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Definitiveness and Operationality of Dissociation

by Jörn Altmann, Stuttgart*

While the traditional export promotion and import substitution strategies have largely failed to boost development in the Third World, rigorous dissociation from the industrialized countries cannot be regarded as a realistic strategy either. More promising seems a combination of partial dissociation from the North and increased cooperation between the developing countries themselves.

Delinking or dissociation theorists have largely based their arguments on the conclusions of the dependency theory which was initially developed by Latin American authors and which is rooted in many aspects in imperialism theory.¹ The "dependencia" theory covers a wider range of issues than predominantly economic ones and is essentially a political approach. In a nutshell, it states that the former colonial dependency of the developing countries (DCs) has been substituted today by a similarly asymmetric economic, political, social and cultural dependency on the industrialized countries (ICs).² This has led to distorted and deformed socio-economic developments reflected by the well-known phenomenon of dualist structures in DCs.

The dissociation theory consequently opposes traditional development strategies intending to integrate the DCs more intensively than at present in North-South trade relations. Such strategies would principally aim at developing export-oriented industries in order to expand the export basis of DCs mainly producing primary goods (export diversification). Yields from exporting primary goods are grossly inadequate to finance the import needs of DCs since primary goods (a) face an income-inelastic demand on the world market and (b) are subject to considerable fluctuations of prices, while import needs and prices are continually rising, due to a large extent to the inflationary increase in crude oil prices. The result is a huge overall deficit in the balance of current accounts of all oil-importing DCs (and some oil-exporting DCs as well) since the gap between export earnings and import bills is only to a very small extent narrowed by transfers from ICs.³ This

is why DCs have no choice but to raise loans unless they agree to let their development progress depend on stagnating export earnings, as the opponents of the so-called motivated balance of payments theory obviously wish to suggest they should do.⁴

The dependency theory is right in pointing out that the relations between DCs and ICs are of an asymmetric nature: the buyers of the DCs' primary goods are mostly ICs who in turn produce the goods needed to promote development in DCs. Necessary loans to finance imports are more or less exclusively raised in ICs (with the recently increasing exception of OPEC-creditors), and such credits are usually subject to conditionality and strict security criteria. No analogous dependency in terms of either finance or goods is to be identified on the ICs' side, apart from their depending on crude oil

¹ The vast literature on this subject has been amply evaluated by F. Bonilla, R. Girling (eds.): *Structures of Dependency*, Stanford 1973, by T.T. Evers, P. von Wogau: 'Dependencia': Lateinamerikanische Beiträge zur Theorie der Unterentwicklung ('Dependencia': Latin American Contributions to the Theory of Underdevelopment), in: *Das Argument*, No. 15, 1973, or by H.C.F. Mansilla: *Entwicklung als Nachahmung. Zu einer kritischen Theorie der Modernisierung (Development as Imitation. Towards a Critical Theory of Modernisation)*, Meisenheim 1978.

² Cf. in this context G. O'Donnell, D. Linck: *Dependencia y autonomía. Formas de dependencia y estrategias de liberación (Dependency and Autonomy. Forms of Dependency and Strategies for Liberation)*, Buenos Aires 1973, or O. Sonaike, B. Olowoporoku: *Economic Dependence. The Problem of Definition*, in: *Journal of Asian and African Studies*, No. 14, 1979.

³ Cf. J. Altmann: *Liquidity Problems of Developing Countries and the IMF-System of Facilities*, in: *Economics*, No. 23, 1981, for more details.

⁴ Cf. H. Willgerodt: *Die "motivierte Zahlungsbilanztheorie" — Vom "schicksalhaften Zahlungsbilanzdefizit" und der Unsterblichkeit falscher Inflationslehren (The "Motivated Balance of Payments Theory" — On the "Fateful Balance of Payments Deficit" and the Immortality of Incorrect Inflation Theories)*, in: H. Gröner, A. Schüller (eds.): *Internationale Wirtschaftsordnung (The International Economic System)*, Stuttgart, New York 1978. Nobel-prize winner von Hayek has recently expressed similar views. Cf. *Wirtschaftswoche*, No. 11, 1981.

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supplies. Oil-exporting DCs, however, lie in general beyond the realm of the dependency approach.

Traditional strategies to better the DCs' position in this asymmetric relationship are export promotion on the one hand and import substitution on the other. Export promotion has been successful in the case of a few DCs ("Newly Industrializing Countries"), however not as a general strategy to boost development. In addition to the problems related to exporting primary goods outlined above, export diversification, i. e. exporting semi-finished and finished industrial goods (a) would imply goods which could compete on the world markets in terms of both quality and price, and (b) is hampered by protectionist measures on behalf of the ICs who seek to block off unwelcome competition, given their own problems of recession and unemployment.

Import substitution, on the other hand, means setting up domestic industries producing goods hitherto imported, hence aiming at reducing the need for international liquidity. More often than not such strategies have produced adverse effects since establishing industrial facilities entails import-pulls with regard to raw materials, production goods, skilled labour, etc. Consequently, the failure of traditional strategies to speed up development in DCs provides the background to dissociation theories. In its rigorous version dissociation theory says that the DCs should refrain from striving to integrate into North-South (dependency) structures but should on the contrary delink themselves from such distorting influences and form cooperative associations amongst themselves (South-South integration). Delinking is thus not to be seen as pursuing a policy of national autarchy. Senghaas, who summarizes dissociation arguments put forth by other rigorous delinkers, says: "While North-South trade will have to be drastically reduced and delimited to selective cooperation as defined above in qualitative terms, there would be no principal objection to creating horizontal trade structures between periphery economies of the same or a similar level of development, especially in the same continental, regional, or subregional context."⁵

Definitiveness of Dissociation

On the other hand, the delinking thus suggested is meant to be definitive. There is no reference to (re-) integrating DCs in North-South structures following dissociation, on the contrary: "Integration or re-integration into the world market has almost no prospect of lasting success, despite the relatively favourable political conditions for such purpose given today."⁶ This is underlined by another statement tying in with the

foregoing: "As the economies of the Third World, taken altogether, dispose of all resources necessary for their development, they would have the chance to develop their economies related to each other, i. e. complementary. Dissociation does thus not imply an autarchistic development process."⁷

We have come across the opinion that such dissociation was not meant to be definitive since the DCs should form associations. Of course delinking does not preclude any future form of cooperation or integration between countries. However, "integration" has a very specific meaning in the context of today's development policies and strategies and relates primarily to North-South integration.

Favouring integration between DCs or, more generally, between countries of a specific, that is socialist, orientation⁸ underlines that delinking DCs from the ICs would be definitive. Today's ICs could join the club only when adapting their socio-economic systems to the requirements of the aspired "really new international economic order". This view is criticized, among others, by Díaz-Alejandro: "The basic argument for delinking is political. . . . The links are said to reduce national autonomy. What is disliked on political grounds is then damned with economic arguments which, regardless of their motivation, may or may not be sound or quantitatively important. . . . The economic models expounding these views (the unequal-exchange thesis, the author), while often murky, have gained popularity,

⁵ D. Senghaas: *Weltwirtschaftsordnung und Entwicklungspolitik. Plädoyer für Dissoziation (The International Economic Order and Development Policy. A Plea for Dissociation)*, Frankfurt 1978, p. 278.

⁶ *Ibid.*, p. 172.

⁷ Cf. D. Senghaas: *Industrieverlagerung — Absage an eine neue Enklavenbildung (The Relocation of Industry — A Challenge to the Building of New Enclaves)*, in: *Entwicklung und Zusammenarbeit*, No. 7/8, 1977, p. 14.

⁸ Cf., e.g., F. H. Cardoso: *Imperialism and Dependency in Latin America*, in: F. Bonilla, R. Girling: *op. cit.*; F. H. Cardoso, E. Faletto: *Dependencia y desarrollo en América Latina (Dependency and Development in Latin America)*, Mexico 1969; A. G. Frank: *Lumpenbürgesía: Lumpendesarrollo (Lumpen-bourgeoisie: Lumpen-development)*, Mexico 1971; A. Quijano: *Dependencia, cambio social y urbanización en Latinoamérica (Dependency, Social Change and Urbanization in Latin America)*, in: F. H. Cardoso, F. C. Weffort (eds.): *América Latina: Ensayos de interpretación sociológico-política (Latin America: Attempts at a Socio-political Interpretation)*, Santiago de Chile 1970; C. dos Santos: *Dependencia y cambio social (Dependency and Social Change)*, Santiago de Chile 1970. Exceptions are H. Jaguaribe: *Dependencia y autonomía en América Latina (Dependency and Autonomy in Latin America)*, in: Jaguaribe, Ferrer, dos Santos, Wionczek: *La dependencia político-económica de América Latina (The Political-economic Dependency of Latin America)*, Mexico 1970; *Condiciones políticas del desarrollo latinoamericano (The Political Conditions of Latin American Development)* by the same author in: F. H. Cardoso, F. C. Weffort: *op. cit.*; or O. Sunkel: *El subdesarrollo dependiente en América Latina (Dependent Underdevelopment in Latin America)*, in: C. Naudón (ed.): *América 1970. Servidumbre o independencia en la presente década? (America 1970. Servitude or Independence in the Present Decade?)*, Santiago de Chile 1970, who favour capitalist models.

even among many who have no idea what is in them.”⁹ It is particularly in this aspect that the rigorous dissociation theory has been further developed into theories of partial or selective delinking on which we shall comment later.

Operationality of Dissociation Theories

The second decisive question is whether arguments put forward in favour of dissociating the DCs from North-South relations are operational or not. In our opinion rigorous delinking theories cannot claim to be development strategies. We do not know of viable, i. e. operational suggestions as to how the recommended dissociated final state should be reached. There is a wide gap between the analysis of the dependency theory as to why and how DCs and ICs are asymmetrically linked, and the presentation of a desirable better state. The gap would have to be filled by an analysis of realistic political action. We cannot believe that any such theory would seriously suggest breaking existing North-South ties entirely as of tomorrow, though this is more or less explicitly suggested e. g. by Frank and others (cf. footnote 8) who advocate an immediate change to complete socialism without a transitional phase.¹⁰

This is why the Listonian argument of customs protection claimed by dissociation theorists is not applicable. Dissociation is to be interpreted as “autocentric development” in the sense of “collective self-reliance” and is thus based on the development of domestic markets, while the argument of customs protection relates to developing export-oriented industries capable of keeping abreast of initially stronger competitors and aims at re-integration into the world market. Since rigorous dissociators place an ideologically founded (socialist) vision against the existing structure of international relations (which, no doubt, are distorted and of an asymmetric, one-sided

nature), without presenting a dynamic model of how this end could be achieved, their argumentation is just as comparative-static as the traditional neo-classic foreign trade theory which is (rightly) criticized by the same dissociation theorists for exactly this reason. Their analyses are usually limited to elaborating the conditions which the aspired new state would have to meet, such as restructured production and consumption patterns and absence of (capitalist) external domination. If delinking or dissociation theories were “strategies”, emphasis would have to be placed, however, on operational issues such as prerequisites, both political and economic feasibility, probability, and the consequences of such policies. Every now and then one comes across a casual remark that such aspects ought to be considered too¹¹, but the point is not further pursued.

We agree with Díaz-Alejandro who says: “Many delinkers and dependency theorists are more interested in articulating a viable ideology for radical change than in setting forth a testable hypothesis or specific policy proposals”¹². And Mansilla¹³ deplores that the empirical and statistical basis presented is scanty, serving only to illustrate assertions made. Superficial remarks relating to socio-economic and political consequences and prerequisites should not be mistaken for a sound operational development strategy, especially since the underlying dependency analysis is monocausative in the sense that it relates development deficiencies in DCs in a normative way to the domination by colonial powers or ICs. This is why rigorous delinking is viewed by its proponents to be the one and only means of overcoming “underdevelopment” which seems to be measured solely against the economic performance of the ICs. Dissociation may or may not liberate DCs from external

⁹ Cf. C. F. Díaz-Alejandro: Delinking North and South: Unshackled or Unhinged?, in: A. Fishlow, et al. (eds.): Rich and Poor Nations in the World Economy, New York 1978, p. 97.

¹⁰ Cf. summary in T. T. Evers, P. von Wogau: op. cit.

¹¹ H. Jaguaribe: Condiciones políticas del desarrollo latinoamericano (Political Conditions of Latin American Development), in: F. H. Cardoso, F. C. Weyffort: op. cit., is a rare exception examining at least the prerequisites of changing dominance-subordination structures.

¹² Cf. C. F. Díaz-Alejandro: op. cit., p. 109.

¹³ Cf. H. C. F. Mansilla: op. cit., p. 63 f.

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domination. This would, however, be merely a necessary, but not a sufficient condition for development. Dissociation theories are of no help when the question is asked: and what comes after dissociation? Repeatedly describing the ends without presenting the means is not enough.

Selective Dissociation

Our criticism, to be sure, relates to the rigorous version of dissociation theory. This should be clearly distinguished from more realistic approaches which one would label temporary, partial, or selective dissociation theories. These maintain the view that in principle, North-South relations should not be broken off completely. DCs should delink in selected fields from ICs, above all in specific trade relations, and seek to cooperate more among themselves, forming associations of a complementary structure. This might also lead to political integration but – and this is the essential difference from rigorous delinking – with the maintenance of external trade relations apart from those spheres in which South-South trade could substitute for North-South relations. This would also include trade relations with countries with different or even contradictory socio-economic systems.

There are many examples of such partial regional cooperation which range from rather loose arrangements, free trade zones, customs unions, economic communities or common markets and currency unions to more or less political groupings.¹⁴ Some of them are primarily export-oriented (e. g. the ASEAN), i. e. aiming at integration into world trade; others are more distinctly oriented towards internal development, but as far as we can see there is no example of cooperation between DCs which follows the aims of generally withdrawing from today's international division of labour¹⁵. Many attempts at South-South integration have failed while those existing are either stagnating or cannot come up to expectations.

Reasons for Disintegration

The main reasons for the observable tendency to disintegration in present and former regional cooperation arrangements between DCs may be summarized as follows:

□ First of all there is the partner countries' heterogeneity as regards level of industrialization and development, size and population, as well as political aims. The latter has more often than not led to open political (East African Community, Andean Pact) or even military conflicts (Central American Common Market).

□ In many cases the member countries are not prepared to pursue a supranational economic policy oriented towards regional development which may require them to relinquish individual interests. Naturally this proves to be the more difficult the more heterogeneous the partners are and the more unequally advantages and disadvantages are shared. This is made evident by attempts to implement joint ventures and regional development and investment planning (Andean Pact, ASEAN) in order to benefit from regional advantages, to avoid duplication of investments, and to yield economies of scale. In most cases, such planning remained paper work.

□ Only too often the partners' economic structures are of a substitutive nature, i. e. the individual countries are competing on the regional or domestic or world markets. In this case intraregional trade creation and the corresponding integration effects are rather limited, even more so since the aspired reduction of tariff and non-tariff trade restrictions is not realized due to protectionist reasoning.

□ A further impediment is constituted by an insufficient infrastructure, especially with regard to transportation systems, which are of utmost importance for intra-regional trade, and to skilled labour requirements.

□ Among other things, regional cooperation aims at saving international liquidity, and this objective can only be achieved if the partners do not insist on payments in convertible currency among themselves, as is frequently the case.

□ In the course of individual as well as regional import substitution inflationary tendencies are common. This is compensated only in those countries benefitting from induced increases in national income because of existing or accruing trade advantages.

Generally speaking, tendencies to disintegration stem from the fact that some countries are faced with the negative effects of integration but do not benefit to the same extent from positive effects of intra-regional developments. From their point of view the previous dependency on ICs may be replaced by a possibly equally asymmetric intra-regional dependency on stronger partner countries.

¹⁴ It may however be assumed that some of those groupings have been labelled free trade zones or common markets because of preferential treatment within the GATT-rules.

¹⁵ On the national level the People's Republic of China, or Albania following China's model, might be considered examples of an attempt to dissociate from international trade relations. China, however, seems to have deviated considerably from this development strategy in the recent past.

The foregoing considerations lead us to the conclusion that avoiding the defects and misdevelopments identified so far is a necessary, but not sufficient precondition for the success of regional cooperation. Some preconditions for successful South-South integration derived from the empirical performance of cooperation arrangements between DCs are listed below. They need not be fulfilled *a priori*, but at least they should be met with in the course of time.¹⁶

Preconditions for Success

- The level of industrialization and development of the partner countries should be as equal as possible in order to avoid internal dependencies and disproportionate distribution of the positive and negative effects of integration.
- The partners should aim at pursuing widely homogeneous regional (economic) policies or at least be able to agree on partial regional programmes.
- The structures of production should be as complementary as possible, notwithstanding the necessity of avoiding asymmetric buyer-supplier relations as is the case in present North-South trade.

¹⁶ The specific preconditions for import substitution or export diversification are not considered here since they are analogously applicable to national and regional policies. Cf. also G. S. Peñaherrera: Viable Integration and the Economic Co-operation Problems of the Developing World, in: Journal of Common Market Studies, No. 19, 1980.

- The intra-regional relations must neither be impeded by infrastructural deficiencies nor by conflicts between the states.

Based on the results of both North-South and South-South integration policies it is our conclusion that the DCs will benefit most from a combination of integration and so-called dissociation strategies. We consider rigorous dissociation to be absolutely unrealistic and unfeasible, and we know of no argument that could convince us of the contrary. Partial dissociation and North-South integration are, however, compatible and not mutually exclusive. The DCs should aspire to benefit from integrating into a more substitutional international division of labour, but should at the same time make use of the advantages of complementary regional cooperation. Liberalizing trade will now, as before, play a dominant role within such a procedure¹⁷, and the industrialized countries will not be in a position to ignore the necessity of structural changes in world trade in favour of the developing countries, though their own economic problems will not support their readiness to do so. In any case, the developing countries will be in a better position to pursue their specific interests when acting as a group rather than individually. In this sense, they may well become a more influential "countervailing power" than at present.

¹⁷ Cf. for trade liberalization among DCs R. J. Langhammer: Multilateral Trade Liberalization among Developing Countries, in: Journal of World Trade Law, No. 19, 1980.

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