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Explaining uneven development trajectories in contemporary capitalism: Towards an interconnected framework of comparative political economy

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CHALLENGES AND RESILIENCE OF
GLOBAL SUPPLY AND VALUE CHAINS

Institute for International Political Economy Berlin

Explaining Uneven Development Trajectories in Contemporary Capitalism: Towards an Interconnected Framework of Comparative Political Economy

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Explaining Uneven Development Trajectories in Contemporary Capitalism: Towards an Interconnected Framework of Comparative Political Economy

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Abstract

Why do development trajectories diverge across countries, even when similar policies are pursued? This article proposes an integrated framework of comparative political economy that traces this divergence to seven interrelated dimensions and their configuration: the macroeconomic constellation, the financial system, integration in global production, industrial policy, social policy, the labour and employment system, and social blocs. The dimensions are treated symmetrically—none holds causal priority in advance, and which of them are influential or constraining in a given case is an empirical question—so that the framework can be applied to economies in very different positions in the world economy. Six interaction mechanisms connect the dimensions, linking a country's external insertion into the global economy, its financial and macroeconomic structures, its policy fields, and its social power relations. Configurations in which the dimensions reinforce one another tend to reproduce themselves, with their course depending on the stability of the dominant social bloc. On this basis, the article focuses on the conditions under which economic policy is effective for whom: the same instrument can succeed in one configuration, fail in another and serve a variety of interests. The framework is thus intended as a diagnostic instrument for comparative research, and a set of indicators makes it empirically applicable.

JEL Code: B50, F63, O11, P16

Keywords: Comparative political economy, development trajectories, global value chains, currency hierarchy, industrial policy, social blocs

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1 Introduction

Why do countries develop so differently—in economic and social terms alike? This question has long been central to political economy and remains highly relevant today. Some countries have achieved sustained industrial upgrading and rising living standards, while others remain locked into paths of volatile growth or persistent dependency. Divergent development trajectories, which are embedded in the development of society as a whole, are evident not only in the Global South and the so-called Global North, but also within both groups.

Differences across countries cannot be described by economic growth alone. A development trajectory is the path an economy follows over the medium and long term across several dimensions at once: how fast and how steadily GDP grows, how much its productive structure transforms and moves into higher-value activities, and how far people share in the resulting benefits through rising wages, more secure employment, and broader social protection. Explaining why trajectories diverge means explaining why economies evolve in very different ways.

Capitalism itself has never produced uniform development. From early debates onward, uneven development and imperialism have been understood as structural features of capitalist expansion rather than a temporary deviation (Hobson, 1902; Lenin, 2010; Luxemburg, 1913). Moreover, from a historical perspective, this uneven development is highly dynamic and can be repeatedly altered by crises and institutional reconfigurations (Clarke, 1994; Streeck, 2010). This can manifest itself in shifts in political coalitions and macroeconomic policies and, ultimately, in the patterns of integration of national economies into the global economy. Divergence is therefore not an anomaly but a constitutive feature of capitalist development. Political coalitions play a decisive, albeit frequently challenged, role in shaping policy related to these persistent macroeconomic and institutional differences and the associated processes of change.

Despite decades of research, there is still no widely accepted framework that systematically explains why these trajectories diverge. Existing traditions—reviewed in section 2—have each illuminated part of the problem, but they tend to foreground a single dimension (institutions, macroeconomic regimes, or global hierarchies) and treat the others as background.

To address this gap, the article proposes an integrated analytical framework based on seven core dimensions: macroeconomic constellations, the financial system, integration in global production, industrial policy, social policy, the labour and employment system, and social blocs. Together, these dimensions capture analytically distinct but interrelated aspects of capitalist development. The political-economic dimensions cover the structure of accumulation and macroeconomic coordination—including demand formation—as well as financial systems and patterns of integration into global production, trade, and finance. They capture the fundamental domestic and international spheres of economic

development: how investment dynamics, financial systems, and external economic relations shape growth trajectories and economic stability. Two policy dimensions—industrial policy and social policy—take up the debate over the state's increased role. On the one hand, they capture the extent to which national governments use their discretion to provide targeted support to national industries or specific technologies in order to actively shape development paths, particularly through interventions like industrial policy. On the other hand, they analyse the state's unique role in the field of social policy, as welfare policies can influence economic structures, distributional outcomes, and aggregate demand. Finally, two political dimensions refer to the configuration of social relations and power: labour relations and the broader social coalitions referred to here as social blocs. These configurations can form particular macroeconomic, welfare, and labour policies. Taken together, these dimensions provide a coherent framework for analysing how the interaction of accumulation dynamics, state intervention, and social power shapes divergent development trajectories.

Table 1: The Seven Dimensions of the Framework and Their Guiding Questions

Dimension	**Core analytical question**
STRUCTURAL CONFIGURATIONS— How does the economy accumulate—and how is it inserted into the global economy?	
Macroeconomic constellations	How is demand generated and investment financed and stabilised—and which growth drivers carry the economy?
Financial system	Who allocates finance, on what horizon—and how is the economy inserted into global finance and the currency hierarchy?
Integration in global production	What is produced, in which segments of which chains, under whose governance—and how much value is retained domestically?
POLICY FIELDS— How does the state deliberately shape structural change and distribution?	
Industrial policy	Does the state pursue industrial policy — with what ambition, instruments and procedures, and how coherently does industrial policy operate in practice?
Social policy	Who is protected against which risks—and how do welfare arrangements shape distribution, capabilities and demand?
SOCIAL POWER RELATIONS— Who has the power to establish, sustain, or overturn configurations and policies?	
Labour and employment system	How are wages set and work organised—and which power resources can labour mobilise, at which scales?
Social blocs	Which coalition dominates, whose interests do policies serve—and how stable is the political project?

This framework's contribution is not the identification of entirely new analytical dimensions, but rather an examination of their systematic integration. By analysing how national policies in different fields, social relations, and patterns of global integration interact, the framework provides a basis for comparing the national development trajectories of countries in different positions within the global economy. Building on this idea, the article advances three central arguments. First, national development dynamics

must be analysed in relation to their integration into the global economy. Trade relations, financial flows, and global production networks have become constitutive elements of contemporary development paths, shaping investment behaviour, policy space, and distributional outcomes. Second, understanding development requires a macroeconomic perspective that places investment dynamics, financial systems, and demand formation at the centre of analysis. Third, despite existing power imbalances, there is room for manoeuvre in labour and industrial policy, which stakeholders can exploit in different ways depending on the institutionalised results of previous social struggles and on their involvement in the respective decision-making coalitions.

Three features distinguish this integration. First, it is open with regard to relative weighting and thus sensitive to contingencies: The framework does not determine in advance which of the seven dimensions matters most; this can differ from case to case so that the same framework can be applied to economies in different positions in the world economy. The analysis therefore proceeds in two steps: reconstructing the characteristics of a dimension in a given country, and examining how these characteristics interact across different dimensions to produce a trajectory. Second, it is dynamic: trajectories are explained not by a static institutional "fit", but by whether the configuration of dimensions is mutually reinforcing (and therefore self-reproducing) or internally contradictory (and therefore crisis-prone and open to reconfiguration). Third, it extends the growth-model and social-bloc perspectives from comparative political economy (Baccaro & Pontusson, 2016; Amable & Palombarini, 2024) by incorporating the external relations of production and finance—a country's position in a global value chain and in the international currency hierarchy—into the core of the framework rather than treating them as context.

The purpose of the framework follows from this design. It is a diagnostic instrument rather than a predictive model: it explains why the same policies produce different outcomes for nations at different positions in the world economy by identifying which constraints limit policy changes in each configuration and where the dimensions reinforce or contradict one another. In contrast to universal policy prescriptions, this implies that no instrument is effective irrespective of the configuration in which it is applied. In contrast to structural determinism, this implies that constraints can be identified and that room for manoeuvre exists in principle, though the policy areas in which it exists and the extent to which it exists differ from case to case.

The article proceeds as follows: Section 2 situates the framework in relation to existing approaches in comparative political economy and development studies. Section 3 introduces the seven dimensions, summarised in Table 1, and discusses each in turn. Section 4 sets out possible integrative logics that can relate the dimensions to one another and shows why the same policies produce different outcomes in different configurations. Section 5 concludes.

2 Situating the Framework

Several theoretical approaches inform the framework and have been influential in its overall contribution to the debate. They are described in turn below, noting in each case the insight retained and the limitation the framework seeks to overcome.

Despite their significant ideological influence, mainstream economic approaches have so far failed to bridge the gaps in economic development through their analyses and the resulting policy recommendations. In neoclassical economics, development differences are typically attributed to variations in factor endowments, savings rates, or institutional distortions. In policy debates—most prominently in the so-called Washington Consensus—this perspective translated into the assumption that liberalising markets, privatising, establishing secure property rights, and reducing state intervention would be sufficient to trigger development dynamics (Williamson, 1989; Herr & Priewe, 2005). Yet the empirical record has repeatedly challenged this view, as countries with other development strategies were successful, while for those that followed the Washington Consensus, this was not always the case. The market-centred view on which the Washington Consensus is based was challenged early on by alternative theoretical traditions which specifically questioned its supply-side orientation. Schumpeter (1911) and Keynes (1936) placed investment at the centre of economic dynamics and emphasised the social, institutional, and macroeconomic foundations of economic development. Both also highlighted that deregulated financial systems are not neutral intermediaries; rather, how they are structured is a key determinant of growth, expectations of economic actors, and instability.

Furthermore, the same policies can lead to different outcomes in different countries. One of the most influential approaches which argued against a supposed "one best way" to achieve competitiveness is the Varieties of Capitalism (VoC) framework, which demonstrated that advanced and competitive capitalist economies differ systematically in their institutional configurations and modes of economic coordination (Hall & Soskice, 2001). By emphasising two varieties of institutional competitiveness, it challenged simplifying convergence assumptions. However, its firm-centred, supply-oriented, and static perspective on national varieties leaves limited room for analysing macroeconomic demand dynamics, financialisation, crisis processes, and the global embedding of national economies. Moreover, the first generations of VoC literature focused primarily on advanced capitalist economies, while the structural constraints and development challenges of countries in the Global South received no attention.

Later work extended the varieties approach to the periphery—Nölke and Vliegenthart's (2009) "dependent market economies" and Nölke et al.'s (2000) "state-permeated capitalist economies" being the clearest cases—but its partially firm-centred, static emphasis still leaves macroeconomic demand, financialisation, and global integration underdeveloped.

Other strands of research have addressed these limitations from different angles. Structuralist and dependency approaches emphasised the hierarchical structure of the global economy and the structural

constraints shaping development in the Global South (Prebisch, 1950), while world-systems theory highlighted the interaction between core and peripheral economies within a global capitalist system (Wallerstein, 1974). More recent post-Keynesian contributions, particularly in the literature on growth regimes and growth models, have re-centred macroeconomic demand dynamics, income distribution, and financial structures as key drivers of development trajectories (Baccaro & Pontusson, 2018; Hein & Martschin, 2021).

Both dependency and world-systems traditions placed hierarchies at the centre (Prebisch, 1950; Frank, 1967; Furtado, 1970; Amin, 1976; Wallerstein, 1974). Cardoso and Faletto's (1979) account of "associated-dependent development" prefigured the concern, developed here, with how external integration conditions—without wholly determining them—influence national paths. The framework retains the growth-model and social-bloc apparatus of recent comparative political economy (Baccaro & Pontusson, 2016; Amable & Palombarini, 2024) but departs from it by treating external integration—a country's GVC position and place in the currency hierarchy—as a necessary dimension to be analysed, rather than as a context that cannot be further determined, and by applying the same apparatus symmetrically across the Global North and South.

While some of the approaches briefly touched upon here have generated important insights into the development of countries in specific political and economic contexts, they tend to focus on particular dimensions of capitalist development—such as institutions, macroeconomic regimes, or global hierarchies—without systematically integrating them into a common analytical framework. This article argues that understanding divergent development trajectories requires a more integrated analytical perspective. National development paths are shaped not only by domestic institutions or firm-level coordination, but also by the interaction between, on the one hand, national-level macroeconomic, industrial, welfare, and labour policies and social relations, and, on the other hand, the integration of economies and industries into global trade and the financial system.

Against this backdrop, the framework proposed here is deliberately integrative rather than novel in its parts. It retains the Polanyian premise that the market economy is socially and institutionally embedded (Polanyi, 1944), the macroeconomic focus of post-Keynesian growth-regime research, the attention to institutional diversity of the VoC and welfare-regime traditions, the sensitivity to global hierarchy of dependency and world-systems analysis, and the account of coalitional politics developed in the social-bloc literature. It contributes a way of holding these factors together, rather than examining any one of them in isolation: a set of seven dimensions whose interaction accounts for divergent trajectories. Further, it is able to travel across the North–South divide because the relative weight of each dimension is left to empirical determination.

In this regard, the framework draws on Boyer's (1990: 33) theory of regulation to avoid assumptions of complete determinism and, as a research strategy, to look instead for a "complex system of articulation

of modes of production". In this search for specific forms, it is assumed that distinct logics may prevail in individual dimensions—in labour policy, for instance, a different logic may hold from that found in the macroeconomic constellation. The selection of the dimensions is inspired by Amable's (2003) five institutional areas but devotes greater attention and weight to the macroeconomic policy fields. Neither Boyer's (1990) regimes of accumulation nor Amable's (2003) approach is fully adopted, mainly because they do not focus on interconnections and interdependencies between national and international trajectories—including those related to GVCs and, consequently, industry-specific trajectories. The conceptual framework proposed here is instead based on the idea of possible uneven and combined development, as well as the interplay of various policies at different levels of analysis, drawing on the concepts of multiscalarity and "variegated capitalism" (Peck & Theodore, 2007; see also Handley & Martin, 2023).

3 Core Dimensions

3.1 Macroeconomic Constellations

The macroeconomic constellation constitutes a core dimension that shapes the dynamics of aggregate demand, especially investment, and macroeconomic stability. It refers to the institutional and structural configurations that determine how demand is generated, how investment is financed, and how national economies interact with the global economy. This includes the historically specific configurations of investment dynamics, financial structures, income distribution, fiscal and monetary policy capacity, and external relations that influence whether economies generate sustained growth and structural transformation or remain characterised by stagnation, volatility, or external vulnerability.

Investment is central to economic dynamics. It simultaneously creates productive capacity, introduces new technologies, and drives demand, employment, and income. Contrary to neoclassical approaches, savings are not a prerequisite for investment; rather, investment generates the income that allows savings to emerge (Keynes, 1936). Because investment decisions are inherently uncertain and depend on expectations about future profitability, they rest on “animal spirits” (Keynes, 1936: 161) and are shaped by macroeconomic policies and institutional and political factors rather than by an isolated logic of accumulation.

The composition of aggregate demand matters, too. Consumption—the largest component of aggregate demand in most economies—depends strongly on income distribution: high income inequality weakens domestic demand because higher-income households tend to save more, whereas more equal distributions can support more stable demand and growth. In much of the Global South, extreme

inequality constrains domestic demand and limits development prospects (Berg & Ostry, 2017; Herr, 2018).[1]

External demand is another component. Persistent export surpluses can stimulate domestic production through external demand, while countries with persistent current account deficits often face macroeconomic constraints that limit growth and increase vulnerability to financial instability. Relatedly, the balance-of-payments constraint literature highlights that long-run growth may be limited by the inability to achieve trade surpluses and problems with financing current account deficits (Thirlwall, 1979). Comparative research has further shown that national growth models are often mutually dependent: debt-driven consumption regimes rely on capital inflows from surplus countries, while export-led economies depend on external demand generated by deficit countries (Baccaro & Pontusson, 2016).

Fiscal policy represents another key component of macroeconomic regimes. Governments influence aggregate demand through public consumption and public investment, transfers to households, and subsidies for firms. The capacity of states to pursue expansionary fiscal policy depends on their ability to mobilise tax revenues and access credit markets. Many countries in the Global South face significant fiscal constraints due to limited tax capacity. As for investment, in most countries in the Global South access to domestic finance is also limited for governments (UN ESCAP, 2025).

When analysing the various components of demand, the balance between investment demand and the other components of demand plays a crucial role. In an unregulated market, this occurs through a chaotic process. Investment can surge, creating overcapacity, which then leads to a crisis. It would also be wrong to assume that high-capacity utilisation and high profits automatically lead to high levels of investment.

Inflation dynamics are a further element. Because central banks respond to sustained price pressure with restrictive policy, the wage-setting and exchange-rate arrangements that govern cost developments especially shape how far inflation constrains growth. These arrangements vary widely across countries—in how closely wages follow productivity and the extent to which wage developments and exchange rates become a nominal anchor (see Heine & Herr (2024) and Heine et al. (2024))—and can either anchor prices or amplify inflationary and deflationary swings.

Whether wage, fiscal, and monetary policy are mutually coordinated varies across countries and conditions the room for stable GDP growth (Herr & Kazandziska, 2011). Building on Keynesian and Kaleckian economics (Keynes, 1936; Kalecki, 1954), a large literature has analysed different types of

[1] In a World Bank (2024) publication, the Gini coefficient for disposable income based on simple averages was reported as 31.7 for Europe & Central Asia, 34.4 for South Asia, 35.1 for the Middle East and North Africa, 36.7 for East Asia and the Pacific, 37.1 for North America, 41.5 for sub-Saharan Africa and 46.6 for Latin America and the Caribbean.

demand-led growth regimes. These approaches distinguish various growth patterns—including wage-led, profit-led, export-led, and debt-led regimes—depending on how income distribution, financial dynamics, and external demand interact (Bhaduri & Marglin, 1990; Hein, 2012; Baccaro & Pontusson, 2016; Stockhammer, 2021). More recent research in comparative political economy has therefore increasingly focused on identifying the underlying growth drivers—such as financial conditions, fiscal policy, wage dynamics, and international competitiveness—that shape the components of aggregate demand and influence national growth trajectories (Kohler & Stockhammer, 2021; Hein & Martschin, 2021).

3.2 Financial System

The financial system shapes investment, growth, and macroeconomic stability by determining how financial resources are mobilised and allocated, and how economies are embedded in global finance. Differences across systems have far-reaching implications for development.

Money and finance have long been central in political economy. Keynes (1933) stressed credit creation in a "monetary production economy", and Schumpeter (1911: 74) called the banker the "ephor" of capitalist development. Both rejected the idea of finance as a neutral intermediary, treating it instead as a key determinant of investment and potential instability. From this perspective, access to stable, long-term, and cheap finance is crucial for productive investment and structural transformation (Herr, 2010a).

Financial systems differ in the roles of commercial banks, development banks, and state-owned financial institutions, and in whether credit funds productive investment or speculation. Some economies have deep and relatively stable financial systems that support long-term investment; others—especially many developing economies—face shallow financial markets, volatile capital flows, and limited access to long-term finance—especially in domestic currency—that constrain investment and hinder sustained economic development (Herr & Nettekoven, 2022).

National financial systems are deeply embedded in global financial structures through cross-border capital flows—foreign bank credit, foreign direct investment (FDI), portfolio investment (equity and securitised loans)—leading, except in the case of FDI, to external debt. A defining feature of the international financial system is the existence of a currency hierarchy, in which a small number of dominant currencies—above all the US dollar—fulfil central international functions, while most developing country currencies occupy subordinate positions (De Paula et al., 2026). Countries in the lower two-thirds of the currency hierarchy have a low reputation or, in the eyes of investors, a low asset protection function and suffer from a so-called "original sin" (Eichengreen et al. 2007 and 2023; Ocampo, 2007). They are unable to borrow abroad in their own currency, their money cannot fully perform domestic monetary functions, and they experience capital flight and dollarisation. Domestic credit expansion quickly runs into limits, a productive credit-investment process struggles to unfold, and borrowing abroad results in currency mismatch and exposure to volatile capital flows (Herr, 2018; Herr

& Nettekoven 2021, 2022). The position of a currency in this hierarchy has direct consequences: lower-ranked currencies face higher borrowing costs, greater exchange-rate volatility, and little monetary-policy autonomy (Fritz et al., 2018). Even steps taken to reduce currency mismatch—such as issuing local-currency debt to foreign investors—tend to heighten domestic financial volatility, since foreign capital exits quickly when risks rise (Kaltenbrunner & Painceira, 2015).

Since the 1980s, financial deregulation has been bound up with financialisation—the growing weight of financial actors, markets, and motives (Epstein, 2005; Dünhaupt, 2018). It shapes development trajectories through several channels. First, it reorients investment toward short-term, shareholder-value goals at the expense of long-term productive investment (Stockhammer, 2004; Hein, 2012). Second, it redistributes income toward capital, widening inequality and weakening domestic demand (Hein, 2012; Stockhammer, 2021). Third, it disciplines firms within GVCs, as pressure for short-term returns intensifies cost pressures on suppliers and narrows the scope for upgrading (Durand & Milberg, 2019; Dünhaupt & Herr, 2021). Fourth, it narrows policy space, since high capital mobility and the threat of flight constrain expansionary fiscal and industrial policy—what Rodrik (2011: 201) calls a "golden straitjacket". A fifth channel—the transmission of global financial cycles, and the boom-bust dynamics in international capital flows to which subordinate currencies are especially exposed—is bound up with the currency hierarchy set out above. These effects are more tightly binding the more an economy depends on external finance (Alami et al., 2023; Becker et al., 2010; Karwowski & Stockhammer, 2017; De Almeida Oliveira & De Conti, 2025).

Financialisaton has also raised indebtedness across all economic sectors, making financial systems more fragile (IMF, 2025), while executive remuneration has reached extreme levels, especially in Anglo-American economies (Mishel & Kandra, 2021). Within GVCs, financialisaton additionally pushes lead firms and multinational headquarters toward higher subsidiary debt and the repatriation rather than reinvestment of profits, further starving the long-term investment that less-developed economies need. Financial systems in the Global South are characterised by greater dependence on external factors, so the degree and form of integration into the global financial system is especially consequential for development.

3.3 Integration in Global Production

Integration into global production is another central dimension of development and economic power. National economies are not self-contained but embedded in multi-scalar systems of production and trade (Peck & Theodore, 2007). Therefore, analysing their position requires attention to domestic productive structures and to how these are embedded in international trade and GVCs.

The productive structure—the sectoral composition and technological character of activity, and the weight of higher- versus lower-value-added production—is decisive. Trade can support sustained growth where countries build and retain higher-value-added capacities (Chang, 2003), but dependence

on primary extraction or low-value-added production tends to bring limited innovation, under-investment elsewhere, exchange-rate overvaluation, and capture of resource rents by foreign firms (Humphreys et al., 2007).

Integration through trade therefore affects how much domestically generated value is retained and how much sovereignty a country retains over what is produced. Trade is not exchange between equals but a structured system that can reproduce unequal relationships; the key question is how countries participate in trade, under what conditions, and with what consequences for development. Research on GVCs (Gereffi et al., 2005; Ponte et al., 2019; Teipen et al., 2022) and Global Production Networks (GPNs) (Coe & Yeung, 2015, 2019) analyses these dynamics. Since the late twentieth century, communication and logistics technologies, trade liberalisation, and stronger intellectual-property regimes have allowed multinational firms to fragment production across borders, choosing locations based on the labour cost, technological capability, and regulatory environment of a given country.

This intensification and reorganisation of trade created opportunities but also sharp asymmetries. Lead firms retain high-value-added activities—R&D, design, branding, and marketing—while outsourcing labour-intensive manufacturing to lower-cost suppliers (Durand & Milberg, 2019), so integrated countries often specialise in low-value-added segments and capture little of the chain's value; environmentally harmful processes and waste are also displaced to the Global South (Parson, 2023).

Participation in GVCs thus does not automatically bring development. Integration can generate FDI, employment, and knowledge spillovers, but upgrading into higher-value activities is constrained by technological barriers, intellectual-property protections, and lead-firm market power (Dünhaupt & Herr, 2020, 2021; Teipen et al., 2022); some argue that GVCs reproduce dependency by entrenching the uneven distribution of value capture (Selwyn, 2019; Suwandi, 2019).

History matters too. Colonial legacies of foreign-dominated extraction and suppressed industrialisation shaped productive structures and entrenched hierarchies that persist today (Prebisch, 1950; Cardoso & Faletto, 1979), and subsequent industrialisation was built upon these inherited patterns; geopolitical conflict has more recently reshaped GVCs (Gereffi et al., 2025).

3.4 Industrial Policy

Industrial policy captures how states actively shape production structures and development within market-based, globally integrated economies. It has recently experienced a resurgence: China's rise, US–China rivalry, and concerns about supply-chain resilience and strategic autonomy have driven renewed activism, with governments seeking to secure critical inputs, strengthen domestic capacity, and reduce dependencies, and with tariffs and subsidies regaining prominence (Gereffi et al., 2025).

Yet industrial policy had never disappeared; it has been continuously reconfigured (Bulfone, 2023). Even in the neoliberal era, interventions shaping sectoral development, technological capabilities, and

export structures remained significant (Chang & Andreoni, 2020). In addition, the military sector has always played an important role in the field of industrial policy (Hauge et al., 2025).

The centrality of industrial policy has long been established in heterodox and development economics, especially in work on late industrialisation and the developmental state (Gerschenkron, 1962; Johnson, 1982; Amsden, 2001; Evans, 1995; Wade, 2010; Chang, 2003), which showed that structural transformation depended on active intervention, coordination with firms, and the capacity to discipline capital toward long-term goals (Chang, 1994). After decades as "the policy that shall not be named" (Cherif & Hasanov, 2019), it has returned to the mainstream through work on the entrepreneurial and mission-oriented state (Mazzucato, 2013, 2021), the political economy of industrial policy (Andreoni & Chang, 2019), and a new empirical economics of industrial policy (Juhász, Lane & Rodrik, 2024). It nonetheless remained marginal in most comparative-capitalism research: both the firm-centred VoC framework (Hall & Soskice, 2001) and early GVC/GPN work paid it limited attention (Horner, 2017).

The limits of purely market-driven development are recognised even in mainstream economics. Krugman's (1981) model of external increasing returns—reviving Kaldor's (1970) principle of cumulative causation—showed how first-mover advantages lock in industrial leadership and generate cumulative divergence, making it nearly impossible for latecomers to catch up in sectors with strong economies of scale; similar dynamics confine less-developed countries to low-value-added activities within GVCs. Earlier, List (1841) challenged Ricardo's (1817) comparative advantage by arguing that low-productivity countries risk becoming locked into labour-intensive production, and that raw-material dependence adds further obstacles to diversification (Humphreys et al., 2007). Market forces thus tend to reinforce the existing international division of labour, which is why successful late industrialisation has been closely tied to active industrial policy (Rodrik, 2008).

Contemporary industrial policy operates under deep global integration. Bulfone (2023) traces a shift from inward-looking to "open-market" industrial policy embedded in liberalised economies, and Horner (2017) shows states acting as facilitators, regulators, producers, and buyers within GPNs. Policy is now intertwined with GVCs, seeking to position domestic firms in specific segments rather than build self-contained national industries (Baldwin, 2011).

Industrial policy has also become more fragmented and politically embedded. Wylde (2024) argues that contemporary industrial policy is neither a simple revival of the developmental state nor a break with neoliberalism, but reflects evolving configurations of state capacity, autonomy, and domestic coalitions; outcomes therefore depend on the political and institutional context, not instruments alone.

3.5 Social Policy

Social policy is a key source of divergence, shaping how social risks are absorbed, how inequality evolves, and what level of participation different groups can access. States mediate the pressures of globalisation and crises using income support and social protection, which affect distribution and the

level and stability of demand. Sociological research tends to focus on pensions, unemployment insurance, poverty protection, and family policy. Economics emphasises public consumption and investment and redistribution policy, which shape both purchasing power and productivity—for example through the education sector, where the state's role as provider of a public good is central.

Comparative political economy treats welfare regimes as historically shaped and path dependent. Esping-Andersen's (1990) typology has been influential for highlighting how states, markets, and families share responsibility for social protection, but it covers few countries and is rarely linked to production models; attempts to bridge welfare regimes and VoC (Schröder, 2013) remain largely confined to the Global North.

In much of the Global South, welfare provision is fragmented, unevenly inclusive, and shaped by informality and limited fiscal capacity (Gough, 2004; Leisering, 2020; Yörük et al., 2022). Benefits are lower, and coverage and inclusivity weaker than in the Global North. Many countries have dual structures in which a small formal sector—government and larger domestic and FDI firms—enjoys relatively high standards and provision, while the largely informal majority has far lower living standards and minimal welfare. Protection then rests heavily on family networks and external organisations (Leisering, 2020), and the resulting inequality suppresses positive dynamics: from weak consumption demand to low productivity due to under-investment in health and education (Ostry, 2015).

These variations are not accidental: they reflect specific historical paths and yield very different capacities to cushion against crises and reduce inequality. The scope and stability of provision depend on financial constraints, international competitiveness, and budget negotiations reflecting the power of social groups, as well as governments' ideological orientation and stability. Where large parts of the population are excluded from formal employment and contributory schemes, protection relies more on targeted, non-contributory transfers with limited coverage—differences that shape countries' capacity to manage crises and pursue longer-term development.

3.6 Labour and Employment System

The labour and employment system is an important lens on development. It encompasses state regulation, collective bargaining, and informal-sector dynamics, and helps explain why some economies achieve social upgrading and stable growth while others remain locked into low wages, high wage dispersion, and/or unstable wages. It understands labour not only as an active agent in the form of organised trade unions but also as an object of institutional, political, and economic restructuring and macroeconomic coordination.

This perspective draws on what Amable (2022: 4) calls the "wage–labour nexus": a configuration of the capital/labour relation marked by power imbalances rooted in class, gender, and stratification—such as caste in India (Mezzadri, 2017). National industrial relations systems (Hayter & Lee, 2018) develop practices and rights that partly counter these imbalances—above all through the involvement of the state,

employers, and workers in collective bargaining and minimum-wage setting. The state can exert "institutional power resources" (Schmalz et al., 2018) through law and enforcement, a basis for social upgrading in GVCs via "public governance" (Gereffi & Lee, 2016). But regulation cannot be read off the statute book (Marslev et al., 2022; Teipen et al., 2022): what matters is whether associational or structural power can enforce it, and, in informal work, whether those affected are organised at all (Tilly et al., 2013). Therefore, it is associational power in particular that contributes to the fact that workers act not merely as those affected by corporate decisions but as agents shaping labour and industrial policy—at the workplace, sector, national, or value-chain level (Cumbers et al., 2008)—including shaping wage growth developmentally through cooperation among unions, employers, and the state.

Thus power resources can be complementary. Where collective agreements cover only some workers, statutory minimum wages and other public governance can limit inequality and stabilise labour markets. Where unions and employers are too weak to bargain at the sectoral level, wage dispersion widens, and minimum wages can support or, across much of the Global South, largely substitute for bargaining. "Structural marketplace bargaining power" (Silver, 2003)—unemployment across labour-market segments—also conditions the scope for advocacy.

Wage-setting and employment protection also make labour an "input factor" (Hammer & Riisgaard, 2015: 84) in firms' location decisions as "a factor of production affecting firms' locational decisions and resultant production geographies" (Newsome et al., 2015: 2)—linking the labour system directly to the value chain. Since labour is an object of restructuring (Newsome et al., 2015: 2), research into this dimension must investigate what workers earn, under what conditions (permanent, temporary, informal), and at what risk. Tracing how lead firms shape suppliers, and how national and sectoral characteristics mediate this, requires combining GVC analysis with comparative sectoral analysis (Baglioni et al., 2022).

In recent decades, many workers and their organisations have been among the losers of globalisation and labour arbitrage. These imbalances are sharpest in the informal sector, which is central to Global South political economies and weakens the institutional and associational resources through which workers might mediate the capital-labour conflict. Low wages and maximal labour flexibility remain the region's principal competitive advantage.

Last but not least, wage bargaining systems and minimum wage policy play an important role in the development of nominal unit labour costs and, consequently, in inflationary and deflationary processes and the associated monetary policy responses.

3.7 Social Blocs

Understanding divergent trajectories requires attention not only to formal institutions but to the configurations of power beneath them. Social-bloc analysis traces how shifts in the relative power of

socio-political actors reconfigure the dominant social bloc (DSB), driving change in a country's institutions and, ultimately, its development path.

The concept of the social bloc—distinct from the Gramscian historical bloc (Gramsci, 1971; see Amable & Palombarini, 2024)—is well suited to analysing competing political projects, where each is backed by an alliance of actors. Political-economic strategies, their institutionalisation, and the development path they imply depend on a DSB that can regulate the direction of economic development and crises with a coherent strategy (Amable & Palombarini, 2024). A DSB can be understood as a coalition of socio-political actors that advocate for political-economic strategies that align with their interests, ideologies, and visions for the future. Within the DSB, each group pursues its interests within the limits of its power, generating internal tensions as claims are ranked by asymmetries and hierarchies (Amable, 2003), and the capacity to construct hegemonic narratives determines the power of the class represented. These are thus spaces of struggle rather than settled bargains, so the class composition of a DSB shapes which interests prevail.

To map a DSB and gauge actors' influence, this framework combines complementary theories of power. Capital is analysed through Business Power Theory—structural and instrumental power (Culpepper, 2011, 2015; Fairfield, 2015; Young, 2015)—with attention to whether the capitalist class is cohesive or fractured.

Organised labour is analysed through the Power Resources Approach and its four powers—structural, associational, institutional, societal (Schmalz et al., 2018)—which show labour shaping policy beyond firm- or sector-level bargaining, up to macroeconomic and growth strategy. Attention to the state adds electoral politics, parties, and ideology together, yielding an account of the political dynamics behind development outcomes. Social blocs can involve class compromise—between capital and labour, or capital and segments of workers, or state support for particular groups.

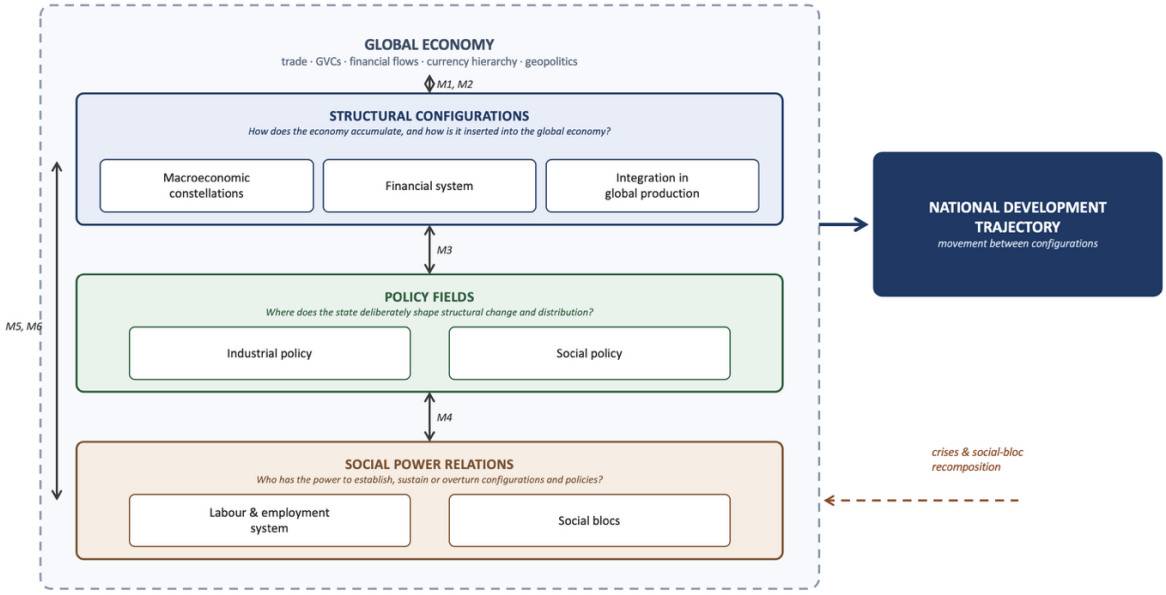
4 Interactions and Configurations

This article so far has treated the seven dimensions one by one. The explanatory claim of the framework, however, rests on their interplay: on the mechanisms that connect the dimensions, on whether a configuration is coherent or contradictory, and on the consequences for the effectiveness of economic policy.

4.1 Six Interaction Mechanisms

Figure 1 shows the seven core dimensions grouped into three categories—structural configurations, policy fields, and social power relations—and their interactions.

Figure 1 The analytical framework



Source: Author's contribution

The seven dimensions do not operate in isolation—each is shaped by, and helps to shape, the others. A country's macroeconomic constellation determines the fiscal and financial space within which industrial and social policy can operate. The financial system and a country's position in the currency hierarchy condition both the macroeconomic space and the terms on which firms and sectors integrate into global production. Patterns of integration into global production feed back into the labour and employment system through firms' location decisions and into the income distribution that shapes demand. Finally, the whole configuration is sustained, contested, and periodically reconstructed by the social blocs whose relative power is expressed in—and reproduced through—these institutions. A development trajectory, in this sense, is the joint product of this configuration, not of any single dimension. These interactions can be expressed as six mechanisms, labelled M1–M6.

M1— External insertion into the global economy and domestic room for manoeuvre. A country's position in the currency hierarchy and its mode of integration into global production jointly determine how binding the balance-of-payments constraint is (Thirlwall, 1979; Fritz et al., 2018). Economies with lower-ranking currencies and exports concentrated in primary products or low-value-added activities can only sustain expansionary macroeconomic policy for limited periods before facing exchange-rate pressure and capital outflows, while economies issuing internationally accepted currencies or generating persistent export surpluses are far less constrained. At the same time, wage levels, qualification profiles

and labour standards are among the factors that influence where production is located, so that the labour dimension in turn contributes to shaping a country's external insertion into the global economy. It is therefore particularly difficult to change the way and position of a national economy within the global economy through national policy, but not impossible. How strongly the external insertion dimension constrains an economy differs from case to case.

M2— The financial system and productive strategies. The financial system influences which productive strategies can be financed and therefore which forms of GVC integration and upgrading are attainable at the firm and country levels (Herr, 2010a; Dünhaupt & Herr, 2020). Deep and stable financial systems oriented towards long-term credit can support the long gestation periods of industrial upgrading, while shallow, dollarised, or highly financialised systems tend to shorten investment horizons and divert profits from reinvestment—in the case of FDI, out of the host country (Stockhammer, 2004; Hein, 2012; Suwandi, 2019). Trade and financial integration are therefore closely intertwined: the trade flows that GVC analysis maps are underpinned by flows of FDI, cross-border credit and repatriated profits.

M3— Macroeconomic constellations and the policy fields. The macroeconomic constellation conditions what industrial and social policy can achieve through several channels: growth and borrowing conditions determine what can be financed; the interest-rate regime affects the opportunity cost of productive investment and the lending capacity of development banks; an appreciation-prone exchange rate undermines the competitiveness of the sectors industrial policy seeks to promote; and weak demand dampens the private investment response to policy incentives (Herr & Kazandziska, 2011; Heine & Herr, 2024). The relationship runs in both directions, as successful industrial policy alters the export structure and thereby the external constraint (M1), while welfare systems can stabilise demand over the cycle.

M4— Social blocs and the content of policy. Which industrial policy is pursued, whose risks social policy covers, and whether macroeconomic policy favours creditors, exporters, or wage earners depends on the composition of the dominant social bloc (Amable, 2003; Amable & Palombarini, 2024). The coherence of policy is itself shaped by the bloc: broad and stable coalitions can sustain the long-term commitments that industrial upgrading requires (Chang, 1994), whereas narrow or fragmented blocs tend to produce discontinuous policy patterns. The relationship runs in both directions: the configuration shapes the interests from which blocs are formed, and the bloc in power selects policies that maintain or change the configuration (May et al., 2024).

M5 — The transmission of power balances. The balance between capital and labour established in the labour and employment system extends into the other dimensions. Financialisation and the exit options of internationally mobile capital weaken the position of workers and governments alike and create downward pressure on labour regimes and taxation, while strong associational and institutional

power resources allow labour to influence wage coordination, minimum-wage setting, and welfare policy beyond the workplace (Schmalz et al., 2018).

M6— Distribution, demand and capabilities. The distributional outcomes produced by welfare systems, wage institutions, and financialisaton feed back into the macroeconomic constellation. High inequality weakens consumption demand and makes growth dependent on debt or external surpluses (Berg & Ostry, 2017; Herr, 2018), while unequal access to education and health limits the availability of the skills required for upgrading (Ostry, 2015). Whether nominal wages act as an anchor for price stability or as a source of instability depends on the bargaining institutions of the labour dimension.

In an economy issuing a top-tier international currency, the currency-hierarchy dimension is close to slack and imposes little constraint on macroeconomic or industrial policy; in an economy whose currency sits in the lower ranks, the same dimension binds tightly and narrows the space for every other. Asymmetries between Global North and Global South will appear in empirical findings—and are not assumptions built into the framework's architecture. This theoretical openness allows a single apparatus to compare countries occupying very different positions in the world economy.

4.2 Coherence, Contradictions, and Crisis

Unlike the VoC approach (Hall & Soskice, 2001), the framework does not assume, in a deterministic manner, fixed patterns of complementarity between individual variants of capitalism, which are supposedly successful or efficient only when considered in their entirety. In most countries, hybrid constellations are more likely: characteristics across some dimensions reinforce one another and form relatively coherent constellations, while characteristics across other dimensions contradict them. Similar crises can therefore be addressed in different ways, and internal contradictions can themselves become the source of crises.

Whether a configuration is coherent or contradictory depends on the varying influence of different actor groups on individual policy fields and on the constraints on the scope for action: domestic as well as external, such as a country’s position in value chains or in the global financial system. Tensions can arise between economic and labour policy objectives, political instability can prevent long-term fiscal or industrial policy and thereby cause further economic instability and vulnerability to crises, or an industrial policy may fail to achieve its effect under an unsuitable macroeconomic regime—for example, under an overvalued currency and high interest rates (M3). The concept of multiscalarity and the sector-specific approach to value chains, combined with a consideration of the various stakeholder groups within a social bloc, also sheds light on configurations that may be desirable from the perspective of a single sector and a limited set of stakeholders, but do not necessarily represent a nationally inclusive development path. Such compromises, which are limited to small enclaves, may even be internally

stable, but they can preclude a broader and more comprehensive path of economic development or social improvements.

Crises must be viewed against previously established policy paths and initial conditions. Countries handle the same crises differently and vary in their capacity to manage them, depending on their position in value chains and the financial system, and on the crisis-management capacity of their social blocs and social policy institutions. From this historical perspective, crises are not necessarily complete ruptures: external shocks often act as catalysts for internal tensions that were already building up.

How crisis management is carried out cannot be deduced deterministically from prior institutional path dependencies either. Even in times of crisis, there is room for manoeuvre. Indeed, a window of opportunity arises during crises in which new coalitions can form, depending on how economically successful or socially acceptable the crisis management of the previously dominant social bloc turned out to be.

Social blocs themselves are subject to change: when a previously dominant social bloc can no longer hold a configuration together, this creates space for struggles over alternative configurations. Bloc dissolutions can lead to new social configurations for a time, but also to the resurgence of old ones. Viewed over time, this results in some countries having relatively stable social blocs and others having relatively volatile ones, which in turn can either facilitate or hinder the feasibility of certain long-term macroeconomic or industrial policy strategies. Given the multitude of overlapping crises—geopolitical, ecological, technological—the current phase of capitalism, and with it the various trajectories of globalisation, is characterised by openness and a high likelihood of reconfigurations across the various dimensions proposed here.

4.3 Why the Same Policies Work Differently: Conditions of Success and Failure

This integrative logic does not classify economies into fixed types. Rather, it helps to explain why the same policies produce different results in different environments: policy instruments tend to be effective where the overall configuration supports them, and to remain ineffective where other dimensions work against them. Four propositions, each based on the mechanisms set out above, specify these conditions.

First, expansionary macroeconomic policy can be sustained where a currency occupies a high position in the international hierarchy or where structural current-account surpluses ease the external constraint (M1). Elsewhere, the same policy stance leads to exchange-rate pressure, capital outflows and imported inflation, so that an identical fiscal position can stabilise one economy and destabilise another. Second, industrial policy is more likely to contribute to structural transformation where long-term finance reaches the targeted sectors and a cohesive social bloc is able to guide and discipline capital in pursuit of developmental objectives (M3, M4). Under high interest rates, an overvalued exchange rate, or a fragmented coalition, identical instruments tend to produce subsidised enclaves rather than broader

upgrading. Third, social and wage policy can stabilise a growth model where they broaden and steady domestic demand (M6). Where informality and fiscal constraints limit coverage, the same programmes reach only some of the households whose demand they are intended to secure. Fourth, integration into global production can generate employment, learning and upgrading where a country's position in the GVC leaves room for moving into higher-value-added functions (M2, M5). Where lead-firm power and technological barriers concentrate value capture elsewhere, the same openness tends to confine the economy to low-value-added segments.

These propositions refer to interlocking factors rather than to types of countries: an economy may fulfil the conditions of one proposition and not of another, and its trajectory could result from this particular combination. Establishing which combination is present in a given case—using the indicators in Appendix Table A1—is the task of empirical work with the framework.

The following *vignettes* illustrate the practical application of the framework by tracing how the six interaction mechanisms operate in concrete cases from Brazil, India and South Africa, in response to crises, drawing on the underlying country studies documenting crisis reactions to the COVID-19 pandemic (Jha & Goyal 2023; Jha et al. 2023; De Conti et al. 2023a; De Conti et al. 2023b; Scully 2023; Scully et al. 2023).

M1: External Insertion and Domestic Room for Manoeuvre—South Africa's Balance of Payments Constraint

South Africa was already experiencing external structural vulnerability when the COVID-19 pandemic started. The country's economy had been weakened by the 2008 global financial crisis and by the end of the commodity price boom that had supported growth from the late 1990s until 2008. By 2017, two of the three major rating agencies (Fitch and S&P) had downgraded the country's sovereign credit rating to "junk status," and in March 2020, just as the lockdown started, Moody's followed despite government efforts to avoid this outcome. Against this backdrop, President Ramaphosa announced a COVID Stimulus package worth R500 billion (approximately US$26 billion), or 10% of GDP, among the most ambitious in the developing world relative to GDP and larger than the packages of some other high-income countries, including South Korea and Canada. However, the actual disbursement fell far short of this figure. The most significant component, which was R200 billion (40% of the total) in government-guaranteed bank loans to distressed businesses, amounted to only R18.4 billion by the time the scheme closed in mid-2021. Even though actual disbursement fell far short of the announced volume, the country came under pressure to devalue its currency, and its external solvency was at risk. This resulted in the government seeking financial support from the IMF and the World Bank, funding that was positioned as supporting both the emergency package and the longer-term Economic Reconstruction and Recovery Plan. This case illustrates how an economy that holds a subordinate

position in the currency hierarchy and whose exports are concentrated in primary products can face concrete constraints that narrow fiscal space even in crisis conditions, while economies issuing internationally accepted currencies face far fewer such constraints (Scully et al. 2023).

M2: The Financial System and Productive Strategies—The Brazilian Development Bank and Industrial Policy in Brazil

The Brazilian Development Bank (BNDES) has historically served as a key source of long-term investment finance in a financial system where private banks prefer short-term credits and interest rates were extremely high. During the pandemic, the BNDES took on a countercyclical function, establishing a dedicated credit facility to provide resources to small- and medium-sized enterprises, with the aim of preserving employment and income. Operating through more than 150,000 transactions, the programme disbursed approximately US$20 billion and was complemented by a temporary suspension of payments on pre-existing debts owed to the bank. This intervention was significant in helping smaller firms survive the crisis. But this was an emergency response rather than a strategic reorientation. Before the pandemic, the BNDES had already been stripped of its role as an instrument of industrial policy under the Bolsonaro administration; the "brutal reduction" (De Conti et al. 2023a, p. 21) in credit to the private sector reflected this reversal. The period following 2008 shows that, under different political conditions, the Brazilian development bank can be utilised in a completely different way and can play an important role in industrial policy. The contrast with the 2008 crisis period, when BNDES financed industrial upgrading in sectors targeted by the industrial policies of the labour-friendly Partido dos Trabalhadores (PT) governments, such as oil and gas, aeronautics, heavy construction, and food, shows how the financial system's orientation fundamentally shapes which productive strategies can be pursued (De Conti et al. 2023a). With Lula's return to office in 2023, the BNDES has regained a prominent position in the Brazilian financial system and has become a key partner—together with trade unions—in the country's most recent industrial policy paradigm, the Nova Indústria Brasil (NIB, launched in 2024) (Brazilian Ministry of Finance 2024).

M3: Macroeconomic Constellations and the Policy Fields—India's Fiscal Space and Crisis Response

India's commitment to capital actors and fiscal restraint sharply limited what social policy could achieve during the COVID-19 pandemic. Although the relief package was announced as amounting to 10% of GDP, independent estimates placed actual additional spending at well under 1% of GDP by late May 2020, with the package relying overwhelmingly on the injection of liquidity and debt moratoriums rather than direct transfers. This policy approach privileged corporate interests: six months before the outbreak, the federal budget cut the corporate tax rate from 30% to 22%, restricting already limited fiscal capacity and disproportionately benefiting larger firms. The government simultaneously pursued an ambitious disinvestment and privatisation agenda, including the National Monetisation Pipeline covering roads, ports, airports, telecom, railways, and power. Meanwhile, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a programme with high multiplier effects and the capacity to incorporate unemployed workers, remained significantly underfunded, with demanded employment often not provided and payments frequently delayed or absent. This case shows how a neoliberal macroeconomic regime with limited tax capacity constrains social policy even during a humanitarian crisis and forces workers into informal, precarious work. India during the period described illustrates the weakness of the trade unions and civil society, which were unable to press the Indian state to step up its stabilisation efforts, even though the macroeconomic scope for doing so existed (Jha & Goyal 2023).

M4: Social Blocs and the Content of Policy—Brazil's Shift from PT to Bolsonaro: The Reversal of Industrial Policy

Over the past two decades, Brazil has experienced volatile electoral dynamics that have fundamentally impacted the content of policy in the country. During the PT administrations (2003–2014), although big capital remained powerful in Brazil, segments of the working class were brought into the power structure through Bolsa Família, minimum wage increases, expanded formal employment, and industrial programmes (Industrial, Technological and Foreign Trade Policy [PITCE]; the Productive Development Plan; and the Greater Brazil Plan). This arrangement rested on favourable conditions that allowed both profits and labour income to grow together. When the profit rate of major national firms declined from 2011 onward, due to a shift in external economic conditions and growing workers' pressure, a dispute over income distribution re-emerged. The dominant sectors (finance, agribusiness, and transnational industrial capital) united to remove the PT Rousseff government, backed by traditional right-wing parties, the mainstream media, the upper middle class, and the so-called Lava Jato operation. The reconfiguration of Brazil's ruling coalition after the 2016 impeachment of Dilma Rousseff fundamentally altered the direction of industrial and social policy. Indeed, during the Bolsonaro presidency, industrial policy was quickly dismantled, the spending ceiling was included in the

constitution, labour reforms weakened unions and pension reform raised the retirement age. The pandemic disrupted this short-lived social bloc configuration as Bolsonaro's isolating and destabilising policies were viewed with scepticism and concern by both workers and some key elites (De Conti et al. 2023a). This resulted in Lula's re-election in 2022. With his return to office, organised labour has once again been integrated into the ruling coalition, shaping Brazil's most recent industrial policy paradigm, the Nova Indústria Brasil (NIB), through direct participation in the Conselho Nacional de Desenvolvimento Industrial (CNDI). This case illustrates how the composition of the dominant social bloc directly determines policy content.

M5: The Transmission of Power Balances—Labour Reforms and Informalisation in India

The balance of power between employers and workers in India's automotive industry tilts sharply towards capital, and this imbalance spills outward into other dimensions of the political economy. The state's response during the pandemic exacerbated these imbalances. The central government issued an advisory urging employers not to dismiss workers or cut pay, but it carried no legal force. Labour inspections were postponed or suspended in several states to improve the "ease of doing business" (Jha et al. 2023, p. 41). This reflects a crisis-enabled restriction of the already limited structural or associational power. The overall result is a form of "low road" labour relations where both multinational companies and domestic firms engage in labour cost arbitrage. In this setting, even when economic upgrading occurs, it is not associated with social upgrading in the form of increased real wages or decent working conditions (Jha et al. 2023).

M6: Distribution, Demand and Capabilities—South Africa's Unemployment and Demand Crisis

South Africa's fragmented labour market and extreme inequality have a significant impact on consumption, the largest component of aggregate demand (even in comparison to international standards). This creates a cycle in which distributional outcomes weaken macroeconomic stability. Open unemployment stood just above 40% at the start of 2023 (including discouraged work seekers). Because a majority of the labour force is unorganised and subject to precarious conditions, the loss of income and employment translates directly into reduced household spending. The problem is compounded by the small informal sector: unlike countries where workers who cannot find formal wage work become self-employed, in South Africa, due to social government transfers, they often remain unemployed.

The government's pandemic response was not able to break this cycle. The Temporary Employer-Employee Relief Scheme (TERS) supported formal workers, while the R350 COVID grant reached the unemployed and informally employed, but its low value and the TERS's restriction to the formal sector meant the working-age unemployed and informal workers received inadequate support. The grant was

stopped in April 2021 and started again only after widespread unrest in July 2021. External price pressures compounded the problem. Due to a weakening of the rand and higher prices for natural resources, South Africa was exposed to inflationary pressure. The US Federal Reserve tightened its monetary policy, and like many economies across the Global South, South Africa increased interest rates despite a weak and uneven recovery from the pandemic. Since household consumption accounts for the largest share of demand, and since a considerable part of that consumption is financed through credit, these rate rises eroded household living standards. With weak distributional policy and harsh monetary conditions, consumption demand remained negatively impacted, showing how distributional outcomes feed back into the macroeconomic constellation, placing the economy on a low-growth trajectory (Scully 2023).

The Mechanisms Combined: Three Trajectories

Individually, the vignettes show single mechanisms at work. Combined, the mechanisms explain trajectories, and a comparison of the three countries shows how the same framework accounts for very different paths.

Brazil's volatile path over the past two decades can only be fully explained by taking all six mechanisms into account. During commodity booms, the external constraint became less restrictive (M1): export revenues and capital inflows widened the room for manoeuvre, and a class-conciliating bloc under PT hegemony used it (M4), cash transfers and minimum-wage increases broadened demand (M6), while industrial programmes and BNDES credit attempted structural change (M2). The configuration appeared coherent, but it contained a contradiction: a macroeconomic regime of high interest rates and an appreciating currency worked against the growth dynamic and the industrial policy it accompanied (M3), and the boom deepened the reprimarisation of exports. When the external dynamics shifted (M1), a deep economic crisis occurred and distributional conflicts returned; the conciliation could no longer be financed, the dominant bloc dissolved (M4), and the change of government in 2016 reversed industrial and social policy, while labour reforms weakened workers' power resources (M5). The resulting trajectory, early deindustrialisation, dependent integration, and recurrent start–stop policy patterns, is the product of the interaction of various mechanisms; the reconfiguration under way since the new boom of natural resources starting in the early 2020s shows the same mechanisms opening a new window of opportunity (De Conti et al. 2023a; De Conti et al. 2023b).

India's path over the same period shows a different pattern: enduring accumulation without the incorporation of labour. The neoliberal turn of 1991 reoriented the state toward large capital, and the resulting configuration has been remarkably stable in its essentials (M4). A macroeconomic regime combining a narrow revenue base for the state, regressive taxation, and fiscal restraint keeps social expenditure low (M3) - the corporate tax cut of 2019 and the chronic underfunding of the employment

guarantee illustrate the priorities - and perpetuates a vast relative surplus population, pushing workers into informal and precarious employment (M5). The financial system reflects the same orientation: public sector banks have provided easy and continuous credit to favoured conglomerates, accumulating large volumes of bad loans, while their targeted lending role for agriculture and small industry is being eroded (M2). The distributional outcome (a falling wage share and rising inequality) weakens mass consumption demand; growth nevertheless remained domestic demand-led, sustained by high government deficits and the consumption of upper-income groups, with net exports contributing negatively (M6; Akcay et al. 2022). Integration into GVCs has been shallow, concentrated in low-value, low-technology segments, and economic upgrading has not been accompanied by social upgrading (M1, M5). The balance of power leans sharply toward capital: labour protections, generally tied to firm size, leave the majority of the world of work essentially unregulated (M5). The trajectory is stable but exclusionary: comparatively high growth coexists with rising inequality between the top 10 per cent and the rest of the population as well as low levels of formal employment (Jha & Goyal, 2023; Jha et al. 2023).

South Africa's path over the same period shows a third pattern: reproduction of economic and social inequalities rather than rupture. The post-apartheid liberalisation of the 1990s established a neoliberal macroeconomic regime (M3) and a financialised economy centred on the minerals–energy complex, in which portfolio capital inflows far exceed FDI. Domestic and foreign productive investment remains persistently low (M2), while the currency remains exposed to global financial cycles (M1). Export-oriented automotive production became internationally integrated but foreign-owned and capital-intensive, while labour-intensive sectors contracted (M5); extreme inequality and unemployment keep consumption demand structurally weak (M6). No unified dominant bloc has formed (M4): fragmented elites produce policy incoherence and corruption, with a developmental industrial ministry alongside an austerity-oriented treasury, but the configuration has proven durable. Crises (2008, the pandemic, the unrest of July 2021) have forced adjustments, such as the extension of income support, but no redirection. The trajectory is stable but narrow: individual sectors remain internationally integrated but create few jobs and few linkages to the rest of the economy; growth stays persistently low; and the configuration absorbs shocks without transformation (Scully, 2023; Scully et al., 2023).

These trajectories show the comparative utility of the framework. All three countries faced similar external shocks and had access to broadly similar instruments. Their trajectories differ because their configurations differ. In Brazil, contradictions dissolved the dominant bloc and produced episodic reconfigurations, each time reopening the question of which coalition governs. In India, a cohesive bloc organised around large capital and a restrictive fiscal regime reproduced accumulation without incorporation, keeping labour weak and the economy structurally constrained. In South Africa, a fragmented but entrenched configuration reproduced itself, absorbing crises without fundamental redirection. In none of the three cases is the path explained by any single dimension; these differences

can only be understood by an analysis of the interaction of the mechanisms, which is what makes the framework a diagnostic instrument rather than a typology.

5 Conclusion

This article revisits a long-standing question in political economy: why do development trajectories diverge across countries? It argues that these differences cannot be adequately captured by existing theoretical approaches, which are often limited to single levels or policy areas, but that their analysis requires an analytical framework that systematically connects the core dimensions of capitalist development and their interaction across multiscalar national, transnational, and sectoral levels. The answer proposed here is therefore that trajectories cannot be traced back to any single factor—institutions, macroeconomic regimes, or global hierarchies—but emerge from the configuration of seven interrelated dimensions: the macroeconomic constellation, the financial system, integration in global production, industrial policy, social policy, the labour and employment system, and social blocs. These dimensions are interconnected: none holds causal priority alone, let alone a predetermined one, and which of them ultimately carries the greatest weight in a given configuration is an empirical question.

The framework connects these seven dimensions through six interaction mechanisms, linking together a country's insertion into the global economy, its national financial and macroeconomic structures, its industrial and social policy fields, and its social power relations. These interactions operate at the national as well as the sectoral level: sectors within the same country can be integrated into the global economy in very different ways. This scalar interlinkage of industries with GVCs—which can in turn be influenced by national policies—is part of the complexity of variegated capitalism, drawing attention to power asymmetries and the various forms of coordination among firms within them.

At the national level, stability is achieved over time as a dominant social bloc becomes able to manage tensions, conflicts, and crises in such a way that the overall configuration remains intact. Such stability, however, is not the same as development success or social improvement: a configuration can be stable and still confine a country to a narrow path or serve certain interests more than others. External events—a pandemic, a fall in commodity prices—can trigger or deepen a crisis that has already begun to emerge from the contradictions within an existing configuration. The causes of a crisis may lie outside or inside the country in question. However, a country’s existing configuration is the deciding factor in a crisis: its macroeconomic constellation, its position in the global value chain, its institutional pattern, and the crisis management strategies of the dominant social bloc all shape its response and determine whether the crisis leads to the preservation, dissolution, or transformation of that social bloc. How a crisis develops depends, among other things, on the capacities of the dominant social bloc, because any response to a crisis—and the distribution of its costs—must be organised by a coalition that is able to act. Building on this political-economic foundation for trajectories, the framework contributes to determining the

conditions under which economic policies have real effects and what those effects are. The same instrument—an expansionary fiscal stance, an industrial policy programme, a welfare reform, an opening to global production—can succeed in one configuration and fail in another. The framework is thus intended as an analytical instrument rather than a predictive model: it offers neither a universal policy recipe nor a purely deterministic account, but serves to identify, for each economy, the constraints that prevent it from changing, the contradictions that limit the effectiveness of policy, and the room for manoeuvre that remains.

In principle, this room for manoeuvre exists for countries at every position in the world economy. However, its scope can vary considerably. Where external dependence and financial vulnerability are pronounced, the external dimensions narrow the space for macroeconomic, industrial, and social policy. Greater levels of dependence in these countries often reflect an imperial and colonial past that has shaped their institutional, social, and economic development. Yet even under these conditions, the question of which actors are involved in the formation of economic, social, and labour policies—and whose interests they serve—makes a significant difference to how development programmes are shaped. Understanding these differences requires attention to the previous social struggles and consensus-building processes that are institutionalised in each country's political economy.

In sum, the framework enables systematic comparison across countries and sectors[2]: it provides a basis for analysing how different configurations of the seven dimensions give rise to distinct development trajectories, and how these trajectories evolve under changing global conditions. In the current context of compounding geoeconomic and ecological crises, in which configurations and the larger trajectories of globalisation are increasingly open to change, such a configurational analysis is of particular importance.

[2] The indicators presented in the appendix make the framework applicable in comparative research.

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Appendix

Table A1

Dimension	Core analytical question	Indicators
STRUCTURAL CONFIGURATIONS — How does the economy accumulate, and how is it inserted into the global economy?		
Macroeconomic constellations	How is demand generated and investment financed and stabilised — and which growth drivers carry the economy?	Fixed capital formation % GDP; consumption and government demand % GDP; balance of exports and imports of goods and services % GDP; household, corporate and government debt % GDP; private domestic and foreign debt % GDP; government revenues % GDP; inequality indicators (Gini; wage share); asset and property prices; exchange rate; inflation and nominal wage dynamics; current account % GDP
Financial system	Who allocates finance, on what horizon — and how is the economy inserted into global finance and the currency hierarchy?	External debt of private sector % GDP; foreign debt % GDP and its currency composition; FDI flows and stocks % GDP; portfolio investment % GDP; other investment (bank credits) % GDP; primary income balance % GDP; deposit dollarisation % of total deposits; index of capital account openness; stock of domestic bank credit % GDP; stock market capitalisation % GDP; share of institutional investors among stockholders; how investment is financed; sovereign spreads and ratings
Integration in global production	What is produced, in which segments of which chains, under whose governance —	Imports and exports of goods and services % GDP; natural resource exports % of total exports; backward and forward GVC participation (TiVA); domestic value added in gross

	and how much value is retained domestically?	exports; export complexity/sophistication index; chain governance type by main export sectors (qualitative); sectoral FDI stocks; profit repatriation % GDP
POLICY FIELDS — Where does the state deliberately shape structural change and distribution?		
Industrial policy	Does the state pursue industrial policy — with what ambition, instruments and procedures, and how coherently does industrial policy operate in practice?	Government and private R&D expenditure % GDP; government expenditure for education % GDP; government support and subsidies; credit volume of development banks % GDP; government expenditure on clean/renewable energy % GDP; SOEs gross value creation % GDP; tariffs, local-content and export conditions (qualitative)
Social policy	Who is protected against which risks — and how do welfare arrangements shape distribution, capabilities and demand?	Social safety net expenditures % GDP; share of population protected by at least one social protection benefit; people experiencing poverty % of population; size of the low-income sector; formal–informal coverage gap; health and education outcomes
SOCIAL POWER RELATIONS — Who has the power to establish, sustain or overturn configurations and policies?		
Labour and employment system	How are wages set and work organised — and which power resources can labour mobilise, at which scales?	Trade union density (and its change); wage bargaining coverage; degree and level of coordination of collective bargaining; wage dispersion; informal employment % of total employment; share of permanent work contracts; employment protection legislation; minimum wage relative to median wage; enforcement capacity (qualitative)

Social blocs	Which coalition dominates, whose interests do policies serve — and how stable is the political project?	Democratic participation; electoral, legislative and government strength of political parties; composition of dominant social blocs (class, sectoral etc. — qualitative reconstruction); concentration of lobbyists and/or associations and their success rates in relation to regulations; ownership concentration and production share of ownership structures; crisis-management episodes (qualitative)

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