

Developing Countries in the International Economy

Selected Papers

Sanjaya Lall

Oxford University Institute of Economics and Statistics



All rights reserved. No part of this publication may be reproduced or transmitted, in any form or by any means, without permission

First published 1981 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Companies and representatives
throughout the world

Printed in Hong Kong

British Library Cataloguing in Publication Data

Lall, Sanjaya

Developing countries in the international economy

1. Underdeveloped areas – Foreign economic relations

I. Title

382.1'09172'4

HF1413

ISBN 0-333-28875-0

Preface

This book presents a selection of published and unpublished papers on some aspects of development. It is not a comprehensive examination of the international economic problems of the Third World, but a series of studies, empirical and conceptual, on which I have worked over the past five years in relation with my main field of interest, the multinational (or transnational) corporation. In the main the papers focus on the external relations of manufacturing industry, but the range of topics covered is fairly wide, and the collection should prove useful to all those who are interested in the general problems of development. It is intended to complement another collection of my papers (*The Multinational Corporation: Nine Essays*), specifically on the multinational corporation.

The first two papers deal with some conceptual problems in the analysis of the process of development. One is a critique of the 'dependence' theories which became popular as all-embracing explanations of the process of development (or the lack thereof) in the mid-1970s. The other discusses some of the limitations of orthodox welfare economics in analysing development problems, and shows how some of the controversies which still rage over the basic issues of development can be traced to differences over these fundamental methodological premises.

The two papers in Part Two deal with international investment. The first of these is a review article which analyses different approaches to the analysis of multinational corporations. The second presents a study of multinationals in the food-processing industry, with special attention to the operations of Unilever. Unfortunately, this paper was written well before the publication of D. K. Fieldhouse's scholarly book on *Unilever Overseas*, and it was not feasible to change my paper to take his findings into account. Nevertheless, my analysis was addressed to rather different issues from Fieldhouse's and retains interest despite the appearance of his detailed historical study.

Part Three comprises two papers on technology transfer, one a brief literature survey and research agenda, and the other an analysis of the

x Preface

international patent system. The book ends, in Part Four, with two papers on exports by developing countries. The first of these reviews relates the growth of manufactured exports by the 'newly industrialising countries' (NICs). It describes the main countries and products involved, surveys the recent literature on the comparative advantage of developing countries and identifies the main agents (domestic or multinational companies) responsible for the expansion of these exports. While it does not deal with the issue of protectionism or the institutional structure of trade (both adequately treated in the literature), it should help to plug a gap in the reading available, which does not seem adequately to cover this important phenomenon. The last paper deals with an interesting new development—the entrance of developing country enterprises as exporters of advanced industrial technology—in the international scene. The evidence on which it is based is (necessarily) patchy and anecdotal, but the issues raised, in terms of the changing comparative advantage of developing countries, their technological advance and the prospects of intra-Third World trade, may be of great significance.

A large number of colleagues helped me to prepare these papers; specific acknowledgements are made in each essay. I would also like to record my gratitude to the Director and the staff of the Institute of Economics and Statistics for their help and encouragement.

The author and publishers wish to thank Mr Mario Luiz Possas, for permission to use the table based on sources from CACEX, Banco do Brasil, and Visão (1974) estimated by IPEA, Brazil, and reproduced in his work 'Employment Effects of Multinational Enterprises in Brazil'.

Acknowledgements

This collection contains a number of papers which are published elsewhere, though some titles have been changed. I wish to thank the various copyright holders for permission to reprint:

- Chapter 1: 'Is "Dependence" a Useful Concept in Analysing Underdevelopment?', World Development, vol. 3, nos. 11 and 12 (November–December 1975) pp. 799–810.
- Chapter 2: 'Conflicts of Concepts: Welfare Economics and Developing Countries', World Development, vol. 4, no. 3 (March 1976) pp. 181-95.
- Chapter 3: 'Less-Developed Countries and Private Foreign Investment: A Review Article', World Development, vol. 2, nos. 4 and 5 (April-May 1974) pp. 43-8.
- Chapter 4: 'Private Foreign Investment and the Transfer of Technology in Food Processing', in C. Baron (ed.), Technology, Employment and Basic Needs in Food Processing (Oxford: Pergamon Press, 1979) ch. IV. It was originally prepared as a World Employment Programme Working Paper for the International Labour Office (Geneva, 1977).
- Chapter 6: 'The Patent System and the Transfer of Technology to Less-Developed Countries', Journal of World Trade Law, vol. 10, no. 1 (January-February 1976) pp. 1-16.
- Chapter 7: Prepared in 1978 as part of a larger study for the National Economic Development Office, London, and reprinted with NEDO's permission.
- Chapter 8: 'Developing Countries as Exporters of Industrial Technology', Research Policy, vol. 9, no. 1 (Amsterdam: North-Holland Publishing Company, January 1980).

Contents

Preface		ix
Acknowledgem	ents	хi
PART ONE	SOME CONCEPTUAL ISSUES	1
1 2	Dependence and Underdevelopment Welfare Economics and Development Problems	3 24
PART TWO	INTERNATIONAL INVESTMENT	51
3 4	Developing Countries and Foreign Investment Food Transnationals and Developing Countries	53 68
PART THRE	E TECHNOLOGY TRANSFER	121
5 6	Technology and Developing Countries: a Review and an Agenda for Research The Patent System and the Transfer of Technology to Less-Developed Countries	123 153
PART FOUR	EXPORTS	171
7	Recent Trends in Exports of Manufactures by Newly-Industrialising Countries Perceloping Countries as Exporters of	173
8	Developing Countries as Exporters of Industrial Technology	228
Subject Index		257
Author Index		260

Part One Some Conceptual Issues

1 Dependence and Underdevelopment¹

I INTRODUCTION

This essay was originally intended to produce a working definition of 'dependence'. It has ended up by being a critique of the concept of 'dependence' itself, at least as it is currently used in development economics. It is meant to be a sympathetic critique, since I subscribe to many of the fundamental tenets of the dependence school. I also hope that it is a constructive one, since it appears that the dependence literature has, at least in part, led to a concentration on the wrong problems and on unrealistic solutions, a serious defect which must be rectified if it is not to end up as yet another defunct branch of grand theorising.

'Dependence' as a particular explanation of underdevelopment is a relatively recent phenomenon. Its emergence as a distinct school can be traced to the writings of the *dependencia* economists from, or working on, Latin America, whose works began to appear in English around the mid-1960s.² This school began to have an impact on thinking on development elsewhere by the 1970s, and by now its terminology has become a part of the standard tools of development economists, mainly (but not exclusively) of left-wing persuasion.

As is only to be expected when a word in common use is given a special connotation and ascribed uncommon characteristics, some confusion has arisen over what 'dependence' means. In conventional economic parlance, a country may be described as being 'dependent' on foreign trade or foreign technology; or a process of great complexity may be said to involve greater 'interdependence' between different workers; or the world may be said to become more 'interdependent' because of increasing international trade and investment. In such usage, there is no hint of anything undesirable (on the contrary, most conventional economists would regard more interdependence as a good thing), nor is there any implication of a process of causation: dependence is defined

4 Developing Countries in the International Economy

with reference to some particular objective economic fact, and says nothing, in a descriptive or causal sense, about the condition of the economy as a whole. In the usage of the dependencia school, on the other hand, 'dependence' is meant to describe certain characteristics (economic as well as social and political) of the economy as a whole and is intended to trace certain processes which are causally linked to its underdevelopment and which are expected to adversely affect its development in the future.

Even within the dependencia school, moreover, the word is given different meanings according to the user's beliefs about the particular historical processes which have caused underdevelopment and about the relative role of the various factors which are at present governing the future development of the poorer countries. In part this internal confusion is due to the school's mixed parentage. The dependence school in Latin America has evolved, on the one hand, from the structuralist tradition of Prebisch, Furtado and ECLA, and, on the other, from Marxist³ and neo-Marxist⁴ thinkers on imperialism—two very disparate modes of analysis with different tools, concepts and prognoses. Dependencia economists thus range from mildly socialistic nationalists like Furtado or Sunkel, via writers of increasing radicalism like dos Santos and Cardoso, to explicit revolutionaries like Frank. Many are in fact indistinguishable from straightforward Marxist analysts of imperialism and underdevelopment, and much of what is said below will apply equally to those Marxists who use 'dependence' in the same functional form as the dependencia school.

One sometimes gets the impression on reading the literature that 'dependence' is defined in a circular manner: less developed countries (LDCs) are poor because they are dependent, and any characteristics that they display signify dependence. In such tautologous definitions, 'dependence' tends to be identified with features of LDCs which the economist in question happens to particularly dislike, and ceases to offer an independent and verifiable explanation of the processes at work in the less developed world. A concept of 'dependence' which is to serve a useful analytical purpose must satisfy two criteria:

- (1) It must lay down certain characteristics of dependent economies which are not found in non-dependent ones.
- (2) These characteristics must be shown to affect adversely the course and pattern of development of the dependent countries.

If the first criterion is not satisfied, and crucial features of dependence are to be found in both dependent and non-dependent economies.

obviously the whole conceptual scheme is defective. If the second is not satisfied, and peculiar features of dependence are not demonstrated to be causally related to the continuance of underdevelopment, the analytical purpose of the whole exercise is not served, and we end up with a catalogue of socio-economic 'indicators' which are singularly unhelpful for understanding economic backwardness.

In sections III and IV of this paper I shall consider various features of

dependence which have been commonly advanced in the literature, and assess whether they satisfy these criteria of usefulness. I shall divide these features into those related to certain objective (but not necessarily quantifiable) characteristics of the dependent economy (the 'causes' of dependence), which I term 'static characteristics', and those related to their patterns of growth (the 'effects' of dependence), or 'dynamic characteristics'. Firstly, however, it is necessary to limit the subject matter in some ways; in section II, therefore, I describe certain features of the dependence model and the premises of the analysis.

LAYING THE GROUNDWORK H

Dependence literature is vast and sophisticated, and I cannot hope to survey it in any detail here. To keep the discussion to manageable proportions, therefore, I shall impose certain conditions. First, I shall use the term 'dependence' to refer to the *recent* experience of LDCs. While the concept is sometimes applied to the entire history of imperialism and the whole complex of relationships between the 'centre' and 'periphery', it is essentially directed at the post-colonial era when direct forms of colonial subjugation had ended and new forms of 'imperialism', by various means which ensure dependence rather than open domination, had supervened.⁵ While I find myself in substantial agreement with various Marxist analyses of historical imperialism,⁶ I find their use of the new dependency concepts somewhat less convincing, and this is the subject matter of this paper.

Secondly, as it is not my purpose here to question the existence of several features which are often ascribed to 'dependent' economies, but only to see whether these features add up to a distinctive state of 'dependence', I shall take for granted the following:

- (1) Income distribution in most LDCs is highly skewed and in many (but not all) instances is getting worse with economic growth.
 - (2) The consumption patterns of the élite in the periphery (the LDCs)

are strongly influenced by tastes created in the centre (the highly developed countries).

- (3) The technology utilised in the process of industrialisation is taken in a more or less unadapted form from the centre, either by means of direct investment by multinational companies (MNCs) or by means of licensing of local enterprises. This technology serves to perpetuate the inequitable distribution of income and to fulfil the consumption demands of the élites.
- (4) There is usually a strong foreign economic presence in the shape of MNCs, foreign aid, foreign loans, and trade with the centre. The growth of industrialisation, whether import-substituting or export-promoting, does not usually reduce the reliance on foreign financing and technology, but tends to increase it; there is no indigenous technological advance of economic significance.
- (5) Foreign influence is not confined to economic spheres, but extends to cultural, educational, legal and political spheres. No direct domination is necessary; it is sufficient to assume that the peripheries inherit and propagate systems used in the centre, and that their ruling élites—or the hegemonic class, if this is different from the ruling class, or even a weaker class (like the new industrialists) which is an alliance with the ruling class (say the landowners) but has different economic interests from it—perceive an identity of interest, at some level, with the economic interests of the rich capitalist countries.⁷ This ensures that there exists what is termed a 'symbiotic' relationship between the dominant classes in the centre and the élites, or some part of the élites, in the peripheries. I do not need to employ a naïve version of 'conspiracy' theory. On the contrary, this relationship can be made extremely complex, and subject to tension and change; it is, however, essential to admit the existence of some internal forces which make for an increasingly capitalist mode of production and for a long-term integration with the world capitalist system.

These premises cover most of the factual statements about 'dependence' which exist in the literature. I shall argue below that while there is a great deal of truth in them, they cannot be taken to constitute a category of 'dependence' which is analytically sound or useful.

Thirdly, it is necessary clearly to categorise the periphery or dependent countries separately from the centre or non-dependent ones. While no one has actually made such a list, the dependence literature seems to put all non-socialist LDCs (and this includes such avowedly 'socialist' countries as Egypt or India) into the former class, and all the rich, highly

industrialised countries into the latter. There is a grey zone between the two, and we have to exercise some arbitrary judgement; we may put countries like Greece, Spain or Portugal into the periphery, and those like South Africa, Australia or New Zealand into the centre. Some dependence theorists may also like to include countries like Yugoslavia into the dependent category because of its increasing integration into the West European economic ambit; this does not affect our argument one way or the other.

III STATIC CHARACTERISTICS

We may group the static characteristics of dependence into economic and non-economic: this is to some extent an arbitrary division if one believes in political economy rather than the orthodox limitations of 'proper' economics, but not one which does any harm in this context. Let us start with the *non-economic* characteristics of dependence.

A recent Marxist paper provides a clear statement of the sociopolitical aspects of dependence:

[The] political structure of foreign rule still exists today though the accents are set differently, and it still mirrors the profound penetration of the dependent areas by the outside centres. This asymmetrical penetration of the dominating centres took place . . . in all the essential social fields. This was done by controlling the socialisation processes in the widest sense of the word (cultural imperialism); by controlling the media of communication (communication imperialism), as well as political, military and legal systems (political imperialism) A history of the political and social structures of the third world can be seen as a function of this external penetration. 9

Similar views can be found in most dependence writings, and there is little doubt that as a description of the present condition of most LDCs they contain a great deal of validity. The evolving social, cultural and political systems of the poor capitalist nations have been strongly influenced by those of the central countries, and, strong nationalist sentiments notwithstanding, these influences are continuing to grow stronger.

Can this, however, be taken to mark a distinct state of 'dependence'? A moment's reflection will show that it cannot. All the developed countries in the capitalist world influence each other in cultural,

educational and political spheres, just as much as they do the LDCs. This sort of influence has never been equal: some nations have always been dominant and others subservient, and history provides an ample record of changing patterns of dominance and the struggle to counter it. In the past two decades we have witnessed the rise of US influence in cultural, military and political affairs, and a chorus of protest from Europeans about each 'dominance'; we are now seeing a resurgence of European influence, but, again, some countries in Europe wield much greater power than others. There is certainly dominance and dependence, but it applies just as much to countries within the 'centre' as to countries outside it.¹⁰

Three objections can be made to such reasoning, in support of the view that 'dominance', in some particular sense, applies only to the centre - periphery relationship. First, it may be argued that the relationships between the developed countries at the centre are more symmetrical than those between developed and less developed ones, in that one rich capitalist country does not systematically dominate the other and there are more chances of a reversal of roles. Secondly, the hierarchical structure of power within the centre may be seen, not as an indication of fundamental dependence, but as a necessary condition for the preservation of a mutually beneficial (for the capitalist if not for the others) system, while the hierarchy between the centre and the periphery may be seen as one necessary to preserve a basically exploitative system. Thirdly, the cultural, legal and political systems of the developed countries may be thought of as being in essence similar and the product of indigenous development, even though they influence each other, while the transference of these systems to the LDCs may be regarded as being more alienating and therefore more distortive (and qualitatively different).

While there is some truth in these defences of the dependence school, which may lead us to say that certain countries (say, Brazil or Indonesia) are more dependent than others (say, Canada), they fail to provide a firm analytical basis on which we can distinguish dependent from non-dependent countries. Some countries within the centre (Denmark, Belgium or Switzerland) may always be in subordinate position in non-economic spheres vis à vis some larger capitalist countries (Germany or France), which may themselves be lower on the hierarchy than the 'hegemonic' power (the US). The condition of mutual benefit applies mainly to the classes which benefit from capitalism and so can be equally relevant to LDCs. Furthermore, the point about 'more alien' is a value judgement which does not take us very far. It is ultimately impossible to

draw a line between dependence and non-dependence on these grounds without falling into the basic error of *defining* underdevelopment to constitute dependence (i.e., arguing that these features constitute dependence only when found in underdeveloped countries).

Thus, while not denying any of the factual statements about external influence and conditioning, we must deny that there is something peculiar about their occurrence in LDCs which can be said to constitute dependence. It seems to be much more sensible to think in terms of a pyramidal structure of socio-political dominance (a scale rather than a unique condition of dependence) in the capitalist world, with the top (hegemonic) position held by the most powerful capitalist country and the bottom by the smallest and poorest ones, and a more or less continuous range occupied by various developed and less-developed countries, with relative positions changing, between the two. It is not necessary to draw an arbitrary line at some level and classify the resulting groups as 'dependent' and 'non-dependent'; indeed, such a procedure may serve to divert attention from the real and immediate socio-political pressures upon particular LDCs, which may emanate from points along the scale quite unrelated to the simple centreperiphery schema. (Consider, for instance, the emerging role of Brazil in Latin America, or of Iran in the Persian Gulf.)

Let us now consider economic characteristics. The most commonly mentioned characteristics of dependence are: (i) a heavy penetration of foreign capital, (ii) the use of advanced, foreign, capital-intensive technologies in a relatively small industrial sector, (iii) specialisation in exports of primary commodities or labour-intensive manufactures, (iv) élite consumption patterns determined by those of the advanced countries, (v) 'unequal exchange', in various senses, and (vi) growing inequalities in income distribution, and rising unemployment ('marginalisation'), especially in urban areas.

As with non-economic characteristics, it is extremely difficult to define a state of dependence on this basis. While most LDCs may exhibit some or all of these features, some economies which are classified as non-dependent also show some characteristics of dependence, while some which are accepted to be dependent do not. Let us take them in turn.

(i) It is true that foreign capital is massively in evidence in many LDCs, and even where it is not (e.g., India) it may plausibly be argued that domestic capitalists are relying more and more on foreign capital and technology to support their expansion. In fact, we may accept the general proposition that *all* countries, developed or otherwise, which remain within the capitalist ambit or which, like some Eastern European

10

countries, come to demand capitalist patterns of consumption and technology, will be increasingly dominated by 'international capital' (i.e., MNCs, perhaps from a wider range of home countries, even including some LDCs, or with more dispersed ownership than at present). The dominance of foreign capital does not, however, provide a criterion of dependence: Canada and Belgium are more 'dependent' on foreign investments than are India or Pakistan, yet they are presumably not in the category of dependent countries. The relative economic dominance of MNCs does not seem to vary on a consistent basis between dependent and non-dependent countries: Europeans complain just as much about the 'American challenge' as do nationalists in LDCs, though perhaps with much less cause.

It may be argued that LDCs have to pay much more heavily for foreign investments (openly in the form of declared profits or in the form of royalties or transfer pricing), and this may signify dependence. I agree that the rate of profit is probably higher in many LDCs than in developed areas, and that this indicates greater market power on the part of MNCs operating there. However, in view of the fact that particular oligopolistic firms (like Xerox) earn extremely high profits in all areas of their operation, and that developed countries are just as liable to transfer-pricing practices (as with the UK and the Swiss pharmaceutical firm Hoffman La Roche), it again seems unlikely that this can serve as an analytical basis for determining dependence. The same reasoning applies to the dependence argument that foreign capital always 'takes out more than it puts in'. In particular circumstances political 'unrest' or nationalist threats—MNCs certainly do use various means to ship enormous sums out of host LDCs. This should not, however, obscure the concomitant fact that in other circumstances right-wing regimes, good market prospects and open door policiesforeign capital may flow in very rapidly and profits may be mostly reinvested. One of the most significant facts in this context is, as a leading business journal notes, that

US firms are losing their enthusiasm for investment in Europe. Its inflation, its political instability, its growing socialisation of the economy, its need to import raw materials: all are combining to make US companies look elsewhere for growth opportunities. . . . In the future, predicts John Ross, a Bank of America vice-president, US investors will increasingly favour the relatively rich and hospitable developing countries, mainly Brazil, Nigeria, Indonesia, Iran, Venezuela and Mexico. 12