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# Underdevelopment through Isolationism?

## Dependency Theory in Retrospect

by Hermann Sautter, Frankfurt\*

Until the mid seventies the dependency theory could be relied upon to stimulate lively debate, but nowadays it seems to arouse little interest. There are several reasons for this, a fundamental one being the fact that many of the central tenets of dependency theory have since had to be qualified, to some extent as a result of empirical studies by the theory's proponents themselves. This article examines the modification of certain aspects of the theory, such as its claim to explain underdevelopment and its recommendations as to the development strategy to follow.

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The dependency theory, which in fact never was a "theory" in the true sense of the word,<sup>1</sup> as some of the authors who initiated the dependency debate have emphasised,<sup>2</sup> claims that underdevelopment can be explained better in terms of "exploitation and dependency" than by means of the modernisation approach. The strategy recommendation states that no independent development is possible without severing the economy's links with world markets. It has now become clear that such a form of development can also be achieved by gearing the economy towards foreign trade. In some cases "delinking" may bring economic success,<sup>3</sup> but in many cases it has helped perpetuate underdevelopment. Inquiry into the reasons for the different effects of integration and delinking reveals causal relationships that traditionally fall within the purview of modernisation theory. Re-examination of the central tenets of dependency theory in the light of the practice of developing countries therefore leads surprisingly to an upgrading of the modernisation theory approach; it should be noted, moreover, that this theory has not remained unchanged since the fifties but has continued to evolve,<sup>4</sup> partly as a result of the dependency debate.

The exploitation thesis has a prominent place in the literature on dependency, which asserts that the international exploitation of developing countries can take direct or indirect forms. The open or covert transfer

of profits by foreign investors in developing countries, thereby "decapitalising" them, constitutes direct exploitation.<sup>5</sup> Indirect exploitation relates to the deterioration in the terms of trade of developing countries and unequal exchange between developed and underdeveloped economies.<sup>6</sup> The two forms of exploitation frequently overlap in the literature on dependency.

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<sup>1</sup> Gabriel Palma: *Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?*, in: *World Development*, Vol. 6, Oxford 1978, pp. 881-924.

<sup>2</sup> Fernando Henrique Cardoso: *The Consumption of Dependency Theory in the United States*, in: *Latin American Research Review*, No. 12, 1977.

<sup>3</sup> North Korea is cited as an example in the literature on dependency. Cf. Rosemarie Juttka-Reisse: *Agrarpolitik und Kimilsungismus in der Demokratischen Volksrepublik Korea. Ein Beitrag zum Konzept autozentrierter Entwicklung*, Königstein/Ts., 1979.

<sup>4</sup> Cf. Dieter Nohlen: *Modernization and Dependence. An Outline and Critique of Competing Theories*, in: *INTERECONOMICS*, 1980, No. 2, pp. 81-86.

<sup>5</sup> See for example Fernando Henrique Cardoso: *Estado y Sociedad en América Latina*, Buenos Aires 1973, p. 211; Theotonio Dos Santos: *Dependencia económica y cambio revolucionario en América Latina*, Caracas 1970, pp. 90 f.; André Gunder Frank: *Capitalism and Underdevelopment in Latin America*, New York 1969, passim; Heinz Rudolf Sonntag: *Der Staat des unterentwickelten Kapitalismus*, in: *Kursbuch* 31, May 1973, p. 178.

<sup>6</sup> Cf. for example Ruy Mauro Marini: *Die Dialektik der Abhängigkeit*, in: Dieter Senghaas (ed.): *Peripherer Kapitalismus. Analysen über Abhängigkeit und Unterentwicklung*, Frankfurt am Main 1974, pp. 98-136; Oscar Braun: *Wirtschaftliche Abhängigkeit und imperialistische Ausbeutung*, in: Dieter Senghaas, op. cit., pp. 137-154; References to the question of direct exploitation are to be found in D.F. Maza Zavala: *Los mecanismos de la dependencia*, Caracas 1973; Jesus A. Bejarano: *El capital monopolista y la inversión norteamericana en Colombia*, Bogota 1972; A. Emanuel: *Unequal Exchange. A Study of the Imperialism of Trade*, London 1972.

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Seen in a superficial way, there is much evidence to support the claim of "direct" exploitation. The annual balance between outflows of foreign exchange as a result of the transfer of profits and inflows in the form of direct investment is negative for many countries, goods imported by the subsidiaries of transnational companies are underinvoiced and exports frequently overinvoiced and developing countries appear to be charged more for the use of new technology than the rates for technology transfer between industrialised countries.<sup>7</sup> However, there now appears to be agreement that these may be *additional* obstacles to independent development but not the root causes of underdevelopment. The emphasis laid on this variant of the exploitation thesis in the early stage of the dependency debate cannot be justified. Moreover, many aspects of the argument do not stand up to critical examination.<sup>8</sup> For example, a deficit between transferred profits and new investment does not necessarily signify "decapitalisation". First, it is not certain whether the profits have been realised in the country concerned or abroad; in the latter case, which probably applies in particular to exports of raw materials, it is difficult to speak of "decapitalisation" of the domestic economy. Secondly, the assertion does not take account of the other components of value added that remain in the domestic economy. Even if profits are transferred entirely abroad, domestic factor incomes and tax receipts are generated that may not have arisen without foreign investment.

The claim of having explained underdevelopment in terms of "indirect" exploitation must also be qualified. The change in the developing countries' terms of trade was not uniform.<sup>9</sup> Instead of a long-term falling trend, there appear to be medium-term cycles that affect each country differently. Moreover, the causes of a deterioration in the terms of trade may differ widely, and not every cause can be interpreted automatically as "exploitation". Apart from that, the calculation of reliable statistical data is fraught with problems (choice of a suitable base period, how to treat transport costs, changes in product grades, changes in the composition of the basket of goods, and so forth). Finally, the theory

of "unequal exchange" has proved of little use, on both theoretical and empirical grounds.<sup>10</sup>

It is therefore hardly surprising that the exploitation thesis faded into the background in the late phase of the dependency debate. Much greater emphasis was laid on "structural dependency",<sup>11</sup> the assertion that the developing countries' dependence on other countries is rooted in the economic, social and political structures of a country as a result of foreign domination that began in the colonial period and continued after political independence. It is expressed in the foreign-oriented style of consumption of the upper classes, their collaboration with transnational enterprises, the lack of an indigenous capital goods industry, the lack of continuity between domestic sectors of the economy or compartmentalisation of the labour market. Foreign dependence was so to speak "internalised" and therefore became a characteristic feature of hamstrung economies that have no development impetus of their own but depend on that of the dominant countries.

This structuralist variant of the dependency theory is on firmer ground than many forms of the exploitation argument. It cannot be denied that the colonial domination of areas that we now call "developing countries" caused lasting damage to the economic and social fabric of these countries and created obstacles to development that still persist today. There are many examples of this. Take for example the decline of the textile industry in Indonesia as a result of the importation of textiles imposed by the Dutch. It was not because they were unable to withstand free market competition owing to "comparative cost disadvantages" that domestic producers went out of business; their disappearance was more the result of restrictions imposed on their activities by the colonial power and the simultaneous granting of privileges to importers.<sup>12</sup> The disastrous effects of Great Britain's colonial policy on craft industries in British colonies are also well known, and one need not delve into the literature on dependency to find mention of them. Even in the last

<sup>7</sup> Constantine U. Vaitsos: *Transferencia de recursos y preservación de rentas monopolistas*. *Revista de Planeación y Desarrollo* 3/2 (July) 1972, pp. 35-79.

<sup>8</sup> Cf. Jürgen B. Donges: *Außenwirtschafts- und Entwicklungspolitik*, Berlin, Heidelberg, New York 1981; Hermann Sautter: *Unterentwicklung und Abhängigkeit als Ergebnisse außenwirtschaftlicher Verflechtung. Zum ökonomischen Aussagewert der Dependencia-Theorie*, in: Hans-Jürgen Puhle (ed.): *Lateinamerika - Historische Realität und Dependencia-Theorien*, Hamburg 1977.

<sup>9</sup> See Helmut Hesse, Herman Sautter: *Entwicklungstheorie und -politik*, Vol. I: *Entwicklungstheorie*, Tübingen, Düsseldorf 1977.

<sup>10</sup> Alfred Schmidt: *Internationale Arbeitsteilung oder ungleicher Tausch*, Frankfurt am Main, New York 1979.

<sup>11</sup> This proposition is often put forward in conjunction with the exploitation argument. See for example Fernando Henrique Cardoso: *Estado y Sociedad en América Latina*, op. cit., pp. 50, 210 f.; Samir Amin: *Zur Theorie von Akkumulation und Entwicklung in der gegenwärtigen Weltgesellschaft*, in: Dieter Senghaas, op. cit., pp. 71-97; Celso Furtado: *Externe Abhängigkeit und ökonomische Theorie*, in: Dieter Senghaas (ed.): *Imperialismus und strukturelle Gewalt*, Frankfurt am Main 1972, pp. 316-333; Osvaldo Sunkel: *Transnationale kapitalistische Integration und nationale Desintegration: Der Fall Lateinamerika*, in: Dieter Senghaas (ed.): *Imperialismus und strukturelle Gewalt*, op. cit., pp. 258-315; Fernando Henrique Cardoso, Enzo Faletto: *Abhängigkeit und Entwicklung in Lateinamerika*, Frankfurt am Main 1976.

<sup>12</sup> Jochen Röpke: *Die unterentwickelte Freiheit*, Göttingen 1982.

century the North American economist Henry Charles Carey wrote of Great Britain waging "economic war", and supported his claim by reference to official British Government documents: "It is a war to force the populations in all lands to confine themselves to farming, to prevent the multiplication of occupations in other lands, to curb the development of intellectual power."<sup>13</sup>

If the production structure of a country has been distorted for decades or centuries solely to serve the interests of a foreign power, one can hardly expect that "market forces", if left to themselves, will correct the distortion and modify the structure in the direction of the "socio-economic optimum". That would require an extraordinarily high degree of factor mobility, entrepreneurial vision and political stability,<sup>14</sup> attributes that were absent in most of the former colonies. Consequently, where "market forces" were able to operate they tended to consolidate the structural distortions rather than removing them, leading to the situation that the dependency theory describes as "structural dependency".

Internal factors were just as much to blame for these structural distortions as external factors, however. Peru provides a graphic example of this. For several decades after independence the country was almost completely isolated from the world market.<sup>15</sup> That period would have provided an opportunity to lay the foundation of a domestic industrial sector, but the chance was not seized. The country's upper classes showed little understanding for the needs of independent development and lived a life of extravagance more in keeping with mediaeval feudal lords than with capitalist entrepreneurs. The extent of their unscrupulousness and short-sightedness can be judged by the fact that they defrauded the Peruvian Government of part of its revenue from guano exports by falsifying the accounts. In order to secure its revenues, the Government was therefore forced to transfer control of such exports to a French trading company.<sup>16</sup> Relinquishing control to *foreigners* was clearly the only way to prevent exploitation of the state by *nationals*! It may rightly be claimed that this increased the country's dependence on foreigners, but does not the cause lie in the failings of

the country's own elite? What is the point in making out that their ineptitude was a legacy of the colonial past? Does that not legitimise their shortcomings, and is that not also the case if the deficiencies of the ruling classes in developing countries today are still explained in terms of the enduring effects of the colonial legacy? It is certainly no coincidence that the dependency theory enjoys great popularity where mistakes in solving internal problems were particularly blatant.<sup>17</sup>

Research into underdevelopment in the past therefore demonstrates that there is a circular relationship between the shortcomings of internal forces and domination by foreign powers. Without being arbitrary, it is impossible to break this "dialectic of underdevelopment" at a particular point and establish causality. But that is what the dependency theory has long tried to do. For many adherents of the theory it was axiomatic that it was the "exogenous penetration of the societies of the Third World" that had modified the "endogenous factors" in these societies so that they "lost their autochthonous character".<sup>18</sup> The circular process was therefore resolved into straight causality. "Endogenous factors" able to carry out "independent development" in the true sense have therefore ceased to exist. The theory has thus run into a blind alley and at the same time offers a cheap alibi for those who have failed to dismantle the structures of dependence.

It is not surprising that the development policy recommendations of the dependency school were rather insipid, given this long over-emphasis of external factors. Its proponents demanded "delinking",<sup>19</sup> coupled with internal restructuring and co-operation with other developing countries. It was often unclear what individual measures should make up this policy, so that it is difficult to test the soundness of the dependency theory's strategy recommendations in the light of the experiences of individual countries.

In the case of two countries, however, this should not be too difficult. Taiwan and South Korea originally displayed typical features of "structural dependency" and both have followed a strategy of world market integration for many years. Nevertheless, contrary to the assertions of dependency theory, both countries

<sup>13</sup> Henry Charles Carey: *Principles of Social Science*, Philadelphia 1858, quoted in: *Sozialeconomie*, Berlin 1866. Own translation.

<sup>14</sup> Lutz Hoffmann: *Nutzung, Allokation und Akkumulation von Ressourcen im Raum*. Referat auf der Jahrestagung des Vereins für Socialpolitik, 17th-19th September 1984 in Travemünde.

<sup>15</sup> Andreas Boeckh: *Interne Konsequenzen externer Abhängigkeit*, Königstein/Ts., 1979, p. 73.

<sup>16</sup> *Ibid.*, p. 88.

<sup>17</sup> Carlos A. Astiz: *Pressure Groups and Power Elites in Peruvian Politics*, Ithaca N.Y., 1969, pp. 246 f.; see also Joseph Hódara: *La dependencia de la dependencia*, in: *Aportes* No. 21 (July) 1971, pp. 6-15.

<sup>18</sup> Dieter Senghaas: *Vorwort: Elemente einer Theorie des peripheren Kapitalismus*, in: Dieter Senghaas (ed.): *Peripherer Kapitalismus*, op. cit., p. 22.

<sup>19</sup> An exemplary case is made in Dieter Senghaas: *Weltwirtschaftsordnung und Entwicklungspolitik. Plädoyer für Dissoziation*, Frankfurt am Main 1977.

display clear characteristics of independent development. The dependency theory has therefore failed the test on the evidence of South Korea and Taiwan.

### Independent Development through Integration in World Markets?

South Korea and Taiwan were Japanese colonies for decades.<sup>20</sup> The economic structure of both countries was marked by that fact when the Japanese occupation came to an end in 1945. It must be admitted that the influence of the colonial power also had a positive side; in Taiwan, for example, the Japanese had encouraged the formation of co-operative style organisations in rural areas and established a register of agricultural land. Both actions made the subsequent land reform easier. However, at the time of political independence neither Taiwan nor South Korea had their own heavy industry and both were dependent on imports of capital goods, so that they both displayed typical characteristics of the "structural heterogeneity" of dependent economies. Their structural dependency grew even stronger in the first few years after independence. Advisors, military experts and corporations from the USA played a dominant role in the countries' economic and political development. It is therefore hardly surprising that both countries pursued an open door policy towards transnational enterprises and were at pains to maintain a favourable investment climate.

However, this dependence did not prevent South Korea and Taiwan from introducing development policy measures that proponents of development theory always considered necessary and which accord with the concept of self-reliance. One such measure was land reform, which was carried out with active American support. This laid the foundation for the relatively even distribution of income that characterised the two countries in subsequent years. A further measure was the fundamental improvement in the education system, in particular the extension of primary schooling to all sections of the population. The creation of thousands of

small family-run agricultural and commercial businesses would have been practically impossible without this improvement in the level of education. A third measure consisted in the erection of customs barriers to protect infant industries. It cannot be denied that both Taiwan and South Korea initially pursued a policy of import substitution, with the main aim of producing simple consumer goods for the mass market. As elsewhere, this policy reached its limits relatively quickly, but in contrast to other countries Taiwan and South Korea made no attempt to prolong the policy beyond the easy phase, which came to an end in the early sixties. In subsequent years a conscious export strategy was pursued, combined with selective import substitution in certain product groups considered necessary for the development of a diversified industrial sector. The success of this strategy can be gauged by the fact that both countries now export high quality capital goods.

It would be false to claim that this export-oriented strategy did not lead to the development of the domestic market. Specialisation in labour-intensive products in which the two countries *initially* enjoyed comparative cost advantages led to a marked increase in the level of employment, first exhausting the "unlimited supply of labour" (W. A. Lewis) and then permitting substantial real wage increases. For example, between 1960/62 and 1973/75 real wages in South Korea's mining and industrial sectors rose by an average of 5.5 % a year.<sup>21</sup> In the sixties around 80 % of the growth in the country's national product was due to the expansion in domestic demand.<sup>22</sup> Hence, the two countries' remarkable export success should not blind us to the fact that export growth also led to an increase in mass income and to the development of the domestic market; in the process, income distribution in South Korea became rather less equitable than in the fifties, but it was still more balanced than in most other developing countries.

It would be an oversimplification to ascribe the development success of the two countries directly to the export policy pursued since the mid sixties. A series of internal reforms that had been carried out mainly *before* this strategy was adopted created an auspicious environment. The *existing* foreign dependence was clearly not an obstacle to reform. Combined with the orientation towards world markets that was adopted at the end of the relatively unproblematic import substitution phase, the reforms led to the development of the domestic market, the establishment of an

<sup>20</sup> On the development of these two countries see, for example, Alice H. Amsden: Taiwan's Economic History. A Case of Etatism and Challenge to Dependency Theory, in: Modern China, Vol. 5, No. 3, pp. 341-380; Suleiman I. Cohen: Industrial Performance in South Korea: A descriptive Analysis of a remarkable Success, in: The Developing Economies, Vol. XVI, December 1978, No. 4, pp. 408-433; Larry E. Westphal: The Republic of Korea's Experience with Export-led Industrial Development, in: World Development, Vol. 6, No. 3, 1978, pp. 347-382; D.C. Rao: Economic Growth and Equity in the Republic of Korea, in: World Development, Vol. 6, No. 3, 1978, pp. 383-396; Larry L. Wade, Byong Sik Kim: Economic Development of South Korea, New York 1978; Hermann Sautier: Die Wachstumszentren in Südostasien. Hongkong, Singapur, Taiwan, Südkorea, in: Wolfgang Wagner et al. (eds.): Die internationale Politik 1981-1982, Munich 1984, pp. 348-358.

<sup>21</sup> Larry E. Westphal, op. cit., p. 375.

<sup>22</sup> Suleiman I. Cohen, op. cit., p. 412.

indigenous capital goods industry and increasing integration between agriculture and industry, characteristics typical of independent development as demanded by the dependency school.

Admittedly, South Korea and Taiwan are particularly successful examples of countries pursuing a development strategy open to world markets, but they are not the only countries in this position. One is tempted to ask *whether their experiences are universally applicable*. To answer that question presupposes that a fair number of countries can be classified according to their degree of integration in the world market and that there are meaningful indicators of their success with an independent development strategy. In view of the vagueness of important concepts of the dependency theory and the problems this poses for an empirical examination of its claims, it is impossible to give more than a cautious reply. Some indications are given in the studies by Jagdish Bhagwati<sup>23</sup> and Anne O. Krueger,<sup>24</sup> who find that growth rates and levels of employment are generally higher in open economies than in closed ones. In countries oriented towards the world market the price mechanism is better able to reflect relative scarcities and hence to bring about an efficient allocation of resources than in countries that have been cut off from international competition for a fairly long period. As a result, capital productivity is higher in open economies, so that the population is called upon to make smaller sacrifices in terms of foregone consumption in order to achieve particular growth targets.

To summarise, a development strategy oriented towards world markets does not guarantee independent development; the key to that lies primarily in measures in the domestic market, including a more even distribution of growth-creating wealth. However, such measures can also be implemented in conditions of "dependency", as the examples of South Korea and Taiwan have shown. If the necessary domestic restructuring is carried out, a country is more likely to achieve the aims of independent development if it integrates into world markets than if it cuts its industry off from international competition beyond the stage of easy import substitution.

### Underdevelopment as a Result of Delinking?

In the past, many developing countries have adopted a more or less marked inward-looking strategy. In almost no country was it as extreme as in Burma between 1960/62 and 1974/75,<sup>25</sup> when the country's economic, cultural and political relations with the outside world were restricted to the necessary minimum. Economic motives were neither the only nor

the prime reason. The policy of self-isolation expressed a deep-rooted rejection of all "Western" influence, a reaction to alienation under British colonial rule and the country's geopolitical situation, which U Nu, the former Prime Minister, likened to that of "the tender pumpkin between thorny cacti".<sup>26</sup>

The policy of isolation was accompanied by internal restructuring. The first of the measures was agricultural reform giving farmers the right to use state-owned land. A further component of the policy was the sweeping nationalisation programme, which extended to almost all non-agricultural activities. Private enterprise was to be restricted to handicrafts and small businesses. The banking system, foreign trade, wholesale distribution, part of the retail trade and industrial plant were taken into public ownership. The political leadership clearly hoped that these measures would give it the means of achieving its economic objectives. The establishment of central planning authorities was a third important element in the development policy, although it should be noted that in practice the planning boards were far removed from the textbook models for a "centrally planned economy".<sup>27</sup>

Burma's economic development up to the mid seventies, when a number of economic policy changes were made and the country began cautiously to open its doors to the outside world, can hardly be called a success. Agricultural production stagnated; for example, rice production barely rose between 1940/44 and the beginning of the seventies, although the population doubled over that period. The result was a serious decline in rice exports. Whereas in 1940/41 exports had amounted to 3 million tons, in 1974/75 they were down to only 366,000 tons.<sup>28</sup> As rice is still the country's main export, the decline in the trade surplus led to a shortage of foreign exchange that caused bottlenecks in the procurement of raw materials, semi-finished products and spare parts, so that existing

<sup>23</sup> Jagdish N. Bhagwati: *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes*, Cambridge, Mass., 1978.

<sup>24</sup> Anne O. Krueger: *Trade Regimes and Economic Development: Liberalization Attempts and Consequences*, Cambridge, Mass., 1978; Anne O. Krueger: *Trade and Employment in Developing Countries*, 3: *Synthesis and Conclusions*, Chicago, London 1983.

<sup>25</sup> Klaus Fleischmann: *Birma zwischen der Sowjetunion und der Volksrepublik China. Berichte des Bundesinstituts für ostwissenschaftliche und internationale Studien*, No. 161, Cologne 1977; Mya Maung: *Burma and Pakistan: A Comparative Study of Development*, New York, Washington, London 1971.

<sup>26</sup> Holger Dohmen, Rüdiger Machetzki, Oskar Weggel: *Malaysia – Vietnam – Birma. Drei mögliche Wege für Südostasien?*, in: *Politik und Zeitgeschichte*, Vol. 10, 12.7.1977, p. 34.

<sup>27</sup> Mya Maung, op. cit., p. 135.

<sup>28</sup> Holger Dohmen et al., op. cit., p. 32.

industrial plant could not be run at full capacity. Nor was it possible to import capital goods to meet the investment targets. The inadequate increase in output at a time of comparatively rapid population growth caused a deterioration in the supply of goods. The country's strongly egalitarian policy meant that the shortage was evenly distributed, so that no-one had to go hungry, but there was internal unrest in 1974/75, which was not always quelled without bloodshed.

There are many reasons for the unsatisfactory economic performance up to the mid seventies. The first was the backwardness of agriculture, for which the Government's pricing and quota system was largely to blame. Private farmers were obliged to supply the Government with large amounts of produce at relatively low prices, which had a typical disincentive effect on agricultural output.<sup>29</sup> A second reason was the inefficiency of the state sector: There was a high degree of mismanagement, corruption and wastage in the overgrown bureaucracy, which therefore became a further obstacle to development. Moreover, the all-powerful military rulers quickly grew into a new "state class",<sup>30</sup> with its own privileges and little inclination to allow the people a greater say. Burma's experiences therefore tend to confirm the criticism voiced by those who point to the hindrance of independent development by authoritarian state bureaucracies,<sup>31</sup> rather than the somewhat euphoric view of those who consider an authoritarian socialist regime to be essential in the early stages of a country's development.<sup>32</sup>

A third reason for Burma's poor economic performance is to be found in the country's policy of isolation. Keeping the economy open to the world market could reduce the inefficiency of state enterprises and limit the privileges enjoyed by the state class.<sup>33</sup> Burma deliberately chose another path, that of delinking domestic price formation from international competition. This very rapidly led to price distortions and made efficient resource allocation extremely difficult. On top of this came neglect of the export sector, an aspect typical of a policy of delinking. Many theoreticians of the dependency school appear to assume that income redistribution would greatly reduce import demand, so that sufficient foreign exchange could be released to develop essential industries without making any

deliberate export effort. However, in many countries imports of "luxury goods" have long ceased to be so large that a redistribution of income would save substantial amounts of foreign exchange; moreover, domestic industry's foreign exchange requirement for direct and indirect imports of goods under an egalitarian development strategy is not significantly less than that of a "structurally deformed" industry.<sup>34</sup> Hence, a country seeking independent development rapidly finds itself short of foreign exchange if it does not attempt to diversify and expand its exports. It is not without irony that the very countries that take the road of "self reliance" are frequently the ones to encounter problems of this kind; Burma was a striking example.

The changes in economic policy in the second half of the seventies have now brought about an upturn in activity. The agricultural pricing and deliveries policy has been eased and the country is beginning to open its doors cautiously to the outside world. It can hardly be claimed that this greater openness has come about because the internal structures had developed to the point at which they could be exposed to international competition. The fact that the change of course was made after unrest due to shortages indicates instead that the policy of self-isolation was no longer economically tenable. If it had not been for the extreme policy of delinking pursued over many years, some of the country's economic problems could probably have been solved earlier. Burma therefore stands as an example of a country in which the strict severing of ties with the outside world blocked the process of independent development rather than accelerating it.

The experiences of other countries that have subscribed to a policy of "self reliance", such as Algeria, Tanzania and Sri Lanka, are not very encouraging either.<sup>35</sup> It could be pointed out that these are all countries with small domestic markets in which conditions are unfavourable for such a policy if close co-operation with other developing countries is not

<sup>29</sup> Josef Silverstein: *Burma: Military Rule and the Politics of Stagnation*, Ithaca N.Y., London 1977, pp. 158 ff.

<sup>30</sup> On the role of the military see Moshe Lissak: *Military Roles in Modernization. Civil-Military Relations in Thailand and Burma*, Beverly Hills, London 1976.

<sup>31</sup> See for example Hartmut Eisenhans: *Abhängiger Kapitalismus oder bürokratische Entwicklungsgesellschaft. Versuch über den Staat in der Dritten Welt*, Frankfurt am Main 1981.

<sup>32</sup> Dieter Senghaas: *Von Europa lernen. Entwicklungsgeschichtliche Betrachtungen*, Frankfurt am Main 1982, p. 293.

<sup>33</sup> Hartmut Eisenhans: *Die Überwindung von Unterentwicklung durch Massenproduktion für den Massenbedarf – Weiterentwicklung eines Ansatzes*, in: Dieter Nohlen, Franz Nuscheler (eds.): *Handbuch der Dritten Welt*, Vol. 1, Hamburg 1982, p. 177.

<sup>34</sup> David Morawetz: *Economic Lessons from some small Socialist Developing Countries*, in: *World Development*, Vol. 8, No. 5/6, 1980, pp. 337-369.

<sup>35</sup> David Morawetz, op. cit.; Iris Freytag: *Self-Reliance in Algeria*, in: Khushi M. Khan (ed.): *Self-Reliance als nationale und kollektive Entwicklungsstrategie*, Munich, London 1980, pp. 465-507; Hartmut Eisenhans: *Algerien – koloniale und postkoloniale Reformpolitik*, Hamburg 1977; Rolf Hofmeier: *Tanzania*, in: Dieter Nohlen, Franz Nuscheler (ed.): *Handbuch der Dritten Welt*, Vol. 5, Hamburg 1982.

possible. It is therefore interesting to look at the example of India in this connection. In all its development plans so far, India has pledged itself to the aim of "economic independence" and its policies have been perfectly consistent with that objective. Typical is the fact that the Mahalanobis planning model, which had an enduring effect on the first five-year plans, contained no explicit modelling of the foreign trade sector. The planners clearly assumed that a policy of autarky was not only possible but also desirable.<sup>36</sup> It was in keeping with this doctrine that for many years imports were subject to restrictive bureaucratic control and that the significance of exports for the growth of the economy as a whole was underestimated. Obviously, it is not possible to trace the country's many economic problems back to a single cause, but there are strong indications that the marked "inward-looking strategy", which clearly did nothing to ease the way for radical internal restructuring, contributed greatly to the inefficiency of the economy and therefore impeded development.<sup>37</sup>

The observations made so far can be summarised as follows. "Delinking" cannot be regarded as either a necessary or a sufficient condition for independent development. It cannot be said that independent development can be achieved only by severing links with the world market and there is even less justification in claiming that "delinking" always smooths the way to such development. What matters in both cases is clearly the country's own capacity for development, as manifest in such measures as an improvement in the level of education, changes in the social structure, the modernisation of agriculture, the implementation of independent technical developments, the acceleration of domestic capital formation, and so forth. Where development forces of this kind are active, even extreme forms of external dependence cannot prevent independent development. If they are not present, even isolation from the world market offers no solution; indeed, it exacerbates the existing underdevelopment.

### **The Explanatory Value of a Critical Modernisation Theory**

The development forces in question are factors that have long been the subject of research by advocates of modernisation theory. Hence, many of the questions raised by dependency theory as to the way out of "structural dependency" cannot be answered without reference to the theory of modernisation.

According to modernisation theory, "development" is a multidimensional process in which psychological, intellectual, demographic, social, economic and political

changes are related one to another.<sup>38</sup> In psychological terms, it involves fundamental changes in systems of values, behaviour and expectations. At the intellectual level there is a broadening of knowledge and a change in its content. The demographic aspects include increased mobility of population, urbanisation and increased life expectancy. In social terms, primary groups are supplemented by secondary groups with specific functions. In economic terms it involves capital formation, technical progress, changes in the sectoral structure of production and rising labour productivity, to mention but a few of the relevant aspects. Finally, the political process of modernisation consists in the rationalisation and differentiation of state authority and in increased popular participation in political events. Moreover, "political modernisation involves assertion of the external sovereignty of the nation-state against transnational influences and the internal sovereignty of the national government against local and regional powers".<sup>39</sup>

The last point is particularly important, given the criticism made by the proponents of dependency theory. The nation state is a decisive factor in the process of modernisation, as it has the task of selecting transnational influences and controlling their assimilation. It can be hindered in this function by dependence caused by past or present factors; by drawing attention to this fact so forcefully, dependency theory has done the world a lasting service.

Viewed from the modernisation standpoint, the process of economic development is part of a comprehensive social change, which need not follow the Western pattern at all but must lead to changes in society's systems of values and behaviour if the impoverishment of broad sections of the population is to be avoided. Such changes must aim, *inter alia*, at a more rational use of scarce resources and greater efficiency in state administration. To the extent that criteria for such a rational match between objectives and the resources available have been developed by Western civilisation,<sup>40</sup> a country with continued rapid

<sup>36</sup> Helmut Tischner: Die wirtschaftliche Entwicklung Indiens in den Jahren 1951-1978 unter besonderer Berücksichtigung der Auslandshilfe, Berlin 1980, p. 80.

<sup>37</sup> Jagdish N. Bhagwati, T. N. Srinivasan: Foreign Trade Regimes and Economic Development: India, New York, London 1975.

<sup>38</sup> Samuel P. Huntington: Political Order in Changing Societies, New Haven, London, second printing 1969, pp. 32 ff.; S.N. Eisenstadt: Tradition, Change and Modernity, New York, London, Sydney, Toronto 1973.

<sup>39</sup> Samuel P. Huntington, *op. cit.*, p. 34.

<sup>40</sup> Hugo C.F. Mansilla: Entwicklung als Nachahmung. Zu einer kritischen Theorie der Modernisierung, Meisenheim am Glan 1978.



population growth can withdraw from the influence of this civilisation only at the cost of its own impoverishment.

A critical modernisation theory is more likely to provide pointers to practical development measures than dependency theory was able to do, which was often unable to progress beyond the dichotomy between "delinking" and "integration", at least in Germany. In the real world, development policy does not consist in choosing between extremes of this kind but in seeking intermediate forms that are acceptable to the economy as a whole and suited to the specific conditions of the country in question. The modernisation approach and the traditional foreign trade and

<sup>41</sup> Hermann Sautter: Socio-cultural Aspects of Supply-side Economics for Developing Countries, in: INTERECONOMICS, No. 6, 1983, pp. 278-285.

<sup>42</sup> G. Wilhelm Röpke: Jenseits von Angebot und Nachfrage, Erlenbach, Zurich, Stuttgart, 4th edition, 1966.

development theory have much more to offer in this regard than the proponents of dependency theory would like to admit.

Nevertheless, in the light of a critical modernisation theory, a development policy based on purely economic principles and the belief that the industrial countries' economic programmes and notions of social structures can be transposed unaltered to the developing countries also appears extremely questionable. For example, one glance at the social context of economic development shows that a competitive economic order can be viable only if a number of legal, political and institutional conditions are created.<sup>41</sup> The *ordo-liberal* school was always aware of this.<sup>42</sup> The question of how these conditions can be created in the cultural setting of a developing country is much more pressing than is realised by those who wish to pursue development policy with Friedmanesque concepts.

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## DEVELOPMENT THEORY

# Revival of "Inward-oriented Development"?

## The Economic Policy Stance of the Church in Latin America

by Franz Peter Lang, Bochum\*

**Criticism within the Catholic churches of Latin America of the IMF and its approach to the development problems of the sub-continent has been persistently increasing in recent years. The measures imposed by the IMF, especially those following the payments crisis of 1982 have met with growing opposition. The impression that the churches have adopted a Marxist line on this issue is, however, a superficial one which needs to be examined more closely in the context of the dependencia theory and of recent economic developments in Latin America.**

**D**uring recent years the Latin American churches have been expressing their views more frequently and with greater unity on the burning socioeconomic problems facing the subcontinent. The outward orientation of Latin American economic policies towards the world markets, the "desarrollo hacia afuera", is criticised as a failure. At least under the present conditions its prospects of success are regarded as slim. The advocates of a "desarrollo hacia adentro", an economic and development policy course primarily oriented towards domestic policy objectives and based on regional autarky, can claim growing support.

Bearing in mind the traditional role of the Catholic church as a stabilising factor in this region, this new tone

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must be paid particular attention. Two aspects are especially important when seeking an explanation for this obvious change of opinion regarding development policy. The first is the nature of economic development in Latin America during recent years. The second is the orientation of the majority of Latin American economic theoreticians and policymakers towards the "dependencia" theory, the theory of dependency. We take a closer look below at both these aspects, and also set out to ascertain the economic policy stance of Latin American churches in the conflict with prevailing western economic views (as supported by the International Monetary Fund).

The economic and financial difficulties facing most Latin American countries during recent years and the