

Introduction:

International Interdependence and National Welfare

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I

THIS IS A study in the political economy of human welfare. Within this broad range of concern, we address one central question that is high on the policy agenda of the international community, particularly of its Third World members: by means of what strategies vis-à-vis the international division of labor can countries best achieve significant and sustainable welfare gains for their people? The question itself is hardly new; as we shall see presently, it has been at issue

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at least since the time of the Industrial Revolution, and thanks largely to the so-called North-South Dialogue, the academic literature on the subject in recent years has exhibited some of the characteristics of an emerging growth industry. The combination of three attributes, however, differentiates our study from others that have recently raised the question. First, the papers that follow are "essays in trespassing" that move, reversing Albert Hirschman's formulation, from politics to economics and beyond.¹ Thus, they focus directly on the political correlates of economic strategies. Second, our approach is inductive and comparative, rather than a priori and global, and we draw on the experience of the United States and Western Europe as well as the newly industrializing countries of the Third World.² Finally, wherever possible, we conceive of the welfare effects of economic strategies broadly, to include not only the surrogate

1. Albert O. Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (New York: Cambridge University Press, 1981). In chapter 1, "The Rise and Decline of Development Economics," Hirschman presents a provocative and engaging account of the development economics produced over the course of the past thirty-five years by heterodox liberals—who set themselves apart from neo-classical orthodoxy by rejecting what Hirschman calls the "monoeconomics claim," that is, the claim that advanced industrial and developing economies differed only quantitatively not qualitatively, and that their study therefore necessitated no distinct analytical apparatus. However, this variant of development economics continued to hold to the "mutual benefit" claim, that is, the claim that economic relations between industrial and developing economies can yield benefits for both. For a complementary and equally spirited examination of more thoroughgoing, Third-World-generated deviations from the mainstream, which reject both of the standard claims, see Carlos F. Diaz-Alejandro, "Delinking North and South: Unshackled or Unhinged?" in Albert Fishlow et al., *Rich and Poor Nations in the World Economy* (New York: McGraw-Hill, for the Council on Foreign Relations, 1978).

2. This puts us at odds with the epistemological premise enunciated by Wallerstein and in a sense mirrored in classical liberal thought, that there is no such thing as *national* development in the modern world system, only development of the modern world system. Immanuel Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," *Comparative Studies in Society and History* (September 1974), vol. 16. The similarity to the presuppositions of classical liberalism is pointed out effectively by Robert Brenner, "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism," *New Left Review* (July–Autumn 1977), no. 104.

measures expressed by aggregate and per capita rates of growth, though these of course are important, but also measures that reflect more directly the extent to which the living standards of peoples are actually improving.³

The conclusions of this study are intended to have practical value, in that they suggest the range of viable policy options. But they are also intended to be of theoretical consequence, in that they challenge both the mainstream explanations and the dependency perspective that constitutes the major critical alternative. In view of our own orientation, we are led naturally to emphasize the role of the state, which we find to be far more important than the mainstream believes and more autonomous than the critics allow. But the cases we examine also show that no single policy prescription is fully adequate to answer our central question, and no single theoretical position fully adequate to explain our answers to it. To pretend otherwise is to tread dangerously in the realm of ideologizing—about the magic of the marketplace, the immutable international hierarchy, or the omnipotent state—with potentially deleterious consequences, or opportunities lost, for the very welfare gains that are at stake.

This introductory essay briefly sets the scene for and summarizes the main conclusions of the papers that follow.

3. We adopt this posture because improved living standards are the universally accepted objective of the development process, but growth is not universally accepted as guaranteeing them. As the World Bank has noted, what it calls “human development” (improvements in standards of nutrition, health, education, and so on) directly contributes to growth; however, the contribution of growth to poverty reduction “appears inexact.” IBRD, *World Development Report, 1980*, ch. 4, p. 35. A more elaborate analysis of this relationship by a World Bank official may be found in Norman L. Hicks, “Growth vs. Basic Needs: Is There a Trade-Off?” *World Development* (November/December 1979), vol. 7, which reaches a similar conclusion. Finally, the “Editor’s Introduction” to a volume on poverty and inequality summarizes its main lesson as being “that there is no correlation between either point inequality or changes in inequality and rates of growth.” Paul Streeten, *World Development* (March 1978), 6:212.

II

If the Industrial Revolution can be described as a singularity in its positive transformational effects on how and how well people live, it has also proved to be a unique agency of economic stratification. Differences in international levels of income before the Industrial Revolution were limited; the data are poor and estimates vary, but it seems to have been the case that the richest country was considerably less than twice as well off as the poorest country.⁴ Moreover, until 1750 or so, the average standard of living in Europe was probably a bit lower than in the rest of the world, due to the high level achieved by China, and it had only reached parity by 1800. By the 1830s, however, the gap significantly favored what we now call the developed countries over the present Third World, and it has continued to grow ever since: average living standards in the two regions differed by a factor of two in the 1870s, three by 1900, five in 1950, seven in 1970, and nearly eight in 1977. Today, the real GNP per capita in the "most developed" industrialized countries is nearly thirty times that of the "less developed" of the developing countries.

At about the time that income differentials between the "developed" countries and the "Third World" began to diverge significantly in the 1830s, pronounced though lesser disparities emerged within the group of developed countries as well. Equalization set in before the end of the nineteenth century for the countries that began their development process before 1860.⁵ But it was not until after World

4. This and other figures in this paragraph are taken from Paul Bairoch, "The Main Trends in National Economic Disparities Since the Industrial Revolution," in Bairoch and Maurice Levy-Leboyer, eds., *Disparities in Economic Development Since the Industrial Revolution* (New York: St. Martin's Press, 1981), ch. 1. Bairoch estimates pre-Industrial Revolution income gaps among countries to have been on the order of 1.0 to 1.6, though larger for what he calls "micro-regions" (areas less than 2 million population); inter micro-regional disparities may have been as high as 1.0 to 3.0.

5. Belgium, Canada, Denmark, France, Germany, Norway, Sweden, Switzerland, United Kingdom, United States. Before World War I, four of the eight richest

War II that the poorest of the developed countries experienced a substantial reversal of their relative decline;⁶ and it was only in 1977 that the coefficient of variation in GNP per capita among all developed countries fell back to the level at which it had been in 1840–50.⁷

Very roughly speaking, the domestic inequalities triggered by industrialization have tended to follow similar patterns. Here, the data are of even poorer quality. However, within the industrialized countries, they conform quite well to an inverted “U-shaped” curve first hypothesized by Kuznets, with inequalities increasing in the early stages, and then gradually decreasing. With some exceptions, the experience of the developing countries thus far seems largely to confirm the first part of the hypothesis.⁸

By the mid-nineteenth century, income differentials between “early” and “late” industrializers had triggered yet another disparity: one in theorizing about and formulating

countries were largely nonindustrialized, so that “whether . . . development was concentrated in industry or in agriculture seems to imply no important difference as far as increases in standards of living were concerned” (Bairoch and Levy-Leboyer, *Disparities*, p. 9). W. Arthur Lewis spells out the implications of high agricultural productivity and wages in these countries for the concurrently widening North-South disparities in *The Evolution of the International Economic Order* (Princeton: Princeton University Press, 1977), esp. ch. 3.

6. Bairoch and Levy-Leboyer, *Disparities*, pp. 10–11.

7. *Ibid.*, p. 11, and table 1.5. Note also that the Gini coefficient for the developed countries dropped sharply between 1950 and 1975, from 0.302 to 0.131; Robert Summers, Irving B. Kravis, and Alan Heston, “Inequality among Nations: 1950 and 1975,” in Bairoch and Levy-Leboyer, *Disparities*, ch. 2.

8. For an extensive cross-sectional test, see Montek S. Ahluwalia, “Inequality, Poverty and Development,” *Journal of Development Economics* (1976), vol. 3. There exists no formula that predicts when the reversal commences. Examining the relationship between growth and poverty in twenty-four countries in the nineteenth century, Adelman and Morris found that “the early phases of economic growth appear to have worked systematically to reduce the levels of living of the very poor for periods from several decades to much longer.” Irma Adelman and Cynthia Taft Morris, “Growth and Impoverishment in the Middle of the Nineteenth Century,” *World Development* (March 1978), 6:258. In England and Belgium, two early industrializers, “more than a half a century elapsed before expansionary influences were sufficient to produce either a significant rise in average incomes of urban and agricultural workers or a marked reduction in the incidence of extreme poverty” (pp. 253–54).

policy responses to the effects of the international economy on differential rates of national development. The position of the front-runner was represented by David Ricardo, via his model of the free exchange of cloth for wine between England and Portugal in accordance with their comparative advantage.⁹ At least as it is presented in chapter 7 of the *Principles of Political Economy and Taxation*, from which the received wisdom of orthodox trade theory derives, this specialization entailed no important dynamic implications for growth or development, but simply provided static gains from trade that made both parties better off than they would have been in its absence.¹⁰ Indeed, Ricardo explicitly allowed for the possibility of a role reversal between the two countries, thereby suggesting that no qualitative or structural consequences attended the production of either good. A very different model was advanced by Friedrich List, who spoke for the later European developers, in particular for Germany.¹¹ List contrasted the "true or national political economy" from the purely hypothetical "cosmopolitical economy" of Smith and his followers. Political economy, as he used the term, "teaches how a given *nation* in the present state of the world and its own special national relations can maintain and improve its economical conditions," whereas cosmopolitical economy "teaches how the entire human race may attain prosperity" on the assumption "that all nations of the earth form but one society living in a per-

9. David Ricardo, *Works*, Piero Sraffa, ed. (Cambridge: Cambridge University Press, 1955).

10. However, Ronald Findlay has argued that the Ricardo of pure trade theory "is a pale shadow of the real one." Findlay maintains that the "real" Ricardo is seen more fully in the *Essay on the Influence of a Low Price of Corn upon the Profits of Stock*, where he urged repeal of the Corn Laws not so much for the sake of static gains from trade as dynamic "gains for growth." Findlay's reinterpretation of Ricardo is part of an excellent exposition and analysis of the literature on "Growth and Development in Trade Models," in Peter B. Kenen and R. W. Jones, eds., *Handbook of International Economics* (Amsterdam: North-Holland, forthcoming), from which I have benefited greatly.

11. Friedrich List, *The National System of Political Economy*, New Edition, Sampson S. Lloyd, trans. (London: Longmans, Green, 1904).

petual state of peace."¹² Political economy embodied a theory of productive powers, cosmopolitical economy only a theory of values of exchange. National development required development of national productive powers. For late industrializers, this necessitated deliberate state intervention domestically and the judicious use of external tariffs. To meet an industrially supreme Britain on the grounds of *laissez faire* and free trade, he concluded, would undermine any attempt to build up equally powerful economies by the other European nations, and would relegate them to the status of tributary economies.¹³ However, as Europe as a whole came to specialize in the production of manufactures, the tropical areas, thanks to colonialism of which List approved, would be induced to supply the needed raw materials and agricultural products while serving as a market for manufactured goods. A complementary global division of labor would emerge but it would be hierarchical, because the production of manufactured goods offered increasing returns to scale that could not be reaped by the production of primary products.¹⁴ In sum, where Ricardo saw only quantitative differences between the producers of cloth and wine that free exchange would mutually reward, List stressed qualitative differences that free exchange would exacerbate and that the state, therefore, had to overcome.¹⁵

12. These distinctions are elaborated in List, *National System*, ch. 11; citations at pp. 99, 97, 100; emphasis in original.

13. *Ibid.*, ch. 12.

14. *Ibid.*, ch. 22.

15. For a juxtaposition of the views of Ricardo and List that is unusually sympathetic to the latter by Anglo-American standards, see Marcello de Cecco, *Money and Empire* (Oxford: Basil Blackwell, 1974), ch. 1. Closer to the norm is the sole reference to List in my college Economics 1 text. It appears as part of a longer footnote and reads as follows: "Friedrich List, a German writer of around 1840, is typical of some aspects of romanticism; his arguments for tariffs have carried weight, and some of his nationalistic followers became apologists for fascist economics." Paul A. Samuelson, *Economics*, 5th ed. (New York: McGraw-Hill, 1961), p. 835. De Cecco takes pleasure in suggesting that the inattention paid to List in the Anglo-American literature is matched only by the near-universal adoption of his recipes by what today are the industrialized countries (pp. 12–13).

As noted above, relative income similarity at relatively high levels has been achieved among the industrialized countries. But international as well as domestic income disparities persist between the industrialized and developing countries, and so do disagreements about the relationship between patterns of international interdependence and differential rates of national development. The conjunction of these three facts broadly circumscribes the range of our inquiry.

III

The post–World War II era has witnessed several institutional innovations in the international political economy. In the immediate postwar years, a major effort was undertaken to internationalize public authority in the monetary and trade fields, in the attempt to prevent a recurrence of the international economic disarticulation of the interwar period, and to provide for a stable and growing world economy. The regimes for money and trade that emerged initially made no special provisions for the developing countries. But insofar as the mandate of the International Bank for Reconstruction and Development included concessional lending of investment capital to developing countries, the concept of an international role in the development process was instituted as well. The adequacy and terms of those initial capital transfers became matters of great debate right from the start. Over the course of the next thirty-five years, this debate came not simply to involve questions of aid and investment, but to implicate the regimes for money and trade, and, indeed, ultimately to challenge the very structure of the world economy on the ground that it contributed to rather than alleviated income disparities between the industrialized and the developing countries.¹⁶

16. The evolution from the early SUNFED debates to the NIEO is briefly traced in Branislav Gosovic and John Gerard Ruggie, "The NIEO: Origins and Evolution of the Concept," *International Social Science Journal* (Autumn 1976), vol. 28.

At issue today are the character and scope of what we might call the world development regime.¹⁷ That this concern is being addressed at all itself marks a discontinuity of some magnitude. But the question at the heart of this concern is simply the contemporary, North-South, variant of the same question that has always preoccupied the so-called late industrializers: how closely and on what terms should the developing countries seek to integrate themselves into the world economy in order to maximize their prospects for significant and sustainable welfare gains? Three major contending positions can be identified.

The first position prescribes "outward-oriented" or "export-led" development strategies. Among its advocates is the World Bank: "As a group, the successful [developing] countries have been those which have resisted or overcome the temptation to adopt inward-looking trade policies and to delay transition to greater export orientation."¹⁸ This outward orientation is seen to account for the recent successes of three tiers of developing countries. At the forefront are the newly industrializing or "semi-industrial" countries of East Asia, such as Singapore and South Korea. From being low-income countries in the 1950s, they have transformed their economies to become major exporters of manufactures and are now among the wealthier middle-income countries. A later but similar reorientation of policy in several Latin American countries is said to have brought them to "the stage at which they can begin to shift into more demanding, skill- and technology-intensive areas of production."¹⁹ Lastly, and still further down the rungs of the international division of labor, according to the Bank the outward orientation of certain primary producing countries, like the

17. I take up the notion of regimes more extensively in ch. 9. Simply to restate for the moment the, by now, standard definition, an international regime is a social institution around which actor expectations converge in any given domain of international relations. See Stephen D. Krasner's "Introduction" to the special issue on international regimes of *International Organization* (Spring 1982), vol. 36.

18. IRBD, *World Development Report*, 1981, p. 25.

19. *Ibid.*

Ivory Coast, has led to a deepening and broadening of their agricultural exports that now allows them to move into processing and industrial sectors.²⁰ The reasons advanced for the success of these strategies are simply that an outward orientation increases efficiency in the allocation of resources, competitiveness of goods produced, and flexibility to adapt to the ever-changing opportunities and constraints thrown up by the international economy—including rapid adjustment to the severe external shocks of the 1970s.²¹ The pull of expanding industrial country markets is no longer thought to be as important to the successful middle-income countries as it was in the past; their own competitiveness, entrepreneurship, and exports to third markets all having increased substantially. Nevertheless, the industrial countries are assigned the responsibility of themselves adjusting to the imperatives of a changing international division of labor by avoiding protectionism and support for their declining industries. Lastly, since this dynamic is *not* expected to affect the low-income countries in the near future—even under the most favorable of assumptions, the Bank predicts both relative and absolute widening of income gaps between the richest and poorest countries, and between the middle-income and low-income countries²²—augmented direct assistance to them targeted at the basic human needs of their populations is also called for.

The second position is embodied in the program of the New International Economic Order. Its components are well known and can be summarized briefly.²³ In general terms,

20. *Ibid.*, p. 26.

21. *Ibid.*, ch. 6, where it is argued that the experience of the 1970s suggests only a weak association between the magnitude of external shocks and subsequent growth rates, the mediating factor being economic policy. And whereas outward-oriented economics may be more vulnerable to external shocks, the Bank concludes that they also “managed to effect adjustment with only a temporary interruption in growth” (p. 75).

22. *Ibid.*, ch. 2, which contains ten-year forecasts.

23. A summary and analysis of the NIEO program and negotiating postures as of the time of the Seventh Special Session of the UN General Assembly may be found in Branislav Gosovic and John Gerard Ruggie, “On the Creation of a New

they include measures of a comprehensive, integrated, and regulatory character, designed to manipulate and direct international economic activities in such a way as to produce outcomes considered to be more favorable to the developing countries than those produced by current international market mechanisms. In the area of raw materials, commodity agreements with a Common Fund are intended to stabilize if not increase developing country export earnings and to diversify their export base. In trade, preferential and non-reciprocal measures are designed to obtain greater access to industrial-country markets. In industry, a greater share for developing countries in world production is the objective. The program also calls for international monetary reform and for a link between international liquidity creation via the SDR and development assistance. Easier access to credit and selective debt relief too are urged, as are greater quantities and automaticity of aid flows. Codes of conduct are proposed for technology transfer and for the governance of certain activities of transnational corporations. Lastly, the developing countries have sought greater influence over the decision-making process of the International Monetary Fund and the World Bank, as well as by the UN General Assembly over these and other institutions in the social and economic sectors of the UN system.

In sum, whereas the outward-oriented development strategies advocated by the World Bank would integrate the developing countries into the world economy on the basis of dynamic comparative advantage, the NIEO calls for their integration on a more planned basis, with redistributive principles directly guiding the allocation of resources.

The third position, that of the "de-linkers," does not seek the integration of the developing countries on *any* terms.

International Economic Order," *International Organization* (Spring 1976), vol. 30. Not a great deal has taken place by way of implementation, as the most recent UN document on the subject makes clear: Report of the Director-General for Development and International Economic Co-operation, *Towards the New International Economic Order* (New York: United Nations, 1982).

On the contrary, to achieve development they deem it necessary to pursue dissociation and self-reliance. There is, however, no dominant variant of this position. A relatively mild form, at this time still meant to be supplementary to the NIEO, is the program of "collective self-reliance" adopted by the Group of 77.²⁴ It would establish a system of trade preferences among developing countries, and encourage cooperation among LDC state trading organizations. It would move toward greater use of Third World payments and credit arrangements. It proposes industrial cooperation in the form of LDC multinational production enterprises. And it encourages the exchange of technical skills and technology among developing countries so as to build up a more appropriate and endogenous LDC technological capacity. More radical forms of dissociation have been practiced by individual countries, notably the Soviet Union in the 1930s, post-revolutionary China and Cuba, as well as Albania, Burma, Kampuchea, and, more questionably, North Korea. However, as a conscious and systematic development strategy, dissociation and self-reliance have flourished best in the province of the intelligentsia.²⁵ There, self-reliance is conceived

24. "Arusha Programme for Collective Self-Reliance and Framework for Negotiations," adopted at the Fourth Ministerial Meeting of the Group of 77, Arusha, February 12–16, 1969, reprinted in Karl P. Sauvant, *The Group of 77* (New York: Oceana, 1981), Annex II.

25. Some advocates of self-reliance would challenge this claim. Note, for one example, this assessment by Johan Galtung: "It should be emphasized from the very beginning that to talk about the politics of self-reliance is not to talk about a strategy of transition to something utopian, but to talk about a process very much alive that takes place in the world today for everybody to watch, talk about and participate in—or fight against, as many do and more will do as it gains momentum. Roughly speaking, it may already be a process that involves one billion human beings; a *quarter of humankind* in the active forerunner phase with the remaining three quarters on the sidelines, apathetic or talking about developmental processes of yesteryear." Galtung, "The Politics of Self-Reliance," in Galtung et al., eds., *Self-Reliance: A Strategy for Development* (London: Bogle-L'Ouverture, for the Institute of Development Studies, Geneva, 1980), p. 355, emphasis in original. Galtung includes in his count parts of China, former Indochina, India, Sri Lanka, North Korea, Tanzania, Madagascar, Somalia, Albania, and even the Nordic countries. Obviously, some difficult definitional problems have to be resolved before a definitive assessment is possible.

unequivocally as the "negation of dependency."²⁶ That, in turn, is assumed to entail nothing less than the negation of liberalism in its broad philosophical no less than specifically economic dimensions. The primary social unit becomes the group or community, serving a collective purpose.²⁷ Production for use value constitutes the norm of economic activity, the satisfaction of basic consumption goods its proximate objective.²⁸ Cooperation among like units forms the basis for the division of labor.²⁹ And the authenticity as well as generative capacity of endogenous thought and cultures are celebrated.³⁰

Each of these positions draws upon a certain body of

26. Johan Galtung, "On the Technology of Self-Reliance," in Galtung et al., *Self-Reliance*, p. 227.

27. "Liberal capitalism values the *individualistic* concept of self-help. To help oneself, even when it is at the expense of others, was supposed to be good for the country and possibly the world. On the contrary, *collective self-reliance* is only compatible with a social cosmology which favours the group or community as opposed to the individual." Roy Preiswerk, "Introduction," in Galtung et al., *Self-Reliance*, p. 12, emphases in original.

28. "The basic economic principle, then, would be to use local factors and produce for local consumption. Before producing anything, however, the question only asked in a penetrating manner during times of crisis should *always* be asked: do we really need this product? The argument that it can be used for *exchange* even if we do not need it for any *use* presupposes that there are other communities not based on self-reliance—like capitalism assumes there will always be a periphery somewhere that can serve as a 'market.'" Johan Galtung, "Self-Reliance: Concepts, Practice and Rationale," in Galtung et al., *Self-Reliance*, p. 24, emphases in original.

29. "The point is not to cut out trade but to *redirect* it and *recompose* it by giving preference to cooperation with those in the same position, preferring the neighbour to the more distant possibility, cooperation to exchange, and intra-sector to inter-sector trade." Galtung, et al., *Self-Reliance*, p. 26. In the area of trade, the most important dynamic tendency to result from self-reliance, according to Galtung (p. 36), would be a marked decrease in trade "across genuine gaps in the level of processing." Galtung fails to mention and comment upon the fact that intra-sectoral as opposed to inter-sectoral specialization is, of course, the very basis of the international division of labor *among* the advanced capitalist countries. More of what this phenomenon signifies in chapter 9, below.

30. Kanyana Mutombo, "Self-Reliance and Authenticity: Two Components of a Single Problem," in Galtung et al., *Self-Reliance*. Roy Preiswerk, "Sources of Resistance to Self-Reliance," in Galtung et al., *Self-Reliance*, points out that self-reliance thus rejects the belief common to liberalism and Marxism, namely, that they comprise sets of universal truths and truly cosmopolitan cultures.

economic theory and holds to a certain premise about the international division of labor. The theoretical scaffolding of the outward-oriented development strategies derives from neoclassical trade theory. Its lineage traces back to the model of Ricardo, as amended by Heckscher, Ohlin, and Samuelson, to make trade not simply of mutual advantage but an instrument for reducing international disparities. Though it is now accepted that there exist numerous anomalies to and asymmetries in the rule of mutually beneficial exchange, not to mention equalization, these are treated as special and/or temporary cases. The fundamental premise remains welfare gains and declining income differentials through comparative advantage and market forces.³¹ The NIEO program reflects the critique of conventional trade theory that was produced by Raul Prebisch and others at ECLA (UN Economic Commission for Latin America) in the late 1940s. The "ECLA theses" in turn have roots in List and Keynes, and to some extent Marx. They comprise a dynamic but asymmetrical model of center-periphery relations. The model presupposes inherent distortions in the international division of labor, stemming largely from the ability by the center to appropriate a disproportionate share of the benefits of productivity increases in both center and periphery, thus maintaining and even widening the gap between the two. But it takes these to be distortions that can be corrected by individual and collective governmental regulation of market forces and economic agents.³² The advocacy of dissociation and self-reliance has at least two different roots, each of which reflects a different concern. One strand draws on dependency theory. This theory, or perspective, itself is an amalgam of the "ECLA theses" and the Marxist approach

31. Findlay, in Kenen and Jones, eds., *Handbook*, traces the evolution of this literature.

32. Fernando H. Cardoso, "The Originality of the Copy: CEPAL and the Idea of Development," *CEPAL Review* (second half of 1977); and Osvaldo Sunkel, "The Development of Development Thinking," in Jose J. Villamil, ed., *Transnational Capitalism and National Development* (Atlantic Highlands, N.J.: Humanities Press, 1979).

to imperialism and late development, which at best grants that the international division of labor can produce dependent and distorted capitalist development in the Third World, and at worst predicts continued underdevelopment and impoverishment due to the process of uneven and exploitative capital accumulation on a world scale.³³ Another intellectual root of dissociation is inspired by a concern with the viability of unconventional, basic-needs-oriented, domestic development strategies when these are exposed and subjected to hostile international economic forces embodying the social relations of generalized commodity production.³⁴

It is our purpose in this volume to examine critically some of the claims and premises of these three positions. However, we do so not in abstract theoretical terms, but by examining actual strategies and policies of governments in concrete historical settings. We do not strive to formulate or even to "test" causal laws; the complexity and diversity of experiences forbid both at this juncture. Rather, our hope is to produce situationally valid generalizations, which will better equip both scholars and practitioners to resist the

33. For a sympathetic yet critical review of dependency theory, see Gabriel Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Under-Development?" *World Development* (July/August 1978), vol. 6; on the relationship between dependency theory and dissociation/self-reliance, see Galtung et al., *Self-Reliance*, and Ismail-Sabri Abdalla, ed., *Economic Integration and Third World Collective Self-Reliance*, Nyon, Switzerland, Third World Forum, Occasional Paper No. 4, 1979.

34. On the whole, this tends to be more a Northern rather than a Southern concern. See "What Now? Another Development," *Development Dialogue* (1975 #2); published by the Dag Hammarskjöld Foundation, Uppsala, Sweden; and virtually any issue of the *Dossier* published by the International Foundation for Development Alternatives (IFDA), Nyon, Switzerland. Carlos F. Diaz-Alejandro is skeptical about some sources of Northern support for Southern dissociation and self-reliance, finding two in particular to be objectionable. The first is simply worried about Southern exports: "It is not surprising, then, that *Business Week* should refer to Samir Amin as one of the Third World's best economists and expound his views." The second he calls paternalistic progressives: "Some Northern academics, especially in Europe, who regard themselves as progressives and friends of the LDCs, appear to take the paternalistic view that if LDCs do not delink on their own, Northern progressives (those academics and their trade union allies) will do it for them." "Open Economy, Closed Polity?" *Millennium* (forthcoming).

temptation of axiomatic substitutes for thought and struggle, while, at the same time, providing some systematic basis for picking and choosing among plausible and possible policy options.

We pay closest attention to the "associative" posture, as we will call it for short, of an outward-oriented strategy designed to find a niche in the international economy based on comparative advantage. We do so because it clearly represents the hegemonic position among the three at this time. It is hegemonic in part for the obvious reason that it reflects the principles of economic organization favored by the dominant economic powers. But its hegemony is also due to the fact that it is seen widely, and increasingly by the developing countries themselves, to come closest to embodying those forces that actually produce change in national economies and upgrade their status in the international division of labor.³⁵ The newly found favor of this strategy among the developing countries no doubt is inspired by the impressive rates of growth in output and the extraordinary rates of growth in manufactured exports achieved by the newly industrializing countries, especially those in East Asia.

We also examine the alternative attempt to achieve greater self-reliance by means of self-conscious arms-length relationships vis-à-vis the international division of labor, or what we call the "dissociative" posture. However, unless one includes every invocation of infant industry arguments or protectionist measures, the historical record of self-reliance, in the sense of the unconventional and autocentric

35. For example, during the negotiations for the Third United Nations Development Decade, the Group of 77 was clearly cross-pressured along liberalization-NIEO lines. The result was that strong support for the NIEO was reiterated in the final text, but, at the same time, "a system of trade based on a dynamic pattern of comparative advantage reflecting a more effective international division of labor" was urged as "a fundamental objective of the international community." *Report of the Preparatory Committee for the New International Development Strategy* (New York: United Nations, 1981), p. 176; this document summarizes the evolution of the negotiation positions.

strategy that its advocates take it to be, is not strong, and cases are sometimes hard to distinguish. Moreover, instances of voluntary pure dissociation are so rare as to be of interest mainly as anomalies.³⁶ The extensive degree of dissociation exhibited by several post-revolutionary socialist cases was a product of external exigency more than of choice. In addition, prior to the Sino-Soviet split, China received substantial assistance from the Soviet Union, and Cuba still does. Our focus, therefore, is on the even more difficult-to-identify middle ground of "selective dissociation."³⁷ And our analysis of it perforce is less exhaustive and more speculative in character than for the case of association. Nonetheless, examining this strategy can be justified on more than merely theoretical grounds. Given current conditions in the world economy, together with the problem posed by the fallacy of composition to subsequent tiers of newly industrializing countries,³⁸ there is every likelihood that the incidence of selective dissociation will increase in the future.

Lastly, we make brief reference to the third alternative

36. For a detailed look at one such anomaly, the case of Burma, see Kal J. Holsti, "From Diversification to Isolation: Burma, 1963–1967," in Holsti et al., *Why Nations Realign* (London: Allen & Unwin, 1982).

37. While there exists no universally agreed-upon definition of what is meant by selective dissociation, Carlos F. Diaz-Alejandro has presented a sketch of its general features. A government adopting this posture as part of an unconventional, self-reliant development strategy will, according to Diaz, participate in international markets, but on a limited basis in which the external links are an explicit complement to but not a substitute for indigenous development objectives and efforts. Diaz-Alejandro, "Delinking North and South," pp. 110–22. More specific definitions, appropriate to the individual contexts that they discuss, will be found in chapters 6 to 8, below.

38. Paul Bairoch illustrates the problem with simple arithmetic: "if the underdeveloped countries [excluding the socialist countries among them] had exported in 1970 as many manufactured goods per capita as Hong Kong did, these exports would have risen to \$1040 billion, i.e., nineteen times more than the total Third World exports and over three times more than total world exports." *The Economic Development of the Third World Since 1900*, Lady Cynthia Postan, trans. (Berkeley: University of California Press, 1975), p. 100. Including the socialist developing countries, especially China, would of course raise the figure to utterly absurd levels.

strategy, the attempt to alter the world development regime through multilateral negotiations. The reference will be brief because, as we will show, this strategy can complement in limited fashion efforts at the national level, but cannot substitute for them.

The major generalizations suggested by our study, in highly stylized form, are these:

1. The effect of international economic interdependence on national welfare is ambivalent. Openness toward the international economy creates opportunities, but also produces dislocating consequences. This is so irrespective of the institutional form within which international economic interdependence is embedded. A successful associative posture therefore requires devising means to exploit the opportunities and to cushion the dislocations.

2. Any presumed identity between an outward-oriented development strategy and laissez-faire is fictitious, or, perhaps more accurately, ideological. Except for the most powerful economies, which have greater scope to externalize or absorb adjustment costs, and for the city-state of Hong Kong, domestic state intervention attending the successful deployment of an outward-looking strategy is as deep and systematic as that of its more inward-looking alternatives. The differences lie in the proximate ends of state intervention, the areas targeted for intervention, and the means selected. In general, governments pursuing an outward-looking strategy initially follow market signals in identifying their niche in the international division of labor, but then utilize a battery of interventionist techniques in the attempt to maintain and diversify the basis of their comparative advantage. This is true of the associators among the newly industrializing countries of the Third World as well as of the advanced industrial but small European states.

3. Devising domestic means to exploit the opportunities and control the adverse consequences of economic openness is not simply a question of devising optimal economic and social policies. To be sure, such policies are ab-

solutely crucial to the accomplishment of both purposes, and they can go some way toward compensating for small size and external dependence. However, the capacity fully to implement such policies itself reflects the prior existence of certain political conditions. In pure form, these conditions enable governing coalitions either to integrate the major sectional interests of society into the cooperative regulation of domestic distributional strife, or to insulate policy-making from their influence and to pursue state-defined national development objectives. History and contemporary experience offer variants of both and of their combination. But none exists in great abundance in the Third World at this time.

4. Generating the political infrastructure for a successful associative posture is not an impossible task. Countries that lack it at one time subsequently are found to possess it. The historical experience of Northern and Southern countries alike suggests, however, that these political arrangements rarely evolve smoothly simply as a by-product of association. Where they emerge at all, they are shaped at least in part by major crises, including depression, civil war, and international war. Although the point requires much more detailed analysis, it may be the case that the political requisites of successful (long-term) association emerge more smoothly from a (temporary) dissociative stance. The most successful among the current group of newly industrializing countries exhibit such "phases" in their strategies. Again excepting the singularity of Hong Kong, all of them laid the institutional bases for industrialization under regimes of import substitution. These institutional bases subsequently allowed those among them not disposing of a large home market to turn to export-led strategies.

5. Pursuing an outward-oriented development strategy in the absence of the requisite political conditions (or some functional equivalents thereto) will not necessarily retard rates of economic growth. Indeed, in some cases these may well increase, at least over the short term. Such a posture

will entail costs of a different sort, primarily by exacerbating domestic cleavages. What more will follow obviously depends on specific circumstances, including the depth, scope, and forms of association and of domestic cleavages, as well as the precise configuration of domestic state-society relations. In general, income inequalities almost surely will not be attenuated, and, on the contrary, are likely to increase. Beyond a higher threshold, disadvantaged social groups may experience greater marginalization and the domestic economy growing disarticulation. At the extreme, domestic political disintegration may ensue or be averted by extremist means. Our cases show that this array of possible consequences does not depict a uniquely Third World syndrome.

6. As was mentioned above, not the extent of state intervention but its proximate ends, the areas targeted, and the means selected differentiate dissociative from associative postures. In a dissociative posture, endogenously determined configurations of domestic sectoral objectives rather than whatever niche is offered up by the international economy comprise the proximate ends of state policy; the close monitoring and filtering of external links takes the place of liberalization; and the active encouragement, protection, exploitation, and integration of indigenous capacities and resources takes the place of domestic compensation for liberalization.

7. As with association, the success of a dissociative posture depends on more than devising optimal policy measures. Assuming the commitment of a government to selective dissociation as part of a more self-reliant development strategy, the process of implementation faces several additional sets of possible constraints. The most obvious is that social groups that benefited from association may resist dissociation. They are likely to have skills and resources that are scarce in most developing countries so that their involvement in the implementation of the strategy is at once desirable and problematical. A second constraint

is the heavy administrative burden imposed by this strategy, which may be beyond the capacity of many developing countries in the short term even though it might help develop such a capacity in the longer term. A third concerns the tendency in many developing countries to discount indigenous products and processes in favor of patterns prevailing in the advanced industrialized countries. This tendency is visible in the economic, cultural, and military realms, and it potentially undermines the efficacy of the very resources on which the strategy is designed to draw. A fourth constraint is posed by the centripetal pull exerted by the international system, above all by the forces embodied in the transnationalization of production, and in the dynamic of the global balance of power. The former may induce deviation from the dissociative course; the latter may preempt it altogether. Only in specific contexts can one say which of these, or still other, constraints comprise how serious a problem for attempts at dissociation. Our cases do suggest, however, that success or failure ultimately is determined more directly by domestic than by international factors, and that domestic factors, while influenced by the international situation, are not its mere reflection.

8. No simple generalization fully captures the complex issue of the respective welfare effects of the two strategies. In terms of reducing intercountry disparities, the historical experience of the West and the more recent cases of the newly industrializing countries of the Third World suggest that whether or not the appropriate political infrastructure exists for *either* strategy may be more important a factor than the strategies themselves. The question for future industrializers thus becomes, which set of political requisites appears more feasible for them to institute in light of international and domestic constraints? In terms of reducing domestic disparities, a similarly contingent conclusion is reached. There appears to exist no direct correlation, either positive or negative, between external posture and measures of human welfare. The critical intervening factor is the

distribution of assets and access to productive resources within a society. Favorable domestic distributive patterns together with *either* strategy have produced relatively high levels of human welfare in the past. The question for future industrializers thus becomes, which strategy is more likely to generate and sustain favorable domestic distributive patterns? Although there will of course be exceptions, it is our impression that when the answers to these questions are tallied for individual countries further down the rungs of the international division of labor, mimicry of the most recent phase of the East Asian NICs' strategy will not fare better on domestic welfare grounds for most of them, well into the medium term, than greater self-reliance requiring at least partial dissociation.

9. The current world economic situation and, more profoundly, the extent to which the laws of comparative advantage in the world economy are circumscribed by political, economic, and social considerations emanating from the advanced capitalist countries, point in the same direction. They suggest a far more limited absorptive capacity of the markets of the industrialized world for the exports of future industrializers than was the case during the 1960s and 1970s.

10. Lastly, the strategy of altering the terms of association for developing countries by means of multilateral negotiations is not viable as a distinct strategy. International rules and conventions for development are embedded within and constrained by broader international economic regimes. These regimes in turn reflect and serve the international and domestic needs of the regime-making states. The major mechanism of change in these regimes is the ability to project effective demand. The developing countries on several occasions have managed thereby to alter the functioning of existing regimes in modest ways. In general, however, any international strategy on the part of the developing countries at best can provide a facilitative framework

for change, which must rest, in the final analysis, on self-help measures.

In sum, we conclude that the hegemony of the outward-oriented development strategies advocated by mainstream economists and by the institutions that reflect their views is unwarranted. But we are also dubious about some of the claims advanced from the dependency perspective. We are skeptical of both for the identical reason: both overstate the determining impact of the international division of labor on national welfare, the one positively and the other negatively. This leads the mainstream to ignore the critical importance of, and many dependistas to discount the generative potential inherent in, domestic political structures. The political realm is not an autonomous realm, especially in weak and heavily penetrated developing countries. But no explanation of economic outcomes and no program of economic change can succeed that does not systematically incorporate its varying degrees of "relative autonomy."

Brief thematic summaries of the individual papers, which suggest these generalizations, follow below.

IV

A variety of experiences with associative development, historical and contemporary, Northern and Southern, is examined in chapters 1 through 5. This section of the book begins with Robert Keohane's analysis of the posture of the United States from independence to the Civil War, a period during which the United States was transformed, in Keohane's words, "from a postcolonial fragment to an important country undergoing self-sustaining economic growth."³⁹ This transformation was achieved, for the most part, by the

39. Keohane in this volume.

government remaining passive in the face of the forces of comparative advantage. There were two sets of exceptions to this rule, the dissociation effected during the period of 1808 to 1815 by the Embargo, its successor measures, and the War of 1812, as well as successive bouts with protective tariffs thereafter. However, neither was part of any conscious economic strategy, according to Keohane, and neither played a major role in stimulating long-term industrialization. In aggregate economic terms, this unmanaged associative posture was tremendously successful, especially in the period after 1820. Rates of growth in output and in per capita income were high, as were rates of capital accumulation, while foreign debt was relatively low and overall dependence on exports modest. Internal trade grew in importance relative to foreign trade, especially between the agricultural West and the increasingly industrialized Northeast, and intraregional trade grew still more rapidly. But the prevailing pattern of antebellum development in the United States also produced costly by-products. One of these was growing inequalities in income and wealth. Far more important was the fact that there emerged not one but two economies in the United States, and the central state was insufficiently strong to hold them together. The economy based on the interregional division of labor between the West and Northeast diversified and industrialized, and it became increasingly self-sustaining. The plantation economy of the South, based on slave labor and constituting the dominant supplier of cotton to the world market, did none of these things. The growing contradictions between the two, Keohane argues, through a complex interplay of factors—economic and political, domestic and international—ultimately resulted in the Civil War. Keohane concludes that, while close association with the world economy thus produced a variety of “negative externalities” for American society as a whole, the most costly of which was to entrench slavery in the South, it is doubtful that alternative policies would have been

politically feasible given the structure of incentives prevailing at the time.

The long-term economic success of the United States was assured by the fact that, as Keohane puts it in his amendment of Louis Hartz's phrase, the United States not only was born free, it also was born lucky. Three-quarters of a century after the Civil War, the United States was the world's paramount economic power with which others had to learn to cope. Among those who learned well are the small capitalist states of Western Europe. These states have been the step-children of conventional international political studies, even while they appear to comprise the archetype of the small, open economy that is the basic building block of neoclassical trade theory. Peter Katzenstein, in chapter 2, shows that neither view is justified.⁴⁰ The experience of these countries in managing the effects of an external economic environment they cannot control sheds considerable light on the predicament faced by other countries both above and below them in the international economic hierarchy. At the same time, their manner of managing these effects incorporates but goes well beyond "free market" methods. By means of a characteristic mix of policies, Katzenstein argues, the small European states have managed to combine external dependence with domestic social cohesion, high levels of prosperity, and economic equality. They are a paradigmatic case of economic association that has worked by any measure. To what is their success due? Katzenstein depicts the post-World War II economic strategies of the small European states as systematically balancing a strong commitment to international liberalism with extensive domestic compensatory interventionism. Their commitment to international liberalism, in comparison with the larger industrial states, is seen in their early advocacy of the abolition of trade and monetary restrictions, their relatively lower tariff and

40. The seven countries that are the subject of his analysis are Austria, Belgium, Denmark, The Netherlands, Norway, Sweden, and Switzerland.

non-tariff barriers to trade, the fact that they adjust more readily to changes in international specialization while availing themselves less frequently of restrictive safeguarding measures, and in their strong support for the principles and institutions of economic multilateralism. On the domestic side, while the specific forms of interventionism vary, as a group these states uniformly exhibit extensive and active policies designed to achieve wage and price stability, and in return to provide generous social welfare benefits and adjustment assistance. Katzenstein contends that what makes this conjunction of international liberalism and domestic compensation possible as a strategy is that it rests on a particular fusion of state and society that he calls corporatist politics. By this he means the centralization of social power within peak organizations and, based on some shared notion of social partnership, the incorporation of business, labor, and the state into the decision-making arena. These structural arrangements minimize distributive friction and political stalemate, and thus facilitate the formulation and implementation of socially highly demanding sets of policies. Katzenstein explains that the social consensus on which these political structures rest emerged, after World War II, in reaction against the deep social dislocations that plagued all of these countries during the interwar years, ranging in intensity from labor strife everywhere to civil war in Austria, as well as the more general sense of vulnerability produced by the depression, fascism, and the war itself. And since the war, these structures have been reinforced by the requirements of international competitiveness in the world economy. Past success, of course, does not guarantee success in a future and less hospitable international economic environment, and the policy mix of one set of countries cannot simply be generalized beyond the mix of international and domestic situations that gave rise to it. Nevertheless, the adaptive capacity of the small European states appears to be higher than that of the larger and more powerful industrialized economies; and the balancing act on which this

capacity hinges, even if not the specific balancing mechanisms, appears to express a more general requirement for small and dependent economies.

This last point is reflected in the experience of the newly industrializing countries of the Third World.⁴¹ In comparison with the small European states, the newly industrializing countries have less diversified economies, and their import dependence and export concentration are higher. Moreover, where the small European economies can count on robust invisibles sectors to help offset their chronic balance of trade deficits, the newly industrializing countries are much more heavily dependent on external sources of financing. The domestic social and political structures of the two sets of states contrast still more sharply. But the shift toward an outward orientation in the newly industrializing countries has also been accompanied by "domestic compensation," involving a shift in the role and power of the state. Though no single pattern characterizes this shift, the fact of the shift, and one pattern, is illustrated by the case of South Korea, one of the most successful of the outward-oriented newly industrializing countries. In chapter 3, Stephan Haggard and Chung-in Moon briefly compare the "East Asian" and "Latin American" variants of the NIC industrialization strategies, and then focus on the state and export-led development in Korea.

With respect to economic strategies, perhaps the most significant difference between the Asian and Latin American NICs lies in their respective responses to the exhaustion of the so-called easy phase of import-substituting industrialization. The Latin American NICs, disposing of larger domestic markets, moved into a secondary phase of import substitution, coupling this with specific but limited forms of export promotion. The Asian NICs moved into "export substitution," as Haggard and Moon term it, to export those

41. In the lexicon of the OECD, the category of Third World NICs includes Hong Kong, Singapore, South Korea, and Taiwan in Asia, and Brazil and Mexico in Latin America. However, this ascription can be quite elastic, depending upon its source.

goods which, under import substitution, had come to be produced domestically, and they coupled this with a thoroughgoing reform of previous economic policies and institutional arrangements. South Korea's transformation at first glance resembles the textbook case. Exploiting its comparative advantage in low-wage labor, South Korea found a niche in the production for export of light manufactures. It liberalized its exchange rate, tariff, and investment regimes. International openness subsequently not only stimulated economic growth, but also helped to upgrade Korean exports into technologically more demanding and rewarding sectors. The economy has diversified both in terms of export products and trading partners. Wages have continued to rise, and income distribution is relatively egalitarian. However, behind this economic transformation stands a battery of state policies. They range in depth of intervention from the simple provision of certain public goods like market information and infrastructure, to a variety of incentives and disincentives for domestic and foreign-owned enterprises that bias economic activity in favor of designated exports, to state control over the allocation of credit with the same end in mind, and, most recently, to a direct state role in production in the heavy and chemical industries. Indeed, so active is the state in South Korea that Haggard and Moon characterize Korean industrialization as "state-led." The state, they argue, has managed to accumulate both the political power and the economic resources to insulate itself from social and political pressures, to control business and above all labor, and to keep the economy on its charted course—a course that close alliance with the United States helped to chart. This posture has had its costs. As Haggard and Moon caution, establishing causal links between outward-oriented development strategies and authoritarian politics is a very tricky business.⁴² But, they suggest, an af-

42. For a comparative exploration of this relationship in the Latin American context, see David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979), and Diaz-Alejandro, "Open Economy, Closed Polity?"

finity between the two does exist in South Korea. Moreover, the state-led move to deepen industrialization has severely tested the adequacy of the Korean model, in both its external and domestic dimensions, to sustain the process of continued upgrading, and it has created an economic and political crisis from which the country has yet to recover. Lastly, the equitable distribution of wealth and income in South Korea, which has its origins in the destruction of the landed aristocracy achieved under Japanese colonial auspices, and which was subsequently reinforced by successive land reforms begun during the American occupation, has in fact deteriorated over time, at least in part as an inherent by-product of Korea's industrialization strategy.⁴³

As noted in the previous section, by the reckoning of the IBRD, South Korea is in the top tier of developing countries successfully exploiting the opportunities offered by outward-oriented strategies. The rung below is occupied by a group of middle-income Latin American countries, which are said to be poised to shift into more skill- and technology-intensive areas of production. As an oil exporter, Venezuela is considered to be in a category apart from this group. But it resembles the group in its outward-oriented posture, and in its desire successfully to undertake the economic shift described by the Bank. Moreover, the case of Venezuela helps greatly to illuminate the complex interplay between external and domestic factors in determining patterns of economic outcomes in the Third World—an issue on which we have faulted both neoclassical and dependency views. Venezuela offers this opportunity because it already pos-

43. As a comparison with Taiwan makes clear, the problem is not simply one of openness, but of the structure of the domestic industrialization effort that is inserted into the international economy. No such deterioration appears to have occurred in Taiwan, which resembles South Korea in its initially advantageous distribution and which has pursued an equally outward-oriented strategy. One major difference between the two is the decentralized character of industrialization in Taiwan, which has helped to attenuate urban-rural disparities and the dislocating social effects that normally accompany them. On the Taiwanese case, see Gustav Ranis, "Equity with Growth in Taiwan: How 'Special' is the 'Special Case'?" *World Development* (March 1978), vol. 6.

essed many of the economic and political attributes usually deemed necessary for economic development when the quadrupling of crude oil prices in 1973–74 suddenly removed a major external constraint.⁴⁴ In chapter 4, Jeffrey Hart focuses on this nexus in analyzing and explaining recent patterns of development in Venezuela.

Although less impressive than in the Asian NICs, the Venezuelan economy has also experienced high rates of growth. Diversification has taken place from its oil base into manufacturing production. Imports of consumer durables and especially capital goods have continued to be high, but have not resulted in chronic payments deficits. Agricultural production has lagged behind, and one result of the increased purchasing power made possible by petroleum revenues has been a rapid increase in agricultural imports. Industrial wages, led by the petroleum sector, have been relatively high by developing country standards; unemployment and inflation have both been moderate. The state in Venezuela plays an active role in aggregate terms, accounting for over 40 percent of GDP in 1977. The current state strategy of economic transformation is twofold. With the low-wage exports option being unavailable, the state has led the attempt to deepen industrialization by investing directly in basic industries and industrial infrastructure. The objective is to provide inputs into domestic private industries at a price that will enhance their internationally competitive position, thus diversifying Venezuela's exports. Second, even before 1973, the state has been active in the direct provisioning of basic services to the impoverished sections of the population. Hart assesses both efforts and concludes that success has been modest. Why, he asks, is this so, despite the combination of state commitment and the inflow of petrodollars that provides the financial means? One answer is temporal: the poor timing of certain state investments, given the in-

44. For the capital-deficit oil exporters, the category in which Venezuela falls, the net barter terms of trade improved by 120 percent as a result of these initial price increases. IBRD, *World Development Report, 1981*, p. 88.

ternational economic climate and growing surplus capacity in several of the industries concerned; and simply the length of time it takes to overcome patterns of inequality and poverty that go back to the plantation economy of the colonial era. But Hart also locates a more structural factor in the character of domestic policy networks in Venezuela. The governing coalition comprises the state and domestic business, in a truncated form of corporatism that excludes labor except for a relatively small contingent that is allied with the two major political parties, and which dominates all other social groups in the political process. This particular arrangement is a product of the import-substitution phase of Venezuelan industrialization, which commenced in 1958 and lasted into the early 1970s. In the present phase, failure to incorporate labor into the governing coalition makes it difficult to achieve wage restraints in the very industries on which the success of the state's strategy of industrial deepening and export diversification depends. However, the incorporation of labor would require more fundamental progress on the social welfare front, and this in turn is blocked by the dominant business groups allied with the state. In this context, the boon of increased petroleum revenues in fact has produced an ambivalent result. On the one hand, it has provided the means by which some progress has been achieved in the direction of both industrial deepening and diversification as well as providing for the needs of the poor. On the other hand, by virtue of doing so, it has reduced the pressure for change in the prevailing structure of coalitions and thereby has contributed to continued stalemate, which prevents moving more rapidly and fully in either direction. Hart concludes that only a substantial disruption of the status quo is likely to break this stalemate.

The third tier of successful outward-oriented developing countries, according to the World Bank, are those, like the Ivory Coast, in which a deepening and broadening of agricultural exports has brought them to the point of being able to move into processing and industrial sectors. The ex-

perience of the Ivory Coast as described by Lynn Mytelka in chapter 5 leads to a very different assessment of its prospects. The Ivory Coast, along with Kenya and Senegal, turned relatively early to export-oriented manufacturing. As recounted by Mytelka, import substitution had failed because it relied on inputs imported by multinationals to reproduce previously imported goods for a domestic elite market that was growing very slowly. As a result, the process offered few employment opportunities and created few linkage effects. It skewed domestic incentives and exacerbated balance of payments problems. The move to export-oriented manufacturing initially led to a rapid increase in African manufactured exports, but this was soon followed by stagnation and subsequent relative, and even absolute, declines. By examining in detail the textile industry in the Ivory Coast, and its relationship to the European Community with which it is closely tied, Mytelka seeks to discover the reasons for failure. It is precisely in this relationship that she locates the problem. In response to the global redeployment of manufacturing activity under way in the early 1970s, the EEC encouraged direct investment in African manufacturing and granted preferential access of its products to EEC markets. The Ivorian state did its part by providing a variety of inducements to foreign investors to reduce their risks and increase their rewards. These incentives were necessary to compete with Asian and Latin American production sites. However, according to Mytelka, the major consequence of the particular mix of incentives made available to multinational firms was a highly technology-intensive form of production, which offered limited local employment opportunities while increasing the need for expatriate personnel, vastly raised borrowing requirements and interest payments, and so skewed product and technology choices that the final goods produced were uncompetitive in any but the sheltered EEC market. Since the state guaranteed profits, the firms had no incentive to move toward more efficient production. The benefits of this pattern of in-

dustrialization predictably were few and highly concentrated. While per capita income in the Ivory Coast is second only to Gabon in sub-Saharan Africa, the rate of growth in per capita income from 1960 to 1979 ranks tenth in this group, and in terms of access to basic services and other measures of human welfare, the Ivory Coast falls at or well below the group average. In the end, not even this pattern of industrialization proved sustainable. Mytelka describes how the intensified pressure from non-African textile imports in the mid-1970s led the EEC to abandon its previous strategy of encouraging African manufacturing. Plans for further investment in the Ivorian industry were shelved. Instead, the EEC negotiated the second Lomé Convention, which was favorable to the expansion of primary production in Africa. The Ivory Coast, according to Mytelka, was thereby pushed back into the export-oriented agricultural sector. In sum, far from demonstrating the ability of an outward-oriented strategy to pull productive activity into more advanced sectors, the Ivorian case as described by Mytelka illustrates the inability of a small and weak economy to sustain *any* consistent pattern of economic development via close and unmediated external reliance. (The growing disarticulation of the Kenyan economy and the attendant social strife and political instability may be viewed in the same light.) With dependent import-substituting and export-oriented manufacturing both having failed, Mytelka concludes by recommending an autocentric, self-reliant development strategy for the Ivory Coast.

This brief survey of several types of experiences with outward-oriented strategies clearly shows the critical importance of the role of the state and of domestic social coalitions in mediating the effects of international interdependence on national welfare. At the same time, it is also true that "neglect of a minimum of old-fashioned microeconomic efficiency has thwarted the plans of more than one reformist or revolutionary [domestic] regime."⁴⁵ Moreover,

45. Diaz-Alejandro, "Delinking North and South," p. 118.

the cases suggest that there exists a sizable group of developing countries, of which the Ivory Coast is only one, for which an associative posture may not be appropriate because they lack the capacity to exploit the opportunities it offers and to compensate for the problems that are its by-products. What are these countries' prospects for success by means of a *dissociative* posture? Chapters 6 through 8 are designed to help answer this question, by focusing respectively: on what a strategy of selective dissociation looks like and what its political correlates of success appear to be; on an unconventional resource that is available to some developing countries to pursue this strategy but which is not normally considered as a component of economic policy; and on the constraints posed for dissociation by factors that link national economic choices to the international security system. In each case, the analysis is couched not in terms of what governments *should* do, according to the lights of some normative standard imposed by the authors, but what governments committed to self-reliant development via selective dissociation *have done* and *can do* in order to achieve their objective.

In chapter 6, Helge Hveem investigates patterns and consequences of selective dissociation in the technology sector. This sector is central to any national development strategy; at the same time, it is also central to the global strategies of multinational corporations. It therefore offers a unique vantage point from which to view the opportunities for and constraints upon selective dissociation. Hveem reviews the very different attempts by Algeria and India to achieve self-reliant industrialization via a selective dissociative posture in technology.

The Algerian case combines a pattern of extensive state ownership with a national development plan that seeks to establish mutually supportive linkages between domestic agriculture and industry, as well as among various industrial sectors, and ultimately between each of these and an indigenous science and technology capacity. In the long run,

state investment in education, training, and research and development is expected to generate and sustain this capacity. In the short run, the state is attempting actively to acquire its foundation from foreign sources by means of state-mediated purchases, adaptation, and endogenization. Petrodollars make possible the financing of both sets of policies. Important progress has been achieved along a number of dimensions. Nevertheless, Hveem finds that the strain between short-term means and long-term objectives is increasing. The centripetal pull from the international economy that results from the former typically is stronger than the institutional capacity of the state to counteract it. As a result, the long-term objective of self-reliant and balanced industrialization is becoming increasingly elusive.

The situation in India is quite different. In terms of growth rates, India's economic performance does not excel. But India possesses a considerable industrial base, some products of which are internationally competitive, and it has the largest science and technology capacity of any developing country. India has accomplished both without extensive reliance on external sources, and indeed has deliberately guarded against it. A self-conscious dissociative posture vis-à-vis foreign capital is coupled with strong state support for the indigenous science and technology effort. At the same time, India also suffers from a pervasive dualism, and huge segments of its population live in abject poverty. In the realm of science and technology, this dualism is expressed in the distinction between "modern" and "traditional" sectors. According to Hveem, economic and social incentives in India are biased in favor of the former, even though it is weakly linked to the direct production and consumption needs of the vast majority of Indians. And the so-called traditional sector, even when supported by state subvention as in various areas of "appropriate" technology and small-scale or village industry, is kept marginalized from the dominant patterns of production. Hveem explains this bias as reflecting the imperatives of politico-strategic competi-

tion and the demands it makes for advanced technology in the military sector, class-based preferences to emulate production and consumption styles prevalent abroad, together with a deeper cultural denigration of local processes and products. And he maintains that this bias prevents India from exploiting fully its indigenous material and human resources. Hveem concludes his analysis by outlining the general features of an ideal type selective dissociation strategy in the technology sector, and by arguing that for many Third World countries the welfare effects of such a strategy compare favorably with those of an associative technology strategy.

The cultural factor, touched upon by Hveem, is taken up more directly by David Laitin in chapter 7. Laitin explains the reasons for continued linguistic association between newly independent states and former colonial powers. Metropolitan languages, he argues, are a means to acquire external expertise and resources, they provide a unifying element in culturally and linguistically heterogeneous societies, and they comprise a capital investment for the "organizational bourgeoisie" that is in charge of the state apparatus. Laitin goes on to explore the possibility that linguistic dissociation, or the promotion of national vernaculars, in certain circumstances may facilitate a broader dissociative posture, lead to greater self-reliance, and generate more equitable patterns of development. Laitin begins by pointing out that there is nothing *inherently* progressive in the promotion of national languages. Nevertheless, he reminds the reader of the role played by national vernaculars in the creation and emergence of the European states, and he argues that in contemporary Africa, the particular focus of his analysis, such a language policy would be advantageous on both autonomy and welfare grounds. Laitin draws on a variety of illustrative cases to explore five possible contributions of linguistic dissociation. He suggests that it may help African peoples to overcome the still-lingering psychological and cultural ties of dependence; become a source of in-

novation for indigenous processes and products; serve as a means to trigger social mobilization; increase state attention and responsiveness to the needs of domestic peripheral areas; and help to plug the brain drain. Laitin concludes by describing ongoing efforts at linguistic dissociation in Africa, and by assessing the pros and cons of the different types of language strategies that are available to the would-be linguistic dissociator.

Perhaps a self-evident but nonetheless an important inference to be drawn from the cases analyzed by Hveem and Laitin is that the more conventional and imitative a dissociative strategy remains, the less likely it is to succeed in its avowed aims. The successful dissociator manages to disembody the products and techniques that it needs to import from their broader economic, social, and cultural matrix and to incorporate them into its own matrix, which in turn it guards vigilantly and nurtures constantly. It follows that a moderate strategy of selective dissociation in the end may represent an unstable policy posture for many developing countries, in the sense of proving to be an inadequate means to buffer the adverse effects from centripetal forces exerted by the international economy and the models diffused by the metropolises. Where this is acknowledged to constitute a problem that requires a response, selective dissociation may yield to a more thoroughgoing dissociative posture. At that point, the analysis of economic policy and its consequences enters a very different realm. For, once down the road toward more complete dissociation, the dissociating state may encounter difficulties from the international security system. In chapter 8, Barry Buzan elaborates this scenario.

Buzan's chapter is based on the premise that, since substantial dissociation entails breaking existing patterns of center-periphery relations, it poses a threat to elements in both the center and the periphery countries concerned. He surveys a variety of actual and hypothetical cases to explore the conditions under which the very security of the periph-

ery state may come to be at stake, leading, in the extreme case, to foreign intervention designed to snuff out the attempt to dissociate. He shows that the success of economic dissociation may be critically dependent upon success in devising an appropriate security policy, one that will forestall the security threat but do so in a manner that itself remains consistent with the self-reliance aims of dissociation. As Laitin did for the realm of language policy, so Buzan analyzes the pros and cons of alternative security policies that are available to the dissociating state in order to assess which best meets these desiderata. He examines the policies of appeasement, establishing an alternative associative relationship, attempting to purchase and ultimately to replicate the weapons systems of the advanced industrial countries, and developing what he calls unconventional military self-reliance, a strategy that is akin to Maoist defense doctrines. His conclusion is parallel to those reached by Hveem and Laitin: the more the security strategy exploits indigenous strengths rather than imitating internationally prevailing doctrines and weaponry, the better the chances that it will succeed in the security realm without at the same time undermining the broader economic, political, and social objectives that it is intended to support.

In sum, our review of cases finds no universally valid answer to the question, borrowing Keohane's felicitous phrase, of "whether 'tis better to associate or dissociate." While it is currently fashionable to aver, particularly in political circles but to some extent in the academy as well, that the invocation of contingency and complexity as descriptors of the real world is a sign of intellectual if not moral weakness, that nevertheless is precisely the conclusion we reach. We have sought to go further, however, than merely to say that the answer all depends; we have also tried to delineate some of the political factors that it depends upon. Moreover, ours has not been an imperial mission to drive out or dominate other explanations, but an attempt to gain a place under the political economy sun for factors that the

prevailing explanations typically marginalize if they consider them at all.

The final paper in this volume is inspired by and draws upon the other contributions, but it takes off from them rather than seeking to synthesize their arguments. It is predicated on the proposition that, just as mainstream and some dependency views discount if not ignore altogether the mediating and even generative role of political factors in assessing the impact of the international economy on national welfare, so too do they offer only a partial understanding of the international economic order itself. The paper first defines the constituent parts of the international economic order: international economic regimes and the international division of labor. It then asks how much elasticity there is in either to accommodate the welfare demands of developing countries. In the attempt to answer this question, the paper reviews the evolution of the monetary and trade regimes over the course of the past thirty-five years, and then examines recent changes in patterns of world industrial production and trade. The focus of this review is on the impact of the changes that are discerned on the constraints and opportunities faced by the developing countries. The analysis shows that neither international economic regimes nor the international division of labor is as elastic as advocates of the NIEO and of outward-oriented development strategies, respectively, appear to assume. At the same time, neither is quite as rigid as detractors, including those who favor dissociation and self-reliance, are prone to maintain. And in both cases, the range of possibilities is circumscribed by the deeper political structure that gives shape to the international economic order. The paper concludes by outlining the contours of a model that relates international political structure to the international economic order, specifically to the prospects for present and future Third World industrializers.

PART I: MANAGING
ECONOMIC ASSOCIATION

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1.

Associative American Development, 1776–1860: Economic Growth and Political Disintegration

ROBERT O. KEOHANE

THIS VOLUME DISCUSSES the effects on national political economies of international economic interdependence, and the responses of governments to the constraints and opportunities posed by the operation of the world system. We

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