.5.5 The Consolidation of Neoliberalism

*“Let us be sure that those who come after will say of us in our time, that in our time we did everything that could be done. We finished the race; we kept them free; we kept the faith.”*

*Ronald Reagan*<sup>15</sup>

The application of neoliberalism became evident for the first time during late 1970s and early 1980s, with the implementation of substantial economic liberalization policies, precisely privatization, deregulation, free trade, tax cuts, and diminution in government expenses in order to strengthen the position of the private sector in economy.

David Harvey reckons the years 1978 – 1980 as a “revolutionary turning-point in the world's social and economic history” (Harvey, 2005, p.1). In fact, it is from 1978 that Deng Xiaoping becomes the paramount leader of China and starts liberalizing the economy of his country through significant market-economy reforms. Furthermore, 1979 is the year in which Paul Volcker at the US Federal Reserve transforms monetary policies with the purpose to overcome the severe inflation; moreover, in the same year Margaret Thatcher becomes Prime Minister of Britain, performing neoliberalism via restraining union power and attempting to resolve the “stagflation” (stagnation+inflation of the 1970s). Needless to say, in 1980 Ronald Reagan is elected

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15 Ronald Reagan. BrainyQuote.com, Xplore Inc, 2017.  
<https://www.brainyquote.com/quotes/quotes/r/ronaldreag401608.html>, accessed February 23, 2017.

President of the United States of America; he will repress labour power, promote deregulation, and confer dominance to finance.

Hence, since the end of 1970s a drift towards neoliberalism takes place in nearly all nations; the influence of these theories has proliferated far and near, as today we come across supporters of neoliberalism in several universities, institutions, international organizations etc.

The transition of consensus in the direction of neoliberal policies and the acceptance of neoliberal economic theories in the 1970s by its campaigners – above all Thatcher and Reagan – is considered by some academics as the seed of financialization, of which one of the ultimate effects would be the 2007-8 Financial Crisis (Harvey 2005).

*“From France to the Philippines, from Jamaica to Japan, from Malaysia to Mexico, from Sri Lanka to Singapore, privatisation is on the move. [...] The policies we have pioneered are catching on in country after country. We Conservatives believe in popular capitalism—believe in a property-owning democracy. And it works! [...] The great political reform of the last century was to enable more and more people to have a vote. Now the great Tory reform of this century is to enable more and more people to own property. Popular capitalism is nothing less than a crusade to enfranchise the many in the economic life of the nation. We Conservatives are returning power to the people. That is the way to one nation, one people.”*

*Margaret Thatcher*<sup>16</sup>

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16 Margaret Thatcher, Speech to Conservative Party Conference, 1986 Oct 10 Fr. <http://www.margarethatcher.org/document/106498> . Accessed February 20, 2017.

**PART 2 – GEOGRAPHY OF NEOLIBERALISM**

## **2.1 HOW NEOLIBERALISM AFFECTS DEVELOPMENT IN THE GLOBAL SOUTH**

### **2.1.1 Trying to define development**

To define the term “development” is really difficult; sustaining with it what certain people think is an excessive emphasis upon imitating and reproducing the ways of life, values and economic systems found in the Western world (Haynes 2008).

The first intellectuals writing on development in the post-World War II period, most notably Rostow, thought that it was obvious that countries which were formerly Western powers' colonies had to copy the Western countries in these issues if they wished to have any hope of reaching the more advanced states (Hill, Wald, Guiney, 2016).

Hence, generally, the idea of development was based upon Western colonialist view. A “developed country” was commonly perceived as correspondent to countries part of the “Western powers” while, conversely, colonies were considered the “underdeveloped world”.

For a long time, these “ideological lenses” - the ones of a Western, white, male – were utilized to observe the world, without taking into account that the idea of “development” could be conceived in other ways through different parameters and that could signify different things to different people throughout the globe. Certainly, this idea of development appears distorted because it solely follows these certain perceptions – the “Western” ones – overlooking then other ways to understand the

world. Cultural thoughts, beliefs, historical experiences, frame the idea of what constitutes a developed country. As a matter of fact, over time this thought has come to be questioned in a wide range of ways, with numerous persons claiming that this Eurocentric view misses the huge variety found all over the globe in terms of the way in which individuals understand themselves, their relation to nature, and their prime concerns for what represents a good life (Escobar 2000).

In 1944, Bretton Woods conference took place; there, it was formed an international institutional construction that was to become extremely influential in how development was perceived and established during the post-World War II era. Indeed, the conference gave birth to IMF (International Monetary Fund) and IBRD (International Bank for reconstruction and Development) and other regional banks (e.g. the Asian Development Bank and the Inter-American Bank), which turned out to be the major channels for finance and expertise to promote the flow connecting the global North and the global South on behalf of development.

### ***The state immediately after WWII and the beginning of decolonization***

In the years immediately following the end of the Second World War (1945), the state was considered the guarantor of development by its leading and directing the economic policy; in contrast, the idea of relying upon the market to distribute resources for development intentions was not particularly considered (D. Hill, N.

Wald, T. Guiney, 2016).

Effectively, in the period of decolonization which occurred just after the Second World War and beyond – as an example, Malaysia gained independence from Great Britain in 1957 – there was a conviction that the state had a relevant part to play as the motor of economic development. The origin for this conviction was dual: Keynesianism and planning in the Western world had evidenced to numerous people that the state was substantial in leading to a suitable share of resources as well as guaranteeing the social welfare of its population. In the Soviet bloc, in countries that historically had been agricultural-based, centrally planned economies were apparently developing high growth rates and permitting industrialization.

Without question, during this time there are cases in the global South where the state realized a great deal to boost economic growth, however it is also the circumstance in which a lot of violence, displacement and disorder of employments was performed on behalf of the national interest in several areas as well (Hill, Wald, Guiney, 2016).

A huge amount of money was loaned by Western powers to the leaders of certain countries in the global South since they were critical allies in a geopolitical sense instead of because they always had the finest interests of their inhabitants in mind.

With no surprise, maybe, by the 1970s diverse countries ended up swamped with debt and, with the 1973 oil crisis and the advancement of OPEC, numerous countries in the global South were practically bankrupt (Martinussen 1997; McMichael 2012).

Launched in the late 1970s, neoliberalism was a reaction by political elites to two impelling menaces: the expanding power in developed countries of organised labour and, in the developing countries, the ambition and yearning for a post-colonial development in the most self-ruling way. In the earlier case, the increase in unemployment suggested a halt in wage growth and an extension of pressure by the tariff diminutions and liberalisation of capital flows. In the second case, the broader action towards national control of resources was demonstrated by the positive result of OPEC in repatriating from 1973 an enlarging amount of oil surplus (Siddiqui 2012).

### ***The retreat of the state***

In the latter part of the twentieth century, we come across a “retreat of the state” and a consequent ascendancy of the neoliberal orthodoxy in the Western powers and their allies. Multilateral donors such as the World Bank and IMF began to impose this emergent ideology through the application of SAPs (Structural Adjustment Programmes). These programmes, as Hill, Wald and Guiney explain, are constituted by two phases: “a short-term adjustment period that brings the economy back under control, reduces its levels of inflation and appreciates its currency. This is followed by a longer-term recovery period when the fundamentals of the economy are changed, with the idea that this will eventually lead to the economy of the country being able to grow in a more sustainable manner” (D. Hill, N. Wald, T. Guiney, 2016).

In the USA and UK, the appointment of Reagan in the former and Thatcher in the

latter added huge push to the expansion of neoliberal orthodoxy in the global South, backed by nowadays influential think tanks that gave their political agendas the intellectual support (George 1999; Harvey 2005). Thus, the previously marginalized idea of relying upon the market to distribute resources for development intentions strongly emerges:

“In the case of development economics, which has always provided the discursive framework by which development policies discussed and enacted, this meant that hitherto marginalized figures such as P.T. Bauer and Bella Balassa became central to debates that emphasized the importance of the market in most efficiently allocating resources and the necessity to reduce the role of the state, which was seen as inevitably compromised by rent-seeking behaviour.”

(Hill, Wald, Guiney, 2016)

On account of the beginning of neoliberalism, we find an asymmetry regarding the individual reports for developed and developing countries. As far as developed countries are considered, by the end of 1970s it was presumed even by the mainstream approaches that the politics of economic management focused on the dispute between capital and labour (Hoogvelt, 2001). Siddiqui reckons how the social and economic hardship of some populations might make it impossible for them to confront neoliberal capitalism:

“It is of course a long way from such experiments, often undertaken in

conditions of acute social difficulty, to a sustained mass movement of opposition to neoliberal capitalism. Once people seek to extend such initiatives beyond the ‘hidden abode’, they necessarily confront not only the active opposition of property, but the inertia of social convention. This has been apparent, for example, the factory seizures and other grassroots initiatives in Argentina, which flourished in 2002-03, but lost momentum during the fragile but rapid economic recovery under the Kirchners’ neoliberal policies.” (Siddiqui, 2012).

### ***The Washington Consensus***

In order to grasp the outline of the process of neoliberalization occurring during the 1980s, it is commonly examined the expression “the Washington Consensus”. Created to denominate the series of measures appointed by the World Bank and the IMF to developing countries stricken by economic and financial crisis, it embodies ten specific policy recommendations:

1. Fiscal policy discipline
2. Removal of public subsidies, particularly those viewed as politically motivated and indiscriminate
3. Tax reform
4. Introduction of market-based interest rates
5. Competitive exchange rates
6. Trade liberalization
7. Liberalization of foreign direct investment
8. Privatization of state-owned enterprises and a move away from

import substitution

9. Deregulation
10. Introduction of private property rights.

(Williamson 2004)

Therefore, starting from the 1980s and beyond, neoliberalism emerged as the conventional code for countries enlisted with the Western powers, specifically via the introduction of SAPs, the structural adjustment programmes which intensified the neoliberalization of various parts of the globe.

Predicted by neo-conservative think tanks and carried out by way of the Washington Consensus, this “new world order” contained a twofold shift, one in the direction of political liberalization and democracy, and the other in the direction of neoliberal macroeconomic policy (Hill, Wald, Guiney, 2016).

Democratic (at least by name), welcoming foreign investment and trade, and drawn back from the supplying of welfare: this what the neoliberal state coming to light had to be (Petras and Veltmeyer, 2011).

Even though the very requirements of the neoliberal economic policy packet differed depending on the country at issue, there was certainly a commonality among countries with regard to the Washington Consensus.

Remarkably, while this neoliberal political-economic standard degraded the state and withdrawn subsidies and social programmes in existence, it additionally produced room for civil society to resurface and extend in certain countries, following periods of military rule and civil conflicts (Hill, Wald, Guiney, 2016).

In 1991 the Soviet bloc imploded; subsequently, the neoliberal policy orthodoxy commenced to expand to numerous countries which had earlier been categorized as being included in the supposed “second world”, containing, for instance, countries of Eastern Europe and Central Asia. Nevertheless, the supremacy of neoliberalism was later questioned from a variety of several sources. In point of fact, in different parts of the world, the execution and results of SAP in line with the Washington Consensus, have been a topic of great discussion and critique. At the beginning of 1990s and beyond, the consensus began to be contested in different ways; certainly, there was notable dislike emerging against the application of these neoliberal policies in countries of the global South, and, in addition, there have been a number of changes in development policy orthodoxy as a result (Hill, Wald, Guiney, 2016).

Hill, Wald and Guiney identify three principal challenges to the neoliberalization of development:

“First, from the 1990s onwards there was increased attention on those East Asian countries that appeared to have done very well economically despite following policies which had a more active role for the state than that prescribed under the Washington Consensus. Second, [...] various kinds of social movements and manifestations of civil society have begun operating in an emergent political space. La Vía Campesina (The Peasant Way – LVC), one of the world’s largest networks of NGOs and people’s movements, is [...] an example of the challenges to neoliberalism that can be engendered by the opening of this emergent political space. What comes

out clearly [...] is that, as a consequence of these various popular and discursive challenges to neoliberalism, development orthodoxy in the 2000s has again shifted. The third of these challenges comes from the growing embrace of what has come to be known as a ‘post-development critique’, which has arisen from within the academy as a consequence of the utilization of post-colonial and post-structuralist approaches to development.” (Hill, Wald, Guiney, 2016)

Hence, the experience of some East Asian countries – including Malaysia – after Second World War proved that success can be obtained by employing policies opposite to the ones resembling Washington Consensus'. Moreover, social movements of protest and manifestation of civil society against neoliberal curbing of welfare, as well as post-development critique are the other major challenges to the neoliberal process of development.

Diverse parts of the global South went through several different experiences in terms of development. However, in the majority of cases, the encounter with neoliberalism had devastating effects on population, especially on the poorest and most marginalized inhabitants.

### **2.1.2 Neoliberalism defied by the East Asian Miracle**

In addition to the marked hostility and complaint in equally the global North and the global South opposed to neoliberalism in development policy, another important intellectual dispute against this model started to emerge. This from a careful analysis

of the experience of the commonly called Asian Tigers – namely, countries like Hong Kong, Singapore, South Korea, and Taiwan which, in the course of the post-World War II stage, had accomplished to satisfactorily industrialize, establish a considerable export economy and develop a standard of living for their inhabitants which was largely corresponding to that enjoyed by citizens of the Western world (Hill, Wald, Guiney, 2016).

At first, writers supporting neoliberalism asserted that the triumph of these countries advocated the directions of the Washington Consensus and confirmed that by observing these types of policies it was, in fact, conceivable for countries to develop quickly and contest in the global economy. A World Bank report published in 1993 consolidated this viewpoint; called *The East Asian Miracle*, it claimed that the case for neoliberalism was “proved” by the success of the Tiger economies.

Nevertheless, this perspective was rapidly and in truth challenged by a several important intellectuals who insisted upon a careful examination of the experience of these countries, together with their institutional system, their economic policies and the function that they conferred to the state, and thus revealed precisely the opposite results – that is to say, these East Asian countries had succeeded exactly because they had not accepted Washington Consensus-style policies (Chang 2006; Wade 1996). In fact, Wade (1990) and Amsden (2003) discovered that East Asian miracle owed more to complete and well organized state backing rather than ‘free market’ policies as declared by the World Bank (Chang and Evans, 2005; Siddiqui, 2012).

Further, some weighty aspects to observe here involve the fact that every single

“Tiger-country” had a marked responsibility for what came to be known as the *development state* – namely, a state that was capable to produce the circumstances for industrialization, including by way of the supplying of extremely targeted credit to particular economic entities that they wished to sustain; an early stage of import substitution throughout which period local business houses might become sound and in a position to compete internationally; and, consequently, a welcoming trade environment which provided the goods of these countries an access into Western markets, mainly as a result of their geopolitical relevance (Amsden 1989; Chang 2006).

### **2.1.3 A departure or a deepening of neoliberalism?**

Without any surprise, the mixture of general popular hostility to the obstacles imposed upon ordinary people by neoliberal development policies in the global South has signified that the neoliberal orthodoxy as it began to be grasped in the 1980s and beginning of the 1990s has more and more been questioned. Challenged by empirical evidence, as in the case of the East Asian miracle, the matter was not if the state should be engaged, yet what the most suitable function of the state should be. Surely, the multilateral institutions have moved away from a so closely focused policy agenda and claim that their directions are no longer possible to be outlined as market fundamentalism like the way they once were. Undoubtedly, in these days the development community promotes and elevates more mechanisms which broaden the

inclusion of hitherto marginalized individuals. Decentralization, participation and extended concern to methods able to raise the legitimacy of development throughout the community have evolved into a component of the policy packages of donors all over the world (Williams 2004; Wong 2003).

Nevertheless, there is a huge deal of controversy about the extent to which the thus termed post-Washington Consensus, with its accent upon ‘getting the institutions right’, is a shift from the neoliberal orthodoxy or is rather a strengthening of this orthodoxy into fields which were formerly not considered by development (Cammack 2004; Fine 2009; Ruckert 2006).

Definitely we can state that the World Bank has considerably changed from its previous position in many aspects, and has deviated in significant ways from the IMF. Poverty is now at the core of the Bank's agenda; it puts a lot more stress upon the state and has funds accessible for plans dedicated to the ending of social inequalities, for instance those around gender or micro-finance, which were not even considered two or more decades earlier. Due to this, the IMF can be reckoned as much more like the US Treasury in reference to the narrowness of its policy directions.

At this point, it is crucial to ask whether or not the deviations in development policy which we have encounter in the last decade refuse several features of neoliberalism (Jomo and Fine 2005). The example of social capital may be exemplifying in that sense as it has developed into a leading part of development philosophy in these days, and the encouragement of social capital is a target of numerous development policies throughout the globe (Harriss 2001). To its supporters, the encouragement of social

capital comprehend a long belated acknowledgement of the significance of social relations in favouring the conditions for development and so proves that development orthodoxy has shifted beyond the restricted economism which outlined former neoliberal policy directions. To its attackers, conversely, the stress upon social capital is groping to widen neoliberal categories of grasping the world into fields which are much more complicated comparing to what such thinking would permit.

Hence, for instance, Ben Fine (1999) indicates that social capital – as it is supported by the World Bank – is affected by the reasoning of academics like Robert Putnam and, in itself, widely overlooks matters of power at a variety of levels. Certainly, his wide-ranging critique is that these institutions presume that by supporting social capital eventually market allotment will come to be more effective as information asymmetries will be diminished.

Thus, according to Fine, the rising focus upon the social aspects of development has not decreased the supremacy of neoliberalism in the theory and practice of development, however is, somewhat, contemplative of what supporters view as a progressively complex comprehension of the circumstances which need to be produced in order for neoliberalism to thrive.

An additional challenge to neoliberalism has emerged in the increasing interest in and embrace of a way to development termed post-development. Post-development, instead of a sole theory of development, commenced as an examination of the epistemological and ontological closing of conventional development, delineating broadly from post-structuralist and post-colonial production, especially, at least in the

beginning, from Michel Foucault (Escobar 1995) and Edward Said (McEwan 2008). Development is considered congenitally limited to post-development, due to its teleological suppositions about progress coming from Western classes of observation and historical experience, which benefit white, male hetero-normative perceptions of the world (Ziai 2004).

The application of neoliberal development, according to intellectuals operating in this tradition, invalidates the backgrounds and worldliness of others not conforming to this world-view. To them, definitely, opposition to neoliberalism must unavoidably consist of an interrogation of the intellectual basis of development philosophy and practice (McKinnon 2007).

#### **2.1.4 Neoliberalism and development civil society actors**

Due to a range of motives, the results of these neoliberal transformations on the agency of people in the global South are controversial. While neoliberalism on the one hand dispossessed the needy people and impeded even few state assistance, on the other hand it produced a political area for societies to get included in decision-making over development instructions (Jackson and Warren 2005). A propagation of NGOs and social movements was incited by the development emptiness that was originated and by the room for civil society to activate and assemble. This propagation, nevertheless, was not unintentional. The World Bank and other international aid donors strategically decided, during the 1980s, to turn NGOs into leading partners in

development undertakings. Due to their being more in touch with and devoted to those lacking assistance, NGOs were seen by these bodies as more trustworthy than governments (Parpart and Veltmeyer, 2004). A 'New Policy Agenda' started to be followed by donor agencies; it placed civil society as a leading power in development achievements. As claimed by Edwards and Hulme (1996), the New Policy Agenda stood still on two principal mainstays, the first economic and the second political. The economic mainstay stood still on a basic credo in the market and the private sector as the most successful systems for producing economic growth and thus poverty alleviation and development. The political mainstay revealed a faith in a fine democratic management as being fundamental for leading to and supporting an effective economy. More than a few development NGOs, hence, ordered considerable financial help from Western governments, international institutions and private foundations, and were viewed as the modern representatives of decentralized and participatory development. Generally, NGOs were frequently viewed as crucial players in reinforcing liberal democracy by pluralizing the socio-political stage, by easing the work of ordinary people's organizations devoted to the poor and marginalized, and by examining in detail state strength and pushing for change. NGOs, thus, were proclaimed as fundamental authors of a good democratic development and a 'healthy' and 'vibrant' civil society by official agencies and the larger audience (Mercer 2002). NGOs have had an increasing encouragement and the capacity to arrange and carry out original plans (Klees 1998). Nevertheless, NGOs were not a construction of neoliberalism, because they have had beforehand a prolonged background of

supplying health and social services where governments were unable to provide it. However, with this New Policy Agenda NGOs developed into the chosen agents for producing social welfare, and that was an essential strategic change (Edwards and Hulme 1996). This confidence on civil society, and especially on NGOs, has been largely challenged and criticised. The neoliberal conceptual substructure of the New Policy Agenda may have created emotional response from donors and members of the audience, yet the practical confirmation was really miscellaneous.

There was, and there still is, an over-abundance of NGOs implementing a multitude of procedures and conducting a large amount of objectives. However, not all of them, as a result, are progressive and positive. Even if some were considered to have satisfied their effectiveness and other abilities, this was not reached regularly, and not all the times the ‘poorest-of-the-poor’ were achieved. Nevertheless, as claimed by Wallace (2004: 202), “Evidence-based research does not noticeably shape this analysis, which appears to be influenced more by changing macroeconomic ideologies”. This means that the process of “NGOzation” of development attempts remained more on a neoliberal ideology rather than on empirical effectiveness. This does not indicate that NGOs congenitally have a neoliberal schedule, even though that could occasionally be possible. However, the scheme of persevering and dispensing development by means of civil society organizations formed an elevated level of neediness, in which NGOs have to enter into competition for funding, and this in turn comes with requirements connected. Due to this, NGOs have been arguably made promoters, even if unwillingly, of neoliberal schemes all over the world (Hickey and Mohan 2005;

Wallace 2004).

Despite the complicated and questioned position of development NGOs, it is as well the case that they frequently create affiliations with progressive social movements, which represent another component of civil society which is commonly more protesting and hostile against neoliberalism and its diverse economic, social and political outcomes. Same as NGOs, social movements are not intrinsically progressive or transforming, however the ones regarded as “progressive” (supporting social justice, even-handed wealth distribution, human rights, ecology and environmental protection and so on) have been recognized by development ideologists as having the capacity for accomplishing revolutionary change. Issues about everyday life, the state, democracy, political procedures, and the realignment of development can be most successfully maintained thanks to social movements – is the opinion of many, as noted by Escobar (1992: 29).

Hence, at the same time NGOs have frequently been contested for making development apolitical and advocating neoliberal thoughts, progressive social movements have exemplified for many a promising political area where people and associations confront and combat diverse forms of isolation and abuse, some due to historical events and others coming from procedures of global neoliberal capitalism (Hill, Wald, Guiney, 2016).

### ***La Vía Campesina***

Among the most important and renowned social movements of this sort is *La Vía Campesina* (The Peasant Way – LVC), a transnational peasant movement. This organization has placed itself in straight and extreme resistance to the neoliberal image of global capitalism, with a special focus on food politics. LVC is a global alliance of 164 unions from 73 countries – including Malaysia<sup>17</sup> – which assembles about 200 million producers from a series of rural groups, containing peasants, small to medium-size farmers, agricultural indigenous circles, rural women, landless workers and more. As Hill, Wald and Guiney report, “The movement was officially established in 1993 as a response to neoliberal restructuring of agricultural policies that favoured large-scale agribusiness corporations and marginalized small-scale family producers. LVC was thus created out of a common vision that family farmers and peasants from the North and South are being threatened by similar processes of neoliberal globalization, albeit facing different local realities and challenges” (Hill, Wald, Guiney 2016).

LVC supports an ordinary citizens' sharing model of agriculture and rural development that wishes to produce an incorporating social, political and economic turn via the democratic direction of groups over productive resources. With its growth and internal consolidation, the movement additionally managed to contact and assemble with further social movements and NGOs sharing the same pursuits and viewpoints (Desmarais 2008; Martínez-Torres and Rosset 2010).

Comparing to other famous global social movements, LVC has a much comprehensible system and functioning for decision-making.

<sup>17</sup> <https://www.viacampesina.org/en/index.php/organisation-mainmenu-44/members>

Moreover, at the same time as democracy has been of declamatory relevance to neoliberal philosophy, LVC advocates a highly more revolutionary version of a direct democratic participation, in which agreements depend upon dialogue and common consent.

Even if not without difficulties, this horizontal construction attempts to support equal opportunities, fairness, and solidarity inside the movement and together with its member organizations and communities. Moreover, this structure eases the inclusion and conversation among organizations of various socio-cultural experiences and philosophical interests (Martínez-Torres and Rosset 2014).

LVC is famously known for establishing and spreading the idea of *food sovereignty*. This concept, first considered by LVC in 1996, constitutes a substitute structure of food production and consumption that is founded on the right of the commons to salutary and culturally suitable food developed by means of ecologically healthy and sustainable techniques, and their right to outline their own methods for food and agricultural production. In this way, people producing, distributing and consuming food are placed at the core of food frameworks and policies instead of the requests of markets and corporations (Nyéléni, 2007).

Therefore, the food sovereignty idea opposes the concept of “corporate food regime”, that is leaded and directed via neoliberal policies which elevate the market economy (McMichael, 2009). In the last years, this theory has experienced significant academic consideration, sometimes critical and sometimes supportive, however it is important to note how the conception of food sovereignty has emerged throughout time in a

cooperating and participatory way.

Furthermore, at the same time as certain issues may be less transparent, for instance international trade and the role of the state, we can state that food sovereignty stands as a significant anti-neoliberal system which involves agriculture – one of the most delicate aspects even inside neoliberal free trade agreements. Hence, LVC and its leading plan of food sovereignty are a much wider political scheme, not just a critique of a global neoliberal political economy of cultivation and alimentary production.

As a result, this project, by launching democratic places and enabling people to eagerly take part in them and influencing political and development procedures, it strives to achieve social, economic and political novelty, and so clearly refuses the neoliberal paradigm of agricultural development. To conclude, LVC “believes that this kind of change can occur only when local communities gain greater access to and control over local productive resources, and gain more social and political power” (La Vía Campesina 2009).

### **2.1.5 Conclusion**

After outlining the shape of the transformations in development policy and practice throughout time, we are in the position to appraise the place of neoliberalism in the recent stage of development. The question is whether if we are at this time entering in an age of a post-Washington Consensus which has encountered a diminution of neoliberalism development policy and practice or not.

Surely, there is a wider recognition among certain institutions that there is a function for the state in providing the circumstances for development to take place, even though the sort of development connected to the thriving of markets.

Apparently, there is also a greater attention now towards topics like for instance decentralization, participation, gender and the formation of social capital which are much more concentrated on methods of inclusion than the earlier very barely focused stage of structural adjustment. Nevertheless, opinion is manifestly disjointed about the degree to which these transformations in development belief stand for a meaningful deviation from the neoliberal policies or if they are alternatively an accentuation of neoliberalism in the global South.

While depicting cases of difficulties for neoliberalism in the context of development, we find out that the advance of global justice movements proves the array of options in addition to neoliberal development. Whereas the accomplishment of other viewpoints and practices is all the times random and subject to more options, it is obvious that development will continue to be an essential battlefield in policy and practice for the open-ended diffusion of neoliberalism all over the world.

## 2.2 THE RELATIONS BETWEEN CORE-PERIPHERY

In this section it will be contemplated the typology, approval and repercussions neoliberalism has produced on and in the periphery; how it has originated new peripheries and preserved aged ones; how the periphery has at the same time given a response and guided reform by means of opposition and regulation; and, how the consequent socio-economic geographies at different levels have changed into being always more complicated.

Neoliberalism is predicated as an economic, political and cultural model that is preponderant throughout governments around the world (Murray and Overton 2016). Neoliberalism, rooted on theories from Adam Smith, asserts that governments displace economic exercise, for this reason menacing economic growth. This will be resolved by a privatized deregulated economy, which, by way of the prosecution of Ricardian comparative advantage, will permit resources to flow where they are best employed. In addition, global welfare will be optimized thanks to the spreading of economic areas for the free flow of capital and goods in conformity with these lines. “This economic Darwinism will lead to an evolution so that the strongest and most efficient survive” (Murray and Overton 2016). This is, in several ways, the rejuvenation of early 1800s neoclassical political economy conceptions. In a modern-day insight, it is related to the ascendancy of globalization as currently applied (Murray and Overton 2014) and has been, singularly in the global South, the chief conductor of the confirmation of capitalist ideals. Neoliberalism and globalization have turned out to be, for someone,

interchangeable, however this assumes solely one signification of globalization – an opinion that is fallacious. Nevertheless, this mutually functioning of the conceptions has encountered the manifest inexorability of globalization utilized as an encouraging system to support the exertion in the global periphery (to a degree, in the core too) of neoliberal policies. To Murray and Overton (2016), “These policies effectively combine four strategies: 1) downsize government; 2) privatize state-owned assets; 3) deregulate to allow the free market to operate, and 4) globalize to stimulate competition through scalar effects in export and investment flows”. To tell the truth, neoliberalism is not only a merely developmental recipe; it is much more – it is a societal outlook which is grounded on peripheries and cannot subsist if being deprived of their formation and maintenance (Larner 2000; Harvey 2005; Murray 2009).

Without regard to this “definition”, the prime and most crucial specification to make is that neoliberalism differs through space, social groups and social sciences. It differs in reference to the region we are considering. There is a consequential difference between the neoliberalism that has been transported to and acquired in the periphery of the world economy comparing to the neoliberalism of the core.

In the second, it has surely been correlated with downsizing, privatization and deregulation, however, in respect of globalization, the major purpose has been to persuade politics to permit the acceleration and increase of the outflow of capital so as to amass more. Simultaneously, it has been occurred with continuous high levels of government spending, welfare and social security sureties and economic protectionism. Japan, Australia, the UK and areas of Europe specifically represent this

case. Hence, has neoliberalism ever been carried out in its pure version in the global North? No, because democratic politics has not permitted it.

In the periphery, conversely, several countries were not democratic during its spreading, ergo the 1980s and 1990s. Countries at that time with regimes capable of implementing neoliberal ethics with much more “purity”, lacking the fear of open uprisings; this is the case of Latin America, Africa, and afterwards parts of the Pacific. The place in which we encounter neoliberalism in its most severe forms and more close to the common definitions is definitely Latin America. Chile is where a zenith was achieved during the late 1980s and being prolonged into the 1990s.

The manifold elucidations of neoliberalism can obviously be conceptualized as fractions of the same geopolitical mechanism. An open periphery is needed by neoliberalism so as to permit the introduction of decreased and defended government-backed capital that flows from the upper class of the core (Murray and Overton 2016).

“In an Orwellian sense, liberal economics and free trade as recommended and perpetuated by Chicago School neoliberalism have been anything but free – being structured and designed to favour the global North and the elites that control the political economy there. Neoliberalism has never been about freedom – but the illusion of it has been profoundly mythologized and deeply influential in terms of real territorial and social space.”

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retoliberalism as reincarnation*, 2016)

What do we mean with “periphery”? In short, peripheries can be spatial as well as

social. In the former case, peripheries might be spatially determinable areas which are marginalized; they may be remote; they may be “out-of-the-way”, God-forsaken. However, marginal to what? Remote from what? Out-of-the-way for who? Certainly, the totality of these ideas are unequivocally relative and socially created. Although at times evenly mappable, peripheries in this sense should not be rated as more like it to the outside of the definite plan. Two facets of the same coin: this how dependency theory has for a long time perceived peripheries and cores (Frank 1969). Anyway, modern-day peripheries are even more intricate comparing to this 1960s-born neat spatial configuration. Recent neoliberalism has turned into being distinguished by elaborate solidification of space through which cores subsist in reach of peripheries and, vice-versa, peripheries subsist in reach of cores. This was not at any time denied by initial world systems theory, nevertheless, it does appear to be more visible in the present-day world. It is in this sense that peripheries are innately social and spatial at one time.

Furthermore, cultural, political and psychological peripheries might as well be considered; these may moreover not be methodically regionally delimited. Last but not least, entangling this is the potentiality of “cyber-peripheries”; that is to say virtual ones, possibly not having – or to a fewer extent – territorial geography by any means. This phenomenon has certainly incited and has been incited by neoliberalism, with the addition of an appreciable amount of work that still has to be done in order to comprehend the involvements of this.

### **2.2.1 Neoliberalism and the periphery: six geographical themes**

Warwick E. Murray and John Overton, in their section included in *The Handbook of Neoliberalism* (2016), reflect upon the correlation between neoliberalism and the periphery by means of six geographical themes:

1. The export of neoliberalism to the periphery
2. The impact of neoliberalism in the periphery – the new peripheries it has created and old ones it has perpetuated
3. The macro, meso and micro geographies of neoliberalism – peripheries within cores and cores within peripheries
4. The peripheralization of other development ideas through the rise of neoliberalism and the peripheralization of everything to market logic (including environment, culture, and society)
5. The forms of resistance to neoliberalism that have arisen in the periphery
6. Reincarnations of neoliberalism in the periphery and the rise of retroliberalism.

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retroliberalism as reincarnation*, 2016)

#### **1) *The export of neoliberalism to the periphery***

During the late 1960s and early 1970s, the principles of neoliberalism became delineated above all in the USA, with the guidance of Milton Friedman, stationed at the University of Chicago. Nevertheless, the theories were first applied in the

periphery; particularly, in Chile after the coup which entailed the dictatorship of Pinochet – endured 17 years from 1973 to 1990. Augusto Pinochet took over power promising to obliterate the “cancer of socialism” (Murray and Overton, 2016). The dictator, because of his poor education in economics – his schooling consisted of military geography, augmented by an attraction to Nazi-favoured ideas, for instance, *lebensraum* – had no economic plan and thus consulted Chilean economists from La Universidad Catolica who had been trained by Friedman in Chicago under the Kennedy era's Alliance for Progress scholarships (Murray and Overton, 2016). The possibility to experiment with rigid monetarist plans was greeted by the “Chicago Boys” and Friedman in person – who occasionally visited. As a consequence, Chile turned into a social testing room for economic and political beliefs (Gwynne and Kay 2004; Kay 1989). In a few years Chile developed into the most open economy ever seen in the modern world. This caused massive inflows of foreign investment that benefited of low wages and comparative advantages in areas like forestry, fruit and fisheries and generated an exceptional growth in exports. In spite of provoking profound social divisions and ecological expenses which persist today, and notwithstanding the fact that the policy trapped the country into a primary product export pitfall which has demonstrated to be impossible to get rid of, the model was acclaimed an economic triumph, and Chile came to be the neoliberal example for the periphery. The norm was extended all over the global South with the World Bank and IMF providing loans grounded on the acceptance of neoliberal policies enclosed in the Structural Adjustment Programmes (SAPs). In the late 1970s and early 1980s, the oil

crisis and the subsequent debt crisis constituted a turning point in this sense. At the end of 1980s, almost every country in Latin America, Africa, the Pacific Islands and a great part of Asia (even if versions were a lot more heterogeneous and “state developmentalist” – as examined in other places) had had SAPs actually imposed upon them (Murray and Overton, 2016).

The method was implemented in the core too, as we will see later. Certainly, this occurrence was not solely economic – it was geopolitical as well and there was a determined Cold War reasoning in action, planned as it was to spread capitalism and prevent socialism from diffusing in the periphery.

Economic sanctions and international derision under the most favourable conditions, and military intervention under the worst possible circumstances, were the punishments for governments reckoned non-conformist, such as that of Cuba and, at several levels, Venezuela, Mozambique, Angola, and Vietnam.

Even if distinct country norms of neoliberalism have diverged through time and space, for the most part, the basic principles have turned out to be invariable and neoliberalism endures in different forms all over the global periphery (Larner 2003; Peck et al. 2010). The major part in maintaining this spreading via conditionalities was performed by the World Bank, IMF and the WTO.

The WTO, totalitarian and profoundly lacking democracy, has guided the drive so as to achieve alleged “free” trade agreements which have eroded across the periphery in recent times, and in the same manner it has ended up more and more complex to defy protectionism in North America and Europe. SAPs no longer exist, however they were

substituted by Poverty Reduction Strategy Papers during the neostructural regime and, as we will see later, nowadays new tools are being utilized to export the newest version of neoliberalism to the periphery.

***2) The impact of neoliberalism in the periphery – the new peripheries it has created and old ones it has perpetuated***

There is a deep division in the consideration regarding the repercussions of neoliberalism in the periphery. As a matter of fact, grounds for and against the pattern are frequently ideological and rhetorical; employing unsubstantial factual evidence to support declarations. The implementation of neoliberal theories during the 1980s appeared to be a measure of outcome. Inherent in this was the saying that short-term economic suffering would be necessary for long-run structural profit (thus the name SAP). Sooner or later, a tolerable model of growth would take the place of short-term structural repercussions, for instance unemployment, underemployment, disparity, balance of payments deficits, environmental destruction and so forth; this the neoliberal promise. Thanks to Chile, Peru, Tanzania and Fiji, there were various triumphing accounts at the macro-economic level taken as an example. As in the case of the Asian Tigers, advocates of neoliberalism took the chance to claim the victory of the free market reforms in attempt to clarify the East Asian Miracle growth during the 1980s. The remainder called attention to geopolitical circumstances, such as the 1950s-60s Colombo Plan<sup>18</sup> and the function of the developmental state as demonstrative,

18 For Cooperative Economic and Social Development in Asia and the Pacific

opposing this to the absence of advancement in Latin America. This controversy persists according to backlashes to the GFC (Global Financial Crisis).

Due to their “triumph”, neoliberal theories were implemented in the core too.

In 1979 with Margaret Thatcher in the UK, in 1980 with Ronald Reagan in the USA, and in 1984 in New Zealand, curiously, under the Labour Party, these standards of conduct were employed to transform what were claimed to be over-inflated statist economies grounded on Keynesianism which, starting from the end of the World War II, had prevailed in the North. As mentioned before, nevertheless, government spending and welfare were not decreased so far as they were in the South – as a matter of fact, under both Reagan and Thatcher government spending intensified and protectionism was boosted, even though the tendency of policy against middle-class members did grow. In New Zealand a more genuine and pure version was persevered, state collectives were liquidated and protectionism was lowered very quickly to the effect that by the end of 1980s it turned out to be the least safeguarded of all agricultural economies (Kelsey 1995).

The principal issue here is that the implementation of such policies provoked social distinction and disparity that essentially produced new peripheries inside the core. The repercussions due to this are being perceived at this moment in the politics of everyone of these countries. New Zealand still allures considerable international awareness in “hyperglobalist” circles as an ideal pattern of neoliberal reform, and it is not unusual to come across foreign delegations coming from countries as different as Cambodia, Indonesia and Colombia stopping by with the aim to master about public sector reform

at its alleged nucleus. With the present National Party these amendments have been and are being intensified, in spite of manifest evidence that marginalization and peripheralization of the autochthonous and the poverty-stricken persist unrestricted. From the beginning of the 1990s and in the wake of the end of the Cold War, the World Bank and the IMF's stickler argumentations had been lessened (Stiglitz 2002). A number of policy mistakes were even confessed by them. However, this was in appearance rather than actuality and succeeding policy regimes, as mentioned above, pursued analogous principles whilst fixing them only marginally. According to an increasing amount of scholars, to civil society and more and more populations living in the global South, the consequences of neoliberalism in the periphery were reckoned more than disastrous. In addition to the missing provision of the long-run growth, societies were left economically separated, politically unstable, culturally endangered and environmentally abused. There is a great extent of demonstration from Africa, Latin America, the Pacific and Asia which maintain this dubious view of neoliberalism and the assurances it made (Desai and Potter 2013).

A critique of the repercussions of neoliberalism in the periphery produced anti-development theories and, to a certain stage, post-development theories. Partially, this criticism misunderstands: it is not “development” itself that is the matter, yet the nature of the development being followed – renovating neoliberalism – and the idea of development possibly has always included critiques of the doctrine intrinsic in it, despite it has been concealed by the mainstream (Cowen and Shenton 1996).

***3) The macro, meso and micro geographies of neoliberalism – peripheries within cores and cores within peripheries***

“The idea of a level playing field is a powerful myth that has been rolled out with missionary zeal in order to placate the masses and persuade them to embrace globalization” (Murray and Overton 2016). The global centre-periphery map has been changed by neoliberalism, mainly supporting centres. The world socio-economic map has a geography that is much less state-based of recognizable by north-south or east-west structure: nearly all of the earth's poverty-stricken nowadays inhabit in middle-income countries (China's situation), and peripheries (and also centres) are being built in more elaborated manners inside states, regions, and cities. This does not mean that nation-states are not significant – they are receptacles of culture and economic policy. There is a collusion between nation-state governments in the centre and the system which permits the spreading of capital all over the world in benefit of globalized upper classes. Geography has been more and more transformed into an elaborated arrangement, not smoothed, and this has happened in several ways on several levels. The ascendancy of new peripheries in the centre is a meso- and micro-level effect of the persisted power of neoliberalism. For instance, in the context of New Zealand, entire regions – like the east coast of North Island and west coast of South Island, and urban areas too – like Porirua and sections of South Auckland – have been made socially and economically wide apart from the neoliberal core. Analogous procedures are apparent through the global North – for instance, in the UK and Europe. However,

the brand-new neoliberal geographies are no more tangible than in the USA. Murray and Overton distinctly demonstrate this by means of the description of a journey they embarked upon from Colorado to the California coast:

“Contrast the gleaming wealth of Denver with the grinding poverty evident in the Native American reserves of Navajo country where outside latrines and shacks exist side by side with rusty campervans strewn across the desert. The latter is juxtaposed with the neoliberal hypereality of Las Vegas and Hollywood – in many ways the cultural hearth of late neoliberalism. But the rise of new peripheries in the core has had a major impact in terms of the consciousness of society and, to an extent, the Occupy movement can be seen as a product of this. The so-called GFC of 2007–8 seems to have created new geographies on different scales and, within this, a new seed of the undoing of neoliberalism seems to have been sown.”

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retoliberalism as reincarnation*, 2016)

If civil society will understand this and promote new reforms still has to be seen: the political inactivity and absolute concerns in the neoliberal order are radical and commonly devastating when alerted – witness the repression of remonstrance all over the world by police governments and the increasing surveillance of cyberspace, together with military intercessions which apparently support freedom but actually look for natural resources to maintain the over-consuming of neoliberalism. Briefly, neoliberalism has preserved and encouraged peripheralization at several levels in two manners. It has made many outermost countries even more marginal

economically speaking – even though there has been more than a few variations in the geography of this (and, in reality, for the meantime, that discrepancy has been slightly fixed by the GFC). Additionally, it has produced new peripheries inside peripheral states since particular categories and localities are deviated from the “neoliberal superhighway” (Murray and Overton 2016). In this way, new macro, meso and micro geographies has been produced. In no place this phenomenon is more perceivable than in Latin America, in which the concretion of inequality is noticeable in the proximity of shanty villages and glittering areas resembling Manhattan which are visible in practically each principal city in the territory, like Ciudad de Mexico, Bogotá, Santiago de Chile, Lima, Buenos Aires, and the Brazilian Rio de Janeiro, and Sao Paulo. However there are additionally new centres in the periphery where money and prosperity are condensed in new circuits, thanks to the chances provided by neoliberalism, as shown in reference to innovation undertakings (like for example *Ciudad Empresarial* just north of the centre of Santiago de Chile) (Murray and Overton 2016).

***4) The peripheralization of other development ideas through the rise of neoliberalism and the peripheralization of everything to market logic***

Neoliberalism is grounded on a philosophy of free market and globalization, nevertheless this is displayed dissimilarly through space in forms that relegate to the fringes other “liberalisms” on the periphery and favours specific markets and market-

based beliefs at the heart of the global economy. Most dangerously, neoliberalism substantiates the economy as the prime engine for change. A central role is reserved for the logic of the market and its liberalization. This operates to conceal what is not economic: society, the environment and culture especially. Conceptions of liberal societies or independent cultural expression or safeguard of vulnerable environments – of particular pertinence in the periphery in which usual, non-capitalist or non-commoditized kinds persist – are assigned inside a discussion which supports market-mediated connections. This limited understanding of freedom in neoliberalism advantages specific market freedoms in order that, for instance, social relations are caught and reorganized by means of labour-wage markets (instead of habitual protocols) and resource handling determinations are more frequently decided by new market apparatuses, similarly that for carbon, instead of by state administration or conventional collective ownership. Not exclusively is this more acutely perceived on the periphery, in which market insertion has been until now more restricted, yet it additionally function as to “peripheralize” culture, society and the environment with regard to the market in issues of development and change either inwardly and beyond the bounds of cores.

Neoliberalism is the prevailing development philosophy. Nevertheless, additional views and evaluations have come out, numerous from the periphery. Although some of these have drawn awareness and some attractiveness in the academy internationally, they have been commonly neglected, degraded or ignored within the broader political and policy dominions. As a case in point, 1950s structuralist theories, connected with

the ECLAC and CEPAL (United Nations Economic Commission for Latin America and the Caribbean), provided a fault-finding of free trade and supported different capitalist versions of development, similarly, dependency theory during the 1970s provided a more extreme series of critiques of the liberal grounds of what came to be neoliberalism. Regardless of some keenness formerly, like with the approval of structuralist-inspired import substitution industrialization approaches, these have been dismissed with neoliberalism, relegated to a “failed policy” class and belittled as anti-liberal. It is opportune to classify these principles – and the latest neostructuralist strategies (see below) – as pertaining to the periphery (Latin America in particular) and thus not in the conventional (Murray and Overton 2016).

Nevertheless, maybe most effectively, neoliberalism has formulated development procedure in styles that trivialize different perceptions of liberalism from the periphery. Globalization has been encouraged by neoliberalism. It has proven very rewarding with respect to the liberalization of trade, investment and tourism and the worldwide safeguard of property rights (Sheppard and Leitner 2010).

This, obviously, has backed capitalist enterprises at the core: the investment funds and corporations trying to spread their manoeuvres to new markets. Furthermore, in the operations of the World Trade Organization we can realize how even these types of market liberalization have advantaged the core: subsequent newcomer to the WTO from the periphery have had to approve to much more demanding conditions and claims in order to liberalize their economies comparing to the establishing constituents from the core.

Nevertheless, one type of market liberalization which would, potentially, advantage economies on the periphery has been evidently missing from the neoliberal discussion: labour migration.

At the same time as international labour mobility has raised considerably, in particular in relation to skilled or business migration, most Northern nations have been cautious to maintain severe regulations over immigration coming from the South. They have required a constant provision of low-cost labour and permitted restricted movement however, contemporaneously, have launched some of the most substantial sorts of state regulation and border restraints so as to limit and constrain such labour movement. But from the viewpoint of several commons and groups on the periphery of the global economy, this is one kind of liberalism which might provide some chances, considering the dissolution of local defended industries and deregulation of local labour markets. Vast numbers on the periphery have searched for modes to employ in labour migration which would link them to economies at the core.

Labour migration, combined with payments of considerable portions of their earnings back to families on the periphery, has emerged as a profoundly evident and relevant peculiarity of numerous peripheral economies. Murray and Overton describe this phenomenon:

“Thus, labourers from Pakistan and Bangladesh are the workers who have supported the construction boom in Dubai; workers from central America or the Philippines tend to the gardens and domestic needs of households in the USA or Hong Kong; nurses from the Philippines or Ghana are found in the

hospital wards or rest homes of the UK or New Zealand; and Nepalese Ghurkhas and Fijians serve in the British Army. Their remittances now comprise a major share of national income in countries such as Samoa (21 per cent), Haiti (21 per cent), Nepal (25 per cent), and Lesotho (25 per cent), according to World Bank estimates for 2012 (World Bank 2013).<sup>19</sup> Overall, the largest recipients of officially recorded remittances in 2013 were India (\$71 billion), China (\$60 billion), the Philippines (\$26 billion), and Mexico (\$22 billion) (ibid.)”.

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retroliberalism as reincarnation*, 2016)

The attractiveness of these revenues has persuaded individuals from the periphery to look for admission to labour markets in the core both in accordance with the law (via employing family contacts or specific migration agreements) or unlawfully (by means of overstaying tourist visas or by going into countries illegally). Comparatively, these tactics of individuals on the periphery can be seen as proving significant self-determination and ability in recognizing and taking advantage of gaps in the global economy.

On the other hand, these ideas from the periphery advocating a world approving the transfer of individuals and beliefs and the ease of “transnational corporations of kin” are not welcomed in a discriminating neoliberal discussion of globalization (Murray and Overton 2016). Neoliberalism and the Western politicians advocating it, are eager to discuss of free trade and investment, however at the same time they converse about the illicit displacement of immigrants and the danger to local lifestyles. Thence,

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<sup>19</sup> "Rates of remittances are also high for countries on the margins of Europe (Tajikistan, Moldova, Armenia or Kosovo)" (Murray and Overton, 2016).

according to this viewpoint from the periphery, neoliberalism is not welcoming but indeed discriminating, egoistic and exploitative.

### ***5) The forms of resistance to neoliberalism that have arisen in the periphery***

Opposition to neoliberalism, and capitalism broadly speaking, has been active for a long time. The cornerstone of the “anti-globalization” or the “contra-neoliberalism” action is commonly accepted to be the Southern Mexican Zapatista movement situated in Chiapas. Surely, it was a substantial turning point in the action and caused international acclaim and spreading. Hostility to neoliberalism, as we are acquainted with, in truth commenced during the 1970s in Chile – since this was the earliest location in which it was practised with such impetus and pureness.

“The student occupations and rock-throwing protests undertaken at Universidad Metropolitana’s Pedagogy campus (which had been separated from the wider University of Chile by the dictatorship to break its power and, in a humorous play on the Spanish word for rock, came to be known as the Piedragogia), the Chilean new song movement (that began in the late 1960s led by Victor Jara and Violeta Parra, among others, and flowered among the exiled communities led by groups such as Inti Illimani, Illapu and Los Jaivas) and the small but determined armed resistance embodied in such groups as the Manuel Rodriguez Front all formed different aspects of early resistance to neoliberalism when it was combined with murderous oppression. As already noted, the purity of Chile’s neoliberal experiment would never have survived without that oppression – and when the

dictatorship finally fell in 1990 neoliberalism morphed into a more human form – neostructuralism – to which resistance has continued right up the present day, leading most recently to the globally significant student protests of the so-called Invierno Chileno (‘Chilean Winter’) from 2012 to the present.”

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retoliberalism as reincarnation*, 2016)

Definitely, the anti-neoliberal action has been working all over the global South in various forms, and gets out of former oppositions to modernization and capitalism and colonialism on the whole. According to some, this shapeless, nondescript character has been its actual ruin. The excessively generalized character of the anti-globalization movement has possibly lowered its strength.

Moreover, the Iraqi war and more contemporary anxieties with terror in the Middle East have diverted concentration from the anti-globalization movement in ways which could allude that capitalist governments have supported this reorientation, concerned by the increasing dare displayed by a movement like this.

Other forms of resistance took place – state-centred affiliations – for instance, the G77, the Banco Sur, the 2000s Latin American governments with left inclinations, however these are frequently depicted as burdensome in a northern-directed monopolistic media that stand to marginalize options and produce approval. The spreading of neo-structuralism in South America appears to propose an established opposition to the prevailing models; and the allying of Argentina, Bolivia, Chile, Ecuador, and Venezuela, including their reciprocal fellow feeling to Cuba during the 2000s, appears

to indicate a new tendency momentarily (Petras 1999). Nevertheless, as one would expect, this has been weakened by the media and by nation-states as well (for instance, the US entanglement with Venezuela). In another place we argue that feeble versions of neo-structuralism have evolved into nothing but neoliberalism in barely more acceptable appearance electorally speaking.

A case of protest to neoliberalism in the periphery consisted in revolts against efforts to the privatization of public land.

Subsequent to the theories of Hernando de Soto<sup>20</sup> and others, during the 1990s in numerous countries reform packages tried to free land detained under usual communal occupation and transform it to individual exchangeable title. A change like this, it has been discussed, would permit land owners to disengage land for development, supply the motivation for individual investment and obtain admittance to credit markets. In places where this kind of public tenure still predominates – in the Pacific Islands, Latin America and Africa – several associations have a firm historical, cultural and devotional affection to the land: the home of their forefathers and the tools for surviving. In Papua New Guinea, following heavy constraint from aid donors like Australia, the IMF and World Bank, the government acted in order to launch laws which would back the privatization of land (and a broader programme to privatize state assets too) (Murray and Overton). This provoked student and local revolts in 2001, as well as a police assault, that caused numerous dead. Ultimately, there was an electoral resentment and the policy adjustment was abandoned.

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20 De Soto believes that property ownership is the key in order to end poverty, however this will happen only if the poor can utilize property to produce further wealth.

Rebellion at the periphery has engaged as well less evident or political configurations. Intellectual production by post-development theorists (like Gibson-Graham) has shown, for instance, the methods of some communities in the Philippines to construct “diverse economies”. These are local *modus operandi* which do not completely refuse capitalism but originate on a solid basis of public self-confidence and reciprocity in styles which support the preservation of social forms and cultural rules. They are intentional attempts to quit of some of the features of capitalism felt as more damaging. In doing so, these regional economies produce elasticity towards external traumas and maintain systems of reciprocal backing as an opposition to the “creative destruction” (Harvey 2005) that the market provoke. These types of organization are not systematized at the centre or coequal, nor do they depict a severe menace to the neoliberal program. However, in the great variety of these so different undertakings to cover communities at the periphery and in other places form the perils of the market, whilst maintaining admittance to some of its favourable circumstances, these local mobilizations may lead to the limitations of neoliberalism on its margins.

Even in defiance of the Global Financial Crisis – the most despicable capitalist crisis in eighty years or maybe, ever seen – the anti-neoliberal campaign – which re-surfaced as the Occupy movement – has not succeeded in breaking the monopoly on supremacy retained by the same elites which developed the circumstances provoking the crisis at first. The Global Financial Crisis brought on to the over-all disapprobation of neoliberalism, however, sarcastically, a decrease in its vigour and a re-spreading of the ideas all over the world have taken place as strong established concerns managed to

overthrow any important reform and change the issue so as to it seemed that the motive for the downfall was “imperfect markets”. This will lead to open-ended opposition in the periphery for many forthcoming years (Altvater 2009).

Disagreements among China, Russia and the West, and certainly the present ISIS war which resulted from the invasion of Iraq and false commencement of the Arab Spring, are linked with the GFC and the breakdown of neoliberalism to release global wealth and democracy as was thought in the overwhelming moments during the late 1970s and beginning of 1980s.

### ***6) Reincarnations of neoliberalism in the periphery and the rise of retroliberalism***

Neoliberalism has demonstrated to be quick to recover, modifying its progress and image during the last thirty years. In several ways, these mutations have been perceived specifically powerfully on the periphery, the 1990s structural adjustment policies being possibly the most apparent instance of the export of a singularly vicious effort of neoliberalism. More currently, and in the after-effects of the Global Financial Crisis, a recently form has emerged, a variant we name “retroliberalism” (Murray and Overton forthcoming).

Economies of Europe and North America were notably hard stricken by the Global Financial Crisis. Economic breakdowns were undergone as well by those countries on the periphery which had direct trading links with these areas, like Argentina or South Africa (Murray and Overton 2014).

Nevertheless, other economies make ends meet better and untiring economic growth in China supported them to recover: the Global Financial Crisis hence aided to restructure the periphery and ally many more to East Asia – in particular China – instead of USA or Europe. But at a more basic level, the Global Financial Crisis provoked a transformation in neoliberalism. Coerced to rescue several big corporations and launch Keynesian-kind incentive packages to prevent profound economic crisis, Western economies commenced to embrace a new economic strategy which appeared a discrepancy from the elementary initial variants of neoliberalism.

Neoliberal states seemed to be much less hostile to provide for private enterprises, firstly via instant crisis-inspired encouragement packages and then, after, by efforts to export this encouragement in more hidden ways (Mawdsley et al. forthcoming).

Equally with previous forms, this modern version of neoliberalism was transmitted from the core to the periphery through aid (and conditional loans too). During the decade preceding the Global Financial Crisis, international aid had boosted notably in volume as well as intensified in focus, conducted by the introduction in 2000 of the MDGs (Millennium Development Goals) and treaties like the 2005 Paris Declaration (Mawdsley et al. 2014). Murray and Overton called this the “neostuctural period” (Murray and Overton 2011), since it was affected by former structuralist theories coming from South America yet connected these with external-oriented patterns which would support the free market and encourage globalization.

“There was a focus on poverty alleviation and a recognition of the need to

support recipient states to develop effective systems of governance in order to pursue these development strategies. There was still a strong concern to continue to liberalize markets and promote global trade and investment. After the GFC, aid levels from Western donors surprisingly did not diminish – some, such as the UK, even increased their aid budgets.” (Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retroliberalism as reincarnation*, 2016)

However, the essence of financial assistance altered. For several contributors, the specific regard for poverty alleviation was substituted by ideas of supporting “sustainable economic development” and, subsequently, the catchword of “shared prosperity” was approved, a not really subtle instrument to permit more “articulation of donor self-interest in aid” (Murray and Overton 2016).

Some of this self-concern was built around geopolitical interests, for instance, the intercessions in Afghanistan, nevertheless, a large extent was economic: the aggressive boosterism of the private sector and the commercial concern of companies in giver countries since they tried to establish operations abroad. Thus, retroliberalism possesses numerous representations in the aid world.

“The UK aid agency, the Department for International Development (DFID), now works in conjunction with City of London financial institutions to promote financial services in sub-Saharan Africa; the New Zealand aid agency has an agreement with Fonterra, a large dairy conglomerate, to – for example – help develop dairy supply chains in Sri Lanka, and Canada has seemingly directed some of its aid to countries where its own mining companies are seeking to expand”(Murray and Overton 2016).

In an intriguing way, these attitudes of Western aid donors at this time slightly look like the China's technique to “South-South cooperation”, by means of which Chinese state funds are lent or conferred to beneficiaries who afterwards employ Chinese companies to construct communal edifices or motorways.

This retroliberal attitude has launched the idea – the legend – of mutual wealth as a new donations plan. It recalls, comparatively, the “trickle down” axiom of primal neoliberalism (poverty would be exclusively dealt with by economic growth), yet it goes beyond to insinuate that improvement of one's own well-being is admissible and to be desired. Nevertheless, since it distanced itself from a specific attention for poverty and inequality, it actually supported a procedure that distributed the gains of economic growth amongst the upper classes of donor and beneficiary countries and besides marginalized the poverty-stricken.

### **2.2.2 Conclusion**

Neoliberalism nowadays continues to be influential in the periphery like it was at its first application during the 1970s. It keeps on reordering space through principles which are appealing to capital and, even if the geographies mutate and come to be more sophisticated and tortuous, the grounds endure unchanged. The powers which support it endure unchanged too. This is shown by the cutback of neoliberalism following its overt downfall in the Global Financial Crisis and the advancement of the newest variant, retroliberalism. Neoliberalism has and will persist in exploiting,

forming and maintaining peripheries territorially as well as socially at micro, meso and macro degrees all around the world. This is due to the fact that neoliberalism is based on disparity – inequality is not solely an outcome of the definite plan, it is the definite plan.

“We urgently require new geographical theories to untangle the new geometry of neoliberalism. A new dependency combined with post-development ideas that are realist rather than naively relativistic might be the place to start. As such, until other ideas emerge from the periphery, both spatial and social, and until these are captured by the political classes, neoliberalism will continue to re-write global geographies in ways that entrench peripheries in order to foster the continued exploitation of society and the environment in the name of capital accumulation for an elite minority”.

(Murray and Overton, *Peripheries of neoliberalism: impacts, resistance and retroliberalism as reincarnation*, 2016)

## **2.3 CASE STUDY: MALAYSIA AND NEOLIBERALISM**

### **2.3.1 Malaysian Socio-Economic Growth**

Malaysia, since obtaining independence from Great Britain in 1957 – and over the last half century – experienced a significant socio-economic growth. In fact, its economy and society increasingly developed, encountering a notable growth and structural transformation.

However, this rapid economic growth has been slowed down twice: by the 1997 Asian Financial Crisis first, and by the 2008 Global Economic Crisis then.

Moreover, the Malaysian economy, initially a predominant agrarian one – mainly focused on the commodity exportation of rubber and tin – was able to evolve into an industrial and diversified one based on manufacturing and services. This thanks to cautious economic management, compensating the economic efficiency calculation to that of the redistribution of the economic pie (S. B. Das and L. P. Onn, 2014). Today, in fact, more than 75 per cent of Malaysia gross domestic product (GDP) comes from manufacturing and services sectors; even if still characterized by a dependence on exportation, its economy is well integrated in the global system.

Needless to say, such structural change has helped the country to raise its per capita income in trends over the last 50 years. The explanation for this has to be searched through these four major developments. First, in order to eliminate ethnically-based

income inequalities and reduce poverty, the government focused on agriculture. Second, the main engine of economic growth was identified with manufacturing. Third, to advance export manufacturing, foreign capital was promoted with good results. Fourth, national GDP was boosted largely by mineral resources – tin until 1980 and petroleum and gas thereafter – which helped bailing out the country during crises. Hence, strong economic fundamentals and prudent management allowed the evolution of this nation, as well as proper policies and visionary leadership.

In the last years, nevertheless, the government has ended up realizing that in order to drive Malaysia to the status of other high-income countries, the customary strategy of restructuring and diversifying the economy may not be enough.

In addition, the classical engines of agriculture and manufacturing which have been moving Malaysia's economic growth has been losing its impulse during the last decade.

The reason for this loss of impulse is widely referred to to the fall in private investments: from, during the 1990s, 25 per cent of GDP to around 10 per cent in the last decade (S. B. Das and L. P. Onn, 2014).

Numerous development and economic plans had been launched during the years by the government in order to solve various difficulties and achieve certain goals.

Because of the current situation where Malaysia is caught in a middle-income trap, facing difficulties on the economic and political sides, The Prime Minister Najib

Razak displayed in 2010 the 10<sup>th</sup> Malaysia Plan, with the objective to outline the advancement of the country from a middle- to high-income status.

Hence, is Malaysia able to convert its economy until the level of other countries, considered high income ones? How has Malaysia been caught on its actual impasse of the middle income trap? Which are part of the demanding tasks to be overwhelmed so to drive the nation to lie next to the status of high-income and development? What are some of the proposed policies which can lead Malaysia to the next level of development?

## **History**

### **Years 1970s – 2010s**

#### **The 1970s**

The composition of the Malaysian population for the last 70 years has been, for the majority, represented by the indigenous Malays, with Chinese Malaysian and Indian Malaysians covering minor parts.

At the time of the Colonial Independence (1957), there were inter-ethnic frictions, and every single ethnic group has been separated from the others in terms of geographical areas, kind of employment and, last but not least, income.

The autochthonous Malays (Bumiputera) have apparently been the less paid, engaged mainly in poor and rural areas to cultivate the land. The Chinese Malaysian resided in urban areas, working in tin mines, while the Indians were settled and employed in semi-rural plantations.

Each ethnicity is represented by a political party: the United Malay National Organization (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC).

The UMNO tried to take the leading role when the new post-independence government was to be created. However, because there was the need to discuss the terms of Independence with Great Britain not via one single, ethnically-based party, a tripartite alliance (UMNO+MCA+MIC) was formed in 1954.

As D. Charette reports,

“From the mid-1950s onward, the Alliance promoted a mixed economic development strategy, designing and implementing government-funded industrial policy while attempting to attract foreign direct investment (FDI).”(Daniel E. Charette, *Malaysia in the Global Economy*, 2006)

The FDIs were seen in a positive way both from Malays and Chinese Malaysians. For the UMNO, FDIs were helpful to offset the advancing expansion of Chinese capital.

For MCA, foreign direct investment represented the key to guarantee the prevailing of a free-enterprise market system.

FDIs in Malaysia during the 1950s and 1960s were, to the greatest extent, directed to the extraction of natural resources, predominantly rubber and tin. As a matter of fact, in 1969, these two materials represented well-nigh the 80 % of the country's gross export earnings.

In the same year, a severe ethnically-based income inequality was unrelentingly persisting.

In fact, the benefits were only reserved to a restricted category of the population, composed by Chinese businessmen and a scarce number of privileged Malays, as well as foreign corporations.

All this, added to grave unemployment, precipitated the eruption of revolts and street riots during 1969.

These tensions translated into cases of extended violence against Chinese Malaysians.

This plight had to be resolved through new socio-economic policies.

In 1970, the primary sector is constituted by agriculture, plantation and tin mining; there is a strong need for diversification and to stimulate manufacturing (by attracting FDIs).

### **The New Economic Plan**

The solutions adopted were included in the NEP (New Economic Plan) in 1971.

The programme, included in the 2<sup>nd</sup> Malaysia Plan, was a demanding action of restructuring launched by the government, managed at that time by the Prime Minister Tun Abdul Razak.

Created right after the violent inter-ethnic tensions that exploded in 1969 on the Malaysian streets, the NEP intended to diversify the economy and diminish poverty. The purposes were directed to the diminution or even eradication of the distinctions relative to race in geographical and economic terms.

The plan appeared as a strategy to support Malay interests. In fact, policies to favour Bumiputeras intended to defuse inter-ethnic tensions, create opportunities for them and increase capital ownership among Malay ethnic groups equatable with other races, particularly Chinese.

In other words, this was an equality-based restructuring of the Malaysian society through new economic and domestic reforms.

The initiative helped the fall of the poverty rate from 49% in 1970 to 17% in 1990.

**TABLE 1.**  
**Structural Change in GDP**  
(% share)

<b>Year</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>
1970	29	27	43
1980	23	41	36
1990	15	42	43
2000	9	48	43
2010	11	44	45

Source: The World Bank, World Development Indicators Online, <http://data.worldbank.org/country/Malaysia>

There has been, particularly during the 1970s and 1980s, a reduction of inter-ethnic income disparities. (TABLE 2.)

**TABLE 2.**  
**Inter-Ethnic Average Income Ratios, 1970-2009**

	<b>1970</b>	<b>2009</b>
Chinese/Malay	2.29	1.31
Chinese/Indian	1.30	1.25
Indian/Malay	1.78	1.04
Urban/Rural	2.14	1.85

Source: Official Malaysia Plan documents.

During the early ages of the NEP the per capita growth has been very high; nevertheless, there has been a slump in private investment caused by the NEP. In 1990 the NEP terminated and was replaced in 1991 by the NDP (New Development Plan). The latter persevered with nearly all NEP policies.

### **The Second Malaysia Plan**

The government started working at the Second Malaysia Plan (1971-1975) in a period when the growth began to be consistent.

The Plan – which included the NEP – represented the very first effort based principally on export-oriented industrialization (EOI), with the central objective to strategically attract FDI from multinational corporations and foreign investors with a small market share.

These large foreign companies and regionally focused investors were offered incentive packages of facilities, credits and so forth (investment credits, tax concessions, fast-track permitting, infrastructural facilities). Moreover, they had the allowance to determine their own regulations; supposing that a Corp., which is employing local workers, might restrict the rights of the latter.

The incessantly rising FDIs produced a structural alteration in the Malaysian economy by the mid 1970s. More precisely, the sectors that surfaced as the foremost manufactured exports appeared to be the electronics/electrical and textiles/apparel sectors. These improvements took place thank to foreign companies. As a result, a dual

industrial structure occur; on one hand, constituted by foreign companies – internationally competitive, export-oriented – and on the other hand, indigenous industries – internationally uncompetitive, domestically-oriented - .

This twofold phenomenon persisted in Malaysia during the 70s/80s/90s. In terms of fostering internationally competitive autochthonous industries, this system was economically hamstrung.

The persistence of the dualistic happening facilitated the inclusion in industrial development of the traditionally poverty-stricken Malay community: a crucial political target by the Malay-dominated government. (p.6 Charette)

### **The 1980s**

At the beginning of the 1980s, the economic status of Malaysia is starting to be afflicted by a succession of trade-related complications. Because the export earnings of the country stagnated, the development plan was reorganized, choosing jump-start growth and recurring again to the strategy of import substitution industrialization (ISI).

### **The Fourth Malaysia Plan**

The Fourth Malaysia Plan (1981-1985) was launched by the government in order to

promote the Heavy Industries Program.

This represented a novelty in the policies, as it was an incentive of public sector investment directed to the Heavy Industries Corporation of Malaysia.

The aim of this innovative policy shift was to generate linkages in domestic industry value chains, and therefore acquiring greater integration and stronger value added in-country.

Some industries have been assisted by the government, one above all is Proton, the national car manufacturer, followed by industries of steel, cement and petrochemicals.

Because of the incompetence of the Malaysian government to give birth to internationally competitive local businesses, the efficiency of those government-assisted industries during the 1980s was remarkably feeble. Moreover, the prolonged application of tariff protection by the government in order to sustain its nascent industries endangered the situation, resulting extremely complicated to advance with the betterment.

In the mid 1980s the tendency was to persist in promoting the manufacturing sector, counting principally on FDI to produce employment and encouraging economic growth through export-oriented industrialization (EOI). Additionally, the government settled to remove restrictions and regulations to FDIs, hence more investors would be attract. This permitted higher foreign ownership of domestic companies and tempering the incentive structure to defeat other developing countries contending the corresponding investment.

In the Plaza Agreement (1985) the Japanese Yen went through a controlled

appreciation relative to the U.S. dollar (to which the MR was fixed). This helped the FDI to incredibly boost from 325 million MR (1986) to 6.2 billion MR (in 1990) (Jomo, K. S., Liew San Yee, and Laura Kaehler. “Capital Flows Volatility,” in *Malaysian Eclipse: Economic Crisis and Recovery*, ed. K. S. Jomo (London: Zed Books, 2001). Moreover, GDP growth rates were facilitated and averaged 7% from 1970-2000 (Michael P. Todaro and Steven C. Smith, *Economic Development* (London: Addison Wesley, 2003).

Throughout 1980s and 1990s, Malaysia succeeded in attaining over \$80 billion USD. This favoured the country's development into one of the most export-dependent economies, and the structure of its economy rapidly evolved from a dependency on extractive resource industries to better value-added manufacturing.

In the early 80s, an economic policy shift on the international level materialized. All this on account of the desire of the major industrial countries – USA and UK – to have power over the global economy. Margaret Thatcher – elected Prime Minister in UK in 1979 – and Ronald Reagan – elected 40<sup>th</sup> President of USA in 1981 – insisted on the necessity for greater trade and financial liberalization, privatization of SOEs, and, generally speaking, a smaller-scale implication in the economy by the governments.

The two presidents had resorted to international institutions (such as the U.S. Treasury, the International Monetary Fund (IMF), the World Bank Group, and the General Agreement on Trade and Tariff Organization (GATT) ) to spread their ideas worldwide, in order to persuade or even impose to underdeveloped countries to open up their markets to foreign investment. In doing so, the developing countries would

have been recompensed with economic advancement. These policy exhortations were subsequently denominated “The Washington Consensus”, which represents trade and financial liberalization, privatization of SOEs, public spending cuts to reign in deficits, and the removal of limitations to FDI.

By the mid 1980s, Malaysia had fulfilled by that time part of these policy imperatives. Nonetheless, the government was still working to regulate the domestic banking sector, distracted in the operation of SOEs, and caring about ethnic fiscal redistribution. The Malaysian policy-makers took their action, as an unbelievable amount of capital was going to boost an already growing economy.

## **The 1990s**

### **The New Development Policy**

As stated before, in 1990 the NDP (New Development Policy) took the place of the NEP. The new program impeded an all-inclusive, wide-ranging measure in order to reassign wealth and employment. Additionally, the NDP prioritized support solely to “Bumiputera with potential, commitment and good track records” (Malaysian Government, *The Second Outline Perspective Plan, 1991-2000* (Kuala Lumpur: Government Printer, 1991).

The NDP composed a greater plan, Vision 2020 (Wawasan 2020), announced by the

Prime Minister Mahathir bin Mohamad in 1990. Vision 2020 foresees within 30 years a full industrialization of Malaysia, with a quadrupled per capita income. Malaysia is expected to turn into a “self-sufficient, democratic, economically just, mature, liberal and tolerant society, and an united Malaysian nation which would achieve US\$6,000 per capita income in 1980 prices by 2020” (Sanchita Basu Das, Lee Poh Onn, “*Malaysia's Socio-Economic Transformation*, p.7, 2014”). In 1991, Wawasan 2020 came to be a component of the Sixth Malaysia Plan, having an effect on the following five-year development plans.

Returning to the NDP, one of its aims was the reorganization of the public sector. This translates into diminishing the welfare costs and funding for regulatory agencies, as well as the privatization of State Owned Enterprises (SOEs); furthermore, the abolition of capital gains and dividend withholding taxes, as a result, encouraging foreign portfolio investors.

In doing so, the primary issues of the government start to focus, to a greater extent, on “growth” rather than on “equality” (Bridget Welsh, “Malaysia and Globalization: Contradictory Currents”, in *East Asia and Globalization*, ed. Samuel Kim (Lanham, MD: Rowman and Littlefield, 2000).

With the privatization measures, cronyism is spread: “know-who” becomes more relevant than “know-how”, as K. S. Jomo reckons (K. S. Jomo, “Growth and Vulnerability Before and After the Asian Crisis: The Fallacy of the Universal Model”, in *Development and Structural Change in Asia-Pacific: Globalizing Miracles or the End of a Model?*, Martin Andersson and Christer Gunnarsson], eds. (London:

Routledge, 2003).

UMNO's political supremacy was emphasized by extremely remunerative support networks between UMNO party members and a restricted base of opulent Malay businessmen (referred as the “crony capitalists” by Kunio Yoshihara) (Kunio Yoshihara, *The Rise of Ersatz Capitalism in Southeast Asia* (Singapore: Oxford University Press, 1988), assisted by the government under the aegis of protection, concessions, licences and so on. Nevertheless, this symbiotic relationship provoked market distortions: the government sustenance turned out well in fostering the socio-economic mobility of Malays at short term, but was unsuccessful in establishing internationally driving and ambitious businesses over the long run, producing subsidy dependence.

At the beginning of the 1990s, two main structural Achilles heels affect Malaysia: its dualistic industrial structure, combined with its dependence on imported inputs for export production. Given this situation, if foreign companies chose to invest somewhere else or there happened to be an unforeseeable currency appreciation, the two structural deficiencies had the capability to produce grave balance-of-payments troubles. As a matter of fact, in the mid 1990s, because of an appreciation of the MR through its peg to the US\$ (forced effect of an agreement occurred in April 1995 between the United States and Japan), Malaysia experienced a terms of trade shock, balance-of-payments plight. Consequently, Malaysia developed into an unappealing choice for FDI.

The origination of Malaysia's unstable position in the 1990s has to be sought in the

following perilous policies: the prolongation of MR's virtual peg to the US\$ (Malaysia's Central Bank commitment), the maintenance of an open capital account and high interest rates in order to attract bank funds (Government's undertaking). All this in the circumstances of colossal and simply reversible short-term capital inflows.

### **The 1997 Asian Financial Crisis**

From July 1997 and through 1998, numerous Southeast Asian countries – included Malaysia – experienced a financial crisis featured by severe currency devaluations. Before this, there have already been other two major currency crisis during the 1990s: the crisis of the European Monetary system of 1992 and the 1994-1995 Mexican Peso Crisis.

The Asian Financial Crisis (AFC), also called the “Asian Contagion”, started in Thailand with the collapse of the Thai Baht, and was successively spread to the neighbouring Asian countries, additionally causing market declines in the United States, Europe and Russia.

Along with Thailand, the most affected countries were Indonesia and South Korea. Malaysia was one of the damaged states, but in a lower degree comparing to the aforementioned, together with Hong Kong, Laos and the Philippines. The least injured were China, Taiwan, Singapore, Brunei and Vietnam, notwithstanding they suffered from a grave shrinkage of demand and confidence.

First of all, in Thailand there was an initial peg of the Baht to the US dollar; Thai

foreign currency reserves were then implied in order to support the Baht. The Thai government, however, did entirely exhaust its foreign reserves to defend the peg as soon as the Baht suffered massive currency devaluation; the final result was being forced to float the Thai currency. This devaluation was due to a grave financial overextension, led in some measure by the real estate sector. Thailand went bankrupt even before the collapse of the Baht, because of the plummet of foreign debt obtained.

The International Monetary Fund (IMF) and the World Bank Group did encourage the Asian economies to mitigate capital controls; their financial interventions might have ignited to some extent the crisis.

The aftermath of the 1997 AFC in the Asian countries was: slumping currencies, devaluated stock markets and other asset prices, and an abrupt rise in private debt. Unluckily, in the ASEAN (Association of Southeast Asian Nations) countries, during 1993-96 foreign debt-to-GDP ratios rose from 100% to 167% and grew beyond 180% at the culmination of the crisis.

The IMF intervened with a recovery program and poured US\$ 40 billion to stabilize the currencies of Thailand, Indonesia and South Korea, the most hurt economies.

Nonetheless, Indonesia was not relieved that much with the IMF actions and its domestic situation remained dramatically unstable. In fact, the financial crisis was responsible also of a ruination of the Indonesian social fabric. Street revolts erupted and the President Suharto was forced to resign on 21<sup>st</sup> May 1998, after 30 years in power.

As far as Malaysia is concerned, the 1997-98 AFC affected profoundly its macroeconomic order. In the five years preceding the crisis, Malaysia had grown by an annual average of 9.6%; in 1998, the economy contracted by 7.4%.

This circumstances caused burdensome consequences: an abrupt recoil in investment spending, a feeble external demand and an enormous breakdown in household spending.

According to what Daniel E. Charette declares in his “Malaysia in the Global Economy”, Malaysia was enveloped in the Asian Financial Crisis due to a combination of external and internal factors: in his approach, international policy influences are separated from domestic influences. He finds that:

“a combination of ill-advised, full capital account liberalization (Washington Consensus / international influence) combined with imprudent handling of massive short-term capital inflows (domestic) in the late 1980s and 1990s led to a currency devaluation that resulted in a financial crisis and, consequently, a crisis of Malaysia's real economy.”

(Daniel E. Charette, *Malaysia in the Global Economy*, 2006)

Charette also reckons that the 1997AFC in Malaysia was precipitated also due to three specific policy choices made by the Malaysian government: a fixed exchange rate, a capital account liberalization, and a monetary policy autonomy. This policy system generated an unfounded impression of certainty in the solidity of Malaysia's economy in the midst of foreign and domestic investors.

In 1995, an agreement between the United States and Japan set a controlled

appreciation of the dollar relative to the yen. The Malaysian Ringgit was pegged to the US\$, with an indirect result: an appreciation of the MR, causing several effects on Malaysian economy, such as a decrease in export competitiveness, spreading current account deficit, and an even more unstable exchange rate regime.

Between 1985 and 1997, an outstanding quantity of portfolio capital converged in the country – this is a crucial fact to take into account if we are looking for the main causes of the 1997 AFC.

During the 1980s and the 1990s, the U.S. Treasury, the World Bank Group and the International Monetary Fund (IMF) were lobbying certain developing countries in order to push them to open up their capital markets to foreign investment. Their “package” of Western-based policy prescriptions – later termed the Washington Consensus – consisted of financial liberalization measures, privatization, deregulation and few government involvement in the economy in favour of a free-market.

The Washington Consensus was supported by USA and UK during the 1980s, and when exerted in the emerging markets of the developing countries, it had startling results. The unrestricted flow of bank loans and portfolio capital was an innovation never tried before, tested for the first time in Southeast Asia, even though the international trade of goods and services in the region have been successfully proven for a long time.

It is arduous to determine the real responsables for the acceleration of the financial crisis. On one hand, many target the policymakers at the IMF, alongside U.S. Treasury and World Bank Group for their urgent promotion of capital account liberalization. On

the other hand, the financial collapse seems to have been initiated in part also from important financiers inwardly the crisis affected Asian nations through greedy foreign borrowing and fitful regional investment.

As a matter of fact, Malaysian bankers and investors did not act carefully by flowing the gargantuan influx of foreign capital in real estate and equity shares, in lieu of saving it in banks. This culminated in an asset price bubble and an over-inflated stock market. Once investors felt an unbearable exchange rate and asset market, the economic breakdown commenced with grand capital disinvestment, constrained currency devaluation and financial crisis, concluding with a crisis of the real economy (goods and services) featured by grievous unemployment and weighty recession.

Austerity modifications to fiscal and monetary policies were suggested by the International Monetary Fund (IMF) in order to act against the crisis. At the same time as some countries – Thailand, South Korea, and Indonesia – unenthusiastically embraced these, the Malaysian government reacted in an unorthodox series of policies: it set the ringgit non-convertible externally and pegged the ringgit at MR 3.80 to the US\$; moreover, it performed exchange controls and endorsed deficit financing to reflate domestic demand. Regardless of international disapproval, these operations balanced the domestic condition, re-establishing net growth at 8.9 per cent in 2000. The banking and financial system in Malaysia have been ameliorated with success since the crisis. Indeed, there have been a strengthen of local banks, and with progressive liberalisation competition has upgraded, particularly from foreign banks.

## The 2000s

After the crisis, the Malaysia's capital exchange controls on one hand were pointless in checking capital outflows, while on the other, allowed a recovery plan focused on rehabilitation of the domestic economy. However, only part of the recovery process was dedicated to the claim back of a monetary policy autonomy.

With the slump of the MR,

“the Malaysian corporate sector experienced a significant loss of wealth, as the value of real estate and equities used as bank collateral fell along with demand. Corporate incomes and cash flows also declined, leaving some corporations unable to service their debts”

(Kanitta Meesook, Il Huong Lee, Olin Liu, Yougesh Khatri, Natalia Tamirisa, Michael Moore, and Mark H. Krysl, *Malaysia: From Crisis to Recovery*, 2001).

The aftermath was a stoppage to the quantity of non-performing loans (NPLs). Due to this circumstances, the soundness of the corporate and banking sector is menaced; thus the government of Malaysia tried to solve the plight by developing an asset management company, Danaharta.

The company was supposed to: gain the greater and most doubtful NPLs from banks, and constrain the culpable companies to dissolve their assets and pay off debts.

In addition, after a crisis, an examination of the banking system is essential.

Comparing to the other countries affected by the 1997 AFC, Malaysia was successful in preventing a major bank run institutionalizing Danamodal, a government-supported re-capitalization agency, in January 1998. Danamodal flowed 11 billion MR into the system as long as more than 70 banks agree to a wave of consolidation. These banks were unified into ten “anchor” banks and another 20 specialist lending institutions. During the economic boom, countless banks were born, stimulated by exaggerated capital inflows. Consequently the 1997 crisis, the intensification of NPLs (non-performing loans), jeopardized the solvency of the emerging banks. The aspired outcome was a handful of sizeable banks, more predisposed to the adversities of international competition.

Capital controls had disaffected so many investors that global market's reaction to Malaysia's reform was not so enthusiastic: rating agencies reduced in rank Malaysia, sovereign bond spreads enhanced corresponding to those of South Korea and Thailand, and Malaysia was expelled from major investment indices.

In 1999, capital controls were substituted by a price-based exit tax and terminated entirely in 2001. In the same year, investors confidence and the global demand for electronics improved; at that moment, Malaysia started its economic recovery. The freshly pegged MR resulted depreciated and this induced: a pleasing increment to exports, a simplified recapitalization of foreign exchange reserves, the chance to develop a current account surplus. Nonetheless, during the 2000s, Malaysia's weaknesses as one of the world's most export dependent economies re-emerged. A

slackening in the global IT sector nearly immobilized Malaysia's precarious electronic sector, and furthermore, a depreciation of the Japanese yen and other regional currencies harmed Malaysia's beneficial terms of trade, leading to an abrupt outpouring of short-term capital. The 2000 terms of trade shock resulted trivial over the long run, yet it enlightened the profoundly integrated essence of international trade and finance, along with Malaysia's incapability to steer clear of its vulnerabilities.

### **The National Vision Policy**

The National Vision Policy (NVP) was introduced in 2001. The program embodied the crucial ideas of the antecedent development policies. In this way, up to 2010, poverty eradication, restructuring of the society and balanced development persisted as pivotal strategies. Moreover, in order to extend national competitiveness, priority was devoted to generating local skills and increasing productivity. In the course of 2001-10, private investment continued to be rather small comparing to public investment (SEE TABLE 3.) despite the fact that GDP rose by 5.0 per cent. This revealed the point that notwithstanding its plan to strengthen the position of private sector in the economy, Malaysia's economic growth was conducted by the public sector.

**TABLE 3.**  
**Resource Balance 2000-10**  
 (% of GDP)

<b>Sector</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>
Public Saving	17.6	16.5	13.9
Public Investment	13.9	11.7	10.5
Private Saving	22.5	20.6	21.2
Private Investment	15.9	9.0	11.2
Total Saving	40.1	37.1	35.1
Total Investment	29.8	20.7	21.7
Balance in Total	10.3	16.4	13.4

Source: Malaysia, 2006, 9MP and 2011, 10MP.

Manufacturing endured as the primary sector for the economy during all these years, and it has been influential in the share of overall gross exports. Malaysia persisted in working as an open economy with trade to GDP ratio at 132 per cent in 2010 and afterwards the 1997-98 crisis, its external sector had the benefit of a surplus balance.

### **2008 Global Economic Crisis**

The Malaysian economic development of the last 50 years experienced another stoppage when enveloped by the 2008 Global Financial Crisis.

Indeed, this plight made the desired outcomes of Vision 2020 even more unattainable.

## **The 2010s**

### **The Government Transformation Programme**

With 2010, Prime Minister Najib Razak felt it indispensable to embark on new daring economic reforms, as Malaysia continued to strive with its vision for an advanced economy.

The Government Transformation Programme (GTP), part of the strategic gist to realize Vision 2020 launched in January 2010, was introduced to aim at seven key areas causing distress amongst the Malaysian population. The key areas are: reducing crime, fighting corruption, elevating student outcomes, ameliorating living standards of low income households, improving rural basic infrastructure, upgrading urban public transport and taking up the cause of the cost of living. The programme, as the roots for the renewal of Malaysia, was planned to be carried through until 2012. The purpose was to better the lives of the entire Malaysian citizens, without reference to race, religion and social status. For the GTP, the government is the protector of public interest and its formal principles include the defence of the highest level of integrity, expressing ethical conduct and good governance.

### **The New Economic Model**

In the same year, Malaysia released the New Economic Model (NEM), which was

predicted to enhance competition, more than double the per capita income in Malaysia by 2020, and take the first step for the abolition of ethnic special treatment for Malays (e.g. in education, public sector jobs and housing). In this programme, in fact, positive action is meant to be moved from being ethnically-based to being need-based and thus coming to be more competitive and also market and investor friendly.

“In the case of Malaysia, there is increasing emphasis on the service sector as a new engine of growth as growth in the manufacturing sector has faltered since the Asian Financial Crisis (AFC). This is seen in the recent Plan documents of the country. For example, in the New Economic Model that was launched in 2010 (NEAC 2010), harnessing services is one of the strategies proposed for enabling Malaysia to shift to a high income economy, with education services, logistic services, tourism, and distributive services highlighted as “economic sweet spots” (NEAC 2010)”. (Sanchita Basu Das, Lee Poh Onn, *Malaysia's Socio-Economic Transformation*, 2014)

The entire targets, policy system, and precise strategies of the NEM were incorporated into the Tenth Malaysia Plan (10MP) and the Economic Transformation Programme (ETP).

### **The Tenth Malaysia Plan**

The Tenth Malaysia Plan (10MP) was launched in June 2010 and is part of the strategic thrusts to achieve Vision 2020.

“[the] challenge is to move from an economy that competes on cost and natural resources, to an economy that is driven by productivity, innovation and that is able to nurture, attract and retain talent, companies and capital. In order to move into the league of high income economies, Malaysia will also need to move from a strategy of diversification of the economic base, which successfully elevated the nation to a middle-income economy, to a strategy which focuses on specialisation in a few selected economic sectors and geographies where Malaysia has a relative competitive advantage” (Tenth Malaysia Plan, 2011-2015 (Malaysia: Economic Planning Unit, 2010).

In the Tenth Malaysia Plan, where NEM's objectives are reflected, the private sector is expected to take the lead. The private sector is the target of the growth strategy - microeconomic reforms to improve the dynamism of the private sector, advancement of innovation, streamline government activities and SME (small and medium enterprise) development – and the private sector investment is promised to go up by 12.8 per cent in the course of 2011-15. Given that private investment only rose at rate of 2 per cent throughout 2006-10, 12.8 per cent is a remarkable challenge. In addition, raising the private investment, specially the FDI, would be more problematical with the global economic slowdown and the sovereign debt crisis.

In order to ease the necessary growth over the Plan period from 2010-15, twelve national key economic areas (NKEAs) were targeted. Of these NKEAs, seven are in the service sector, specifically, financial services, wholesale and retail, tourism, information and communication technology (ICT), education, business services, and

private healthcare. In the 10MP the service sector is considered to have prodigious potential to contribute notably to economic growth.

The focal point was on higher education, recruitment and large brain drain from Malaysia. The principal macroeconomic targets were to maintain 6.0 per cent average annual GDP growth rate through the period of implementation of the plan. This was on the back of heavier domestic demand, boosted private investment, and enhanced productivity. GNI – gross national income – per capita was expected to raise from US\$8,000 in 2012 to well-nigh US\$17,700 by 2020.

However, the 6 per cent growth rate seems to be quite confident and rather hard to attain; moreover, the severe income inequality in Malaysia can impede the measure of total poverty elimination and menace economic growth:

“the strategies to accomplishing a 6 per cent growth under the 10MP tend to be inequality widening (driving growth by urban agglomerations, cluster- and corridor-based economic activities, and focusing on the National Key Economic Areas (NKEAs)). While the plan provides for various programmes to assist the bottom 40 per cent of households, the strategies are not that much different from what have been recommended in the earlier plans. Hence, the outcomes are not expected to be really transformational. Further, liberalization of selected sectors in the economy and low economic growth outlook in global economy would also tend to enhance inequality.”  
(Sanchita Basu Das, Lee Poh Onn, Malaysia's Socio-Economic Transformation, 2014.)

## **The Economic Transformation Programme**

The Economic Transformation Programme (ETP) was an ambitious plan launched by the Malaysian government in 2010. It concentrates on twelve National Economic Areas (NKEAs) with strong growth potential: oil, gas and energy; palm oil; financial services; tourism; business services; electronic and electrical; wholesale and retail; education; healthcare; communications content and infrastructure; agriculture and greater Kuala Lumpur / Klang Valley. Inside these twelve NKEAs, 131 Entry Point Projects (EPPs) were chosen to “kick-start the programme”.

The ETP reckons that well-nigh 92 per cent of the country's projected investment requirements will need to come from the private sector. However, many of the twelve NKEAs are apparently rule by government-linked corporations (GLCs). Hence, there are few perplexities on how much of the investment plans will be in fact private rather than government-linked.

In effect, a year later, at the end of 2011, the main investors were still GLCs and the government; while the private sector share reached only 35 per cent (the target was 60 per cent).

The ETP aims for Malaysia the achieving of its “high-income nation” status, and to reach a gross national income (GNI) per capita of US\$15,000 by the year 2020.

The targets set under Vision2020 are the starting point for ETP in order to help Malaysia coming out of the trap between middle and high-income economy.

When we consider the “middle-income trap” we intend a situation in which “a country is stuck at a relatively comfortable level of per-capita income (World Bank: US\$1,006-

US\$12,275) but cannot seem to take the next big step to become a developed nation” (Sanchita Basu Das, Lee Poh Onn, *Malaysia's Socio-Economic Transformation*, 2014).

The Malaysian economy today is considered a typical case of the “middle-income trap”; in order to reach such high levels (high-income), it is necessary to change the traditional approach by the government, as restructuring and diversifying the economy might not be enough.

## **Time-line Malaysia**

- **1954** Development of a tripartite political alliance (UMNO, MCA, MIC)
- **1957** Independence from Great Britain
- **1969** Inter-ethnic tensions
- **1970** the primary sector is constituted by agriculture, plantation and tin mining; there is a strong need for diversification and to stimulate manufacturing
- **1971** Second Malaysia Plan (1971-1975); NEP: promote Malay interests
- **1979** Margaret Thatcher is elected Prime Minister of Britain (1979-1990)
- **1981** Mahatir Mohamad is elected Prime Minister of Malaysia (1981-2003)  
Ronald Reagan is elected President of U.S.A. (1981-1989)
- **1981** Fourth Malaysia Plan (1981-1985): Heavy Industries Program
- **1985** Plaza Agreement – The Yen underwent a controlled appreciation relative to the US\$ to which the MR was pegged
- **1990** NDP: from equality to growth
- **1991** Vision2020 – Sixth Malaysia Plan
- **1995** USA-JPN agreement: appreciation of the US\$ to which the MR was pegged
- **1997** Asian Financial Crisis (1997-1998)
- **1998** Danamodal is created
- **2001** NVP
- **2008** Global Economic Crisis
- **2009** Najib Razak is elected Prime Minister of Malaysia (2009-incumbent)

- **2010** GTP – NEM – 10MP – ETP

## CONCLUSION

*“Education is the passport to the future, for tomorrow belongs to those who prepare for it today.”*

*Malcolm X<sup>21</sup>*

At the beginning of this thesis, a deserved presentation of the theories and history of the neoliberal philosophy might, I hope, have provided a clarifying insight on the subject before moving to the real heart of this work, namely, *Neoliberalism and Development*.

After delineating the contours of the changes in development policy and custom during time, we can estimate the position of neoliberalism in the current phase of development.

Is neoliberalism development policy and practice diminishing? This what we have asked at the section *2.1 How Neoliberalism affects Development in the global South*. It is very difficult to answer this question, however we can reckon that nowadays there are many challenges to neoliberalism; there is more recognition about disparities and poverty – certain institutions have changed, realising that the state is important in backing the process of development – even if the development they intend is the one favouring the expansion of markets. In addition, there have been transformations in the development methods and ideas (more focused on the alleviation of poverty) and there

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21 Malcolm X’s Speech at the Founding Rally of the Organization of Afro-American Unity - <http://www.blackpast.org/1964-malcolm-x-s-speech-founding-rally-organization-afro-american-unity#sthash.NeXzAxCd.dpuf> . Accessed February 23, 2017.

is as well broader consideration now towards topics like decentralization, participation, gender and the formation of social capital. Nonetheless, opinion is manifestly disjointed about the degree to which these transformations stand for a meaningful departure from the neoliberal policies or if they are an accentuation of neoliberalism in the global South. At the same time, we realise that the advance of global justice movements proves the array of options in addition to neoliberal development.

Therefore, after this analysis, we realize that one of the most evident consequences produced by the neoliberal system is a huge disparity, that is increasingly strengthening itself. Oxfam, within its latest reports, has stressed this problematic situation, warning us that:

“Whatever the measure, in a human economy the distribution of national income would supersede any focus on simple averages, including at the household level. Inequality and reducing the gap between rich and poor should be hardwired into how we measure the progress of our societies.”

(Hardoon, D. *An Economy for the 99%: It's time to build a human economy that benefits everyone, not just the privileged few*. January 2017)

However, there is always hope and chance to change this unfair scenario. The closing lines of the report published in January 2017 tell us that we are still in time to make the economy more human:

“This positive vision for an alternative future is one we must fight for. It is

simple common sense that having all this money in too few hands is harmful to our society and to our future. It must be more fairly shared. Oxfam firmly believes humanity can do better than this. The fight against poverty and the urgent need to secure a safer, more stable world demands that we do so. We can and must build a more human economy before it is too late.”

(Hardoon, D. *An Economy for the 99%: It's time to build a human economy that benefits everyone, not just the privileged few*. January 2017)

Since these disparities are favouring only the 1% of the population, it is important, to me, to give to the people more self awareness and the power to stand up for their rights, as they – we – largely constitute the vast majority, indeed, the 99%.

In order to let people know which is the global situation, I claim that there is a need for a strong worldwide focus on education. Because democracy permits the right to vote universally – and, to me, it definitely has to remain universal, as a true expression of all-encompassing democracy – education is key. Recent happenings, for instance, the vote for Brexit and for the election of the billionaire Donald Trump as the 45<sup>th</sup> president of USA, have been considered by many as products of ignorance. I find that neoliberalism has allowed a wide spread of ignorance, as it has done with poverty and inequality, since this phenomena are frequently related (poor people have commonly less chances to get adequate education). It is widely accepted that “*A country that does not know how to read and write is easy to deceive.*” (Che Guevara)<sup>22</sup>. Before democracy, in my opinion, a country surely needs education, unless it may not wisely

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22 [https://www.goodreads.com/author/show/76172.Ernesto\\_Che\\_Guevara](https://www.goodreads.com/author/show/76172.Ernesto_Che_Guevara) . Accessed February 22, 2017.

make use of democracy (*“Democracy cannot succeed unless those who express their choice are prepared to choose wisely. The real safeguard of democracy, therefore, is education.”* Franklin D. Roosevelt<sup>23</sup>). So, as Nelson Mandela said, *“Education is the most powerful weapon which you can use to change the world”*<sup>24</sup>, people have to dispose of this exceptional weapon to fight injustices and any kind of exploitation, or mental abuse. The world can change, but we have to fight, so as to make knowledge and transparency as foremost.

Furthermore, I would like to draw attention to the concepts of equality and meritocracy; in my opinion, one can not exist without the other.

Equal opportunities for everyone can lead to an effective implementation of the meritocracy system, which without the former it is not possible. When I mention equal opportunities I also consider the equal chances for everyone to achieve a good education. *“The walls of the educational system must come down. Education should not be a privilege, so the children of those who have money can study.”* (Che Guevara)<sup>25</sup>. At the global level, we dispose of incredible and powerful tools; one of them is surely the internet. If the internet is wisely used, it is the prime instrument for the divulgation of knowledge, being able to reach even the most marginalized

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23 Franklin D. Roosevelt: "Message for American Education Week.," September 27, 1938. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=15545>. Accessed February 23, 2017.

24 Nelson Mandela. BrainyQuote.com, Xplore Inc, 2017. <https://www.brainyquote.com/quotes/quotes/n/nelsonmand157855.html>, accessed February 23, 2017.

25 Ernesto Che Guevara, *Che Guevara Talks to Young People*, <https://www.goodreads.com/work/quotes/395272-che-guevara-talks-to-young-people> , accessed February 23, 2017.

countries, dissolving the geographical distances.

Hence, real democracy should be providing equal opportunities, like basic needs, basic rights, but also assuring that breaking the law (like in the case of tax evasion) will lead to the same treatment to everyone; law has to be equal for all.

Therefore, mentioning what I have stated in the introduction, my dream is that one day we will reach the point in which nobody will never be forced to exploit someone else in order to strive to earn a living.

*“Knowledge is power. Information is liberating. Education is the premise of progress, in every society, in every family.”*

*Kofi Annan<sup>26</sup>*

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26 Kofi Annan. BrainyQuote.com, Xplore Inc, 2017.  
<https://www.brainyquote.com/quotes/quotes/k/kofiannan389917.html>, accessed February 23, 2017.

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