# Dependency Theory

## Poverty: Concepts, Strategies and Development

*Subject Code: 006*

# *Assignment*

To
Prof. Dr. AKM Motinur Rahman
Islamic University, Kushtia, Bangladesh.

Submitted by-
***Susanta Sarkar Subho***
Roll- 071616
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## Introduction

Dependency theory is the concept that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former. It is a central argument of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the "world system".

The theory arose as a reaction to modernization theory, an earlier theory of development. There is a conception that all societies progress through similar stages of development, that today's underdeveloped areas are thus in a similar situation to that of today's developed areas at some time in the past, and that therefore, the task of helping the underdeveloped areas out of poverty and to accelerate them along this supposed common path of development, by various means such as investment, technology transfers, and closer integration into the world market. But dependency theory rejected this view, arguing that underdeveloped countries are not merely primitive versions of developed countries, but have unique features and structures of their own; and, importantly, are in the situation of being the weaker members in a world market economy,

There are two ways to discuss dependency theory. One is Capitalism perspective and another is socialist of Marxists perspective. Capitalists argued that Dependency is system of modernization flow of the world system. In the system underdeveloped countries or poor countries are included in a view to exchange mechanism to get over come from poverty and economic development. It has both way flows. But, Socialist group argues with the theory of Imperialism. The developed or economically strength states win the power of poorer state where there see a market of business and to rule the nation and develop a salivary group. This is an ancient style of engulfed powers. Mostly the European countries had a history of imperialism. In change of time the system of imperialism changed its system. After the world ware second it possess as colonialism and after 1970 it shapes as Neo-colonialism.

Basically we found two major arrangement of Dependency. One is Poor nations provide natural resources, cheap labor, a destination for obsolete technology, and markets for developed nations, without which the latter could not have the standard of living they enjoy. And another is Wealthy nations actively prolong a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, and sport.

## History of Dependency Theory

Dependency theory originates with two papers published in 1949– one by Hans Singer, one by Raúl Prebisch – in which the authors observe that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated over time: the underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports. This idea is known as the Singer-Prebisch thesis. The Theory developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America, Raul Prebisch. Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. Indeed, their studies suggested that economic activity in the richer countries often led to serious economic problems in the poorer countries. Such a possibility was not predicted by neoclassical theory, which had assumed that economic growth was beneficial to all (Pareto optimal) even if the benefits were not always equally shared. He argued that Import-substitution industrialization (ISI), not a trade-and-export orientation, was the best strategy for underdeveloped countries.

Prebisch's initial explanation for the phenomenon was very straightforward: poor countries exported primary commodities to the rich countries who then manufactured products out of those commodities and sold them back to the poorer countries. The "Value Added" by manufacturing a usable product always cost more than the primary products used to create those products. Therefore, poorer countries would never be earning enough from their export earnings to pay for their imports.

Prebisch's solution was similarly straightforward: poorer countries should embark on programs of import substitution so that they need not purchase the manufactured products from the richer countries. The poorer countries would still sell their primary products on the world market, but their foreign exchange reserves would not be used to purchase their manufactures from abroad.

Three issues made this policy difficult to follow. The first is that the internal markets of the poorer countries were not large enough to support the economies of scale used by the richer countries to keep their prices low. The second issue concerned the political will of the poorer countries as to whether a transformation from being primary products producers was possible or desirable. The final issue revolved around the extent to which the poorer countries actually had control of their primary products, particularly in the area of selling those products abroad. These obstacles to the import substitution policy led others to think a little more creatively and historically at the relationship between rich and poor countries.

At this point dependency theory was viewed as a possible way of explaining the persistent poverty of the poorer countries. The traditional neoclassical approach said virtually nothing on this question except to assert that the poorer countries were late in coming to solid economic practices and that as soon as they learned the techniques of modern economics, then the poverty would begin to subside. However, Marxists theorists viewed the persistent poverty as a consequence of capitalist exploitation. And a new body of thought, called the world systems approach, argued that the poverty was a direct consequence of the evolution of the international political economy into a fairly rigid division of labor which favored the rich and penalized the poor.

Using the Latin American Dependency Model, in his book, "How Europe Underdeveloped Africa" the Guyanese Marxist historian, Walter Rodney, described in 1972 an Africa that had been consciously exploited by European imperialists, leading directly to the modern underdevelopment of most of the continent.

The theory was popular in the 1960s and 1970s as a criticism of modernization theory (the "stages" hypothesis mentioned above), which was falling increasingly out of favor because of continued widespread poverty in much of the world. It was used to explain the causes of overurbanization, a theory that urbanization rates outpaced industrial growth in several developing countries.

According to Vernengo, the Latin American Structuralist and the American Marxist schools had significant differences but agreed on some basic points:

Both groups would agree that at the core of the dependency relation between center and periphery lies the inability of the periphery to develop an autonomous and dynamic process of technological innovation. Technology – the Promethean force unleashed by the Industrial Revolution – is at the center of stage. The Center countries controlled the technology and the systems for generating technology. Foreign capital could not solve the problem, since it only led to limited transmission of technology, but not the process of innovation itself.

Baran and others frequently spoke of the international division of labor – skilled workers in the center, unskilled in the periphery – when discussing key features of dependency.

Baran placed surplus extraction and capital accumulation at the center of his analysis. Development depends on a population's producing more than it needs for bare subsistence (a surplus). Further, some of that surplus must be used for capital accumulation - the purchase of new means of production if development is to occur; spending the surplus on things like luxury consumption does not produce development. Baran noted two predominant kinds of economic activity in poor countries. In the older of the two, plantation agriculture, which originated in colonial times, most of the surplus goes to the landowners, who use it to emulate the consumption patterns of wealthy people in the developed world; much of it thus goes to purchase foreign-produced luxury items- e.g. automobiles, clothes, etc. and little is accumulated for investing in development. The more recent kind of economic activity in the periphery is industry, but of a particular kind. It is usually carried out by foreigners, although often in conjunction with local interests. It is often under special tariff protection or other government concessions. The surplus from this production mostly goes to two places: part of it is sent back to the foreign shareholders as profit; the other part is spent on conspicuous consumption in a similar fashion to that of the plantation aristocracy. Again, little is used for development. Baran thought that political revolution was necessary to break this pattern.

In the 1960s, members of the Latin American Structuralist School argued that there is more latitude in the system than the Marxists believed. They argued that it allows for partial development or "dependent development" – development, but still under the control of outside decision makers. They cited the partly successful attempts at industrialization in Latin America around that time (Argentina, Brazil, Mexico) as evidence for this hypothesis. They were led to the position that dependency is not a relation between commodity exporters and industrialized countries, but between countries with different degrees of industrialization. In their approach there is a distinction made between the economic and political spheres: economically, one may be developed or underdeveloped; but even if (somewhat) economically developed, one may be politically autonomous or dependent. More recently, Guillermo O'Donnell has argued that constraints placed on development by neoliberalism were lifted by "the military coups in Latin America that came to promote development in authoritarian guise" (Vernengo's words, summarising O'Donnell, 1982).

The importance of multinational corporations and State promotion of technology were emphasized by the Latin American Structuralists.

Fajnzybler has made a distinction between systemic or authentic competitiveness, which is the ability to compete based on higher productivity, and spurious competitiveness, which is based on low wages.

The third-world debt crisis of the 1980s and continued stagnation in Africa and Latin America in the 1990s caused some doubt as to the feasibility or desirability of "dependent development".

Vernengo (2004) has suggested that the sine qua non of the dependency relationship is not the difference in technological sophistication, as traditional dependency theorists believe, but rather the difference in financial strength between core and peripheral countries particularly the inability of peripheral countries to borrow in their own currency. He believes that the hegemonic position of the United States is very strong because of the importance of its financial markets and because it controls the international reserve currency the US dollar. He believes that the end of the Bretton Woods international financial agreements in the early 1970s considerably strengthened the United States' position because it removed some constraints on their financial actions.

"Standard" dependency theory differs from Marxism, in arguing against internationalism and any hope of progress in less developed nations towards industrialization and a liberating revolution. Theotonio dos Santos described a 'new dependency', which focused on both the internal and external relations of less-developed countries of the periphery, derived from a Marxian analysis. Former Brazilian President

Fernando Henrique Cardoso (in office 1995-2002) wrote extensively on dependency theory while in political exile during the 1960s, arguing that it was an approach to studying the economic disparities between the center and periphery. The American sociologist Immanuel Wallerstein refined the Marxist aspect of the theory, and called it the "World-system." It has also been associated with Galtung's Structural Theory of Imperialism.

With the economic growth of India and some East Asian economies, dependency theory has lost some of its former influence. It still influences some NGO campaigns, such as Make Poverty History and the fair trade movement.

Later, world systems theory expanded on dependency arguments. It postulates a third category of countries, the semi-periphery, intermediate between the core and periphery. In this model, the semi-periphery is industrialized, but with less sophistication of technology than in the core; and it does not control finances. The rise of one group of semi-peripheries tends to be at the cost of another group, but the unequal structure of the world economy based on unequal exchange tends to remain stable.

**Dependency Features in Developing and Poor Countries:**

**a) Globalization:**

Globalization is more saying matter in this present world. It is a universal theory which aims to see everything in a same angle. As a result all nation either poor or reach come closer with different aspects. But, there are seen few differentiation in compression of power and ability. Mostly the poor nations are being influenced by the reached nation. This is one kind of dependency.

**b) Free Market Economy**

Open market is one another impact of dependency. When the developing or periphery nation come in contrition of open market system then they have to challenge with their industries, economics and so on. The poor nation’s market control, economic control belongs to the rich nation. Developed nation wishes to Invest in poor countries for different opportunities like low cost labor market, raw materials etc. and the production sell market will be developed in those poor or dependent countries.

**c) Surplus Value-**

Surplus growth of the poor nation flows to the industrialized nation as because, the dependent country people wants to lead a luxurious life while surplus growth in hand. And all luxurious commodities and elements are produced by the industrialized countries. Poor or developed countries then depend on import business. This is why, socialist country believes there would not be import business with developed nations.

**d) Labor Market-**

In developing countries or periphery nation, there are a low cost labor market for the developed nation, and brain drain theory is taken place in there.

**e) Political Control-**

Political control of the developing or poor countries depend on the will of the Developed countries. In response of politicization of the developing nation, the developed government controls the government of the developing government. Political parties, election and political will depends on the developed nation.

**f) Social Classification and Capitalization**

Dependency theory creates a social class. One class becomes in power or holding control power of society and another class become objects of playing power of upper class people. This are the facts that are seen in a wealthy nation become wealth and social capital becomes in control under those wealthy nations.

**g) Industrialization**

Developing countries become source of raw material for industrialized countries. The developing countries exports raw materials with a low rate. After production, the developed nation exports the goods towards the developing nation with a high rate. As a result the economic differences become high.

**h) Foreign Investment-**

The developed nation finds the less developed countries to build industries with a brand of multinational company. First they takes a financial feasibility study if there would be more profit using raw materials, labor, transport and marketing availability. Then the developed nation built multinational company and earns the surplus capital of those developing or poor countries.

**i) World System theory:**

Different researchers predict that dependency is a world system. Every nation will come in an agreement in terms of development and economic independency. This is why, creating a global market/ border less market, international relation, international politics, diplomacy, international treaty, brain drain, social capital and investment, foreign investment and industry etc. All these are under a systematic flow of relation among the world nations. Naturally poor and rich nation will come together exchanging or sharing needs.

**j) Neo-colonialism-**

Socialist thinker believes that the present world system or world relation between two nations; rich and poor is one kind of new dominion and control system. The rich nation wants to develop relation with the poor state in a view different particular interest. At first, the rich nation will have an apex place. They will nurse the poor countries in political phenomenon. Developed nations will provide different assistance in terms of development and become the game player of the poor state. Marxist predicts, though there is not Imperialism in place, not colonialism yet; the satellite and periphery mechanism of the developed nation remain on the poor countries.

**k) Different organization:**

When dependency theory becomes international policy of the developed nation to control the poor nation, the socialist counties do not support the system and all the socialist counties develop a united organization to protect the rich counties. In other side, capitalist countries develop such different organization. And different developing countries and leaders develops non-alignment organization viewing both kinds of relations.

**l) Technological Control:**

Science the industrial revolution, science and technological control are in developed countries. Now-a-days it is seen that all kind of higher technologies are in control in hand of developed countries. Internet is one of the greatest control of technology.

## Comparative criticism of Dependency

| Theme | Dependency owned | Dependency rejected |
|---|---|---|
| Anarchy | No Autocratic countries in dependency owned countries | There remains autocracy |
| Peoples will | Most of the dependency owned countries have democratic government and people enjoy their liberty. People controls political power. | Most of the countries are autocratic and people of those countries are being controls by the state. |
| Corruption | Less opportunities of corruption | Full of corruption |
| Aid | In any complex situation, there are available Aid or assistance | Such features are not seen |
| Social infrastructure | Well social infrastructure | Not such indication |
| International policies | For the intense international treaty or agreement developing countries could not take any immenseness steps | No hazards such treaty |

| Theme | Dependency owned | Dependency rejected |
|---|---|---|
| Observation on developing countries | In different off scenes of the developing state, developed countries tries to set an observation eyes | No care such observation |
| Availability of international goods | As for the open market system, there are a competition among the industries and availability of different nation's goods. And the developing countries development is tread based development | Embargo of foreign products |
| Economic development | Personal wealth preservation in capitalism is bless of democracy and national development of the developing state are remarkable. The present GDP of India and Bangladesh are the examples. | The GPD of South Korea and North Korea are far difference. |
| Bless of Globalization | Developing countries lie in a global village in presence of globalization | Nationalization |
| Multi-nationalist integrity | Multi-national integrity is very worse situation in developing countries | No crises in nationality |
| Terrorism | International terrorism has taken place in different ideological believes | Less threat of international terrorism |
| Technological advantage | Any kind of technological invention and bless of science touch the developing nation | Country based or league based countries technology only the way of science bless |

## Conclusion:

Dependency is discussed and criticized by different researcher and thinker. Dependency has different view of angle discussion. A group of thinker predicts it is a process of development and a collaborative approaches to change a scarcity situation of poor counties. Another group of thinkers argue that dependency is one kind of threat of independence of a country or its population. The developed nation bonds relation with different interest and oppress independent nationality. Both sides has proven argument. If we summaries the discussion we may say that in different circumstances, different nations comes closer and takes different measures to change a situation. This is what not a matter, it is the way forward to development.

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