GLOBAL POWER STRUCTURE, TECHNOLOGY AND WORLD ECONOMY

By Mihály Simai

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Introduction

The main issues in this book are the politics and economics of global changes. The world economy is in a process of major transformation. A new technological revolution is spreading rapidly, resulting in what may be fundamental shifts in the global distribution of production capacities in output and consumption patterns. Changes are taking place in comparative advantages, thus influencing and even transforming the international division of labour. National economic policies face qualitatively new challenges and requirements. The hierarchical position of different countries is changing too. The old and new actors on the world economic stage, with their special interests and problems in this evolving environment, are forcing countries to re-interpret their roles and possibilities in the process of adjustment, looking for new opportunities and trying to avoid new perils.

The changes in the world economy are important sources of structural transformation within national boundaries too. Traditional links between various activities have been broken up and new linkages have been established. Politics and society are also in the process of being reconstructed. Inefficient and autocratic regimes in certain countries are being replaced by new ones; in others, more conservative groups have come to power. The social stratification that has characterized most of the century is also being replaced by new structures. New social groups are appearing and new skills emerging.

The sources, consequences and mechanisms of the above changes are analysed in this book which is the result of research work undertaken by the author in the first half of the 1980s.

The work synthesizes three important projects:

- (1) the changes and new era in the world economy in the late twentieth century;
- (2) the new characteristic features and trends in the world technology market;
- (3) structural changes and disturbances in the world economy and its global consequences.

The first part, which deals with the new regulating forces of the world economy and their influence on changes which have taken place since the early 1970s in the developed Western countries, in the Third World and in the socialist countries, reveals the underlying trends behind the two recessions and provides an analysis of the debate on the crisis in a way which is confronting the various old and new ideas with reality.

While trying to avoid any prefabricated elements in the diagnosis and in the projections, the author arrives at the conclusion that the nature of the changes and the weakness of the institutions and policies could be blamed basically for the troubles which emerged.

The second part of the book is entitled: "The Changing Global Power Structure in the World Economy in the Late Twentieth Century". In this part, the author analyses the global role of the changes in the power structure, the mechanism of transition from one regime to another and the consequences of this in the present world of military bipolarity and economic and political multipolarity.

The conclusion is that the role of economic power is on the increase and that competition in this sphere has a much greater global role now than it had in previous decades of the century. This characteristic of economic power implies, however, important global political shifts and problems.

The third part of the book deals with the new technological revolution in the global economic system. Technology has, of course, always been an important source of global changes and problems. At this stage, the nature of the revolution, the pervasive character of the new technology, the special role of a handful of countries in the hierarchical system, and strategic factors have upgraded the role of technological change. Monopolies and efforts to preserve them, competition, cooperation and different degrees of dependence will remain longer-term characteristics of the technology market. It is extremely important for the whole of mankind, that in this situation the necessary minimum of global cooperation and control should be established.

The fourth part of the book is in a way a comprehensive overview of the present system and of the main trends in international economic relations, world trade, capital movements, etc., from a structural point of view: and how the structural changes of output and consumption influence international economic relations. The new forms of cooperation are also analysed from this point of view. Special attention is paid to the role of the service sector and to some important areas, like agricultural raw materials, microelectronics, transport equipment, etc.

One of the important conclusions is that the structural disturbances and other imbalances will remain with us and, therefore, in order to avoid the collapse of the international system, new forms of global cooperation are needed, which assist not only national adjustment policies, but also facilitate coordination of policies leading to the changes.

The fifth part of the book, which deals with the present and the future of global cooperation raises some fundamental questions about the existence or absence of interests in global cooperation. It confronts two possible approaches: one, which assumes international cooperation based only on national interests and the other which assumes cooperation from a global point of view. The international monetary system serves as a case study to show the conflict between the two approaches. The conclusion of this part is that those policies which are aimed at maximizing national advantages and disregard the interests of other countries and of mankind, if implemented, are much more dangerous and disruptive today, in an independent world, than they were in the past. Countries that are strong and can directly influence the international system through their policies and actions, therefore bear a much greater responsibility than ever before.

The author expresses his thanks to all those who helped him with advice or criticism: especially Professors József Bognár, János Berecz and Tibor Erdős from Hungary, and William Diebold and Professor Robert Manley from the Unites States.

Part One

The New Regulating Forces of the World Economy and the Nature of the Changes

International events interlaced with conflicts and crises and the actions of states in the 1980s already contribute in many respects to the shaping of the twenty-first century. The necessity to transform international relations is professed and declared by many statesman, scientists and experts. The need to develop new conditions is voiced almost like a platitude, at the meeting and discussion of international organizations. Yet, the unfolding of the necessary changes seems to be rather slow. If a nuclear world war does not break out, if mankind succeeds in avoiding the disaster threatening its very existence, and if the world economy does not disintegrate as a result of crises and disturbances—then at the end of this century and in the world of the period beginning in the next century new approaches for the solution or mitigation of our cumulating worries, troubles and disturbances will emerge. The formation of these new approaches has to spring from our present world, which, as regards its basic structure, will presumably not change to a great extent. The exploration of ways and means has begun and has already provided us with many important implications.

Economic Problems of a Period of Global Changes: Old and New Theories, Longer Term Consequences of the Recession and the Recovery of the 1980s

The 1970s and the 1980s were characterized by serious world economic problems, much beyond the recessions of the 1970s and the early 1980s. It was not just a traditional economic crisis which hit or influenced all the countries adversely. It can be interpreted as a global structural crisis. The nature of crisis can be defined as a grave and significant disturbance of a given system which aggravates its conflicts and, or incidentally, prevents its normal functioning (i.e. its functioning according to the prevailing conditions and scale of values), its reproduction and development, and increases its conflicts and contradictions making them unmanagable so that its contradictions become insoluble, and could result in its eventual collapse.

A crisis can develop under the influence of internal factors of the system, as a consequence of external factors, or as a result of the combination of internal and external conditions, i.e. as the resultant of objective and subjective causes. A crisis is not identical with the disintegration of the system but—as pointed out—can result in

its collapse. Such a situation can occur if the factors of the crisis are not recognized in time, if the powers controlling the system are unable to solve the contradictions or at least to mitigate their effects or to create conditions which make it possible for the essential elements of the system to function even in a crisis situation.

All over the world heated discussions have been going on regarding the causes, the characteristics and the consequences of the world economic crisis and about its relation to the recessions of 1974–75 and of 1982–83. Experts tend to agree that neither the recession of the mid-1970s nor that which started in the early 1980s could be characterized as a traditional cyclical one. However, views differ considerably as to the character of the crisis.

The heated and many-sided debate can be explained first of all by the fact that the crisis broke out in a number of sectors of production and in the system of international relations, i.e. not just a single country or group of countries was affected but the world economy as a whole was hit. A number of long-lasting economic and social problems formed the background to the outbreak of the crisis. The economic policies of the governments played an important part among its direct causes. The recession of the early 1980s reflected especially clearly the long-term problems. This was the most serious global economic crisis since World War II.

World production was affected in many ways by the factors which led to the outbreak of the recession in the early 1980s, which started in the developed capitalist countries and resulted in the most serious economic difficulties since World War II. Although world output as a whole did not decline in any single year of the recession (as a result of the increasing production of the socialist countries), a drop in production was experienced in the developed capitalist countries which was accompanied by a major showdown in the Third World states (Table 1), with a decline of GNP in two regions.

Gross national product fell in the USA and Great Britain in 1980, in the FRG, Italy, Britain, Belgium, Denmark, Norway and Switzerland in 1981. The gross domestic product diminished in ten developed capitalist countries in 1982; in the USA it dropped by 1.9 per cent, in Canada by 4.4 per cent, in Switzerland by 1.7 per cent and in the FRG by 1.1 per cent. In 1983, however, the gross domestic product decreased in only two developed capitalist countries: Italy and Switzerland. From among the developing countries, GNP declined in the Middle East (in 1980 and 1981) and in Latin America (in 1982 and 1983).

The decline and the drop in industrial production assumed even greater proportions. Industrial production of the developed Western countries decreased by about 4 per cent between 1980 and 1982. While the gross domestic product fell by 1.8 per cent in the USA in 1982, industrial production decreased by 8.2 per cent. The decrease went to 4.9 per cent in the FRG, 3.8 per cent in France and 2.9 per cent in Italy. Of all the developed capitalist countries, it was only in Japan and Denmark that industrial production increased, though the rate of increase slowed down. For the first time since the end of World War II the growth in industrial production of the developing countries fell. The decline was recorded mostly in the mining sector but in Latin America occurred also in manufacturing. The under-utilization of industrial capacity reached 80 per cent in some of the developing countries. In 1982 26-33 per cent of the industrial capacity of the developed Western countries remained unused and moreover

	1971—75	1976—80	1981—85	1986—87**		
Western industrial countries	3.1	3.5	2.3	3.1		
Eastern Europe and the USSR	6.3	4.1	3.0	3.4		
China	5.5	6.0	9.8	8.3		
Developing countries	6.1	4.9	1.4	2.8		
World	4.2	3.9	2.7	3.1		

Table 1.

Growth of World Output*

Source: U.N. World Economic Survey 1986. International Monetary Fund: World Economic Outlook. Revised Projections. October 1986, 87.

the industrial production capacity of the USA was utilized only to 68 per cent even as late as February 1983.³

The number of firms which went bankrupt increased considerably—it was the highest since the 1929–33 crisis. (Their number increased in the USA by 43 per cent in 1981, by 49 per cent in 1982, and the losses written off amounted to nearly \$6 billion.) Following 1981, the percentage of loans on which borrowers proved unable to pay interest or instalments came to 4 per cent in the USA (prior to 1981 this had amounted to only 3.1-3.2 per cent) and the ratio of "not-yielding" loans was still 3.4 per cent in 1984.

The number of bankruptcies in the Federal Republic of Germany increased by 2.7 per cent both in 1981 and 1982, it increased in France by 20.3 per cent and in Britain by 26.4 per cent. Several famous great firms went bankrupt or were rescued only by substantial public subsidies. There emerged also a particularly serious problem: the number of unemployed in the developed Western countries doubled between 1979 and 1983, the number of those without jobs growing from 5 per cent (15 million people) to 10 per cent (more than 35 million). The number of unemployed has been underestimated by official statistics because they do not take into account those (for instance many women and young people) who have removed themselves from labour force statistics having sought for work in vain; these people have become homemakers or students at the expense of the income of the breadwinners.⁴

Probably the whole of the 1980s will be characterized by slow growth which in some countries may be interrupted by short intervals of rapid economic boom. Global economic imbalances will be a source of major difficulties and uncertainties.

The international debate on the crisis reflects not only the recent experience and complex nature of the problems but also the capability of the different "schools of thought", in economics to evaluate scientifically the causes and consequences and to define the course of action needed. Experts who looked for explanations for the severity of the recession during the early 1980s set out primarily from the theories of the traditional Western schools of economics, only sought for short-term interpretations based on direct causes. They generally did not investigate the effects of deeper and

^{*} For the Western economies, Gross Domestic Product, for Eastern Europe, USSR and China Net Material Product.

^{**} Preliminary estimates.

more lasting factors point out the long-term consequences and implications of the crisis.

Thus, the 1983 World Economic Survey of the United Nations stressed that the unexpectedly serious drop in demand in the wake of the anti-inflationary policy initiated by the major industrial countries in 1979 and 1980 resulted in a considerable slowing down of world production and trade in 1981, and the deflationary effects became even more serious in 1982.

This situation served as an emphatic reminder for the industrial countries that their economies were strongly interrelated with those of other nations. An uncoordinated upswing is continuing currently in an atmosphere of uncertainty. If this cannot be stepped up into a healthy and lasting prosperity then interdependence—now serving as a bond between developed and developing countries—could increasingly become an obstacle to progress an the cause of searching for new industrial development.⁵

The causes directly responsible for the recession as well as the significance of interdependent relations were correctly recognized by the UN experts. However, these specialists did not bestow enough care, for instance, on the fact that the background, i.e. the growth conditions of the individual countries, had also considerably changed by the early 1980s; moreover, this was just one of the reasons for the "uncoordinated" and "uncertain" nature of the upswing which began and unfolded in 1983. The upswing is uncertain and contradictory in almost all important industrial countries.

The 26 leading economists of fourteen industrial and developing countries who published a joint declaration in 1982 under the title "Promoting World Recovery" did not reckon with the changes either.

The authors of this declaration—just like the statements of the UN—emphasized the grave and serious character of the crisis which had developed in the early 1980s but regarded it as basically a short-term recession which, therefore, could be overcome within a short time if appropriate measures were taken for checking it. They considered the crisis to be the result mainly of the monetary restrictions which were imposed by the governments anxious about inflation following the second oil shock. What serious consequences restrictions made simultaneously—and often on a greater scale than necessary—would have had on the network of international relations was not understood.⁶

A complex analysis was also given in the second report of the so-called Brandt Commission on the crisis and its effects. "The protracted recession of the developed industrial countries" was regarded as the basic cause of the crisis, the root of which was once again seen in the anti-inflationary policy of the Western industrial countries. According to the report the exaggerated monetary restrictions were combined with an incorrect budget policy.

Treating mainly the conditions of a global upswing, the report drew attention to a number of other grave problems of the world economy, e.g. the disturbances in international monetary relations and world trade and the deficiencies of the institutions; but all this was done first and foremost from the aspect of the North-South relationship.⁷

The Polish economist Pajestka voiced an individual view regarding the crisis in the debate among the economists of the socialist countries. According to him the events of the 1970s and 1980s were the result of a deliberate policy of adaptation by the

developed Western countries. The real value of the immense sums gained by the OPEC countries in the wake of the increase in oil prices was reduced with the help of inflation and the previous increase in the real incomes of the working classes was also counterbalanced.

He regarded the rise of the real rate of interest in the 1980s as "the counterrevolution of capital". To his mind the owners and operators of capital wanted to counterbalance the previous negative real rate of interest in that way and, at the same time, to stimulate capital supply. Relying on this thesis he was more optimistic than the majority of Western economists in evaluating and predicting long-term trends because he thought that the above-mentioned efforts had been basically successful and had turned development in the desired direction, at least according to the logic of the scale of values of the capitalist states: all the world was compelled to adapt itself accordingly. But Pajestka also stressed that these phenomena had proved to be harmful to the world economy and could in the long run cause more serious problems to the Western capitalist countries than those which they were striving to avoid.

Outside the circle of Marxist economists there are quite a few economic experts who view the economic recession of the early 1980s as part of a long-term, "more general" crisis or crises which are rooted in the capitalist system, in the crisis of capitalist accumulation. In this theory, special attention is paid to the fact that the process of global capitalist accumulation has become more difficult, and also to the problems of the incipient disintegration of the colonial division of labour.

The majority of the so-called radical American economists hold the view that it is the traditional capitalist structure which has undergone a crisis. The term "structural crisis" indicates that it is not the cyclical phenomena which are of vital importance. Of the causes of these phenomena, the insufficiencies of the institutions of the world economy are emphasized by some who regard the present conditions as a global management crisis.

Another recurrent conception of the analyses is the crisis of socio-political conditions as an independent factor. The renowned Mexican economist Wioncek in his contribution at the VIIth Congress of the International Association of Economists argued that we were facing not a single crisis but a whole crisis system, afflicting both the various parts of the world economy and its forms of relations. He considered the crisis to be of multifold and multiform character being rooted in the last resort in the structure of the world market.⁸

The late Raul Prebisch, former Secretary General of UNCTAD, also regarded the present-day world economic conditions as a structural crisis. In his view this crisis of capitalism was of a structural nature, and it was deeper and more complex than the great slump he had experienced as a young economist in the 1930s. That one had been a cyclical crisis, a serious crisis but one which had been overcome. The present crisis, however, originated from the inherent logic of the system, from the very structure within the bounds of which the system functioned. It was pointed out by Prebisch that the most disturbing characteristic of the crisis was the structural disequilibrium between increased consumption and the increase in the accumulation of productive capital. He emphatically stressed the term "productive capital" meaning such capital as increased employment and productivity because accumulation had other damaging forms as well.

Prebisch set out in detail that, by using the term "disequilibrium" he wanted to emphasize that because of its structural position the ruling class was able to monopolize the profits of increased productivity based on technological progress. This renders it possible to accumulate capital and to maintain the privileged system of the consumers' society. Within that given system the rate of productive capital accumulation is surpassed by that of exaggerated consumption and accumulation serving non-productive objectives (e.g. in the defence industry).

Prebisch, however, did not restrict his definition to the recession which had begun in the early 1980s. Structural disequilibrium was regarded as a long-term cause and was interpreted in a broader sense. Though the factor he mentioned is undoubtedly an important one, it seems too generalized to give a justified explanation for the causes of the world economic relations which came into being at the beginning of this decade.

Highlighting the more comprehensive, long-term interrelations of the world economy in the early 1980s, Soviet economist Bogomolov set out from the hypothesis that mankind is probably undergoing the most complex and difficult period of its history. Until now it has never had to face such a dreadful challenge: it is threatened by nuclear devastation and the arms race has assumed unprecedented proportions. The world economy is critically ill, the consequences of which are difficult to predict. The stability of international politics and economy has been undermined by unceasing conflicts and clashes. Unsolved global problems—nutrition, energy, raw materials, environment, etc.—have resulted in serious trouble. Scientists and politicians even doubt whether there is any possibility for the survival of mankind. According to Bogomolov, it is important for just this reason that the world community should be able to overcome the present dangerous and critical situation of which the world economy is an integral part.¹⁰

A Hungarian economist, Tamás Szentes, stresses the importance of the holistic and global approach. He points out that the sources of the present crisis of international economy should by no means be considered as some "special" or temporary factors, and neither is it merely a "normal" cyclical crisis in the developed market economies. In his view it is a structural and institutional crisis of the world economy as a whole, i.e. a crisis rooted deeply in certain fundamental contradictions and inequalities of the modern world order. The crisis was triggered off by the unbalanced nature of the international division of labour, by a spontaneous industrial redeployment of labour, by the increasing confusion of state control of the national economies, by the growth and demonstration effects of the wasteful consumers' society, and finally by the internationalized armaments race and militarism.¹¹

The causes and consequences are analysed from many aspects and angles in the paper by Szentes. He, too, is one of those authors who interpret the crisis in a more comprehensive way and as a long-term process. The justification of the holistic and global approach seems indisputable.

However, there are many experts who blur or confuse important details under the pretext of a global approach, and substitute generalizations, platitudes of economics for analysis. Both their diagnosis and their suggestions for overcoming the crisis tend to be too general and therefore are unfit for influencing concrete action. Another and often recurring problem is the fact that owing to the global and multifold character of the problems, even such phenomena as actually are only minor disturbances of the world