that the stability of the world market economy depends ultimately upon the quality of leadership (hegemonic or pluralistic), a solution of the adjustment problem, and the creation of international norms that both increase global economic stability and guarantee states an adequate degree of economic autonomy. We shall return to a consideration of these issues in Chapter Ten.

At the least, the increased mobility of capital and the increasingly arbitrary nature of comparative advantage have given rise to intensified international competition for investment. Through tax policies, the erection of trade barriers, and even the creation of a skilled and disciplined labor force (e.g., Taiwan), governments attempt to attract corporate investments and influence the international location of economic activities. The multinationals of different countries compete for access to these economies, thereby giving the host states some bargaining leverage regarding the terms of the investment.

The result of these developments is a complex pattern of relationships among corporations, home governments, and host countries that has increasingly politicized foreign investment both at home and abroad. Through individual actions and in alliance with one another, each actor attempts to enhance its own position. To the extent that one government wrings concessions from corporations, it triggers counterpressures in other countries. As host governments attempt to transform the terms of investment in their favor, they create concern at home over trade imbalances, lost jobs, and "run-away" plants. Thus, groups and states attempt to manipulate corporations for their own particularistic interests.

Governments and corporations are having to come to terms with a vastly altered international environment in which the location of the world's economic activities and the terms on which foreign direct investment take place have become of vital importance. Which countries will possess which industries, and who will reap the benefits? Answers will be determined partially by the interplay of market forces as corporations seek out the least costly sites for their production, but these issues will also be determined by the power and interests of the several participants themselves as they compete for individual advantage.

CHAPTER SEVEN

The Issue of Dependency and Economic Development

THE FUTURE of the less developed countries is one of the most pressing issues of international political economy in our era, and the resolution of this issue will profoundly affect the future of the planet. The intense desire of the majority of the human race to escape its debilitating poverty and join the developed world is a determining feature of international politics. Yet in the final decades of the twentieth century, bitter controversy exists regarding the causes of and possible solutions to this problem.

Poverty has always been the lot of most members of the human race. However, what may be termed a revolution has taken place with regard to the political and moral significance of this issue, and this change has made the immense gap between the rich Northern half of the globe and the largely impoverished Southern half a new and explosive issue. Some of the reasons for this historic change are of particular importance in accounting for the present international political significance of mass impoverishment.

The condition of poverty is less tolerable than in the past due to the existence of instant communications. The transistor radio and the television set have made people in even the most remote parts of the globe aware of the wealth of others and of the benefits of material progress. Whole societies now want that to which only the rich could previously aspire. The advanced nations have taught the rest of the world that escape from their lot is possible, and this has made the desire for economic growth, modernization, and rapid industrialization the universal ideology of political elites in all countries.

Furthermore, society no longer regards poverty as natural, the punishment of God, or one's Karma. Because people generally believe that poverty and its consequences are created by mankind, these conditions have become unacceptable. The progress and demonstration effect of the developed countries and the immense distance yet to be traveled by most other countries only reinforce awareness, so that fewer people resign themselves to being poor and accept it as their fate (Hirschman, 1981, ch. 3). The revolution of rising expectations has become a universal feature of our age, and it is almost a law of human behavior that the rise of people's expectations outpaces the capacity of society to meet them.

Another vital change is that the issue and the demand for equality have been internationalized (Carr, 1945). Until the modern era, the differences of wealth *within* societies were far greater than the differences of wealth *among* societies. In the premodern period everywhere, a small wealthy elite was superimposed on an impoverished mass, a situation still applicable in many places. Today, however, the differences of wealth within the developed countries are less important than the differences of wealth among countries; the individual living in poverty in Europe and America is far more wealthy than the overwhelming bulk of the human race living in the Third World. In the modern world, whether one is relatively rich or poor has become increasingly a function of the particular nationality into which one is born. As a consequence, the class struggle within societies (as Marxists would describe it) has become partially displaced, if not superceded, by the conflict among societies over the international distribution of material wealth.

It is striking to realize that the rich nations of the eighteenth century comprise most of the rich ones today. In fact, the gap between European and other civilizations began to open in the late Middle Ages (Jones, 1981); the Industrial Revolution widened the distance still further. Excluding the major Arab oil exporters, the only exception to this generalization is Japan, whose rise to third place in the world economy began in the last quarter of the nineteenth century. It is historically noteworthy that in the present age new economic powers are pressing to join the club of industrial nations; the rise of the newly industrializing countries is already having an important impact on the international balance of economic power and the political economy, an impact that could prove to be as significant as the emergence of Western civilization as the dominant force in international economics.

These changes in both fact and perception have made economic development and underdevelopment a central issue in international political economy. The universal concern over the distribution of wealth is truly a novel issue in world politics; scant prior interest in the subject is to be found in diplomatic histories. Though individual nations have always desired to improve their economies, the issues of economic development and the skewed international distribution of wealth were not on the agenda of international diplomacy.

In the past the dividing line between wealth and poverty was drawn between elite and mass; in the late twentieth century the line separates nations, races, and hemispheres. It sets the poor South against the affluent North and the Third World against the First World of the market

economies and, to a lesser extent, the Second World of the planned economies. The fact that the global poverty line now matches political boundaries has given the distribution of wealth an international dimension and made it a major issue of world politics.

The rancorous debate over the so-called North-South issue is centered on particularly difficult but important questions. Some believe that the operation of the world market economy and the evil practices of capitalism are the primary causes of the deplorable living conditions for much of humanity. Others believe that the problem lies with more objective economic factors or with misguided policies of the poor countries themselves. Decisions on whether integration in or dissociation from the world economy is the best route to economic development are dependent on beliefs about the causes of the situation.[1]

The most prominent theories explaining development are those of economic liberalism, classical Marxism, and the underdevelopment position. Both economic liberals and classical Marxists subscribe to the dual economy theory of the world economy; they view the evolution of the world economy as diffusing the process of economic growth from advanced to traditional economies. The less developed economies are incorporated into an expanding world economy and transformed from traditional to modern economies through the flow of trade, technology, and investment. However, liberals believe this process is generally benign and harmonious; classical Marxists believe it is accompanied by conflict and exploitation. In contrast, the underdevelopment perspective, whether in its structuralist or dependency version, regards the operation of the world economy as detrimental to the interests of the less developed countries in both the short and long term.

The Liberal Perspective on Economic Development

According to the liberal perspective, the world economy is a beneficial factor in economic development; interdependence and economic linkages of advanced economies with less developed economies tend to favor the latter societies. Through trade, international aid, and foreign investment, the less developed economies acquire the export markets, capital, and technology required for economic development. This view was summed up in the title of the Pearson Report, *Partners in Development* (1969). Nevertheless, although the world economy can help or hinder development through the diffusion process, this view holds that

[1] An excellent summary of the existing evidence on these matters is Ruggie (1983a, pp. 18-23).

the most important factor affecting economic development is the efficient organization of the domestic economy itself.

Although there is a generally accepted liberal theory of international trade, money, and investment, there is no comparable theory of economic development. The principal reason for this difference is that the body of theory regarding trade, money, and so forth assumes that a market exists; economic theory is concerned with rational individuals seeking to maximize welfare under market conditions. For liberal economists, however, economic development requires the removal of political and social obstacles to the functioning and effectiveness of a market system; they are therefore primarily concerned with the determination of how this is to be accomplished. Whereas other areas of economics tend to assume a static framework of rules and institutions within which economic activity takes place, a theory of economic development must explain behavioral and institutional change (Davis and North, 1971). Although the study of economic development has failed to produce a body of developmental theory accepted by the whole fraternity of liberal economists, there is general agreement on several points.

Liberalism maintains that an interdependent world economy based on free trade, specialization, and an international division of labor facilitates domestic development. Flows of goods, capital, and technology increase optimum efficiency in resource allocation and therefore transmit growth from the developed nations to the less developed countries. Trade can serve as an "engine of growth" as the less developed economy gains capital, technology, and access to world markets.[2] This is a mutually beneficial relationship since the developed economies can obtain cheaper raw materials and outlets for their capital and manufactured goods. Because the less developed economies have smaller markets, opening trade with advanced economies is believed to benefit them relatively more than it does the developed economies. Moreover, since the factors of production flow to those areas where they produce the highest rewards, a less developed economy with a surplus of labor and a deficit of savings can obtain infusions of foreign capital that accelerate growth.

This theory of economic growth believes that many factors required for economic development are diffused from the advanced core of the world economy to the less developed economies in the periphery. The rate and direction of this spread effect are dependent upon a number of

[2] Lewis (1974, pp. 49-59) provides a good analysis of the role of exports in economic development.

factors: the international migration of economic factors (capital, labor, knowledge); the volume, terms, and composition of foreign trade; and the mechanics of the international monetary system. Although liberals recognize that economic progress is not uniform throughout the economy (domestic or international), they do believe that over the long term the operation of market forces leads toward equalization of economic levels, real wages, and factor prices among nations and regions of the globe (Rostow, 1980, p. 360).

To support this thesis regarding the growth-inducing effects of international trade, liberal economists contrast the amazing economic success of the "export-led" growth strategies of the Asian NICs with the failure of the "import substitution" strategy of most Latin American countries (Krueger, 1983, pp. 6-8).[3] Liberal economists find the basic obstacles to economic development within the less developed countries themselves (Bauer, 1976): the preponderance of subsistence agriculture, a lack of technical education, a low propensity to save, a weak financial system, and most important, inefficient government policies. They believe that once such bottlenecks are removed and a market begins to function efficiently, the economy will begin its escape from economic backwardness.

Most liberals consider that the key to economic development is the capacity of the economy to transform itself in response to changing conditions; they believe that the failure of many less developed countries to adjust to changing prices and economic opportunities is rooted in their social and political systems rather than in the operation of the international market system (Kindleberger, 1962, pp. 109-112). As Arthur Lewis has put it, any economy can develop if it has three simple ingredients: adequate rainfall, a system of secondary education, and sensible government. For the liberal, therefore, the question is not why the poor are poor but, as Adam Smith phrased it in *The Wealth of Nations*, why certain societies have overcome the obstacles to development, have transformed themselves, and through adapting to changing economic conditions have become rich. The answer given is that these successful societies have permitted the market to develop unimpeded by political interference (Lal, 1983).

Failure to develop is ascribed to domestic market imperfections, economic inefficiencies, and social rigidities. Political corruption, a parasitic social and bureaucratic structure, and the failure to make appropriate investments in education, agriculture, and other prerequisites for

[3] Although economic growth and foreign trade have been historically associated, the relationship between growth and trade is a complex one (Findlay, 1984).

economic development restrain these nations. Improper public policies such as high tariff barriers and overvalued currencies harmful to export interests are fostered by burdensome bureaucracies, urban bias, and economic nationalism.[4] Although the advanced economies can indeed hinder the progress of the less developed economies by such restrictive practices as protectionist policies against Third World exports and could accelerate their development through foreign aid, liberals believe that each country bears its own responsibility for achieving meaningful change.

Accelerated capital accumulation is one vital foundation for development; this requires an increase in the domestic rate of saving. Although the advanced economies can and perhaps should assist in the process of capital formation through loans, foreign investment, and international assistance, the task rests with the less developed nations themselves. An unwillingness to suppress domestic consumption and to save is frequently considered to be the most serious retardant of economic growth. As Lewis, a sympathetic student of the LDC problems, has argued, "no nation is so poor that it could not save 12 percent of its national income if it wanted to" (Lewis, 1970, p. 236), and this amount is sufficient to put it firmly on the path of economic development.

Defending this position, proponents point out that the most successful economies among the less developed countries are precisely those that have put their own houses in order and that participate most aggressively in the world economy. They are the so-called Gang of Four: Hong Kong, Singapore, South Korea, and Taiwan. Although these newly industrializing countries have received great infusions of capital and technology from the advanced countries, they have mainly helped themselves and have established flourishing export markets. The least integrated economies, such as Albania and Burma, are among the most backward. Meanwhile, in the 1980s, even Communist China has realized its need for Western assistance, and Eastern Europe, along with the Soviet Union itself, seeks Western capital and advanced technology.

Beyond the general agreement on the primacy of internal factors, liberal development theories differ profoundly among themselves on the appropriate strategy for a less developed economy. In the first place, they disagree on the role of and the extent to which the advanced countries can or should assist the less developed ones; some advocate massive assistance programs in order to break what is called "the vicious cycle of LDC poverty"; other more conservative economists regard

[4] Lipton (1977) discusses the problem of urban bias as an impediment to economic development.

such outside efforts as wasteful or counterproductive. They also differ among themselves about whether a series of rather definable stages exists through which a developing economy must progress, or whether there are as many routes to development as national experiences. Some may stress balanced growth as the proper means for breaking out of historic poverty; others stress unbalanced growth. They vary regarding the emphasis given to agriculture or to industrial development. They also take different positions on the issue of efficiency versus equity in the process of economic development and on the role of the state in achieving one or the other. These and similar issues that lie outside the scope of this book constitute the subject of economic development as treated by liberal economists.

In summary, in the absence of a commonly accepted body of theoretical ideas, the debate among liberal economists over economic development is focused on strategic choices and alternative routes to economic development, that is, the determination of economic policies to achieve an efficient market economy. They share the conviction that the two foremost causes of international poverty are inadequate integration of the less developed countries into the world economy and irrational state policies that impede the development of a well-functioning market. For most liberal economists, then, the poor are poor because they are inefficient.

Liberal theory, however, tends to neglect the political framework within which economic development takes place, yet the process of economic development cannot be divorced from political factors. The domestic and international configurations of power and the interests of powerful groups and states are important determinants of economic development. The liberal theory is not necessarily wrong in neglecting these elements and focusing exclusively on the market; rather this theory is incomplete. For example, economic flexibility and the capacity of the economy to respond to changing economic opportunities are highly dependent upon the social and political aspects of a society. How else can one explain the remarkable economic achievements of resource-poor Japan and the troubles of resource-rich Argentina? Or, to take another issue, it is certainly correct to focus attention upon the crucial role of increased agricultural productivity in the economic development of Western Europe and the "lands of recent settlement" such as North America, Argentina, and South Africa. However, the fact that these fertile temperate lands were acquired by Europeans through the use of military force is also important to understanding the racial dimensions of the North-South division. In short, economic factors alone will not explain success or failure in economic development.

As this book emphasizes, economic forces operate within a larger political context.

The Classical Marxist Perspective on Economic Development

Marx and Engels were first and foremost theorists of Western economic development; the bulk of their work was devoted to the transition of European society from feudalism to capitalism to socialism and to the elaboration of the inherent laws of capitalist development. They also formulated what can be considered a theory of economic development applicable to the less developed economies. Lenin and later nineteenth-century Marxists subsequently extended these ideas when they formulated the Marxist theory of capitalist imperialism.

Marx viewed capitalism as a world-wide dynamic and expansive economic process; by the middle of the nineteenth century it had spread from its origins in Great Britain to include Western Europe. He believed that it would eventually incorporate the entire world through imperialist expansion and would bring all societies under its mode of commodity production. Indeed, Marx asserted that the historical mission of capitalism was to develop the forces of production throughout the world. When this task of transformation and capitalist accumulation was completed, capitalism would have fulfilled its assigned role in history and would give way to its successors, the socialist and communist systems.

Marx's views on the revolutionary role of capitalist or bourgeois imperialism in transforming traditional societies and integrating the whole globe into an interdependent world economy are worth quoting:

> The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image (Marx and Engels, 1972 [1848], p. 339).

The evolution of Western civilization, according to Marx, passed through relatively well defined stages. The ancient economies of primitive commodity production, like that of ancient Greece, were followed by the feudalism of the Middle Ages; next came the capitalist mode of economic production, which would then be followed by socialism and communism. Class conflict between the owners of the means of production and the dispossessed provided the driving force at each stage, and the dialectics of this class conflict moved history from one stage to the next.

When Marx turned his attention outside the European continent to Asia, the Middle East, and elsewhere—as he was forced to do in response to increasing colonial clashes and political upheavals—he discovered that his theory of European development did not apply. In these immense agglomerations of humanity the precapitalist stages did not exist; there appeared to be no stages identifiable with the ancient and feudal modes of production. These civilizations, moreover, seemed to be devoid of any internal mechanism of social change. There was no class conflict that would drive them from one stage of social development to the next. They were, Marx believed, stuck historically and unable to move ahead.[5]

To account for this anomaly, Marx introduced the concept of the "Asiatic mode of production." He argued that this was characterized by (1) the unity and relative autarky of agricultural and manufacturing production at the village level and (2) the existence at the top of society of an autonomous and parasitic state separated from the rest of society (Avineri, 1969, pp. 6-13). He believed that this conservative social structure was responsible for the millennia of social and economic stagnation suffered by these non-Western societies. Finding no internal forces to move these societies forward historically, Marx believed the external force of Western imperialism was required.

Marx's complex view of imperialism as historically progressive is well expressed in the following passage: "England has to fufill a double mission in India: one destructive, the other regenerating—the annihilation of old Asiatic society, and the laying of the material foundations of Western society in Asia" (quoted in Avineri, 1969, pp. 132-33). Thus, unlike the neo-Marxist and dependency theorists of the 1970s and 1980s and their denunciations of capitalistic imperialism, Marx and Engels regarded the global extension of the market system, even through violent means, to be a step forward for humanity. Believing that the historic mission of the bourgeoisie and of imperialism was to smash the feudalistic and Asiatic mode of production that held back the modernization of what we would today call the Third World, Marx argued in "The Future Results of British Rule in India" (1853) that British imperialism was necessary for the modernization of India and that

[5] Avineri (1969) is an excellent collection of Marx's writings on this subject.

the establishment of a railroad system by the British was "the forerunner of modern industry" (quoted in ibid., p. 136).

Imperialism destabilizes the status quo through the introduction of modern technology and creates a set of opposed classes in the colonized areas, thereby implanting the mechanism that will move the society toward economic development. Once the Asiatic mode of production has been eliminated, the forces of capitalist accumulation and industrialization will be released to do their work in transforming the society and placing it on the track of historical evolution. Although imperialism was immoral, Marx believed it was also a progressive force, since without it the less developed economies of Asia and Africa would remain in their state of torpor forever.

In his attack on the evils of capitalist imperialism, Lenin carried this classical Marxist view further. He too regarded colonialism and neocolonialism as progressive and necessary for the eventual modernization of less developed countries. Exporting capital, technology, and expertise to colonies and dependencies, he argued, would develop the colonies at the same time that it would retard development in the advanced capitalist states (Lenin, 1939 [1917], p. 65). As the latter exported capital and technology to their colonies, their home economies would become rentier economies and their industrial and technological base would stagnate, giving the less developed countries the opportunity to overtake the advanced economies.

Lenin argued that the inherent contradiction of capitalism was that it develops rather than underdevelops the world. The dominant capitalist economy plants the seeds of its own destruction as it diffuses technology and industry, thereby undermining its own position. It promotes foreign competitors with lower wages that can then outcompete the more advanced capitalist economies in world markets. Intensification of economic competition between the declining and rising capitalist powers leads to economic conflicts and imperial rivalries. He believed this to be the fate of the British-centered liberal world economy of the nineteenth century. Marxists in the late twentieth century argue that as the American economy becomes increasingly pressed by rising foreign competitors, a similar fate awaits the United States–centered liberal world economy.

In summary, orthodox Marxism from Marx to Lenin believed that capitalism develops the world but does not do so evenly, continuously, or without limit. Traditional Marxists, however, differ from liberals on the relative importance of economic and/or political factors in the evolution of the international economy. For liberals, the incorporation of periphery economies into the world economy and their subsequent

modernization is a relatively frictionless economic process. For Marxists, on the other hand, this process is laden with political conflict as nations dispute their positions in the international division of labor. Indeed, Marxists believe this process will eventually reach its limit, necessitating a transition to socialism and communism. Lenin firmly believed that capitalist imperialism would give the "colored races" of the world the tools for their emancipation and that the incorporation of non-Western societies into the world economy through trade and investment would lead to their development.

The Underdevelopment Position

Underdevelopment theories have proliferated in response to the fact that, even though the former European colonies have achieved political independence, they either have not developed or have at least remained economically subordinate to the more advanced capitalist economies.[6] Most countries in black Africa, Asia, the Middle East, and Latin America continue to be economically and technologically dependent; they continue to export commodities and raw materials in exchange for manufactured goods, and many have been penetrated by the multinational corporations of the advanced countries. Rather than progressing into higher stages of economic development, some of these countries have in fact actually increased their reliance on advanced economies for food, capital, and modern technology. Underdevelopment theory places the responsibility for this situation on the external world economy and not on the less developed countries themselves.

The essence of all underdevelopment theories is that the international capitalist economy operates *systematically* to underdevelop and distort the economies of the less developed economies. They maintain that this is an inherent feature of the normal operations of the world market economy, and that the nature of the system is detrimental to the interests of the poorer countries. The rich who control the world economy are responsible for the poverty of the Third World due to what Arghiri Emmanuel (1972) has called *unequal exchange*. For a variety of reasons the terms of trade between advanced and less developed countries are said to be biased against the latter.[7]

The initial efforts to account for the seeming lack of Third World progress were associated with the research of scholars such as Ragnar Nurkse, Gunnar Myrdal, and Hans Singer; their position became

[6] As Kuznets (1968, p. 2, note 2) points out, the concept of underdevelopment is a highly ambiguous one and has several quite distinct meanings.

[7] A strong criticism of this argument is Samuelson (1976, pp. 96-107).

closely identified with the work of the United Nations Economic Commission for Latin America (ECLA) under the leadership of Raúl Prebisch. Their structuralist theory of underdevelopment focused on those features of the world economy that they alleged restricted the development prospects of less developed economies and particularly on the deteriorating terms of trade for LDC commodity exports. They believed that reform of the international economy and a development strategy based on import substitution would be a solution to these problems. Therefore, the less developed economies should industrialize rapidly and produce for themselves products formerly imported from the more advanced economies.

Subsequently, in the late 1960s and 1970s, dependency theory displaced structuralism as the foremost interpretation of Third World underdevelopment. This far more radical analysis of and solution to the problems of the less developed countries was largely a response to the apparent failure of the structuralists' import-substitution strategy, the deepening economic problems of the LDCs, and the intellectual ferment caused by the Vietnam War. According to this position, the solution to the problem of economic underdevelopment could be found in socialist revolution and autonomous development rather then reform of the world market economy.

Structuralism

Structuralism argues that a liberal capitalist world economy tends to preserve or actually increase inequalities between developed and less developed economies.[8] Whereas trade was indeed an engine of growth in the nineteenth century, structuralists argue that it cannot continue to perform this role because of the combined effects of free trade and the economic, sociological, and demographic conditions (structures) prevalent among less developed economies in the twentieth century (Nurkse, 1953). These conditions include the combination of overpopulation and subsistence agriculture, rising expectations causing a low propensity to save, excessive dependence on unstable commodity exports, and political domination by feudal elites. These structures trap less developed countries in a self-perpetuating state of underdevelopment equilibrium from which they cannot escape without outside assistance (Myrdal, 1971).

Although liberal economists believe that flows of trade, investment, and technology diffuse economic development and reduce international inequalities, structuralists argue that the opposite is happening.

[8] A good summary of the structuralist or Prebisch thesis is Roxborough (1979, ch. 3).

International market imperfections increase inequalities among the developed and less developed countries as the developed countries tend to benefit disproportionately from international trade. Although the "late developing" countries of the nineteenth century did enjoy the so-called advantages of backwardness that enabled them to learn from the experiences of the more advanced economies, twentieth-century "late late developing" countries are said to face almost insurmountable obstacles: the widening technological gap, their long experience of marginalization, the lack of social discipline, conservative social structures, inherited population problems, and harsh climatic and geographic conditions. These economies are thus caught in a vicious cycle of poverty from which escape is nearly impossible, and free trade only makes their situation worse. As Nurkse put it, "a country is poor because it is poor" whereas "growth breeds growth" (Nurkse, 1953, p. 4).

Although the basic ideas of the structuralist position were developed simultaneously in the 1950s by several economists and by the ECLA, they did not gain international prominence until the 1964 publication of the report "Towards a New Trade Policy for Development." This report, written by Prebisch, then the newly appointed Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), set forth the structuralist argument that the world economy was biased against the development efforts of the less developed countries. The report became the focal point of the 1964 UNCTAD session and, with the more radical critique based on dependency theory, laid the foundations for what in the 1970s would become the demands of the less developed countries for a New International Economic Order (NIEO).

The structuralist argument (or what became known as the Singer-Prebisch theory) is that the world economy is composed of a core or center of highly industrialized countries and a large underdeveloped periphery (Prebisch, 1959). Technical progress that leads to increasing productivity and economic development is the driving force in this system, but technical advance has different consequences for the industrialized center and the nonindustrialized periphery due to structural features of the less developed economies and to the international division of labor inherited from the past.

The heart of the argument is that the nature of technical advance, cyclical price movements, and differences in demand for industrial goods and primary products cause a secular deterioration in the terms of trade for commodity exporters, that is, deterioration of the prices the LDCs receive for their commodity exports relative to the prices of the manufactured goods they import from developed countries. In the industrial core, technical progress is said to arise from the spontaneous operations of the economy and to diffuse throughout the whole economy so that employment displaced by increasing efficiency can be absorbed by investment in other expanding industrial sectors. Without large-scale unemployment and with the pressures of powerful labor unions, there is an increase in real wages. Further, monopolistic corporations can maintain the price level despite productivity increases and the decreasing cost of production. The fruits of technical progress and increased production are thus retained in the core economy and are absorbed by a sizable fraction of the society.

In the nonindustrial periphery, however, technical progress is introduced from the outside and is restricted primarily to the production of commodities and raw materials that are exported to the core. Inflexible structures and immobile factors of production make adaptation to price changes impossible. Increased productivity in the primary sector, a shortage of capital due to a low rate of savings, and an elite consumption pattern imitative of advanced countries all combine to increase the level of national unemployment. With surplus labor in primary occupations and the absence of strong trade unions, the real wage in the periphery economy then declines, transferring the fruits of technical advance in the periphery economy to the core economies via depressed prices for commodity exports.

Structuralists conclude from this analysis that the terms of trade between the industrial countries and the peripheral countries tend to deteriorate constantly to the advantage of the former and the disadvantage of the latter. As a consequence of this secular decline, the peripheral economies are forced to export ever-larger quantities of food and commodities to finance the import of manufactured goods from the industrial countries. Structuralists have therefore been very pessimistic that the less developed countries could reverse their situation through the expansion of their exports; they believe that even though those nations might gain absolutely from international trade, they would lose in relative terms.

Structuralists have advocated several policies to deal with these problems. One policy is the creation of international organizations like UNCTAD to promote the interests of the less developed countries, especially the exporting of manufactured goods to the developed countries, and thus to break the cycle of circular causation. Another is the enactment of international policies and regulations, such as a commodity stabilization program that would protect the export earnings of less developed countries. The most important course of action advocated is rapid industrialization to overcome the periphery's declining terms of

trade and to absorb its labor surplus. The peripheral economies should pursue an "import-substitution strategy" through policies of economic protectionism, encouragement of foreign investment in manufacturing, and creation of common markets among the less developed economies themselves.

Defending these solutions to underdevelopment and their "trade pessimism," structuralists point out that during those periods when Latin America was cut off from the manufactured goods of the Northern industrial countries (as in the Great Depression and the Second World War), spurts of rapid industrialization took place. When the ties were resumed, industrialization was set back. National planning and industrialization policies, therefore, should decrease the dependence of the less developed countries on the world market and weaken the power of those conservative elites in the commodity and export sectors that have opposed the expansion of industry. As industrial economies, the LDCs would have improved terms of trade and would be on the road to economic development.

The structuralist position that the terms of trade are biased against the less developed countries is difficult to evaluate.[9] Several different conceptions or definitions of the terms of trade are employed. Using one structuralist definition or measurement rather than another can lead to diametrically opposed conclusions on the changes in the terms of trade. Regardless of the definition employed, however, the measurement of such changes over time is unreliable at best, since not only prices but also the composition of trade changes, and factors such as the rapidly declining cost of transportation must also be taken into account. Furthermore, the concept of the terms of trade and the prices by which they are measured cannot easily incorporate qualitative improvements in manufactured exports to the LDCs. Nonetheless, several general remarks concerning their terms of trade are warranted.

The most notable feature of the terms of trade among countries is that they fluctuate over both short and long periods. There is no secular trend over the long term, but rather cyclical fluctuations. For example, the terms of trade for primary products decreased in the two decades prior to 1900 and subsequently improved from 1900 to 1913 (Meier and Baldwin, 1957, p. 265). Over shorter periods, they may vary due to changes in commercial policy, exchange-rate variations and cyclical phenomena. For example, during the period 1967-1984, the terms of trade of non-oil-developing countries have fluctuated considerably. In the early 1960s the advanced countries had favorable terms of trade;

[9] Findlay (1981) is an excellent discussion of the issue.

these were dramatically reversed in the late 1960s and early 1970s, especially after the OPEC revolution. The terms of trade were excellent for commodity producers in the late 1960s and gave rise to the Club of Rome prediction that growth would stop because the world was running out of resources.[10] This extraordinary situation then dramatically reversed itself in the mid-1970s due to the global decline in growth rates, and commodity prices fell to perhaps their lowest point ever in the 1980s.

The LDCs' concern that they and their commodity exports are more at the mercy of the vicissitudes of the international business cycle than are the developed economies and their manufactured exports is certainly well founded. This situation is partially due to the failure of many less developed countries to transform their economies and shift the composition of their exports; the argument that a *systemic* bias against them exists, however, is unsubstantiated. Ironically, as will be noted below, the United States has been one of the more serious victims of the decline of commodity prices in the 1980s.

Economists have of course long recognized that a country, especially a large one, could improve its terms of trade and national welfare through the imposition of a so-called effective tariff or an optimum tariff. The manipulation of tariff schedules on different types of products (commodities, semiprocessed, and finished goods) or the exploitation of a monopoly position with respect to a particular good or market can enable an economy to improve its terms of trade, as OPEC proved in the 1970s. Large economies can manipulate their commercial and other policies in order to improve their terms of trade (Hirschman, 1945, pp. 10-11), and the less developed countries undoubtedly have suffered from tariffs that discriminate against their exports of semiprocessed products (Scammell, 1983, pp. 166-67). Nevertheless, the costs of resulting constrictions on total trade and of foreign retaliation are sufficient to make their overall effects minimal and temporary (Dixit, 1983, pp. 17, 62). An optimum tariff may or may not lead to unilateral benefits depending on the circumstances (H. Johnson, 1953-54).

To the extent that the less developed economies do suffer from unfavorable terms of trade, the most important causes are internal to their own economies rather than in the structure of the world economy. Certainly the terms of trade for any economy will decline if it fails to adjust

[10] The "limits to growth" argument was actually a revival of the classical economists' position that over the long run the terms of trade favor commodity exporters (Findlay, 1981, p. 428).

and transform its economy by shifting out of surplus products into new exports. Contrast, for example, the cases of India and Peru; the former has successfully transformed large sectors of its economy, the latter has made little effort to do so. Indeed, the success of the Asian NICs in contrast to other LDCs is due primarily to their greater flexibility. The African countries, on the other hand, have been harmed primarily because of their failure to move away from commodity exports.

As Arthur Lewis has cogently argued, the terms of trade of many LDCs are unfavorable because of their failure to develop their agriculture. The combination of rapid population growth (which creates an unlimited supply of labor) and low productivity in food grains causes export prices and real wages in the less developed countries to lag behind those of the developed economies (Lewis, 1978a). In such circumstances, even the shift from commodity to industrial exports demanded by the proponents of the New International Economic Order would do little to improve the terms of trade and to hasten overall economic development. Whatever other benefits might be produced by such a change in export strategy (such as increased urban employment or technical spinoffs), these countries would still be inefficient producers; until their basic internal problems are solved, they will continue to exchange "cheap" manufactured exports for more expensive imports from developed countries.

A solution to the problems of the LDCs, therefore, must be found primarily in domestic reforms and not through changes in the structure of the world economy. Although the developed countries can and should assist the less developed, the key to economic and industrial progress is a prior agricultural revolution, as happened in the West, in Japan, and within the Asian NICs, especially in Taiwan and South Korea. In Lewis's words, "the most important item on the agenda of development is to transform the food sector, create agricultural surpluses to feed the urban population, and thereby create the domestic basis for industry and modern services. If we can make this domestic change, we shall automatically have a new international economic order" (Lewis, 1978a, p. 75).

In the opinion of at least one authority, economists will never agree on the terms of trade issue (Condliffe, 1950, p. 201). This is partially because the terms of trade depend upon a large number of both economic and noneconomic factors, including the relative rates of economic growth of developing and developed economies, changes in supply and demand, and the bargaining power and skills of buyers and sellers. In addition, an appraisal of the issue must take still other factors into consideration. One is that, as liberals stress, the total volume of trade can be more important for the welfare and development of an economy than the terms of trade. A greater volume of exports increases foreign exchange, expands the modern sector, transfers advanced technology, increases product variety in an economy, improves domestic efficiency, and absorbs the surplus supply of labor that is largely responsible for the low real wage in almost every less developed economy. From this perspective, the major problem has been the high barriers erected by the advanced countries against the food and commodity exports of the LDCs.

Furthermore, measurement of the terms of trade cannot take into account qualitative improvements in manufactured exports, at least those improvements not registered in the prices that provide the basis for calculation of the terms of trade. For example, the prices of computers have dropped dramatically at the same time that their quality has greatly improved. Another fact that must be recognized is that several of the most prosperous countries in the world are agricultural exporters (such as Denmark, New Zealand, and Australia). The industrialization of Japan was financed by the export of silk, and even the United States is a major food exporter. The structuralist idea that the terms of trade for commodity exporters have deteriorated over the long term and that this is the reason for their economic plight is not supported by the evidence. To the contrary, most less developed countries have probably benefited disproportionately through a quantitative and qualitative improvement in their imports from developed economies (Viner, 1952).

One variation of the structuralist argument has gained some support as trade theorists have become more interested in imperfect competition based on economies of scale and on barriers to entry into the industrial sector. This position argues that "an initial discrepancy in capital-labor ratios between [North and South] . . . will cumulate over time, leading to the division of the world into a capital-rich, industrial region and capital-poor, agricultural region" (Krugman, 1981b, p. 149). The fortuitous head start of the industrialized countries in amassing capital (or "primitive accumulation") and their relatively favorable capital-labor ratio have enabled them at times to reap excessive profits or technological rents from less developed economies (Krugman, 1979).

This formulation of the thesis, however, only begs the question. It does not account for the labor surplus of the South or the backwardness of its technology. Why did the North industrialize first? All the available evidence indicates that the industrial productivity of early modern Europe was based on prior rapid improvements in agriculture.

Yet Krugman's argument contains an ominous twist for the North. The North must continue to innovate not only to maintain its relative position but even to maintain its real income in absolute terms (Krugman, 1979). Thus, although in the short run the advanced countries may collect technological rents from the South, the long-term effect of this trading relationship, as Lenin and Hobson appreciated and as the late twentieth century has witnessed, is the transfer to the South and its newly industrializing countries of the industrial technology that has given the North its competitive advantage. As this occurs, the North, with its higher wage and cost structures, must innovate new technology at a faster rate than its older technology is diffusing to its rising competitors. In effect, the North must run faster and faster in order to maintain both its relative and absolute positions.

Some conclusions about the structuralist thesis and related arguments can be drawn. First, the concept of "the terms of trade" itself is confused, difficult to measure, and highly indeterminant over the long term. Second, the terms of trade between core and peripheral economies can be of less importance than other considerations such as the overall volume of trade and the benefits of trade in modernizing the peripheral economy. Third, even if one can establish that the terms of trade between core and peripheral countries are to the disadvantage of the latter, the causes of this situation are to be found primarily within the less developed economies themselves.

Whatever the intellectual merits of the structuralist arguments, their views and economic program had fallen into disrepute by the mid-1960s. The dependence of most of the less developed countries on commodity exports continued, the LDC need for manufactured imports increased and led to severe balance-of-payments problems, and the strategy of import substitution stimulated the manufacturing multinationals of the advanced countries to expand into LDC markets, raising fears of a new form of capitalist imperialism (Roxborough, 1979, pp. 33-35). In response to these developments, a more radical interpretation of the plight of the Third World and a related plan of action appeared.

The Dependency Position

Dependency literature[11] has become a growth industry, but the most concise and frequently quoted definition of dependence is that of the Brazilian scholar, Theotonio Dos Santos:

[11] An excellent summary of the literature on dependency theory is Palma (1978). A more critical appraisal is T. Smith (1981, pp. 68-84). Caporaso (1978) contains a range of differing views on the subject.

By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development (Dos Santos, 1970, p. 231).

The many varieties of dependency theory combine elements of traditional Marxism with economic nationalism. Dependency theorists take their analysis of capitalism, particularly the Marxist theory of capitalist imperialism, and their concern with the domestic distribution of wealth from Marxism. From the theorists of economic nationalism they take their political program of state building and intense concern over the distribution of wealth among nations. Thus, in contrast to classical Marxism, one finds that little attention is given to the international proletariat; there are no calls for the workers of the world to unite and throw off their chains.

Although different dependency theorists lean in one direction or another—toward Marxism or nationalism—they all share several assumptions and explanations regarding the causes of and the solution to the problems of less developed countries. This position is captured by Andre Gunder Frank's statement "that it is capitalism, both world and national, which produced underdevelopment in the past and which still generates underdevelopment in the present" (quoted in Brewer, 1980, p. 158). As Thomas Weisskopf has said, "the most fundamental causal proposition [associated] with the dependency literature is that dependence causes underdevelopment" (Weisskopf, 1976, p. 3). Thus, dependency theory is closely related to the concept of the Modern World System (MWS) discussed in Chapter Three.

Liberals define underdevelopment as a *condition* in which most nations find themselves because they have not kept up with the front-runners; dependency theorists see it as a *process* in which the LDCs are caught because of the inherent relationship between developed and underdeveloped nations.[12] Development and underdevelopment constitute a system that generates economic wealth for the few and poverty for the many; Frank has called this "the development of underdevelopment" (Frank, 1969). Whereas liberals stress the dual but flexible nature of domestic and international economies, that is, the contrast

[12] D. Baldwin (1980) is an excellent analysis of the concept of dependence and its place in the literature of international relations.

between the modern sectors integrated into the national and international economies and the backward, isolated, and inefficient sectors, dependency theorists argue that there is only one functional integrated whole in which the underdeveloped periphery is necessarily backward and underdeveloped because the periphery is systematically exploited and prevented from developing by international capitalism and its reactionary domestic allies in the Third World economies themselves.

This functional or organic relationship between the developed and underdeveloped countries is said to have been first created by colonialism. Some allege that this relation remains even after the achievement of formal political freedom, due to the operation of economic and technological forces that concentrate wealth in the metropolitan countries rather than diffusing it to the less developed nations. Liberals assert that there is a time lag but that the gap between rich and poor will eventually disappear as Western economic methods and technology diffuse throughout the world; the dependency position is that underdevelopment is caused by the functioning of the world capitalist economy.

Dependency theory arose in the mid-1960s, partially as a response to the apparent failure of the structuralist analysis and prescriptions. Dependency theorists argue that the import-substitution industrialization strategy of the structuralists failed to produce sustained economic growth in the less developed countries because the traditional social and economic conditions of the LDCs remained intact; indeed the neocolonialist alliance of indigenous feudal elites with international capitalism had even been reinforced by the import-substitution strategy. The result has been an increased maldistribution of income, domestic demand too weak to sustain continued industrialization, and ever-greater dependence on those multinational corporations of developed economies that took advantage of the import-substitution policies. Less developed countries have lost control over their domestic economies as a consequence and have become more and more dependent on international capitalism. Therefore, the solution must be a socialist and nationalist revolution that would promote an equitable society and autonomous nation.

The major components in dependency theory include analyses of (1) the nature and dynamics of the capitalist world system, (2) the relationship or linkage between the advanced capitalist countries and the less developed countries, and (3) the internal characteristics of the dependent countries themselves. Although the theorists differ on specific points, all dependency theorists hold that these components of the theory explain the underdevelopment of the LDCs and point the way to a solution. Each aspect will be discussed below.

One central ingredient in dependency theory is the Marxist critique of capitalism set forth by Lenin and others. This theory asserts that the laws of motion of capitalism and the contradictions existing in a capitalist economy force capitalism to expand into the less developed periphery of the world economy. Because of underconsumption and the falling rate of profit at home, the capital economies must dominate and exploit the less developed countries. This leads to a hierarchical structure of domination between the industrial core and the dependent periphery of the world capitalist economy.

Dependency theory, however, differs in several important respects from the traditional Marxist analysis of capitalist imperialism. It substitutes economic for political means of subordination; whereas Lenin believed that political control was the principal feature of capitalist imperialism, dependency theory replaces formal political colonialism with economic neocolonialism and informal control. Dependency theorists also reject the classical Marxist view that imperialism develops the "colonized" economy to the point at which it can cast off its bonds; they assert that even if development does take place, an economy cannot escape its shackles as long as it is dependent. Furthermore, they consider the multinational corporation, especially in manufacturing and services, to be the principal instrument of capitalist domination and exploitation in the late twentieth century. The great corporations are said to have replaced *haut finance* and the colonial governments that dominated the less developed countries in Lenin's analysis.[13]

Advocates of dependency theory differ in their definitions of the precise mechanism that has brought about underdevelopment. The general positions regarding the relationship of the advanced capitalist to less developed economies can be placed into three categories: the exploitation theory, the doctrine of "imperial neglect," and the concept of dependent development. Although they each work quite differently, all are alleged to have a detrimental effect on the less developed countries.

The "exploitation" theory maintains that the Third World is poor because it has been systematically exploited (Amin, 1976). The underdevelopment of the Third World is functionally related to the development of the core, and the modern world system has permitted the advanced core to drain the periphery of its economic surplus, transferring wealth from the less developed to the developed capitalist economy through the mechanisms of trade and investment. Consequently, dependence does not merely hold back the full development of the Third World; dependency actually immiserizes the less developed economies and makes them even less successful than they would have been if they had been allowed to develop independently.

[13] Lenin was aware of what neo-Marxists today call "dependency" relations and noted in *Imperialism* (1939 [1917], p. 85) the dependence of Argentina on Great Britain. He apparently did not believe, however, that this type of economic relationship was very important in contrast to formal political annexation. In addition, Lenin's classically Marxist view that capitalist imperialism develops the colony was amended in 1928 at the Sixth Congress of the Communist International in favor of the contemporary dependence theory formulation (Mandle, 1980, p. 736).

The "imperial neglect" position takes a decidedly different view regarding the effect of the world economy on the less developed economies (Brown, 1970). It argues that the problem of the less developed economies and most certainly of the least developed ones is that the forces of capitalist imperialsm have deliberately bypassed them. The expansion of world capitalism through trade, investment, and European migration has created an international division of labor that favored some lands and neglected others to their detriment. Capitalist imperialism laid the foundations for industrial development through the stimulus of international trade and infrastructure investments (port facilities, railroads, and urban centers) in a privileged set of less developed countries, most notably the "lands of recent settlement." Elsewhere capitalism's penetration and impact were insufficient to destroy archaic modes of production and thereby open the way to economic progress. The lament of those bypassed is "why didn't they colonize us?" Even in the mid-1980s, the investments of multinational corporations bring industry to some countries while completely neglecting the great majority. Thus, the world capitalist economy is ultimately responsible for underdevelopment because the patterns of trade and investment it fosters have had a differential impact on the periphery.

The "dependent or associated development" school is the most recent interpretation of dependency theory (Evans, 1979). Acknowledging the rather spectacular economic success of several less developed economies such as Brazil, South Korea, and Taiwan, this position holds that dependency relations under certain conditions can lead to rapid economic growth. It argues, however, that this type of growth is not true development because it does not lead to national independence. Proponents of this view believe such growth actually has very detrimental effects on the economy of the less developed country.

Continued economic dependency is a limiting condition on economic development and is alleged to have the following evil consequences:

(1) Overdependence upon raw materials exports with fluctuating prices, which causes domestic economic instability;

(2) A maldistribution of national income, which creates in the elite inappropriate tastes for foreign luxury goods and neglects the true needs of the masses, thus continuing social inequalities and reinforcing domination by external capitalism;
(3) Manufacturing investments by MNCs and dependent industrialization, which have the effect of creating a branch-plant economy with high production costs, destroying local entrepreneurship and technological innovation, and bleeding the country as profits are repatriated;
(4) Foreign firms that gain control of key industrial sectors and crowd out local firms in capital markets;
(5) Introduction of inappropriate technology, i.e., capital-intensive rather than labor-intensive;
(6) An international division of labor created between the high technology of the core and the low technology of the periphery/
(7) Prevention of autonomous or self-sustaining development based on domestic technology and indigenous entrepreneurship;
(8) Distortion of the local labor market because the MNCs pay higher wages than domestic employers and therefore cause waste and increased unemployment;
(9) Finally, reliance on foreign capital, which generally encourages authoritarian-type governments that cooperate with and give foreign corporations the political stability they demand.

Dependency theorists argue that for all these reasons dependent or associated development cannot lead to true development.

All dependency theorists maintain that underdevelopment is due primarily to external forces of the world capitalist system and is not due to the policies of the LDCs themselves. Both LDC underdevelopment and capitalist development are the product of the expansion of international capitalism. This historical situation has not fundamentally changed; the international balance of economic and political power continues to be distorted in favor of the developed capitalist economies. Although the dependent less developed economy may advance in absolute terms, it will always be backward in relative terms.

The third major component of dependency theory is a quasi-Marxist analysis of the dependent economy; it is this aspect of dependency theory that best distinguishes it from what its adherents regard as the reformist, bourgeois position of the structuralists. Specifically, dependency theory asserts that the dependent country is fastened to the world economy by a transnational class linkage. An alliance of convenience and common interest exists between the centers of international capi-

talism and the clientele class that wields power in the dependent economy. This parasitic or feudal-capitalist alliance is composed of agrarian interests, the military, and the indigenous managers of the multinational corporations, who have a vested interest in maintaining the linkage with international capitalism and in preventing the development of an independent and powerful industrial economy through social and political reforms. Dependency theorists argue that this coopted elite resists the loss of its privileges and is kept in power by the forces of world capitalism and also that the strategy of import substitution supported by the structuralists merely increases the foreign hold over the economy.

The crux of the attack by dependency writers on established bourgeois elites in the Third World is their assertion that the cooperation of these elites with international capitalism and the integration of the society into the world economy thwarts the economic development, social welfare, and political independence of the society. These national bourgeois elites are accused of pursuing the interests of their own class rather than being *true* nationalists and defenders of the society against international capitalism.

The solution to underdevelopment advocated by dependency theorists is destruction of the linkage between international capitalism and the domestic economy through the political triumph of a revolutionary national leadership that will overthrow the clientele elite and replace it with one dedicated to autonomous development. This new elite would dedicate itself to the industrialization of the economy, the prompt eradication of feudal privileges, and the achievement of social and economic equity. Through the replacement of capitalism by socialism and the course of self-reliant development, the new elite would create a just and strong state.

The conceptions of development and underdevelopment held by dependency theorists are as much political and social concepts as they are economic; these theorists desire not merely the economic growth of the economy, but also the transformation and development of the society in a particular social and political direction. Their objective is to create an independent, equitable, and industrialized nation-state. This goal, they believe, requires a transformation of the social and political system.

Although the major themes of dependency theory have remained unchanged, some writers have introduced subtle but important modifications. Acknowledging the obvious development of a number of NICs, they have changed the emphasis of the theory from an explanation of "underdevelopment" to an explanation of "dependent development." With the obvious success of the NICs and their strategy of export-led growth, a perceptible movement can be observed back toward the original Marxist notion that integration in the world capitalist economy, despite its attendant evils, is a force *for* economic development.

Despite these changes in emphasis, dependency theory remains an ideology of state building in a highly interdependent world economy. Although it adopts a Marxist mode of analysis and socialist ideals, dependency theory has absorbed powerful elements of the statist traditions of eighteenth-century mercantilism and nineteenth-century economic nationalism. The theory maintains that an LDC, through a strategy of autonomous or self-reliant development, can become an independent nation-state.

A Critique of Dependency Theory

The crux of the dependency argument is that the world market or capitalist international economy operates systematically to thwart the development of the Third World. Therefore, evidence that individual countries have been exploited is not sufficient to support the theory. Although it is undeniable that, in particular cases, an alliance of foreign capitalists and domestic elites has contributed to an economy's underdevelopment, for example, the Philippines of Ferdinand Marcos, the charge of a systematic and functional relationship between capitalism and underdevelopment cannot be supported.

It should be noted that a single independent variable—the functioning of the international economy—is being used to explain three quite distinct types of phenomena found in the Third World: underdevelopment, marginalization, and dependent development (Russett, 1983). From a simple methodological point of view, something is wrong with any theory in which a single independent variable is used to explain three mutually exclusive outcomes. Dependency theory is replete with ad hoc hypotheses and tautological arguments intended to account for these very different phenomena.

The general argument that the LDCs as a group have remained commodity exporters, have been exploited, and have been kept undeveloped is simply not true. Although many examples of this type of dependency relationship continue to exist in the late twentieth century, the overall argument cannot be sustained. By the late 1980s, only the countries of south Saharan Africa and a few others remained impoverished commodity exporters. Although the terms of trade for commodities have shown no secular tendency to decline, the business cycle is very damaging to those less developed countries that have failed to

transform their economies. On the other hand, with the important exception of Japan, the LDCs as a group have grown faster in recent years than the advanced countries (Krasner, 1985, pp. 97, 101). In brief, little evidence supports the charge that the international economy operates systematically to the disadvantage of the LDCs.

The charge of underdevelopment and dependency theorists that the world market economy has neglected and bypassed many countries in the Third World is correct. The process of global economic integration that began in the latter part of the nineteenth century and has expanded trade and investment among developed and less developed countries has been a highly uneven one. The simple fact is that both nineteenth-century imperialism and the operations of twentieth-century multinational corporations have left many of the world's traditional economies untouched because they found too little there to be "exploited." This marginalization of destitute areas (the Fourth and Fifth Worlds) such as the Sahel and other parts of Africa, however, constitutes a sin of omission rather than one of commission. The most serious threat faced by much of the Third World, in fact, is not dependence but the likelihood of continued neglect and further marginalization. What has been lacking in the postwar world, as John Ruggie (1983b) has noted, is an adequate international regime whose purpose is global economic development. But this failing is not just that of the capitalist world; it is also a failing of the socialist bloc and the wealthy oil producers. It should be noted that the West has been far more generous than the socialist bloc or OPEC producers.

The claim that the dependent or associated development exemplified by the newly industrializing countries of Brazil, South Korea, and other countries is not "true" development is, of course, largely normative (Brewer, 1980, p. 291). However, even if one accepts the position that the objective of development ought to be national independence, social welfare, and autonomous industrialization, the evidence in support of the above contention is mixed. Many present-day developed and independent countries previously followed the road of dependent development. As those Marxist writers who incorporate Marx's own views on the subject appreciate, dependent development in a growing number of less developed countries has begun a process of sustained industrialization and economic growth (Brewer, 1980, pp. 286-94). In fact, the success of the NICs may be partially attributable to the legacy of Japanese imperialism (Cumings, 1984, p. 8).

Bill Warren, writing in the tradition of Marx, Lenin, and other classical Marxists, has provided a clear assessment of what is taking place among the less developed countries: "If the extension of capitalism into non-capitalist areas of the world created an international system of inequality and exploitation called imperialism, it simultaneously created the conditions for the destruction of this system by the spread of capitalist social relations and productive forces throughout the non-capitalist world. Such has been our thesis, as it was the thesis of Marx, Lenin, Luxemburg and Bukharin" (Warren, 1973, p. 41). However, it must be added that economic development will not occur unless the society has put its own house in proper order. As liberals stress, economic development will not take place unless the society has created efficient economic institutions.

The available evidence suggests that neither integration into the world economy nor economic isolation can guarantee economic development. The former can lock a country into an export specialization that harms the overall development of its economy. High export earnings from a particular commodity and powerful export interests can hinder diversification; export overdependence and fluctuating prices create vulnerabilities that can damage an economy. On the other hand, economic isolation can cause massive misallocations of resources and inefficiencies that thwart the long-term growth of an economy. What is important for economic development and escape from dependence is the capacity of the economy to transform itself. This task is ultimately the responsibility of its own economic and political leadership. As Norman Gall (1986) has cogently shown, too many of the less developed countries have suffered the consequences of poor leadership.

An Evaluation of LDC Strategies

However elaborate and sophisticated it might appear, every theory of poverty and of escape from it can be reduced to one or a combination of the following formulations: (1) that the poor are poor because they are inefficient (essentially the position of economic liberalism) and therefore must create an efficient economy; (2) that the poor are poor because they are powerless or exploited (the argument of most contemporary Marxists and dependency theorists) and therefore must acquire national power; or (3) that the poor are poor because they are poor, that is, they are caught in a vicious cycle of poverty from which they cannot escape (the view of traditional Marxists and present-day structuralists) and therefore somehow this cycle must be broken.[14] The development strategy advocated for the less developed countries is largely dependent on which interpretation one believes to be correct.

[14] Nurkse (1953) appears to be the first to set forth this formulation.

Evaluation of these positions is extremely difficult because the theories underlying them are imprecise and more in the nature of prescriptive than scientific statements, because the time span is insufficient to support judgment of either the success or failure of various strategies, and because these strategies have very different objectives and definitions of economic development. If taken on its own terms, each theory and strategy must be judged by a unique set of criteria. For example, although liberals have a concern with quality of life and domestic welfare, they define economic development primarily as an increase in wealth per capita regardless of how that wealth is generated or what its implications are for national autonomy; dependency theorists and structuralists, on the other hand, define economic development in terms of socialist ideals, self-sustaining industrialization, and increased power for the nation.

Since this book focuses on the international system, it is fundamentally concerned with the relevance of each theory and its strategy for the power and independence of the newly emerging nation-states. I generally accept the dependency and structuralist position that the "name of the game" is state building, as it was for Hamilton, List, and other economic nationalists. Thus it is appropriate to ask what, on the basis of the limited available evidence in the late twentieth century, has been the best strategy for a less developed economy to pursue, either singularly or in alliance with other countries, in order to become a unified and powerful nation?

The following discussion will analyze and evaluate the economic and political strategies that less developed economies have in fact pursued over the past several decades. Excluding those few countries such as Burma or Liberia that appear to have opted out of the game of national development altogether, these strategies range from the autonomous or self-reliant development advocated by dependency theorists to aggressive participation in the world economy chosen by the NICs. The following discussion of each strategy will be brief, incomplete, and tentative in the judgments rendered. After all, the historical drama of state-creation among the less developed countries is just beginning.

Autonomous or Self-Reliant Development

Both structuralists and dependency theorists have advocated a development strategy based on national self-reliance. For structuralists, this has meant an emphasis on an import-substitution strategy, rapid industrialization behind high tariff walls, and a reform of international institutions. Dependency theories go further and argue that autonomous self-reliant development requires a social transition from a feudal-capitalist society to a socialist one. Domestic equity can be achieved, they argue, only by lessening or actually breaking the links with the world capitalist economies. Have these strategies worked in actual practice?

Import-substitution industrialization began in Latin America and certain other less developed countries during the Great Depression of the 1930s and accelerated during the Second World War. As a result of depressed prices for their commodity exports and the unavailability of manufactured imports from the industrial countries, many less developed countries began to develop their own manufacturing industries. Although this strategy has led to rapid industrialization, as in the case of Brazil, in important respects its results have been disappointing. For a number of reasons, in most countries when governments encouraged the establishment of industries in which their economies had no comparative advantage, an inefficient and high-cost industrial structure was created; foreign multinationals invested in them primarily to get around trade barriers. The more successful Asian NICs, on the other hand, pursued an export strategy in cooperation with American and Japanese multinationals. In the 1980s many of those LDCs that had chosen import-substitution began to move toward export-led growth strategy because of the recognized need to earn foreign exchange and to develop efficient industries that could compete in world markets (Strange, 1985c, p. 252).

The specific reasons for the failure of an import-substitution strategy include the following: the relatively small size of national markets led to uneconomic plants, excessive protectionism weakened incentives to improve quality of production, and the need to import industrial technology and capital goods caused massive balance-of-payments and debt problems. By the mid-1980s, it had become obvious that a strategy of industrialization based on import substitution was inadequate.

The alternate route of autonomous development advocated by dependency theorists via a domestic social transformation has been chosen at one time or another by Cuba, Tanzania, and China. Self-styled socialist or communist countries, they wanted to minimize their involvement in what they regarded as the hostile imperialist world capitalist economy and to gain domestic social justice. This strategy has failed to acheive the desired social and economic success (Rydenfelt, 1985). Moreover, dependency relationships are characteristic of the socialist Soviet Union and its clients in the Third World such as Cuba, Yemen, and Vietnam. Dependency is not a unique feature of international capitalism (Clark and Bahry, 1983).

Although Cuba and China have achieved some degree of social welfare and economic equity, it is certainly not comparable to that reached

by countries like Taiwan or South Korea, which have been fully integrated into world capitalism. The export-led growth of these latter two economies has certainly been more egalitarian in its effects than Brazil's strategy of import substitution, which appears to have increased the maldistribution of income. Although the evidence on these matters is inconclusive, the distribution of national income is much more a product of historical conditions and government policies than it is a consequence of an economy's position in the international capitalist order.[15]

The level of economic success reached by the strategy of autonomous development can only be described as disappointing. Cuba's economy has changed little since it broke with the West; its exports continue to be mainly sugar, tobacco, and other commodities. Its economy is highly subsidized by the Soviet Union for political reasons; in effect, Cuba exchanged one set of dependency relations for another. Tanzania's economic performance is dismal to say the least; it lags behind its neighbor, Kenya, which has chosen a more openly capitalist route to development, and it is highly dependent on South Africa. One must look to China, therefore, for an evaluation of the strategy of autonomous development.

Although China received Soviet aid in the 1950s and 1960s, under Mao Zedong the Chinese committed themselves to a course of self-reliant development. They planned to modernize their economy outside the framework of the capitalist world economy, mobilizing the capital from their own labors and creating their own technology. Chinese industrialization would be based on labor-intensive technology, homegrown for a mass market. This self-reliant strategy was accelerated by Mao with the Great Leap Forward (1958-1961). Sympathetic Western observers praised the backyard ironworks that symbolized this massive effort to modernize China, and enthusiasts proclaimed the wisdom and success of "the Chinese model of economic development" and recommended it to others who wished to escape the yoke of international capitalism.

However, the Great Leap turned into a stumble for the Chinese economy. The resulting problems were accelerated by the Sino-Soviet split and the Russian effort to sabotage the Chinese economy by removing their technicians and eliminating all aid to China. Then came the Cultural Revolution, which caused further damage to the economy and to the scientific-technical foundations of the country. For years China

[15] The research conducted under the direction of Henry Bienen at the Research Program on Economic Development of the Woodrow Wilson School of Princeton University and the studies of Atul Kohli et al. (1984) and Hla Myint (1985) at the World Bank find that domestic market forces and economic policies are of most importance in determining the distribution of national income.

slipped backward as it tore itself apart. The leadership that emerged after the death of Mao, finding itself alienated from both East and West, realized that China could not achieve its objectives alone and required Western assistance. In the words of Deng Xiaoping, "no country can now develop by closing its door. . . . Isolation landed China in poverty, backwardness and ignorance" (quoted in *The New York Times*, January 2, 1985, p. A1). Marx would no doubt strongly agree.

At this writing it is too soon to know what the effects of China's reentry into the world economy will be. China has opened to Western investment, but that investment, transfer of modern technology, and enlargement of trading activities are in an early stage. Nevertheless, in the mid-1980s, it is clear that the strategy of autonomous development advocated by the more extreme of the dependency theorists holds little promise for the less developed economies. If China, with its advantages of a strong state, abundant resources, and a relatively large internal market for an LDC, could not be self-reliant, what hope is there for Tanzania? Even the Soviet Union, it should be remembered, had a strong industrial base prior to the Revolution, and infusions of Western technology continued under the New Economic Policy of the 1920s. As the Yugoslav writer, Milovan Djilas, once said to me, no communist society has or can fully develop without the assistance of capitalist economies. More generally, all development is in varying degrees dependent development; no society can develop without at least acquiring the productive technology of the more advanced economies.

Economic Regionalism

A second strategy that has been employed by developing economies as well as others is economic regionalism, wherein a group of countries in a geographically restricted area tries through economic cooperation and alliance to improve its overall position relative to more advanced economies. Cooperation may take several forms; the following are the most important:

(1) Formation of a free trade area or customs union to increase the scale of the internal market and simultaneously protect domestic producers against outside competitors;
(2) Enactment of investment codes and agreements to strengthen the bargaining position of the members vis-à-vis developed economies, especially their MNCs; and
(3) Development of regional industrial policies to rationalize and concentrate local fragmented companies into regional champions (public or private) in such fields as textiles, steel, and motor vehicles.

As the strategy of import-substitution flagged, UNCTAD, led by Prebisch, began to push for a regional approach to the problem of the less developed countries. Arguments were made that these nations should form regional monopolies in important industrial sectors, create a regional division of labor based on specialization, and formulate rules to guide relationships with outside multinational corporations to overcome the problem of small national markets and to improve their bargaining position with the large multinational corporations.

These efforts at regional cooperation have produced mixed results. Attempts have taken place in both East and West Africa, in the Caribbean, Southeast Asia, Central America, and the Andean region. Although limited objectives have been achieved in monetary affairs or in labor migration, more ambitious efforts to create a unified common market have invariably been torn apart by regional conflicts and economic rivalries. Intraregional competition for foreign investment and trade has frequently undermined the common front against multinational corporations. Attempts to rationalize and concentrate industries in order to create a regional division of labor have been countered by the desire of each country to have the regional champion be one of its own. The very forces of economic nationalism that prompted the initial commitment to regional cooperation have led to its destruction as each nation has tried to advance its own national interests.

In fact, to date there have been only two relatively successful examples of economic regionalism: the European Economic Community (EEC) or Common Market and the COMECON in Eastern Europe, both of which have resulted in a high degree of economic integration. Yet the unusual circumstances surrounding both endeavors and the limited nature of their success restricts their usefulness as models for the less developed countries. In each case, one or another of the superpowers has played a significant role in the organization's formation; furthermore, security motives have been of paramount importance. Even the EEC, moreover, has been unable to advance much beyond its common external tariff and agricultural policy. Although the Soviet Union has forced its Eastern bloc members to specialize in a "socialist international division of labor," resistance has been strong and these economies have sought economic openings to the West. In Europe as in the less developed economies, economic nationalism constrains regional integration.

A second form of regionalism is embodied in the creation of special trading relations between developed countries and particular groupings of less developed countries. The Lomé Conventions between the European Economic Community and certain less developed countries and President Reagan's Caribbean Basin initiative are examples of the type of regionalism that extends preferential trading and other benefits to selected countries. For example, the Lomé Conventions give sixty or so African, Caribbean, and Pacific states privileged access to the EEC for their commodity exports and certain types of manufactures. Without exception, however, these arrangements are interlaced with restrictions on both agricultural and manufactured exports from the LDCs. In particular, they restrict exports that compete against EEC products, thereby limiting this type of regionalism as a vehicle of industrialization and a means of escaping the dependency relationship.

In recent years, a third type of economic regionalism has been gaining strength. This is the "delinking of trade" between developed and less developed economies and the forging of trade links and a division of labor among all the less developed countries while acting independently of the more advanced economies (Lewis, 1980b). Although intra–Third World or South-South trade did not grow significantly in the 1970s and in the early 1980s, it promises to be more important in the future.[16] For years to come, however, the developed countries will continue to constitute the engine of the world economy and will be the major importers of all types of LDC exports (ibid.). Moreover, the delinking strategy suffers from the general weakness of economic regionalism, in which less developed countries seek advantages for themselves at the expense of others and attempt to continue beneficial trading and investment relations with more advanced economies. Individual LDCs frequently form alliances with multinationals in order to acquire capital, technology, and access to foreign markets. By giving a multinational a monopoly position in its own closed market, it hopes to draw upon the MNC's resources and enhance its economic position. Despite the rhetoric of "Third World solidarity," few less developed countries are willing to sacrifice their perceived national interests for the sake of others LDCs.

The Formation of Commodity Cartels

Another strategy advocated by certain states in the Third World is emulation of OPEC and the formation of commodity cartels that could force a dramatic improvement in the terms of trade for Third World raw material and food exports. Such cartels have been proposed in copper, bauxite, and other commodities. There was much talk along these lines in the wake of the initial OPEC success, and there were differing responses in the developed countries. Some spoke of the threat from the

[16] A good discussion of the delinking strategy is Stewart (1984).

Third World, forseeing a proliferation of Southern commodity cartels that could cause havoc for the North; others argued that "oil is the exception" and that no threat existed (Krasner, 1974). The available evidence suggests that the latter position has been vindicated.

The success of OPEC in quadrupling the price of petroleum was due to a peculiar set of favorable circumstances. Both demand and supply factors were ripe when the third Arab-Israeli war in 1973 caused Arabs to impose an embargo on the West and the Shah of Iran took advantage of the situation to raise the price of petroleum exports drastically. During the months just prior to the outbreak of the war, demand for petroleum and other commodities had increased greatly while accelerating inflation had reduced the real price of oil. On the supply side, there was no longer an excess capacity available that the West could tap to compensate for the Arab-induced shortfall. In fact one can argue that the energy crisis actually began earlier, when the United States began full production from its domestic oil fields, thus losing its excess capacity and relinquishing to the OPEC cartel effective control over the world petroleum market.

A cartel has a powerful tendency to undermine itself, and its maintenance requires the existence of a large producer with excess capacity that can instill discipline; such a leader can strongly influence world prices through increases or decreases in the aggregate supply. By 1973, this pivotal position had shifted from the United States and its petroleum companies to the King of Saudi Arabia. Subsequently, the Saudis dominated world energy markets for over a decade; by increasing or decreasing their production, they maintained the cartel and influenced the world price. They thus operated the cartel to their own national advantage and that of at least some other producers.

In the early 1980s, this Saudi influence over the cartel was undermined and OPEC's fortunes were dramatically reversed. The success of conservation measures, the entry of new non-OPEC producers, especially Mexico and Great Britain, and global recession greatly reduced world demand for petroleum. At the same time, total production was increased as individual producers tried to prevent a fall in their total oil revenues. The consequent decline in oil prices from a previous high in the range of $35 or more a barrel to a low of less than $12 in the summer of 1986 caused the Saudis to increase production significantly to force a collapse in the price and thereby to reestablish their influence over the cartel. Although the consequences of this "price war" were undecided at the time of this writing, projections suggested that the world demand for petroleum would again overtake supply sometime in the early 1990s.[17] If and when this occurs, Saudi Arabia will regain its domination over the cartel and will once again strongly influence the price of petroleum and world energy.

Although commodity cartels have had varying degrees of success in raising or maintaining prices, there does not appear to be any other commodity in a situation similar to that of petroleum. Substitutes for almost all other commodities are readily available, and the world demand for many commodities has declined due to dramatic reductions in the resource content of manufactured goods (Larson, Ross, and Williams, 1986). With the exception of a few metals, the United States or one of its allies can produce the commodities. But more importantly, no single producer like Saudi Arabia exists that can control the supply and hence the price. Finally, although cartels may benefit certain less developed countries (as happened with petroleum), they do so only at the expense of most other LDCs. For many reasons, cartels in scarce commodities do not appear to provide a promising method for improving the lot of the less developed countries.

The Demand for a New International Economic Order

The perceived failure of alternative strategies (import substitution, self-reliance, and economic regionalism) and the success of OPEC led to the launching of a new strategy at the Sixth Special Session of the United Nations General Assembly in 1974. At that session a group of less developed countries (the Group of 77), led by several OPEC members, adopted a Declaration and Action Programme on the Establishment of a New International Economic Order (NIEO) that included: (1) the right of the LDCs to form producer associations, (2) linkage of commodity export prices to the prices of manufactured exports from developed countries, (3) the right of LDCs to nationalize foreign enterprises and gain sovereignty over their natural resources, and (4) the formulation of rules to regulate the multinational corporations. On December 12, 1974, the General Assembly adopted these objectives in the form of the Charter of Economic Rights and Duties of States.[18]

Although this desire for an NIEO was profoundly influenced by radical and dependency critiques of world capitalism, it was generally in the spirit of structuralism, believing that the goal of industrialization

[17] Robert Williams of the Center for Energy and Environmental Studies of Princeton University has done calculations indicating that the increasing industrialization of the less developed countries and their rapidly growing requirements for petroleum will bring demand into line with available supply.

[18] Krasner (1985) provides an excellent evaluation of the LDC demands for a New International Economic Order.

and economic development could be achieved within the framework of the world economy and that it was not necessary to overthrow the capitalist system. What was required were policy and institutional reforms that would make the international economic system operate to the advantage of the less developed countries and enlarge their role in running the system. Among the most important demands for changing the terms on which the LDCs participated in the world economy were the following:

(1) Measures that would increase Third World control over their own economies, especially in natural resources,
(2) Agreements to maintain and increase their purchasing power and to improve the terms of trade for their raw material exports,
(3) Enactment of a code of conduct increasing their control over the MNCs within their own borders,
(4) Reductions in the cost of Western technology and increases in its availability,
(5) Increases in the flow and liberalization of foreign aid,
(6) Alleviation of the LDC debt problems,
(7) Preferential treatment and greater access for LDC manufactured goods in developed markets, and
(8) Greater power in decision making in the IMF, World Bank, United Nations, and other international organizations, thus making these institutions more responsive to LDC needs.

The essence of the initial proposal for a New International Economic Order and also of subsequent reformulations is that the operations of the world economy should be made subordinate to the perceived development needs of the less developed economies (Krasner, 1985). Working toward this goal, various commissions and reports have advocated changes in the rules governing international trade, the monetary system, and other matters. In particular, they have advocated changes in international organizations—the United Nations, the World Bank, and the IMF—that would give the LDCs greater influence in the management of the world economy and its regimes.

At first there was disarray, and conflicting responses emerged among the Western powers. Numerous international conferences were held to consider the Third World demands. By the mid-1980s, however, although the debate and controversy continued over this most concerted and significant attempt by the less developed countries to change the international balance of economic and political power, the NIEO challenge had been effectively defeated. The reasons for the failure to implement the NIEO include the following:

(1) Despite rhetorical and marginal differences in their positions, none of the developed economies has been willing to make any significant concessions. Resistance to the demands has been led principally by the United States, which regards the proposals either as unworkable or as contrary to its commitment to a free market economy. Although some other Western countries have been more accommodating in spirit, they have substantially supported the American stance.

(2) Contrary to their statements and the expectations they engendered, OPEC members have been unwilling to put their power and wealth at the service of other Third World states. For example, they have not used their monetary resources to finance a general commodity fund or the development efforts of more than a few countries. Instead they have used their newly gained economic power to support their own nationalistic interests and have invested most of their financial surplus in Western markets.

(3) The rise in world petroleum prices had a devastating impact on non-oil-producing countries, particularly those in the Third World. In addition to burdening them with high import bills, it triggered a global recession that reduced the rising world demand for their commodity exports. Thus, the OPEC success in raising world energy prices and causing a global recession undercut the bargaining power of the LDCs and blunted their demands for a New International Economic Order.

The history of the NIEO demonstrates the fundamental dilemma of less developed countries that, in the name of nationalism, attempt to change the operation of the world market economy and to improve their relative position. The dilemma is that the same nationalistic spirit frequently undermines their efforts to cooperate with one another and to form an economic alliance against the developed countries. Although the confrontation with the North and the ideological appeal of the NIEO provide a basis for political agreement, powerful and conflicting national interests greatly weaken Third World unity.

Although the NIEO has failed to produce the reforms desired by its proponents, this does not necessarily invalidate the LDC grievances or make certain changes in the relationship between North and South less desirable. Many of the LDC demands do have merit and could become the basis for reforms that would improve the operation of the world economy as a whole while benefiting both developed and less developed economies. For example, although the developed countries are loath to accept proposals that would raise the real price of commodities

beyond their market value, it would be in their interest to stabilize the export earnings of the LDCs. One can envisage similar mutually beneficial arrangements in other areas such as debt relief and foreign aid, and it is vital that the developed economies maintain open markets for LDC manufactured exports. Under present circumstances it would be foolish to expect, however, the enactment of sweeping reforms that would change the overall position of less developed countries in the world.

The Process of Uneven Growth

In reality economic development of the less developed world has taken place at an amazing rate over the few decades since the Second World War.[19] The process of economic growth has rapidly spread from the core to certain parts of the periphery of the world economy as it did in the nineteenth century. The core's functioning as an "engine of growth," the transfer of resources to the periphery, and the demonstration effect of success have helped development to spread throughout the former colonial world. Although they continue to lag far behind the developed countries, the LDC share of the gross world product is rapidly rising (Reynolds, 1983).

At the same time, it must be readily acknowledged that this process has been a highly uneven one that does not create a basis for optimism. The developmental effort in black Africa appears to have collapsed; those countries have actually declined economically since colonial days. In the 1980s the rapid growth of the Latin American countries has been arrested by the debt crisis and the slowdown of global growth. The process of growth has been concentrated mainly in the newly industrializing countries of East Asia and in a few of the larger developing countries.

Three prerequisites for economic development can be identified in Japan and the East Asian NICs. First, there must be a "strong" state and economic bureaucracy that can set priorities, implement a coherent economic policy, and carry out needed reforms. Public and private economic managers must work together in the formulation of a "depoliticized" industrial policy. The economic managers have the task of making trade, investment, and other commercial arrangements serve the national interest; they shape the terms under which the domestic economy interacts with the larger world economy. In addition, these

[19] Reynolds (1983) is a short and excellent survey of the experience of economic development.

societies have made substantial and continuing investments in education and human capital. They have carried out programs of land reform, income redistribution, and rural development; they have avoided an "urban bias," such as expensive food subsidies and overvalued currencies, in their policies. And, third, they have worked with and not against the market; government intervention has been based on the market mechanism. Japan and the NICs have encouraged a well-functioning market that spurs individual initiative and promotes economic efficiency. They have demonstrated that the liberals are quite correct in their emphasis on the benefits of the price mechanism in the efficient allocation of economic resources. In brief, a strong state, investment in human resources, and an efficient market are the hallmarks of the successful developing economy (Hofheinz and Calder, 1982).

What Trotsky called the "law of combined and uneven development" is operating in these NICs (see Knei-Paz, 1978, p. 89). In Russia's late industrialization (as Trotsky observed in his analysis), in Japan's rapid climb up the technological ladder, and now in a number of developing countries, one finds examples of activist states encouraging the importation of foreign technology and combining that technology with traditional social forms. These rapidly developing states have benefited from the growth of international trade and the world economy since the Second World War. The world capitalist economy has facilitated the rapid development of those LDCs that could take advantage of the global opportunities for economic growth.

As Atul Kohli has pointed out, the success of the newly industrializing countries is changing the terms of the debate over global poverty. Although structuralism and dependency theory continue to dominate the discussion in the LDCs and elsewhere, the fact that several LDCs are in fact growing rapidly and even surpassing the growth rates of developed countries is shifting the focus of attention to why they are developing and why other LDCs are not. Nor can the NICs any longer be dismissed as cases of dependent development; every developed country including the United States and Japan is an example of dependent development and Japan remains a highly dependent country on foreign markets and raw materials. Thus, the crucial question is becoming what have the NICs done correctly to grow rich rather than that of why are most LDCs still poor.

Whether or not the favorable situation for the NICs will continue is highly problematic. As John Ruggie has observed, "for future industrializers to follow the route taken by the first tier of NICs, the absorptive capacity of world markets would have to increase by an order of magnitude the realization of which is difficult to foresee." But of equal

importance, he goes on to point out, "even the sustainability by the first tier of their own past trajectory depends critically on what the OECD euphemistically calls 'positive adjustment policies' " (Ruggie, 1983b, pp. 479-80). In short, the future success of the NICs and the ability of other countries to emulate their export-led growth strategy will depend upon the global rate of economic growth, the openness of the advanced economies, and the changing character of industrial technology. These environmental conditions will profoundly influence the ultimate success of the countries themselves and the applicability of their development strategy to other less developed countries.[20]

Thus, this chapter has returned to a theme that runs throughout this book: the workings of the world market economy develops the world, but does so, as Marx and Lenin first noted, unevenly. In the nineteenth century this growth process spread from Great Britain to Western Europe, Japan, and the New World. In the late twentieth century the newly industrializing countries (Taiwan, South Korea, Hong Kong, and Singapore) and certain other countries such as Brazil, India, and China are joining the ranks of industrial countries. Although their developmental strategies have ranged from export-led growth to import substitution, the operation of the world economy has been in varying degrees a positive factor in each case. However, the capacity of the state to order its priorities and its willingness to let loose market forces have been the most important factors in those countries that have successfully developed their economies.

Conclusion

If one defines dependence as a conditioning factor that profoundly affects the development strategies of developing economies, then the fact of dependency can hardly be denied. Every less developed economy is certainly dependent upon fluctuating world market conditions; each must import capital, technology, and industrial know-how. Export markets are difficult to penetrate, given the advantages of powerful established exporters and protected markets in the developed countries. These aspects of dependency surely exist. A continuum exists in which every country is more or less dependent upon others, and some are certainly more dependent than others. If, however, one employs this condition of dependence as an explanation of underdevelopment, the ar-

[20] Cline (1982b) employs the fallacy of composition to suggest that what was a useful strategy for the NICs might not work if a number of other LDCs resorted to export-led growth. The resulting excess capacity and flood of exports would trigger protectionist responses. In a brief rebuttal, Gustav Ranis (1985) disagreed with this assessment.

gument loses much of its force. There is a tendency, unfortunately, to confuse these two meanings of dependence and to assume that the *fact* of dependence provides the *explanation* of economic underdevelopment.

The less developed countries have a high degree of dependence and continue to be vulnerable precisely because they are underdeveloped rather than vice versa. They are the weak in a world of the strong; they are dependent because they are underdeveloped. The lack of an effective and appropriate development strategy to overcome this situation is most important in holding them back. Their foremost problem is not external dependence but internal inefficiency. Those less developed countries that have created efficient domestic economies on their own initiative are the ones that have succeeded in achieving rapid rates of economic growth. However, even these efforts may not succeed without a growing world economy open to their exports.

There is no doubt, however, that the immense gap between the developed and the less developed economies along with global market conditions have made it much more difficult to escape dependence in the late twentieth century than it was for developing economies in the nineteenth century. Nonetheless, throughout the Third World, many societies have established the political stability, social discipline, and efficient markets that are the prerequisites for economic development. Modernizing elites in the public and private sectors have learned to exploit the opportunities provided by trade, foreign investment, and technology imports to attain a rapid rate of economic and industrial growth.

The Third World no longer exists as a meaningful single entity. In its place is a highly differentiated collection of nation-states: the economically successful Asian NICs, the potentially powerful but economically troubled states of India, Brazil, China, Mexico, Indonesia, and others, the destitute states of the Sahel, East Africa, and Southern Asia. Only the rhetoric of Third World unity remains as these nations dispute with one another in a more mercantilistic world economy and, in John Ruggie's words, are being forced "to scramble for the best possible regional and bilateral deals with specific industrialized countries (Bhagwati and Ruggie, 1984, p. 42). Like any Western predatory nation, the NICs have not hesitated to pursue policies that damage the economies of other Third World countries. In Chapter Ten we will return to the implications for the less developed countries of the transformation of the international political economy.

The competitive nation-state system, with all its capacity for good and for evil, is spreading in the Third World and is transforming that

world. The concept of the Third World evolved in response to the bipolar Cold War; its leaders, rejecting both the Soviet and American blocs, wished to develop themselves independently and to preserve their unity as a third force. Subsequently, various pan-movements and regional organizations have arisen or become stronger: "pan-Arab" groups, the Organization for African Unity, etc. Inspired by structuralism and dependency theory, they formulated autonomous and cooperative routes to economic development and nation building. The two ideals of political nonalignment and Third World internationalism were expected to characterize their new world order.

In the mid-1980s, the idea of the Third World as a homogeneous and united bloc of less developed societies is rapidly decaying, as differentiation occurs in the achievements and the policies of those countries. In every region, particular nation-states are emerging as centers of power: Brazil, India, Mexico, Venezuela, Nigeria, Iran, Saudi Arabia, Indonesia, Vietnam, China, and others. They pursue foreign policies designed to further their own particular goals, and differences in national interests and ambitions are producing conflicts and even intense wars among these newly emergent powers.

As the modern nation-state system reproduces itself in what was once regarded as the unified Third World, the newly developing nation-states begin to act independently. Beliefs held by structuralists and dependency theorists alike that the less developed countries could not develop within the framework of an unreformed world capitalism but would have to cooperate to emancipate themselves are contradicted by the facts of the late twentieth century. Although the process of world economic growth is highly uneven and sporadic, in a number of societies development has been remarkable. Emerging industrialized states have become active participants in the first truly global system of international relations.

The shape and continuation of this process of diffusion will be profoundly influenced by the operation of the international financial system, whose function is to allocate resources to the growth poles of world economy. This can not happen, however, unless there is a solution of the global debt crisis and a smooth transition can take place from the United States to Japan as the dominant financial power. With these considerations in mind, the next chapter turns to a discussion of international finance.