

### About the Author

Since the first printing of this book the author has died. The Publishers wish to express their deepest regret at the entirely unexpected and untimely death of Professor John Degnbol-Martinussen who passed away at a time when he was at the height of his powers. He led a distinguished career in development studies, was study director for International Development Studies at Roskilde University in Denmark, and chairman of the Danish Social Science Research Council and a president of the Danish Association for International Cooperation (Mellemfølkeligt Samvirke). At the time of his death he was chairman of the Council for the International Development Cooperation in Denmark.

Over the years he acted as a consultant to various international organisations, including the UNDP. South and South East Asia were his primary geographical regions of specialisation and his research interests revolved around, *inter alia*, a reappraisal of the role of the state in development, as well as appropriate methodological approaches and the growth of theory in development studies.

His recent books in English include:

*Pluralism, Competition and Choice: Emerging Local Self-Government in Nepal*, New Delhi: Sage Publications, 1995.

*The Theoretical Heritage from Marx and Weber in Development Studies* (edited), Roskilde: International Development Studies, 1994.

*New International Economics and their Applicability in a Third World Context* (edited), Roskilde: International Development Studies, 1993.

*Transnational Corporations in a Developing Country: The Indian Experience*, New Delhi: Sage Publications, 1988.

# Society, State and Market

A guide to competing theories  
of development

JOHN MARTINUSSEN

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been raised regarding the economic rationality of transferring resources to the developing countries for the purpose of increasing global growth. Transfer of resources may be perfectly rational from other viewpoints, but would not transfers between industrial countries result in greater growth on a global scale? Would it not be better for the industrial countries to aim for growth in Eastern Europe and the former Soviet Union, if the primary objective is to promote global growth?

There is no doubt that the theory of global interdependence, particularly the version stressing the asymmetrical aspects, has focused attention on something central in the relationship between industrial and developing countries. As seen from the poorest countries' perspective, notably in Africa, the theory further raises considerable concern because it can be used to justify the ongoing shifts in global resource flows away from these countries and towards the better-off countries in Eastern Europe, Latin America and Asia.

## CHAPTER 6

# Structuralist Theories and Industrial Development

The structuralist theories of economic development and underdevelopment were originally launched in parallel in Latin America and Western Europe (cf. Chapter 4). Since then they have been expanded into various more specific versions which cannot entirely be classed with the original approach and propositions. This applies especially to Gunnar Myrdal's influential theory which reaches considerably further and draws in more non-economic phenomena than the structuralists' original approach. Additionally, many of the early structuralist economists have adjusted their theories in the light of both acquired development experiences and significant changes in the global economic system, so that today one can identify various neo-structuralist approaches. Osvaldo Sunkel, one of the early Latin American structuralists, characterises his own recent contributions to theory construction as neo-structuralist (Sunkel, 1993).

Structuralist theories, in addition to representing an alternative body of theory to neo-classical economics, also provided a substantial part of the macro-economic foundation for the theory fragments that appeared during the 1970s concerning the informal sector and basic needs (cf. Chapters 21 and 22). Furthermore, the early structuralists, especially Raúl Prebisch, in certain critical respects can be considered as forerunners to the Neo-Marxist dependency theorists.

This chapter is introduced with an account of the early, notably the Latin American, structuralist theories. After this follows a brief discussion of the special contribution to theory formation made by the neo-structuralists. A third section looks at selected parts of Gunnar Myrdal's theories. Finally, the fourth section contains a brief survey of various strategies for industrial development, including strategies that had their origins in structuralism as well as alternative strategies with roots in competing theoretical frameworks.

### Latin American structuralists and Hans Singer

Classical economic structuralism was in many ways affected by Keynes's perspective and method. Among other things, it shared with Keynes a great interest in unemployment. However, in contrast to Keynes's focusing on

unemployment as a conjunctural phenomenon, the structuralists perceived unemployment as a consequence of structural conditions, as a phenomenon that reflected economic underdevelopment, and thus as a problem that could be solved only in connection with structural transformation of the Latin American societies with which the structuralists were primarily concerned.

Based on this conception, the structuralists paid particular attention to the barriers that obstructed structural changes. In comparison with the early growth and modernisation theories, which emphasised lack of capital as a major reason for economic stagnation, the structuralists were more interested in the *underlying reasons for the lack of investment*. They were further preoccupied with the *difficulties of financing industrialisation* which they regarded as the principal path of development. One of the major reasons for the lack of investment in Latin American and other underdeveloped economies, according to the structuralists, was the small size of the domestic markets which did not give the required impetus or incentive to the owners of capital. The modern manufacturing sector was typically very small compared to the traditional sector. Because the latter had only a low purchasing power potential while the former had considerable such potential, it was of crucial importance that the modern, industrial sector be expanded.

*Celso Furtado* and *Oswaldo Sinke* (cf. Furtado, 1965) argued in this connection for a conception of development whose core was industrial growth and the consequent absorption of the workforce into more productive manufacturing processes. This was essentially in line with the propositions of the growth and modernisation theorists (cf. Chapter 5), but in their further elaboration of the argument the structuralists differed, for example from Lewis, by pointing to the necessity of increasing wages in the modern sector in order to achieve increased purchasing power in the domestic market. Furthermore, the structuralists added a number of new perspectives and propositions by identifying how properties of the basic economic structures posed difficulties for getting an industrialisation process started.

The small domestic markets were part of the problem. These markets could not sustain sufficient demand to support a more extensive industrialisation process. Instead, the strongest incentives to this lay in the international markets. It was here that the demand and the dynamics were greatest, but it was also here that the enterprises of the poor countries were weakest in competition with the companies of the highly industrialised countries. Moreover, the weaknesses of the less developed economies increased when they tried to diversify from export of raw materials and semi-manufactured goods to consumer goods, and further to more capital- and technology-intensive durable consumer goods and capital goods. Therefore, according to the structuralists, it was not possible to base the less developed countries' industrialisation on international demand and exports.

Added to this the poor countries, with their dependency on earnings from export of raw materials, faced great difficulties when they attempted to

finance the initiation of an industrialisation process. On this issue *Raúl Prebisch*, in one of his classical analysis from the late 1940s, noted that the prices of raw materials in relation to manufactured goods had decreased steadily from the 1870s and up to the Second World War. This implied that the raw material exporters, that is the less developed countries, had to sell greater and greater quantities of their products just to acquire the same export income. Based on this analysis of the long-term trend of deteriorating terms of trade as seen from the primary exporters' perspective, Prebisch concluded that the economies of the Third World had no option but to industrialise and produce their own manufactured goods (Prebisch, 1950: 1984). Around the same time, the German-born economist *Hans W. Singer* reached a similar conclusion based on different data. Both Singer and others subsequently showed that the trend continued during the following decades, although there were considerable fluctuations for certain primary products like oil after 1973 (see Singer, 1984).

The deteriorating terms of trade for the Latin American and other less developed countries could not, according to Prebisch and Singer, be understood within the framework of the orthodox theory of comparative advantages. This theory claimed that increased productivity, such as that which took place in the highly industrialised countries in the period concerned, would result in decreasing unit prices for their products, and a consequent improvement in the terms of trade for primary exporters.

As this did not happen, and as the prices of manufactured goods on the contrary increased in relation to the prices of primary commodities, it had to be explained with reference to conditions which the theory of comparative advantages simply did not include in its conceptual framework. Prebisch's explanation was that the industrialised countries had been able to absorb all the productivity gains in the form of higher real wages and profits. This was partly due to the power of the labour movements in the industrialised countries, which had enabled workers to secure higher real wages during periods of productivity growth while preventing wages from sliding during periods of stagnation or economic recession. In more general terms, Prebisch argued that both wages and prices in the highly industrialised societies featured a very strong downward rigidity, thus preventing the primary exporting countries from benefiting from productivity growth.

Irrespective of the specific explanation of the deteriorating terms of trade for the less developed countries, the observed trend meant that these countries had to increase their exports very significantly in order to gain sufficiently large foreign exchange earnings to finance the import of continuously more expensive production equipment, if they wished to start an industrialisation process. Prebisch and the other structuralists did not conclude from this that the less developed countries should abstain from industrialising. On the contrary they concluded, as indicated above, that the developing countries should initiate an industrialisation process as soon as possible; it would only



become more and more difficult as time went by and the terms of trade further deteriorated. In addition they judged that the poor countries had a right to protect their domestic industries over a long transition period because, as latecomers, they would otherwise be suppressed by the international market mechanisms and the dominance of the large transnational corporations (Prebisch, 1984).

At a more abstract level, the structuralists derived from their empirical investigations a *centre-periphery model*; Prebisch had already begun to use these terms in the 1950s. The centre countries were the rich, industrialised countries, who fully enjoyed the benefits from international trade. The peripheral countries were the poor countries in Latin America, Asia and Africa, who were not capable of deriving any significant benefits from their foreign trade.

It followed from the classical structuralist perspective that the peripheral countries' own capital owners and industrialists could not rise to the challenge of development. Their positions in the initial situation were far too weak. As a consequence, there was a need for catalytic support of different kinds. The structuralist economists in this context emphasised the central role of the state. State interventions and comprehensive investment planning were considered necessary means to accomplish the most rational exploitation of the scarce resources. In order to distinguish the proposed policies and strategies clearly from socialist planning, some of the structuralists referred to the required interventions as '*industrial programming*'. This was not seen as a substitute for market mechanisms and private initiative, but rather as a necessary complement.

Another kind of catalytic support could come from foreign investments, international loans on favourable terms, and aid from the rich countries. Transfers of these kinds could all help to reduce the developing countries' balance-of-payments problems and contribute to financing their industrialisation.

Singer, however, was strongly critical of both private investments and commercial borrowing which he believed were mechanisms that tended to hold back the poor countries as dependent partners in the international system. For Singer, massive aid transfers aimed at developing the modern sector were the most adequate and most attractive means. To exaggerate the case a little, Singer almost came to recommend *aid over trade*, because foreign trade under the given international conditions simply could not function as an engine of growth for the less developed countries (Singer, 1984).

These policy recommendations were subjected to steadily stronger criticism during the 1980s. This led to extensive adjustments of the classical structuralist reasoning. But the core of their theory as outlined above has remained intact and continues to play a central role not just among other development researchers, but also in the debate between North and South, especially within UNCTAD, whose agenda even today is strongly influenced by the classical structuralists' ideas and propositions. In a similar way, Prebisch's basic notion

of a world divided into a centre and a periphery has been employed, albeit elaborated in many different ways, in much of the later development debate (cf. Chapter 7).

### Neo-structuralist theories

Many of the Latin American governments adopted the structuralists' recommendations in the 1960s and 1970s, including import substitution as the major strategy for promoting industrial growth (cf. below). At the same time, most governments took upon themselves the major responsibility for investing in physical infrastructure as well as in education and health systems.

In the beginning, these efforts worked in accordance with the structural economists' expectations, but when import substitution had successfully been accomplished for a variety of consumer goods, and when the demand from the consumers with considerable purchasing power had been satisfied, the strategy ran into problems. It proved far more difficult than expected to carry import substitution beyond consumer goods and on to higher levels, that is durable consumer goods, basic intermediate products and production equipment. Import substitution at these higher levels required considerably more capital, foreign exchange, and know-how – all of which were unavailable in sufficient quantities.

Some of the countries, including Brazil, tried under these circumstances to combine import substitution with an export-oriented industrial development strategy, but soon had to admit that the extensive protection of domestic industry during the first stage had contributed to the growth of many companies that simply could not cope with competition in the international markets. Unfavourable international market conditions in the 1970s accentuated the pressures on the Latin American economies (cf. Bagchi, 1982: Ch. 5).

Thus, contrary to the historical experience of the centre countries, the so-called 'easy phase of import substitution' was not followed by either a broadening of the industrial base or a diversification of manufacturing exports. Instead, industrial growth declined and most of the countries ran into serious balance-of-payments problems and public sector deficits. This reduced the states' abilities to finance physical and social infrastructure development (Kay, 1989: Ch. 2). It was during this period the ground was laid for the massive debt problems which have since so decisively restrained further progress for several Latin American countries (Sunkel, 1993).

Along with this, it became clear to the structuralists that growth in the modern industrial sector had not led to broadly based social progress. Large parts of the population had remained on the sidelines of the growth processes and did not get any sizeable benefits from them. Other population groups had even become further marginalised and experienced the changes as a decline in absolute terms (George, 1988: Chs. 8–9). Furthermore, the structuralists noted that the economic and social transformation processes in

Latin America came to pave the way for military dictatorships instead of promoting the democratisation process they had expected and wanted (Salazar-Xirinachs, 1993).

In the light of the patterns of slow growth and social exclusion exhibited in Latin America – and with inspiration from theories within other areas of development economics and neo-classical economics – the structuralists began, from the beginning of the 1980s, to adjust their approach. They retained Prebisch's original emphasis on endogenous and structural conditions as well as the need to promote domestic industry, but they moved away from the relatively one-sided focusing on the state's role in demand creation and investment planning. They acknowledged that the domestic markets, even in a large country like Brazil, were too small to sustain an extensive industrialisation process on their own. Instead, they stressed the importance of supporting and promoting the formation of an efficient entrepreneurial class which could cope with competitors in the international markets. The state's role was extended – with considerable inspiration from Schumpeter – to include the supply side, especially regarding the promotion of higher industrial productivity as a basic precondition for improved competitiveness (cf. Salazar-Xirinachs, 1993).

The neo-structuralists have not abandoned their basic proposition that development most come from *within* and that it must be based on a diversified and coherent industrial structure, but they have reduced their expectations with regard to how much can be achieved without a considerable commitment to export. With respect to the conception of the relationship between state and market, and of the state's economic role in general, the neo-structuralists claim that several types of state interventions are still required, but they have de-emphasised the interventions which have to do with control of the transformation process in favour of interventions of a more facilitating kind. This issue will be dealt with in greater detail later (Chapter 18). In the present context we shall move on to a review of Gunnar Myrdal's theory, which in many respects can be seen as an extended and modified version of both the classical and the new structuralist theories.

### Myrdal's theory of societal development

The Swedish economist Gunnar Myrdal's extensive authorship cannot, as mentioned earlier, be classed exclusively with the structuralist school of development economics. When Myrdal is considered in the present chapter it is because his basic propositions coincide with those of the classical structuralists, although at the same time they involve a further elaboration within a broader perspective.

Myrdal basically agreed with the structuralists that international trade under the prevailing circumstances in the first decades after the Second World War could not function as an engine of growth for the less developed countries.

To a large extent he also endorsed the structuralists' explanations of this, but he went further with a more general hypothesis on *circular and cumulative causation*. According to this hypothesis, the economic development process was, as a whole, characterised by a dynamic which favoured the already rich and resourceful – whether countries, regions or population groups. Conversely, the dynamic worked to the disadvantage of the resource-weak who, without special efforts, would remain trapped at their low level of development. Applied to international trade, the hypothesis more specifically implied that the terms of trade and the market mechanisms would ensure a 'trickling up' of the benefits to the industrialised countries and prevent the underdeveloped countries from taking advantage of their foreign trade.

Myrdal combined this proposition with the assertion that the rich industrialised countries, especially because of the states' active involvement, had been able to reach a high degree of national integration. As a result, economic growth in these countries tended to spread more effectively to other localities and sectors as well as to other social groups. The integrated economies benefited from both the multiplier and the accelerator effects. Growth in one sector or one region led to derived demand in other sectors and other regions – within the industrial countries' own borders. The result was that the industrial countries came to benefit from a 'virtuous circle' – a cumulative process with self-reinforcing growth (Myrdal, 1956, in Meier, 1989).

The less developed countries were in a very different situation. Here growth was concentrated in small enclaves and a few branches of industry, from where demand for production equipment and other inputs was not directed towards other domestic producers but rather towards suppliers in the industrialised countries. Likewise, the demand from domestic elites with considerable purchasing power was directed towards luxury goods from the rich countries, whose entire consumption pattern they tried to adopt. The combined result was that the less developed and less integrated countries were caught in a 'vicious circle' – a circular constellation of forces that tended to keep them in a state of poverty.

Myrdal also applied his proposition regarding circular and cumulative causation to analyses of income distribution within the poor countries. In his impressive work from 1968, *Asian Drama*, Myrdal elaborated the argument with particular reference to India and other societies in South and South-East Asia (cf. Myrdal, 1968: Appendix 2). In this context, Myrdal explicitly referred to Ragnar Nurkse's *poverty circles* as an appropriate conceptual framework for analysis (cf. Chapter 5).

Based on very comprehensive studies of the poor Asian societies, Myrdal formulated a much more encompassing theory on economic development and underdevelopment than those proposed under the headings of growth and modernisation theories, and economic structuralism. Myrdal did not confine himself to bringing in other economic sectors such as agriculture, but established a perspective that, systematically, included several non-



economic conditions, making his theory a theory of societal stagnation and transformation rather than merely an economic theory. Some of the central features of this theory are considered here, starting with the criticism Myrdal – in collaboration with Paul Streeten – directed against the classical growth model originally proposed by the English economist Roy Harrod and the American economist Evsey Domar: the basic thesis known in the literature as the *Harrod–Domar model*.

In the Harrod–Domar model, the total production in a society was perceived as a result of the investments in the material production apparatus. Output was regarded as a function of capital input. The idea was, stated in simple terms, that a certain investment would lead to a certain increase of total production and hence of national income. The size of the investment needed for a certain increase in the national income depended on the capital–output ratios prevailing within the various sectors. The higher this ratio, the more investment was required. The important point in the present context, however, is the implied assumption that other conditions in society, in principle, could be disregarded, because they were either irrelevant or would change and adapt as a result of economic growth.

For many years after the Second World War this model played a major role in the development debate. Many poor countries even applied the model, albeit in different and often elaborated versions, as a basic framework for their economic planning after independence (cf. Chapter 16). It is still embodied in several planning models. Myrdal and Streeten, however, asserted as early as the 1950s that the model rested on highly unrealistic assumptions which made it of little use either in scientific research or in practical planning work. They argued that the model put far too much emphasis on capital. Somewhat polemically, they claimed that the whole mode of reasoning was like judging a violin concert by the number and quality of violins without regard to the skill of the violinists. To talk of a capital–output ratio implied as much over-simplification as to talk of a violin–melody ratio (Myrdal, 1968: Appendix 3, authored by Streeten).

Instead of the one-factor analysis, Myrdal proposed a more complex conceptual framework which provided for the inclusion of several other societal conditions that affected total production and national income. The framework comprised the following six categories:

1. Output and incomes
2. Conditions of production
3. Levels of living
4. Attitudes toward life and work
5. Institutions
6. Policies.

It is noteworthy that Myrdal here brought in non-economic conditions as central to his analysis. We shall return to these conditions and how they were

dealt with in his approach later (cf. Chapter 16). In the present chapter, the focus is on the first three categories which, combined, cover what more traditional economists associate with a society's economic structures and processes.

Myrdal applied the three categories to characterise the situation in the Asian countries that he had selected for investigation in *Asian Drama*, but he argued at the same time that they were applicable, at least in principle, to all other less developed societies.

Through his research Myrdal arrived at a series of fundamental characteristics, not just concerning backward societies (regarded as units of analysis), but also concerning poor population groups within these societies. It is in this connection one finds some of the most thoroughly elaborated analyses of the distorted production structure in South Asia. It is also here one finds excellent descriptions of widespread unemployment and underemployment, of the inappropriate and poor utilisation of natural resources, especially within agriculture, and of the great income inequalities and the nature, extent, and multi-faceted character of mass poverty.

The conditions within the various categories are, according to Myrdal, closely related and there is a tendency for them to change in the same direction. In this connection, it is further underlined that the direction can be both 'forwards' and 'backwards'; Myrdal considered not only the possibilities for development, but also the possibilities for underdevelopment.

Myrdal stressed that the economically backward countries had to pledge considerable resources to set in motion an industrial development process. This was another crucial area where his propositions coincided with those of the structuralists. Myrdal in this connection endorsed the assertion that industrialisation would create more jobs, increase productivity, and significantly contribute to increasing production and incomes in the society. However, with reference to the specific conditions in South Asia's heavily populated countries, by the 1960s Myrdal had already reached the conclusion that even massive industrialisation could not absorb the millions of unemployed or underemployed in agriculture. Consequently, exclusive reliance on industrialisation would be totally inadequate if the goal is socially broad-based growth and a minimum of equity, and not just isolated growth within geographical and social enclaves.

Therefore, Myrdal further argued, the less developing countries must at the same time aim at developing agriculture, which could contribute to increasing employment and thereby the spreading of incomes and assets. The idea was not simply that agriculture should employ more people, but rather that the sector should create a production basis for growth and increased employment in other sectors of the economy. Accordingly, the most important aspect of the strategy was to increase the efficiency and productivity of agriculture. As a vital precondition for this, Myrdal emphasised radical land reforms which could bring about a more equitable distribution

of land. Because of the generally higher productivity per area unit among smallholding peasants in comparison to peasants with large land holdings and the landed aristocracy, this would in itself result in a considerable expansion of total production.

The proposal regarding radical land reforms reflected a more basic concern of Myrdal's. He strongly believed that a certain degree of economic and social equality and equity was a precondition for sustained growth. He rejected the widespread conception that there is a contradiction between the objectives of economic growth and those of promoting social equality. Instead, he tried to demonstrate how the existence of poverty and inequality have impeded economic growth. When large segments of the population in backward countries suffer from mal- and undernourishment and other symptoms of extreme poverty, economic growth is obstructed because poverty weakens people and reduces their ability to work – and especially to work hard. Lack of education and understanding of their own potential opportunities further reduces the poor's productivity.

Myrdal suggested many other reasons why the traditional dogma linking inequality with growth was not only morally unacceptable but also factually incorrect as a statement regarding the causal interrelationships. He thus also underlined that even though savings in some poor countries did grow with increasing incomes, it was not at all certain that these greater savings would result in higher growth rates. On the contrary, experience showed that many of the rich squandered their money on ostentatious consumption of luxury goods or transferred the money out of the country.

With his recommendations on equality-promoting reforms and special assistance to the poor, Myrdal came close to formulating what has since come to be termed as the basic needs strategy (see Chapter 21).

### Strategies for industrial development

According to structuralist theory, industrialisation is a precondition for aggregate growth and economic development of backward societies. These theories further assert that industrial development under the given international economic conditions has to focus chiefly on import substitution, starting with light consumer goods and thereafter moving on to durable consumer goods, basic intermediates and, finally, production equipment. This sequence was derived from the basic thesis on the size of the market as the most important determinant for investments. The underlying assumption was that in the beginning there would be no market for production equipment. Therefore, it was necessary first to establish an extensive consumer goods industry which, in addition to bringing about import substitution at this level, would create a considerable demand for capital goods and thereby pave the way for the establishment of more capital-intensive industries.

In spite of Myrdal's and other structuralist and neo-structuralist econom-

ists' warnings that industry could not be expected to function as an engine of growth under all circumstances, this line of reasoning came strongly to influence many Latin American and Asian societies' development efforts for several decades (cf. Bagchi, 1982: Ch. 5). It is beyond the scope of this book to review in detail the specific elaborations of the industrialisation strategies or the experiences derived from applying them in different settings, but it may be useful to summarise some of the main types of strategies (see Weiss, 1988). These may function as points of reference when reviewing the various theoretical works on particular aspects of industrialisation in the Third World.

The first main type of strategies can be described as *industrialisation via import substitution*. The policies and strategies in this group are characterised by being inward-looking in the sense that they generally aim at replacing industrial imports by domestic production. The above sketched strategy belongs to this main type, but it should be added that it embodies only one of several possible ways of sequencing the import replacements. A particular subgroup of strategies would give priority to heavy industries, often government-owned, and aim at substituting import of basic intermediates and capital goods at a much earlier stage.

Some of the larger developing countries like China, India and Brazil have tried to implement import substitution both for light industry, durable consumer goods and heavy industry, while smaller countries – including most of the African countries – have had to limit themselves to 'the easy phase' of import substitution, that is concerning light consumer goods, and moreover often with emphasis on a small selection of consumer goods. Such limited attempts at industrialisation via import substitution have rarely speeded up industrial growth, among other reasons because this strategy has led to increased imports of machinery and other capital-intensive industrial inputs. Because of the prevailing terms of trade, the prices of the imported capital goods have by far outweighed the earnings in foreign exchange from replacing the import of light industrial products. As a result, the countries concerned have typically ended up with larger – rather than the intended smaller – deficits on their trade with the outside world.

Another main type of industrialisation strategies can be described as *export-oriented* – or as industrialisation via export substitution. The basic idea here is to replace the export of primary products with the export of 'non-traditional products', such as processed primary products, semi-manufactures and manufactured goods of various kinds. This type of strategies also includes several more specific forms depending, among other things, on the kinds of product selected and the sequencing chosen for the diversification strategy. Most developing countries have been able to export only light industrial products which could be produced with limited investments in labour-intensive production processes. Far Eastern high-growth countries such as South Korea and Taiwan are among the comparatively few who have been

able to diversify their exports so as to include capital- and technology-intensive products like ships, cars and electronics as well.

We shall get back to a discussion of different industrialisation strategies elsewhere in the book, for example in connection with a model of industrial development and foreign trade (Chapter 8), and in connection with considerations on agricultural development (Chapter 10). In this latter context, a third main type of industrialisation strategies, *agriculture-based industrialisation*, will be introduced.

## CHAPTER 7

# Neo-Marxist Theories of Underdevelopment and Dependency

Neo-Marxist theories of underdevelopment and development appeared during the 1950s, partly as a reaction against the growth and modernisation theories, partly as the outcome of a long-standing debate concerning the impact of imperialism. The early Neo-Marxist theories were primarily known as *dependency theories*. They were to a large extent influenced by the Latin American structuralists and their analyses of the trade relations between the economically backward countries and the highly industrialised countries.

With respect to the theoretical heritage from the debate on imperialism, it may be of interest to note that Marx had concerned himself with this issue as early as the 1850s. In articles in publications such as the *New York Tribune*, Marx tried to assess what would be the long-term impact of the European colonisation of South Asia. In this context, he arrived at the conclusion that imperialism would probably destroy important elements, including local small-scale manufacturing, and set in motion a significant exploitation of the colonial areas; but, on the other hand, he believed that the European penetration would at the same time remove basic obstacles to the development of capitalism. Furthermore, Marx considered many of the British interventions as directly promoting economic transformation. This applied especially to the building and expansion of material infrastructure, the introduction of the plantation economy, monetisation of commodity exchange, and the initial establishment of modern industry with its concomitant wage labour (cf. Marx and Engels, 1972).

In other words, British rule implied destruction and exploitation in the short-term perspective, but construction and creation of essential material preconditions for the colonial areas' later transformation to capitalism – and thus, according to Marx, genuine societal development. It may be added that Marx later toned down the constructive aspects of British rule in South Asia. He further asserted that the British colonisation of Ireland had only destructive effects.

The interesting point in the present context is to note the wide span in Marx's own conceptions, because this span has paved the way for very different interpretations within the Marxist research tradition. One of the theorists who has championed the view that imperialism has promoted