

# LESS DEVELOPED ECONOMIES AND DEPENDENCE

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## INTRODUCTION

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Dependency is a flexible concept. It means different things to different people. What is seen as a generous, benevolent relationship by one country can be evaluated in quite a different, even resentful, light by another. The nature of dependency can also vary through time as political and economic fortunes ebb and flow. This review takes this theme of the different and changing interpretations of dependency across space and time as the basis of its structure. The remainder of the introduction will explore this question of definition in order to establish a framework for the chapter as a whole, identifying significant phases in the evolution of global relationships and examining in detail within these the changing nature of dependency and interdependency. Such an historical approach is essential if we are to understand fully the intricacies of dependency in the modern world since so many contemporary problems have their roots in the immediate and long-term past.

### Definitions

Dependence in the context of less developed countries has a complex set of meanings. In a structuralist sense it implies that the development of societies so affected occurs as a consequence of their reliance on others for investment, markets, aid and political protection. There are a wide range of analytical concepts which have been constructed around this premise, such as core-periphery theory, dependency theory and world-system theory (see Roxborough (1979), Forbes (1984) and Hettne (1990) for reviews of development theory; see also Chapter 12). Most of these emerged in the 1970s and early 1980s as a response to earlier neo-classical or liberal models in which development was considered to be the inevitable end-product of the diffusion of *laissez-faire* capitalism – a linear process which was inhibited only by the initial state of underdevelopment in which Third World countries were immersed.

Dependency theories, in essence, argued that there was no initial state of underdevelopment and that the allegedly 'backward' condition of most Third

World countries was the consequence of an uninterrupted and steadily intensifying process of imperialist exploitation which began in the sixteenth century. Direct exploitation occurred within colonialism and indirect exploitation continues largely through the medium of the multinational enterprise (MNE). Much of this approach can be validated, as the following section will illustrate, but as an explanation of contemporary dependence it is too simple and over-emphasizes exogenous factors at the expense of specific indigenous historical, political, cultural and economic processes, which act in concert with external factors to produce a development process which may contain common denominators, but which is unique to each individual state. Indeed, it has been argued that the term 'underdeveloped' was a creation of President Truman who, in his inaugural address in 1949, sought to give some logic and legitimacy to the desire of the United States to become the world's economic powerhouse, replacing the European colonial powers which it was encouraging to decolonize (Sachs, 1992). Development thus became equated with the struggle to achieve the goal of economic growth to standards set by the United States. The new 'three-world' terminology, which was also becoming popular at the time, helped to identify those who were involved in this process, i.e. those promoting development (the First World), those opposing it (the Second World) and those who were the object of the exercise (the Third World). The First World thus became the dominant core of the world economy and the Third World became its dependent periphery (Drakakis-Smith, 1993).

However, the developmental context of 'dependence' is more complex than this. For example, the expansion of production within developed or core countries has, since the mid-nineteenth century, been based on expanding markets, cheap raw materials and, subsequently, cheap labour. In this sense 'the development of the core thus *depends* on the systematic underdevelopment of the periphery: it is a structural necessity' (Knox and Agnew, 1989, p. 79). In similar vein, Brookfield (1975) argued convincingly the case for interdependence within the world economy, a theme to which this chapter will return in its concluding section.

The notion of dependence, particularly that of a uniformly passive dependence to exploitation by the capitalist core of the world economy, has also been drawn into question by the diversity which has emerged in the Third World over the last 25 years. To a great extent this is the consequence of the clear differentials operating within the acceleration of neo-colonial or 'indirect' MNE exploitation, particularly the selectivity of core capital in the early search for low-cost, high-productivity locations. The emergence of the newly industrializing countries (NICs) was in part a consequence of such selectivity, in parallel with other, more spatially and temporally localized processes. In conjunction with similarly local benefits from oil price rises, industrialization began to stretch the economic and social contrasts between, as well as within, Third World countries. All of these changes have served to make simple concepts structured around dominant-dependent relationships rather crude as theoretical constructs. This situation has been rendered more complex by the

rapid changes which have occurred over the last 50 years.

Prior to 1950 the great majority of Third World countries in Asia and Africa were still colonies and had very narrow, direct and intense relationships with their respective metropolitan powers. Over the next twenty years many of these states became politically independent but remained locked in an exploitative economic situation in which they continued to export primary commodities to and import manufactured goods from developed countries. Compared with the last quarter of the century, the third quarter was a relatively predictable world. Exchange rates were fixed, capitalism battled with Communism, and social life and work patterns in the West revolved around a spatially settled nuclear family and a lifetime job. The first signs of change emerged in the 1970s with the rapid growth of MNE investment in the Third World in the context of the new international division of labour (NIDL) (Thrift, 1986; see also Chapter 12). This has proceeded to develop into a fully globalized and interconnected economy in which the role of the MNE is said to be all-powerful. By the 1990s, however, even this radical interpretation has become constrained by its own orthodoxy. The world has changed again, at least in part, and whilst some forces or issues seem to be drawing countries even closer together, over environmental management for example, others are recasting North-South, or three-world, structures into new groupings which cut across old linkages. Clearly, historical processes have changed substantially over a relatively short period of time and have affected the nature of dependency considerably. The following section will review those phases in a little more detail.

## COLONIALISM, IMPERIALISM AND DEPENDENCY

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All too often terms such as colonialism and imperialism are employed very loosely in analyses of the development process. Although frequently used interchangeably, they are not the same. Colonialism did not begin in the nineteenth century but is a long-established process in which direct control is extended to another political area, usually inhabited by people of a different race or culture. The form of political control may vary and economic exploitation is usually involved. Imperialism, on the other hand, has been used in two distinct ways – in a technical sense, to define the latest stage in the evolution of capitalism, and in a colloquial sense, to describe the relationships between metropolitan centres and underdeveloped countries (Bell, 1980, p. 49). Imperialism is, therefore, a much broader concept than colonialism and refers to ‘a general system of domination’ (Bernstein *et al.*, 1992, p. 176) which is rooted in the political economy of capitalism as it has expanded since the sixteenth century. Taylor (1985) has used the terms ‘formal imperialism’ to describe the process whereby colonialism and imperialism coincided and reinforced one another, and ‘informal imperialism’ to describe the period following decolonization in the 1950s and 1960s.

This discussion is of more value than mere semantic clarification: it is also

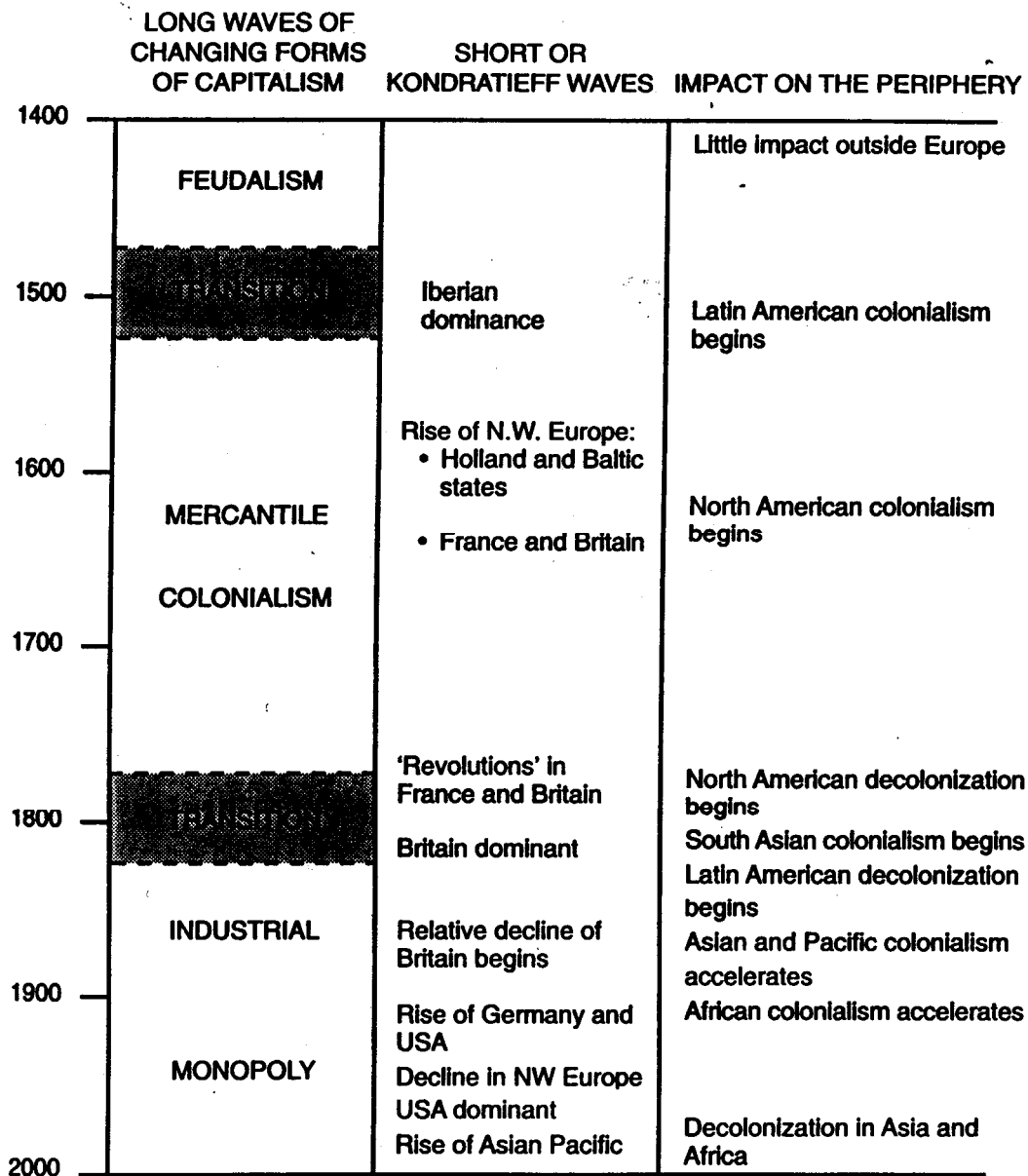
important for providing a framework in which to examine the evolution of dependency in all its forms. Basically this framework is structured around two sets of cycles of economic growth and stagnation. The larger of these comprises what is known as logistic waves and corresponds to the rise and fall of the major economic systems of feudalism, mercantilism and industrial capitalism. The smaller cycles, known as Kondratieff cycles, nest within these and are said to last for around 50 years and encompass two phases of growth and stagnation. Growth is curtailed by overproduction and stagnation impels a search for new conditions of production related to new technologies, new sources of material and new markets. Thus colonial expansion would be closely linked to these cycles. Useful discussions of the cyclical nature of the world economy may be found in Taylor (1985) and Knox and Agnew (1989), both of whom attempt to summarize the main processes in diagrammatic form. Figure 11.1 represents a simplified version of these diagrams.

What is clearly evident from the discussion above, as well as from Figure 11.1, is the complex chronological nature of economic change within the colonial era. Colonialism and imperialism changed markedly over time as capitalism changed and embraced larger territorial areas of the world. However, the territories being incorporated into capitalism also varied enormously. Far from being the simple subsistence economies that early colonizers characterized, others, particularly those involving Islam, were structured around extensive trading enterprises (see Bujra, 1992). Indeed, Blaut (1993) has claimed that many of the changes afoot in feudal Europe, which eventually gave rise to capitalism, were also underway elsewhere in the world and that it was only its geographical proximity to America that gave Europe its crucial boost to dominance. Whatever the reason, European dominance of emergent capitalism eventually ensued as did European overseeing of the gradual acceleration of its spread to the rest of the world. According to the radical development theorists of the 1980s, dominance is paralleled by dependence – so what form did this dependence, if that is what it was, take over the period from 1500 to 1950? It will help if we use Figure 11.1 to divide it into phases.

## MERCANTILE COLONIALISM

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Until the middle of the nineteenth century most colonial activities were dominated by trade. Commodities on which profits were made were obtained in a variety of ways that varied over space and time. Plunder, principally of precious metals, was the crudest way in which profit was extracted, being practised primarily in the Americas by Spain and Portugal and in India by the British. Elsewhere trading agreements were agreed with or forced upon various pre-capitalist states to obtain the luxury items, such as spices or fabrics, that were valued in Europe. Later, in the Americas, more productive enterprises were established in which plantation crops, such as sugar or tobacco, were grown using slave labour transported from Africa in the notorious triangular trade.



**Figure 11.1** Phases of development in the world economy (after Taylor, 1985, and Bernstein *et al.*, 1992)

Enormous profits were made from this Atlantic trade for European merchants, eventually providing much of the capital that furnished the industrial revolution.

In this long and varied mercantile period, it was the trading company, often dominated by charismatic individuals, rather than the state which dominated colonial exploitation. Eventually, the escalating costs of the gradual shift into production, rather than commodity accumulation and circulation, forced many of the old merchant-adventurers into bankruptcy towards the end of the eighteenth century. Often the physical presence of Europeans, except in the settler colonies

of North America, was quite limited and in the early years of trade in Asia and Africa, in particular, Europeans often constituted just another trading group living in their own sector of an established trading or capital city (Drakakis-Smith, 1992; Lowder, 1986). Even where Europeans assumed control, as did the Portuguese in Malacca in 1511, the fortress and church that were constructed on the hill above the city looked out over uninterrupted trade in the Chinese, Arab, Japanese and Indian trading quarters (McGee, 1967). Indeed, continuation of this trade and accumulation of regional products was precisely what the Portuguese wanted; they simply slipped into an existing regional trading economy and milked it for what they could (Dixon, 1991).

It is difficult to establish the extent to which 'dependence' existed during the mercantile colonial period. Commodity circulation certainly brought great profits, and some colonies in the Americas, in particular, were heavily exploited for commodity extraction or production. North America also became a major market for the products of England's growing manufacturing enterprises (Barratt-Brown, 1974). The American colonies were, therefore, subordinate to the growing dominance of Britain in political and economic terms but were not 'dependent' to the same extent as was clearly shown by the relative ease with which independence was obtained.

Elsewhere dependence on European colonial powers was even less marked, partly because of the relatively restricted amount of total trade that was with Europe, partly because of the limited presence of Europeans, and partly because the direct involvement of European governments was also small. Dependence, therefore, on European metropolitan powers was very limited, particularly so in the eyes of indigenous rulers who tolerated Europeans only because they were useful. And yet change was occurring. Many local rulers in Africa and Asia found that European technologies, in particular military technology, were not only useful but indispensable in helping overcome local rivals. In this sense, some degree of dependency was established. Trade agreements gradually became closely entwined with political and military alliances and gradually the economies of many Asian, and to a lesser extent African, states became increasingly part of an intensifying world economy, the focus of which lay firmly in Europe.

Yet towards the end of the eighteenth century, European interest in colonialism seemed to be waning somewhat. The loss of the American colonies was swiftly followed by the all-consuming Napoleonic Wars and European attentions, from adventurers to investors, turned inwards. Moreover, the growing profits from the expanding industrial revolution ensured the investments remained inwardly focused. In this context, it is not surprising that old-style adventurers, such as Francis Light, Stamford Raffles and Charles Elliot, found little initial enthusiasm for their acquisition of the islands of Penang, Singapore and Hong Kong, respectively.

INDUSTRIAL COLONIALISM

The inward-looking phase of British and European economic development was relatively short-lived; by the early decades of the nineteenth century rapid industrial growth had led to an expanded demand for raw materials and also for cheap food to feed the burgeoning urban workforce. This increased circulation of investment capital was more concerned with production *per se* than in the past. Accumulation of a tradeable commodity surplus was no longer sufficient. Both the quantity and quality of the commodities to be traded had become important. The import of raw materials and food, on the scale now required, needed more than trading toe-holds and reliance on agreements with local rulers; it was predicated on the acquisition and control of territory from which minerals and/or agricultural commodities could be extracted and production organized. Whilst such production was largely organized through commercial firms, the principal agent of colonialism was the state, which acquired territory and provided various facilitating structures, such as garrisons, administrators and communication links, thus itself investing directly and extensively in colonial development. Subsequently, both the colonial and indigenous populations became important markets for manufactured goods from Europe. From 1870 to 1915 around one-third of Britain's rising exports went to its empire (Barratt-Brown, 1974). Particularly pernicious in this context was the resale of basic commodities, such as tea, sugar and flour, that had been grown in the colonies, often to the poor who grew them, after processing and value addition in Europe. Thus, the colonial poor were exploited twice over, as labourers and as consumers.

For Britain, from the 1870s onwards, the colonies also became an important area for speculative investment (Figure 11.2). Barratt-Brown (1974) argues that as competition from other European manufacturers intensified, and periodic recessions set in, so Britain's investors sought to exploit the opportunities

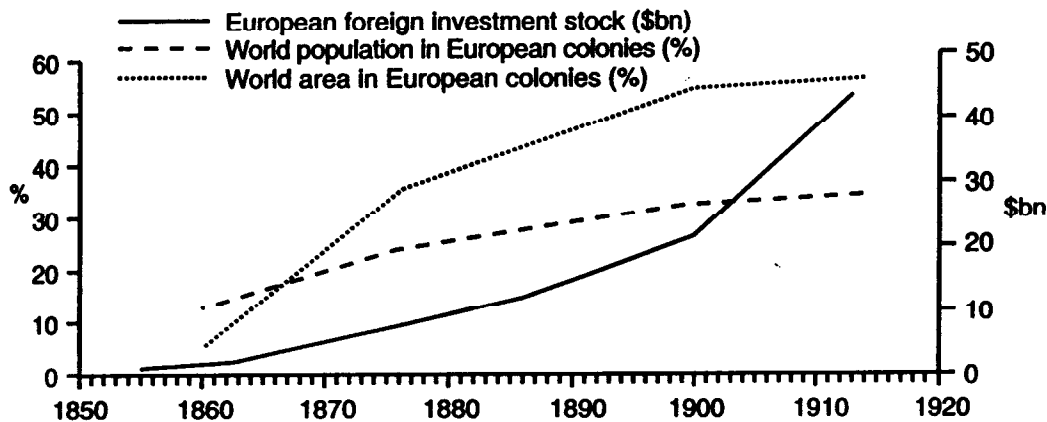


Figure 11.2 Colonialism and colonial investment, 1850-19

offered by its empire. By 1915 the stock of foreign investment capital held by Britain stood at almost \$20 billion (Warren, 1980, p. 62), an 18-fold increase in real terms over the total in 1855 (Barratt-Brown, 1974, p. 171). Around 80 per cent of this investment was in what we would now call the Third World, the great majority being in the British Empire, although Latin America also attracted a sizeable share.

Direct colonialism impacted largely on Asia and Africa. Most Latin American countries had achieved political independence before Asia and Africa were carved up between the European powers. Although territorial acquisition occurred over a relatively short period of time, largely between 1850 and 1920, the form and structure of colonialism varied enormously in accordance with the metropolitan power itself, the rationale behind the acquisition of the colony, and the political, economic and cultural composition of the occupying power. Some European powers, like France or Holland, preferred direct rule. Others, such as Britain, opted for indirect control through traditional local rulers. Some colonies were acquired for their commodity assets; others were acquired simply to prevent another European country becoming too powerful in one region, or to safeguard other possessions, and had little economic value. Some states resisted colonial annexation vigorously, others even submitted willingly to one power to prevent occupation by another (see Dixon, 1991, for fuller discussion in the context of south-east Asia).

But whatever political form the colonies took, their economies, however vigorous and profitable, were restructured towards the needs of the colonial power. In terms of agricultural production this often meant a narrow concentration on those commodities that were needed by metropolitan manufacturers. Countries that had hitherto produced a wide range of produce found themselves covered in extensive plantations growing one or two export crops, such as rubber or coconuts. Figure 11.3 illustrates the situation for the Dutch East Indies during the nineteenth century and all over Asia and Africa there was a similar rise in the growth of primary exports. Of course not all of the colonial populations were directly affected by such changes. In most countries the peasantry remained outside the plantation system but gradually, as in Malaysia, they began to switch from subsistence to commercial crops, often with assistance from the authorities. Even the few politically independent states failed to resist this change in the structure of production. Dixon (1991) has revealed clearly how Thai exports were reduced from a wide range of products in 1850 to an overwhelming concentration on rice, later supplemented by rubber, teak and tin (Figure 11.4). Ironically most of the rice was exported to colonies throughout the region to feed plantation workers, thus reinforcing the exploitative economic structures.

Much of the labour for the large-scale production of export crops was created through the amalgamation of existing units into commercial plantations and the consequent creation of a large pool of landless labourers. In areas where local labour was in short supply, contract labour was brought in, either from elsewhere in the colony, as in French Indo-China, or from overseas. Thus the Chinese *minc* operators in Malaya imported large numbers of their compatriots whilst

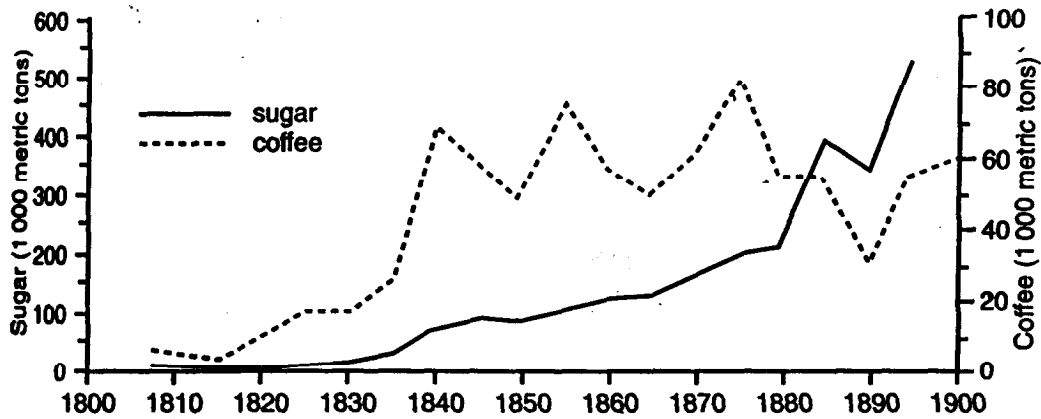


Figure 11.3 Dutch East Indies: the growth of primary exports, 1800–1900

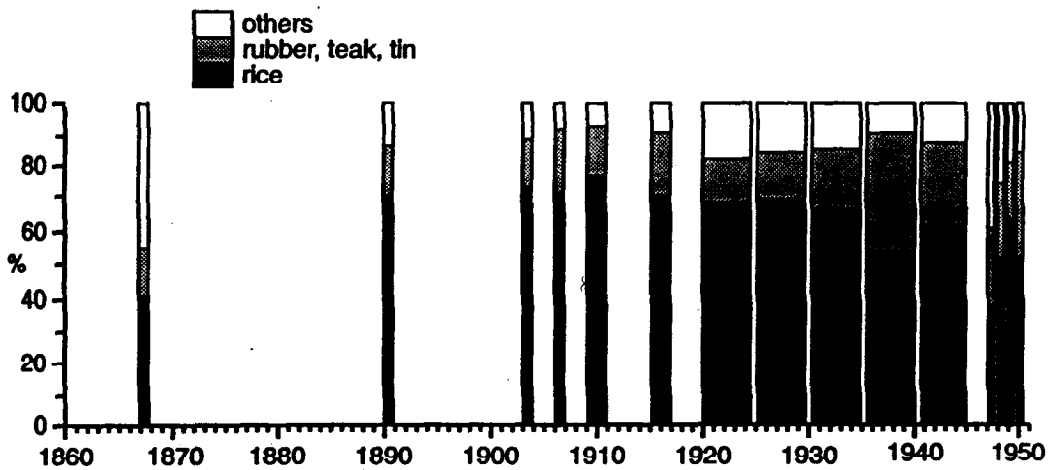


Figure 11.4 Thailand (Siam): increasing export concentration, 1860–1950

subsequent rubber plantations relied heavily on Tamil workers recruited from south India (Cho, 1990). As elsewhere, the evolution of such plural societies created enormous ethnic problems that continue to affect development today.

Overall, therefore, production during the industrial colonial phase was rural-based; there was little urban manufacturing, other than to meet local consumer needs. Colonial cities were essentially control points for the colonial economy rather than points of production *per se*. Indeed, where established local manufacturing industries posed a threat to imported goods, as happened with textile production in India, they were rapidly squeezed out of the market (see Habeeb, 1981). The pivotal role of such cities in controlling colonial economies was reinforced by new transport communication technologies. Railways, themselves a profitable investment, linked rural production points to ports; steamships linked these ports to their counterparts in Europe; the telegraph facilitated rapid decision making in both the political and economic spheres.

The consequence of the rapid expansion of the world economy through the incorporation of extensive territorial colonialism was a huge increase in trade in which Latin America, Asia and Africa played a substantial role. By 1913 these areas contributed a quarter of world exports and were the recipients of almost the same proportion of world imports. As Knox and Agnew (1989, p. 253) remark, 'far from being peripheral to the growth of the world economy, the undeveloped world (*sic*) ... was vital'. Of course, this involvement was very narrowly focused. Few colonies traded directly with one another and all were heavily dependent on the metropolitan power for investment, technology, skilled labour and managerial expertise, military protection, markets and manufactured goods. In this context, it can be argued that the settler colonies, i.e. those with larger numbers of expatriate emigrants, were in a less vulnerable position. Whilst this may have been true in a political sense, and to a certain extent with regard to investment and labour skills, economically the settler colonies were just as dependent on the metropole. Yet, dependence cuts both ways, and in turn the metropolitan countries were dependent on their colonies for supplies of cheap raw materials and food, for expanding market potential and for supplying employment opportunities for a growing number of 'surplus' middle-class within Europe. In the aftermath of the First World War, this reverse dependence on the colonies increased further.

## LATE COLONIALISM

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The period between the 1920s and 1950s witnessed a number of changes in the relationship between colonies and metropolitan powers. The widespread recession of the interwar years, which was the consequence of declining world demand for manufactured goods and overproduction of raw materials, sent profits tumbling and trade into decline. There was much less of the mutual interchange of commodities between periphery and core, with the multinational firm becoming more prominent and focusing on resource exploitation or provision of manufactured goods much more specifically. This shift was both a cause and a consequence of increased involvement in international trade by the United States. Between 1914 and 1938 North America increased its foreign direct investment from 20 per cent of the world total to more than 30 per cent by 1960, following extensive decolonization, this share had risen to 55 per cent. As Agnew (1987, p. 62) observed, 'American governments could preach against colonialism while large American (and other) firms colonized the world.'

During the interwar years investment in the colonies was erratic, although helped to some extent by the expanding American interests noted above, but in comparison with previous decades the overall rise in investment slowed considerably. Indeed, in places it declined substantially. Dixon (1991, p. 118) reveals that from the mid-1920s to the mid-1930s French investment in Indo-China fell by 80 per cent (see also Havinden and Meredith, 1993). However, as a result of declining profits from primary exports, slow but steady diversification

into secondary and tertiary activities was occurring, particularly in Asia. In part, this was the result of the need to satisfy growing political unease in the colonies, because the 1930s saw a steady politicization of colonial populations, partly as a result of increasing polarization within Europe. Both indigenous and non-European immigrant populations were encouraged to invest and became more involved in local manufacturing and service industries. In Java, for example, the number of textile mills increased by 600 per cent during the 1930s, almost all representing Chinese investment (Robison, 1994).

This economic diversification was both encouraged and made possible by another set of changes related much more to the European populations in the colonies. The first of these related to the increased European emigration to the colonies during the interwar years. Distressed by rising unemployment and poor prospects at home, many Europeans moved to what they perceived as better opportunities in the colonies. Some went into an expanding colonial administration which, in many colonies, was strongly influenced by Wilsonian principles of trusteeship and the responsibility of the colonial administrator to improve life for all colonial populations, not just Europeans. However, the great majority of European emigrants did not enter into colonial civil service; instead they took up a wide range of occupations, some not deemed suitable for Europeans in earlier years. Thus, although the number of settler farmers increased, so did the number of Europeans in a variety of urban-based businesses, including retailing and waged labour. In Rangoon in 1931 well over one-quarter of the European population could be classified as traders, shop assistants or unskilled/semi-skilled labour (McGee, 1967).

The nature of the links between colonies and the metropolitan powers thus changed subtly during the late colonial period. On the surface the narrow focus on a restricted range of exports persisted, even worsened (Figure 11.5), as did the reliance on the metropolitan countries for imported goods. But changes were afoot; manufacturing was rising slowly in the colonies, depressing the demand for European products, investment from Europe was declining, and the United States was becoming a more prominent player in the trading game. Fundamentally, the exploitative relationship between core and periphery remained the same but the narrow conduit of those links between colony and 'mother country' was being widened by the active intervention of other countries. Colonization was giving way to a broader-based imperialism as global capitalism continued to develop in depth.

In this context, the European colonial powers, affected as they were by global recession, were perhaps more dependent on their colonies than ever before. This is certainly evident in the 1950s and 1960s when European involvement in Africa, the last continent to decolonize, intensified enormously. Because of the weakened state of the European currencies, Britain and France were forced to look to the sterling and franc blocs for both imports and investment opportunities, whilst a new wave of migrants eager to escape a war-ravaged Europe were encouraged to leave by state-assisted passages. Certainly the 'development' of African resources was seen as a crucial part of the post-war recovery process in Britain, not least

revived its fortunes very rapidly by means of an aggressive export-oriented development strategy – an early harbinger of things to come. In the rest of the Third World trading ties to advanced capitalist states were even greater than in south-east Asia. All in all the early decades of independence produced no great changes in the relations between the former colonizers and the colonized, the First and Third Worlds. Despite a commitment by the former to promote development in the latter, there was little change in the dominant–subordinate relations between the two, at least in economic terms. In political terms, there was a hope that the Third World would emerge, after independence, into a genuinely non-aligned bloc with the potential to mediate between East and West in the Cold War and then to convert this political independence to economic advantage. As we will see, this did not happen. However, as we have noted earlier in this narrative, a dominant–subordinate relationship does not always mean complete dependence of the latter on the former. Nowhere was this clearer than in the process of labour relations between developed and less developed states.

In the immediate post-war years, the industrial economies of north-west Europe suffered a considerable labour shortage. The loss of manpower as a result of the war was accentuated by the expansion of the European industrial economy. The response was to import labour from former colonies. Much of this labour had accumulated in the cities of newly independent countries, mainly migrants in search of work that was not there. It is no coincidence that it was during this period that the informal sector became a much more noticeable element of the urban economy and began to feature more prominently in development theories. Governments in both sending and recipient countries saw benefits in encouraging an international migration of labour, usually male, to perceived sources of employment in the former metropolitan powers. Thus Britain opened its doors to migrants from the new Commonwealth, France to north and west Africans, Japan to Koreans and West Germany to workers from Turkey (long a close ally of Germany). The flows to Europe were supplemented by migrants from around the Mediterranean in general: initially Italians, Yugoslavs or Portuguese, later from central and eastern Mediterranean sources, such as Malta or the Lebanon. The United States began similarly to receive migrant workers from the Caribbean and Mexico.

The number involved was extensive. At its peak in the early 1970s, some 3.5 million migrant workers were in France and another 2.5 million in West Germany. Most were employed in menial, repetitive low-paid work, had few if any civil rights and were herded together in dormitory accommodation. Trade union membership was discouraged and work permits revoked at the slightest sign of protest. The post-war miracle of the industrial economies of north-west Europe, and to a certain extent of the USA and Japan, was firmly built on the back of such exploited workers and clearly indicates that, although many of the sending countries were very reliant on remittances from migrant workers, the advanced economies could be said to have been very dependent on such labour for their early economic success.

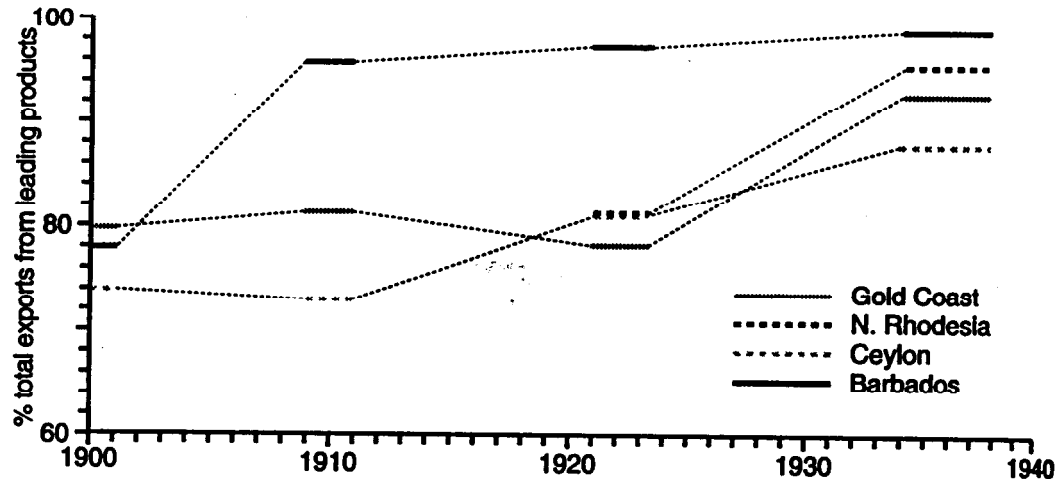
### 1970s to 1990s: polarization of the global economy

Warwick Armstrong and Terry McGee (1988) have characterized the last 20 years as a period in which two contradictory yet mutually reinforcing processes have been in operation, viz. convergence and divergence. Convergence refers to the ways in which the developing countries were being drawn along those paths experienced by the West towards the current lifestyles and political economic structure of developed countries. Divergence encompasses the fact that each country has a unique history and culture which draws it into the world economy in its own way. Such ideas have emerged in recent years because of an apparent increase in involvement by developing countries in the global economy. However, as we have seen, the interlinkages between the First and Third Worlds have always been considerable. What has changed is the nature of those links, together with the impact this has had on developing countries as a whole.

The most investigated aspect of these changes has been the increasing investment in developing countries from developed countries. This acceleration of globalization is examined in more detail in several of the other chapters in this volume; in essence it stemmed from decreasing profitability within Europe and North America, itself the consequence of a variety of causes, such as increased costs for labour and environmental management, and stagnant markets associated with the recession in the developed world. Some, such as Weiss (1990) and Dicken (1986a), have placed these events in the larger context of the downswing of a Kondratieff wave, the end of a long boom which in turn stimulates restructuring of production, technologies and markets. Whatever the cyclical impetus to change in the late 1960s and early 1970s, substantial acceleration followed the rise in oil prices in 1973–74 and again in 1979.

The response on the part of many individual firms was to internationalize their production process, either by investing in new plant in major market areas or by investing in new plant in cheaper production areas (see also Chapter 7). Dicken (1986a) and Gwynne (1990), amongst others, have examined this process in detail and it is clearly linked to changes in the product life cycle, new transport and communication technologies, as well as to the role of recipient states in offering incentives to induce incoming investment. The focus for almost all of this type of change is the multinational corporation. And yet Corbridge (1993) has indicated that at the very time that MNEs seemed to be emerging as the cutting edge of investment in the Third World, their relative role was declining (Figure 11.6). Moreover, by far the great majority of FDI was invested in other developed countries, searching for improved market opportunities, although the relatively insignificant amount of total FDI that went to the Third World was very significant for certain types of firm and also for the developing countries themselves.

The major area of expansion in terms of overseas investment was through the medium of commercial banks (Figure 11.7). The funds for investment had come from two main sources, recycled petro-dollars and the balance of payments deficit run by the USA (Corbridge, 1993). As the recession had reduced the



**Figure 11.5** The narrowing of exports in late colonialism

because exports to the United States could earn for Britain the dollars which its balance of payments deficit desperately needed (Havinden and Meredith, 1993). Until the late 1950s and the rise of European economic unity, therefore, the colonies had considerable advantages and there was a stronger sense of dependency of the European metropolitan powers on the resources of their colonies to keep them afloat. Of course, these improved terms of trade brought relatively little improvement in the quality of life for most indigenous people, although some infrastructural investments were made. Indeed, the 'good times' of the 1950s served largely to entrench the colonies in their role as providers of primary resources, a role which was maintained after independence and underpinned the resurgence of different forms of dependency which were to emerge.

## INDEPENDENCE OR INTERDEPENDENCE: THE POST-COLONIAL SITUATION

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### 1945 to 1970: illusion and delusion

As indicated above, the years immediately following the Second World War were characterized by sustained demand for primary products, partly linked to post-war reconstruction of developed economies. In contrast to the 1920s, the philosophy behind the political process was to give the defeated nations every opportunity to rebuild their economies. These policies were reinforced by the Bretton Woods agreement and the subsequent establishment of institutions, such as GATT, the IMF and the World Bank, to help encourage development globally. In conceptual terms this has been characterized as 'the long boom', a period of sustained expansion in production and trade which lasted until the late 1960s (Gwynne, 1990).

The role of the developing countries within the 'long boom' experienced considerable change during this period. The prevailing development philosophies of the period to the mid- to late 1950s were based on the long-established theory of comparative advantage, with the developing world producing the raw materials and the developed countries processing these into manufactured items for export. However, commodity prices had continued to fall in real terms and the newly independent states found themselves producing more but receiving less. The overall quality of life in many countries was declining, particularly in the cities to which so many had migrated after independence in the anticipation of work. The late 1950s and early 1960s, therefore, witnessed another surge in socialist political success in Cuba and south-east Asia.

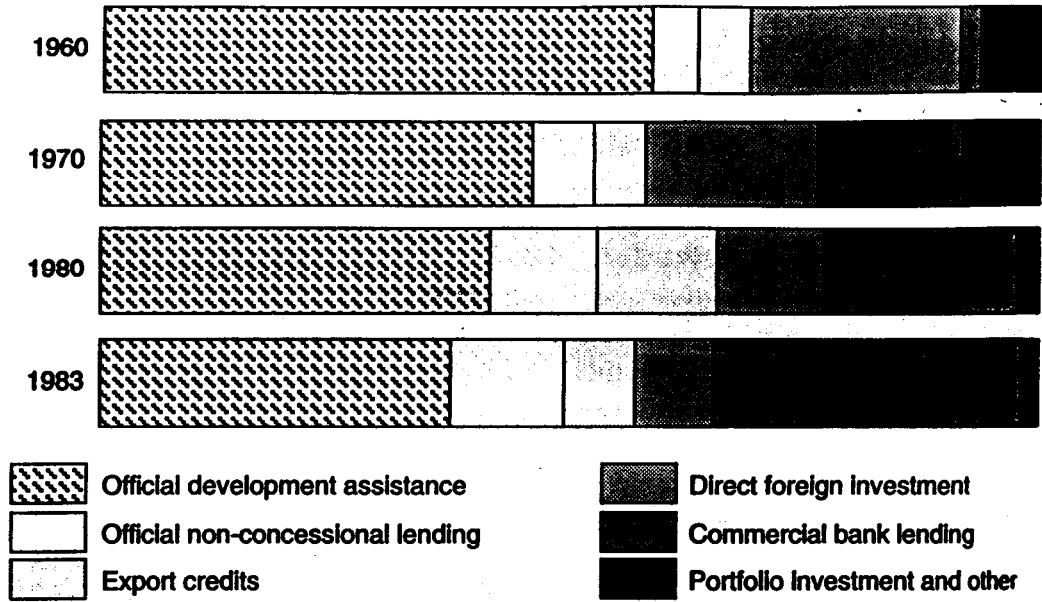
The response to this was twofold. First, there was an enhanced aid programme as the United States in particular sought to prop up those countries vulnerable to socialism – Iran, Laos and South Vietnam began to rise to the top of the aid list. Second, there was a switch in development strategy in favour of more diversified economies in the developing world, following in particular import-substitution industries (ISI) (Gwynne, 1990; Sandhu and Wheatley, 1989). Industrialization began to feature more prominently in the development strategies recommended for the Third World, as it was increasingly coming to be known (Drakakis-Smith, 1993), as exemplified by Rostow (1960) and Gershenkron (1962). At the same time the new technologies of the 'green revolution' were being hailed as a new, sure way to help developing countries become more self-sufficient in basic food production (Chapman, 1992).

These new directions did not have immediate or widespread impact in the developing world. Although the green revolution seemed to be designed to reduce the dependency of the Third World by making it more self-sufficient in food production, its initial success was spatially and socially patchy, particularly in Africa, which was more reliant on maize than on wheat or rice. Moreover, many of the technological inputs were Western in origin and could be said to have increased dependency. Others have alleged that in many parts of the world the self-reliance of agricultural reforms was blunted by a deliberate US policy of selling very cheap wheat to Third World countries in order to bring about an increased dependence which could later be used for political ends.

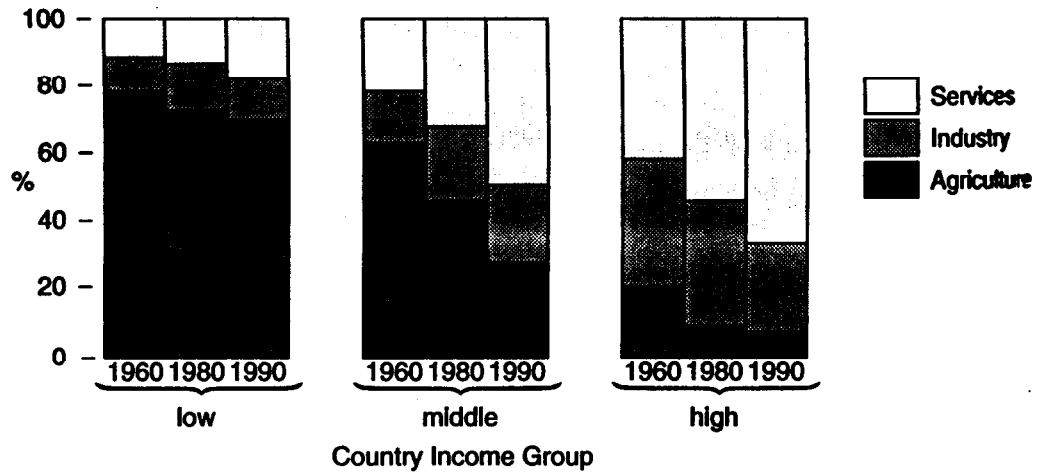
Import-substitution industrialization also had mixed success. In Latin America, where ISI had been underway since the 1930s and had been further encouraged by loss of imports during the Second World War, those states with large domestic markets, such as Brazil, had developed sizeable manufacturing capacities (Dickenson, 1987; Gilbert, 1990) and had already begun to attract investment from MNEs (Corbridge, 1993). In Africa and even in Asia, however, despite the encouragement of cheap oil, ISI proved to be a hollow strategy because of limited domestic markets in size and/or purchasing power.

The consequences of these changes on the development process were slow to filter through to trading relations. There were still considerable colonial ties in the trading patterns of south-east Asia, although the neo-colonial influences of the United States were also apparent, as was the importance of Japan, which had

230 *Globalization of production systems: response*



**Figure 11.6** Financial flows to developing countries, 1960-83



**Figure 11.7** Changing employment structure, 1960-90 (from World Bank, 1982, and UNDP, 1993)

potential for borrowing by firms in developed countries, so the Third World became a more attractive and feasible alternative. At the same time rekindled enthusiasm for neo-liberal development had begun to erode ODA and to favour private funding for more market-oriented development. Essentially, therefore, the banks began to lend to governments, confident in the assurance that 'countries never go bankrupt' (Wriston, 1986), to promote infrastructural and industrial development. Overwhelmingly, these loans in the 1970s favoured Latin American countries and substantial debts began to accumulate. In part, indebtedness was exacerbated by the increased role played by the World Bank

**BOX 11.1** From Southern Rhodesia to Zimbabwe: a case study of dependence

The initial European incursions into what is now Zimbabwe occurred in the early 1890s under the auspices of the British South Africa Company (BSAC). Early disappointments in the search for precious metals resulted in the BSAC encouraging white settlement in order to promote agricultural production for both African and British markets. From the 1920s onwards the land began to be formally designated for white or black economic activity and this persisted until the 1980s. White settlers and companies controlled 18 million hectares of the richest land; approximately the same area of poor-quality land was distributed amongst the various tribal groups who made up 95 per cent of the population.

The economy was similarly divided with most of the African population of Rhodesia living and working within a previous subsistence economy, whilst the expatriates were involved primarily in production for export markets. However, the latter were not independent of the former since the mines and commercial firms relied heavily on local labour, which was continuously reproduced at low cost in the tribal areas. In their turn most African families were forced into wage labour because of the poverty of their land. At the same time the scale of the commercial farming and mining operations in the rural areas required large amounts of capital, most of which came from Britain channelled through large companies. However, the management of these large-scale enterprises was largely in the hands of the long-term resident settler population. Until the 1940s, therefore, Southern Rhodesia was caught in a double layer of dependency. The colony itself was dependent on British investment capital and émigré managers or settlers but it was also dependent on the continued subordination and exploitation of its black population.

This situation changed substantially as a result of the Second World War, which saw the rise of manufacturing in the African colonies, partly as a result of reduced import opportunities. Southern Rhodesia joined the short-lived Central African Federation to take advantage of this trend using Northern Rhodesian resources and Nyasaland labour to establish a range of manufacturing plants, largely producing for the European and African export markets. Capital for these new ventures came from both South Africa and the UK, often via large multinational companies such as Lonrho. Such activity was looked upon particularly favourably by Britain after the war because it made the metropolitan power less dependent, in its turn, on the United States and the escalating dollar debt.

The introduction of industrial capital, however, had another effect as it also brought into Southern Africa a new type of colonialism, one with quite different values from the old settler community. Industrial capital needed an urban labour force and was positive in its encouragement of Africans to move into town, a phenomenon quite antithetical to pre-existing norms. Eventually, the settler colonialists were pushed too far by this move to 'liberalization' and reacted by staging a *coup d'état* through a unilateral declaration of independence (UDI) in 1965 which lasted for 13 years. During this period sanctions were applied to trade with Southern Rhodesia and effectively cut the state off from its traditional dependence upon Britain. In effect, however, South Africa stepped into the breach and dependency continued.

In 1980 the independent state Zimbabwe was established under a socialist government with the express aim of creating an independent country which would, in effect, be an equal partner in a coalition of anti-South African states (SADCC). Internally, land and wealth were to be redistributed from white to black, rich to poor. Whilst many of the achievements of the Zimbabwean state have been impressive, particularly in social welfare provision, in effect the economic situation has changed very little. The economy is still dependent on the export of primary commodities, which in turn are still produced, for the most part, by white commercial farmers or multinational companies. Attempts to break away from this double dependence have foundered on the indebtedness that Zimbabwe found itself experiencing by the late 1980s. The response from the main creditors, led by the World Bank, has been to impose an economic structural adjustment programme (ESAP) on Zimbabwe which emphasizes increased export earnings in traditional commodities and open-door policies to imported manufactured goods. Zimbabwe has, therefore, found it almost impossible to break away from a reliance on imports, investment funds and loans from the developed world and from an economy that is dependent on primary exports to those same countries.

The fate that has befallen Zimbabwe is not untypical of many African states, forced by indebtedness to adopt structural adjustment and maintain colonial forms of economic dependence. Clearly, however, the events of the last 100 years have been closely shaped by the individual character of the former colony, for example by the scale of settler colonialism and the proximity of the country to South Africa, both of which have enormously affected its political economy. In contrast to Taiwan, there have been no waves of refugee investment or United States aid or European multinational finance. And yet, like Taiwan, Zimbabwe has invested considerably in its infrastructure and its human capital, for example through health care and education. But the historical process of the incorporation of these two states into the world economy has been very different and this is clearly reflected in the nature of their dependent status.

and IMF in the recycling of petro-dollars and their harder attitudes towards debt servicing and recoverability, compared with softer bilateral lending between countries with historical colonial links. Debt accumulation occurred at a time when world commodity prices began to plummet, after a period of relative ease. Loan candidates began to tighten and the debt crisis burst in the early 1980s with a series of major defaults.

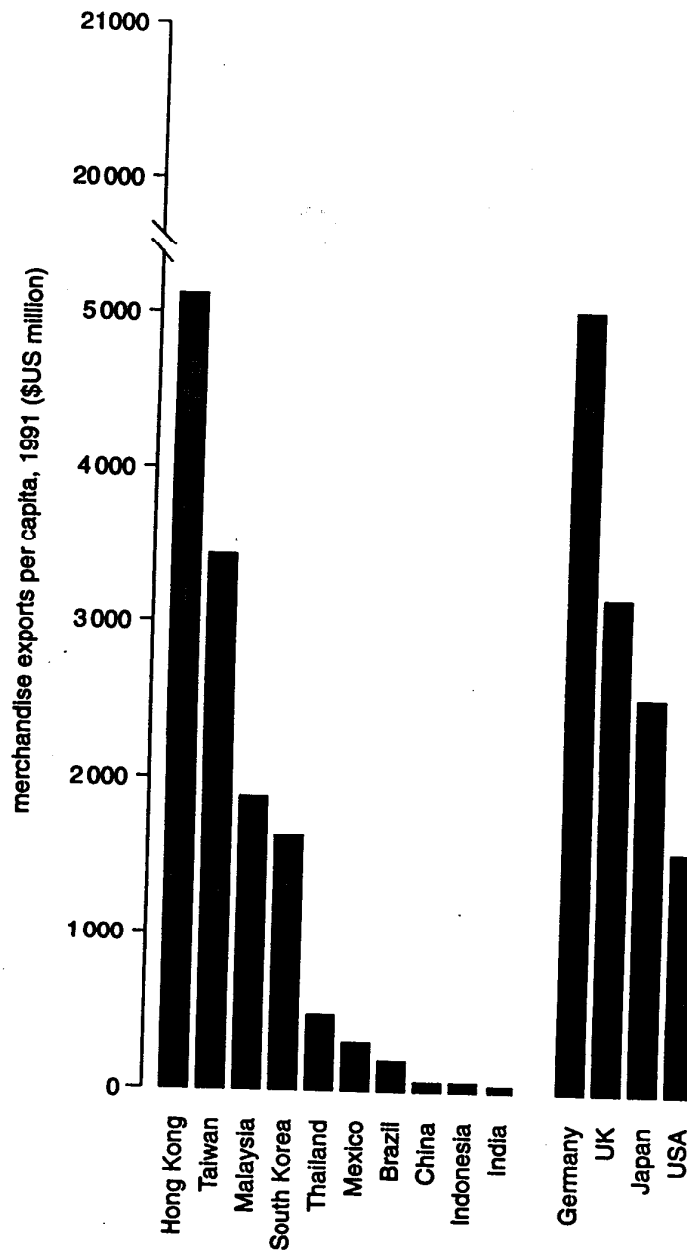
The responses to the debt crisis will be discussed below, as they play an important role in shaping the structure of development in the 1990s. However, it must be noted at this point that commercial bank lending, much more than FDI, has created increased dependency in the relationship between the First and Third Worlds. The old maxim that a small debt is a problem for the borrower, a large debt is a problem for the lender, has simply not been sustained in the real world, where international creditors, often syndicated and coordinated by global organizations such as the IMF or World Bank, have been able to dictate

development programmes to so many developing countries that override the political leaning of their governments. Indeed, a shift to Western-style democracy has increasingly become a precondition of further loans, in addition to economic adjustment.

The impact of all these changes on the Third World in general has been a switch from agriculture to industry and services (Figure 11.7). Of course, such aggregate data tend to mask more localized trends, particularly as the categories themselves are so broad. Agriculture ranges from small semi-subsistence activities to huge commercialized factory farms to intensive production of high-value items, such as orchids; industry encompasses mining as well as manufacturing; whilst services incorporates traditional market selling, domestic service, or employment in a sophisticated financial institution. Nevertheless, it is possible to discern a shift towards manufacturing, one which is particularly noticeable in the upper-middle income range of countries. Here again, however, aggregated data on GDP conceal considerable differences. As Dicken (1986a) and Chandra (1992) indicate, most manufacturing output still occurs in the developed countries, just six of which account for some three-quarters of world production in terms of value added. Amongst the developing nations, the leading producers are those with the largest domestic markets, viz. China, India and Brazil. It is only when exports are specifically considered that the countries traditionally associated with manufacturing in the Third World come to the fore (Figure 11.8).

The remarkable point about Figure 11.8 is that the leading edge of manufacturing exporters in the developing world is still relatively small. The rapidly industrializing economies (RIEs) – it would surely be misleading to continue to refer to them as newly industrializing countries – still comprise Pacific Asia's 'four little dragons' of Singapore, Taiwan, South Korea and Hong Kong, together with Latin America's Mexico and Brazil. Admittedly a second wave of Pacific Asian producers, such as Thailand and Malaysia, are beginning to make their mark, and in conjunction with the four dragons are giving considerable impetus to regional development (see below), but their individual impact is as yet relatively limited.

The restricted number of RIEs has had a profound influence on the Third World as a whole, serving, in conjunction with rapid increases in revenue for some oil exports, to widen the differences between developing countries and reduce their group solidarity. Most African countries have experienced acute economic distress over the last ten years or so whilst Hong Kong and Singapore have joined the World Bank's first division of high-income nations. In the 1970s and 1980s this fragmentation led to a heated debate about the validity of the concept of the Third World, with some dividing the less developed nations into as many as nine groups (see Drakakis-Smith, 1993). These observations had some basis in reality with the average GNP per capita of the middle-income countries increasing from five to seven times greater than that of the low-income countries between 1976 and 1991. However, such figures tend to mask the even greater increase in income discrepancies which has occurred between developed



**Figure 11.8** Leading exporters in the Third World, 1991

and developing centres. Thus, over the same period the ratio between the GNP per capita of high-income industrialized economies and that of low-income countries rose from 41 to over 60.

Despite or perhaps because of the recession, therefore, the high-income industrialized nations have drawn closer together over the last twenty years

terms of both investment and trade, a process reinforced by the consolidation of the European Union. As a result most of the world's trade is still between the advanced capitalist states, and the majority of imports into developed from developing countries still comprises primary products, with manufactured goods moving the other way. Indeed, in 1991 manufactured imports into OECD countries from non OECD states comprised less than 20 per cent of the total (World Bank, 1993). Nevertheless, this does represent a rapid growth since the early 1970s when the Pacific Asian RIEs provided only just over 2 per cent of OECD imports (Dicken, 1986a, p. 41). In 1991 the four dragons together with China provided more than 8 per cent, worth about US\$150 billion.

The success of the Pacific Asian dragons in penetrating the world export trade in manufactured goods has prompted questions about why these states succeeded and others did not. There are basically two sets of arguments that have been put forward. The first relates to exogenous factors and emphasizes the importance of FDI and the role of MNEs in the generation of investment funds; the second group comprises a more indigenous rationale and has often been related to the *laissez-faire* free-market approach allegedly typical of the four governments. This latter argument has, in recent years, been effectively discussed in the light of evidence of a clear interventionist policy by the state. Political legitimacy in the RIEs of Pacific Asia has been sustained by economic success and full employment (Lubeck, 1992; Hsiao, 1992). Arguments related to exogenous influences similarly have been criticized, for only in Singapore has FDI played a substantial role *vis-à-vis* local capital. In the other three dragons exogenous capital was strongly linked to ODA, particularly from the USA, to help promote infrastructural development in the face of the Communist threat of the 1960s and 1970s. External capital was also brought into Hong Kong and Taiwan by refugees from China in even earlier periods. Indeed, many of the explorations of rapid economic growth in each of the Pacific Asian RIEs must be firmly placed in a particular mix of historical, cultural and geographical circumstances (Deyo, 1987; Hamilton, 1992; Yeung, 1994). Nevertheless, the search for the chimera of a Pacific Asian model of development continues: witness the recent World Bank research report on the east Asian miracle (World Bank, 1993), which looks back rather than forward and gives little emphasis to the social consequences of rapid growth. Substantial questions over the redistribution of wealth from rapid economic growth are still being asked about the RIEs (Booth, 1993), as well as over environmental deterioration and human rights (Bello, 1992; Drakakis-Smith, 1993; Loh, 1993).

## CONCLUSION

What do all the complex changes outlined above mean for the dependency of the less developed countries, and what are the principal issues on which we must focus our attention in the 1990s and beyond? These are two quite separate questions and each will be addressed in turn.

It should be apparent from the discussion thus far that dependency and subordination are not necessarily coincidental. The dominant forces within the world economy lie primarily but not exclusively within developed countries, where private capital and state governments act in concert or independently, using both political and economic forces to safeguard and promote their own interests. To a certain extent this is mediated by international agencies seeking to encourage development within the Third World, but many of these agencies themselves are dominated by and operate on behalf of (directly or indirectly) core capital.

Dependency is a more ambiguous concept which can be interpreted in many different ways. John Weiss (1990, p. 42), one of the few analysts to try to identify the economic characteristics of dependence, summarizes the main characteristics of the literature as follows:

- a heavy penetration of foreign capital in the major sectors of the economy
- the use of capital-intensive imported technologies
- specialization in exports of primary commodities or labour-intensive manufactures
- consumption patterns of élites copied from the rich countries
- unequal exchange in trade (defined in various ways)
- growing inequalities in income distribution.

Weiss examines only the first of these in any detail, associating the penetration of foreign capital almost entirely with MNEs, and questioning associations between dependency and investment only in the context of the emergence of Third World multinationals. Much of the dependence within this investment process has been well debated (Taylor and Thrift, 1982; Peet, 1987; Dicken, 1986a), although there has been a tendency to overlook the fact that much of the FDI in developing countries is still associated with resource extraction rather than manufacturing (Dixon, 1991). The debate has also been strongly clouded by ideological rhetoric.

Clearly, countries or enterprises lacking in capital, technology, capital equipment, skilled white- and blue-collar labour and other aspects of production are going to be dependent on the suppliers of such inputs in order to initiate and sustain production. But, on the other hand, the recipients of the commodities produced will also be dependent on a continued supply at appropriate costs. As Knox and Agnew (1989, p. 169) conclude, 'quite simply the ascent of the core regions could not have taken place without the foodstuffs, raw materials and markets provided by the rest of the world.' In short, the components of the global economy are interdependent; but some are more dominant than others.

Another aspect of the assertion that dependency is related to capital penetration relates to the fact that much of the capital transferred over the last decade or so has not been directly invested in MNE plants but has been made available to Third World governments. The debt crisis which subsequently affected so many countries has proved to be a much more potent force in deepening dependent relationships. Once again, however, this dependency has

become increasingly structured around global financial institutions controlled by and through core capital.

Further examination of Weiss's list reveals other contradictions, particularly the association of dependency with consumption patterns and with inequalities in income distribution. Adoption of Western lifestyles and the associated rise of imports occurs in a variety of forms, from the widespread consumption by the poor of bread made with imported wheat (see Andrae and Beckmann, 1985) to the status given to European cars. Similarly, inequalities in income distribution are as observable in Pacific Asia as they are in west Africa; indeed, the provision of basic needs, and human rights, show disturbingly little correlation with economic growth.

The conclusion of this review of dependency must be that the concept needs to be used very carefully. Most nations, if not most enterprises or individuals, are dependent upon others in some way. What is important, however, are the ways in which that dependence or interdependence is structured or manipulated by the dominant elements within the relationship. This can occur at any level, global, regional or local, and this chapter will conclude with two brief examples of how this is occurring, viz. structural adjustment in Africa and the emergence of regional divisions of labour in Pacific Asia.

The underlying rationale behind structural adjustment programmes (SAPs) is woven around the debt crises of the 1980s and the inability of many African states to meet repayment schedules because of persistent budget deficits. The World Bank (1994b) argument is that such deficits were caused by self-inflicted problems such as unrealistic exchange rates, overspending on social welfare, excessive subsidies, over-employment in government bureaucracies and inadequate export earnings. There was some truth in this but the debt crisis was also the consequence of shrinking commodity prices and very tight borrowing conditions. Most African economies have been stagnant or in decline for some time. Individually debts were small compared with those of Latin America or Asian states but collectively the continent posed a threat to international stability, economic and political.

More than 30 African states have been bullied into structural adjustment (Riddell, 1992; Gibbon *et al.*, 1992), the common denominators of which are increased private sector investment, liberalization of exchange rates and trade, reduction of government expenditure and deregulation of the economy in general. The World Bank has made great play in recent years of being seen to be trying to ameliorate the worst effects of SAPs through what it calls 'adjustment with a human face'. As Gibbon (1992) has noted, this has produced virtually nothing in practical terms and the social consequences have been substantial – increased unemployment, drastically reduced investment in housing and education programmes, rampant inflation and stagnant wages. Most of this burden has fallen on the urban poor and the consequence has been widespread unrest. Even in Harare, normally a relatively stable city, riots recently followed the removal of subsidies from wheat flour and a rapid trebling in bread prices (Drakakis-Smith *et al.*, 1995).

Far from increasing the economic independence of developing countries, SAPs have made them more dependent on the capitalist world economy, inducing not only great economic dependence on its major financial institutions but also a political switch away from socialism or state capitalism to the liberal democracy favoured by the West. The consequence has been a return to ethnic politics and further distortions to the development process.

In contrast to the increased dependency and economic hardships and distortions brought about in Africa, Pacific Asia would seem to have lessened its dependence on the developed core substantially over the last two decades. The region has become an increasingly important trading partner for other parts of the Pacific Rim, such as North America or Australasia, but their importance to Pacific Asia has diminished as its global role has broadened (Dixon and Drakakis-Smith, 1993). Within the region, too, the very dominant role of Japan as a source of investment has lessened as the four dragons themselves have begun to invest in production in the region's new low-cost production sites in Thailand or Malaysia. In turn, these ASEAN states are looking towards the emerging socialist economies, such as Vietnam, for even newer opportunities (Dixon and Drakakis-Smith, forthcoming). In short a clear regional division of labour has emerged but this does not mean that dominant-subordinate relationships have diminished or that dependency on MNE investment has lessened. It is simply that the chain of command has lengthened and become more complicated, giving hope to governments in the region that at some point the dominant-subordinate balance in their interdependent relationships may eventually turn in their favour. This is the essence of capitalism, to get someone else dependent on you in order to make a profit. For this reason dependency and underdevelopment, like the poor, will always be with us – capitalism could not survive without them.

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