Chapter II

CONCEPTUAL FRAMEWORK

The present study is conceived within the broad framework of the experience of third world industrialisation in general. Third world industrialisation experience has been different from the experience of Europe and other advanced countries. The third world countries have many things in common, the most important among them being their common history of colonialism which have given them many distinct features applicable only to third world countries. Their lateness in industrialising deprived them of a number of advantages such as initial capital, command over natural resources, absence of competitors, etc. This has severely constrained their industrialisation process.

Before going into the details of third world industrialisation, it may be in order to make clear some concepts which appear frequently in the study. The concept of industrialisation itself needs some elaboration. The level or measure of industrialisation is usually expressed in quantitative terms, namely, the index of industrial production or the growth rate of industries. However, a more comprehensive definition of industrialisation should take into account the qualitative
aspect also. Industrialisation is, envisaged to be resulting in a structural transformation of the society characterised by the predominance of the secondary sector, a high rate of employment generation, high wage rates, increased agricultural production, development of infrastructural facilities, an overall development in the living standards of the people and above all, a change in social relations.² The structural change towards industrialisation implicit in this definition is generally glossed over if the value of industrial production per head of population is used as the sole yardstick of the degree of industrialisation.³

The notion of independent industrialisation involves something more than this. It is not merely 'derived' from the industrialisation of another economy. It should originate and be maintained by social and economic forces within the industrialising country. An important part of this notion concerns the paramount importance of domestic market though export markets are also of much significance. Another aspect of independence concerns the structure of industrial production so that the country concerned carries within its borders a wide range of industries including economically strategic capital goods industries. A further characteristic of independent industrialisation concerns the source and control of finance. The final element in the notion of
independence is technology. Independent technological progress has been one of the corner stones of all successful industrialisations since the English industrial revolution. Apart from these economic factors, the existence of an industrial bourgeoisie who will productively use the surplus generated in the economy is also important. This also implies the presence of a state capable of defending the interests of the Industrial Revolution.4

Another related concept which needs special mention is "articulation". For industrialisation to become a propellant for the development of other sectors, the concerned economy must be well-articulated. "An articulated or coherent economy is ideally a system of forward and backward linkages, its sectors and regions will be complementary and there will be reciprocity of exchanges between them".5 Thus a well-articulated economy demands the fulfilment of all the conditions of independent industrialisation discussed above. This kind of development is otherwise called "autocentric development"6 implying development taking place as a result of an internal urge to industrialise, directed towards satisfying internal demand, using indigenous technology, expertise and capital and above all under the initiative of a nascent entrepreneurial class. This kind of a well-articulated economy which was the hallmark of the industrialised
societies during their industrialisation periods, is supposed to be absent in the present-day underdeveloped countries.

Any discussion on industrialisation, therefore, naturally necessitates an analysis of the different issues related to industrialisation such as markets, source of capital, technology, nature of industrial composition, nature of classes etc. In the present study, along with discussing the other aspects related to industrialisation, emphasis is laid on the relationship between trade and industrialisation which form the core of the present study. This chapter is divided into two sections: the first deals with the different views on the role of trade in industrialisation and development; and the second describes the history of underdevelopment and the characteristics of third world industrialisation.

A. Historiography of Various Approaches to Trade, Industrialisation and Development

This section aims at a survey of various schools of thought regarding the interrelationship between trade and industrialisation as well as their relationship with economic development in general. Here the focus is on those approaches which are relevant to the topic of study; export-oriented industrialisation and industrial backwardness. Since none of these approaches could provide a comprehensive explanation to
the mutually related aspects of trade, industrialisation and development, we do not proceed with any particular approach. However, as each one provides a partial explanation to third world industrial backwardness and the related problem, a review of the relevant literature is undertaken with a view to collecting and assembling the building blocks for a relevant framework for the present study.

The first formulation of trade becoming the propelling force for economic development appeared in the work of Adam Smith. On the basis of his theory of absolute cost difference*, Smith argued that free international trade would lead to increased specialisation and division of labour in a country provided unemployed resources existed there in the pre-trade situation. However, it is the Ricardian theory of comparative advantage that became the foundation stone of theories of free trade.** Following the footsteps of Ricardo,

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* According to Adam Smith, international trade would be of mutual advantage if one country has absolute cost advantage over another in one line of production and the other has an absolute cost advantage over the first country in another line of production. (See G.M. Meier, "Leading Issues in Economic Development, 1984).  

** Ricardo went a step ahead of Smith and argued that any two countries can very well gain by trading even if one of the countries is having an absolute cost advantage in both the goods over another, provided the extent of absolute advantage is different in the two commodities in question, i.e., comparative advantage is greater in respect of one good than that in the other. Each country should specialise in that commodity for which the country concerned had a comparative advantage. (Ranjit Sau, "Towards a Marxian Theory of International Trade and Capital Flow", EPW, Special Number, 1977).
J.S. Mill through his principle of reciprocal demand* further elaborated the beneficial effects of free trade.

The comparative cost theory was further developed by neo-classical economists. They have traced the root of comparative cost differences to the inter-country diversity in relative factor endowments. Neo-classical economists go on to argue that a labour-abundant economy would have lower relative cost in labour-intensive commodities, and a capital-abundant country in capital-intensive commodities. In spite of the anomalies such as the Leontief Paradox and the factor-intensity reversal, the Heckscher-Ohlin-Samuelson Theorem further claimed a tendency towards international factor-price equalisation and a definite improvement in social welfare. The formulation of trade as an 'engine of growth' by Dennis Robertson was another contribution to the neo-classical thought on international trade.

The crux of the arguments in favour of international trade in the classical and neo-classical literature is the following:

1. Trade is an important stimulant of economic growth. It increases a poor century's consumption capacities and provides access to scarce resources and world-wide markets for products.

* According to J.S. Mill the share of the gain accruing to the trading parties depends upon the elasticities of the demand of one country for the goods of the other, or the intensity of reciprocal demands (Meier, op.cit.).
2. Trade tends to promote greater international and domestic equality by equalising factor prices, raising real incomes of trading countries and making efficient use of each nation's and world's resource endowments.

3. Trade helps countries to achieve development by promoting and rewarding those sectors of the economy where individual countries possess a comparative advantage whether in terms of labour efficiency or factor endowments.

4. Since international prices and costs arising out of free trade maximise a country's national welfare, countries should not try to interfere with the free working of the international trading system.

5. Finally, in order to promote growth and development, an 'outward looking' internationalist policy is required. In all cases, self-reliance and autarchy are asserted to be economically inferior to participation in a world of free and unlimited trade.13

However, these classical and neo-classical theories formulated in the context of European and American societies, proved inappropriate when applied in the case of trade between the Western industrialised countries and their colonies. The 'free traders' ignored the harmful effects of colonialism in poor countries. It is even argued that these theories
were used by the colonial countries to protect their interests in the colonies.*

One of the major assumptions of these theories is that the factors of production are internationally immobile. That is, the location of an export industry, according to these theories, would be determined by the pre-existing supply of factors of each country. Contrary to this assumption, the colonial trade was carried out on the basis of international mobility of most of the factors of production viz., capital, raw materials and labour.

Another major deficiency of the theory of comparative cost lies in its static character. What is a comparative advantage today may cease to be so tomorrow. Moreover, the free traders apply in practice the criterion of comparative costs in the most static way and compare current prices instead of the future social prices.

Similarly, the Ricardian assumption of elastic markets and stable prices is inconsistent with the experience of underdeveloped countries where the greatest difficulty with the export of raw materials is the inelastic markets and unstable prices.16

* In his discussion on Britain's trade with her colonies, Marx had clearly pointed out this aspect (Karl Marx, "On the Question of Free Trade" in Marx and Engels "Collected Works" Vol.6). See later discussions.
The export-oriented strategy of growth pursued by underdeveloped countries casts serious doubt on the positive effect of trade envisaged by classical and neo-classical theories. There is reason to believe that though trade may promote export earnings* and increase output levels, it need not necessarily be a desirable strategy for economic and social development. Therefore, the nature of the export sector and its linkages with the rest of the economy are of much significance. 17

As for the distributional effects of trade, the principal benefit of world trade has accrued disproportionately to rich nations and within poor nations disproportionately to both foreign residents and wealthy nationals. Contrary to the conclusion of traditional trade theory that free trade will tend to equalise incomes, trade in fact tends to reinforce existing inequalities. 18

The theory of comparative advantage is also criticised from the standpoint of several other theoretical 19 and empirical investigations. The study of Hilgerdt shows that if the supplies of manufactured goods available to the poorest group of nations could be raised to even one-half the level of the

*Consequent to a rise in export earnings, though the net barter or commodity terms of trade, $P_x/P_m$, of underdeveloped countries goes up, their position may still be unfavourable since this is associated with an accelerated outflow of foreign exchange in the form of profits and dividends accruing to foreign firms. See G.M. Meier, "International Economics of Development", Oxford University Press, New York, 1968, Chapter 3.
industrial nations by trade alone, the poorer nations would have to raise their imports of these goods by a factor of 16, which is twice the value of all international trade combined. The conclusion emerging from his analysis is that the problem could not be solved by international trade.\(^\text{20}\)

Historically, the prices of primary commodities (the exports of most less developed countries) have declined relative to manufactured goods. Kindleberger's study for the period 1913 to 1952 indicates that Europe's terms of trade with the areas of recent settlement show a 20 per cent improvement, while in trade with poorer countries, Europe's terms of trade have improved by as much as 55 per cent. This clearly establishes the deterioration in terms of trade against the underdeveloped countries.\(^\text{21}\) Another study by the U.N. Department of Economic Affairs\(^\text{22}\) also comes out with similar conclusions.* Though the report warns that the terms of trade, especially the commodity terms of trade** constitute only one

\* According to the U.N. study noted, the index of the ratio of prices of primary products to those of manufactured commodities showed a declining trend, from 147 in 1876-1880 to 100 in 1938.

\** Neo-classical trade theory has evolved various concepts of terms of trade. They are: net barter terms of trade, gross barter terms of trade, income terms of trade, single factorial terms of trade, double factorial terms of trade, real cost terms of trade and utility terms of trade. See G.M. Meier, "International Trade and Development" 1963, Chapter 3.
factor in determining national income and funds available for economic development, it seriously questions the classical postulate that "trade is an engine of growth". Studies relating to the later periods also indicate the same trend. Between 1955 and 1970, the terms of trade for developed countries rose by over 10 per cent while that of the third world fell by over seven per cent.23

Study conducted for the period 1900-1986 has come out with the conclusion that the primary commodities' terms of trade with manufactured goods have deteriorated considerably over the period under discussion. It depicted a statistically significant trend rate of decline of 0.59 per cent per year for the real prices of non-fuel primary commodities over the first 86 years of the present century. This amounts to a cumulative trend fall of some 40 per cent.24

The principal reason for the deterioration in the terms of trade are:

1. The demand for raw materials compared to that of manufactures is relatively inelastic.

2. Technological progress has reduced the input requirements of raw materials in manufacturing industry.

3. The import of raw materials into the developed countries has been reduced by restrictive measures.
4. Synthetics have been developed and are put to ever-increasing use.

5. The allocation of the gains accruing from a rise in productivity have differed in their effects on primary products and manufactures. In manufactures, the effect was rising prices and higher remuneration to factors of production; in raw materials the effect was to lower prices and to bring about a stand-still or a reduction in remuneration of factors of production.

6. The supply of raw materials greatly increased. The problem of the deterioration of terms of trade assumes greater significance when the trade dependence of the third world countries especially on primary commodities, is taken into account. Even in the seventies, the share of total exports to GNP of most of the third world countries formed 20 to 30 per cent, while this share was only about five per cent for countries like U.S.A. Of this high percentage of exports, the primary products (food, raw materials, fuel and base metals) accounted for almost 80 per cent. This must be viewed against the fact that the underdeveloped countries depend so heavily on the developed countries for their import requirements. Trade among the underdeveloped countries themselves is very small, the reason being that their economies
are not complementary. The percentage of total exports going to each other dropped from 23 per cent in 1960 to under 20 per cent by the mid-seventies. In other words the third world countries became even more dependent on rich countries for both imports (of sophisticated products) and exports (of primary products). In 1970, for all underdeveloped countries together, imports of machinery amounted to a total value of more than 19 billion dollars while exports formed no more than one billion dollars.

From an analysis of data pertaining to the period 1950-70, it is apparent that contrary to what occurred in the industrialised countries, there was almost no relationship between the rate of growth of exports and GNP of underdeveloped countries. This holds good for most of the third world countries. The absence of a correlation between exports and the rest of the economy was above all due to the fact that most goods exported by the underdeveloped countries were produced in economic enclaves (either plantations or mines) which had only a tenuous relationship with the rest of the economy and whose effects on the economy as a whole were consequently very limited. For example, in most of the underdeveloped countries, five to seven per cent of the working population produce certain goods, almost 90 per cent of which were exported while the remaining 93-95 per cent of workers produce
certain other goods of which only one per cent was exported, during the seventies.\textsuperscript{32}

The ECLA Thesis\textsuperscript{*}

These formulations portrayed the tendency of international trade to accentuate inequality among nations in terms of the centre-periphery relationship. Special attention was drawn to the consequences of differential technical progress and the worsening of the periphery's terms of trade.\textsuperscript{33} Import-substituting industrialisation under tariff walls was advocated by them as an alternative for the export-led development. The popular names associated with this school were Raul Prebisch, Hans Singer, Gunnar Myrdal\textsuperscript{34} and others. The ECLA thesis together with other works (described above), which were critical of the trade-development relationship in the context of third world countries, dominated the development literature during the fifties and sixties.

Resurgence of Neo-classical Theories

The neo-classical explanations of trade-development relationship which were put to rest during the fifties got a

\textsuperscript{*}It was during the fifties and sixties that theories questioning the neo-classical assumptions were evolved from the United Nations' Economic Commission for Latin America (ECLA). The main ECLA document was entitled 'The Economic Development of Latin America and Its Principal Problems' (1950) (G.M. Meier, op.cit.).
new lease of life during the next decades. The major reason for this revival was the failure of import-substitution under high protection as practised in a number of third world countries (the reasons for which will be discussed later). The neo-classicals were of the opinion that there was a systematic bias against exports in several countries during this period. A number of writers during the sixties pointed out that export pessimism was baseless and that supply factors including controls and mismanagement paved the way for poor export performance. Little, Scitovsky and Scott argued in early 70s that a right measure towards export-led strategy would give positive results. Even the 'deterioration in the terms of trade' argument was challenged on the ground of being exaggerated.

Citing the example of Korea and Taiwan, which had a labour-abundant export sector, some economists argued that a more open economy would increase the demand for unskilled labour. This explains the neo-classical revival in the late sixties and seventies advocating free trade for third world development using the abundantly available cheap labour in these countries. This provides the guiding principle to the present-day export-oriented industrialisation of manufactured goods from the third world countries.
Trade and Industrialisation in the Marxian and New-left Literature

A more serious attempt was made by the Marxian literature to understand the relation between trade and development. Marx\textsuperscript{40} was aware of the exploitative character of free trade under colonialism.\textsuperscript{*} He insisted that in the wake of capitalist trade "a new and international division of labour, a division suited to the requirements of the chief centres of modern industry, springs up and converts one part of the globe into a chiefly agricultural field of production for supplying the other part which remains a chiefly industrial field".\textsuperscript{41} Marx further held that neither ecology nor comparative advantage dictates the pattern of specialisation for an underdeveloped country engaged in free trade, but it is rather the requirements for the advancement of capitalist production in the developed country that decides the pattern of foreign trade of the underdeveloped country.\textsuperscript{42}

Since the main concern of the early twentieth century Marxists like Lenin, Bukharin, Hilferding and Rosa Luxemburg was the phenomenon of imperialism, their analyses took serious note of capitalist encroachment on other countries. In

\textsuperscript{*}His views on this subject were reflected in the following statement: "If the free traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another". (See Marx, op.cit., p. 464, 465).
this respect Rosa Luxemburg made a detailed analysis of the impact of capitalist expansion on other countries. She stressed the significance of external markets as a necessary condition for accumulation in capitalist countries. Luxemburg has the rare distinction of having made an indepth analysis of capitalist penetration to third world markets and the consequent disintegration of the pre-capitalist structures prevailing there, several decades before this became a matter of serious concern among the Marxists.

However, it was the dependency theorists who attempted to study third world industrial backwardness and the consequent underdevelopment in a historical perspective. Baran, Emmanuel, Frank and Amin are the chief proponents of this school. They argued that capitalist penetration into the economies of backward countries stifle the progress of industrialisation and capitalist development in the latter instead of promoting it. The underdevelopment in the backward countries is the consequence of the expropriation by the advanced capitalist countries of the economic surplus generated in the backward countries. The advanced countries use this surplus for their own development. Among them, it was Amin who gave special emphasis on the export-oriented development pattern followed by the third world countries in the context of their overall industrial/economic backwardness. According to Amin,
it is the export sector that plays a determining role in the periphery* in the creation and shaping of the market. All the economic activities in the periphery are centred around the exporting sector which is shaped according to the interests of capitalist economies at the centre.\textsuperscript{45}

A distinguishing feature of peripheral economies delineated by Amin's work is their difficulty associated with capital accumulation, which he calls autocentric accumulation. Autocentric accumulation to which external trade is subordinated has been the hallmark of all successful capitalist industrialisation. On the contrary, in the peripheral economies it is the export sector that plays the leading role, and all other economic activities - industrial, agricultural and other infrastructure - are oriented towards the export sector.\textsuperscript{46} This leads to three major distortions in the development of peripheral capitalism in contrast to the development in the centre. They are: (1) a critical distortion towards export activities which absorb the major part of the capital arriving from the centre; (2) a distortion towards tertiary activities; (3) a distortion towards the choice of light industries where modern technologies are increasingly applied.\textsuperscript{47}

\* 'Periphery' refers to the third world country and 'centre' the advanced country. These phrases are widely used in the dependency literature, though they first appeared in the ECLA thesis.
A re-orientation of agriculture towards the need of the export sector may lead to a regression in agricultural techniques, a concentration of land-ownership and an increase in rent which dooms agriculture to stagnation, sometimes even to retrogression.\(^{48}\)

Further retrogression occurs when local craftsmen are destroyed by the onslaught of manufactured goods from the centre. Amin contrasts this with the progress brought about by the destruction of crafts in the centre. Whereas in Europe, society found a new equilibrium that ensured employment for its labour forces, what is observed here is a regressive equilibrium that casts a part of the labour force right out of the production system.\(^{49}\)

Amin states that the initial distortion, which orients the peripheral economy towards export activities, brings in its train the 'hypertrophy' of the tertiary sector. In the periphery it arises because "of the limitations and contradictions characteristic of peripheral development; inadequate industrialisation and increasing unemployment, strengthening of ground rent etc. A fetter on accumulation, this hypertrophy of unproductive activities, expressed especially in the excessive growth of administrative expenditure, is manifested in the third world of today by the quasi-permanent crisis of government finance."\(^{50}\)
The final distortion in the periphery's development is the culmination of all the others. Extraversion (export-orientation), unequal specialisation and a marked propensity to import combine to transfer the multiplier mechanisms connected with the phenomenon known as the "accelerator" from the periphery to the centre. Amin cites three reasons for this: (1) the profits on foreign investments are exported, (2) wages are low while techniques are advanced, making it impossible to achieve an equilibrium between the capacity to produce and the capacity to consume; and (3) investment induced via the accelerator effect is absent in the periphery because the unequal international division of labour assigns intermediate branches of production to the centre. In short, the peripheral economies do not have the convergent mechanisms which can be called linkages in conventional parlance. They lack integration among the different sectors - which is termed as disarticulation.

Amin does not confine his analysis to those countries where extraversion is apparent. His analysis also extends to those countries which experimented with import-substitution industrialisation from the thirties itself. According to Amin "with import-substitution industrialisation extraversion assumes new forms". The generalising of the pattern of import-substitution industrialisation opened up new opportunities for foreign capital without essentially affecting the
extraversion of the economy. It was the same monopolies that exported commodities to overseas countries that invested capital in those countries. Beginning with the production of consumer goods that had previously been imported, the peripheral country was content to replace these imports by imports of capital goods and intermediate goods. An autocentric strategy must base itself simultaneously upon the production of consumer goods and capital goods. 53

The transnational firms which appeared after the Second World War were the major agents of import-substitution industrialisation in the peripheral countries. The transnational firm is characterised by the scattering of its production activities across the world thus realising a model of vertical integration that is often total. At the centre are gathered the strategic activities (technological research, innovation, management), the "grey matter" in one form or another, and the production of the most complex types of essential equipment, those that require highly skilled labour. To the periphery falls the "software" - the production of those elements which, given the help of imported equipment, requires only unskilled or semi-skilled labour. The old division of labour in which the underdeveloped countries supplied the raw materials and the advanced countries supplied the manufactured goods, is being replaced by a different order
in which the former supply the primary products and the manufactures, while the latter supply the equipments and the "hardware". This division reinforces the functions of the centralisation of decision making authority and technological innovation. Thereby it produces its own conditions, splitting the world labour market into watertight national markets with big differences in rewards.\textsuperscript{54} The crux of Amin's arguments can be summarised as follows: "It is the distortion toward export activities that constitutes the main reason" for the economic/industrial backwardness of third world economies.\textsuperscript{55}

The credit of analysing historically the impact of capitalist penetration into the underdeveloped countries certainly goes to the dependency school of thought. They have established on sufficient ground, how colonialism played a major role in blocking development in the third world countries, how export-orientation has become a characteristic feature of these countries and the way in which this has prevented the natural development of the productive forces there.

The major criticism against the dependency theory is the overemphasis given to only factors external to the underdeveloped economies for all their maladies.* There is

\footnote{For a good discussion on theories of dependency, See Charles A. Barone, \textit{op.cit.}}
no adequate analysis of the internal factors that must have also played a part in blocking the development/industrialisation of the third world countries.

The approach of the dependency theorists to the question of development was criticised by a group of writers called the 'Mode of Production Theorists'.* Their major line of reasoning is that the dependency theorists neglect the role of internal dynamics in shaping the socio-economic structure of third world countries. According to them the role of the internal factors is more crucial in blocking capitalist industrialisation in these countries. While Dore and Weeks identify "the immediate barriers to capitalist accumulation as not external, but internal - the persistence of pre-capitalist formations", Petras postulates that imperial state in conjunction with the peripheral state mediates the distribution of resources and income in favour of those classes opposing the labouring or marginal groups. In Brenner's view, the external orientation of the national bourgeoisie, the lack of effective demand and the outflow of surplus are symptoms (rather than causes of underdevelopment) of an underlying class structure and mode of exploitation that is

* In the works of 'Mode of Production' theorists, emphasis has been given to the importance of class structure and mode of production in shaping each country's socio-economic formation. Dore and Weeks, Charles Brenner, James Petras, Anwar Shaikh all belong to this school. (See Charles A. Barone, op.cit.).
inconsistent with the progressive development of capitalism and the expanded accumulation of capital. The ruling sections in industrially backward economies always try to squeeze the direct producers by lowering their subsistence level. Since this diminishes or limits the market for both consumer and capital goods, internal investment opportunities are limited. The articulation of modes of production shows that capitalism in the 'neocolonies' is articulated with precapitalist modes of production and that the transition to capitalism is incomplete rather than underdeveloped.

Attempts have been made to synthesise the dependency and mode of production theories. Ronald H. Chilcote, Ronaldo Munck and others are the advocates of such a synthesis. Chilcote observed that while dependency theory raised new questions, placed old issues in new perspective, mode of production analysis opened the way to indepth research on modes and relations of production and understanding of concrete situations.

As indicated earlier, the different views on the role of trade in economic/industrial development provide the necessary building blocks for the formulation of a relevant framework to understand the topic under discussion. The classical and neo-classical explanations of trade as an engine of growth have been questioned and found contrary to facts even by the
conventional economists. They have emphasised the quantitative aspect of trade-development relationship, while the qualitative aspect was ignored.

B. Third World Industrialisation in a Historical Perspective

By the end of the nineteenth century the world was drawn together in an international network where trade was the connecting link between the developed and underdeveloped countries. In other words, most of the underdeveloped countries of Asia, Africa and Latin America were made colonies of the industrialised countries, (mostly Britain) and trade was the main vehicle of exploitation in the hands of the industrialised countries.

Trade helped to create consumerism in the colonies. It stimulated the growth of a money economy and capitalist financial institutions. More importantly trade stimulated primary production. Whatever economic development occurred during the colonial period, was mainly in production for export and in a few consumption goods industries producing mostly for the home market.

Much of the capitalist penetration from the West took place in the plantation and mining sectors. In accordance with overseas demand, the colonies were compelled to
specialise in those cash crops for which their soil and cli-
matic conditions were particularly suited. For this, a combi-
nation of incentives, sanctions and even threats was used by
the colonial powers. India, Indonesia, Egypt, etc. were made
to specialise in cotton, West Africa in vegetable oils, the
Caribbean in sugar (and cotton), all the three continents in
beverages (coffee, cocoa, tea); South and South-East Asia
and the Americas in foodgrains. Most of the countries of
Asia, Africa and Latin America were thus developed as 'mono-
crop' economies producing primarily for exports.

The characteristic features of the colonies were the
following:
1. The main economic activity was agriculture.
2. A thriving export sector existed along with the subsist-
ence sector, without much interaction with the other
economic activities.
3. Industrial undertakings were confined to simple process-
ing such as textiles, soaps, canned food, etc. meant for
local consumption.
4. Most of the firms were owned by the foreigners. There
was no reinvestment within the domestic economy, result-
ing in profit repatriation on a large scale.
5. Most of these countries showed a trade surplus - excess
of exports over imports - due to the presence of foreign
factors.
The available evidence indicates that the colonies continued to be export-oriented till the 1930s. It was the Great Depression and the resultant slowdown in trade that compelled most of the colonies to search out other avenues of development. With the outbreak of World War II the foreign markets that were already shrinking, got almost lost to the colonies. Thus import-substitution industrialisation (ISI) became the major strategy of economic development in most of the third world countries during the forties, fifties and sixties.*

It was in the wake of the failure of ISI strategy,** that there was a move towards the strategy based on manufactured

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**Both the neo-classicals and structuralist-dependency theorists have given their own explanations for the failure of ISI. According to the former, industrial activities established under ISI often produce at higher cost than competing imports and are dependent upon protection from foreign competition for their survival. Market concentration is typically high, and productive capacity is frequently capital intensive and under-utilised. It also discouraged the export of both primary products and manufactured goods. The dependency theorists explained ISI failure in terms of the pre-existing pattern of the ownership and control of the means of production and by the social relationships associated with these different ownership patterns. See C.H. Kirkpatrick, et.al., "Industrial Structure and Policy in Less Developed Countries," 1984, pp. 197 - 198.
exports, during the sixties. As the debt position of most of the third world countries worsened, exports increased considerably. While in the past, the major exports were primary commodities to the developed capitalist countries, now the exports of manufactures became predominant.\textsuperscript{66}

Central to the growth of third world exports of manufactures to the developed countries was "International Subcontracting".\textsuperscript{67} The term refers to "a relationship whereby, in order to cover markets in an advanced capitalist country transnational corporations arrange to use third world firms to produce entire products, components or services..... Regardless, the TNC will always control final marketing of the product and, more often than not, provide technical assistance, management, loan capital and physical equipment for the subcontractors".\textsuperscript{68}

In this context, the much-celebrated industrialisation experience of the Newly Industrialising Countries (NIC) also

\footnote{'International Subcontracting' is otherwise known as "Offshore assembly" or "Sourcing". The background of the growth of international subcontracting: the growth of new labour-intensive manufacturing industries like electronics and light manufacturing. With improved air freight, containerisation; and telecommunication, TNC's could despatch products and components quicker, cheaper, and faster. The second reason is capitalist rivalry. The threat posed by Germany and Japan by the mid-sixties with their relatively cheap labour, more government assistance and more modern plants and equipments was met with the U.S. by the system of international subcontracting. The third reason was the growing internal class pressures and struggles. (WDR, 1987, p.46, also Landsberg, op.cit.).}
deserves mention. South Korea, Taiwan, Singapore, Hong Kong, Philippines, Indonesia etc. belong to this category. The function of the NICs in the world system is that of international subcontractors. It is the labour-intensive part of the processing that is left to the NICs. The production which is usually undertaken in these export platforms are those of semi-conductors, electrical products, small machines, machine tools, cameras, clothing, sporting goods, toys and wigs which are labour-intensive.69

It is the cheap labour available in these countries that attract the TNCs to subcontract the labour-intensive production processes to the NICs.* Besides, the socio-political factors prevailing in the South-East Asian countries are also favourable for the TNCs to follow the system of subcontracting.

* Average Labour Cost in Selected Asian Zones

<table>
<thead>
<tr>
<th>Countries</th>
<th>Year</th>
<th>Electronics ($ per hour)</th>
<th>Garments ($ per hour)</th>
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<td>Sree Lanka</td>
<td>1981</td>
<td>--</td>
<td>0.12</td>
</tr>
<tr>
<td>India</td>
<td>1983</td>
<td>0.17</td>
<td>0.20</td>
</tr>
<tr>
<td>Japan</td>
<td>1980</td>
<td>5.97</td>
<td>3.56</td>
</tr>
<tr>
<td>U.S.</td>
<td>1980</td>
<td>6.96</td>
<td>4.57</td>
</tr>
</tbody>
</table>

Source: L.M. Rodrigks, op.cit., p.80.
Salient socio-political characteristics of these nations are their smallness, their military regimes and the political supremacy of the U.S. over these countries. Moreover, government policies such as tax exemptions, duty-free imports and strict labour laws have been conducive to export-led growth in the NICs.\textsuperscript{70}

The Export-Oriented Industrialisation (EOI) is supposed to provide solutions to three major problems: 1) creation of jobs and reduction of unemployment; (2) training of a skilled industrial labour force and transfer of technology; and (3) an increase in foreign exchange inflows with the resultant easing of balance of trade and balance of payments crisis.\textsuperscript{71}

Available evidence has belied the benign results attributed to this strategy of export-oriented industrialisation. Let employment generation be considered first. The MNCs have shown a strong preference for women workers. Further, there is considerable instability and insecurity of employment. This means that these firms do not attack the main unemployment problem which is most severe among young male labour.\textsuperscript{72}

\footnote{In Hong Kong, in 1967, 47 per cent of the manufacturing work force was female. In Singapore, the figure stood at 44 per cent in 1971. In 1978, women comprised 25 per cent of the total Taiwanese work force. (See Clive Hamilton, "Capitalist Industrialisation in East Asia's Four Little Tigers". Journal of Contemporary Asia, Vol. 13, No.1, 1983).}
As far as the second aspect is concerned, the footloose character of the export-oriented industries and their consequent temporary nature make the NIC employment quite unstable. If a labour movement ever seemed to develop in one of these countries, the business could easily be shifted to another. Since the late seventies, the MNCs have begun to transfer the labour-intensive assembly work from Hong Kong, Singapore and Taiwan to countries like Philippines and Thailand where the labour cost is still lower. The closure of many units and lay-offs due to general business slowdown have made employment in these industries very insecure. For example, between 1974 and 1975 overproduction of semi-conductors led to a large-scale retrenchment of workers in many Asian countries. It was estimated that a total of 15000 electronics workers were laid-off in Singapore alone.

The comparative advantage of the NICs lies in the lower wage rate offered to the MNCs and, as such, the NICs compete among themselves to lower the wage rate, ban trade unions and implement other repressive labour laws, which are easy under military dictatorship.

The transfer of technology argument is inconsistent with the very logic of subcontracting. It is often the labour-intensive part of the work that is taking place in
these countries; the capital-intensive part is generally carried out in the developed countries. So it is very unlikely that a third world country will be able to establish forward and backward linkages to produce the entire product, or upgrade the skill levels of its labour force. 77

Regarding the last goal, viz., the inflow of foreign exchange, it also is not that simple as the proponents of the EOI strategy argue. As a study has found out, "industrialisation in these countries (NICs) should not be seen simply as a process of expanding export industries for their own sake, since industrial growth has been extremely dependent on imports. The exporting firm is very often an importing firm as well. The direct import content of South Korea's exports was about 42.5 per cent in the 1967-73 period, according to the Ministry of Finance. The circular nature of this is nowhere better illustrated than in Hong Kong where, it is estimated, in recent years 95 per cent of manufactured output has been exported. The shift from re-exports to domestic exports has not markedly diminished import-dependence. 78 The leakages of foreign exchange must be much higher, when the royalty fees, technical fees, the system of transfer pricing etc. are taken into account.

There are strong reasons to doubt whether EOI as practised in the South East Asian countries is capable of bringing
about a sustained industrial development. Competition in the world market demands efficiency and quality and this in turn demands imported capital, intermediate goods, technology and skills. This is harmful to indigenous and self-reliant industrial development. According to writers like Joan Robinson, EOI has nothing more to offer than temporary relief for the rulers of the third world to impress the people with some statistics such as increase in the index of industrial production, rise in the export of manufactured goods, increase in employment generation etc.* The underlying philosophy of the MNC - fostered EOI has nothing to do with a capitalist type industrial development, but "is more akin to the putting-out system in textiles which was adopted in pre-industrial England". 

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* As Joan Robinson commented, "For the authorities in many countries overwhelmed by unemployment, this (EOI) certainly appears better than nothing, but it is obvious that this kind of business cannot lead to a self-reliant national development". (Joan Robinson, op.cit., p. 119-120).

**The World Development Report observed that with modern transport and Communications, it probably is no more difficult for today's merchants to organise a putting-out system between New York and Hong Kong, or between Tokyo and Seoul, than it was for the early English merchants to organise their putting-out system between London and the Surrounding villages. (WDR, 1987, p. 46).
In short, on account of the failure of import-substitution industrialisation a number of countries began to adopt the export-oriented industrialisation strategy. But this strategy prescribed as the remedy for third world industrial backwardness was only another mechanism through which TNCs attempted to enforce a new international division of labour.

Our discussion above provides the necessary raw materials to work out the link between export-orientation, disarticulated development and industrial backwardness, and it is to such an attempt that we turn below:

Export-Orientation and Disarticulated Development

An economy can experience overall economic development, only if a stimulus to a particular sector can effect a corresponding boom in the others, through a system of intersectoral linkages. In such a model the productive sectors lead the economy, industry and agriculture support each other, infrastructure directly caters to the development of industry and agriculture, and results in the progress of the entire economy. In a typical export-oriented economy, this kind of a complementarity among the different sectors is absent. Instead, it experiences a disarticulated development. Disarticulation can be noticed within the industrial sector,
agricultural sector, transportation and between agriculture and industry.

Within agriculture, disarticulation is manifested in the independent existence of the food crop sector and the cash crop sector. Colonial capitalism was naturally interested only in the most profitable primary commodities. To obtain an adequate supply of the preferred commodities, it was sometimes necessary to discourage the production of some other commodities. To achieve this, the colonial authorities used persuasion or force to compel a concentration of effort on the production of particular export crops. This upset the balance of the traditional economy. For, it was often at the expense of the traditional food crops sector that the exportable cash crops were encouraged. Also, this sort of changes resulted in the shortages in the supply of food articles, displacement of people and shifts in population, the uneven development of different regions etc.81

Regarding the industrial sector, the traditional type of industrial activity was of a most rudimentary nature. Food and beverages, tobacco, base metal, nondurable consumer goods, textiles, basic chemical products, building materials, furniture, leather and leather products etc. were the major traditional industries. The traditional industrial sector
which was mainly catering to home consumption used indigenous methods of production which were backward. A modern sector (plantations, mines etc.) existed side by side with the traditional sector, using foreign capital and producing basically for foreign markets. These two sectors remained juxtaposed. As the foreign investors were only interested in the surplus generated from the colonies, they never bothered to set up related industries. On the other hand, owing to certain limitations of the indigenous investors, the traditional sector was incapable of developing into higher stages of production.

The history of the Western industrialised countries underlines the importance of an organic relationship between the agricultural and industrial sectors. That is, agriculture and industry provide a market for each other's product, thereby facilitating the expansion of one another. The agricultural sector can provide with food and the surplus labour to industry, and industry in turn supplies, better agricultural implements, machinery, fertilizers, building materials etc. Also, agriculture can supply the investible surpluses for the establishment of industry and in turn, be a market for the finished goods of the industrial sector. For the self-sustaining development of any economy, this type of a complementary relationship between the two sectors is essential.
The experience of the third world countries was much different from the ideal situation of industry-agriculture relationship. Both the sectors could not assist each other in development, as both were equally integrated to the world market. The export of foodgrains, for example, could never mean a surplus after indigenous use, but only meant starvation and high foodgrain prices for the local people. The Indian experience deserves mention in this regard. By the end of the nineteenth century, India became a source of food for the metropolitan countries. Indians were half-starved in order to export food.  

As for employment, the surplus agricultural labour-force could not be absorbed in the industrial sector due to its underdevelopment. Also the surplus generated in the agricultural sector was not channelised to the industrial sector in the absence of an independent indigenous entrepreneurial class. In fact, in most cases, the agricultural surplus got into the foreign hands by virtue of their ownership and control over land and export trade.

Disarticulation is further visible in the transport system where ports, railways and roads all developed serving either export trade or military needs under the colonial rule. The haphazard development of the transport system is amply brought out by the nature of the railways and ports. They
did not constitute in any colony a coherent system of communications. They were built ad-hoc according to the metropolitan interests of the moment and the availability of funds.

Even the location of ports and railways was determined by the location of the exportable commodity. The railways started from the hinterlands where the particular product was grown or produced and, terminated at a port of exit. As if to emphasise the fact that the railways were purely functional for gathering and exporting the commodities of the colonies, the Germans in Togo actually named their railway lines after the particular primary commodities and minerals which they were supposed to transport. Thus there were the cotton line, the cocoa line, the coconut line, the iron line and the palm-oil line. Similar was the case with Congo, Sierra Leone, Guinea, Liberia, Mali and Senegal and Mauritania. All these railways were directed to the coast, with no links between them, of different gauges so that a rationalisation of the railway system of West Africa today is impossible. The same was true of the road system. In West Africa, the road system happened to be adjuncts of the railways.

To take the case of India, the construction of railways had one of its major goals in getting access to the hinterlands of Indian villages and collecting the agricultural products,
minerals etc. to the West.* India's railway system converged to a few large ports and commercial centres in order to facilitate overseas trade and troop mobilisation. This had tended to concentrate the bulk of India's foreign trade on a relatively small number of ports. In fact, over 90 per cent of the total foreign trade of India passed through the five premier ports: Calcutta, Bombay, Karachi, Rangoon and Madras, 89 (which later became the source of further disarticulation of uneven regional development).

The disarticulation between agriculture and industry, the over proportionate growth of the tertiary sector, uneven development of different regions etc. continued or even aggravated during the post-colonial period. By the time of independence, the colonial economy had attained a certain level of maturity. Its structure was firmly set and could not easily be changed. The fully formed economy that it inherited engendered a certain logic and imposed certain rigidity on the course of future development, and this logic was essentially one that favoured the persistence and even the reinforcement of the syndrome of disarticulation. 90 In the absence of a structural

*The then nationalist leaders were aware of the critical role that the railways was going to play in India. According to Gokhale, "The Indian people feel that this construction is undertaken principally in the interests of English commercial and moneyed classes, and that it assits in the further exploitation of our resources", cited by Bipan Chandra, op.cit. p. 171.
transformation of the third world countries, it is only natural that all the distortions inherited from the colonial period tended to continue during the post-colonial period also.

The concepts, export-orientation, disarticulation and industrial backwardness are so intertwined that it is difficult to identify the causes and effects of each of them separately. In other words, each one acts as the cause and the effect, creating a vicious circle. In short, the limited resources of the country are diverted to the export sector from the more important ones, viz., industry and agriculture. Even where the export is based on the industrial sector (like the South East Asian countries), it seems to be dependent industrialisation incapable of self-sustaining capitalist industrial development. The disarticulation caused by export-orientation and dependence, in the absence of the convergent mechanisms, eventually results in the blocking of overall economic/industrial development of the third world countries.
References


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27. Ibid, p. 35.


32. Ibid,


38. Cited in I.M.D. Little, op. cit., p. 139.


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62. Claude Ake, op. cit., p. 36.
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