

What are the implications of this for international development? Currently, the knowledge economy applies primarily to the industrialized world, but increasingly it is relevant to the Third World. On the plus side, the more educationally advanced developing countries can participate in knowledge-based competitiveness. Often, however, the effects on the South are adverse. In the past few decades it has become commonplace for northern companies to locate plants and services in the Third World to take advantage of low-cost labour. Although this will certainly continue to a large extent, increasingly companies in developed countries are substituting knowledge (i.e., higher skills) at home for investments in low-skilled labour abroad (e.g., through computer-driven manufacturing and robotization). A case in point is the use of computer management of information to synchronize clothing deliveries with consumer demand, which can cut inventory costs enormously and make northern textile firms — which were threatened by Third World exporters in the 1970s — once again competitive with low-labour-cost southern countries.⁸ Because of more efficient technologies, industry today also uses fewer raw materials, thus reducing the export receipts of many developing countries. Even more ominously, advances in the materials and agricultural sciences promise northern-made substitutes early in the next century for many raw materials presently exported by developing countries.⁹

A second major economic change of the past decade has been the worldwide trend toward deregulation of markets and the renewed appeal of market solutions to economic and even social problems. A wave of privatizations of state corporations, cuts in government spending,

8. *Ibid.*, p. 119.

9. Malmgren, Harold, "Technology and the Economy," in Brock, William E. and Hormats, Robert D., *The Global Economy: America's Role in the Decade Ahead*. (W.W. Norton, New York, 1990), p. 96.