

War II. Countries such as Canada are "dependent" in the sense that their economies have been penetrated by foreign-owned subsidiaries, yet Canada exhibits a standard of living higher than that of most Third World countries.

Furthermore, the critics contend that the dependency perspective is vague on policy conclusions and that it has failed to spell out in concrete details how the newly independent states should proceed in order to achieve their national goals. The critics argue that the elimination of imperialist influence may not automatically bring about national development, that a socialist revolution may not necessarily produce positive results for development.

How does the dependency school answer the above criticisms? The next chapter presents a discussion of the rise of the "new" dependency studies, which utilize a "historical-structural" methodology to analyze and explain how the internal dynamics of political struggles can promote a certain degree of development in Third World countries.

CHAPTER 7

The New Dependency Studies

RESPONSES TO THE CRITICS

Cardoso is usually singled out as the key figure of the new dependency studies. His works have set the research agenda for a new generation of radical scholars (see, e.g., Cardoso 1973, 1977; Cardoso and Faletto 1979). This section examines what is so attractive about Cardoso's new dependency studies.

First, unlike the general analysis of the classical dependency school, Cardoso's methodology is "historical-structural." Since Cardoso wants to bring history back in, he employs the term *dependency* not as a theory to generalize the universal pattern of underdevelopment, but as a methodology for the analysis of concrete situations in Third World development (Palma 1978). Cardoso's goal is to delineate historically specific new situations of dependency in the search for differences and diversities. Consequently, his key research questions are as follows: How can the researcher bring out the historical uniqueness of a given dependency situation? How is a particular dependency situation different from previous ones? What is the historical origin of a particular dependency situation, and when and how will the situation change? How do the existing dependency structures themselves generate possibilities for transformation? What impact will a change in dependency have on the historical development of a Third World country?

Second, unlike classical dependency researchers, who focus on the external conditions of dependency, Cardoso is more inclined to emphasize internal structures of dependency. And instead of stressing the economic foundation of dependency, Cardoso is more interested in analyzing the sociopolitical aspect of dependency, especially class struggles, group conflict, and political movements. To Cardoso, "the problem of development in our days cannot remain restricted to a discussion about import substitution, not even to a debate on different strategies for growth, in terms of export or non-export policies, internal or external markets, orientation of the economy, etc. The main issue is people's movements and consciousness of their own interests" (quoted in Hettne and Wallensteen 1978, p. 32). Consequently, according to Cardoso (1977, p. 14), "what was significant was the 'movement,' the class struggles, the redefinitions of interest, the political alliances that maintained the structures while at the same time opening the possibility of their transformation."

However, while Cardoso contributes by reexamining the role of internal political struggles in dependency situations, he also makes it clear that he conceives "the relationship between external and internal forces as forming a complex whole whose structural links are . . . rooted in coincidences of interests between local dominant classes and international ones, and, on the other side, are challenged by local dominated groups and classes" (Cardoso and Faletto 1979, p. xvi). For example, external domination appears as an "internal" force, through the social practices of local groups and classes that try to enforce foreign interests because they may coincide with values and interests that these groups pretend are their own. Thus Cardoso calls for an analysis of the "internalization of external interests."

Third, unlike researchers of the classical dependency school, who emphasize the structural determination of dependency, Cardoso views dependency as an open-ended process. Given similar structures of dependency, there is a range of possible responses depending on the internal political alliances and movements. Thus if dependency structures delimit the range of oscillation, then political struggles of classes, groups, and the state can revive and

transfigure these structures and may even replace them with others that are not predetermined.

Thus unlike the classical dependency school, which predicts a unidirectional trend of underdevelopment in Third World countries, Cardoso (1977, p. 20) argues that it is possible to have dependent-associated development—"that there can be development and dependency and that there exist more dynamic forms of dependence than those characterizing enclave or quasi-colonial situations."

In sum, many basic assumptions of the classical dependency studies—such as external, economic dependency and structural underdevelopment—have been modified in Cardoso's works (see Table 7.1). This change of orientation has opened up new areas of research in dependency studies. In this chapter, we will examine how dependent development took place, how internal factors (such as the bureaucratic-authoritarian state and its political alliance with local and foreign capital) have shaped the path of development in Latin America, and how the economic miracle in East Asia can be interpreted in the light of Cardoso's historical-structural methodology.

CARDOSO: ASSOCIATED-DEPENDENT DEVELOPMENT IN BRAZIL

In 1964, the Brazilian populist regime was overthrown and replaced by a military regime. In the impassioned aftermath of 1964, much of the discussion in the literature of development revolved around the nature of the new military regime. How should this turning point in Latin American history be interpreted? Was it just another reactionary military coup or did it represent a new political-economic order for Third World development?

From a classical dependency perspective, Furtado (1968) characterizes the new Brazilian regime as a military state, arguing that, like any other military state, this Brazilian regime had social stability as its major goal and would use every means to preserve the

Table 7.1 Comparison of Old Dependency Studies and New Dependency Studies

	Old Dependency Studies	New Dependency Studies
Similarities		
focus of research	Third World development	same
level of analysis	national level	same
key concepts	core-periphery, dependency	same
policy implications	dependency harmful to development	same
Differences		
methodology	high-level abstraction, focus on general pattern of dependency	historical-structural, focus on concrete situation of dependency
key factors	emphasis on external: unequal exchange, colonialism	emphasis on internal: class conflict, the state
nature of dependency	mostly an economic phenomenon	<i>NSH</i> mostly a sociopolitical phenomenon
dependency and development	mutually exclusive: lead only to underdevelopment	can coexist: associated-dependent development

status quo and its perpetuation of power. The economic model corresponding to this political environment was the reduction of urban-industrial investment in favor of agricultural production—that is, promoting pastoralization at the expense of industrialization. The new regime pursued such stagnant economic policy because of its social basis—the agrarian oligarchy. From this classical dependency perspective, the new military state was therefore nothing but the instrument of the agrarian oligarchy, regardless of the military's own corporate interest.

Cardoso (1973), however, is highly dissatisfied with Furtado's interpretation of the new Brazilian regime. He asks: "How much

of this is an objective attempt to analyze real, existing tendencies, and how much is simply the preferred, normative model?" (p. 156). To Cardoso, the classical dependency analysts have failed to take note of many new activities that occurred in the military regime, thus they were unable to recognize this regime as pursuing a new model of "associated-dependent development" in Brazil.

New Activities in the Military Regime

Cardoso has pointed to the following new activities in the military regime in Brazil. First, international capitalism became more interested in direct investment in the manufacturing sector, such as establishing factories and plants in Latin American countries. In Brazil, for example, the level of foreign private investment grew so much and became so sustained that the state sector and national entrepreneurs no longer played a dominant role in the dynamic industrial sectors. Cardoso reports that foreign capital occupied 72.6% of the capital-goods sector, 78.3% of the durable consumer-goods sector, and 53.4% of the nondurable consumer-goods sector for the ten largest firms in each sector in Brazil in 1968. This growing industrial power of foreign-owned manufacturing firms that sold their products to the Brazilian market was also reflected in the advertising business. In 1967, the twelve major advertisers in Brazil included Volkswagen, Gillette, Ford, Nestle, Coca-Cola, and Shell. And by being the largest advertising sponsors, foreign firms exercised influence on the mass media—news-papers, magazines, and television.

Second, the antipopulist sector of the military and the technocracy, which had been relatively uninfluential in the populist era, suddenly gained considerable influence as the new economic trend emerged. Not only did the military-technocratic sector carry out the repressive function in the political arena, it also took on the task of modernizing the economy and the state administration.

Third, as a result, the populist sector lost its power. Cardoso observes that the union leaders, who mediated between the workers and the state in the previous era, had completely disappeared from the political scene due to political repression in the new

military regime. Cardoso (1973, p. 147) further argues that capital accumulation would require, among other things, "keeping down the wage level and therefore dismantling an array of union and political organizations through which, in the populist period, the wage earners were able to resist part of the pressure for accumulation."

Finally, the old ruling sectors had lost their relative power position also. Not only the traditional agrarian sector (*latifundiários*), but even industrial and merchant interests that had not adapted to the new economic trend found themselves at a political disadvantage under the new regime. By accepting military intervention to destroy the influence of the workers, the Brazilian bourgeoisie unintentionally supported measures that destroyed its own direct political expression (such as elections, political parties, and free speech).

To summarize, the new activities since 1964 were the increasing foreign direct investment in manufacturing, the economic and repressive functions of the military sector, the dismantling of working-class power, and the erosion of bourgeois political expression. However, in interpreting these new activities, Cardoso cautions against falling back on the classical dependency school's assertion that foreign domination allows no room for national development. Instead, researchers should focus on the particularity of these activities and formulate a new model to capture their dynamics. Thus Cardoso presents his model of "associated-dependent development."

The Model of Associated-Dependent Development

Cardoso deliberately uses the phrase *associated-dependent development* because it combines two notions that generally have appeared as separate and contradictory—dependency and development. Classical modernization theories focus only on modernization and development, while classical dependency theories and imperialism view the basic relationship between a dependent cap-

italist country and an underdeveloped country as one of extractive exploitation that perpetuates stagnation. But Cardoso asserts that a new phase has emerged as a result of the rise of multinational corporations, the immersion of industrial capital into peripheral economies, and a new international division of labor. Cardoso (1973, p. 149) argues that "to some extent, the interests of the foreign corporations become compatible with the internal prosperity of the dependent countries. In this sense, they help to promote development." Since foreign corporations aim to manufacture and sell consumer goods to the domestic market, their interests coincide with economic growth in at least some crucial sectors of the dependent country. From this angle, development implies a definite articulation with technological, financial, organizational, and market connections that only multinational corporations can assure.

Thus, unlike the classical dependency model, associated-dependent development is not without dynamism in the industrial sector. It is not based on ruralization at the expense of industrialization, and it will not lead Third World countries to export only raw materials. However, Cardoso is not willing to go all the way to join the modernization school, for he immediately stresses the costs of associated-dependent development. For example, he points out that the Brazilian economic boom was based on a regressive profile of income distribution, emphasizing luxurious consumer durables as opposed to basic necessities, generating increasing foreign indebtedness, contributing to social marginality and the underutilization and exploitation of manpower resources, and thereby leading to an increase in relative misery.

In addition, Cardoso points to the objective limitations of this type of dependent development. Dependent development is crippled because it lacks "autonomous technology"; it is compelled to utilize imported technology and must bear all the consequences of absorbing capital-intensive, labor-saving technology. It is also crippled because it lacks a fully developed capital-goods sector. The accumulation, expansion, and self-realization of local capital require and depend on a dynamic complement outside the dependent country—it must insert itself into the circuit of international capitalism.

In underscoring the costs and structural limitations of dependent development, Cardoso therefore stays within the confines of the dependency school. In fact, what Cardoso tries to accomplish is to examine both dependency and development, to study both foreign domination and domestic political forces, in order to show how the historically specific interaction between these actors has managed to produce some dynamic development within the structural confines of dependency. Thus it is interesting to examine what the various political forces in Cardoso's model are.

The Political Dynamics

There are three types of political actors in Cardoso's model—the military (bureaucratic-technocratic) state, the multinational corporation, and the local bourgeoisie. Cardoso argues that these three groups have formed a political alliance to promote associated-dependent development in Brazil since 1964.

First, there was the emergence of the *military state*. The military established tight control of the executive by redefining the role of the presidency, broadening the scope of the National Security Council, creating a national intelligence service, and setting up security departments in all ministries and state enterprises. After accomplishing the centralization of administration, the military state began to repress all forms of social protest. Using the doctrine of national security, the military state dismantled workers' organizations and achieved a high degree of "political tranquility." Then the military state tried to accelerate economic growth through a combination of public and private enterprises, such as the promotion of the petrochemical industry by means of establishing PETROBRAS (the state oil monopoly). It also promoted the ideology of social mobility, with the aim to "keep socially open a politically closed society."

Second, the local bourgeoisie's nationalist developmentalist fraction was deposed by the military state and replaced by the bourgeoisie's internationalized sectors. Later, after the bourgeoisie had relinquished its political control instruments (parties, elections,

freedom of the press, and so on), an agreement was reached between the military state and the bourgeoisie. The military implicitly assumed an identity between the economic interests of the entrepreneurs and the general interests of the nation. They defined some areas in which Brazilian capital would be preferentially encouraged to act. With the support of the state, very promising opportunities were opened up for the Brazilian bourgeoisie to make a profit, and the productive forces of modern capitalism were unleashed.

Third, according to Cardoso, the Brazilian economy was increasingly restructured in accordance with the new patterns of international economic organization. The Brazilian bourgeoisie frequently associated with multinational corporations as a dependent and junior partner, so new forms of production involving international monopolies and local enterprises appeared. Cardoso argues that multinational corporations had the upper hand over the Brazilian bourgeoisie because the former controlled finances and advanced technology.

Based on the above analysis, Cardoso (1973, p. 163) concludes that it is reasonable to perceive of the 1964 political event in Brazil as a revolution:

A bourgeois economic revolution did take place, brought into being by a reactionary political movement. It was economically revolutionary to the extent that it pushed the local bourgeoisie to adapt to the beat of international capitalist development, thereby establishing an effective subordination of the national economy to modern forms of economic domination.

Cardoso's research has shaped the direction of empirical studies in the dependency school and has started a whole new series of investigation on the bureaucratic-authoritarian state; on the triple alliance among the state, the multinational corporations, and the local bourgeoisie; and on dependent development in the Third World. The influence of Cardoso's research can be seen in the following discussion of the new dependency studies.

O'DONNELL: THE BUREAUCRATIC-AUTHORITARIAN STATE IN LATIN AMERICA

O'Donnell (1978, p. 4) notes that the concept of "dependence explains so much so fully that it becomes senseless to question how it is linked with factors whose dynamism is far from being the mere reflection of dependency itself." Not satisfied with the classical dependency theory, O'Donnell argues that researchers should adopt Cardoso's "historical-structural" approach to investigate the interrelationships through time between capitalism and its pattern of political domination. O'Donnell has contributed by delineating the defining characteristics, the emergence, the development, and the collapse of a specific type of political domination that he calls the "bureaucratic-authoritarian" (BA) state.

Defining Characteristics

In Latin America, the BA state emerged in the 1960s, first in Brazil and Argentina, and then in Uruguay and Chile. O'Donnell points out that, unlike other forms of political domination such as traditional authoritarianism and Fascism, the BA state possesses the following defining characteristics:

- (1) *Dominance of bureaucrats:* High government positions usually are occupied by persons who come to them after successful careers in bureaucratic organizations such as the armed forces, the public bureaucracy, and large private firms.
- (2) *Political exclusion:* The BA state closes channels of political access to the popular sector either through repression or through the imposition of vertical (corporatist) controls by the state on such organizations as labor unions.
- (3) *Economic exclusion:* The BA state reduces or postpones indefinitely aspirations to economic participation by the popular sector.
- (4) *Depoliticization:* Social issues are reduced to "technical" ones that can be solved by the rational planning of state bureaucrats.
- (5) *Deepening of dependent capitalism:* The emergence of the BA state corresponds to a stage of the deepening of peripheral and dependent capitalism in the Third World.

The following sections offer discussion of how the BA state emerges and explanations for the rise of the BA states in Latin America.

Emergence of the BA State

Why did the BA state emerge only in the 1960s but not earlier? According to O'Donnell, the BA state was a response to the economic and political crises of dependent capitalism in Latin America in the post-World War II era. In the 1950s, many Latin American states adopted the policy of import substitution. Instead of importing foreign consumer goods, the Latin American states decided that they would manufacture consumer goods themselves for their domestic markets. To the extent that domestic demands had already been created by imports and the production of simple industrial consumer goods entailed small requirements of capital, technology, and organization, the policy of import substitution initially led to an expansion of local capital and thus a horizontal expansion of industrial activities. However, this horizontal expansion lasted only briefly and soon led to the appearance of many symptoms of economic crisis—balance-of-payments pressures, inflation, negative redistribution of income, declining GNP and investment rates, flight of capital, and so on.

These economic problems led to the political activation of the popular sector. The working masses asked for higher wages, lower inflation, more government services, tighter control of foreign corporation, and higher taxes on the rich. According to O'Donnell, this political activation was perceived by the dominant classes and sectors as a threat to their interests and to their international affiliations. O'Donnell argues that the greater the level of threat, the greater the polarization and visibility of the class context of the conflicts. This, in turn, tended to produce stronger cohesion among the dominant classes, to lend more weight to the "hard-line" groups in the military and in the bureaucracy, to promote a more complete subordination of the middle sectors, and to provoke a more drastic defeat of the popular sector.

The BA state is a historical product of these economic and political crises. Realizing that the horizontal expansion of industrial consumer goods had reached its limit, the military-bureaucratic elites tried a new economic strategy that O'Donnell labels the "deepening of industrialization." The aim of the deepening strategy was to produce intermediate and capital goods—such as petrochemical products, automobiles, industrial inputs, equipment, machinery, and technology—that were more complex and more removed from final consumption. This movement toward basic industrial production, if successful, would generate significantly more vertically integrated industry in Latin America, open the door to future exports, and reduce the balance-of-payments problem by cutting back on technology imports.

In order to carry out this deepening policy, the military-bureaucratic elites realized that they must institute a BA state to generate the social peace for large-scale capital investment. Compared to investment in consumer goods, investment in capital goods requires a longer maturation period, greater technological content, more organizational management, and much more capital input. No corporation is willing to undertake such large-scale, lengthy, and risky investment unless there is a high degree of future certainty of profitable environment.

Consequently, in order to solve the economic crisis, the military-bureaucratic elites first had to solve the political crisis by instituting a BA state. The military-bureaucratic elites had to eliminate the threat entailed politically by the activation of the popular sector. Thus came into being the authoritarian nature of the state—eliminating the leaders of the popular sector, turning the workers' organizations at the factory level into an arm of the state, banning strikes, discontinuing periodic elections, and so on. According to O'Donnell, political exclusion of the popular sector led to "order," created the necessary conditions to stabilize the domination relationship, guaranteed the predictability of profitable investment, and provided a new impulse toward the deepening of production structure. Conversely, if the state had not increased its capacity for control over the civil society enormously through political repression, the deepening process would not have been possible.

Dynamics of the BA State

If the BA state corresponds to a stage of the deepening of industrialization in Latin America, what then are its dynamics? From O'Donnell's perspective, international capital is a necessary condition for the deepening process, because only the transnational corporations have sufficient capital, advanced technology, and modern equipment to take part in such a process. In addition, the foreign currency that the TNCs bring in serves to relieve immediate balance-of-payments problems and to show internal allies the external support that the BA state enjoys.

Thus during the *initial stage* of the BA state, its inaugural problem is to eliminate the threat from the activation of the popular sector, to provide an attractive investment environment so as to lure the entry of international capital. However, O'Donnell contends that this task takes time and is intrinsically precarious. It takes time to curtail popular protests and to demonstrate to the international capitalists the seriousness and ability of the BA state to carry out the deepening process. In addition, the BA state has to fight against not only the allies of the popular sector, but also its old allies who became disillusioned with the BA state. The national bourgeoisie, for instance, is not pleased with the BA state's policy of eliminating its subsidies and lowering import tariffs. Only when the BA state receives the support of the World Bank and the International Monetary Fund can international capital start to enter and invest in capital-goods industries.

The distinguishing elements of the initial phase of the BA state, then, are political isolation from the popular sector, the disillusionment of its original allies (especially the national bourgeoisie), and dependence on international capital. O'Donnell argues that the initial stage of the BA state is the time at which it is most open to deep penetration by international capital.

Only when international capital begins to enter in sustained fashion has the BA state consolidated its power and moved beyond the initial stage. At this *consolidation stage* there is a significant recovery of the GNP's growth rate, and there are external economies resulting from the previous entry of the TNCs. The BA state

therefore has more bargaining power and more room for action than before. O'Donnell argues that the successful BA state may adopt a policy of selective reopening to the national bourgeoisie, thus forming a triad consisting of the BA state, international capital, and local capital.

With the inclusion of national and private components, the BA state can now claim representation of the incarnation of the general interests of the nation. In pretending to express the general interest, the BA state represents itself as working for everyone's long-term benefit, although some of the beneficiaries may not as yet be able to recognize it. O'Donnell (1978, p. 20) further points out that at this stage, "the new role of international capital and the state expansion are presented as instruments for the attainment of the true goal: the grandeur of a nation in which even those excluded and repressed are invited to participate vicariously."

Obviously, the formation of a triad generates a much more complex situation than existed before. On the one hand, the BA state actively orchestrates the reentry of the national bourgeoisie—the BA state becomes more nationalist and more protectionist, it again subsidizes the bourgeoisie, it reserves for the national bourgeoisie hunting grounds forbidden to the direct access of international capital. Thus the BA state must come to restrict international capital to a degree almost unthinkable during the initial stage. On the other hand, the BA state still requires a high and sustained flow of international capital, due to the difficulties of generating international technology, mounting foreign indebtedness, large investments for the capital-goods industry, and so on.

From the viewpoint of international capital, despite its nationalistic whims, the BA state continues to be the political guarantee of the order and stability necessary for profitable investment in capital-goods industries. International capital, of course, wants to "restrict the pruning of its domestic expansion attempted by the state and the national bourgeoisie. But to the extent that the pruning does not seem to entail greater costs than the surrender of the market, international capital continues to need the guarantee of stability and predictability extended by the BA" state (O'Donnell 1978, p. 23). O'Donnell uses the term "mutual indispensability" to characterize the relationship between the BA state and international

al capital during this consolidation phase, and remarks that the above conception of the BA state and the national bourgeoisie takes "it well beyond the nullity or marginality postulated by simplistic versions of imperialism and dependence" (p. 23).

In the end, O'Donnell entertains two different paths for the collapse or transformation of the BA state. On the first path, many BA states may not even have a chance to go beyond the initial stage. Take the Argentina BA state, for example. In 1968, two years after a coup, international capital began to enter Argentina. At the same time, Argentina's national bourgeoisie and middle sectors had begun to turn back toward the popular sector and its nationalist popular expression of *Peronismo*. By mid-1969, with rising popular unrest, it was clear that Argentina's BA state had failed to fulfill its role as the guarantor of social peace and economic stability. Consequently, the flow of foreign investment halted, hot money left the country, international reserves fell, private investments in equipment and machinery declined, and so on—leading to the failure of the deepening project and the end of the short-lived partnership of the BA state and international capital. In this light, Argentina provides a classic case in which the civil society invaded and demolished a state that, under these attacks, began to water down its bureaucratic-authoritarian characteristics in terms of having more sensibility toward social problems and curtailing international capital. O'Donnell (1978, p. 24) points out that although defeated politically, the dominant classes were still powerful and backed by the armed forces. As a result, the dominant classes "inaugurated a defensive strategy in which what remained of the BA was used as a bargaining card against the guarantee that its successors would not transgress the limits of those institutional and class interests."

On the second path, after a successful BA state has consolidated its power, it renationalizes itself, orchestrating the reentry of the national bourgeoisie, distancing itself somewhat from international capital, and thus opening up again toward civil society. On this point, O'Donnell observes a paradox between the BA state and democracy. A successful BA state that has established a triad has more bargaining power with the popular sector. It can demand full protection from dominant class interests as compensation for dem-

ocratic development. Having promoted rapid economic growth, the BA state may even have a chance to win democratic elections over its opponents. Thus a successful BA state has also the capacity to transform itself into a democratic state. However, since there is no urgency (in the form of popular protests) to compel the BA state to develop democratic institutions, those within the BA state and the dominant classes who favor democratic transition exert less leverage. It is hard for this tiny democratic faction to convince other members that the BA state needs to democratize itself before it is too late. Why bother to change if the status quo is accepted by the majority of the population?

Writing as he did during the height of the success of the BA state in the 1970s, O'Donnell only briefly discusses the downfall of successful BA states. Peter Evans, however, writing during the ebb of the BA state about a decade later, gives a fascinating analysis of the prospect of the successful BA state in Brazil in the 1980s. His work is discussed in the next section.

EVANS: THE TRIPLE ALLIANCE IN BRAZIL IN THE 1980s

In the late 1960s and early 1970s, Brazil experienced an economic miracle. Its gross domestic product grew at about 10% per year during this period, production of capital goods and consumer durables grew at rates of over 20% per annum, manufactured exports increased by about 30% per annum, and, as industrialization deepened, the value added in manufacturing in Brazil in 1970 exceeded that of all other developing countries.

However, by 1981 Brazil had entered a period of economic uncertainty. For example, Volkswagen do Brasil, perennially profitable for a quarter of a century, recorded its first annual loss in 1980 and dismissed over 3,000 workers. Economic problems then were quickly translated into political unrest. Enraged by a 60% increase in bus fares, the people of Salvador exploded and destroyed 750 buses. In response to the layoff of over 5,000 workers, 500 workers invaded the factory yard of Mercedes-Benz, manufacturer of the bulk of Brazil's buses and trucks.

What is the explanation for this transition from economic miracle to economic uncertainty in just two decades? According to Evans (1983), it was the result of the changing nature of the external environment and the internal contradictions in the late 1970s. Specifically, Evans presents a model of "triple alliance" of state, multinational, and local capital, and shows how the interaction of external and internal contradictions have worsened Brazilian dependent development, making the leadership of the triple alliance increasingly problematic.

Dependent Development and the Triple Alliance

For Evans (1983, p. 141), dependent development is a contradictory concept:

Development implies the accumulation of capital in the context of an increasingly differential internal division of labour, an expansion of the variety of goods that may be produced locally, more flexibility as to the goods that can be offered on international markets and therefore less vulnerability to the international system.

Defined in this way, development is the opposite of dependence. Yet Evans points out that in Brazil, development has been linked to continued dependence on international capital. What makes Brazilian dependent development possible, according to Evans, is the formation of a triple alliance among transnational capital, local capital, and the entrepreneurial fraction of state capitalism.

To a certain extent, the three partners in the alliance have found it mutually beneficial to participate in the pact. The transnational corporations were attracted to the large Brazilian market and the favorable investment climate set up by the state, such as strict controls on labor, generous subsidies to investors, and protection of those willing to produce locally from competitors producing elsewhere. In return for enjoying the fruits of operating in such a profitable market, Evans (1983, p. 141) points out, the "TNCs had to moderate the degree to which they gave global accumulation

priority over local accumulation," and they had to share ownership and managerial controls with local partners.

Local private capital, of course, benefited from the same investment climate that made Brazil profitable for the TNCs. In addition, local capital enjoyed extra privileges such as having access to low-interest loans and monopolization of certain niches (such as insurance and commercial banking). However, the degree to which local capital could be protected from TNC competition was limited. Evans (1983, p. 142) remarks that "the denationalization of certain industries and the destruction of certain local capital groups was the price that local capital as a whole paid for what was otherwise a very profitable arrangement."

For the "state bourgeoisie" (the entrepreneurially oriented segment of the state apparatus) the triple alliance was an ideal means of capital accumulation. The partnership with local capital enhanced the legitimacy of the state bourgeoisie in the eyes of the local population. Collaboration with the TNCs brought in technology, foreign currency, and marketing expertise. Although the state then took an active role in promoting capital accumulation, state-owned enterprises had to take care not to encroach upon the space that could be filled by private capital.

However, despite the mutual benefits, the triple alliance was not without internal conflict. Although the partners shared an interest in a "profitable business climate," they were also keen competitors in the pursuit of profit. First, the state bourgeoisie and local capitalists understood very well that the "TNCs continued to look for ways to use their operations in Brazil as a means of increasing the return on assets held elsewhere." If the investment climate in Brazil had worsened, the TNCs would not have hesitated to abandon their commitment to local capital accumulation. Thus neither the state nor local capital wanted the TNCs to gain too much leverage over the Brazilian economy. Second, local capitalists were afraid that state enterprises would use their legal and financial leverage to encroach upon the industrial territory of private capital. Third, the TNCs knew that they were at risk. They were the ones that invested huge amounts of capital and technology, and they would suffer tremendous losses if there were any changes in the rules of the triple alliance. So the TNCs had to be

cautious and wary of any nationalistic outburst in Brazil. Thus Evans labels the triple alliance an "uneasy partnership," full of tensions.

According to Evans, in addition to the formation of the triple alliance, there were two more factors that facilitated the miracle of economic growth in Brazil between the late 1960s and early 1970s. First, the interests of a large portion of the Brazilian population were sacrificed in order to promote economic growth. While the Brazilian GNP rose at record rates, the real income of Brazil's workers fell. At the same time color television sets were first produced, infant mortality rates remained at levels double those of countries with comparable per capita income. In addition, Brazil's economic growth was aided by a favorable international climate. During this period there was unusual growth in international liquidity, making it easy for Brazil to borrow funds externally to finance its state enterprises. Also there was a buoyant market for exports, thereby attracting the TNCs to commit long-term capital investment that made dependent development possible.

If the triple alliance, the sacrifices of the Brazilian population, and the favorable international climate explain the Brazilian economic miracle, what then explains the later transition to economic and political uncertainty? On this point, Evans mentions two factors—the changing external environment and internal contradictions in Brazil in the late 1970s.

The External Environment

Evans observes that the worldwide recession of 1974-1975 changed the buoyant nature of the credit and capital markets. As the external environment changed, so did the long-term optimism of investors and the flow of capital to Brazil.

In 1973 the influx of direct investment was 2.5 times larger than the outflow of capital. However, in the late 1970s, profit outflow climbed to double or triple its earlier levels, and the amount of this profit outflow came to represent an increasing proportion of capital inflow. Evans reports that the role of loan capital followed a similar shift. With rising interest rates in the late 1970s, an increas-

ing proportion of new loans went directly to making debt service payments. By 1979, debt service payments amounted to 95.5% of the new finances obtained.

Capital outflow and debt service payments naturally aggravated the balance-of-payments problem. According to Evans, this hostile external environment had (1) reduced the Brazilian state's flexibility in dealing with conflicts among the other two partners in the triple alliance, (2) limited its ability to respond to an increasing internal pressure for redistribution, and (3) limited its ability to use economic growth as a solvent for internal tensions. Thus the shift in the external environment set new internal economic and political dynamics into motion.

Growing Internal Contradictions

Facing this hostile external environment, the state needed more cooperation from international capital, in the form of both increased exports by TNC subsidiaries and external financing. In order to gain cooperation on the export front, the state was tempted to grant concessions to the TNCs. For example, in 1980, the state planners gave Dow Chemical the tentative go-ahead to produce ethylene and granted Dow a subsidy worth about \$173 million U.S., on the grounds that such chemical products would generate a total of around \$800 million in export sales over a ten-year period. This concession would give Dow Chemical a vertically integrated empire in ethylene-based products.

In addition to its desire to increase exports, the state also struggled to increase the supply of foreign loans. There was a case in the aluminum industry in which, in order to secure a loan of \$2 billion U.S. from Japan, the state granted concessions to the Japanese companies. Japanese firms in Brazil were allowed to buy electricity from the Brazilian state at a subsidized rate, and the aluminum exported to Japan sold below the Brazilian market price.

However, to the extent that the state granted special favors to international capital, it antagonized local capital. In the early

1970s, the state promised low-interest financing, and its ambitious program of capital expenditure made it a major source of the increased demand in the industry. Local capital was to be given first priority on government bids. But during the late 1970s, the state withdrew its promises. With rising inflation rates and a deteriorating balance of payments, the state cut back its ambitious program and the state's demand for capital goods fell accordingly. Consequently, local capital-goods producers, who had heeded the state's invitation to expand, found themselves in trouble. The purchase orders that they had counted on were simply not there, and the loans they took out were a burden. Local capitalists were frustrated because the state failed to support them in hard times. They protested that the state favored the TNCs at the expense of the local capitalists. This gave rise to the "entrepreneurial rebellion," with the local bourgeoisie becoming prominent in the democratic struggle to make its influence felt in the decision-making process of the state.

On the one hand, the state could not ignore the entrepreneurial rebellion. Gaining the support of local capitalists was important for the state to maintain its legitimacy, otherwise it would face problems in presenting itself as the incarnation of the general interests of the nation. Furthermore, if accused of selling the nation to foreign interests, the state would have difficulty in getting the support of the military. Thus the state simply could not allow its nationalistic credentials to deteriorate beyond a certain point.

On the other hand, if the state moved in a more nationalistic direction, it might jeopardize relations with the TNCs. The TNCs might doubt the future investment climate in Brazil, suspend their plans for future investments, and reduce their attempts to expand exports. If this happened, the entire economy would be at stake. Without billions of dollars in new loans, and without strong linkages to the international market, the profitable growth that had held the triple alliance together would be a thing of the past.

In Evans's (1983, p. 158) words, the dilemma facing the Brazilian state was this: It could not "embark on nationalist policies that appear to prejudice the profits of TNCs. Yet the regime badly needs

to impress its nationalist credentials by improving its relations with local capital." In such a dilemma, what were the options available to the Brazilian state?

First, the state could have tried to subsidize the profits of both local and TNC capital, and, to a certain extent, this has been the state's strategy all along. But Evans remarks that this is a very expensive and demanding proposition. Support for local capital may backfire, and local capital may use state subsidies as a means of extracting personal gains rather than as a means of reviving their firms. In addition, subsidies make rational economic planning difficult and have been known to be a mechanism that propagates inflation.

Second, the state may turn to state capital itself and sell its enterprises to the private sector. Not only should privatization be attractive to both local and international capital, but it also requires no expenditure of resources on the part of the state. But Evans notes that privatization is not a good solution to the dilemma. Weakening the state enterprise sector will weaken the state's ability to support the local bourgeoisie, undermine the state's role in the local adoption of advanced technology, and decrease the state's capacity to attract international investment—thereby further undermining the entrepreneurial dynamism of capital accumulation in Brazil.

Third, the state may impose further sacrifices on the excluded majority of the population, thus providing a more favorable labor condition for capital accumulation. Again, Evans does not think this solution is workable. Since the late 1970s, there has been active opposition from the working class against the regime, with over half a million workers joining in an unprecedented wave of strikes. In fact, the current political environment in the 1980s has pointed to a direction of progressive redistribution of income for the Brazilian population.

In the end, Evans argues that the state has far fewer options for solving the dilemma in this period of uncertainty than it would have had in the previous decade of miracle growth. Thus Evans entertains several scenarios with respect to the future of the triple alliance. These are discussed in the following section.

Prospects for the Future

A pessimistic scenario is that with faltering inflow of foreign direct investments, with local capitalists becoming unwilling to risk investments in production, with state enterprises crippled by inflation and privatization programs, and with protectionism in the world-economy, the Brazilian economy will eventually collapse. Civilian politicians will come to power just in time to be forced to take on the responsibility of imposing the IMF's policy of regressive austerity.

An optimistic scenario is that current difficulties will push Brazil toward the model of "redistribution with growth." The state will invest in basic public services and in basic wage goods in the private sector. This scenario is attractive from an equity viewpoint, but Evans argues that it will be resisted by both international capital and local capital.

An apocalyptic scenario is that the hard-line faction of the military will bear with the political activation of the popular sector no more. It will shut down the electoral process, impose its own candidate for the presidency, and assume power. Its goal will be to preserve the existing structure of power and privilege by whatever means necessary, and it will not have the same commitment to economic growth as the post-1964 regime. Evans believes this scenario is also highly unlikely, given the pragmatic and partial solutions that have characterized past Brazilian regimes.

So, finally, the most probable scenario, as Evans sees it, is that of Brazil's "muddling through" the current difficulties, since there will always be ingenious and unexpected ways of coping with the unfriendly international environment and internal contradictions.

GOLD: DYNAMIC DEPENDENCY IN TAIWAN

Although claiming to follow the path of Cardoso's study of associated-dependent development, O'Donnell's study of the BA state, and Evans's study of the triple alliance, and although still using the term *dependency*, Gold's (1986) study is actually a testing

of how far a dependency researcher can go in the direction of stressing dynamic development without abandoning the basic assumptions of the dependency theory. This new emphasis on dynamic development may in fact be due to the research problem that Gold imposed upon himself. Instead of studying economic uncertainty and political chaos, Gold has tackled the research problem of explaining the miracle of Taiwan's development. In other words, Gold employs the concept of dependency to explain the economic growth and political stability of Taiwan.

From Gold's perspective, although the concept of dependency is originally derived from studies of the underdevelopment of Latin America countries, it can be disengaged from that region and used as an approach (or a methodology) to examine development. Gold argues that Taiwan's starting point of development was in most ways very similar to that of Latin American countries.

The Phase of Classical Dependence

On the eve of transfer to Japanese colonial rule in 1895, Taiwan's socioeconomic situation was characterized by an agricultural economy premised on small peasant owners and tenant cultivators. There was a landlord-gentry class that provided political leadership for local regions. With the expansion of external commodity trade with mainland China, Taiwan's agricultural economy became increasingly commercialized. The export sector, however, was dominated by mainland Chinese and foreign merchants rather than by local Taiwanese merchants.

Then Japan defeated China and turned Taiwan into her first colony. Like other colonial governments, the Japanese implanted a structure of dependent capitalism in Taiwan: (1) The economy was skewed to the production of two primary goods (rice and sugar), the bulk of which was exported to Japan by Japanese trading houses; (2) Taiwan imported manufactured consumer and producer goods from one source—Japan; (3) the Japanese monopolized capitalist production and the financial sector, and they used legal statutes to obstruct Taiwanese participation in any but a

subordinate way; and (4) the population as a whole was excluded from political participation.

Nevertheless, Gold (1986, p. 44-45) points out that the Japanese legacy in Taiwan was different from the typical dependent structure in other countries. The Japanese colonial state created a good investment climate in Taiwan, "enforcing law and order; unifying weights, measures, and currency; guaranteeing private property rights; building a modern infrastructure; mobilizing natural resources; increasing agricultural productivity; making investment capital available; and developing human capital, including the provision of public education and employment for women." Thus Gold remarks that "Taiwan was undeniably restructured by its dependent relation with Japan; it was not underdeveloped."

After Japan was defeated in World War II, Taiwan was suddenly yanked out of the Japanese orbit and appended to China in another colonial relationship. In the late 1940s, the nationalist government of mainland China (the Kuomintang, or KMT) needed every resource it could get in its struggle against its communist rival. Thus Gold (1986, p. 50) remarks that "before long, Taiwan's resources were siphoned off to the mainland by private carpetbaggers and government agencies charged with confiscating enemy assets. Factories were dismantled and shipped to China along with raw materials, thus devastating the part of Taiwan's economic base that had escaped American bombs."

Economic plundering was followed by political repression. With the Taiwanese relegated to the lowest position of the provincial government, the KMT brought "lawlessness, corruption, plunder, inflation, disease, and an environment of general disorder." In response, the Taiwanese elite voiced their protest on February 28, 1947. This alarmed the KMT, and led it to dispatch quickly more than 10,000 troops to Taiwan. In what is now known as the "2-28 incident," the KMT declared war on the Taiwanese elites and masses, unleashing a fortnight of terror and looting, and killing over 10,000 of them. Since this incident, Gold observes that "the reconquered Taiwanese again became leaderless, atomized, quiescent, and apolitical."

The Phase of Dependent Development

The year 1950 proved to be the turning point in Taiwan's history. After the KMT was defeated by the Chinese Communist Party (CCP) in mainland China, it took refuge in Taiwan. Within a short time, 1-2 million civilian and military refugees from the mainland descended on Taiwan, which in 1945 had a population of only about 6 million.

Then the Korean War started. President Truman reversed the American hands-off policy toward the KMT and dispatched the Seventh Fleet into the Taiwan Straits to protect the KMT from imminent communist invasion. This was the beginning of the Cold War. After Taiwan became "Free China" and an ally of the United States, American military and economic aid was sent in massive scale to help the KMT achieve political and economic stability. With the military backing and financial assistance of the United States, the KMT was afforded security and breathing space, and thus was able to adopt a fresh strategy toward political and economic reform.

The KMT quickly transformed itself into what O'Donnell calls a bureaucratic-authoritarian state in the 1960s. The KMT proclaimed a general state of siege on Taiwan and declared martial law. It extended party cells into civil organizations such as schools, enterprises, clubs, and overseas Chinese communities. Among other things, it set up overt and covert quasi-military security agencies to suppress dissent, imposed universal conscription of males, and exercised strict control over the mass media. All these policies were easily accomplished because those who opposed the KMT had already been liquidated during the 2-28 incident in 1947. Thus the KMT basically had a free hand to impose its policies on the general population.

Learning from their own mistake of neglecting the peasant problem on the mainland, the KMT quickly instituted land reform. Land was given to the small cultivators, and the landlords were compensated 70% with land bonds in kind and 30% with shares of stock in four government enterprises. Since then, small landholding families have become the dominant force in Taiwan's countryside.

The KMT's next reform program was to promote industrialization. Since American aid was tied to economic reforms, the KMT was encouraged to adopt a developmentalist attitude. Although the KMT dominated most industries, it devised measures such as the Small Industry Loan Fund and Model Factory Program to promote investment by the private sector in key industries. The KMT also turned Taiwan's economy toward *import substitution* in light consumer industry to conserve funds, absorb labor, supply the domestic market, and accumulate capital rapidly.

However, by the early 1960s, Taiwan's economy came to another turning point. Import-substitution industrialization had reached its limit due to the fairly small size of the domestic market. In addition, the United States made clear its intention of phasing its aid program to Taiwan out of existence by 1968, since the Taiwanese economy had recovered. At this stage, the Taiwanese economy was still pretty fragile. Unlike the big Latin American states, Taiwan lacked capital, foreign exchange, global credit, technology, internal markets, and labor shortages to justify the prestigious but costly deepening of capital-goods production.

Upon analyzing the available options, the KMT chose to liberalize and internationalize the economy. It loosened controls on trade and industry, promoted exports, reduced tariffs on imported products, unified multiple exchange rates, and created a business climate designed to stimulate private local and foreign investment.

In short, the state adopted a strategy of *export-led industrialization*. Gold (1986, p. 95) argues that "the source of dynamism moved to external markets. The leading industry, textiles, turned outward, producing goods under contract for foreign buyers. The most dynamic sector, electronics, originated as a TNC enclave but rapidly established ties with local industry, spawning domestic suppliers and imitators." Especially in the export processing zones, the triple alliance among the state, local capital, and TNCs took shape and stimulated economic growth in Taiwan. This ever-increasing opportunity for investment and employment, together with fluid mobility, contributed to the maintenance of stability and the spread of wealth in Taiwan.

The Phase of Dynamic Dependency

However, by the early 1970s, political and economic problems arose again. In 1971, there was a nationalist movement in Taiwan to protest against Japan's takeover of the Taio-yu-t'ai (Senkaku) island, leading to an uncharacteristic outburst of political activity on college campuses. Then mainland China was invited to join the United Nations, while Taiwan (the Republic of China) was asked to withdraw. All of Taiwan was further shocked by President Nixon's visit to mainland China and the signing of the Shanghai Communiqué in 1972. A new generation of intellectuals in Taiwan began to be highly critical of the authoritarian rule of the KMT, pressing for reforms to end martial law and advocating the protection of human rights, democratic elections, and so on.

The economic front was in trouble too. Gold (1986, p. 94) argues that Taiwan's economy fell victim to its own success:

The vulnerabilities inherent in the export-oriented strategy all seemed to appear simultaneously: Taiwan's trading partners raised protectionist quotas against its exports; with full employment and a rising standard of living, wages and other labor costs rose; other less developed countries with even lower labor costs and more abundant resources began to home in on Taiwan's markets; and the infrastructure, most of which dated from the Japanese era, was stretched beyond capacity.

Needless to say, the oil crisis of 1975 further exacerbated these vulnerabilities.

The KMT state, again, was the only actor capable of responding to these political and economic problems. Gold (1986, p. 133) labels the state managers as having an attitude of "dynamic dependency: assessing the economy and society's capabilities and needs and then linking to the world system in such a way as to utilize these and improve one's situation."

The strategy that the KMT state adopted was the *deepening of industrialization*—upgrading of industries and vertically integrating them. From 1978 to 1981, the state issued a Six-Year Plan, emphasizing the buildup of heavy and capital-intensive industries

(such as steel and petrochemical) and modernization of the infrastructure (the Ten Major Development Projects). Later, in the early 1980s, the state began to stress strategic technology-intensive industries, such as computers, telecommunications, and robotics. The state also nurtured within Taiwan its own research and development program to develop new products, raise value added, and vertically integrate the electronic industry. In 1980, the state established a new type of industrial zone, the Science-Based Industrial Park in Hsin-chu, to cultivate these technology-intensive and information industries.

Gold argues that this deepening strategy is promising because a new generation of capitalists—better educated, more cosmopolitan, and more independent-minded than their predecessors—has sprung up. There is also a new generation of foreign-educated and liberal technocrats and politicians. This new generation should help Taiwan's industry to get a better deal in the triple alliance, and should set in motion the transition from an authoritarian to a democratic regime in the near future.

In fact, Gold (1986, p. 16-17) seems to argue that by the mid-1980s, Taiwan had escaped the problems of underdevelopment:

Capital for investment was primarily from domestic savings, and the state's coffers were flush with foreign reserves. . . . Taiwan was exporting its own capital goods, technology, and whole plants to less developed countries. Taiwan-based transnational corporations were making direct foreign investments in the United States, Europe, and the Third World. . . . the domestic production structure, including foreign-owned enterprises, had become increasingly integrated vertically and horizontally. The social dislocations commonly associated with dependency, such as impoverished rural sector and glaring inequality, had been largely eliminated.

Unlike classical dependency theorists (e.g., Landsberg), who portray the miracle of East Asian development as "manufacturing imperialism," Gold (1986, p. 133) approaches the study of development using the concept of "dynamic dependency," which enables him to conclude his study on a hopeful note, saying that "in-

formed, selective, and managed linkages" to the capitalist world market "need not be tantamount to turning one's nation over to foreign masters."

POWERS OF THE NEW DEPENDENCY THEORIES

The new dependency perspective has modified some of the basic assumptions of the classical dependency perspective. Instead of treating dependency as a general, external, economic process that leads to regional polarization and underdevelopment, new dependency theorists now conceptualize it as a historically specific, internal, sociopolitical process that can lead to dynamic development. Thus the new dependency perspective has put forward many original concepts, such as those discussed in this chapter: associated-dependent development; the bureaucratic-authoritarian state; the triple alliance among the state, local capital, and international capital; and dynamic dependency. These new concepts have opened up new research frontiers and have promoted a new wave of empirical studies on the changing situations of dependency in Third World countries.

Bringing history back in. The new dependency studies have paid more attention to historically specific situations of dependency than did classical dependency studies. For example, Cardoso highlights the new activities of the military regime in Brazil after the 1964 coup. O'Donnell shows that the emergence of the bureaucratic-authoritarian state is historically contingent upon the success of the responses of military-bureaucratic elites to the political and economic crises in the early 1960s. Evans's analysis of the triple alliance reveals how the changing external environment and the growing internal contradictions have both affected the path of Brazilian development in the 1980s. And Gold traces the historical process of the transformation of Taiwan from classical dependency to dependent development, and then further into the latest phase of dynamic dependency.

Stressing internal and sociopolitical activities. From the viewpoint of the new dependency studies, the state in the Third World is no longer perceived as a dependent state for foreigners, but as an

active agency that tacitly works together with local capital and international capital. In addition, it is the political struggle among the state, local capital, and international capital that shapes the ever-changing situations of dependency. Thus Cardoso and O'Donnell point to the success of the military elites in Brazil in the late 1960s in setting up the triple alliance at the expense of the popular sector, while Evans writes about the same state having much less maneuvering room in holding the alliance together during the period of economic uncertainty and popular protests in the 1980s. Compared to the Brazilian state, Gold observes that Taiwan has done very well in responding to political crises (expulsion from the United Nations and student protests) and economic crises (the oil crisis and the vulnerabilities in the world market) in the 1970s. Taiwan has not only carried out the deepening of industrialization but tolerated a high degree of political liberalization in the 1980s.

Dependency and development. The final characteristic of the new dependency studies is their willingness to acknowledge the co-existence of two contradictory processes—dependency and development. Thus not only are Cardoso, O'Donnell, and Evans able to explain the economic success of Brazil in carrying out the deepening process in the late 1960s, but Gold is also able to interpret the miracle of Taiwan economic development in reference to the concept of dynamic dependence.

All in all, it seems that the new dependency studies are more sophisticated than the classical dependency studies. Therefore, the new dependency perspective should be able to continue as a living tradition in Third World research in the 1990s.