3

State-Led Development in Practice

The popularity of import substitution industrialization began to spread throughout the third world after World War I, gaining speed after World War II. Although not all countries implemented the strategy, most at least experimented with some version of it. Early results were generally positive, as countries benefited from the booming world economy. However, by the late 1960s and the 1970s, as the world economy slowed, the failings of ISI started coming to light. Radical theorists then blamed the persistent poverty of the third world on its dependent relationship to the world economy, and called for third-world countries to sever these ties. However, where such breaks were made and countries experimented with socialist development strategies, the results were scarcely any better. Statist development theories, it seemed, were not all they had been held out to be.

Import Substitution Industrialization: The Early Decades

Events, rather than theory, drove the early experiments with ISI, with nationalism playing a strong supporting role. Economic changes forced governments to find ways to reduce their import bills, while the desire to roll back the influence of former colonial masters, or the threatening weight of the great powers, led governments to seek greater economic independence.

Some of the first moves into ISI took place in the Middle East. World War I interrupted these countries' imports and highlighted their dependence on foreign manufactured goods. However, serious action to remedy this situation was hampered by the limited autonomy allowed colonial regimes. (At the end of World War I, Britain and France had stepped in to fill the void left in the Middle East by the collapse of the Ottoman Empire.) During the 1920s, however, while maintaining their tight grip on most of North Africa, Britain and France allowed their Middle Eastern possessions greater leeway in determining policy. When in the 1930s prices on raw materials fell, leading to balance-of-payments problems, these governments instituted high tariff protection. Persia (Iran) and Iraq set up development banks, while the Egyptian government advanced funds through Bank Misr, which had been set up by Egyptians in 1920. Modest industrialization thus proceeded in the 1930s; it received a fillip when World War II cut off the region's access to European goods, and the enormous Allied expenditure created new demand for local industry.[1]

It was in Turkey that one of the boldest early moves into state-led development took place. Modern Turkey, cobbled together painfully from the remains of the Ottoman Empire, enjoyed one big advantage over its neighbors—independence, which allowed it more latitude to draft policies to build up its industry. This was a top priority for the nationalists who, led by Kemal Atatürk, created the country in 1923. In 1929 the Lausanne treaty, which imposed a free-trade regime on the new republic, expired. Shortly afterward the lira began falling, and to save the currency the government decided to reduce imports. Beginning in 1930 it erected barriers to trade; in the 1930s, impressed by Soviet economic successes, the government added more protectionist measures and Atatürk introduced his country to the economic philosophy of statism. Its cornerstone was a wide range of state enterprises, some of which were wholly state-owned and others of which were public-private partnerships. To feed these enterprises, the government used trading monopolies to take surplus revenues out of the agricultural sector. Five-year plans, introduced in 1934, rounded out state planning.[2]

It was at about this time that Latin American governments, faced with the effects of the Depression, began implementing similar policies, though they stopped short of central planning. Mexico was among the first. President Lázaro Cárdenas came to power in the 1930s on a wave of nationalist rhetoric that at times verged on socialism, but the policies he put in place did more to build up capitalism than a workers' paradise. He began with an ambitious land-reform program (which, however, lost much of its steam under his successors) and also nationalized the oil sector and railways. By the 1940s, a fairly comprehensive ISI structure was in place, with high tariffs—and, in the 1950s, import licensing—protecting industrialists operating in Mexico. In addition, starting in 1941, new enterprises were given tax holidays of up to ten years, duties on imported inputs were often rebated to manufacturers, and subsidized credit was provided through a government bank established in 1933, Nacional Financiera. These measures conspired to keep Mexican profit rates among the highest in the world. As a result, both domestic and foreign investment boomed. To facilitate the operation of new industries, the Mexican government invested heavily in infrastructure.

Some other Latin American countries shied away from this strategy or, like Peru, employed it less wholeheartedly; but Chile, Argentina, and Brazil followed suit. Chile's experiment was perhaps the boldest. Its government created 140 public firms between 1940 and 1970, most of them assuming leading roles in their sectors. In all of Latin America, only communist Cuba surpassed Chile in the share of economic output accounted for by the state.[3] As in Mexico, nationalism, and especially the desire to resist encroaching US influence, occupied a central position in the Latin American development approach.

As a rule, the first wave of Latin American ISI came during the Depression and World War II as a short-term response to the problems caused by the sudden loss of overseas markets and supplies. In the 1950s, propelled by the new intellectual contributions made by development theorists, ISI was systematized into a long-term development strategy. Import licensing and tariffs, which in some cases exceeded 100 percent, sheltered the local market from foreign competition. In Chile and Brazil, the government established development banks or corporations, while in Argentina, Juan Perón (president from 1946 to 1955) created a marketing board that siphoned resources from the primary sector and channeled them into industrial development. Governments invested heavily in nationalization, industry, and infrastructure.

The Middle East showed some similarities to this pattern. The Turkish experiment with statism in the 1930s stood mostly alone. However, after World War II, ironically at a time when Turkey was retreating temporarily from statism, Middle Eastern governments began adapting the Turkish model. Egypt led this second wave after the Free Officers coup in 1952, and aggressive nationalization, planning, and rising suspicion of both foreign investment and the private sector became widespread in the region.[4]

By the time the Congress Party led India to independence in 1947, statist development policies enjoyed not only a generation of experimentation, but also the aura of intellectual sanction. State industry, protectionism, and planning became the hallmarks of the Indian development model. In fact, although it did not originate ISI, India is often considered to have been the paradigmatic case of this development strategy.

In opposition the Congress Party had been quite socialistic, calling for public ownership of land and minerals, but once in office it toned down its approach. The government instituted a modest program of land reform (which, like the Mexican one, soon lost vigor), but in the end the world's second most populous country chose to steer a middle course between the first and second worlds. It adopted Soviet-style planning with a focus on heavy industry, but allowed the development of a private, if tightly controlled, economy. Five-year plans set investment and growth targets in the public sector. The state concentrated its resources in heavy industry, leaving the consumer-goods sector to local capitalists whose operations were favored by protective tariffs and, in some cases, complete prohibitions on imports. The state also assumed sole responsibility for the distribution of essential commodities such as cotton, cement, and steel.

The private sector prospered, but not in a free-market environment. India broke with the relatively laissez-faire industrial policies of its colonial past and began implementing a series of regulations to direct the development of the private sector. In time, a complex web of regulations emerged: companies often had to obtain licenses before they could begin operations, factories seeking foreign technology or investment had to get permission from several different government agencies, and any transactions involving foreign currency had to be made through the Reserve Bank.

This combination of planned industrial development and a mixed economy became, in effect, the South Asian model for development. Virtually all of India's neighbors adopted similar strategies, with variations in the effectiveness of plans and the degree of state involvement in the economy. Sri Lanka, for example, used central planning in name only from its independence in 1948 until the 1956 election, when a more radical nationalist government came to power.[5] The government proceeded to nationalize road transport and created a number of state industries as the first steps in an ISI strategy. Then, with an eye fixed firmly on the apparent planning successes of its powerful neighbor to the north, Sri Lanka began to implement central planning. Some states were more ambitious than India in their intervention. Burma (Myanmar) set itself on a socialist path when it won its independence in 1948; the process accelerated in 1962 when a coup d'état brought to power a doctrinaire faction that created a state-socialist economy, albeit with an essentially private peasant economy. And when East Pakistan seceded from Pakistan in 1971, constituting itself as Bangladesh, most of the Pakistani business class fled. This left the state to take over the ownership and direction of almost all large-scale industry.[6]

ISI also moved into some Southeast Asian countries, although their experiments with planning and ISI were not always so ambitious.[7] Malaysia put more emphasis on rural development than did most developing countries, and although it began using ISI in the 1950s, the country still followed a relatively liberal course. Perhaps the biggest exception to the rule lay in Singapore. Like Taiwan and South Korea, which will be discussed at greater length in Chapter 6, Singapore eschewed ISI following a brief flirtation, and moved into export industrialization.

The economies of Brazil, Mexico, Turkey, and India were relatively large. India, especially, had the domestic market to support just about any factory's or industry's existence without having to look for export markets. When African countries entered the independence era in the 1960s, they faced a different situation. These countries entered the postcolonial age with small and poor markets. Yet that seldom dampened their enthusiasm for ISI.

Ghana paved the way to independence for sub-Saharan Africa when its charismatic leader Kwame Nkrumah ushered in the country's independence in 1957. Most observers expected Ghana to be Africa's success story, perhaps the first developed country of postcolonial Africa. It had come to independence with healthy foreign reserves, a wealth of natural resources, and an impressive transportation infrastructure. As chief minister in the final years of British colonialism, Nkrumah and his Convention People's Party had for all intents and purposes begun governing by the mid-1950s. In its first decade in power, the party practiced a form of moderate nationalism. The strategy yielded little fruit, however, and in 1961 Nkrumah began steering the country onto a new path, that of African socialism.

Early in his career, Nkrumah had come under the influence of US and Caribbean black nationalist thought, but in the 1960s he started toying with the new and exciting philosophy of African socialism. Other seminal African socialist thinkers were Léopold Sédar Senghor, who became Senegal's first president, and Julius Nyerere, Tanzania's first president. Despite their differences, African socialists tended to agree on a common goal: Africa needed to invent its own development strategy, one that eschewed both capitalism and communism, which were seen as essentially European political-economic systems. African socialism typically sought to build a collectivist African economy while steering clear of Soviet-style socialism. It stressed human dignity and the traditional collectivism in African society and the village economy. But whereas Nyerere extolled the virtues of the peasant, Nkrumah frowned upon agriculture, seeing it as little more than bondage and, in the case of the lucrative cocoa sector, a bastion of capitalism.[8] In his view, agriculture was to serve industry, its revenues used to fuel urban investment, and it had to be transformed and modernized. Ghana instituted an ambitious program of large, mechanized state farms that would supplant the small peasant farms that then dominated the rural economy. At the height of the program, 105 farms covered 1 million acres.[9]

Nkrumah's view of the agricultural export sector as little more than a cash cow to be used to feed industrial development was not unusual. Not only was this official attitude commonplace in Africa, but it also did not really diverge from conventional development theory of the day. Ghana's focus on rapid industrialization and physical-capital formation was quite respectable at the time.[10] Yet in few places was agriculture treated in so cavalier a manner as in Ghana, and in time this would have detrimental consequences. Farmers saw much of their revenue siphoned off by the marketing board to fuel urban investments; the prices they were paid slid while inflation worsened in the 1960s; and they had to make "special development contributions" and contribute to "forced savings."

Other African countries implemented less ambitious development strategies than Ghana's, yet still stuck to ISI. Both Côte d'Ivoire and Kenya, for instance, established protective barriers and incentive programs to attract foreign investment in industry. Their chief difference from Ghana was that both governments encouraged the development of a local business class.[11] State firms certainly played an important part in the Kenyan and Ivoirien development strategies, but they were more a means to channel resources to the private sector (e.g., development banks), or to build up industrial capital that could later be divested to local businesspeople, than a replacement for the private sector. Although agriculture would be used to fuel urban industrial development, both countries were more successful than Ghana in stimulating increases in primary exports, thereby gaining the revenue needed for their strategy. Rather than trying to leap into the creation of large mechanized farms, Kenya and Côte d'Ivoire relied on peasant farming. Finally, Côte d'Ivoire added a nuance to its development strategy that made it almost unique in Africa: once ISI had advanced some way, in the mid-1970s the country shifted to an export-oriented industrialization strategy that added value to local production rather than replacing imported production.

Although nationalism often played a strong role in ISI policies, the irony is that these strategies frequently relied on foreign capital to succeed. Latin American governments always drew significant foreign investment, especially from the United States, and by the 1960s Mexico was borrowing heavily on foreign markets to sustain its infrastructure investment. And even while African socialists sought to build a noncapitalist society, they often, like Ghana, looked to foreign capitalists to help them in this process. Yet at the same time that they attracted foreign capital, governments in Ghana and, later, in Angola and Zimbabwe made life difficult for their own entrepreneurs. There was a logic to this apparent paradox of nationalist regimes intensifying the very foreign dependence they claimed they would break. Foreign investment was seen as a necessary evil in the early years of development, simply because it could provide large sums of money that would be difficult to obtain locally. However, foreign capital could be controlled in enclaves and made to serve a socialist strategy. By contrast, the rise of a local bourgeoisie would lead to bourgeois politics, undermine the regime, and lead to a capitalist country. Only a handful of African countries, Côte d'Ivoire and Botswana among them, actively encouraged the development of a local capitalist class.

In the early years, the achievements of state-led development policies spoke for themselves. During the 1930s, at a time when the world economy was stagnating, Turkey's economic growth rate reached an annual average of 7 percent.[12] Although the economy declined during World War II, it rebounded during the 1950s and 1960s, a period of rising prosperity across much of the Middle East.[13] Latin America's move into ISI ushered in healthy growth rates in the 1940s and 1950s, with industry outpacing overall economic growth.[14] Right through to 1970, the Mexican economy grew at annual average rates of 6.5 percent,[15] in league with the world's fastest-growing economies. During the course of India's first five-year plan, from 1951 to 1956, national income grew by 18 percent and, aided by inflows of foreign aid, the government succeeded in building up the economy's physical capital. Sheltered from foreign competition, several Indian industrial companies reaped heavy profits that allowed them to become strong. Buoyed by the success of the first plan, the next two were even more ambitious, with the second (1956–1961) carrying further the development of heavy industry, and the third (1961–1966) shifting its attention to the infrastructure needed to service the booming industrial sector. India's move further into the industrial age pleased nationalists, who had always faulted colonialism for keeping India backward and agricultural. The fruits of this strategy were undeniable: over the course of the first three plans, for example, steel production increased sixfold.[16] It was at about this time that Ghana's industrialization strategy began to pay its dividends. The investment made possible by agricultural surpluses went to build state-industrial ventures. Public investment in new undertakings boomed, and by 1965 there were fifty-three state corporations in several subsectors of the industrial economy.[17] The most significant of these, actually predating the turn to socialism, was the Volta Dam. Financed by foreign capital, the dam was to provide cheap energy for the emerging Ghanaian industrial economy. In return for their participation the foreign investors, belonging to the Kaiser-Reynolds Syndicate, were sold electricity at cost—then the cheapest rate in the world—for the aluminum plant they would build. On this plant they were given a five-year tax holiday and a thirty-year import-duty exemption on their inputs. The dam was completed ahead of schedule and below cost, and exceeded forecasts of power sales and profitability.[18]

At the same time that these countries were developing their industrial bases, great strides were being made in global agriculture. For while ISI paid little regard to agricultural development, this neglect was initially made up for by the successes of the Green Revolution. During the 1960s, with funding from the Rockefeller Foundation, laboratories in Mexico, the United States, the Philippines, and Taiwan had conducted research on improving agricultural techniques, resulting in dramatic technological developments that would revolutionize third-world agriculture. Most important of these innovations were new high-yield varieties of seeds and improved chemical fertilizers. The Green Revolution did much to alleviate the widespread fear that the planet, and especially its poor countries, would soon be unable to feed its growing population. For example, Mexico's wheat yields per hectare more than doubled between the mid-1960s and the mid-1970s.[19] India also boosted its crop yields when, after a series of severe droughts in the mid-1960s, the new technologies were imported from Mexico and spread throughout the countryside. The chief innovation adopted in India was the new high-yield seeds, though use of chemical fertilizers and mechanization, especially tractors, also increased. By the 1970s, output was surging. India changed from a famine-prone country into one that was essentially self-sufficient in food output. This was one of the third world's most remarkable accomplishments in the postwar period.

The Green Revolution also drew criticism, though. Because the new technologies were expensive and required high and regular water inputs, they were frequently accessible only to richer farmers, and thereby worsened rural inequalities. Moreover, as crop yields expanded, prices dropped, and many farmers were driven off the land. To varying degrees this scenario was played out in several countries, including Mexico and India. It is difficult to determine whether the Green Revolution worsened income inequality; the weight of opinion leans toward the view that the new technologies did concentrate incomes, but the evidence is mixed.[20] However, it does seem safe to say that the most effective Green Revolution strategy is one that maximizes the access of less prosperous farmers to the new technology rather than allowing only the rich to get their hands on it. At any rate, the successes of postwar development strategies could not be denied: cities were growing, industry was developing, and countries had augmented their food output.

The Postwar World Economy

Such successes could not be credited only to the right policies. From the late 1940s, international conditions favored growth, and it would have taken some doing for a government to implement a development strategy that did *not* produce healthy growth rates. The successes of the time actually obscured what were, in most cases, insufficient performances. However, this would not become obvious until the world economy slowed down in the 1970s.

Toward the end of the 1940s, once the political and economic chaos that plagued Europe after the war had settled, the world economy had begun to boom. The Marshall Plan, whereby the US government pumped reconstruction money into Western Europe, had inaugurated this growth phase.[21] Following hot on its heels, the Korean War brought a further leap in demand. The United States emerged from World War II more robust than when it entered it. The rise in demand brought on by the war, coupled with the fall in European output, produced such an imbalance that in 1945 the United States accounted for a third of the world's economic output and more than half of its production of manufactured goods.[22] US military power stretched around the globe, and the United States was able to impose a degree of order on the world economy that had been sorely lacking in the prewar period (a lack largely to blame for the Depression). To begin with, the US use of the gold standard helped provide a stable international trading environment. The United States went on to subsidize recovery in the world economy by allowing liberal access to its own market and tolerating the outflow of US investment capital and official aid. Although the resultant capital outflow produced persistent balance-of-payments deficits, this was not a problem, at least not yet. Because virtually all governments were willing to take payments in dollars, the US government could pay its bills simply by printing more money.

Western Europe and North America were poised for an economic boom. In Western Europe the supply of investment and human capital faced a situation of slack capacity because so much of Europe's industry and infrastructure had been destroyed in the war. On top of this, the Western world experienced a baby boom that created all sorts of new demands on the economy. Demand and investment rose throughout most of the world. In the postwar period the world economy grew at average annual rates of 5–6 percent, and there did not appear to be any end in sight to this growth. Such high expectations led to greatly expanded welfare states, and fueled pay settlements in North America and Western Europe that outpaced improvements in productivity.

Given such rising demand, it was not surprising that, initially, things went well for many third-world countries. Although by the mid-1950s some Latin American countries began to experience a downturn,[23] in Africa the opposite occurred. With regional variations, the decade after 1948 had been a good one for Africa's economies. Official and private foreign investment grew; in many colonies, trade boomed; even Kenya, riven by the Mau Mau insurgency, saw positive growth. On such a resource-rich continent, faced with continuing increases in demands for its chief exports, the logic of taxing agriculture or other primary industries to build industry seemed inescapable. The cash cow, agriculture or mining, could not be expected to run dry.

However, the golden age could not last. The slack capacity would eventually be used up, the baby boom would run its course, and the declining productivity and rising incomes would feed inflation, a hydra that began to rear its head in the late 1960s. Moreover, by the early 1970s the United States was suffering from a "gold overhang." The government had been printing money not only to cover deficits, but also to fund its war in Vietnam. Eventually, far more dollars were in global circulation than there was gold in Fort Knox. Printing money to cover balance-of-payments deficits would not be an option for much longer. In 1971 the United States ran its first trade deficit of the century.[24] That same year, partly in response to this crisis, President Richard Nixon abandoned the gold standard. Currency instability followed, and the United States made clear that it would no longer allow the generous access to its economy that it had formerly given its allies, unless they agreed to widen their doors in return.

Soon thereafter, the world economy was shaken by one of the greatest tremors yet: the first of the oil shocks. In 1973 the Organization of Petroleum Exporting Countries (OPEC) announced an embargo on oil supplies to the United States, Europe, and Japan to protest their support for Israel in the Yom Kippur War. This sudden cut in supply led to a fourfold increase in the world price of oil over the next two years. The crisis plunged the economies of the developed world into recession, heralding the end of the golden age. Growth phases, if more modest, would return to the world economy; but then so too would recessions. The era of steady, high growth was now at an end. What emerged to take its place was a new phenomenon that bedeviled policymakers in their search for a cure: economic stagnation coupled with high inflation, or as it came to be known, stagflation.

At the onset of the OPEC crisis, some observers concluded hopefully that the era of first-world dominance of the world economy was also being brought to an end. They construed the OPEC crisis in North-South terms: the success of the oil-producing countries in raising a commodity price was seen as an attempt by commodity-producing countries to increase their share of the world's wealth at the expense of the rich consuming countries. There was a flurry of optimism that maybe the same could be tried by producers of other primary commodities. The third world, it was believed, would finally get its fair share of the wealth generated by world trade.

Although there is a grain of truth in this interpretation, the oil crisis in fact boded ill for most of the third world. The handful of oil-exporting countries grew much richer, but the remainder, which imported oil, faced the same jump in energy costs as did first-world countries. In the meantime, the recession in the world economy had reduced demand for their products. The first world had sneezed; much of the third world caught pneumonia. Worse was yet to come. The oil shock unleashed a virus that crept into the body of the third world at once, but would only become apparent much later on when it manifested itself in a terrible, seemingly incurable illness. This was the debt crisis.

With oil prices skyrocketing, OPEC countries found themselves awash in hard currency. Try as they might, the rulers of these countries could not spend all that was flowing into their coffers, so they deposited these monies in their accounts with Western banks. The banks, which had to pay their depositors interest on this money, had to find someone to whom they could lend at a higher rate of interest in order to avoid losing money. So flooded were they with money that many banks threw caution to the wind in their hunt for borrowers and offered low-interest loans for questionable projects.

The offer was too good for many third-world governments to resist. They borrowed heavily in order to invest in development projects and sustain overvalued currencies.[25] In doing so, they were acting no more unreasonably than would someone borrowing money to expand a business, counting on the future revenues that would result to pay off the debt. The problem was that many of the projects they invested in were ill thought out, and in some cases monies even disappeared at once into current accounts. As for the anticipated revenues, these presumed a continued growth in the world economy that was not to materialize.

Although the 1973 oil shock had plunged the first world into recession, in the third world things did not always look so bad. With investment capital available in abundance, sometimes at real interest rates close to zero, the governments of many third-world countries could be forgiven for paying scant heed to the problems of the first world. However, when in 1979 a second oil shock brought on a second bout of stagflation in the first world, the crisis came home to most developing countries: most commodity prices plummeted.

Meanwhile, first-world governments began fighting inflation through tight monetary policies, raising interest rates to heights unknown in the postwar period. This had a doubly detrimental effect on developing countries. First, the higher interest rates raised the repayment cost on debts, many of which were short-term and thus subject to variable rates of interest. Second, with money flowing into the high-interest havens in the first world in order to take advantage of the high returns on deposits, the demand for US dollars in particular rose. The value of the dollar thus increased, and because most third-world debt was denoted in dollars, the value of the debts of developing countries was effectively hiked. With less money available to pay off debts but payments rising quickly, third-world governments found themselves in a crippling squeeze. When Mexico, Brazil, and Argentina all announced in 1982 they could not meet their current debt obligations, the debt crisis erupted. Donor agencies such as the World Bank relegated development projects to a secondary status, and devoted their energy to trying to recover old debts and improve the solvency of their debtors.

The revenue from the sales of primary commodities was increasingly used not to fuel industrial development, but to pay off old debts. Governments had to squeeze money from their budgets to meet debt obligations, and were forced to cut their investment and social expenditure. They had little space to maneuver: when, for example, President Alan Garcia tried to set an upper limit on Peru's debt repayment to avoid causing too much hardship for his people, creditor agencies reacted with a credit boycott that was too much for the country to bear. The cost of debt repayment thus fell on ordinary people. Whatever development was supposed to mean, they were not seeing its fruit. There were even cases in which projects built with borrowed money lay idle, the anticipated economic growth that would have brought them into operation having never materialized. By now, high inflation had become a serious problem in many developing countries, particularly in Latin America. It was eating away the gains of growth and reversing, sometimes rapidly, per capita incomes. Many governments found they had no choice but to turn to the World Bank and the IMF for assistance. This would be forthcoming, but with strings attached.

The Fruits of Postwar Development Strategies

Meanwhile, the many shortcomings of the ISI model were becoming obvious. The approach had been directed, intentionally, at physical-capital formation,[26] and neglected to foster competitiveness, innovation, technological capability, and other features of development. With its focus on savings and investment, ISI proved very effective at building factories and infrastructure. In other regards, though, it was failing.

Poor Export Performance

The first problem of ISI is that while it altered the structure of an economy's output, it did less than hoped to alter the structure of its exports. Whereas many third-world countries increased the profile of manufactured goods in their exports, change came slowly. Between 1960 and the end of the 1970s, for example, India increased the share of its exports accounted for by manufactured goods by a third, and Mexico more than doubled its share. However, in the same period, South Korea—which was not using a conventional ISI model—increased that proportion more than sixfold.[27] Moreover, increased exports of manufactured goods often arose from trading agreements with neighboring countries and did not represent increased exports of manufactured goods to first-world countries.[28] In other words, third-world countries were selling more manufactured goods to each other, but not to their traditional trading partners in the first world. In the end, third-world countries continued to rely on primary exports to the first world for their foreign-currency earnings. This problem was most acute in Africa, whose share of the world's manufactured exports actually declined throughout the 1960s and 1970s,[29] and whose dependence on primary exports actually increased between 1965 and 1980.[30]

Given that ISI was designed to alter the trade patterns between the first and third worlds and end the tendency for third-world governments to export primary goods and import finished ones, it was not meeting its goal. Although third-world countries were importing fewer consumer goods from the first world, they were not necessarily importing fewer finished goods. Local producers had replaced imports, but the technology and often the inputs used to produce those goods were usually imported. Aimed in part at improving a country's balance of payments by reducing its imports, in a few cases ISI actually worsened the balance, with the cost of imported inputs actually outweighing the savings generated by local production of consumer goods.[31] Moreover, ISI often precluded the sale of finished goods abroad. In many cases, being sheltered from competition by protective barriers, local industries simply could not produce goods of a price or quality that could find a market abroad. Further, branch plants were often set up exclusively to produce for local markets, with licensing arrangements precluding the possibility of exporting. Kenya, for example, which leaned heavily on such protectionism to attract foreign investment in industry, was able to increase its manufactured exports mainly by virtue of its membership in the East African Community. Because Uganda and Tanzania had even less-developed industrial sectors than did Kenya, the latter country led the competition. Elsewhere, however, Kenya's achievements in market penetration were more modest.[32]

Some countries sought to get around this problem by developing their own heavy industry in order to supply the inputs and capital goods (such as machinery) for their factories. Big countries could support their own capital-goods sectors, but smaller countries, such as Argentina or Tanzania, could hardly hope to recoup the cost of their investment through domestic sales. Export sales to other third-world countries presented one possible outlet, which Argentina used to greater effect than Tanzania, but even then the costs usually outweighed benefits. In such cases the construction of a capital-goods base ate up much of a country's scarce resources. It would have been cheaper for countries to import capital goods than to produce them themselves.[33] Although the Indian government could make back its investment through domestic sales, the fact that the country produced capital goods inferior to those available from abroad not only limited the export markets for its goods, but also kept the quality of the consumer goods produced with these capital inputs too low to compete well on foreign markets.[34]

Inefficiency

ISI frequently allocated resources inefficiently. Because trade barriers raised consumer prices, people could not buy and save as much as they would in a free-trade regime. In effect, this restricted the size of both the local market and the savings pool. The large profits being made by protected companies could be channeled into savings, but where the companies were owned by foreigners, the profits were more likely to be shipped back home than to be reinvested locally. This became an acute problem in Latin America during the 1970s. Some governments responded to capital flight by imposing currency controls—limiting the amount of money anyone could take out of the country—and taxing profits. The former was partly counterproductive in that it frightened away future foreign investment. The latter was easily avoided by means of transfer pricing: by overbilling for licensing fees or supplies to branch plants, parent companies could find ways to sneak their money out of host countries and show meager profits or even losses at the end of every year.[35]

The lack of competition fostered by protection created its usual set of problems. Firms became lazy, product quality was poor, and productivity remained low.[36] Not only did local consumers lose out, but the possibility of expanding into export markets dwindled. Firms ate up money that could have been invested elsewhere in the economy. In some countries, India being a case in point, firm managers devoted much of their time to securing favorable arrangements with government officials rather than to improving the operation of their firms or the quality of their products.

Protection also led to an inefficient allocation of resources in the way production technology was chosen. With profits ensured, firms had few incentives to look for the most efficient technology or adapt it to local needs. Most often, they bought production technology that had been developed in the first world, where the markets were comparatively huge and the demand was for highly differentiated, packaged, and promoted products. Not only did this produce unnecessarily expensive goods, but it also resulted in the erection of factories with immense production capacities and, in the worst cases, a heavy reliance on imported inputs and even imported managers. Given that such factories were producing for small domestic markets, their unused capacity led to high unit costs, which were passed on to the consumer in the form of higher prices. When inputs had to be imported—because, for instance, the technology could not process local supplies—this further worsened the country's balance of payments. Among the best-known examples of this syndrome remains Ghana's aluminum plant, built by the Kaiser-Reynolds Syndicate alongside the Volta Dam. Although the project itself was successful, it used not only imported capital technology, but even imported bauxite, rather than local supplies, and thereby created few spinoff benefits for the Ghanaian economy.[37]

Underemployment

All the while, such capital-intensive modern technology created few local jobs, further limiting the growth of the domestic market and concentrating the gains of development in a few hands (the owners of capital and the small industrial working class). So serious was this problem in India that by the 1960s growth slowed. The unequal gains of development had hindered the emergence of a mass market for consumer goods, which in turn inhibited the further development of the capital-goods sectors.[38] In a similar vein, much of Africa witnessed the emergence of "economic islands," small industrial enclaves that purchased foreign inputs and whose beneficiaries earned incomes high enough to spend on imported goods. Few linkages connected these islands to the rest of the economy. Where W. A. Lewis had expected a growing urban economy to draw the rural sector behind it, in fact the urban economy boomed while the rural sector, in which most of the population lived, fell behind.[39] The third world witnessed the tragic paradox of fabulous wealth living side by side with subhuman squalor.

This situation undermined the Lewis thesis, which had provided some of the theoretical underpinning for state-led development. Lewis had anticipated that the wage rate would remain at the level of the agricultural-subsistence rate, providing industry with cheap supplies of labor, but while rural wages often remained low, urban wages outstripped them considerably. Several explanations have been put forth for this. Employers using sophisticated technology require skilled labor, which is in short supply and thus more costly. They also want to minimize turnover rates to control the expense of training new employees in the use of their technology. To a point, higher wages can also induce higher productivity, due to increased morale and better nutrition; it can therefore be in employers' interest to raise wages. Finally, if workers are unionized, or even if unorganized they are a potent political force, employers may feel the need to treat them better than agricultural employers do their workers.[40]

Whatever the reasons in any given case, there arose what are called segmented labor markets. Urban labor markets were not governed by the rules that obtained in the rural sector. Not only did this worsen the rural-urban discrepancy and contribute to the emergence of a "labor aristocracy," but the resulting high wages attracted many more job seekers than could find work. By the 1980s in Côte d'Ivoire, for instance, urban populations were growing by up to 10 percent per year, while in the rural hinterland in the north of the country the population remained unchanged.[41] Cities teemed with unemployed migrants who tried to find work in the informal sector, in petty trade, menial labor, and inevitably, prostitution and crime. Many third-world cities grew rapidly, consuming a disproportionate share of the government's resources, yet authorities simply could not keep pace in the provision of security and infrastructure. Squatter townships soon engulfed many third-world cities. Urban poverty and overcrowding in cities that lacked the resources to build new housing, roads, and sewers created public-health and crime problems, including such horrific responses as the private gangs that came to prowl the streets of some Latin American cities, "cleansing" them of street children.

Poor Agricultural Performance

The worsening of the urban-rural gap (sometimes referred to as dualism) reflected one of ISI's most serious omissions: primary development. Not only did ISI neglect agriculture in its race to build urban industry, it frequently penalized it. Very often, investment in the primary sector was greatly outweighed by the money taken out in the form of taxes and marketing-board surpluses. In squeezing agriculture to fuel urban development, third-world states often kept agricultural producer prices so low that farming became less and less attractive, fueling the rural-urban exodus. Meanwhile, primary exports grew sluggishly or, in the worst cases, plummeted. In Ghana, the cocoa marketing board presided over declines in exports; in Nigeria, exports of groundnuts and palm oil, of which Nigeria was the world's largest producer in the early 1960s, fell to zero in the 1970s.[42] This restricted the income available for investment and worsened balance-of-payments problems. It also tended to produce narrowly based income growth, which led to a demand for nonfood and capital-intensive products imported from abroad; those countries that continued to encourage agricultural development saw more broad-based income growth, which created more demand for local goods.[43] The irony in this was that ISI strategies sometimes did less to encourage industrialization than did strategies focused on developing agriculture.

Corruption

The mechanisms of ISI gave considerable scope for abuse. License administration enabled ministers and officials to reward favorites or demand kickbacks; directorships of marketing boards and public firms could be used to skim off resources for personal use; discretionary government budgets could be plumbed to further individual interests. In India, such abuse translated into lost management time, much of which was spent in queues at government offices, and into expensive management practices, with many companies establishing virtual embassies in Delhi in order to promote and protect their interests.[44] In some African countries, marketing boards were treated almost like tax concessions, with government officials squeezing more and more revenue from peasant farmers even at times when world commodity prices were falling. Some governments maintained highly discretionary tax regimes, and embezzlement of public funds was common. Cynics suggested that third-world dictators such as Ferdinand Marcos of the Philippines and Mobutu Sese Seko of Zaire (today the Democratic Republic of Congo) kept alive the Swiss banking industry, with its confidential accounts. Civil-service promotions often went not to the best-qualified people but to political clients, who kept their jobs not by doing them well but by maintaining their loyalty. In the worst cases, such as Zaire, Uganda, and the Philippines during the Marcos administration, official corruption seriously drained the economy of resources and put a crimp in investment. For example, it has been estimated that from the mid-1970s to the mid-1990s, the economy of the Philippines lost $48 billion to corruption.[45] Dismantling the structure that made possible such theft became an appealing option to many.

Extreme Statist Experiments: Soviet Central Planning in the Third World

When the failings of ISI first became apparent, dependency theorists blamed the world economy. They argued that structuralist experiments failed to break the link with the first world, which they claimed lay at the heart of the third world's condition. However, those countries that did attempt such a break with world capitalism and applied socialist central planning in the Soviet mold could boast little more for it.

The principle underlying socialist central planning was that the economy should be organized to serve people, not vice versa. The state, as the representative of the people, was the agent that should perform this task. The Soviet interpretation was that to abolish exploitation, one had to abolish the market economy. The people as a whole should own the property, and the state should manage it on their behalf. Beyond that, there was a not unreasonable conviction that in underdeveloped societies a rapid and extensive mobilization of resources could only be achieved if the state took full control of the economy and compelled all available resources to be put to productive use. Along the lines of the Soviet model, states nationalized the economy, taking full ownership of its resources and in effect turning all citizens into state employees. The economy was then directed from a central planning office, which oversaw investment, set wages and prices, decided on which resources would be allocated for what purposes, and set production targets. Such socialist central planning was tried in Cuba, Ethiopia, Mozambique, Vietnam, Laos, Cambodia, Burma (Myanmar), North Korea, and China. Less ambitious experiments were made in a handful of other countries.

Overall, the record of socialist central planning in the third world was not very good, at least not with regard to economic matters. Although in some countries external factors such as civil wars drained socialist governments of resources, these alone could not account for all the shortcomings of socialist central planning. In the least-developed countries, namely Ethiopia and Mozambique, these experiments ran up against a dearth of administrative capacity. The states were simply too poor and resource-starved to be able to exert effective central planning. Control over the economy was therefore far less than in the Soviet or Chinese models. A skilled bureaucracy to design and supervise central planning was lacking. So too was the communications infrastructure that was necessary if effective central control was to be maintained. Any development strategy in which the production of thousands and even millions of items is planned and coordinated by a central agency depends on complete access to reliable data from all over the economy, not to mention some skillful management. Given that a state machinery as large as the Soviet Union's could not always meet such requirements, poor countries with a shortage of skilled bureaucrats and an inadequately developed communications infrastructure were not likely to do better. In Burma, for example, the construction of new plants was often not properly coordinated with the production and transportation of raw materials; shortages that slowed the operation of plants and raised inefficiency costs became commonplace.[46]

Certain other problems bedeviled central planning everywhere. The Soviet experiment proved that when it comes to expanding output, building new plants, or bringing new resources into production, central planning can be more effective and rapid than a market economy. Central commands, forced saving, price distortion in order to mobilize savings, and other such tools can rapidly build up the size of an economy. However, though it can greatly increase the quantity of output, central planning is not always up to the task of improving quality. Nor does it tend to encourage the efficient use of resources. Soviet oil fields, for example, were notorious for the amount of oil lost or wasted in the production process because firm managers were concerned with increasing output and not with making extraction less costly. Quantity could be monitored by bureaucrats; quality was much more problematic. A consumer market seems a more effective means of identifying and rewarding improvements in product quality. After all, the average consumer does not care how many shoes the economy has produced, but only whether the pair he or she bought is comfortable, durable, attractive, and reasonably priced. Soviet firm managers, however, were typically reluctant to develop new products or technologies for fear that production might temporarily lag and thus disrupt the economic plan.[47]

In the third world this tendency toward inefficiency was most evident in the farming sector. State farms run by managers were unproductive, consuming resources that would have been more effectively used on small peasant farms. It is now well established that in third-world settings, where labor is abundant, small household farms will be more cost-effective than large, mechanized ones, which rely on expensive capital inputs and displace labor through their use of machinery. Ghana's state farms, despite the resources pumped into them, were four to five times less productive than peasant farms.[48] In Cuba, workers on sugar plantations sometimes cost more than the value of what they produced.[49] In Ethiopia and Mozambique, the heavy concentration of resources in a few state farms meant that communal villages and peasant agriculture were virtually ignored.[50] In Tanzania, which was not a centrally planned economy like the aforementioned, the government did try to collectivize agriculture, but found the peasantry far more independent-minded than it had suspected: peasant resistance undermined the government's "villagization" policy.[51]

Nevertheless, in criticizing socialist central planning, one risks throwing the baby out with the bathwater. Although economically inefficient, socialism in the third world sometimes made important social and political gains. Committed as they were to egalitarianism, such regimes often implemented progressive social policies that increased the people's access to healthcare or basic education, or made significant strides toward granting women greater rights. In the same vein, communist Havana would come to be a safer, cleaner city than capitalist Kingston, Jamaica, because relatively more money was invested in public amenities, parks, and services than in building private mansions amid widespread squalor. As a rule, socialist regimes also avoided the worst excesses of corruption into which some neighboring governments were plunged; this was especially so in Africa. Finally, third-world socialism even made some economic gains. In China, for example, it built up the rudiments of an industrial base that could later be exploited when the country opened up to capitalist influences. Some suggest that China's current economic boom would not have happened so soon were it not for this phase of extensive industrial development. Perhaps it is safest to say that socialist central planning outlives its usefulness when the phase of heavy industrialization reaches its maturity, at which point an economy needs to move into consumer industry and export markets.

Why the Failures? Theoretical Perspectives on Statist Development Theories

Statist development theories, especially in their radical leftist versions, presumed a certain rationality on the part of the state that may not have been present. Neoclassical theorists would subsequently argue that there was no reason to assume people would behave any differently in the public sector than they did in the private sector. In other words, the same selfish behavior that prevailed in the marketplace would continue in the state, except that its effects there would be more damaging. The existence of official corruption seemed to confirm this argument. Moreover, although the ready assumption that the state encapsulates the public interest and thus should spearhead development on the nation's behalf suits common sense, it lacks empirical support. Elite theorists have long pointed out that significant political participation is restricted to a minority of the population, while political power is the preserve of small elites (which, not surprisingly, are often market elites).[52] The state, argued critics of statist development models, was not necessarily more representative of the public will than was the market.

In its more radical versions, particularly dependency theory, statist theory ran into even more problems. It seemed insufficiently attentive to microeconomic theory, and in particular failed to deal with the issue of incentives. For instance, it seldom explained why the state officials who would engineer development would run their firms efficiently and maximize their outputs and profits. After all, they often had to wrestle among competing priorities, including calls for a rapid improvement in working conditions. The market incentives that imposed discipline on firm managers and encouraged producers to increase output were not always provided by the state.

Interestingly, some of the strongest criticisms of dependency theory came not from the right but from the left. Marxists took such theorists as A. G. Frank to task for suggesting that capitalist imperialism had choked off the indigenous processes of capitalist development in the colonies. In fact, these critics alleged, capitalist development did *not* occur, at least not in the Americas or Africa, until the advent of imperialism.[53] Furthermore, imperialism in Latin America took place during the period of Iberian feudalism, not capitalism, so it could not have been first-world capitalism that underdeveloped this part of the world.[54] Placing the blame for third-world underdevelopment on the drain of resources to the imperial countries probably overstates the role the colonies played in Europe's development. Seldom did colonial trade account for more than a small share of the colonizing country's economy, and most of the first world's enrichment grew from trade within the developed world, as it does to this day. If anything, the problem was not that capitalism had exploited the third world, but that it had underexploited it.[55] Where waves of settlers flowed to the colonies, investing and importing new technologies while also constituting effective lobbies for infrastructure development and against protectionist groups back home,[56] development was more likely to result. It is worth remembering that the United States began its life as a collection of colonies. However, where the imperial powers did not exploit colonies very much but used them mainly as sources of raw materials and markets for finished goods, as was the case in most of Africa, underdevelopment often resulted. In such colonies and regions, the imperial powers did little to encourage industrialization, and the arrival of their manufactures drove local producers out of business. Other colonies, such as the inland territories of West Africa, fared even worse. Turned into labor reserves for neighboring colonies that were being developed, they were drained of the most important resource to development: labor. Today such countries number among the world's poorest.

Finally, dependency theory's conception of the domestic bourgeoisie as parasitic and dependent on foreign capital was simplistic. It assumed that the bourgeoisies of different countries would behave differently, even as enemies. In fact, capitalists everywhere tend to follow the laws of the market and frequently find more in common with each other than with compatriots from different classes.[57] In any event, time would show that many third-world capitalists were anything but parasitic, sluggish, or dependent.

ISI itself rested on some assumptions that later research drew into question. Designed to build up modern industry, it encouraged large-scale units of production and concentrated them in urban areas. To fuel this development, the state in effect taxed rural dwellers by such means as marketing-board surpluses. Aside from moral concerns—namely the possibility that ISI left peasants little better off than they had been under colonialism, while enriching a small minority—the economic problems in this approach soon came to light. Research found that, given the comparative advantages prevalent in most developing countries, rural investment yielded higher returns than did urban investment. Among other things, urban development required expensive housing and infrastructure, and the rate of return on these was comparatively low.[58] Even if governments were eager to break out of their dependence on agriculture and industrialize, it was not obvious that an "urban-biased" strategy offered the best means of doing so. Specialists on appropriate technology argued that, given the features of third-world countries and in particular their abundance of cheap labor, most governments should have encouraged the development of comparatively small, labor-intensive production units. These could have been located throughout the country, where they would have developed close linkages to the economy, instead of being concentrated in one or a few large cities.[59] However, the lessons of appropriate technology were not apparent to the drafters of postwar development plans. To them, industrialization and urbanization went together. The growth of the city symbolized the advance of modernity. The costs borne by the peasantry were considered legitimate sacrifices to make for the building of a nation, and the benefits of ISI were readily apparent.

Conclusion

Certainly not all the news from the third world was bad. In many countries, the ancient problem of famine was eradicated, nutrition and access to healthcare frequently improved, infant mortality rates declined, and literacy rates rose. However, the difficult truth was that in many places, economic growth barely kept pace with population growth and inflation, and progress was much slower than had been hoped. In real per capita terms, a significant portion of humanity ended the twentieth century poorer than when it welcomed political independence.

Yet against this backdrop of disappointment, some exceptions stood out. A small number of newly industrialized countries (NICs) managed to attain very high rates of growth, particularly over the last three decades of the century. Not only did industrial development boom in these countries, but their governments managed to build strong export industries as well, thereby altering not just the structure of production but the structure of exports as well. These economies became models of efficiency, innovation, and rising prosperity among the citizenry. Chief among these stars were the four "little tigers" or "dragons" of East Asia: Hong Kong, Taiwan, Singapore, and South Korea. Since the 1960s, these economies had experienced annual growth rates of over 10 percent in some years; in the latter three countries, manufacturing had grown even more quickly, and the profile of manufactured goods in exports had risen dramatically. In per capita terms, these were the world's fastest-growing economies in the latter decades of the twentieth century.[60] Yet these economies were not necessarily specially privileged or pegged from an early date to boom. South Korea, for example, is a densely populated country with limited natural resources that traditionally inspired "poets and painters more than engineers or economists."[61] It suffered at the hands of Japanese colonialism and from the ravages of the Korean War.

Why, then, did South Korea belie the general rule of the third world? That question provoked one of the most vigorous development debates of recent years. Agreement has yet to be reached, but as will be shown in Chapter 4, a resurgent school of economic thought, neoclassical theory, believed that the lessons of the East Asian NICs vindicated what it had maintained all along: that, left unfettered, the market would bring about economic growth and development.

Time would soften the harsh assessment of ISI, or at least of some of its components. But by the late 1970s, those who favored an interventionist role for the state had become so discredited by the excesses and abuses of statist experiments, not to mention the growing intellectual and political weaknesses of the left, that they would be swamped in a tide of right-wing criticism.

Notes

1. Charles Issawi, *An Economic History of the Middle East and North Africa* (London: Methuen, 1982).
2. This discussion is taken from Mete Pamir, *Determinants of Late*

Development: A Study of Turkey's Late Industrialisation Attempt Until 1946 (Bergen: Chr. Michelsen Institute, 1993).

3. Economist Intelligence Unit, *Chile to 1991* (London: Economist Publications, 1987), p. 5.

4. Roger Owen and Şevket Pamuk, *A History of the Middle East Economies in the Twentieth Century* (London: Tauris, 1998), pt. 2.

5. Specifically, a Sinhalese (and Buddhist) nationalism, which stood in opposition to the Tamil (and Hindu) minority.

6. See Nurul Islam, *Development Planning in Bangladesh* (New York: St. Martin's, 1977).

7. See John Wong, *ASEAN Economies in Perspective: A Comparative Study of Indonesia, Malaysia, the Philippines, Singapore, and Thailand* (Philadelphia: Institute for the Study of Human Issues, 1979).

8. Crawford Young, *Ideology and Development in Africa* (New Haven: Yale University Press, 1982), p. 155.

9. Ibid., p. 158.

10. See Killick in Young, *Ideology and Development*, pp. 151–152.

11. Whether these strategies were effective would become a bone of contention among competing schools of theorists. For recent statements on the role of indigenous capitalists in Africa, see Bruce Berman and Colin Leys, eds., *African Capitalists in African Development* (Boulder: Lynne Rienner, 1994), in particular the contributions by David Himbara and John Rapley.

12. Pamir, *Determinants of Late Development*, p. 119.

13. Owen and Pamuk, *History of Middle East Economies*.

14. See Celso Furtado, *Economic Development of Latin America* (Cambridge: Cambridge University Press, 1970). See also Werner Baer, *Industrialization and Economic Development in Brazil* (Homewood, IL: Irwin, 1965), p. 69; Economist Intelligence Unit, *Chile to 1991*, p. 7.

15. Judith Adler Hellman, *Mexico in Crisis*, 2nd ed. (New York: Holmes and Meier, 1983), p. 59.

16. Dietmar Rothermund, *An Economic History of India* (London: Croom Helm, 1988), pp. 133–136.

17. Young, *Ideology and Development*, p. 156.

18. Ibid., p. 157.

19. John Cole, *Development and Underdevelopment* (London: Routledge, 1987), p. 40.

20. Donald K. Freebairn, "Did the Green Revolution Concentrate Incomes? A Quantitative Study of Research Reports," *World Development* 23 (1995): 265–279.

21. From 1948 to 1952, the United States injected $17 billion into Western Europe, especially into Britain, France, West Germany, and Italy. This helped to kickstart the Western European economies, and by the time the plan ended in 1952 their recoveries were self-sustaining.

22. Paul Kennedy, *The Rise and Fall of the Great Powers* (London: Unwin Hyman, 1988), p. 358.

23. Whereas the war strained much of Africa and Asia by restricting their trade with Europe, Latin America reaped the same benefits of the wartime leap in demand as did the United States. The end of the war, and the resumption of

trade throughout the world economy, eroded Latin America's privileged position as a supplier.

24. The United States ran balance-of-payments deficits all through the golden age, but this was as a result of the outflow of money due to foreign aid and investment. Its balance of trade was continually positive.

25. Rosemary Thorp, "Economics of Development" lecture series, University of Oxford, 18 November 1992.

26. As Ragnar Nurkse once said, "progress depends largely on the use of capital," not on more appropriate labor-intensive means of production. See Ragnar Nurkse, "Balanced and Unbalanced Growth," in *Equilibrium and Growth in the World Economy,* edited by Gottfried Haberler and Robert M. Stern (Cambridge: Harvard University Press, 1961), p. 249. This focus on savings and investment and the creation of physical plant arose largely in response to the work during the 1940s of the economists R. F. Harrod and Evsey Domar, who emphasized the role investment played in growth.

27. World Bank, *World Development Report 1981* (Washington, DC: World Bank, 1981), pp. 150–151.

28. Furtado, *Economic Development of Latin America.*

29. See the introduction to Martin Fransman, ed., *Industry and Accumulation in Africa* (London: Heinemann, 1982). The figures used cover the 1960–1975 period.

30. Armand Gilbert Noula, "Ajustement structurel et développement en Afrique: L'expérience des années 1980," *Africa Development* 20,1 (1995): 5–36.

31. Ian Little, Tibor Scitovsky, and Maurice Scott, *Industry and Trade in Some Developing Countries: A Comparative Study* (London: Oxford University Press, 1970).

32. World Bank, *Kenya: Into the Second Decade* (Baltimore: Johns Hopkins University Press, 1975), chap. 4.

33. On this subject, see Luc Soete, "Technological Dependency: A Critical View," in *Dependency Theory: A Critical Reassessment,* edited by Dudley Seers (London: Pinter, 1981).

34. Sanjaya Lall, *The New Multinationals: The Spread of Third World Enterprises* (Chichester: Wiley, 1983), pp. 255–256; Sanjaya Lall, *Multinationals, Technology, and Exports* (London: Macmillan, 1985), pp. 179–181.

35. One should note that transfer pricing is becoming more difficult to get away with. The Swiss General Superintendence Company, a private consulting firm, can effectively monitor prices and determine when firms are overpricing, and it can sell this information to governments that suspect firms of overinvoicing.

36. For example, Indian firms had low capital-output ratios: investments were allegedly not as productive as they would have been in more open economies. See Ashok V. Desai, "Factors Underlying the Slow Growth of Indian Industry," *Economic and Political Weekly* 16,10–12 (March 1981): 381–392; "The Slow Rate of Industrialisation: A Second Look," *Economic and Political Weekly* 19,31–33 (August 1984): 1267–1272.

37. This problem of inefficient use of production technology has been

widespread in Africa. See Howard Pack, "Productivity and Industrial Development in Sub-Saharan Africa," *World Development* 21,1 (1993): 1–16.

38. Rothermund, *Economic History of India,* pp. 135–136.

39. W. A. Lewis, "Economic Development with Unlimited Supply of Labour," *Manchester School of Social and Economic Studies* 22,2 (1954): 139–191.

40. J. Knight, "Economics of Development" lecture series, University of Oxford, 2 December 1992.

41. Côte d'Ivoire, Ministère du Plan, *Plan quinquennal de développement économique, social et culturel, 1981–85,* pp. 49–50.

42. Gavin Williams, "Why Structural Adjustment Is Necessary and Why It Doesn't Work," *Review of African Political Economy* 60 (June 1994): 214–225.

43. Thomas L. Vollrath, "The Role of Agriculture and Its Prerequisites in Economic Development," *Food Policy* 19 (1994): 469–478.

44. Stanley A. Kochanek, *Business and Politics in India* (Berkeley: University of California Press, 1974), chap. 4.

45. The estimate was made by the Philippine government's ombudsman. See Reuters, 3 October 1995.

46. David I. Steinberg, *Burma's Road Toward Development* (Boulder: Westview, 1981), p. 144.

47. John S. Reshetar Jr., *The Soviet Polity,* 2nd ed. (New York: Harper and Row, 1978), p. 240.

48. Young, *Ideology and Development,* p. 158.

49. Carmelo Mesa-Lago, "Economics: Realism and Rationality," in *Cuban Communism,* 4th ed., edited by I. L. Horowitz (New Brunswick, NJ: Transaction, 1981).

50. Marina Ottaway, "Mozambique: From Symbolic Socialism to Symbolic Reform," *Journal of Modern African Studies* 26 (1988): 211–226; Mulatu Wubneh and Yohannis Abate, *Ethiopia: Transition and Development in the Horn of Africa* (Boulder: Westview, 1988), chap. 4.

51. See Goran Hyden, *Beyond Ujamaa in Tanzania* (Berkeley: University of California Press, 1980); Henry Bernstein, "Notes on State and Peasantry: The Tanzanian Case," *Review of African Political Economy* 21 (1981): 44–62.

52. For examples, see Edward S. Greenberg, *The American Political System,* 4th ed. (Boston: Little, Brown, 1986); Ralph Miliband, *The State in Capitalist Society* (London: Weidenfeld and Nicolson, 1969); Wallace Clement, *Class, Power, and Property* (Toronto: Methuen, 1983).

53. Bill Warren, *Imperialism: Pioneer of Capitalism* (London: New Left, 1980).

54. Ernesto Laclau, "Feudalism and Capitalism in Latin America," in Ernesto Laclau, *Politics and Ideology in Marxist Theory* (London: New Left, 1977).

55. G. B. Kay, *Development and Underdevelopment: A Marxist Analysis* (London: Macmillan, 1975).

56. Arghiri Emmanuel, "White Settler Colonialism and the Myth of Investment Imperialism," *New Left Review* 73 (1972): 35–57.

57. Bjorn Beckman, "Imperialism and the 'National Bourgeoisie,'" *Review of African Political Economy* 22 (1981): 5–19; "Whose State? State and

Capitalist Development in Nigeria," *Review of African Political Economy* 23 (1982): 37–51.

58. See Michael Lipton, *Why Poor People Stay Poor* (London: Temple Smith, 1977), on the advantages of rural over urban investment. Lipton's thesis anticipated the neoclassical new political economy of Robert Bates (see Chapter 4 in this volume). See also E. F. Schumacher, *Small Is Beautiful: A Study of Economics as If People Mattered* (London: Abacus, 1974).

59. See, for example, Frances Stewart, Henk Thomas, and Ton de Wilde, eds., *The Other Policy* (London: Intermediate Technology Publications, in association with Appropriate Technology International, 1990).

60. Only one country did better in this regard: Botswana. It is an interesting irony that the world's fastest-growing economy lay not in East Asia but in Africa, and as shall be seen in Chapter 7, it is a fact that provides much insight.

61. Jon Woronoff, *Korea's Economy: Man-Made Miracle* (Arch Cape, OR: Pace International Research, 1983), p. 14.