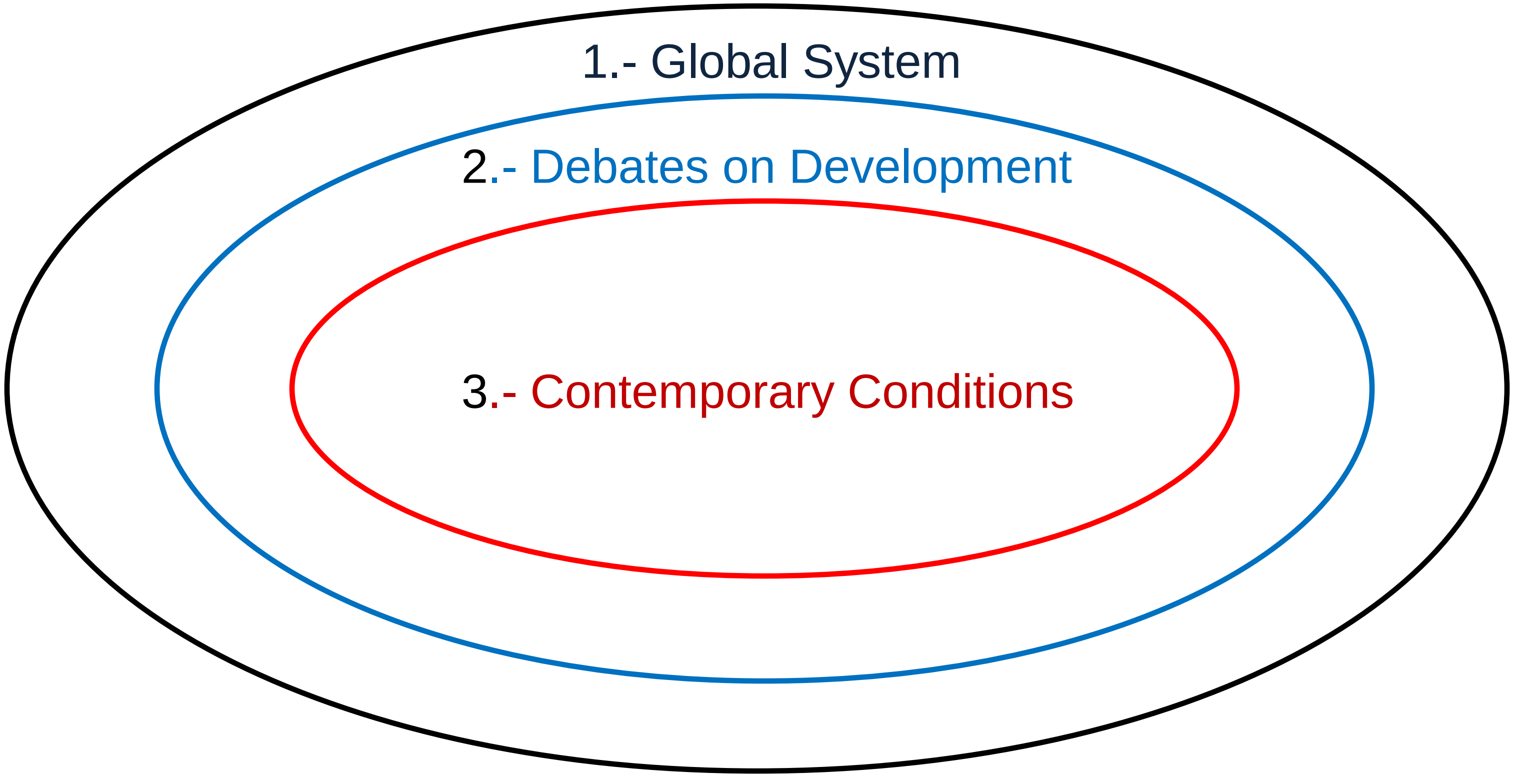
Contemporary Conditions and Debates on Development and the Global System

Dr. Róbinson Rojas - 2009



Waves of Globalization led by Western Europe, Japan and United States

Periods	**Means of domination**	**Main effects**
1492 - 1800 **1800 - 1870** **1870 - 1914**	Military conquest mainly by Western European powers and the U.S.A. – Creation of colonies.	Economic pillage of Africa, Asia and the Americas via genocide of part of the aboriginal population, particularly in the Americas. **Huge environmental damage**
1914 - 1950	Military /economic domination by W.E., Japan and the U.S.A. – Colonies transformed on vassal "free" nations.	Economic pillage and/or exploitation, political domination, and military action as a last resort. **Huge environmental damage**
1950 – 1980 **1980 onwards**	Economic/military pressure to force vassal nations to adopt capitalist system as a mean for "modernization". The age of "neo-colonization/globalization"	Economic exploitation via financial and technological dependency ensuring capital flows from poor countries to rich countries. **Catastrophic environmental damage**

Waves of Globalization led by Western Europe, Japan and United States

Case study:

The making of the British Empire – 1600 to 1800s

The slave trade = human beings crushed into money

For centuries it provided substantial quantities of capital for the industrial revolution and the development of the Western European economy.

Trade -> Empire -> Enslavement -> Wealth -> Rebellion

African, Asian and American original populations were crushed into money by the ruling elites of Spain, Portugal, England et al

Waves of Globalization led by Western Europe, Japan and United States

Economic and social outcomes:

1870-1914	• Dramatic increase of international flows of goods, capital and labour. • Colonies economic structures specialize in producing raw materials and cash crops for export.	• 60 million people from Europe migrate to North America, Australia and Africa. • Strong economic and political inequality between "globalizers" and "globalized".
1914-1950	• "globalizers" engage in savage wars for economic supremacy.	•
1950-1980s	• U.S.A, Western Europe and Japan carve the world up into spheres of economic influence.	• Power elites in rich and poor countries become "partners" in the exploitation of the rest of the world population.
1980s - today	• New economic geography: global chains of production with cities becoming the nodes of a network managed by transnational capital.	• Increased economic and political inequality among and within countries

1.- On the Global System

TNCs share of world economy (current dollars)

Year	1990	2007
Gross Product of foreign affiliates as % of World GDP	6.8	11.1
Employment of foreign affiliates % of World labour force	24,056,000 1.0%	80,568,800 2.6%
World labour force	2,405,600,000	3,098,800,000
World GDP	22,129,834,000,000	54,588,388,000,000

Source: UNCTAD, “Handbook of Statistics 2008”.

1.- On the Global System

TNCs and the world economy (current dollars)

Year 2007	**GDP (millions)**	**% of total**		**Labour force (mill.)**	**% of total**	**Value added per worker – US$**
Developing economies	11,125,675	20.4		2,375.3	76.6	4,684
Economies in transition	3,156,118	5.8		207.2	6.7	15,232
Developed economies	40,309,714	73.8		516.3	16.7	78,074
TNCs	**6,059,311**	**11.1**		**82**	**2.6**	**73,894**
All economies	**54,588,388**	**100.0**		**3,098.8**	**100.0**	**17,616**
East Asia & Pacific	4,365,487	8.0		1,081.5	34.9	4,037
Europe & Central Asia	3,156,118	5.8		207.2	6.7	15,232
Latin America & Caribbean	3,615,910	6.6		262.2	8.5	13,791
Middle East & North Africa	850,182	1.6		106.2	3.4	8,005
South Asia	1,443,539	2.6		607.9	19.6	2,375
Sub-Saharan Africa	847,438	1.6		317.5	10.2	2,669

Sources: World Bank, “World Development Indicators 2009” and UNCTAD, “Handbook of statistics 2008”

Three theories:

1. **Structuralism (1950)**
2. **Modernization (1960)**
3. **Dependency (1968)**

Styles of economic planning in developing countries:

A) From 1850s to 1930s (Latin America). Export-oriented economic modernization in a laissez-faire market implemented by liberal states**.**

B) From late 1930s to late 1970s (Latin America, Africa and Asia). Mainly characterised by import-substitution industrialisation implemented by developmental states and strong public administration institutions, including institutions for rural land reform especially in Latin America and Asia.

C) From the early 1980s to 2008 (Latin America, Africa and Asia). Export-oriented industrialization in a laissez-faire market, implemented by neo-liberal states in a globalized financial and productive economy.

On structuralism:

ECLAC, "Economic Report for Latin America 1950", United Nations, New York, first draft of a theory based on:

Because former colonies and colonies economic structures were specialized in producing raw materials and cash crops for export to colonial powers:

1. **The world economy is divided in a CENTER (United States and colonial powers) and a PERIPHERY (colonies, former colonies and rural societies)**
2. **Developing countries (particularly Latin America) can develop only if they implement economic and political mechanisms to protect their economies from the exploitative relation center-periphery.**
3. **The above required a STATE able to implement adequate policies. The latter defined as "estado desarrollista" (Developmental State), informed by a tool for analysis: "economía del desarrollo" (development economics).**

Readers: Arthur Lewis, 1949, "Economic Survey: 1919-1939",

Raúl Prebisch, 1947, "*Introducción a Keynes*", and *"Theoretical and Practical Problems of Economic Growth"*, 1950.

ECLAC, 1950, "Economic Report for Latin America 1950"

On structuralism

Principal tenets of this new political economy were:

1. **All major <u>industrialised countries</u> (especially U.S.A. and Japan) had industrialised behind <u>protective policies</u>, i.e., tariffs and subsidies;**
2. **A country needed to develop a strong <u>industrial structure</u> before it could become involved in <u>free trading</u> of manufactured goods;**
3. **<u>Protective policies</u> should promote a wide rather than a specialized range of rural and urban industries;**
4. **<u>Protective policies</u> will create more opportunities for employment at a time of supply of labour growing very fast.**

On structuralism

In all this process there was a need for foreign capital, national private capital and state capital.

Since the late 1940s the process of ISI in Latin America was engineered via a "triple alliance" between:

1. **state owned firms,**
2. **national private enterprises, and**
3. **transnational corporations.**

The balance between these economic categories varied from country to country

ECLAC’s planning for development with developmental state in Latin America was changing the social structure in the continent:

1. A class of owners of capital and a class of urban waged workers began to take the central stage in politics, creating dramatic social conflicts.
2. USA and Soviet Union were involved in a “Cold War” for dominating the world.
3. The class struggle in Latin America was menacing the stability of United States’ control of its “backyard”.
4. In the late1950s a new theory for development appeared, this time originated in United Sates universities. From 1960 onwards it was going to be known as “modernization theory”.

On modernization theory:
Main concept:
All societies progress to modernization following 5 stages in accordance with the dynamics of capitalist mode of production:

1st stage: traditional society (rural).
2nd stage: The preconditions for take-off. There are clusters of new ideas favouring economic progress arising, and therefore new levels of education, entrepreunership, and institutions capable of mobilizing capital.
3rd stage: the take-off. Agriculture is commercialized, there is a growth in productivity to meet the demand emanating from expanding urban centres.
4th stage: the drive to maturity. 10 to 20 per cent of GDP is invested and the economy "takes its place in the international order." Now production is not the outcome of social necessity but of the need of maximizing profits to survive in a competitive capitalist market.
5th stage: mass consumption. The leading economic sectors specialize in durable consumer goods and services. At this stage, economic growth makes sure that basic needs are satisfied, and the economic focus changes to social welfare and security.

W. Rostow , "The Stages of Economic Growth: A Non-Communist Manifest", Cambridge University Press, 1960

On modernization theory:

N. Smelser, "**Mechanisms of and adjustments to change**", in T. Burns (ed.), INDUSTRIAL MAN, Penguin, 1969), distinguished four processes unfolded by a “human drive to progress” with the most efficient economic tool: a free capitalist market:

1) move from simple to complex technology
2) change from subsistence farming to cash crops
3) move from animal and human power to machine power
4) move from rural settlements to urban settlements.

The “institutional structure” facilitating that “human drive to progress” was a state/government with minimal economic intervention alongside strong political intervention to keep markets free: the neoliberal state as we know it today.

On dependency theory:

In the early 1960s, in Santiago, Chile, a group of Latin American academics (especially economists and sociologists), developed an overall critique of modernization theory as presented by W. Rostow, and structuralist theory as developed by R. Prebisch and other scholars at ECLAC (Economic Commission for Latin America and the Caribbean). This critique of ECLAC's development theory and the capitalist system in general was later known as "dependency theory".

The overall critique was based on the principle that capitalist development in industrialized countries was leading to a world economy dominated by monopoly capital (in the form of transnational corporations mainly based in the United States in the 1960s**);**

From above, if developing countries embarked in capitalist modernisation/industrialisation, they will end up as dependent capitalist economies producing to meet the needs of industrialised countries' big corporations in a monopolist world market.

The dynamics of the capitalist markets will create extreme income inequalities, higher dependency on the CENTER capital and technologies and increased urban and rural pollution.

On dependency theory:

Dependency theorists (O. Sunkel, E. Faletto, T. Dos Santos, A. Quijano, F.H. Cardoso, A. G. Frank, J. Ramos, R. Rojas, et al, which are associated with different shades of dependency theory) argued that

-import-substitution strategies, implemented in conditions of capitalist relations of production dominated by the economic empire led by US' big corporations was a recipe for further "colonization", "domination" and "dependency";

-export-led strategies will have the same result, though faster;

-development state in conditions of capitalist relations of production will play the role of ensuring international monopoly capital dominance, and the same will be true for laissez-faire (neoliberal) states.

On dependency theory:

Dependency theory suggested a methodology for advancing in the proposal of an <u>alternative system to both capitalism and bureaucratic socialism</u>, based on

-an analysis of social processes, mechanisms of exploitation and the dynamics of social stratification;

-an analysis of imperialist relations among countries, and regions within countries;

-an analysis of the asymmetric relations between social classes;

-an analysis of the relationship (as business partners) of the ruling elites and high rank civil servants in <u>developing countries</u> with the ruling elites and high rank civil servants in <u>industrialised countries</u>

(F. H. Cardoso & E. Faletto, 1969, “Dependencia y desarrollo en América Latina”, Siglo XXI Editores, Mexico)

2. Debates on Development

On dependency theory:

In both industrialised and non-industrialised countries a FRAGMENTED but closely interrelated segmentation of the economy takes place:

Segment A) the OLIGOPOLISTIC ECONOMY controlled by the transnational corporations. They dominate the world trade AND the economies of their home countries.

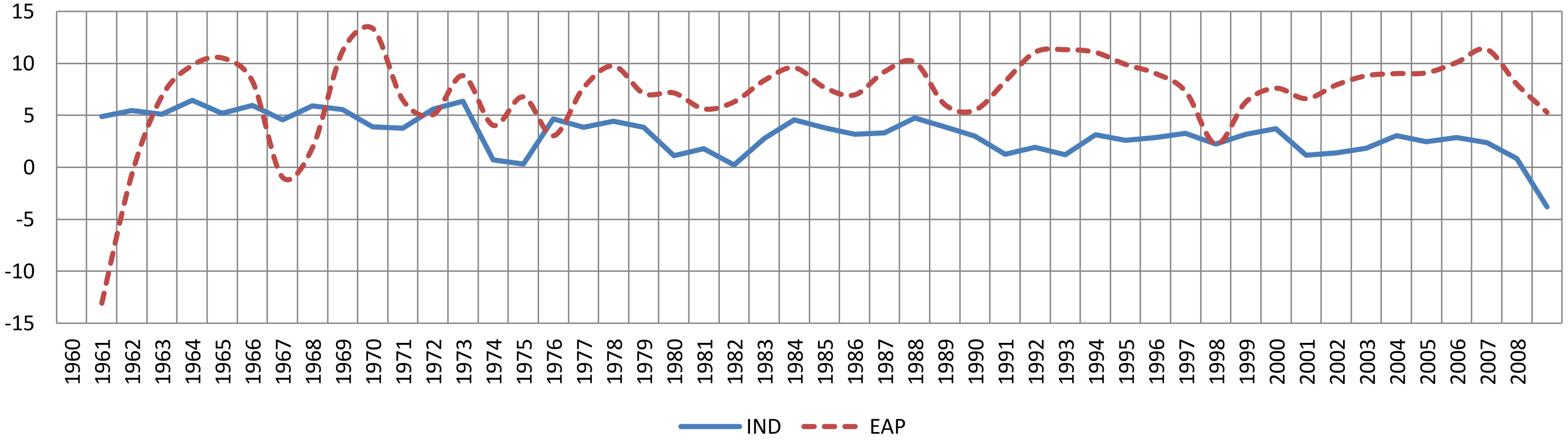
Segment B) the traditional market economy of medium-sized and small producers.

Segment C) the vast mass of semi-capitalist (marginal, informal) economy in developing countries and the growing segments of structural unemployment and the underground economy in industrialised countries.

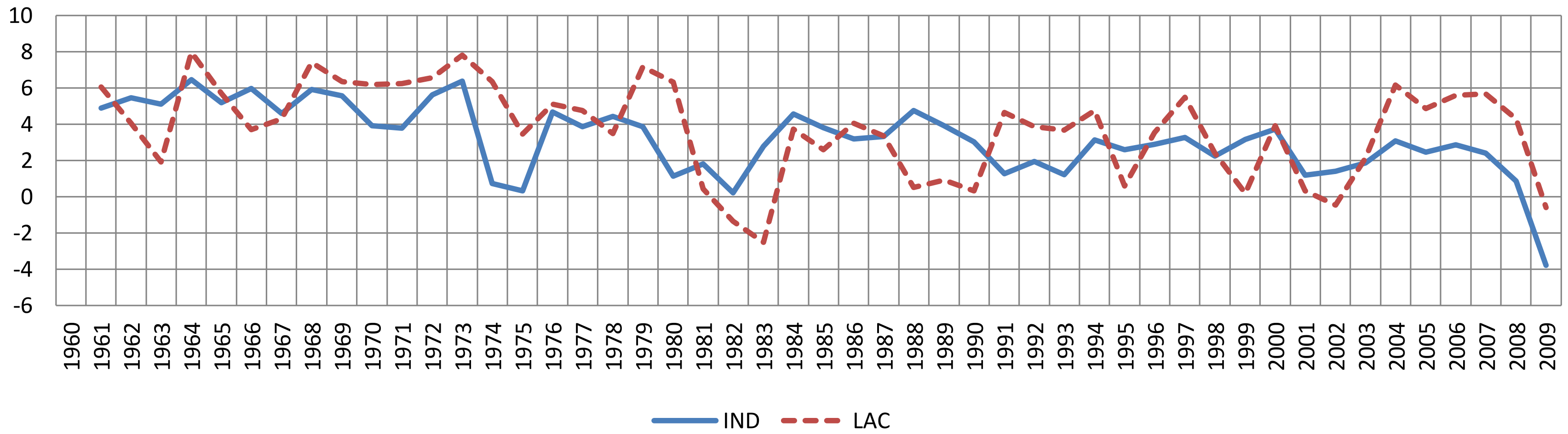
The rules of the world economy are imposed from "above" **(segment A)** via the economic power of the transnational corporations and the political- military power led by the governments (states) of the industrialised countries. Those rules are helping the advancing of the transnational corporations domination of the economies of developing countries.

3. Contemporary conditions

East Asia and the Pacific - Business cycles (GDP annual growth)

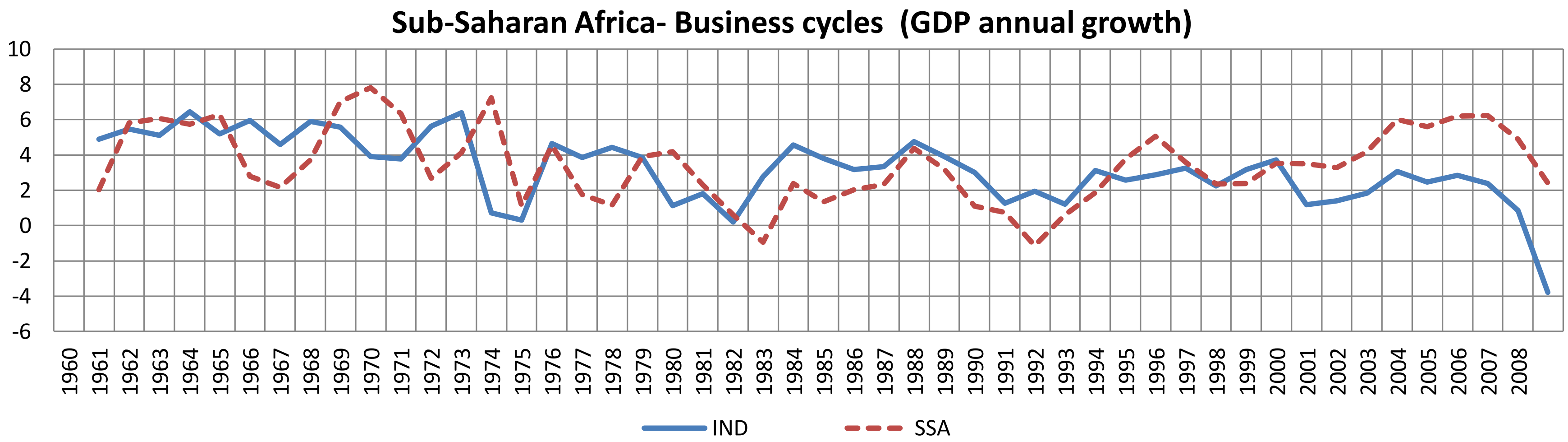


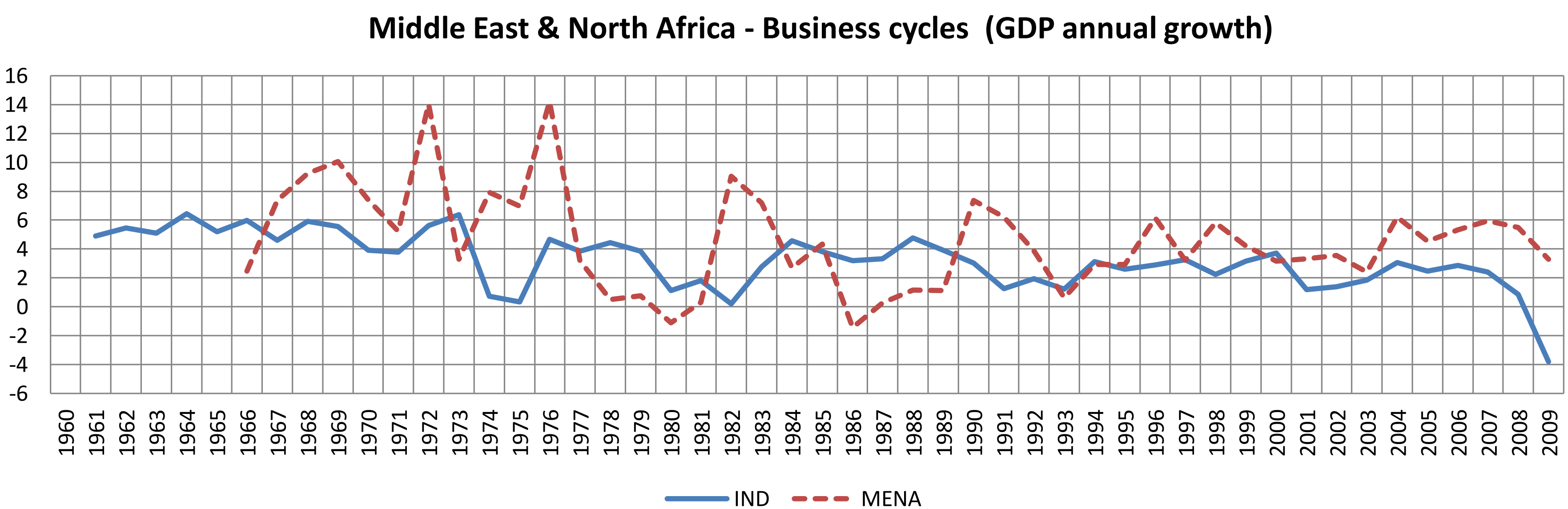
Latin America and the Caribbean - Business cycles (GDP annual growth)



Source: World Bank World Development Indicators Data Query – Data processed by Róbinson Rojas

3. Contemporary conditions





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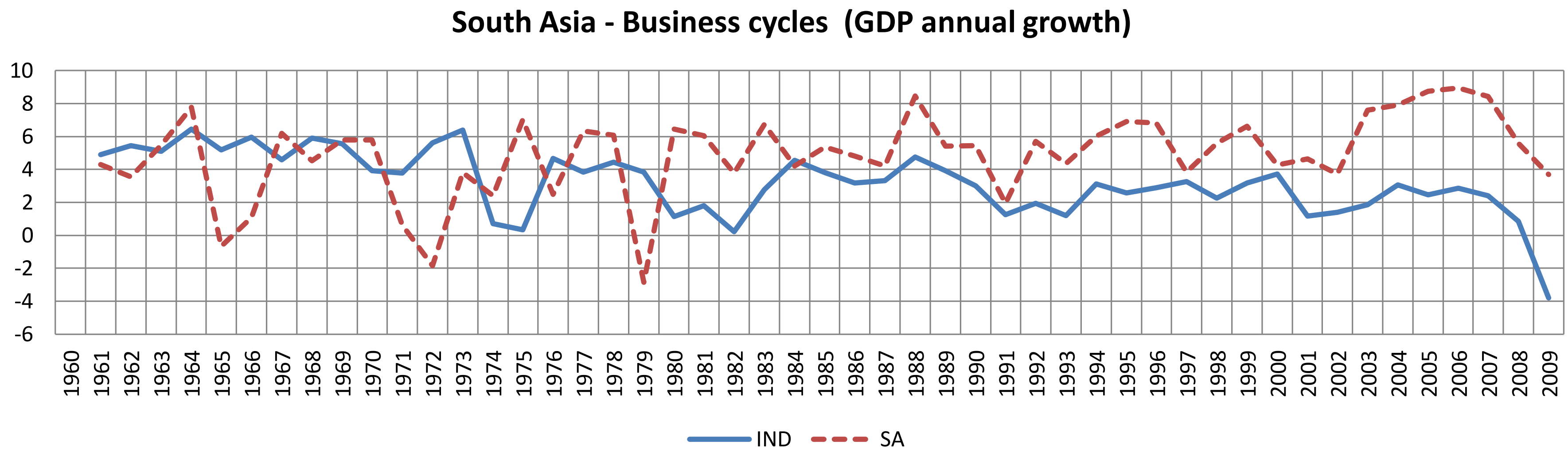

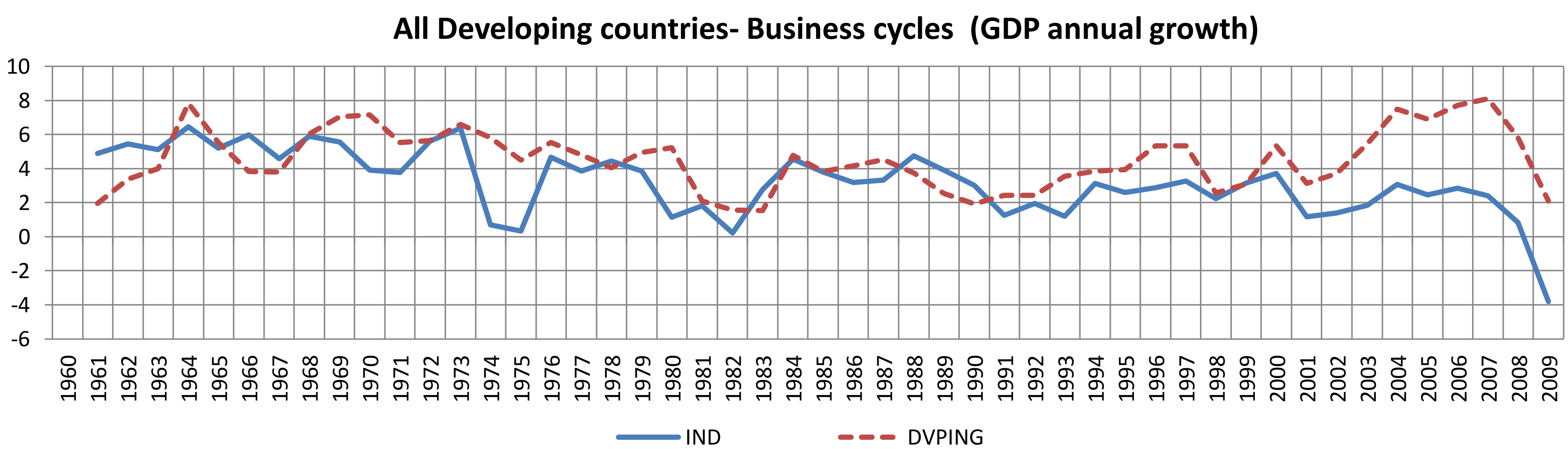

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3. Contemporary conditions

FPA: factor payments to abroad (current dollars)

Year 2006	GDP (US$mill.) 1	GNI (US$mill.) 2	GNI-GDP (US$mill.) 1-2	% of GDP (1-2)/1	Flow p/hour (US$mill.)
East Asia & Pacific	4668441	4536327	-132114	-2.8	-15.1
South Asia	1144847	1143652	-1195	-0.1	-0.2
Middle East & N. Africa	757261	703418	-53843	-7.1	-6.2
Sub-Saharan Africa	698602	636426	62176	-8.9	-7.1
Europe & Central Asia	2656296	2354297	-301999	-11.4	-34.5
Latin America & Carib.	2998320	2684472	-313848	-10.5	-35.8
Total developing cts.	12923767	12058592	-865175	-6.7	-98.8
Industrialized cts.	33610631	34475806	+865175	+2.6	+98.8

GDP: sum of value added by all resident producers.
GNI: GDP plus net receipts of compensation of labour and capital to and from abroad.
FPA: Net receipts of compensation of labour and capital to and from abroad.

Sources: World Bank, “World Development Indicators 2008” , tables 1.1 and 4.6

3. Contemporary conditions

FPA: factor payments to abroad (current dollars)

	GDP (US$mill.) Year 1990	GDP (US$mill.) Year 2006	2006 times 1990	FPA per hour US$mill 1990	FPA per hour US$mill 2006	2006 times 1990
Developing countries	4705682	12923767	2.75	-25.3	-98.8	3.91
Industrialized countries	17424153	33610631	1.93			
FPA per year US$ mill.				221628	865488	
FPA as % of DCs GDP				-4.7%	-6.7%	

GDP: sum of value added by all resident producers.
GNI: GDP plus net receipts of compensation of labour and capital to and from abroad.
FPA: Net receipts of compensation of labour and capital to and from abroad.

Sources: World Bank, "World Development Indicators 2008" , tables 1.1 and 4.6

3. Contemporary conditions

Financial flows from industralized countries to developing countries and viceversa (current dollars)

	Inflow (US$mill.) Year 2006	Outflow from developing countries (US$mill.) Year 2006	Net flow to developing countries US$ mill.	Net flow as % of developing countries GDP	Net flow US$ mill. per hour
Foreign Direct Investment *	**72403**				
Aid	**104421**				
Other private flows (NGOs)	**70362**				
Total inflow/outflow	**247186**	**-865175**	**-617989**	**-4.8**	**-70.5**

*Total FDI is composed of 56% equity, 26% reinvested earnings and 18% loans from host country banks. Total = 129291, of which equity = 72403

Source: World Bank, "World Development Indicators 2008" , table 6.12

3. Contemporary conditions

The global distribution of private consumption - 2007 (current dollars)

Deciles	Number of people	Share of consumption	Consumption p/capita p/year	Consumption p/capita p/day
poorest	667,123,000	0.5	327	.90
2	667,123,000	1.0	654	1.79
3	667,123,000	1.4	916	2.51
4	667,123,000	1.9	1,243	3.40
5	667,123,000	2.4	1,570	4.30
6	667,123,000	3.3	2,158	5.91
7	667,123,000	4.8	3,139	8.60
8	667,123,000	8.1	5,297	14.51
9	667,123,000	17.6	11,510	31.54
richest	667,123,000	59.0	38,586	105.72
100.0	6,671,230,000	100.0	6,540	22.42

Calculations based on World Bank, World Development Indicators 2008, page 4

3. Contemporary conditions

From the above it follows that a better conceptualization of development is necessary.

The notion that production of more goods and services per capita (economic growth) will trigger a better distribution of income, health, education, housing and political power for the whole of society must be reviewed.

Development must include the concepts of political empowerment of the whole society, and that universal political empowerment is reachable only through universal access to education, health, shelter, food and individual freedom, the latter seen as a social commitment.

And, of course, we must achieve all the above goals preserving our planet eco-systems.

If we don't preserve our planet eco-systems we will crush biological life into oblivion.

TASK

What should be the characteristics of a new development approach which takes as its starting point the interests of the peoples of developing countries?