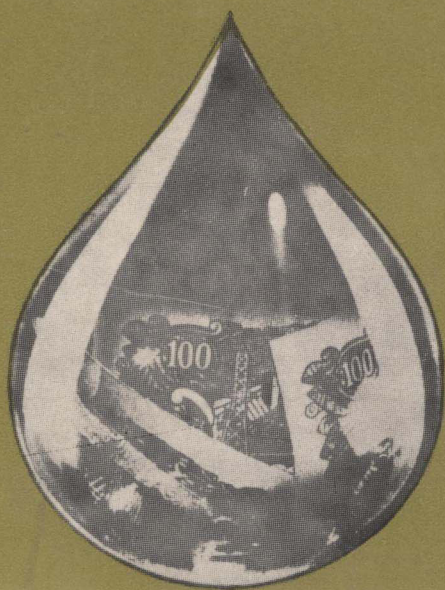


POLITICAL ECONOMY OF THE THIRD WORLD COUNTRIES

EDITED BY
DEVENDRA THAKUR



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PREFACE

I come across a number of books trying to interpret and present poor and developing economy of the Third World in terms of First World concept. There are also attempts to present a comparative picture in the light of capital based growth models but there is no attempt to present real socio-economic picture prevailing there. In this context this volume is edited.

Poverty oriented economy of the Third World countries is indicating to paint an alternative view on the problems of development and underdevelopment. Now-a-days, it has become a common place in the literature on economic development to describe LDC's as dependant economies. In this background scattered literature relating to economic development has been gathered here in this volume.

In recent economic literature dependency theory is more talked to explain reasons of stagnant nature of the economics of the Third World countries. Dependancy theory itself has largely oriented in Latin America. More in this volume a critical analysis of dependency theory has been added.

Third World has unique features, geographically, historically, demographically, economically, and politically. Besides these features, it has chequered socio-economic structure. The very nature of the economy has varied macro-static stagnancy. Attempt of economic development, therefore has poor success.

Poverty seems their faithful friend, which makes difficult to get them prepared to rid off. How to convert poverty in plenty in the context of democracy or in a free society or limited free society, is a problem.

This edited volume is trying to explain problems only to present proper answer to development, and social change is still to be given. It is a challenge. Challenge is to be solved, but who will solve it, is

still unknown.

The book attempts to present prevailing theories and problems relating to economic development and transformation of the static economy of the Third World. But altogether the book has been made problem oriented, although there is solution also, but solutions are in the light of the first world economies.

I am deeply indebted to ISVE-ISTITVTO STUDI PER LO SVILU PPO ECONOMICO—Institute for Studies on Economic Development Naples Italy, where I was deputed to complete a course, Plan Implementation and Development Financing. Major portion of this collection has been taken from the teaching and reference materials of the above institute. Originally these materials are from non-English literature relating to economic development of the Third World. I am also thankful to Dr. D.K. Sinha, Special Officer, Science and Technology Council, Bihar for his helpful suggestion and needful guidance.

Muzaffarpur

DEVENDRA THAKUR

CONTENTS

Preface	vii
Introduction	1
1. The Third World and Dependency Theory	17
2. Interpretation of Underdevelopment Dynamics : An Anti-Neo-Classical Approach	27
3. Economic Equality and Economic Development	41
4. Industrial Development : Problems and Strategies	69
5. The Transnational Corporation and the Third World	112
6. The Transnational Corporation and the Transfer of Technology to the Third World	144
7. Problem of Inflation and Migration in LDCs	174
Bibliography	209
Index	211

INTRODUCTION

In this has been presented a brief survey of what may be called alternative views of the problems of development and under-development. These views have developed largely within the structuralist/Marxist framework of analysis and have given rise to the theory of dependency. It has now become a commonplace in the literature on economic development to describe or characterise LDCs as dependent economies. The condition of dependency, it is argued, encompasses all or most of the following features :

1. From their common historical background (colonialism), LDCs have inherited particular structures of production and trade, in particular, the production of primary commodities (raw materials and foodstuffs) for export to the developed capitalist economies.
2. They were initially dependent on imports for their manufactured goods requirements; with the gradual establishment of import-substituting consumer goods industries, they have become dependent on imports of intermediate and capital goods.
3. Partly as a result of industrial development, they are heavily dependent on imports of foreign technology, although this form of dependency covers many other spheres of activity—agriculture, communications, education, medicine, and so on.
4. The LDCs are in general deeply penetrated by foreign capital, largely in the guise of the transnational corporation (TNC), with its associated patterns of production, consumption, marketing, expertise, etc.

5. At a very general level, there exists a condition of cultural, psychological, social and political dependence; nominal political independence has been gained by all but a few LDCs, but this has not been matched by economic independence, a phenomenon which was first generally recognised in the early 1960s (at least in independent Africa) and which gave rise to the concept of 'neo-colonialism' (see, for example, Nkrumah 1965).¹

Dependency theory itself has largely originated in Latin America and the Caribbean (for an example of the latter, see Girvan, 1973). O'Brien (1975) shows that dependency theory contains two basic strands of thought :

1. The 'structuralist' tradition of the UN Economic Commission for Latin America (ECLA). This emphasised the failure of exports to stimulate growth because of the alleged long-run secular decline in the terms of trade between primary products and manufactured goods and the consequent need for industrialisation behind protective barriers (the move from an outward-orientated to an inward-orientated development path). The subsequent 'failure' of this import-substituting industrialisation strategy—industrialisation has not brought with it the expected developmental and modernisation benefits—has led to the realisation that the forms of dependency may have changed but that the essential condition has not been eliminated.²
1. Neo-colonialism was defined, in a resolution at the All African People's Conference, Cairo, 1961, as 'the survival of the colonial system in spite of the formal recognition of political independence in emerging countries which become the victims of an indirect and subtle form of domination by political, economic, social, military or technical means'. Quoted in Leys (1975, p. 26).
2. Leys (1977) re-emphasises the point that dependency theory has largely emerged from a continually revised interpretation of the process and characteristics of the development experience (Largely of Latin America), mainly from an orthodox (i.e., non-Marxist) viewpoint. He concludes, 'The main stream of UDT (underdevelopment and dependency theory) can thus be seen as eventuating in *radical structuralism* i.e., as a structuralist analysis of the obstacles to capitalist development in the Third World in which progressively more and more of what were originally seen as means to

2. A Marxist perspective deriving from the work of Baran (1957), Frank (1967, 1969, 1972), Dos Santos (1973) and others. It should be pointed out that there is considerable overlap in the views of structuralist and Marxist writers and particular writers are not always easy to categorise. Indeed, the question of who is, or is not, a 'Marxist' has generated much controversy, but these problems will not be pursued.

THE CONCEPT OF UNDERDEVELOPMENT

The basic starting point of the analysis of underdevelopment and dependence is the recognition that underdevelopment is not a condition that all countries experience, or a stage that all countries pass through, before development. Rather, development and underdevelopment are regarded as opposite sides of the same coin (Frank, 1967, p. 9). It is held that the development of some countries actively led to the underdevelopment (or distorted development) of others, and that underdevelopment is thus a 'normal' part of the development of the world capitalist system. Szentes (1971, p. 132) argues that :

the socio-economic state of the developing countries is not merely 'economic underdevelopment', not just a sign of not having participated in development, of their having fallen behind in progress, but it is the product of a specific development, which is most closely connected with, moreover derived from, the development of capitalist world economy.

The development gap between developed and less-developed countries (that is, the difference in the levels of productive forces) widened as a result of colonialism and the interaction of the two groups of countries. In the LDCs themselves, the establishment of 'alien' forms of economic and social/political organisation and the external orientation of these countries led to a pattern of development very different from that which would have occurred if their

structural change—international manufacturing companies, Third World governments and the interests they mostly represent, etc.—come to be seen as yet further structures which themselves need to be changed' (p. 97).

development had been based mainly on internal socio-economic forces.

A complete understanding of the present position of LDCs must thus begin with an analysis of colonialism, seen as the consequence of the emergence and development on a world scale of a specific social system, the objective product of capitalism at a certain stage of its development (Szentes 1971, Part 2, Ch. 1).³ From a Marxist viewpoint, colonialism is seen as essentially an economic phenomenon, the earliest period of which was associated with piracy, the plunder of treasure from foreign lands and the slave trade (the period of so called primitive capital accumulation). As industrial capitalism developed in western Europe, the nature of its impact on the rest of the world changed. An international division of labour was established in which colonial possessions were formally incorporated into the spheres of interest of the metropolitan powers and functioned as suppliers of minerals and agricultural raw materials to the metropolitan powers, as markets for industrial products, as areas of expanded investment opportunities (and thus as a regular source of income to the metropolitan powers), as well as fulfilling strategic and political functions.

Large areas of the world were thus incorporated into the expanding world economy through the vigorous outward thrust of the rapidly growing societies of western Europe. New patterns of production and trade were introduced along with more advanced technical, scientific and infrastructural facilities. New cultural and religious values were also introduced. But in this process, old societies, institutions, cultures and values were partially, if not completely, destroyed and the processes of change (albeit slow) that were taking place in these societies were retarded and distorted.⁴

3. Barratt Brown (1974, Ch. 1) uses the concept of imperialism to 'encompass the outward drive of certain peoples generally, since 1600 nation-states) to build empires—both formal colonies and privileged positions in markets, protected sources of materials and extended opportunities for profitable employment of labour' (p. 22). The term 'imperialism' is more commonly used (by Marxists) to describe the outward expansion of monopoly capitalism over the past 100 years (Lenin, *Imperialism—The Highest Stage of Capitalism*).

Marx on India

Marx wrote several articles analysing the impact of British rule on India (Marx, 1853, see also Kiernan, 1974). Marx regarded Asian society as stagnant, based on a village system described as 'undignified, stagnatory and vegetative'.⁵ He argued that Britain's conquest of India had a two-fold mission :

- (a) destructive—the plunder and annihilation of the old Asiatic society (including the destruction of native communities and the elimination of Indian industries), and
- (b) constructive—the laying of the material foundations of Western society in Asia. This regeneration consisted of, *inter alia*, (i) the political unification of the country, (ii) the establishment of private property in land, (iii) the creation of a class of Indians 'endowed with the requirements for government and imbued with European science', (iv) the establishment of a communication network, especially the development of a railway system, leading to the creation of 'fresh productive powers'.

The latter was considered to be most important. Industrial interests in the UK (the so called millocracy) recognised the need to pursue policies expanding the Indian market for UK manufactured goods (especially textiles) and to ensure guaranteed and regular supplies of raw cotton to the UK mills. Railways were needed to develop the production and export of cotton and other raw materials but, Marx argued :

You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to

- 4. It is wrong to regard all pre-colonial societies as stagnant, backward, primitive, etc. Hodgkin (1972) notes that 'technological advance and social change, in a centralising, modernising direction were . . . taking place in a number of African societies in the late eighteenth and nineteenth centuries, as a result both of internal forces and external stimuli.' (p. 106).
- 5. Fernbach in his Introduction to Marx (1973 edition, pp. 26-27) notes that Marx was later to revise his views on the stagnant character of Indian society and to deny that the west European path of historical development was a necessary model for all societies.

meet the immediate and current want of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway system will therefore become, in India, truly the forerunner of modern industry.

(Marx, 1973 edition, p. 323)

In turn, industrialisation would dissolve the caste system and other impediments to social change.

But as Kiernan (1974, pp. 189-91) notes, emancipation from the past proceeded more slowly than Marx expected. Indian religion and social habits retarded social change; since there was no Indian State there was no tariff policy to protect Indian industry; capital flowed into land rather than into industry and the countryside was able to absorb surplus labour power.

Baran (1957, Ch. 5) has stressed the point that capitalist penetration developed some of the prerequisites capitalist development but blocked others, mainly through (i) the removal of the previously accumulated and currently generated economic surplus which retarded capital accumulation, and (ii) the destruction of indigenous industries. Capitalist development was 'distorted' to suit the purposes of Western imperialism (Baran, 1957, p. 144).⁶ Of major importance for Baran was the nature of the wealthy class, either surviving from pre-colonial times or created under colonial rule. This was a class that either could not or would not develop into an autonomous bourgeoisie, and was thus incapable of establishing the capitalist mode of production in its own country. Rather it was a 'comprador bourgeoisie' whose position was dependent on, and allied to, foreign interests.

Baran has been classified by some as a 'neo-Marxist' and controversy has arisen over the relationship between 'neo-Marxism' and 'classical Marxism'. Foster-Carter (1974, p. 69) argues that :

6. India is usually quoted as the classic example of this process. It has been estimated that in the early decades of the twentieth century, Britain annually appropriated over 10% of India's GNP and this figure would have been higher in the eighteenth and nineteenth centuries. For a different view, see Mukerjee (1972).

the rise of a neo-Marxist school centered on the problem of underdevelopment (albeit conceived very differently from its original bourgeois meaning) . . . must be seen against a backcloth of the perceived inadequacy, not only of bourgeois descriptions and prescriptions, but also of traditional Marxist ideas about 'backward' countries.⁷

But Leys (1975, Ch. 1) has maintained that there is no necessary conflict between Marx's views on India and the 'neo-Marxist's' views of the non-development of contemporary LDCs. From Marx's writings on Ireland Leys argues that, had he lived long enough, Marx would have produced a theory of underdevelopment along the lines of today's 'neo-Marxists' and that thus there is no real inconsistency between Marx and Baran regarding the latter's insistence on the part played in the process of underdevelopment by surplus transfer :

Underdevelopment theory is thus partly a correction and partly an expansion of Marx's interpretation of history, an extension of his method and central ideas which, in a world scale, was still in embryo at his death.

(Leys, 1975, p. 7)

Underdevelopment theory should thus be the history of LDCs viewed in their own right, rather than merely seen as sources of primitive capital accumulation for the western economies.⁸

Dos Santos (1973) makes a similar point when he argues that theories of imperialism are essentially eurocentric, that is, imperialism

7. For a criticism of Foster-Carter see Taylor (1974) 'Neo-Marxist Approaches to Development and Underdevelopment', in de Kadt E. and Williams G. (eds.) (1974), *Sociology and Development*, Tavistock.

8. Leys presents a broad outline of what he considers to be the main elements of underdevelopment theory: plunder and extortion—the slave trade—the period of primitive capital accumulation; the extraction of the investible surplus; the development of new social strata; the replacement of primitive by capitalist accumulation; replacement of direct rule by independent governments; external orientation of LDC economies; monopoly elements—force, trading companies, commodity markets, technology; import-substitution industrialising and the TNC.

is analysed from the standpoint of the problems of the advanced capitalist country. Until recently, little attention has been devoted to its impact on LDCs, but Dos Santos believes that the study of the development of LDCs must give rise to a theory of dependence. It is within this context that we must briefly discuss the work of Andre Gunder Frank.

Andre Gunder Frank

In his work on Latin America, Frank coined the now famous expression 'the development of underdevelopment' (used by many others—for example, Rodney, 1972) to refer to the continuous process by which capitalist contradictions and capitalist development generate underdevelopment in the peripheral satellite countries whose economic surplus is expropriated, whilst generating development in the metropolitan centres that appropriate the surplus. The 'contradictions' that Frank refers to are :

(i) *The expropriation/appropriation of the surplus* : Using Baran's (1957) concept of 'potential' or potentially investible economic surplus (an economic surplus that is not available to society because its monopoly structure prevents its production or, if it is produced, it is appropriated and wasted through luxury consumption), Frank argued that the non-realisation and unavailability for investment of potential economic surplus was due essentially to the monopoly structure of capitalism (Frank, 1969, pp. 6-7). Chile (the country, Frank was analysing) was always subject to a high degree of monopoly, both external and internal, and the external monopoly resulted in the expropriation of a considerable part of the economic surplus produced in Chile and its appropriation by another part of the world capitalist system. Furthermore :

The monopoly capitalist structure and the surplus expropriation/appropriation contradiction run through the entire Chilean economy, past and present. (Indeed, it is this exploitative relation which in chain-like fashion extends the capitalist link between the capitalist world and national metropolises to the regional centers part of whose surplus they appropriate), and from these to local centers and so on to large landowners or merchants who expropriate surplus from small peasants or

tenants and sometimes even from these latter to landless laborers exploited by them in turn . . . at each point the international, national and local capitalist system generates economic development for the few and underdevelopment for the many.

(Frank, 1969 ed., pp. 7-8)

(ii) *Metropolis-satellite polarisation* : The metropolis expropriates the economic surplus from its satellites and appropriates it for its own economic development, leading to polarisation in which there is development at the centre and underdevelopment at the periphery. One important corollary of this thesis is that, if it is in fact the case that satellite status generates underdevelopment, then it follows that the weaker are metropolis-satellite relationships (for example, at times of war and economic depression), the greater are the possibilities for the local development of the satellite.

(iii) *The contradiction of continuity in change* : The structural essentials of economic development and underdevelopment are continuous and ubiquitous throughout the expansion and development of the capitalist system, even though important historical changes have taken place in specific parts of the system, in this instance Chile.

Two major implications of Frank's analysis require brief mention. At the political level, the conclusion is drawn that the Latin American bourgeoisie is incapable of undertaking its historic task, that is it cannot adopt independent, nationalist policies leading to democratic political system and independent national development. This is because of its origins and economic connections. What exists, Frank argued in a later work (Frank, 1972), is a lumpenbourgeoisie, a class which is a passive or active tool of foreign industry and commerce, and whose interests are thus identical.

The second major point is that, according to Frank, most of Latin America was incorporated into the world capitalist system during the very first phase of its colonial history, and thus it does not make sense to speak of feudal, semi-feudal or archaic elements in Latin American society. This also undermines the concept of the dual economy which has dominated much orthodox and Marxist thinking about LDCs.

Frank's work has been extensively criticised from many different quarters [the extensive bibliography given in Frank (1977) illustrates the reaction his work has provoked; Booth (1975) provides a good survey of the work of both Frank and his critics]. In his later work (1972, 1977), Frank has answered some attacks from the left by stressing that underdevelopment must be understood and defined in terms of social classes and that dependence "should not and cannot be considered a purely 'external' relationship imposed on Latin America from abroad and against their wishes. Dependence is also, and in equal measure, an 'internal', integral element of Latin American society" (Frank, 1972, p. 3). We return to this point below.

A significant criticism has been made by Laclau (1971) who argues that Frank confuses the two concepts of the capitalist mode of production and participation in a world capitalist economic system. The precapitalist character of the dominant relations of production in Latin America

was not only *not* incompatible with production for the world market, but was actually intensified by the expansion of the latter. The feudal regime of the haciendas tended to increase the servile exactions on the peasantry as the growing demands of the world market stimulated maximisation of their surplus.

(Laclau, 1971, p. 30)

Furthermore, Laclau maintains that to affirm the feudal character of relations of production does not necessarily involve maintaining a dualistic thesis (in which dualism is taken to imply that no connections exist between the 'modern' and 'traditional' sectors of the economy). As the above quote shows, the connections between the two sectors ('feudal', and 'modern') were strong and it is necessary to examine the system as a whole and show the 'indissoluble unity that exists between the maintenance of feudal backgroundness at one extreme, and the apparent progress of a bourgeois dynamism at the other' (p. 31). Booth (1975) argues that a major gap in Frank's analysis is a discussion of the interconnections between different modes of production combined in a single, national or international, economic, system.

From another view point Cardoso (1972) has argued that

dependency, monopoly capitalism and development are not contradictory terms and that there is occurring a kind of dependent capitalist development in some LDCs. Taking into account the characteristics of contemporary industrial development and the operations of TNCs in LDCs in countries such as Argentina, Brazil, Mexico and India, there is an 'internal structural fragmentation', linking the most advanced parts of these economies to the international capitalist system. Separate from, although subordinate to, these advanced sectors, the backward economic and social sectors became 'internal colonies' and a new kind of dualism is created (Cardoso, 1974, p. 90).⁹

A final point deserves mention. Frank has used the expression 'ultra-underdevelopment' to describe regions such as the Brazilian North-East where once active primary export economies eventually declined, creating conditions of poverty and stagnation. But Frank also argues that underdevelopment is a structural condition, created simultaneously with the metropolitan centres and the incorporation of the satellite into the world capitalist economy. From this it follows that 'ultra-underdevelopment' must be the consequence of 'ultra-incorporation' of the satellite into the metropolitan sphere. It could thus be argued that the most 'ultra-underdeveloped' part of Latin America is (or will be) oil-rich Venezuela 'where contemporary rather than past colonialism assumes its most extreme forms' (Frank, 1972, p. 22). Frank therefore agrees to distinguish between the 'active' development of underdevelopment (Venezuela) and the 'passive' state of ultra-underdevelopment in the exporting regions of earlier periods in the development of world capitalism. Booth (1975, pp. 76-77) argues that this 'leaves us in a mess' and that 'the terminology upon which Frank has chosen to rely fails to serve as an

9. In another article, Cardoso (1973) characterise the process as 'associated dependent development'. This process is dynamic insofar as the interests of TNCs, in the era of production for the domestic market, become compatible with the internal prosperity of dependent economies; that is, the production and sale of goods to upper/middle income groups requires the growth of some sectors of the dependent economy. But this path of development has its costs: it 'is based on a regressive profile of income distribution, emphasises luxury consumer durables as opposed to basic necessities, generates increasing foreign indebtedness and contributes to social marginality and the under-utilisation and exploitation of manpower resources' (p. 149).