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Imperialism and Capitalist Industrialization

Current Marxist views of the relationship of imperialism to the non-socialist underdeveloped countries are that the prospects of independent economic development or independent industrialization in such countries are nil or negligible (unless they take a socialist option); and that the characteristics of backwardness, underdevelopment and dependence[1] which prevent such development are the necessary results of imperialist domination. Despite the state of controversy in which the theory of imperialism currently finds itself, these conclusions were generally accepted by all participants in a recent symposium on imperialism.[2] It will, on the contrary, be the burden of this article that empirical observations suggest that the prospects for successful capitalist economic development (implying industrialization) of a significant number of major underdeveloped countries are quite good; that substantial progress in capitalist industrialization has already been achieved; that the period since the Second World War has been marked by a major upsurge in capitalist social relations and productive forces (especially industrialization) in the Third World; that in so far as there are obstacles to this development, they originate not in current imperialist-Third World relationships, but almost entirely from the internal contradictions of the Third World itself; that the imperialist countries' policies and their overall impact on the Third World actually favour its industrialization; and that the ties of dependence binding the Third World to the imperialist countries have been, and are being, markedly loosened, with the consequence that the distribution of power within the capitalist world is becoming less uneven.

To avoid misunderstanding, we must state at the outset that none of this is meant to imply that imperialism has ceased to exist. It does exist as a system of inequality, domination and exploitation. What we wish to indicate are elements of change. It is a striking, if not unprecedented, irony that socialist scholars should be giving maximum attention to the phenomenon of dependence at the very time when the phenomenon itself is suffering irreversible decline. The political importance of these issues is immeasurable. In a world changing rapidly in a highly complex fashion, there is a possibility that Marxist analysis (on which Marxism's power to change society ultimately depends) will lag seriously behind reality, that new elements in the situation will not be remarked and that the resulting distortion will decisively weaken revolutionary strategy.

Specifically, the danger is that the international relationships of class forces will be misunderstood. A crucial element in these relationships must be the success or otherwise of Third World capitalist development. Successful capitalist development is here understood as that development which provides the appropriate economic, social and political conditions for the continuing reproduction of capital, as a social system representing the highest form of commodity production. It is aspects of this development we examine below. The problem as posed in these terms differs from that posed by many authorities who analyse instead the *adequacy* of 'development' (sometimes capitalist development) as a process satisfying the needs of the masses (or 'the problems of the nation'). Nor will this article discuss the most immediate problem which underdeveloped countries face today: the backwardness of their agriculture and its consequence: the unevenness and imbalance of their economies. All that will be attempted here will be to

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[1] These three terms represent alternative emphases on different dimensions of the alleged effects of imperialism on the Third World. They clearly illustrate the ambiguities of current Left analyses. 'Backwardness' is completely vague and must anyway be viewed in relation to technical, economic and social *potentialities* which. however, have been both created and revealed (raising expectations) by imperialism. The 'underdevelopment' concept, understood not simply as retardation, but as a distortion of economic development, suffers from the fact that, apart possibly from the US, England and France, there has never been a so-called 'normal' development of industrial capitalism in any country and the distortion referred to appears to be judged so against an unstated ideal criterion. 'Dependence' as a concept becomes extremely tricky in an increasingly integrated world economy. Does, for example, the US's increasing need for Middle East oil and Algerian natural gas make it dependent on these countries or are these countries dependent on the US market? While recognizing this the terms 'underdeveloped countries' or the 'Third World' will be used without qualification in the text to refer to capitalist underdeveloped countries.

[2] *Studies in the Theory of Imperialism*, eds R. Owen and B. Sutcliffe, 1972.

register, however briefly, the actuality of capitalist industrialization in the Third World and to consider some of the implications.[3]

I Overall Growth

Despite statements and predictions to the contrary, the underdeveloped world, considered as a whole, has made considerable progress in industrialization in the post-war period. Already, by the 1950s, the Third World accounted for a higher proportion of the world's manufacturing output than it did pre-war. Whereas in 1937 the developed capitalist countries accounted for about nine times the manufacturing output of Latin America, Africa and Asia, by 1959 the ratio had been reduced to seven to one.[4] Moreover, this tendency for manufacturing output to grow faster in the underdeveloped world than in the developed capitalist world continued into the 1960s—with Third World manufacturing output growing at about 7 per cent per annum between 1960 and 1968 while that in the advanced capitalist world grew at about 6 per cent.[5] This was despite the fact that during the 1960s industrial growth in the developed capitalist world has been exceptionally high by historical standards, overall GNP growth easily exceeding the famous OECD Growth Target for the 1960s of 50 per cent over the decade (see tables I and II).

TABLE I

World Production of Manufactures by Continent 1937–59

	(Net values in $ billion at 1955 prices)				
	1937	*1950*	*1955*	*1957*	*1959*
North America	50·5	97·8	121·9	126·7	133·2
Western Europe	50·2	62·6	88·2	97·0	105·8
Oceania	1·8	3·1	4·0	4·4	5·2
Sub Total	**103**	**164**	**214**	**228**	**244**
Latin America	4·2	8·1	10·5	11·7	13·9
Asia	6·9	6·3	11·3	15·2	18·6
of which Japan	2·8	1·7	4·0	5·8	7·4
Africa	0·5	1·6	2·3	2·5	2·8
Sub Total	**12**	**16**	**24**	**29**	**35**
Total	115	180	238	257	279

[3] I wish to thank for their helpful comments and stimulating discussion, Alec Gordon, Robin Murray, Mike Prior, Profulla Sangrhi and the comrades of the British and Irish Communist Organization.

[4] A. Maizels, *Growth and Trade*, NIESR Students Edition 1, 1970, p. 22. The exclusion of Japan from the Asian figures makes little difference to the overall developed/underdeveloped ratios (table 1). '. . . In the less developed continents considerable progress has been made since before the war in Latin America and in many countries elsewhere . . . Manufacturing production in Latin America almost doubled from 1937 to 1950. In Asia, excluding Japan, production in 1950 was only marginally above the pre-war level, but from 1950 to 1959 it rose by about one and a half times. Indeed, over this last decade, the rise in manufacturing output in Asian countries (excluding Japan) accounted for about half the total expansion in the less developed areas.' (p. 24).

[5] UN, *World Economic Survey, 1969–70: the developing countries in the 1960s: the problem of appraising progress*, UN, New York, 1971, p. 24. The authors of the survey note that since the countries without relevant data are likely to be those with the smallest manufacturing sectors which will tend to grow particularly fast initially, the estimate of Third World manufacturing growth is likely to be too low (p. 25).

TABLE II

Annual Rates of Growth in Manufacturing Production, 1937–59

	(Percentage Compound)			
	1937–50	*1950–5*	*1955–7*	*1937–57*
North America	5·2	4·5	1·9	4·7
Western Europe	1·7	7·1	4·9	3·3
Oceania	4·3	5·2	4·9	4·6
Latin America	5·2	5·3	5·6	5·3
Asia	−0·6	12·4	16·0	4·1
Overall	**3·6**	**5·7**	**3·9**	**4·2**

SOURCE: Maizels, op. cit. p. 23. NB: Communist countries excluded.

It may be argued that this apparent success is attributable to the high statistical growth rates associated with very small industrial bases and is therefore delusive, or, alternatively, that in terms of output per head the record of the underdeveloped countries compared with the developed capitalist countries is rather poor. However, inspection of the figures for individual countries over a longish period shows the ability of many underdeveloped countries to maintain faster rates of growth of manufacturing output than the already industrialized economies (table III).[6] Moreover, the really unique feature of the post-war industrialization advance in the Third World taken as a whole, is its sustained momentum over a period longer than any previously recorded.[7] Thirdly, this industrialization has been (and is) taking place in a period when neither war nor world depression have acted to 'cut off' the Third World from the advanced capitalist countries—and yet it is this cutting-

TABLE III

Annual Average Rates of Growth of Manufacturing for Selected Countries 1951–69

Brazil	7·8	Panama	14·2
Costa Rica	9·7	Peru	7·5
Iran	11·2	Philippines	8·5
Iraq	6·8	Puerto Rico	6·5
Jamaica	5·0	Singapore	14·8
Jordan	15·2	Taiwan	16·1
Korea (Rep of)	16·9	Thailand	8·7
Malaysia	6·4	Trindad & Tobago	10·0
Mexico	7·4	Turkey	11·5
Nicaragua	7·6	Venezuela	10·5
Pakistan	15·0	Zambia	13·8

NOTE: Countries selected by Chenery from 75 countries for which International Bank had compiled fairly complete statistics. Chenery chose 29 of the fastest growing countries from which I have removed Israel, Greece, Japan, Yugoslavia, Bulgaria and Spain (there are no data for the Ivory Coast).

SOURCE: H. B. Chenery, 'Growth and Structural Change', *Finance and Development* Vol. 8, No. 3, September 1971, pp. 25–6.

[6] Although the figures of table III are likely to be somewhat biased in an upwards direction since they are figures for high-growth countries (average growth rates of per capita income of 5·5 per cent per annum or more for nearly all), it should be remembered that we are concerned only to make the point for a substantial proportion of underdeveloped countries. We do not claim universality of sustained industrialization (nor even that long-period sustained industrialization is inconsistent with intermittent periods of stagnation, deceleration or decline). Since the figures cover two decades, they show growth rates which in many cases cannot be explained solely in terms of an initial fast start. They compare with figures for the developed capitalist economies of about 5–7 per cent per annum.

[7] On this see United Nations Industrial Development Organization (UNIDO), *Industrial Development Survey, Vol. 1*, UN, New York, 1969, pp. 5–6.

off that Gunder Frank considers crucial in explaining such industrial progress as has been made (in partial exception to his 'developing underdevelopment' and 'increasing polarization' theses.)[8]

Certainly, the growth of manufacturing output *per head* in the underdeveloped countries does lag behind that of the imperialist world, in part because of the unprecedented post-war rates of population growth in the former. But to take the growth of manufacturing output per head as a basis of comparison is to apply an extremely demanding criterion of performance. Similarly, the same point applies to the growth of total output per head. Clearly, from the point of view of living standards, per capita growth rates are the most relevant criterion. However, from the perspectives of the distribution of world industrial power and the growth of the market (which are more relevant to the problem at hand) total, rather than per capita, growth rates are the central issue.

Gross Domestic Product

If the advance of modern manufacturing is considered crucial to the elimination of underdevelopment, then the proportion of gross domestic product accounted for by manufacturing in the underdeveloped countries is a useful, if very approximate, comparative indicator.[9] The figures are rather impressive. For the underdeveloped countries as a whole the proportion of gross domestic product accounted for by manufacturing rose from 14·5 per cent in 1950–4 to 17·9 per cent in 1960–4, while in the developed capitalist countries during 1960–4 manufacturing contributed 31·3 per cent to GDP[10]. *The proportion in underdeveloped countries is already over half that of developed ones.*

Aggregate figures can be misleading if we are concerned with the development of alternative centres of economic power in the Third World rather than simply overall changes. Moreover, as we shall see, the very concept of a 'Third World' separated by a gulf or gap from the developed world can imply a polarity which is not always present in reality. Tables IV and V show, very clearly, that manufacturing in a number of large and medium-size underdeveloped economies (in addition to small ones like Hong Kong, and Malta) already makes a contribution to their gross domestic product comparable to (or even superior to) that of some of the developed capitalist economies. Thus manufacturing in Mexico, Argentina, Chile and Iran accounts for about the same proportion of GDP as does manufacturing in the developed market economies as a whole, and indeed manufacturing in the above-mentioned countries contributes more to the gross domestic product than it does in Canada, Spain, Australia, Norway, Finland, New Zealand and Greece. Indeed, in practically every country in Latin America, manufacturing constitutes a higher percentage than in Greece. A range

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[8] A. G. Frank, *Capitalism and Under-Development in Latin America*, Penguin Latin American Library, 1971, p. 52.

[9] It may be misleading as a short-term indicator since a rational strategy for more economics may be an initial development of mineral or cash crops before using the resources so gained for manufacturing progress.

[10] *Industrial Development Survey*, Vol. 1, op. cit., p. 19.

TABLE IV

Basic Data on Economies of Individual Underdeveloped Economies—Ranked by Total GNP[a]

Country	(i) Total GNP 1969 US $ millions[b]	(ii) Total Population in '000s	(iii) GNP per capita US $	(iv) Growth of GNP per capita per annum 1960–70	(v) Population growth 1960–70	(vi) GNP growth per annum (iv + v)	(vii) Manufacturing labour force as % total active population	(viii) Manufacturing output as % GDP
India	47700[a]	537000[c]	89	1·2	2·3	3·5	9·5 (1961)	13 (1967)
Brazil	31200	92300	338	2·4	2·9	5·3	—	19 (1968)
Mexico	29400	48900	600	3·7	3·5	7·2	16·7 (1970)	30 (1967)
Argentina	19900	24000	828	2·5	1·5	4·0	25·1 (1960)	28 (1969)
Pakistan	16500[d]	126700	129	2·4	2·7	5·1	9·5 (1968)	10 (1967)
Turkey	13000	34000	380	3·9	2·5	6·4	7·1 (1965)	15 (1969)
Indonesia	12100[e]	117600	104	1·0	2·0	3·0	5·6 (1964–5)	9 (1968)
Venezuela	9600	10000	961	2·3	3·5	5·8	18·6 (1971)	16 (1960)
Iran	9100	27900	327	5·4	3·0	8·4	16·7 (1966)	32 (1967)
Philippines	8100	37200	219	2·9	3·5	6·4	11·4 (1970)	14 (1969)
South Korea	7100	31100	228	6·8	2·5	9·3	13·2 (1971)	21 (1969)
*Chile	6200	9600	644	1·6	2·4	4·0	23·2 (1971)	28 (1969)
Colombia	6200	20500	302	1·7	3·2	4·9	12·8 (1964)	18 (1969)
Thailand	6200	34700	181	4·9	3·1	8·0	3·4 (1960)	14 (1969)
Egypt	6100	32500	188	1·7	2·5	4·2	12·9 (1966)	8 (1953)
Peru	5100	13200	389	1·4	3·1	4·5	13·2 (1961)	20 (1968)
Taiwan	4800	13800	346	7·1	2·8	9·9	—	20 (1969)
Nigeria	4800	53700	90	0·1	2·5	2·6	—	6 (1966)
S. Vietnam	4400	17900	246	1·0	2·6	3·6	—	11 (1965)
Algeria	3800	13300	275	1·7[f]	3·0	4·7	6·4 (1966)	8 (1967)
Malaysia	3700	10600	351	3·1	2·9	6·0	—	10 (1967)
Morocco	3100	15100	207	1·0	2·6	3·6	8·2 (1960)	11 (1965)
*Hong Kong	3100	4000	777	8·4	2·2	10·6	41·4 (1971)	38 (1968)
*Libya	3000	1900	1601	20·4	3·7	23·7	2·1 (1962)	2 (1968)
*Saudi Arabia	2800	7500	388	8·0	2·7	10·7	—	8 (1968)
*Iraq	2700	9200	294	2·5	3·3	5·8	9·5 (1957)	9 (1969)
*Kuwait	2400	700	3564	−3·4[h]	8·6[i]	5·2[j]	13·4 (1970)	4 (1969)
*Ghana	2200	8700	256	−0·4	2·9	2·5	8·6 (1960)	—
Ceylon	2000	12200	162	1·5	2·4	3·9	9·1 (1963)	10 (1969)
Burma	2000	27000	74	0·6	2·2	3·8	—	9 (1967)
*Uruguay	1900	2900	682	−0·4	1·2	0·8	21·0 (1960)	—
*Singapore	1700	2000	844	5·2	2·1	7·3	13·9 (1957)	18 (1969)
Sudan	1700	15300	113	1·0	2·8	2·8	5·0 (1956)	9 (1968)
Zaire	1700	17000	98	2·7	2·1	4·8	3·1 (1955–7)	20 (1968)
*Zambia	1700	4200	400	7·1	3·0	10·1	2·6 (1969)	8 (1968)
*Ecuador	1600	5900	279	1·7	3·4	5·1	14·0 (1962)	17 (1968)
*Syria	1600	5900	273	3·4	2·8	6·2	10·7 (1960)	—
Ethiopia	1600	24800	65	2·8	2·1	4·9	—	8 (1967)
Kenya	1400	10000	136	3·6	2·9	6·5	—	11 (1968)
Afghanistan	1400	16500	85	0·5	2·1	2·7	—	11 (1968)
*Ivory Coast	1300	4200	300	4·5	2·3	6·8	0·8 (1964)	—
*Tunisia	1200	5000	231	0·5	2·2	2·7	9·5 (1966)	13 (1969)
Tanzania	1200	12900	96	3·6	2·6	6·2	—	7 (1969)
*Jamaica	1100	2000	545	3·5	2·3	5·8	13·7 (1960)	13 (1969)
*Uganda	1100	8400	118	2·4	2·5	4·9	8·0 (1959)	6 (1968)
*Bolivia	960	4800	188	2·5	2·6	5·1	10·3 (1950)	15 (1969)
Nepal	900	10800	80	0·5	1·8	2·3	—	11 (1966)
*Malta	200	300	642	5·1[gh]	−0·2[gi]	4·9[gj]	25·1 (1970)	20 (1969)
South Africa	15800	19600	717	3·0	3·0	6·0	11·3 (1960)	24 (1969)

NOTES TO TABLE IV

a All countries listed in UNCTAD *Handbook of International Trade and Development Statistics,* 1972, UN, New York, 1972, with populations of 10 million or above are listed together with 18 others with small populations but of special interest for various reasons; Turkey, listed by the UN as a developed market economy, has also been listed. The 18 low-population countries have been marked by an asterisk.
b Rounded off to the nearest $100 millions.
c Rounded off to the nearest 100,000
d Before Bangaldesh became independent
e Excluding data for West Irian
f 1963–1970
g 1960–1969
h GDP per capita
i Column (vii) – Column (iv)
j Total GDP

SOURCES

Columns (i), (ii) and (iii) from UNCTAD *Handbook of International Trade and Development Statistics,* 1972, table 6.1; columns (iv), (v) and (vi) from *Finance and Development,* March 1973, pp. 20–7 (from the World Bank Atlas); figures for Kuwait and Malta in columns (iv), (v) and (vi) from UNCTAD *Handbook,* 1972, Table 6.2; column (vii) from ILO Yearbook of Labour Statistics, 1972, table 2a; column (viii) from UNCTAD *Handbook,* 1972, table 6.4. The following countries have been omitted from the UNCTAD classification of developed market economies: Luxemburg and Iceland (as being economically negligible), Turkey and Yugoslavia. South Africa is of course, an exceptional case.

TABLE V

Basic Data on the Economies of Individual Developed Capitalist Economies—Ranked by Total GNP 1969

Country	(i) Total GNP US $ millions[a]	(ii) Total Population in '000s[e]	(iii) GNP per capita US $	(iv) Growth of GNP per capita per annum 1960–70	(v) Population growth per annum 1960–70	(vi) GNP growth per annum (iv + v) 1960–70	(vii) Manufacturing labour force as % total active population	(viii) Manufacturing output as % GDP
USA	947800	203200	4664	3·2	1·2	4·4	26·5 (1960)	28 (1969)
Japan	166400[c]	102300	1626	9·6	1·0	10·6	25·5 (1970)	33 (1968)
W. Germany	152800	60900	2512	3·5	1·0	4·5	36·4 (1961)	43 (1969)
France	140100[a]	50300	2783	4·6	1·0	5·6	25·8 (1968)	35 (1969)
UK	109700	55500	1976	2·2	0·6	2·8	34·8 (1966)	29 (1969)
Italy	82300	53200	1548	4·6	0·8	5·4	26·5 (1961)	23 (1969)
Canada	68700	21100	3260	3·6	1·8	5·4	22·9 (1961)	31 (1969)
Australia	33000	12300	2660	3·1	2·0	5·1	26·9 (1966)	25 (1968)
Spain	28700	33000	872	6·1	1·1	7·2	21·9 (1960)	25 (1969)
Netherlands	28300	12900	2196	3·9	1·3	5·2	29·9 (1960)	32 (1960)
Sweden	27900	8000	3490	3·8	0·7	4·5	31·9 (1965)	28 (1969)
Belgium	22900	9700	2372	4·0	0·6	4·6	34·7 (1961)	31 (1969)
Switzerland	18500	6200	2965	2·5	1·5	4·0	39·7 (1960)	—
Denmark	14000	5000	2860	3·7	0·7	4·4	28·7 (1965)	27 (1969)
Austria	12400	7400	1687	3·9	0·5	4·4	28·6 (1961)	—
Norway	9700	3900	2528	4·1	0·8	4·9	25·5 (1960)	25 (1969)
Finland	9100	4700	1944	3·9	0·6	4·5	24·4 (1970)	25 (1969)
Greece	8400	8800	950	6·6	0·7	7·3	16·4 (1971)	14 (1969)
Portugal	5800	9600	600	5·3	0·9	6·2	20·3 (1966)	32 (1969)
New Zealand	5300	2800	1918	2·1	1·7	4·4	26·6 (1966)	23 (1967)
Ireland	3400	2900	1169	3·6	0·4	4·0	18·5 (1966)	—

NOTES TO TABLE V

a GDP at market prices
b Construction included
c Net Domestic Product
d Rounded to the nearest 100 millions
e Rounded to the nearest 100,000

of other important countries are approaching, in this respect, the position of the developed capitalist economies. For example, manufacturing in Brazil, Zaire, Colombia, South Korea, Taiwan and Peru contributes well above the proportion in Greece and fairly close to the proportions in Canada, New Zealand, Spain, Norway, Finland and Australia.

However, the most relevant single indicator of the degree to which a large or medium-sized economy is constructing modern productive forces is the proportion of the active population employed in modern manufacturing as compared to that employed in backward agriculture. For, a high proportion contributed to GDP by manufacturing may simply reflect the primitive character of the agricultural sector. Thus an occupational comparison is a better guide to the degree of developmento of productive forces than a sectoral output comparison; for an occupational comparison will show whether a large proportion of the population is engaged in low-productivity labour, or whether there is a spread of high-productivity employment through the active population, as in developed countries. The figures deployed in column vii of tables IV and V give a much less cheerful picture of the relative extent of industrialization. They show a much higher proportion of the active population engaged in modern manufacturing in the developed capitalist economies than the corresponding proportions of manufacturing output to GDP. But even here, it is absolutely crucial to note the progress made in some important Third World countries which, thanks to very substantial industrialization, have characteristics far different from those typical of underdevelopment.

II Independence and Industrialization

The post-war period, during which industrialization in the Third World has been sustained, rapid and widespread, is often characterized as the period of 'neo-colonialism'. This term is meant to designate the view that the formal, political, independence, gained by almost all the former colonial territories, has not substantially modified the relations of domination and exploitation by the developed capitalist (imperialist) countries over the Third World. As a corollary, 'neo-colonialism' implies that formal political independence has not significantly improved the prospects of independent industrialization in the periphery.

It is clear, however, that even if inequality persists unabated (which is not the case) the character of the inequality must have been significantly, and not merely marginally, altered by the industrialization achieved since the war.[11] Indeed, the data assembled above, and those presented below, lead irresistibly to the conclusion that the post-war period has witnessed not merely a change in the character of these inegalitarian relationships but a significant and continuing reduction in the inequality as well. The term 'neo-colonialism', although possessing certain merits in stressing the continuance of imperialist domination and exploitation, is thus misleading in so far as it obscures the new and

[11] Superior rates of growth of the modern industrial sector in the Third World have, in the 1960s and early 1970s, been paralleled by superior growth rates of gross national products compared to the advanced capitalist countries.

dynamic elements in the situation, both as to causes (concerning the role played by the achievement of formal soverignity itself) and as to effects.

It has been fashionable on the Left to minimize the economic consequences of formal independence. Yet it is the post-war achievement of this, in conjunction with a complex of objective economic and socio-political trends, which has been the fulcrum of industrialization in many former colonial countries, both permitting and encouraging it. Independence has *permitted* industrial advance by breaking the monopoly of colonialist power and creating the conditions in which Third World countries can utilize inter-imperialist and East-West rivalries. Independence has been a *direct cause* (not just a permissive condition) of industrial advance in that it has stimulated popular pressures for a higher living standard where these have been a major internal influence sustaining industrialization policies. Diffuse indigenous pressure for higher living standards has in some cases been an important force in the post-war growth of nationalism in the Third World.[12] The nationalist tide, which shows signs of accelerating, is not specifically associated with left or liberal regimes. It may be an important component in the economic policies of extremely right-wing regimes completely allied to the US politically and willingly integrated into that country's global strategic plans, as for example Brazil since 1964[13] and currently Iran.[14] Indeed political reaction, dependence on and alliance with US (or other) imperialism, plus economic nationalism may be a very handy combination for an underdeveloped capitalist country attempting to become more advanced.

Underestimation of the importance of formal independence rests partly upon an incorrect conception of 'liberation from above'. The 'liberation from above' thesis is accurate in a limited sense for a number of individual countries in which action was taken either as a result of US pressure or as part of a forward-looking policy of assuring long-term informal control. However, even in the former case US pressure on the European colonial powers was decisive mainly in circumstances in which nationalist movements in the countries concerned were able to take advantage of imperialist differences.[15] More generally this thesis under-estimates the importance of the active pressure of the masses in certain crucial countries which served both as examples and as portents —the West Indies before the war, and India, Algeria, Indonesia, Indochina, Nigeria and Kenya in the post-war period. As for the alleged policies of international firms which support independence,[16] where

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[12] Also manifested in Canada and Australia, yet another indication of the weakness of polarization theses.

[13] M. Arraes, *Brazil the People and the Power*. Penguin Latin American Library, 1972.

[14] The UN *Economic Survey of Asia and the Far East 1972* notes (p. 74) restrictions on the proportion of foreign participation in various industrial lines in Indonesia, Malaysia, the Philippines, India and South Korea—nearly all very rightist regimes.

[15] On the interaction of indigenous nationalism with imperialist rivalries to produce major advances towards greater independence in the Middle East see J. and G. Kolko, *The Limits of Power: the World and US Foreign Policy 1945–1954*, Harper and Row, 1972, chapter 15.

[16] G. Arrighi and J. Saul, 'International Corporations, Labour Aristocracies and Economic Developments in Tropical Africa', put forward this argument in D. Horowitz (ed.) *The Corporations and the Cold War*, New York, 1972.

such policies have come into play they are only the result of the extension of the market that independence itself brings about.

Manoeuvre and Initiative

Formal political independence gives underdeveloped countries a degree of manoeuvre and initiative which, over time, must inevitably come into play, and which is conducive to economic advance. Third World countries can increase their bargaining power 'negatively' by making use of opportunities to play off capitalist states against one another; to play off the communist world against the capitalist world[17] and to play off individual foreign firms, especially of different national origins, against one another. They can increase bargaining power 'positively' through collective action, such as that of the oil producers via OPEC or that of the Andean Pact countries (Peru, Colombia, Ecuador, Bolivia, Chile and Venezuela) which have established common policies (with adequate flexibility for individual countries) towards foreign investment, precisely in order to prevent imperialist countries from utilizing divisions between them. The already well-developed trend towards regional common action and integration among underdeveloped economies is not merely a move towards obtaining the advantages of the economies of scale (for the producer goods industries especially) but is also a potentially potent collective bargaining framework. Further, Third World states have shown the ability to take punitive action against foreign firms located in their territories, e.g. the forcible nationalization of oil in Iraq, Egypt's nationalization of the Suez Canal, Uganda's recent takeover of British assets, the often unilaterally declared acquisition of majority share-holdings in foreign firms, such as timber and mining in Ghana. Such moves are distinct in principle from collective action, but clearly related to altering East-West and inter-imperialist rivalries. The potential threat of such punitive action is often just as effective, and probably more often used, than the action itself.

The increase in institutional control over their domestic economies by Third World states can be even more important for their economic development. These powers stem directly from independence; they include the establishment of central banks, export-import and currency controls, taxation and expenditure systems, and new para-state policy-making agencies; these bodies can have a decisive effect on growth. The overall effects of these policies and circumstances extend far beyond industrialization *per se*. The new regimes have pursued more expansionist policies that the colonial rulers did. Indeed, 'stagnation' in the Third World is largely a myth. There has been a very substantial growth of capitalist social relations of production throughout the Third World where they were previously non-existent or in a very primitive state. This is especially the case in agriculture, where commodity production is spreading rapidly, as in Tanzania, Malawi, Zambia, Kenya, Uganda, Sudan and Indonesia (a process which is also accelerating social differentiation, as in India). The development of capitalist social relations

[17] For example, East-West rivalries have advanced the Indian steel industry and created that in Iran, as well as Egypt's Aswan Dam. Many more examples could be cited. East-west rivalries have been particularly important in the establishment of capital goods industries.

from below is also proceeding apace in the cities where small firms flourish as urbanization accelerates; these small firms cannot simply be described as second-best occupations for frustrated job-seekers in the modern sector. Finally, and most important, some of the new ruling groups are showing signs of an ability and will to utilize the new economic and political conditions, to begin to restructure their economies along lines more suited to a successful indigenous capitalism, less subordinated to the needs of the imperialist countries. Peru, Zambia, Nigeria are only three of many such examples.

International Rivalry

Independence alone would not have been sufficient to achieve significant economic advance (e.g. Haiti, Liberia, Ethiopia). What has been crucial is the combination of political independence with certain objective conditions in the post-war period. Specifically East-West rivalries and inter-imperialist rivalries, which have been the major external influence, have linked with internal forces, especially the rise of new ruling groups and the increase in popular, often petty bourgeois, mobilization.[18]

The character and intensity of international rivalries have changed rapidly over the post-war period, as have popular pressures and ruling group reactions to them, shifting now to one country or region, now to another. Most obviously, cold war rivalries offered their seminal opportunities in the 1950s although, for the Third World, capitalist/communist conflict may be more important than ever, as political detente between the US and the USSR, and the US and China, could lead to intensification of economic rivalries. Inter-imperialist rivalries were decisive immediately after 1945, as the United States sought to open up the formerly exclusive or semi-exclusive spheres of influence of the European imperialist powers.[19] This was a major factor in the economic breakthrough of Middle Eastern nationalism.[20]

The 1970s are ushering in a new phase of imperialist rivalries with the uneven development of the major imperialist countries, together with the practical and political difficulties of applying Keynesian measures on an international basis.[21] Both will combine to increase trade and

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[18] The struggle for a socialist liberation, where it occurs, typically involves both a mass indigenous upheaval, and an extension of East-West conflict. Paradoxically, the result of it may be that elsewhere, while capitalism does survive in the Third World, it does so more independently. Peru's nationalization of the US interests there may be regarded as a consequence of Vietnam's socialist struggle.

[19] Authoritatively chronicled and analysed in G. Kolko, *The Politics of War*, London 1968 and in J. and G. Kolko, *The Limits of Power*, op. cit.

[20] It is worthy of note that, after the US had partially replaced Britain in the Middle East, the relatively greater room for economic manoeuvre that the US oil firms granted to the oil states was in part the consequence of lessons learnt from Mexico's pre-war takeover of the American-owned oil industry (A. J. Meyer, *Middle Eastern Capitalism: Nine Essays*, Cambridge, Massachusetts 1959, pp. 89–90); an interesting illustration of the indirect role of mass pressures, and their long reach, in reducing Third World dependence.

[21] Keynesian policies within the domestic economy can be successful because the state imposes a measure of overall co-ordination, a framework within which individual firms must operate. But for the capitalist world as a whole reliance has to be

foreign investment rivalry, creating a situation in which the imperialist firms and states compete increasingly intensively for the favours and markets of Third World states. Thus the sharpest competition between United States, Japanese and European enterprises, according to the UN Economic Commission for Latin America, is probably in the markets of the underdeveloped countries.[22] Whereas in the 1950s the US, Britain and France were the only major countries to invest in the Third World on any scale, the situation has been undergoing a radical change since the 1960s. For example, United States direct and portfolio investment (including re-investment) in the Third World as a whole grew at an annual average rate of 15·4 per cent between 1964 and 1968, whereas during the same period Japan's investment grew at an annual rate of 32 per cent, and Germany's at 50 per cent. In fact, between 1967 and 1968 Germany's investment in underdeveloped countries rose by more than 300 per cent.[23] In Latin America alone, generally regarded in the post-war period as the United States' exclusive preserve, apart from a few British enclaves, the principal Japanese and European firms are already operating on a large scale.[24]

The ECLA report is worth quoting at length on the consequences of the increase in competition by imperialist firms through overseas investments in underdeveloped countries: 'A first effect of this increased competition between subsidiaries of international companies may possibly be to weaken the position of the individual companies in the countries in which they wish to operate. Up to now, the market for foreign investment has been characterized by the fact that international enterprises could take their pick of the countries, selecting whichever offered them the greatest tax incentives while governments vied with each other in furnishing ways of attracting more foreign investment.

Because of the growing need for firms to invest abroad the consolidation of regional groupings in which efforts are made to equalize conditions for entry of foreign capital, and the government's increasing concern about the gradual takeover of their industries (by US concerns), it may well be that the balance in the foreign capital market will gradually incline in favour of the governments of the countries in which the enterprises operate.

The strengthening of the countries' bargaining position would force firms to adopt a more and more flexible attitude to the terms imposed by

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placed in inter-state co-ordination, aided by advice and to a lesser extent rules and policies of various international organizations. Neither co-ordination nor international institutions can be as effective as a state, although their effectiveness is often underestimated.

[22] UN *Economic Survey of Latin America*, 1970, New York 1972, Part Two. Special Studies Chapter 1. 'The expansion of international enterprises and their influence on development in Latin America', pp. 303–4.

[23] UN *The External Financing of Economic Development* (UN Publication Sales no. E 70 II A.3)

[24] UN *Economic Survey of Latin America*, 1970, p. 304. For example among the principal German firms established in Latin America are Bayer, Hoechst and BASF in chemicals; Volkswagen and Daimler Benz in vehicles; Siemens and Bosch in electrical equipment; SKF in ball and roller bearings; Mannessmann, Krupp and Thyssen in the iron and steel industry; Metalgesellschaft in mining and metallurgy; and Hochtief and Philipp Holzman in building.

countries on regional groupings. *There are already signs of greater flexibility among the international enterprises in both the extractive and the manufacturing sectors*. Firms are agreeing to being minority share-holders and to much more restrictive conditions than in the past. They are entering into associations with public, semi-public and private enterprises in countries with different economic systems (including enterprises operating under the workers' management system in Yugoslavia). This means that firms are showing more and more willingness to fulfil the functions that the countries assign them according to the development model they have adopted'[25] (my italics).

This passage would have been much less tentative in tone had it been written three years later.[26] In this, and in other respects, the 1970s are likely to be watershed years for many of the more important underdeveloped countries. The Left has tended in general to emphasize the reverse side of the coin, i.e. rivalries between Third World states and imperialist countries and firms. But solitary emphasis on this point *at any one time in the post-war period shrouds the direction of change in the situation*. It even ignores the significant exception of 19th-century Latin America; here imperialist competition was, according to Platt,[27] decisive in greatly increasing the range of economic and political options available to Latin American businessmen and governments precisely because Latin America was politically independent.

Emphasis on imperialist rivalries as a favourable objective factor, which complements independence and facilitates economic advance, should not obscure the fact that imperialist countries since the war have themselves adopted a positive policy of *favouring* Third World industrialization and economic development; this has been partly to make the most out of a trend they could not in any case reverse or halt. and partly a forward-looking strategy to *contain revolution*[28]. Imperialist policies favourable to such industrialization include the willingness and ability of imperialist firms to invest in the Third World in manufacturing, including heavy industries, capital-intensive industries and export-oriented industries. Then there have been attempts to help open, or further open, the markets of the imperialist countries for exports from underdeveloped countries, including manufactures (e.g. the General Preference Scheme) and the exemption of the underdeveloped countries from the effects of measures by the imperialist countries to protect their

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[25] UN *Economic Survey of Latin America*, 1970, p. 304. This point does not imply absence of competition between imperialist firms in the 1940s and 1950s, only that the intensity of this competition is now becoming much greater.

[26] This point can be confirmed by any survey of the financial press over recent years, but is not readily quantifiable with available statistics.

[27] D. C. M. Platt, 'Economic imperialism and the businessman: Britain and Latin America before 1914', in Owen and Sutcliffe (eds.) *Studies in the Theory of Imperialism*.

[28] 'Security is development and without development there can be no security. A developing nation that does not, in fact, develop simply cannot remain secure for the simple reason that its own citizenry cannot shed its human nature. If security implies anything, it implies a minimal reserve of order and stability. Without internal development of at least a minimal degree, order and stability are impossible'. Robert S. MacNamara, cited in M. J. Klare *War Without End*, Vintage Books, New York, 1972, p. 27. Macnamara enunciated this philosophy in 1966 when he was US Secretary of Defence. The significance of the fact that he is now President of the World Bank needs no underlining.

balances of payments (such as Britain's 1968 import deposit scheme). Although US protection is hindering exports from the Third World in a few industries (mainly textiles), Japan and the EEC are adopting more liberal policies towards other Third World manufactured exports; in any case textiles and similar products are giving way to more sophisticated manufactures. In addition there have been attempts to ameliorate the balance of payments crises and liquidity problems of underdeveloped countries by increasingly concessionary aid terms (especially in debt rescheduling, already seen in Indonesia, and a process which is likely to become increasingly important) and special reserves (the SDRS which have already been useful in this respect). Finally, of course, there has been collaboration by the imperialist countries with rulers and exploiting classes in the Third World to suppress anti-capitalist movements. This can enable capitalism to survive and prosper (as in South Korea), but it can have counter-productive economic effects, by giving more power to particularly corrupt and inefficient ruling groups. A last word should be added on the attempts by imperialist countries, often through international organizations, to improve the economic performance of Third World countries by advice, experts and training. The actual effects of such activity are very contradictory. The International Bank, and the International Monetary Fund have fairly consistently given and enforced counter-productive advice,[29] whereas the ECLA has developed a more sensitive and realistic philosophy.[30]

III The Meaning of Dependence

When faced with the fact that a measure of industrialization in the Third World *has* taken place, socialist writers have argued that this merely results in a different style of dependence, i.e. that *independent* industrialization (or economic development) is impossible. Unfortunately the issue has often been put in terms of economic development in general or 'independent' economic development (or industrialization), as if these concepts were meaningful without it being specified whether or not we are referring to capitalist or socialist economic development. What happens only too often with this approach is that, either explicitly or implicitly, a somewhat utopian ideal is advanced under the brave banner of an 'independent economic development' that lacks any specific class connotation (although occasionally the word socialism creeps in). Obviously the actual capitalist development of the underdeveloped countries cannot match up to this ideal (full employment, diversified industry and agriculture, adequate housing, relatively egalitarian income distribution, etc) and so it is happily concluded that only socialism provides a solution. In this process the problem of *what* the actual developments are and how conducive they may be to developing capitalism is ignored. Thus many revolutionaries live in a happy world in which non-socialist (capitalist) development never comes up to the Left's idealized requirements and so can be regarded as a failure. In the meantime this capitalist 'failure' may be achieving distinct successes in its own terms—strengthening itself against socialist forces.

29 And IDS here in Britain.
30 Although they now favour industrialization explicitly counter-productive advice was probably the result of philistine economics rather than imperialist manipulation.

Four Criteria

Bob Sutcliffe has, however, attempted to give more precision to the concept of independent industrialization (or independent economic development)[31] by defining what he regards as its four principal elements. These are that development should be based on the home market; that development should encompass a wide range of industries; that development should not be reliant on foreign finance except where the underdeveloped country can control the use of foreign funds; and that analogously to having a diversified industrial structure there should be 'independent technological progress'.

It will be realized immediately that the alleged impossibility of independent industrialization so defined is markedly different from earlier predictions that little or no industrialization was possible for the Third World. So it is strange that Sutcliffe can conclude on the basis of this definition that independent capitalist industrialization is nowadays impossible.[32] But because his definition of development is a serious one we will take the four elements of independent industrialization that he suggests and for the remainder of this section subject them, in order, to a closer scrutiny.

The leading sector, or one of the leading sectors, for the majority of underdeveloped economies in post-war development has been manufacturing *based precisely and dominantly on the home market.* Over the period 1950–6 the underdeveloped countries as a whole expanded manufacturing one-third faster than the infrastructure and twice as fast as the agricultural and mining industries.[33] Over the period 1960–8 manufacturing accounted for no less than 22·4 per cent of the total growth in gross domestic product in the underdeveloped counties, i.e. a contribution higher than that of any other sector.[34] The United Nations Industrial Development Organization estimates that *not more than one tenth of this expansion of manufacturing was accounted for by foreign demand.*[35]

Turning to diversification into capital and intermediate goods sectors, Sutcliffe's second criterion, a considerable number of underdeveloped countries can now boast some development of heavy industry including even iron and steel, petrochemicals, shipbuilding, lorry-making, aircraft industries, locomotives and other railway equipment, cement, electrical machinery, machine tools, heavy non-electrical machinery and so on.

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31 B. Sutcliffe, 'Imperialism and industrialization in the Third World', in Owen and Sutcliffe (eds.) *Theories of Imperialism*, pp. 174–6.

32 Sutcliffe, however, makes an exception in the possible case of an inter-imperialist war breaking out which he envisages as creating openings for independent capitalist industrialization in the periphery (Sutcliffe, op. cit., p. 192). In addition to the four elements of independent industrialization mentioned, Sutcliffe argues that independent industrialization 'should originate with and be maintained by social and economic forces within the industrializing country' (p. 174). He does not elaborate this vague formulation which is anyway, on the question of the origin, a non sequitur.

33 UNIDO *Industrial Development Survey, Vol. I*, 1969, p. 16.

34 The sectors listed are constituted as follows: agriculture 18·4 per cent; construction 4·6 per cent; transport and communications 6·6 per cent; wholesale and retail trade 15·1 per cent. UNIDO *Industrial Development Survey, Vol. IV*, 1972, p. 6.

35 *Survey, Vol. I* p. 59.

UNIDO's first *Industrial Survey* in 1969 noted that the 7 per cent growth in manufacturing output achieved in recent years by the underdeveloped countries was brought about *mainly by a determined growth effort in the heavy industries* (an annual average growth rate of over 9 per cent per annum). It went on to remark that the growth in these industries was steadier and faster than in previous decades and that the sustained effort in recent years to raise the output of paper products, chemicals, petroleum products, non-metallic mineral products, basic metals and metal products had been so great that the value added in heavy industries might soon equal the value added in light industries. This 'would be a landmark in the industrial advancement of developing countries.'[36] Some countries achieved extraordinarily high growth rates. For example, the transport equipment group increased at an annual average rate of 21 per cent in Taiwan, 44 per cent in Iran, 35 per cent in South Korea, 14 per cent in Mexico and 12 percent in the Philippines during 1960–9. The electrical machinery manufacturing industries expanded their output per annum over the same period by 46·7 per cent in Taiwan, 23 per cent in Iran, 35 per cent in the Republic of Korea, 14 per cent in Mexico, 14 per cent in India, 7·5 per cent in Chile, 11 per cent in the Philippines and 9·8 per cent in Brazil. Mexico, Brazil, Argentine and India are already producing a large and growing proportion of the capital and intermediate goods they need[37] and Iran, Egypt, Turkey, Nigeria and Indonesia are following the same path and likely to achieve similar relatively large capital goods industries.[38] Thus Sutcliffe's second criterion for 'independent industrialization' is on the way to fulfilment, although the diversification of industry also raises the difficult issue of technology which we have still to discuss.

Foreign Finance

With regard to the third criterion of reliance on foreign finance, Sutcliffe rightly argues that the crucial point about finance is who controls it rather than its source of origin. This demands more wide ranging discussion. But before we consider the question of control it is as well to put the matter of financial sources in perspective. There are two essential points here: first, that in aggregate terms foreign direct investment in underdeveloped countries is not very important. Thus from 1966 to 1969 foreign investment in Latin America represented less than 5 per cent of gross domestic investment[39] and this figure includes reinvested earnings. Taking the period 1964–8, Manser calculates the *net direct* foreign capital input into Latin America as being 1·3 per cent of gross

[36] Ibid., p. 25.
[37] UNIDO *Industrial Development Survey*, op. cit; India already produces 50 per cent of her machine tool requirements and, according to the UN *Monthly Bulletin of Statistics* for August 1973, Brazil ranks seventh among capitalist countries in commercial vehicle production and has nearly double the output of Italy in this important capital goods sector.
[38] Smaller, medium-sized, underdeveloped countries may achieve the benefits of economies of scale in capital goods industries via export specialization, especially if regional integration and co-operation continues to develop (e.g. Taiwan, the Philippines, Venezuela, Zambia, Chile, Peru, Republic of Korea, Columbia and Algeria among others).
[39] Ffrench-Davis, 'Foreign Investment in Latin America: Recent Trends and Prospects' in V.L. Urquidi and R. Thorp (eds), *Latin America in the International Economy*, 1973, p. 171.

asset formation. In this case 'net' means net of income outflows less reinvested earnings;[40] the gross capital input (i.e. deducting the outward flow of interest and profits from the investment) coming to about 5 per cent of gross asset formation.[41]

For the underdeveloped world as a whole, calculations by Manser of representative figures for a limited number of major underdeveloped countries based on OECD data[42] suggest higher direct investment contributions which are nevertheless still small proportionately to total fixed capital formation in the countries concerned, i.e. the net capital contribution equalling about 5 per cent of total fixed capital formation.[43] Moreover Pazos' calculations show that for Latin America from 1951 to 1969 *all* forms of foreign capital investment (i.e. not just private foreign direct investment) varied between 7 and 11 per cent of gross domestic investment,[44] the comparable figure for underdeveloped countries as a whole being about 15 per cent.[45] Thus total foreign capital flows not only represented rather a small contribution to total gross investment in underdeveloped countries, but foreign direct investment alone, represents only half of the total flow.

Secondly, as regards financial sources, it is important to bear in mind that the operations of foreign subsidiaries and branches of multinational firms are largely funded in aggregate from local sources and/or re-invested earnings. Thus for all sectors and all regions (Asia, Africa and Latin America) the growth of total assets of US international enterprise between 1957 and 1965 was financed to the extent of only 21 per cent from the US, the figure for manufacturing alone being even lower, only 17 per cent.[46] Consequently, as the ECLA has pointed out,[47] the underdeveloped countries have here a considerable leverage potential for dealing with foreign firms.

To what extent have the underdeveloped capitalist countries, in fact, exerted such leverage or any other kind of control over foreign firms? What is the *direction* of change in the bargaining power of the 'two sides'?[48] What limits, if any, are there to such change (in whichever

[40] W. A. P. Manser, *The Financial Role of Multinational Enterprises*, London, 1973, p. 52.
[41] Manser's calculation thus corresponds to that of Ffrench-Davis.
[42] OECD Development Centre: *National Accounts of Less Developed Countries, 1959–68*. The countries are Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, Ceylon, Taiwan, South Korea, Thailand, Kenya, Pakistan, the Philippines, Morocco, Nigeria, Tunisia and India.
[43] Manser, op. cit., p. 51. The proportion may have been slightly overestimated as in some cases elements of public capital formation have been included with direct foreign private investment.
[44] Pazos, cited in Ffrench-Davis, op. cit., p. 172.
[45] L. Pearson, *Partners in Development: report of the Commission on International Development*, New York, 1969, p. 14. cited in Ffrench-Davis, op. cit., p. 172. These figures are *not* net of the outflow of profit and interest and therefore overemphasize the foreign capital contribution.
[46] UN *Economic Survey of Latin America, 1970*, New York, 1972, Special Studies, p. 276.
[47] Ibid.
[48] There are, of course, many 'sides'. Neither international enterprises nor underdeveloped countries, nor imperialist countries are homogeneous groupings with all interests in common. However, for the moment a certain shorthand is convenient.

direction)? Are the elements of conflict irreconcilable or can a *modus vivendi* be established favourable to capitalist development? The standard picture of gigantic international firms with enormous economic power spreading their tentacles ever wider over the underdeveloped capitalist world, manipulating their governments and crushing their peoples, through ruthless exploitation, into the mire of poverty and unemployment, easily over-riding en route any feeble signs of nationalism which display themselves—this standard picture is too well known to need elaboration. However, it corresponds neither to the current state of affairs not to the way in which the situation is changing. The historical evidence unambiguously shows that since their independence underdeveloped countries are steadily improving their bargaining positions and their ability to control foreign firms operating in their territories.

Control over Resources

In examining the issue of imperialist financial control, it is useful to distinguish between resource-based international enterprises (fuel and minerals) and international manufacturing enterprises. Although our principal concern is with the latter, more is known about investor-host country relationships for the former. As the similarities between the two types of enterprise in their relations with host countries are greater than their differences and as, moreover, the resource industries were established before the manufacturing enterprises and to a considerable extent have traced the itinerary which the latter are likely to follow, we will start by looking at the resource-based concerns.

Conflicts tend to focus either over division of rent (i.e. gross profits, interest charges, royalties and licence fees, etc) or over the character of the operations.[49] Historically, conflicts over the former were more common in the extractive rather than the manufacturing sector; today both kinds of conflict occur in each sector. In minerals and fuel, although data are difficult to get for some industries (e.g. aluminium, bauxite), the picture is one of the large companies receiving, over the long run, a declining share of the rent in favour of the host countries and —what is in some respects even more important—purchasing a growing proportion of their inputs within the host country. Oil is, of course, the outstanding example with the underdeveloped countries having raised their share of profits on crude oil from 10–15 per cent in the 1920s to about 85 per cent in 1972.[50] A study of the seven largest international oil companies in the Eastern Hemisphere dramatically underlines the point. Their earnings per barrel of oil produced were reduced from 77 cents in 1957 to 40 cents in 1966 although they paid 78 cents per barrel to the host governments in both years. Furthermore, payments per barrel to host governments rose to 78 cents in 1966 from 70 cents in 1961 while company earnings per barrel fell from 54 cents

[49] UNCTAD, *Restrictive Business Practices: The operations of United States enterprises in developing countries: Their Role in Trade and Development* by Raymond Vernon, UN, New York, 1972, p. 11. Vernon's study and that of the volume edited by R. Mikesell, *Foreign Investment in the Petroleum and Mineral Industries*, Baltimore, 1971, have been extensively used in the discussion below.

[50] Vernon, p. 6.

in 1961 to 40 cents in 1966.[51] Oil is not an exceptional case. Copper, the second biggest field for US foreign resources investment, is closely comparable. Thus in Chile taxes paid by the large copper companies rose from well under 10 per cent of the value of the product in the 1920s to about 30 per cent in 1964, while profits as a percentage of product value have witnessed a long run decline.[52] Tax charges imposed on the Zambian copper industry in 1965 significantly reduced the net outflow of factor payments and by the late 1960s domestic factors of production in Zambia were receiving about 80 per cent of the international value of the product.[53] Thus over several decades, the copper producing countries too have substantially improved their rewards.[54] Summing up the findings of the detailed case studies of a range of individual resource industries in a number of countries (petroleum in Argentina, Venezuela, Saudi Arabia and Iran, sulphur in Mexico, iron ore in Venezuela and Brazil, copper in Chile and manganese in Brazil) Mikesell concludes that, for most of the studies, retained value[55], or net foreign exchange contributions, is about 60–70 per cent of export value of the product in recent years; with 50–75 per cent of this usually in various forms of payment to the host governments.[56] Clearly, the situation has radically altered since the early days.

Resource Companies

Superior bargaining power of the mining and petroleum companies in those early days was partly based on the fact that the need for inputs mobilised by the multinational firms (capital, technology, skills, markets)[57] was then at its zenith, quite apart from, in many cases, the crucial factor of political control. Also, it was rational in many cases for the underdeveloped countries themselves to offer generous terms to attract such companies, initially. Once established, and for the resource companies especially, with very large-scale investments at stake, the companies' bargaining position was obviously reduced and moreover declined gradually as the various inputs became more accessible to underdeveloped economies, or accessible at lower cost. Local capital and reinvested earnings rapidly replaced the initial inflow. Technology (which did not on the whole change much in the resource industries as compared with the manufacturing sector), at first novel, was gradually absorbed locally through the sheer presence of the enterprises, and as a result of policy pressures. Markets too became less of a constraint as the expansion of the domestic markets of the host countries raised internal demand. This was especially the case for petroleum

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[51] *Eastern Hemisphere Rides the Storm*, Petroleum Development, First National City Bank of New York, Jan. 1968, cited in R. Mikesell (ed.) *Foreign Investment in the Petroleum and Mineral Industries*, Baltimore, p. 7.
[52] Mikesell, op. cit., p. 7.
[53] UN, *World Economic Survey 1969–70; the developing countries in the 1960s: the problem of appraising progress*, UN, New York, 1971, p. 14–15.
[54] Vernon, op. cit., p. 8.
[55] Retained value here, is taken as the direct contribution of the foreign companies to the host country, tax payments and local expenditures for goods and services.
[56] Mikesell, op. cit., p. 428.
[57] For our purposes markets can be considered as an input quite apart from marketing organizations.

products in Latin America (e.g. in Venezuela, Argentina and Mexico) which had the incidental result of reducing surpluses for export thus benefiting producer country/oil company oligopoly at the expense of the consumer. Moreover, US dominance in the world oil market has declined,[58] and the rapid expansion of the European and Japanese economies has provided room for the growth of new companies ('independents'). Extremely important too, has been the growth of national state-owned or controlled oil companies in the developed capitalist economies to safeguard and develop sources of supply. All this, together with the post-war efforts of the underdeveloped countries themselves to establish markets and marketing networks (e.g. currently Iran), has seriously weakened the oligopolistic control of the major oil companies, and immensely improved the bargaining power of the underdeveloped countries. Until recently, the increase in supply sources that resulted in turn depressed oil prices but the greater share of revenue obtained by the host countries and the expansion of output have more than offset this factor. It cannot be too strongly emphasized that although oil is the most dramatic and important example of the process of rising rent and retained value shares for the host countries, it is not exceptional (until recently oil was regarded by the Left as the ultimate symbol of imperialist economic power abroad) and the substantial changes described occurred well before the current world energy crisis, which has merely accelerated the trend. Undoubtedly, it should be added, the underdeveloped countries have made their gains at the expense of the consumers in both the developed and underdeveloped consumer economies.

Although division of the rent and profits has been the dominant issue in resource company—host country relations, clashes over integration of these enclave sectors into the domestic economy up to and including nationalization now figure with increasing frequency. Most obvious and important in this respect is the nearly universal trend towards processing, refining and fabricating raw materials in the country of extraction. Again this is not only limited to oil. There is a general move in all three underdeveloped continents towards processing of such metals as copper, iron and bauxite for export.[59] Transport costs and technological developments in processing, such as benefication of iron ores, encourage this process which, despite tariff barriers, will be difficult to resist if economic expansion in the imperialist countries is maintained. In most countries, processing for export of food and agricultural raw materials is also rapidly expanding, as for example with rubber sheeting, oil cake, tinned foods and many others. There is a slender division between refining and processing and the use of domestic raw materials as low-cost inputs for wholly new industries, such as petro-chemicals, other chemicals, fertilizers, iron and steel industries

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[58] Prior to 1950 there were only about 6 or 7 US-based enterprises engaged in foreign oil operation, but by 1970 they were numbered in scores. Early in the 1950s about six enterprises accounted for 90 per cent of the oil moving in international trade but by the early 1970s these firms accounted for only 70 per cent with the clear prospect of marked further declines in their shares. The same trend is typical of copper (Vernon, op. cit., pp. 6 and 9) and other resource industries.

[59] Specific examples are refined copper in Chile and iron ore agglomerates in Venezuela.

and metallurgical industries. All these are expanding rather rapidly in the Third World and all have, incidentally, marked advantages for improving the foreign exchange position and increasing the integration and technological advance of the local economy.

Linkage and Control

Pressure is now being exerted, on resource companies in general and petroleum ones especially, over pricing, the volume of production, investment policies, transportation and new supply sources.[60] An important aim is to improve the 'backward linkages' of the resource industries and such development seems to be less hindered by the bargaining position of the peripheral countries, or the policies of the multinational firms, than by the still limited degree of manufacturing in Third World countries, especially in Africa. This is a condition, however, which, as we have seen, is rapidly changing for the better.

Finally, the world-wide desire for national control of the development of natural resources and the perception that in the long run such control will serve capitalist (and socialist) development has led to the adoption of various policies and mechanisms of a general character to ensure such control, notably joint ventures, local equity participation of both a minority or majority character, service contracts and outright nationalization. In the resource industries, host government participation of some sort is now nearly inevitable in any major new investment, whether with a passive financial character only, or with an active policy role. The latter is more likely and there is a trend for majority financial stake by the host government. This trend is not limited to new projects; existing investments are regularly converted into what are effectively joint ventures.[61] Sometimes the local state operates in partnership with local businessmen (as with Pan American Sulphur in Mexico), sometimes local businessmen alone operate the venture with the foreign company (as with Bethlehem Steel's minority partnership with a local businessman in the 1950s to develop Brazil's manganese ore.)[62] Service contracts whereby national governments or, less frequently at this stage at least, local businessmen, hire out management, supervising, training and technological services from the advanced capitalist countries have various advantages. They combine full indigenous control with continuing access to the most advanced methods and technology abroad, while at the same time the interests of the foreign firms concerned will be served by the provision of efficient services in conformity with the expressed policies of the contracting countries. Where sizeable foreign capital contributions are required, these can be mobilized from abroad without direct control, through portfolio investment. As a proportion of total net flows of financial resources to underdeveloped countries,

[60] One of the major issues in the 1965 crisis between Pan American Sulphur and the Mexican government—resolved in favour of the latter—was over the companies laggardliness in opening up new supplies (Mikesell, op. cit., ch. 11, by M. S. Wionczek).

[61] For example, the widespread recent advance of participation agreements in the oil countries and Sierra Leone's acquisition of 51 per cent of the UK. Sierra Leone Selection Trust diamond mining equity.

[62] Mikesell, op. cit., ch. 14.

portfolio investment rose steadily between 1956 and 1969 and increased substantially in absolute terms from $190 million to $1,674 million over the same period (table VI). Apparently this tendency is accelerating[63]—a pattern in some ways comparable to the foreign resource mobilization so conducive to the economic development of the US in the 19th century.

TABLE VI

Net Flow of Private Financial Resources to Less Developed Countries

	1956	*1961*	*1966*	*1967*	*1968*	*1969*
Total net flows of financial resources	6,258	9,197	10,348	11,310	13,113	13,571
of which						
Total private flows	2,998	3,098	3,810	4,208	5,963	6,280
of which						
Direct investment (net)	2,350	1,986	2,188	2,118	2,899	2,566
Bilateral portfolio	190	453	505	796	886	1,260
Multilateral portfolio		90	15	306	605	414
Export credits	458	569	1,106	989	1,579	2,040

SOURCE: P. Ayre, 'The future of private investment in less developed countries', in T. J. Bynes (ed.) *Foreign Resources and Economic Development,* London, 1971, p. 11, based on data from the Pearson Report and OECD.

Manufacturing Industries

We can examine the conflicts between foreign investors and underdeveloped countries over the rent and the character of operations in the manufacturing industries (our main concern) by contrasting them to the clashes that have taken place over resource industries. For most manufactures, beyond the simple consumer goods such as textiles, household fixtures, shoes and so on, industries in the underdeveloped countries are generally at the stage where they still want to attract more foreign investment; they are therefore nearer the beginning of the cycle of negotiation, renegotiation and increasing control, sometimes ending in outright nationalization, through which the resource industries have passed. Consequently bargaining over rent has been less marked; we cannot expect to observe in manufacturing industries the dramatic surge in profits share taken by the underdeveloped countries which has typified the resource industries. However, in so far as foreign enterprises in manufacturing mainly sell in the host country's home markets, or perhaps regional groupings of such countries, the increased competition between the rising numbers of foreign owned subsidiaries and branches in the underdeveloped countries (tables VII and VIII) will probably result in reduced profit rates[64] and shares of value added, with consequent gains to consumers in underdeveloped countries and a greater net gain, or lesser net outflow, of foreign exchange.[65] Against

[63] P. Ayre, 'The Future of Private Investment in Less Developed Countries', in T. J. Byres (ed.) *Foreign Resources and Economic Development*, London, 1971, p. 11.
[64] In Latin America, manufacturing by US private affiliates has the lowest profit rates of such affiliates in any sector—partly a reflection of the less oligopolistic structure of manufacturing considered internationally, ECLA, *Economic Survey of Latin America, 1970*, UN, New York, 1972, p. 271.
[65] US tax laws have favoured profits earned in underdeveloped countries: the effect has been to raise absolute foreign exchange revenues for these countries.

this, in so far as foreign enterprise in Third World countries produces for export markets in the developed world, competitive pressures on profit shares will, of course, reduce foreign exchange gains of the underdeveloped countries in favour of advanced country consumers.

TABLE VII

Foreign Direct Investment of US-*based Enterprises in Manufacturing Facilities in Specified Areas 1929–70*

		(Millions of dollars)	
Year	*Latin America*	*Africa* (Except S. Africa)	*Asia**
1929	231	—	76
1936	192	—	54
1943	325	—	68
1950	781	Negligible	68
1957	1,280	6	118
1964	2,507	34	349
1970	4,604	100	692

SOURCE: Vernon, op. cit., p. 12 (based on US Department of Commerce data) and *Survey of Current Business*, October 1971, pp. 32–3.
*Excludes Australia, New Zealand and Japan in 1957, 1964 and 1970.

TABLE VIII

Geographical Spread of 187 Manufacturing Subsidiaries of US-*based Multinational Enterprises 1903–67*

		(Number of subsidiaries)	
Year	*Latin America*	*Africa* (except S. Africa)	*Asia* (except Japan)
1901	3	0	0
1919	20	0	5
1929	56	0	18
1939	114	0	22
1950	259	5	33
1959	572	17	83
1963	783	35	179
1967	950	73	237

SOURCE: Vernon, op. cit, p. 12 (based on Harvard Multinational Enterprise study).

All the trends towards greater control and moulding of operations to suit national development aims, which we noted in the resource industries, are present to somewhat different extents and with sometimes different significance in the manufacturing industries. Underdeveloped countries have raised tariffs and various other taxes for revenue and balance of payments purposes (occasionally even initially as part of a process of deliberate import substitution industrialization). This has encouraged the creation of local subsidiaries by the metropolitan firms. Almost as soon as these have been installed a wide variety of pressures are brought to bear to prevent them from remaining as manufacturing enclaves (i.e. factories carrying out only the last stages of assembly, utilizing imported materials and fuels, employing a very large proportion of expatriate personnel in all but the least skilled occupations, etc). Instead they have been pushed into a more integrated relationship with the national economy[66] in order to reduce the dependence of such

[66] Vernon gives a useful summary of this process for the US automobile industry in Latin America, ibid., ch. 2.

foreign enterprises on imported fuels and materials and expatriate skills in favour of local resources and the development of local skills. Recently, pressures (by no means always necessary) to expand manufactured exports have also been noted as the governments of the developing countries became more experienced and sophisticated in bargaining and have clarified their development strategies. More attention is now being paid to get new foreign investment into critical sectors, and with the required technologies. Very significant results have been achieved. Table IX gives some impressive figures for Latin America and although that continent is somewhat ahead, especially of the poorer countries of Africa and Asia, similar figures can be recorded in countries in all three continents and the direction of change is unmistakable. As usual, these achievements have been largely ignored or underestimated, especially on the Left, ever unwilling to recognize the new and developing elements in a situation.

TABLE IX

Payments of US-*controlled Manufacturing Subsidies in Latin America 1957*

Payments	*Amount* (Millions of $)	*Percentage of total sales*
Local payments*	1,868	81·7
of which		
Materials, supplies, services†	1,212	53·0
Wages and salaries	354	15·5
Income taxes	149	6·5
Other local payments	153	6·7
Foreign payments	308	13·5
of which		
Materials and services	246	10·8
Remitted profits	62	2·7

SOURCE: Vernon, op cit, p. 14 (based on US Department of Commerce censuses) and Council for Latin America Inc., *The Effects of United States and other Foreign Investment in Latin America*, New York, 1970.

NOTES:* The sum of local payments and foreign payments is less than total sales because of the exclusion of retained earnings and depreciation from payments.

†Where we are concerned with materials 'local payments' are not invariably payments for locally produced materials. Nevertheless, as Vernon notes, the figures are highly suggestive of heavy involvement of these enterprises in the local economies.

Exporting Manufactured Goods

With a changed emphasis throughout the Third World from import substitution industrialization to export promotion industrialization, pressures have also been brought to bear on international manufacturing subsidiaries and branches to utilize their marketing networks to export from the underdeveloped countries to their home countries and to other advanced capitalist economies. If it can be done profitably there is no sound reason why international subsidiaries in the underdeveloped countries should not wish to export manufactures especially, although by no means solely, to third parties. Thus pressures by the host country will not always be necessary to encourage multinational subsidiaries to export. As a result multinational subsidiaries in Latin America account for a proportionately higher volume of manufactured exports (by 1957, 40 per cent of all exports of manufactures from Latin

American were accounted for by US affiliates[67]) than their contribution to total manufacturing output and the same applies to some Asian countries, notably Taiwan and South Korea. Furthermore, it is a particular benefit to underdeveloped economies, especially as regards exports, where, as in Latin America, the sales of their manufacturing subsidiaries are concentrated in a few industries notable for their high degree of oligopoly, e.g. as shown in table x, transportation (primarily automobiles), food products and machinery with a poor showing

TABLE X

Sales of Manufacturing Affiliates of US*-based Enterprises Located in Specific Areas 1968*

Industry	*In Latin America*	*In rest of world* (except Canada & Europe)
Food products	1,490	472
Paper and allied products	301	234
Chemicals	1,987	1,743
Rubber products	415	466
Primary and fabricated metals	561	488
Machinery (excluding electrical)	402	1,202
Electrical machinery	591	369
Transportation equipment	1,335	1,619
Other	884	734
Total	**7,966**	**7,327**

SOURCE: Vernon, op. cit., p. 3 (based on US Department of Commerce data) and *Survey of Current Business,* October 1970, p. 19.

for relatively unconcentrated industries such as textiles, leather and wood products. This oligopolistic structure is particularly conducive to opening up markets for underdeveloped economies in advanced capitalist economies and, moreover, the industries concerned are quite different from the 'problem' industries in the advanced countries, such as textiles, which are the object of protectionist pressures from business and the trade unions, especially in the US.[68] Nevertheless, evidence has frequently and validly been cited of, at least in certain countries, a high degree of restriction placed on multinational subsidiaries preventing them from undertaking exports, or at least limiting their extent.[69] The data cited above, and the remarkable success in the last decade or so of Third World exports of manufactures, suggest that this cannot have been such a powerful inhibiting factor.[70] Moreover other evidence suggests that formal restrictions are not a useful guide to actual practice as regards exports.[71] But, to some extent it has been necessary to pressure foreign firms to export, for example by using threats to reduce

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67 Vernon, ibid., p. 15.

68 Vernon, op. cit.

69 Reserve Bank of India, *Foreign Collaboration in Indian Industry,* Bombay, 1968, pp. 106–10.

70 As Vernon has pointed out, formal restrictions on exports need not reflect a genuine desire to curtail exports, but may instead, for example, provide a legal basis for limiting a subsidiary's exports should it be nationalized, thereby lessening the chances of nationalization taking place. Vernon, op. cit., p. 17.

71 'We have found a number of instances where exports have been made in recent years irrespective of restrictions,' National Council of Applied Economic Research, *Collaboration between Indian and Foreign Firms,* Delhi, 1969, p. 162, cited in Vernon, ibid., p. 17.

involvement of recalcitrant subsidiaries in the host country's domestic markets. An UNCTAD study of foreign collaboration agreements in India, generally regarded as a hapless prey to the international vultures, showed very clearly the success of government policy in reducing companies' export restrictions considerably over a short period of time. It was found that the proportion of foreign collaboration agreements with export restrictions (other than the permissible type[72]) declined from 91 per cent in 1964 to 63 per cent in April 1969 and by November 1970 was as low as 16 per cent. Moreover from April 1964 to 1966, and 1967 to March 1969, agreements of the permissible type declined nearly twice as fast as those of the non-permissible type.[73]

Subsidiaries

The general tendency for the proportion of domestic ownership, and thus control,[74] of manufacturing subsidiaries of international firms in the Third World to grow is convincingly illustrated for US enterprises by table XI, which shows a decline in the proportion of wholly owned subsidiaries from about two thirds for those established before 1946 to about 40 per cent for those established in the period 1958–67 and a rise in the proportion of minority-owned foreign manufacturing subsidiaries from 8 per cent prior to 1946 to about 20 per cent in the period 1958–67.[75] Since 1970, the Andean Pact countries, Columbia, Ecuador, Peru, Bolivia, Chile and Venezuela have institutionalized a policy with provisions limiting remitted profits to 14 per cent per annum. It also obliges foreign companies to sell control of their operations to local investors within 15 years.[76] The most economically important country in Africa, Nigeria, has from the very beginning of its industrialization in the latter half of the 1950s used joint ventures extensively. Thus there is evidence of a long term trend towards 'domestication' of ownership of foreign enterprises. The current so-called 'take-over' trend of Latin American industry by US enterprise is likely to be the conjunctural and temporary effect of a relatively considerable upsurge in recent US direct investment in manufacturing abroad. Certainly, there is also a high and growing proportion of profit repatriation by US subsidiaries abroad, but this sets further limits to the 'take-over' process.[77]

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72 The permissible type being those relating to prohibition of exports to the collaborator's own country or countries where the collaborator has branches, affiliates, subsidiaries, etc.

73 UNCTAD, *Restrictions on exports in foreign collaboration agreements in India,* 1971, p. 18.

74 Since the ownership represents a realizable claim on resources and since it is to the interests of the parties concerned to ensure the productivity of these resources in terms of whatever criteria they apply, ownership cannot be regarded as merely a legal fiction and must be assumed to lead to increasing control.

75 The tendency towards 'nationalization' of portfolio investment (i.e. of the 're-purchases' of securities by nationals of the borrowing countries) has recently been emphasized by Hirschman for Latin America in the late 19th and early 20th century, e.g. in Brazil, for reasons which are apparently directly economic. The continuing growth of capitalist productive forces, social relations and institutions in the local economies would be likely to favour increasingly the domestic ownership of such equity. A. C. Hirschmann, *How to Disinvest In Latin American and Why,* Essays in International Finance, Princeton University, 1969, pp. 10–11.

76 *Financial Times,* 18 January, 1973.

77 UN, *Economic Survey of Latin America, 1970,* 'Special Studies', p. 274.

TABLE XI

*Manufacturing Subsidiaries of 187 US-based Multinational Enterprises in Underdeveloped Countries, Classified by Ownership when started.**

Subsidiaries	Latin America	Africa (except S. Africa)	Asia (except Japan)	**Total**
Established before 1946				
Total	206	2	28	**236**
Wholly-owned†	129	1	20	**150**
Majority-owned	33	1	1	**35**
Minority-owned	29	0	0	**29**
Unknown	15	0	7	**22**
Established 1946–57				
Total	340	11	44	**395**
Wholly-owned	192	7	24	**223**
Majority-owned	90	3	13	**106**
Minority-owned	38	1	5	**44**
Unknown	20	0	2	**22**
Established 1958–67				
Total	750	69	194	**1,013**
Wholly-owned	345	36	64	**445**
Majority-owned	210	15	73	**298**
Minority-owned	130	15	44	**189**
Unknown	65	3	13	**81**

SOURCE: Vernon, op. cit., p. 23 (based on Harvard Multinational Enterprise study).
NOTES: *the figures include subsidiaries that subsequently disappeared.
†'Wholly-owned' means that the subsidiaries parent companies hold 95 per cent or more of the voting stock; 'majority owned', 50–94 per cent; 'minority-owned', 5–49 per cent.

The increasing use of service and management contracts is, of course, a complement to and a natural consequence of, the development of indigenous ownership. Underlying this trend is the importance of technological *transfer* to the underdeveloped countries. In Latin America, for example, payments to US affiliates for the transfer of technology in manufacturing raise rates of return of from 11 to 14 per cent, and technology payments as a proportion of total remittances are increasing rapidly. This trend is so important that there is widespread speculation among financial journalists and business (and other) economists that the role of international firms in the future will eventually, except in the largest projects, be predominantly concerned with developing and selling the most advanced technology and management expertise via service contracts, with a correspondingly negligible direct financial role.[78]

The net foreign exchange effects of foreign private investment are discussed below, in the context of the total balance of payments flows as an aspect of imperialism, so that our discussion of financial dependence is not yet complete. Nevertheless it is clear that the view that absolutely

[78] This need not imply technological dependence, since it is likely to occur in selected sectors only and since its economic worth for the international firms will be positively related to the newness (indeed possibly uniqueness) of the technology. As the industrial base of the Third World countries grows, they too will develop their technological specialities so that, in this respect too, a more equal international division of labour will result.

increasing foreign private direct investments flows in manufacturing means increasing control by international companies over the Third World economies is the reverse of the actual situation. Indeed, looked at more broadly, it is not easy to imagine large new geographical centres of industrial and economic power indefinitely controlled from elsewhere. For manufacturing alone, technical economic factors are bound, over time, to bind it by a thousand ties to the local environment and thus bring it under the control of that environment. As industrial power spreads political power follows. The conclusion emerges that, over foreign manufacturing investment in the Third World, conflicts occur within a long-term framework of eventual accommodation mutually acceptable and mutually advantageous to *both* sides. Thus the underdeveloped countries, increasingly and inexorably, are able to exert relatively greater leverage in the conflict and bargaining process.

Independent Technological Progress

We can now turn to the last of Sutcliffe's four criteria, that of 'independent technological progress'. The issue of technology is real enough, but because the empirical basis of the question often resides in specific processes it is not so accessible to statistical indices; a short discussion must deal in generalities. The argument about technological dependence is anyway rather general. It has a number of strands; that the underdeveloped countries are forced to rely on Western technology which is unsuited to their conditions in various ways (especially too labour-saving); that they cannot get access to Western (i.e. advanced) technology except on prohibitive terms; and that the dynamism of the advanced capitalist economies plus their existing enormous technological lead is such as to keep them permanently ahead of the underdeveloped countries and thus permanently dominating them.

Apart from the element of conflict between the first and second of these arguments,[79] a crucial defect in this whole position is that technology is to a large extent embodied in capital goods. Sutcliffe has cogently argued that 'In a sense . . . technology has always been the basis of metropolitan monopoly. The underdeveloped areas have been unable to establish a complete industrial structure because they have been unable to establish the industries possessing at the same time the most complex and advanced technology. In that case the basis of dependence today has shifted not to a new category, technology, but to a new more restricted group of capital goods industries.'[80]

The corollary of this is, of course, that, *provided that it is possible to establish and develop a growing range of capital and intermediate goods industries,* technological progress will occur in a sense 'automatically', i.e. as part of the learning-process integral to industrialization. We have seen that the necessary proviso is, in fact, currently being fulfilled and with it various complementary developments conducive to establishing an adequate technological base. Above all, the remarkably rapid

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[79] Admittedly, it is possible to resolve this contradiction, but the technological dependence view is so unelaborated that it has seldom, if ever, been done.
[80] Sutcliffe, op cit., p. 190.

development of education in the Third World.[81] This, together with the year-by-year improvement in the development of research, the extension of services and the increase in competition between imperialist firms and countries in the Third World—combines with industrialization *per se* to create the necessary material basis for 'indigenous' technology.[82] In other words, where there are obstacles impeding technological transfer or progress, for most countries these will lie in their own capabilities for assimilation rather than in imperialist monopoly or other forms of domination. These capabilities are improving rapidly year by year. The view that technological dependence is self-perpetuating has no foundation.

This consideration is reinforced by other characteristics of Third World industrialization. First, the process of building up a capital goods industry automatically involves importation of the latest capital goods from the imperialist countries, which means bringing in the latest technology. Related to this point is the fact that commonly the capital goods industry in underdeveloped countries is wholly or partly owned by the state so that the possibility of foreign subsidiaries preventing the spread of the latest technology and know-how embodied in, or associated with, advanced equipment is severely circumscribed. Moreover, although the consumer goods industries with which industrialization normally commences generally involve relatively less complex technologies, the universal, rapid and irreversible trend towards the processing of mineral and fuel resources within underdeveloped countries does involve complex advanced technologies for many products.

Viewed from the specific standpoint of the development of Third World technology, these changes are highly favourable and objective in character.[83] In addition there are the 'subjective' policy measures increasingly initiated, elaborated and adopted precisely to achieve a modern technological base. Among the more important of such measures are those which set out to control and regulate foreign investment specifically in order to ensure that it involves transfer of required technologies, e.g. currently Mexico and Turkey.[84] Also, policies of training local personnel to fill high level technical and managerial positions, as well, of course, as the lower ones, in foreign firms are already far advanced.[85] The efforts of various international organiza-

[81] Education in African states, for example, often absorbs 25–30 per cent of budget expenditures. The importance of education and indeed the overall learning process involved in industrialization is shown by the fact that the large and growing payments to US firms by Latin America for 'know-how' shows a far higher proportionate expenditure on management expertise and services than on technology as such than is the case with payments by Japan, Europe and Canada, UN *Economic Survey of Latin America, 1970*, New York, 1972, Part Four, Special Studies, Chapter 1, 'The expansion of international enterprises and their influence on development in Latin America', p. 273.

[82] Which is not likely to be very different from technology elsewhere.

[83] Although some (state fostering of capital goods industries, educational progress, processing of minerals) are policy inspired the promotion of technology is not the central aim. Nevertheless they create the objective basis for technological advance.

[84] *Financial Times*, 8 and 11 December 1972 and 18 January 1973.

[85] 'Localization' of personnel is, of course, crucial to the acquisition of managerial know-how which currently is involving the underdeveloped countries in high and increasing payments to foreign firms.

tions, especially UNIDO, UNCTAD and ECLA in the same direction, will undoubtedly also have a long term effect.

Static Arguments

The proponents of the technological dependence view point to the extensive foreign ownership of the growing industrial sector and to the monopolistic practices often adopted by foreign firms particularly to restrict the spread of technology to indigenous companies.[86] We have already noted the role of foreign firms in the Third World but three points should also be stressed in relation to technology; first, that the monopolistic restrictions argument is static and fails therefore to take account of the elements of change in the situation; second, that there are circumstances in which it may well be advantageous for foreign firms to help spread technology and third, that the allegedly inappropriate technology of advanced capitalist firms to the needs of underdeveloped countries is, in many cases, actually a rational response to local conditions in these countries, rather than something imposed upon them regardless of local circumstances. The static character of the doctrine leads to a failure to take account of the fact that monopolistic (oligopolistic) behaviour is normal for capitalist firms in most contexts, wherever conditions permit: conditions do permit where competition is weak and indigenous firms and states are not well adapted to the absorption of new technology. But the mere evidence of extensive restriction and high transfer costs for technology does not provide a balanced account of the overall situation; it does not take into account the technology that does get through, not does it indicate the positive contribution of transferred technology even if that technology is extremely costly.[87] Nor, above all, does it take into account the direction of change in the situation. On an impressionistic basis it is the writer's view that the blockage of technological transfer is less significant than what gets through and than the capabilities of the underdeveloped countries to absorb it. Historical experience certainly suggests that as industry grows, and if a reasonable degree of competition prevails (plus at least moderate state intervention), then the spread of new technology does not take long. In other words 'Western' technological superiority depends upon conditions which are losing their force.[88] Indeed, despite all the alleged inhibiting effects of foreign ownership, it has not prevented substantial expansion of manufactured exports or the producer goods industries; both areas where such inhibiting effects should show.

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[86] P. Patnaik, 'Imperialism and the Growth of Indian Capitalism' in Owen and Sutcliffe (eds.) *Theories*, p. 221, for the Indian case.

[87] For example, in comparison with the costs of technological transfer between advanced capitalist countries. This point relates to the contribution of foreign investment in general.

[88] The peculiar character of 'know-how' is such that its allegedly heavy costs to the purchaser (see S. J. Patel, 'Transfer of Technology and Developing Countries,' *Foreign Trade Review*, annual number, January-March 1972, India Institute of Foreign Trade) reflect various forms of monopoly power rather than real costs to a much greater extent than is the case with other inputs. Consequently such costs are liable to decline considerably as the bargaining power of many Third World countries grows. Moreover, many underdeveloped countries, especially in Africa and Asia are only just beginning to gain experience in bargaining and technological expertise and will undoubtedly become much tougher to deal with during the 1970s.

The integration policy of oil firms operating in the Middle East in the 1950's clearly illustrates that it may be directly advantageous for imperialist firms to promote the spread of know-how. As described by A. J. Meyer: 'The integration programmes definitely provide a vehicle for broadening of the area's technological base. Oil companies have proved most sympathetic to resignations by local employees embarking on businesses of their own and in some instances have promoted these businesses through contracts. Several dozen contracting firms, at least one locally owned and managed airline, at least one highly efficient research and translation agency, and dozens of merchant suppliers have spun off from oil companies in this fashion. Companies have come increasingly to regard such shifts of employment as transfers of investment rather than loss of skilled employees. The companies' role in business education is substantial.

'In this same category the growing tendency of local contractors to form partnerships with Western engineering companies—partially an outgrowth of the supervising company arrangements earlier favoured by oil companies—has definitely led to improved technology and has permitted local firms to add steadily to the range of complex jobs they can not only bid on but actually do. A decade ago, for a local firm to attempt construction of a bridge across the Euphrates at Baghdad would have been unthinkable. Recently one local firm did the job handily, and a dozen others could have done as well. A growing number of Middle East contractors now maintain active working relations with foreign firms'.[89] Such integration programmes, extending local technology, are in many ways *mutually* advantageous in a strictly economic sense, and can be impelled by the escalating pressures of Third World nationalism.[90]

Moralistic Blame

In an almost moralistic fashion so-called 'international firms' are blamed for imposing on countries with large and growing urban labour surpluses increasingly capital-intensive techniques alleged to aggravate the unemployment problem. This, it is argued, is the result of the multi-national considerations which such firms take into account in choosing their equipment, and the apparent irrationality of such

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[89] A. J. Meyer, *Middle Eastern Capitalism: Nine Essays,* Harvard Middle Eastern Studies 2, Harvard University Press, Cambridge, Mass., 1959, pp. 89–90.

[90] Meyer's account of the origins of the integration programmes is instructive: 'By 1950 oil companies themselves had accumulated enough experience with local development programmes, in Venezuela in particular, to conclude that these might check or at least slow down nationalization movements such as beset them in Mexico. Finally, the shut-down at Abadan galvanized the oil industry into self-appraisal and a search for operating practices which would permit continued existence. The so-called 'integration' programmes resulted. Since 1950 these have become increasingly important aspects of the relation between oil companies and Middle Eastern governments and people. Broadly speaking 'integration' has come to mean a concerted effort by companies to encourage growth of local enterprise through studied use of local contractors and suppliers for company jobs, to promote expenditure of employee wages for locally made goods, to afford employees a chance to become home owners, in short to make oil operation 'one' enterprise rather than 'the enterprise' in Middle Eastern countries.' Ibid., pp. 82–3.

policies is explained by the economic benefits of deploying standardized equipment. This argument may be correct, but it should be said at once that it is pure hypothesis (i.e. speculation). It has not, to the writer's knowledge, been *empirically* texted on any scale against alternative hypotheses: that, given existing price-cost structures, the more capital intensive techniques generate the greatest re-investable surplus in the longer run and thus mitigate unemployment; or, possibly, that the 'international' firms are not initiating the use of capital-intensive technology as part of a world-wide strategy, but are specifically responding to the domestic cost-price structure and its changes[91], especially to low productivity levels accompanied by large wage increases (as has certainly been the case in the Zambian copper industry) or to scarcity of adequate supervisory personnel to control inexperienced workers (as in Senegalese manufacturin g[92]).

In sum, the thesis of technological dependence ignores the powerful forces reducing such dependence, lacks historical perspective and is conceptually misconceived. The necessity to discuss it at some length arises from the lack of adequate data, the confused character of the theory and above all the fact that technology is the last resort of the dependence theoreticians (as indeed it is of many other fetishists).

To conclude, if Sutcliffe's four criteria of independent industrialization can be regarded as valid—and their importance partly lies in the fact that such criteria are widely held—then, by all four, 'independent' industrialization has begun to take place rather rapidly. In the underdeveloped countries manufacturing progress of a substantial order is taking place based dominantly on the home market; secondly, industrialization in the Third World is marked by increasing diversification of the manufacturing sectors with already significant achievements in the strategic capital and intermediate goods sectors; thirdly, foreign private direct investment, while it is increasing dynamically, is also coming under the control of the underdeveloped countries themselves, to direct as they consider best; finally, technological development, although at an early stage in the Third World, is certainly not stagnant and the objective conditions for the rapid removal of the factors promoting technological backwardness and dependence are developing so rapidly that the view that technological dependence is self-perpetuating[93] is out of touch with reality. Thus, if these are the four criteria of independent industrialization, then they are on the way to being fulfilled.

Historically, however, it has not always been a necessary or sufficient

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[91] That this is the case is suggested by a recent study by R. H. Mason, *The Transfer of Technology and the Factor Problem: the Philippines and Mexico,* New York, UNITAR Research Report No. 10, 1971, which finds that US-owned subsidiaries do not use more capital-intensive methods than local producers of similar products. The subsidiaries do use more capital per worker, but this is embodied mainly in buildings, not machinery (which is, of course, likely to add to employment).

[92] G. Pfefferman, *Industrial Labor in the Republic of Senegal,* New York, 1968.

[93] As advanced, for example, in UNCTAD, *The Channels and Mechanisms for the transfer of technology from developed to developing countries,* by C. Cooper and F. Sercovitch, 1971, TD/B/AC./5.

condition that these criteria hold good. Manufactured exports played a decisive role in the early industrialization of Britain and Japan among others. Some countries achieved advanced 'independent' capitalist industrialization without substantial development of capital goods sectors, e.g. Denmark, Switzerland, New Zealand; and Japan's industrialization was largely accomplished by borrowed rather than by independent technology.[94]

More important, the very notion of 'independent industrialization', even if clarified by specifying whether it is capitalist or socialist, is highly ambiguous. The increase in economic interdependence within the capitalist world and the collaboration of ruling, exploitative, classes throughout the world against socialism and the masses, both mean that the issue would be more accurately posed in terms of equality between previously unequal 'partners' in an increasingly interdependent relationship.

IV Imperialism as a World System

Many of the trends described above have been recognized on the Left but have been regarded as of a minor order; able to modify the imperialist system only within fairly narrow limits. The imperialist system itself is often seen as a structure of dependence whereby the Third World countries are kept in their subordinate place by means of endemic balance of payments problems arising from their trade, aid and investment relationships with the imperialist countries. Imperialism has also been characterized as a system whereby the surplus produced in underdeveloped countries is transferred to the imperialist countries (Robin Murray[95]); as a system characterized by and tending to perpetuate an international division of labour in production corresponding to the needs of the advanced capitalist world (Magdoff); as a system whereby resources in Third World countries are controlled by the nations of other countries for the latters' benefit (Bloch[96]); and as a international system of economic and political domination based upon and perpetuating a hierarchy of relatively stable rates of accumulation (Murray[97]). All these various definitions have different implications.

The balance of payments trends and prospects of the Third World countries, like so much else in this essay, can be only cursorily discussed. The generally 'pessimistic' left and liberal outlooks on the matter tend to ignore a number of features of the situation all of which at least *suggest* that recent experience might be favourable and future

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[94] True, the borrowed technology was modified, but this still significantly undermines the original straightforward formulation as to its necessity for independent industrialization.

[95] R. Murray, *Towards a new world economy.*

[96] *Berkeley Journal of Sociology*, 1970, cited in M. Klare, *War Without End*, New York, 1972, p. 13. (We do not deal with this definition separately since its elements are covered throughout the argument.)

[97] Since relative accumulation rates and levels, given the population of the Third World, must lie at the basis of any self-perpetuating international inequalities we attach most importance to Murray's definition, which is, incidentally, cogently argued.

prospects positive. During the later 1960s the balance of payments of the underdeveloped countries on the whole improved, as shown by global figures for 1964–70 (table XII) and by IMF figures for 18 individual countries from 1960 to 1969, which shows 14 of the 18 with an improvement in the overall balance and 9 of the 18 with an improvement in the current balance.[98] This trend has continued into the 1970s.

TABLE XII

Balance of Payments of Less Developed Countries 1964–70

	Billions of Dollars		*Billions of Dollars*
1964	0·21	*1968*	0.90
1965	1·12	*1969*	1·53
1966	0·75	*1970*	3·04
1967	0·69		

SOURCE: IMF, *Annual Report,* Washington, DC, 1971, p. 170.

The result has been a continuous rise in reserves since 1962 (table XIII[99]). This positive growth, it seems, has been caused largely by an expansion of capital inflow, especially of export credits; by the absolute volume of private long-term investment both direct and portfolio;[100] and, over the decade 1960–70, by a faster rate of growth of exports in value terms (7·2 per cent per annum) than of imports (6·4 per cent per annum).[101]

This difference in export and import growth rates shows a really remarkable improvement over the performance in the 1950's when imports increased (at 4·1 per cent per annum) substantially faster than exports (2·9 per cent per annum).[102] Although globally underdeveloped countries still had a visible trade deficit in 1970, it had been declining as a result of these trends.[103]

TABLE XIII

International Reserves of Developing Countries 1962–71

	Millions of Dollars		*Millions of Dollars*
1962	8,685	*1967*	13,015
1963	9,775	*1968*	14,100
1964	9,915	*1969*	15,580
1965	11,310	*1970*	18,230
1966	12,130	*1971*	22,890

SOURCE: UN *Statistical Yearbook 1972,* New York 1973, p. 40.

Excellent Performance

The excellent export performance was substantially the result of the rapid economic expansion, during the 1960s, of the advanced capitalist

98 IMF 1970 Annual Report, Washington DC, p. 105.
99 1960, 1961 and 1962 witnessed declines in global reserves of underdeveloped countries. UNCTAD Review of International Trade and Development 1969, UN New York, 1969, p. 41.
100 IMF 1971 Annual Report, op. cit., p. 120, and p. 11.
101 UNCTAD 1972 Handbook, op. cit., pp. 22 and 26.
102 Ibid., pp. 22 and 26.
103 See IMF 1971 Report, ibid., p. 20 and table 5.1 of UNCTAD 1972 Handbook, p. 221.

economies, for which, of course, the Third World nations bore no responsibility. It was the expansion in the metropolitan centres which largely accounted for the stability of the terms of trade for the underdeveloped countries in the 1960s (table XIV). Nevertheless, their ability to respond to this demand expansion by improving their export volumes must not be ignored. The rate of growth of the export *volumes* of underdeveloped countries rose from 3·6 per cent per annum in 1950–60, to

TABLE XIV

Terms of Trade of Less-developed Countries 1960–71 (1963 = 100)

1960	104	*1966*	101
1961	102	*1967*	100
1962	98	*1968*	101
1963	100	*1969*	101
1964	101	*1970*	101
1965	99	*1971*	101

SOURCE: C. D. Rogers, 'International Commodity Agreements,' *Lloyds Bank Review*, April 1973, p. 36.

6·5 per cent per annum in 1960–70.[104] Moreover in value terms export growth accelerated in the second half of the 1960s compared with the first half.[105] The positive response of the Third World to favourable demand conditions is confirmed by the rapid expansion in their exports of manufactures. The bulk of the Third World's exports (93–94 per cent) are sold to the so-called developed market economies (i.e. the advanced capitalist countries plus Yugoslavia) and it will be seen from table XV that exports of manufactures to these countries have risen from 12 to 19 per cent of the total in an eight-year period, nearly double the rate of growth of total exports from the Third World, a striking achievement. One effect of these trade trends is that the notorious decline in the percentage share of total world exports accounted for by the underdeveloped economies substantially decelerated in the 1960s as compared with the 1950s, the decline between 1950 and 1960 being 9·7 percentage points whereas that between 1960 and 1970 was only 3·7 percentage points.[106] From the perspective of living

TABLE XV

Trade Between Developing Countries and Rest of World 1960–9

Importing regions and commodity groups	Percentage of total developing countries' exports		Average rate of increase p.a.
	1959–61	*1967–9*	*1959–61 to 1967–9*
Centrally planned economies	6	7	8·1
Developed market economies	94	93	6·7
of which			
Foodstuffs	30	23	3·5
Raw materials	27	19	2·0
Fuels	25	32	10·2
Manufactures	12	19	13·0
Total	100	100	6·8

SOURCE: UN World Economic Survey 1969–70, p. 137.

[104] UNCTAD Trade prospects and capital needs of developing countries, UN, NY, 1972, p. 20.

[105] UNCTAD Review of International Trade and Development 1971, op. cit., p. 95.

[106] UNCTAD Handbook 1972, pp. 32–3. The rates of decline of shares also decelerated.

standards this share has no special significance, but from the perspective of relative national power balance in the capitalist world it is relevant.

Clearly the inflow of foreign capital implies growing debt and much has been made of the so-called debt problem. But it must be put into both a factual and a conceptual perspective—and when this is done the situation appears much less alarming.[107] Factually, the majority of underdeveloped countries have in the past been able to avoid significant debt servicing difficulties and, by the end of 1969, of the total estimated accumulated debt of 80 underdeveloped countries half was owed by only eight countries with only another eight accounting for most of the remainder.[108] Conceptually, the existence of debt or even growing debt in absolute or relative terms (e.g. relative to export earnings) is not by itself an indication of a debt problem. Debt is credit and a debt servicing problem depends as much, if not more, on how the credit is used as on the terms of the borrowing. It follows that measures such as the debt service ratio (the ratio of debt service to foreign exchange earnings) are not necessarily, especially for individual countries, reliable indicators of a sticky problem.[109] Chenery, in his study of the 29 fast-growing underdeveloped countries cited earlier, has pointed out that the seven which had the highest capital inflow nearly all succeeded, in creating a 'substantial reduction in dependence on capital inflows after a decade or so'.[110] The six countries in Chenery's moderate capital inflow group achieved similar, although not such spectacular, success as the large aid inflow countries; so that savings ratios and exports in the second decade have generally risen to adequate levels for fairly rapid growth. This evidence is seriously weakened by the fact that it is a biased sample (i.e. the high-growth countries were selected) but Chenery's discussion ranges beyond the select 29 and shows fairly conclusively that there are relatively few countries following a low external dependence policy which have been successful in achieving rapid growth. In fact, only one Third World country, Brazil, was able to achieve rapid growth with a low external dependence ratio. The rest used high capital inflows, high primary exports or moderate combinations of the two. It is the World Bank's view, and with this the author is in broad agreement, that debt-service problems which have arisen originate primarily in the underdeveloped countries themselves,[111] rather than from excessively harsh borrowing terms.

Future Prospects

As for future prospects, the World Bank's view is that the majority of

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[107] The discussion below is substantially based on the World Bank Annual Report 1971, pp. 50–7.

[108] Ibid., p. 50.

[109] The World Bank Report (ibid., p. 55) gives an interesting example—Colombia. The government contracted debt to expand public expenditure for productive purposes, while avoiding excessive reliance on short term credits. The ratio of public debt to exports of goods and non-factor services rose from about 5 per cent in 1957 to 12 per cent in 1963 and *declined* to 8 per cent in 1969.

[110] Chenery, op. cit., pp. 21–2.

[111] The Indian debt service crisis of 1968 is generally admitted to be an exception to this and due to a sharp drop in aid and a hardening of its terms.

countries in the 1970s will, as in the 1960s, remain free of debt servicing problems and practically every international organization, the IMF, the UN Department of Social and Economic affairs, and even the professionally gloomy UNCTAD, adopt a moderately optimistic expectation that the improved payments performance of the 1960s over the 1950s will be followed by an improved payments performance in the 1970s as the 1960s—and there is no pay-off for such bodies in painting rosy pictures. The first three years of the 1970s strongly suggest that this will be the case. Much depends on maintenance and/or expansion of growth rates in the advanced capitalist economies while the EEC's attempt to reduce its own protectionism *vis-à-vis* the Third World should be a favourable factor, as should rapid expansion in Japan, where the Third World countries have remarkably, and uniquely, increased their share of the market.

The theory of imperialism as a system for draining surplus value from the periphery to the centre has, of course, exactly the same defect as the popular equation of debt with a debt problem—that in comparing inward capital flows with the resulting outward flow of interest and profit what exactly is done with the capital 'in between', so to speak, is ignored. Even if a large excess of outward flow of funds over inward investment can be shown (as it frequently can) this proves nothing whatsoever, either about a drain of foreign exchange (because the investment may expand capacity which produces exports or saves imports) or about a drain of surplus value (the investment may expand productive investment and thus the surplus, but in a form which is not readily convertible into net additional foreign exchange).[112] The so-called drain may merely be the foreign exchange price paid for the establishment of productive facilities. Such foreign investment is a sensible path for capitalist (and indeed socialist) economic development provided that the productive facilities established are worth the price paid. However, there is also a second condition, that, in the absence of foreign investment, the necessary productive facilities would not have been created by indigenous businessmen or state institutions. If foreign private direct investment suffocates indigenous investment, rather than supplements it, this would undeniably make such investment disadvantageous to the underdeveloped country even if the full effects of the establishment of productive capacity are taken into account, since there would be an outflow of profits which need not otherwise have taken place. Although such disadvantageous displacement effects are bound to have occurred at certain places and at certain times in the history of imperialism, foreign private investment since the Second World War has probably created or encouraged indigenous capitalism. Its role is complementary with the host country's economy, as well as competitive. The view that exploitation caused by foreign investment can be equalled with stagnation is absurd. Whatever imbalances such investment may cause, it is still true that under capitalism exploitation is the reverse side of the advance of productive forces.

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[112] e.g. if it produces capacity for output which cannot be exported and would not otherwise have been imported, net surplus value and net foreign exchange gains could move in opposite directions.

We conclude that private investment in the Third World is increasingly creating the conditions for the disappearance of imperialism as a system of *economic inequality* between nations of the capitalist world system, and that there are no limits, in principle, to this process. Thus imperialism conceived as an unequal system of surplus *creation* and extraction is self-destructive.

The concept of imperialism as a specific international division of labour, which subordinates the economies of the poor countries to the needs of the advanced capitalist countries, traditionally envisaged that the latter would trade manufactures for the former's tropical foodstuffs, agricultural raw materials and minerals. This division of labour imposed burdens which, for various well-known reasons, put the underdeveloped economies at a permanent disadvantage in terms of economic power. The ability of this argument to explain much of capitalist world history when imperialist countries exercised direct or indirect political control cannot be doubted. What needs to be said now, however, for reasons already advanced, is that this classic imperialist division of labour is rapidly breaking down, not at the initiative of the imperialist countries but mainly as a result of changes brought about by the underdeveloped nations themselves. This is well illustrated by table xv.

International Division of Labour

It has also been argued that there are limits to the extent to which industrialization can go and therefore to which the international division of labour can be changed. Limits that are based on long run tendencies towards under-consumption (due to the poverty of the masses, the restrictions placed on manufactured exports by the imperialist countries, etc). Such a view is curiously lacking in historical perspective. Britain's cotton-led industrialization was characterized by low real wages at home and massive exports abroad, and the evidence so far is that this is a perfectly possible path of development for some countries.[113] Nor has it been empirically established that the consumer goods industries are severely constricted by catering only for the wealthy few—as is so often asserted.[114] Above all this view ignores the demand role of investment, more important in Third World countries now than in the era of 18th to 19th century industrialization and, what is more, much more under the control of the state so that it can now be deliberately used to prevent conjunctural stagnation while building up long-run productive power. Nor, in any case, is it credible that economies of scale are a restrictive factor in the long run for economies such as those of Brazil, Mexico, Iran, India, Argentina, Ethiopia, Nigeria, Indonesia, Pakistan, Bangla Desh and indeed for a long list of the medium-sized underdeveloped economies, especially when the total GNP of the underdeveloped world is growing faster than that of the developed world.

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[113] Readiness to predict the stagnation of the economy due to the exhaustion of import substitution has already been exposed as wishful thinking in Brazil.
[114] Wells has queried this assumption for Brazil. *Latin America Review of Books*, Spring 1973, pp. 114–15.

Robin Murray's thesis of a stable geographical hierarchy of accumulation favouring the existing imperialist countries, created and perpetuated by the self-reinforcing effects of economies of scale, is seriously weakened by his implicit assumption that direct foreign private investment has an important aggregate resource role in the Third World economies. Resource flows from private direct investment, as we have already shown, are a small proportion of gross domestic investment in underdeveloped economies. Incidentally, as Barratt Brown has shown for Britain,[115] a surplus drain to the imperialist countries need not be reflected in corresponding accumulation in the imperialist countries—the result could be *less* accumulation. On certain assumptions, the polarization thesis, viz. that living standards in the wealthy advanced capitalist countries tend to grow faster than those in the poor underdeveloped countries, may be regarded as a corollary of the characterization of imperialism as a stable geographical hierarchy of accumulations. If, on the other hand, world capitalism is characterized not only by uneven development, but by *changing hierarchies of uneven development*—which seems more realistic in view of the experience of Japan and the economic power shifts between the advanced capitalist countries in this century—then, new power centres are arising throughout the Third World. And as we might expect, on disaggregation, there is seen to be no simple polarization but, on the contrary, a whole spectrum of growth rates. This is vividly brought out in tables IV and V.

It may be considered that the attempt to generalize on a tri-continental scale cannot be useful and that we need more study of specific countries and problems. The latter is certainly true, but the empirically observable trends: of rapidly advancing industrialization; of burgeoning economic nationalism (involving increasing indigenous control and ownership of previously foreign-owned domestically located assets); of growing sectoral diversification (especially the growth of capital and intermediate goods industries); and of the development of capitalist social relations in the more primitive sectors, are sufficiently widespread to enable us to say that *throughout the underdeveloped world* the post-war period has witnessed a major upsurge of national capitalisms. The result is that the balance of power has shifted away from the dominance of a few major imperialist countries towards a more even distribution of power. Imperialism declines as capitalism grows.

V Contradictions of Capitalist Industrialization

If the extension of capitalism into non-capitalist areas of the world created an international system of inequality and exploitation called imperialism, it simultaneously created the conditions for the destruction of this system by the spread of capitalist social relations and productive forces throughout the non-capitalist world. Such has been our thesis, as it was the thesis of Marx, Lenin, Luxemburg and Bukharin. These names are cited, not for the weight of their authority,[116] but to restore historical perspective to the discussion. If the Comintern of 1928 and

[115] M. Barratt Brown, *Essays on Imperialism*, Spokesman Books, 1973, Chap III.
[116] Lenin's general theory of imperialism was theoretically misconceived and historically inaccurate.

the Left generally came round to the opposite view, viz. that imperialism prevented indigenous capitalist industrialization, they did so not without reason. In certain dramatic cases, notably India, it appeared that imperialism, having initiated the process, was now using its political control to hold back the forces it had set in motion. It can now be seen that the elements inhibiting capitalist industrialization, which operated in the period of political control, were comparatively short-lived and that the post-war period is witnessing the full re-emergence of those elements of imperialism conducive to capitalist industrialization.[117] This is partly an impersonal process and partly a matter of the deliberate policy of the imperialist countries; even when brought about in the first place through a defensive reaction. There are now more powerful forces at work than ever before which are spurring capitalist industrialization, and the various elements of imperialist control which exercised a retarding influence have largely disappeared.

No-one can doubt that capitalist industrialization faces serious problems. But these are now rooted in the internal contradictions of underdeveloped countries, centred around agricultural stagnation, excessive urbanization, growing unemployment, and the 'premature' spread of socialism prior to the development of industrial capitalism.[118] An analysis of the internal contradictions in which these problems are rooted cannot be given here.

We have tried to stress the role of the social forces *compelling* industrialization rather than that of the social forces *leading* industrialization. This is to break with much current Marxist thinking, which has consistently emphasized the importance to Third World capitalist development of a vigorous national bourgeoisie. As a corollary, the alleged lack of capitalist industrialization is regarded as the consequence of the effect of imperialism in stunting, distorting or otherwise preventing the healthy ('normal') development of a national bourgeoisie (Baran *et al.*). Once emphasis is placed on the many forces compelling industrialization, however, then we need no longer associate industrialization with any particular ruling class and specifically not with a national bourgeoisie conceived of as relatively well-developed within the interstices of imperialism (India). Significant capitalist industrialization may be initiated and directed by a variety of ruling classes and combinations of such classes or their representatives, ranging from semi-feudal ruling groups (northern Nigeria) and including large landowners (Ethiopia, Brazil, Thailand), to bureaucratic-military elites, petty-bourgeoisies and professional and state functionaries (especially in Africa and the Middle East). These 'industrializers' may themselves become industrial bourgeoisies or may be displaced by the industrial

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117 To avoid confusion, it should be pointed out that while the 'historical mission' of imperialism is to spread the capitalist system and advance the productive forces throughout the world, its initial creation of a system of inequality (the unequal elements in which were changing) at times created historical obstacles to economic advance for specific periods.

118 No doubt it will be argued that these problems are the heritage of imperialism, but so are the forces attempting to solve them, and in any case, heritage or no, their continuance now cannot be placed at the door of current imperialist-periphery contradictions which are basically non-antagonistic.

Frankensteins they have erected or they may become fused with them. In any event, the crucial point is this—that it is the characteristic of the post-war period throughout the underdeveloped world that the social forces compelling industrialization have developed with more massive impetus and greater rapidity than ever before in history and in many, if not most cases, clearly in advance of the development of a stabilized bourgeoisie. This partly explains the importance of the state in most underdeveloped countries where it often assumes the role of a bourgeois ruling class prior to the substantial development of that class.

The massive urbanization of the war-time and post-war period has produced and centralized a conglomeration of classes which now includes vast new strata of petty bourgeois and professional elements who have in common an attachment to private property and/or economic privilege and social stratification. The petty-bourgeoisie number at the lower income levels hundreds of thousands, if not millions in the main cities, and, together with the professional classes, provide not only much of the compulsion to industrialize but also, very often, the social basis and personnel for industrializing states. Urbanization has also located the appropriate classes in the politically sensitive cities, where their pressure can most readily be felt.[119] Not only this, it has provided a most nationalistic grouping of classes. Nationalism, although as a modern phenomenon broadly connected with the development of the capitalist market, is not always a direct emanation of an established bourgeoisie; the course of nationalism and the course of economic development of the bourgeoisie can proceed along relatively independent lines as, for example, in 19th-century Germany. In today's underdeveloped countries the force of nationalist ideology, with its social basis often in the urban petty-bourgeoisie, adds considerably to the drive for industrialization and proves that just as a national bourgeoisie is not necessary for industrial development so it is not necessary for nationalism.

Thus it is broadly correct to say with Ledda that 'for the picture of a vaguely progressive and national bourgeoisie we ought to substitute the far more realistic picture of a bourgeoisie of privileged groups that are reactionary internally and tied to imperialism internationally'.[120] But we differ from Ledda, and hold that reactionary internal politics and ties with imperialism are fully compatible with a real margin of autonomous choice corresponding to specific national interests[121] within the context of capitalist economic development. If it were not, capitalism could not long survive in the Third World.

In the light of all the evidence, socialists are required to examine the character of the anti-imperialist struggle much more closely than has been done up to now. For a major upsurge of capitalism is taking place in the Third World. Imperialism has been popularly and rightly con-

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[119] See S. Amin, *The Magbreb in the Modern World*, Penguin Africa Library, 1970.
[120] R. Ledda, 'Some Problems of Analysis', *Marxism Today*, September 1969, p. 267. The senses in which indigenous capitalisms are 'tied' to imperialism must be carefully defined, however, and discriminations made. Compare, for example, Brazil Libya, Egypt, India and Mexico.
[121] Ibid. p. 267.

ceived of as both the domination of the non-socialist world by a few major powers and as the attempt of the major capitalist powers to suppress or eliminate socialist states and social forces. The development of events is increasingly separating out the elements of this dual definition so that the former becomes less important globally while the latter becomes more so. In practical political terms, for example, we must be able to distinguish inter-capitalist quarrels and bargaining, from anti-imperialism. Unless this distinction is clearly grasped the Left will find itself directly supporting bourgeois regimes which, as in Peru and Egypt, exploit and oppress workers and peasants while employing anti-imperialist rhetoric.