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Master of Science in Energy Management Thesis in the major: Energy Security and  
diplomacy

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# **VALUED ADDED LOST, GEOPOLITICS AND THE DEVELOPMENT DEFICIT.**



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**Bodø, Spring 2007**

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# Abstract

More than 60 years after the end of World War II, which saw the emergence of new sovereign states, the world is still experiencing a sort of development deficit. At least four fifths of the world's countries are still struggling to achieve dynamic self sustaining economic development. Many commonly cited reasons for the short fall in development usually appear like the symptoms rather than the causes and tend ignore historical aspects. This study proposes to take a look in retrospect at both the economic and geopolitical conditions that were prevailing in the better part of the twentieth century when a host of new states were established. The paper argues that the mix of international economic and geopolitical conditions in the twentieth century especially in the three post-World War II decades presented conditions that were unfavourable to sound economic and social development for the majority of the world's newly formed countries, from among which only four managed to operate a spectacular economic transformation. After establishing the theoretical premise, the paper strives to back the case through wide ranging general analysis and specific country cases. In the end the paper puts the development process into perspective to emphasize that the present lateness in development should necessarily be a transient one, albeit which can hardly be curbed a country level without benign stimuli from favourable world economic and geopolitical conditions.

**Key words and phrases :** Development, capital accumulation, geopolitics, export promotion, import substitution, comparative advantage, cold war, incremental capital-output ratio, multinationals, valued added, high income, low income, low-middle income, upper middle income, newly industrialised countries, primary commodities, manufactures, oil shocks

# Preface

Why is a paper on development coming out after a master of science in energy management course? Would something on the geopolitics of oil and gas not sound more appropriate here? Adj. Pr. Andrew Browning will certainly agree! But I remember Energy Security Pr Shcherbanin telling us that the Japanese energy experts consider a developed country to be one where every unit of energy is accounted for. As such follow the energy and you will find development. Generally I maintain a keen interest on issues of development and geopolitics and I think no matter in which academic field we find ourselves, we essentially are striving to uphold development where it has been sufficiently attained, enhance or foster it where it is still budding or stimulate it where it is stagnant. It is not uncommon to find publications or articles linking development with sources of energy but also it is not easy for example to ignore the fact that even among petroleum exporter several still colossal development challenges. I found it worth while to take yet another look at the issue of development itself, having in mind that more development not only needs more energy resources it also calls for better management of energy resources. The case on development can hardly be closed and so in Value Added Lost, Geopolitics and the Development Deficit, I just add another drop of water in the mighty ocean. It will not stir the mighty ocean but at least it will have its natural ripples no matter how minor. The intended audience is of course those who are interested in international trade and development issues as well geopolitics.

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Thanks and Good Reading!

**John OJONG EPIE**

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# **1. Introduction**

## **1.1 The background**

The development process in the world's economies seems in essence never ending and for as long as it stays thus yet another paper on the process is worthwhile. Most often viewed in terms of economic attainment, the development of countries has more often than not has been analyzed within the frame work of economics. For this reason the tendency has always been to approach the lateness in development which characterizes a sizeable chunk of the countries today solely from the economic angle. This deficiency was recognised in the course of time and in order to palliate it, non-economic or non-quantifiable socio-cultural and even political variables were increasingly brought in to give a more global approach to the whole matter. However this paper considers that the inclusion of geopolitical element is vital in understanding the prevailing development deficit today. Without abandoning the economic angle, the paper wishes to carry the development discussion out of the cocoon of economic analysis and place within the geopolitical context that prevailed in the early stages of the twentieth century but especially after 1945 when large swathes of territories were emerging as new states following the decolonisation. The paper considers that as country development is a long drawn, possibly, never ending process, what is seen as less development or underdevelopment is late development. That for a vast array of countries this late development has been induced not only economically by the shortage of capital resources in the immense task of nation building but also by the tense geopolitical climate that prevailed in the twentieth century, most notably, during the cold war era. Adverse international economic and geopolitical processes create macro-economic pressures which affect a vast array of countries in different proportions. In referring to them in this exercise the idea is not to fault any particular country or group of countries for initiating world conflict or wars but to acknowledge the historical existence of the events and attempt to establish with hindsight the impact they may have had on the course of development.

The title Valued Added Lost, Geopolitics and the Development Deficit, reflects the attempt to combine the geopolitical and economic dimensions in analysing the lateness in development.

## **1.2 Thesis structure**

### **1.2.1 Part One**

After having outlined the issues of methodology, the paper in the first part will look at the complexity of the development especially when it comes to the ranking of countries in the development scale; take an overview of the nomenclature of development and other misnomers when it comes to characterising the economic attainment of countries or a group of countries; state the choice of the development terminology to be used in the text and outline the working definition of development. The paper will then proceed to the economic aspects in explaining the lateness in development. This will involve issue of trade in primary commodities, the involvement of multinational companies or transnationals, capital accumulation, valued added disparity, capital resource deficiency and its impact on development drive. Trade theory and other concepts in development theory will be revisited like comparative advantage, the water diamond paradox or the paradox of value, development concepts and models like the Harrod Domar development model, Incremental capital-output ratio, dualism, immiserizing growth and so forth.

### **1.2.2 Part two**

In the second part the discussion will move on to the principal geopolitical dimensions. The paper wishes to emphasize that the geopolitical element has a far more reaching impact on the lateness in development than is actually acknowledged. And that the non recognition of this aspect has made the analysis of development incomplete, resulting in a wrong diagnosis and consequently the maintenance of a highly ambiguous reading of the present development malaise. In this regard the analysis with focus on the two oil crises of the 1970s as well as the Cold War era in terms of its impact on the economic development of countries which were directly or indirectly drawn into confrontation. In the country case section it will be possible to highlight the impact of both international economic and geopolitical factors.

### **1.2.3 The development perspective**

The perspective is to acknowledge development as a long drawn and subtle process which, given the closely integrated world economic system can easily be influenced by external factors. Positive external stimuli enhance its progress while adverse external processes or influences can severely retard it. In the exceptional cases in which it has happened rapidly it has been assisted by favourable external impulsions. Prevailing favourable conditions, manifest economic-wise in a boost world trade and foreign investments and geopolitical-wise

in reduced international conflict and tensions, increase the prospects of economic and social transformations for countries which need to upgrade their developmental standing.

### **1.2.4 Concluding**

In closing the development process will be put in the longer term perspective regarding it as a lengthy process, full of challenges in the world's economic evolution. A process that will require global effort as the full potential of the increasingly interdependent world economic system can be unleashed the wider the spread of development.

So the paper with starts with the methodological approach, runs general analysis, moves to country analysis and then closes with the concluding analysis.

## **1. 3Method**

### **1.3.1 The Postulates for the analysis**

The development of countries is a gradual and protracted process which is influenced by external factors which enhance or retard it. The impact of these influences augment the more interlinked the world economic system becomes. The acceleration or the deceleration of the pace of development will depend on the intensity of the benignity or the adversity of the external factors. On this premises the thesis will argue that unfavourable external factors caused the lateness of development that many countries are experiencing today. These unfavourable external factors were in the main a mismatching international trade and adverse geopolitical conditions. The resilience of the impact from the unfavourable external impulsions lays in their capacity to generate debilitating and self reinforcing internal impulsions which effectively slow down or immobilise or reverse the development process.

### **1. 3.2 Selection and Analysis of secondary data**

No new data was collected in the process for the purpose of the exercise and no interviews were conducted. So most of the data used is secondary data

The theme is based on geopolitical, developmental issues and international trade issues. As such sources of the materials for use in the analysis were publications and periodicals on the international political economy, international trade in general and primary resource export in particular, economic history and development economics. The theme is more theoretical or, philosophical, than quantitative so the need for large amounts of empirical data was not necessary. However it was important to have relevant data about the flow of trade between the predominantly manufactures exporter countries and the primary commodity exporters ; data showing the volumes of trade and the capital deficiency or sufficiency of the primary

commodity producer countries. On the geopolitical segment it was necessary to identify material which documents the various conflicts that were geopolitically induced and their socio-economic impact on the parties in the conflict. All the material so gathered was synthesised to determine whether factors- economic or geopolitical -had a combined effect and if so to what extent; or if the factors acted independently. Selected country cases were used for illustration in the process while other relevant examples besides the selected countries were cited.

### **1.3.2 The Use of theory**

Trade theory and development concepts have been used basically in the economic segment of the analysis. They are all outlined in the second chapter. The theory of comparative advantage is revisited to highlight trading mismatch due to the dissimilarity of the productive structures of primary commodity exporters and exporters of manufactures. Concepts on multinationals are used to highlight shift in trade from traditional country to country trade pattern to integrated global trading with globally spread companies and to express the dominance such companies could have on host economies, not the least political. The other development concepts like incremental output ratio, or dualism or immiserizing growth are used to capture the manner of the economic and social transformation of the newly emerging states as they were initiating their development drives and the progress or non progress made.

### **1.3.4 Validity, generalisability and limitations**

The validity of the approach will depend on the credibility of the arguments advanced since no tests are being conducted. In effect no theory is being created here and no theory is being tested. Rather the relevant theories and concepts highlighted and integrated into the analysis where necessary

To corroborate the premises postulated above, examples in which favourable external stimuli have led to rapid development are juxtaposed with examples where unfavourable external factors led to its impediment

To back the important assertions care is taken to include authoritative material assembled from relevant sources stated above and which have a bearing on the various themes under treatment.

It is on the basis of this varied information and the force of the arguments and the corroborative examples that the validity of the assertions and conclusions will be assessed.

Country specificities notwithstanding, generalisation is possible in the sense that the set of external impulses were more or less uniformly spread and occurring within determined time span- the overlapping cold war era, decolonisation (emergences of new states), oil price shocks, and the recessions.

As for limitations, given the complexity of the issue of development, the specificity of each country or region, the fact that the same external processes may simultaneously favour development in one area and handicap it in another area, equally forceful counter arguments and facts could be advanced to derail the validity of the conclusions.

## **. Part ONE**

# **2 The Different Faces and Phases of Development**

## **2.1 The Lure of Development**

The process of development is complex and fascinating and at the same time. The factors that led to countries to become high-income, self-sustaining economies with a high economic attainment today are as varied and as complex as the ones that have left a sizeable chunk of the countries in the world as low income, fragile economies yet to operate the socio economic transformation that will lift them into higher economic heights. The countries which fall under latter category and which are still aspiring to become strong and self sustaining economies, share a common denominator namely their lack of the economic muscle to compete effectively in a highly competitive world economic stage dominated by economies with the productive capacity for high value goods, dense consumption patterns, a flexible labour force and organisational structures that can rapidly react to the signals in the world economic system.

## **2.2 The Enduring Challenge**

The Development deficit today – too many countries with too little development- is a result of so many different elements that every country may have a different story tell. It could be the result of a pre-dominant stifling factor, or combination of a few or many factors which have in concert constituted a hindrance to the economic transformation of many a country from a fledgling economy into a versatile, resilient, self sustaining economy.

For reasons of size, geography, location, climate, geopolitics, colonial history, timing and more, many countries have been unable to pursue a successful path of economic development

while some have succeeded for the same reasons. For about thirty countries, in the main small islands and archipelagos, with populations less than a million and some twenty nine others with populations below 5 million, the absence of a large domestic market, limited natural resources and a protective environment for budding entrepreneurs, reduces the motivation for bold entrepreneurial initiative and for large scale economic activity. But then for reasons of highly favourable location and timing among others, Singapore with a population of 3 million and Hong Kong with a population of about 6 million made huge economic success [1]. While Taiwan and South Korea did succeed in using their agriculture as the basis for a successful industrialisation which attained world scale, the industrialisation efforts of the majority of primary product exporters have had but mitigated results and mostly stayed within domestic limits. As Herman Schwartz notes “Any given country’s geographical location and colonial history largely determined its natural markets. In the nineteenth century, when only Britain plausibly provided an external motor for growth, this condition did not matter. In the twentieth century, however... the United States, Japan and the European Community grew at different rates and provided markets for different sorts of goods.” [2]

### **2.3 Immense Resource requirements**

Substantial revenues are needed for investment in the development of productive capital in order to create wealth. Exchange revenue from export activities will serve in the procurement of capital investment goods, technology training and the know how for expanding an economy’s productive capacity. For export trade to be able to generate the revenues for capital investment and the promotion of growth, it has to possess a high earning power. And this trade needs to develop sufficiently both in value and in duration, not only to be able to support the economy but also to be cater for other projects geared at generating productive capital, without suffering from the time-lag in the returns on infrastructural investments already undertaken.

### **2.4 The Problem Overview in Part One**

In this first part the paper is going to concentrate on the recurrent pattern of a bad start of the developmental drive due to the dependence of the economies on the export revenue of raw materials with low earning power and blighted by volatile and steadily declining world market prices as well as the profound effects of sudden technological change. Compounded with other accompanying factors and unfavourable timing a significant number of countries descended into an economic morass whose stubborn persistence led the economies to reap

only meagre economic results in developmental efforts, stagnate or even suffer a reversal of economic progress.

Most of the countries had been part of an earlier colonial export regime and after reverting to autonomous self governing states following the decolonisation pursued the same trade pattern: the exports of primary products to the industrialised market and the import of industrial consumer and capital goods.

As many of the emerging countries were formerly exporters of products of farm forest and mine, the general analysis will centre of two aspects: the impact of this form of trade on their ability to earn vital capital for their development drive and the difficulties they were bound to encounter due to the deficiency of primary commodity trades in earning enough capital resources. Mention will be made on the attempts to surmount the value gap through imports substitution the development of domestic manufacturing industry. As there are always exceptions, mention will be made about the countries for which particular raw materials made them capital resource abundant- Like the oil abundant exporters of the Middle East or Botswana and its diamonds.

## **2.4 The Phenomenon of Development**

The quest for development is a never ending challenge and more so for any thin between four-fifths to five sixths of the countries of the world. It is a however a challenge that preoccupies all countries. The countries of the world are at different levels of economic attainment, a fact which has bred multiple forms of classifications some broad some narrow. And the factors which have led these countries to the different stages of economic attainment are in some cases similar and in other cases very different.

The countries with the highest form of attainment appear as the standards toward s which the rest of the others are striving for and have been doing so with varying fortunes, some successfully, others with mitigated results, and others are still striving. But the quest for attaining those lofty economic heights are alive as ever ; the discomfort of dire economic conditions only fuel the quest for a better more comfortable one- naturally enough. Besides, no society wants to be left behind.

Development, when you see it you know it; when it is not there you can see that but it is possible that the reasons given to explain the lack of development in one land are precisely



the same reasons which played a decisive role in spurring economic development in other lands.

## **2.5 The Broader dimensions of Development**

Development definitely involves economics, but is it not solely about economics. It is true that almost every thing is built around the economic system. And while this gives the impression that the economic system holds everything together, the truth may lie far away from that apparent construction. It is that *everything* built around it that holds the economic system together. The apparent genitor is the progenitor, the apparent protector, the protected. The economic component of development, constituting the more obvious part is still just part of it—more than the tip of the iceberg of course. But ignoring the broader historical and socio-cultural dimensions, when confronting the development issue leads to the omission of vital components for analysis. Economics itself is not supposed to be an exact science, more so for the phenomenon of development which very often is been subject to mathematical, econometric and other quantitative treatment to measure its presence and absence or to predict its advent or its not happening. Such a segmental approach makes development problems appear like a malaise whose cure exists but cannot be found because the diagnosis has been flawed.’ Resolving problems to achieve development is a much more complicated task than some economists would lead us to believe. Increasing national production, raising levels of living, and promoting wide spread employment opportunities are all as much a function of the local history, expectations, values, incentives, attitudes and beliefs, and institutional and power structures of both the domestic and the global society as they are the direct outcomes of the manipulation of strategic economic variables such as savings, investment, product and factor prices, and foreign-exchange rates.’ [3]

But there is no doubt that economic development provides a powerful engine for the social transformation of society that leads to social development.

## **2.6 The Nomenclature of Development and misnomers**

### **2.6.1 The Problems of Country Classification**

Even the task of classifying the different countries according to their standing on the economic development league table has not been easy. Most the time the classifications have not been appropriate qualifications as they too often place some countries in wrong places be it geographically or economically. In some cases the classifications sound insulting and humiliating to many countries and probably embarrassing those using them.

References like the first, second, third worlds, advanced and intermediate and backward economies, mature economies, emerging economies, developed, developing, less developed, underdeveloped, rich , poor, north , south, high income middle income low income, high GDP, low GDP and more have been used to classify countries according to the state of economic attainment.

Today the levels of economic attainment among the countries of the world do differ greatly. The terms developed and developing are used to regroup countries with similar more or less development characteristics- The Gross Domestic Product, GDP, The Gross Domestic Product per head GDP per capita, the Gini coefficient of income distribution or the Human development index ( HDI).

The number of countries in the developed group is smaller and the and in terms of the characteristics they exhibit they are more or less similar. The group that is generally known as developing group very large and the countries which constitute it are very dissimilar, and at very different stages of the development process.

### **2.6.2 Issues with the use of GDP per capita**

One of the complexities of the nomenclature is that for most of the countries economic measurement has most often been the basis for the classification.

Taking the high GDP per capita classification for example, there are countries with high GDP per capita but which are still not considered developed as they do not possess a self sustaining economy with a diversified industrial and predominantly tertiary and quaternary base. Many have attained a high GDP per capita through the extraction and export of natural resources but their economies are still heavily dependent on the primary resource sector as is the case with petroleum exporters from the Middle East, Brunei, Trinidad Tobago, Equatorial Guinea or Nauru with its phosphates extraction. There are also some which have attained high a GDP per capita through earnings from tourism but their over dependence on this sector makes their economies vulnerable to the seasonal swings in tourist activity. These include the Bahamas, Barbados, Antigua and Barbuda, and Saint Kitts and Nevis. Such countries, without having successfully established a diverse industrial and service based economy have yet to be conferred with the developed status.

### **2.6.3 Commonly used Terms to denote high economic attainment**

To designate countries which are considered to have attained high levels of economic attainment terms with an economic connotation such as advanced countries advanced economies, high income countries, high GDP countries, high GDP per capita countries,

industrialised nations, developed countries, more developed countries, more economically developed countries, have been frequently used. Other terms like First World, Western countries, the West, The North, were used to confer a high ranking to countries in terms of their attainment in economic development. In the table below is the group of countries generally agreed upon as developed countries, territories or city states. They are grouped according by continent starting with the Americas then Asia, Europe and Oceania.

**Table1: Developed Countries**

Country	GDP per Capita PPP	Country	GDP per Capita PPP
Bermuda(UK)	69,900	Germany	31,095
Canada	35,494	Greece	25,975
United States	43,444	Iceland	40,277
Hong Kong, China	38,127	Ireland	44,087
Israel	30,464	Italy	30,732
Japan	32,464	Liechtenstein	54,000
Macao, China	28,436	Luxembourg	80471
Singapore	32,867	Monaco	30000
Korea, South	23,926	Netherlands, The	35,078
Taiwan Province	30,084	Norway	43,574
Andorra	38,800	Portugal	22,677
Austria	36,031	San Marino	34,100
Belgium	34,478	Slovenia	23,843
Cyprus	29,105	Spain	27,522
Denmark	36,549	Sweden	34,409
Faeroe Islands	31,000	Switzerland	37,369
Finland	34,819	United Kingdom	35,051
France	30,693	Vatican City	N/A
		Australia	32,938
		New Zealand	25,531

Source: Wikipedia, based on IMF and World Bank and World Fact Book information

#### **2.6.4 Commonly used terms to denote low economic attainment**

And for the rest of the world terms with economic connotations like underdeveloped countries, less developed countries, least developed countries, developing economies, emerging economies, low income countries, low middle income, and upper middle income countries. Other terms include the South, the Second world for the then USSR, Third World.

Using the South would include Australia, New Zealand and Singapore which are usually referred to as the North! The term the Second World has since vamoosed since the dissolution of the Soviet Union. Some of the countries of the former Soviet Union are now part of the OECD and the European Union, so even to use the term former Soviet Union countries will

be problematic. As for the Third World, one of the many questions about the essence of its use is the disappearance of the Second World. However as far back as in 1984 authors like Nigel Harris were already talking about the end of the Third World. The Third world which became a powerful blanket term was first used by Alfred Sauvey in 1952. When it became a commonly used term about ten years later, it was used to signify the emergence of a third way or a third force, a political alternative to the Capitalist and the Communist blocks at the time, and not the majority of the worlds poor. And it was mainly used by radicals. The term zigzagged its way into economic diction via its use to ascribe the new and fledgling economies that were emerging at the time. According to Herman Schwartz “The Third World was a collection of countries with disparate, sometimes desperate, strategies for confronting the key economic problems raised by the emergence of the assembly line, the motor vehicle, and the Keynesian revolution after the world wars I and II” [ H. Schwartz, States Vs Markets p. 260]

It proved so successful that even after the disappearance of the second world it is still used; but then to classify the countries on what basis? “The Third World included countries as diverse and unlike as Brazil and the Maldives Islands, Togo and Taiwan, Kuwait and Indonesia. The opacity and uselessness of the Third World as a concept made its survival remarkable...If the grouping had once made sense as a classification for most agricultural exporters, by the 1970s it did not. By then, many so- called Third world countries had become exporters of manufactured goods” [ H. Schwartz, States Vs Markets, p. 259]

### **2.6.6 Transitional Economies**

In between the classification of developed and developing categories we find countries which fit into the newly industrialised country category or countries high income petroleum exporting countries. Formerly the term newly industrialised countries NICs had been used to classify Taiwan, Singapore, Hong Kong and South Korea. Today it is used to refer to countries like South Africa, Turkey, Malaysia, Thailand, the Philippines, Brazil, India, and China.

The NICs are countries which in macro economic terms are undergoing rapid, usually export oriented, growth. Other common futures they share are: recipients of strong capital investments from abroad, do possess large national corporations operating in many countries abroad, have increasingly open market economies engaging in free trade, are operating a progressive shift from the primary to the secondary and tertiary sectors, exercise political leadership within their sub regional spheres.

There are several countries which are classified as high income group but which are not referred to as developed. Most of these are the high income petroleum exporters many of which are actively seeking to diversify their economies away from dependence on the petroleum sector. They include Saudi Arabia, Qatar, Kuwait, Brunei Darussalam, and Bahrain.

**2.7 The OECD Line**

Twenty four countries today make up the high income OECD group. The term developed is attributed to them apparently without ambiguity. Therefore an imaginary line, on and above which a country is considered developed and below which a country is considered as developing or not developing, does exist but without explicitly saying its name: The OECD line. As a tacit acknowledgement of its existence, in country classifications regarding the state of economic development, rightly or wrongly portrayed today, the so called developed countries are the ones with economic similarities to the OECD twenty four.

**Table2: The OECD 24**

Australia	Greece	New Zealand
Austria	Iceland	Norway
Belgium	Ireland	Portugal
Canada	Italy	Spain
Denmark	Japan	Sweden
Finland	Korea, South	Switzerland
France	Luxembourg	United Kingdom
Germany	Netherlands, The	United States

Source: World Bank, *list of economies April2007*

**2.8 Using the terms ‘Developed and Developing’**

In the text the terms developed and developing will be frequently used given that they are the ones most commonly used to characterise a country’s state of social and economic development.

However development is a discontinuous step like process and without a finite point. At every stage of development countries, economies or regions must always strive to preserve the achievements already made. This means constant improvement or innovation and continuous investment in research and development- R&D. Where economies fail to improve continuously they face certain decline. Development does not exclude dependence. No matter how ‘highly developed’ a country may be it will still depend on other countries for its imports, external markets for its exports or investment outlets abroad for its excess capital and

so on. In fact the higher a country's economic attainment the more dependent it gets on the global economy.

### **2.8.1 The Continuum of Development**

Countries of the world of the world undergo their economic and social development different paces. At any given time the countries of the world are found in a continuum of levels of development. 'There is a continuous transition between levels of development. The developing world is thus as much a concept as a place. It has a core but no boundaries. It has a beginning but no end. Whenever one draws a boundary it must be arbitrary and it must enclose a range of internal differences [E S Simpson, The Developing world: An introduction, 1987, p 5]'. So both within an economy and at the level of the global world economy development is a discontinuous process.

### **2.8.2 The Scope of Countries in focus**

As the analysis paper will focus basically on the late development, the countries in focus will mostly be those in Central and South America, Africa and Asia, which were striving to emerge as politically and economically viable states in the twentieth century. Among these countries, some were never really colonised, some had been colonies and had become independent in the nineteenth century, and most of them became independent states after 1945.

The late development exhibited by these countries will be viewed from the following angle:

- they were entering late into international trade as autonomous states,
- they were mostly primary commodity exporters and abundant in one or more natural resources, and
- had directly or indirectly been a theatre to one of the series of conflicts of the major geopolitical struggles after 1945.

Most of these countries today are found in the low income and lower- middle income economies classification of World Bank Group. As for the developed countries they are all situated in the situated in the high income group even though not all of the countries in the high income grouped have been conferred the 'developed' trade mark

The plethora of terminology of course displays tireless efforts in the search for a satisfactory ranking of countries according to their state of economic development vis-à-vis the developed group. Given the disparity of all the countries their different levels of economic attainment, and their peculiarities, trying to classify them might need as many terms as there are

countries. The inaccuracies in the terms make a working definition difficult but to find accurate classification is certainly not easy other wise one would have been found. The most certain thing will be to refer countries individually in their respective names and the state of development analysed according to their potential. There are less than 200 countries in the world today. If the thousands of languages in the world today can be recognised for what they are, then it should be possible to respectively recognize the less than 200 countries of the world for what they are one at a time.

## **2.9 Characteristics of ‘developed’ and ‘developing’ countries: another look**

This section will look at the most commonly mentioned characteristics of ‘developed’ and ‘developing’ countries and juxtapose it with another set of characteristics with that might look banal but all the more significant. The most commonly cited characteristics are the more obvious ones and are most often mentioned in most discourses in academic, governmental or developmental organisational circles.

### **2.9.1 Commonly cited characteristics of Developed Countries**

As for the developed countries they for most part cited as having high incomes and a high human development index (HDI), highly performing secondary sector, the dominance of tertiary and quaternary sectors, predominantly exporters of finished goods, well established social, political, legal, an economic institutions; most have a favourable international standing-commercially, politically or militarily or all three.

### **2.9.2 Commonly cited characteristics of Developing Countries**

Regarding developing nations, most often cited common characteristics are, amongst others, low levels of incomes-low Gross national income (GNI) low GDP, low GDP per capita, skewed income distribution, low HDI levels, low levels of productivity, high rates of population growth, high dependence on the agricultural sector and the export of primary products, fledgling social, political, legal, and economic institutions- malfunctioning domestic markets, low transparency and accountability; an unfavourable standing in international relations especially commercially and politically.<sup>[4]</sup>

In addition to the above characteristics and to be in sync with the themes in the paper, two other sets of characteristics will feature below.

### **2.9.3 An Alternative Characterisation of developed countries**

The countries in the developed group share some or most of the following

- Many had a long history of consistent statehood dating at least five centuries ago, headed by monarchs or emperors; had been integral parts of the those centuries old states or had become republics by the sixteenth century
- Many had been successful empire builders, or had emerged as successors of once predominant empires
- Many became the hub of a colonial regime at its height in the late nineteenth century
- Had long trading and seafaring history, with trading posts in far flung lands
- A number of them have been literal extensions of the others for example the UK- and Bermuda or the former dominions- Canada, Australia and New Zealand
- And the rest which did not share these characteristics have been groomed by at least one or more of the countries which do or have been closely associated with them. Countries which fall in this category are not many and they are not many- Hong Kong, Taiwan, Singapore , South Korea and a few more
- Most of them are OECD members.

### **2.9.4 An Alternative Characterisation of developing countries**

And the countries in the developing group do share some or most of them other the following traits

- Were inhabited by ancient populations but are relatively new states- most of them states that were carved out as colonial possessions, and often not along the lines of formerly extant indigenous states
- Been under a colonial regime or under domineering external influence
- Have not been empire builders, nor had any colonies
- Most had been at the Bandung conference 1955 which later led to the formation the non- aligned movement in 1961. Most of them are still part of the non aligned movement, and the Group of 77 ( actually 131 members)<sup>[5]</sup> .

Highlighting these differences which look banal is important for the peoples in general and the policy makers in particular from both the developed the developing countries. It is important to realise that development goes far beyond the economic principles or sound economic and political practices; that it does not just happen overnight; that development



struggles may prove intractable but not necessarily a curse or a fatality, that the economic development of reference today is largely a complex construct whose internalisation will require a lengthy and profound socio-cultural, economic and political transformation.

The number of countries with the developed status is very small compared to the number of countries that make up the world today. This has been so for many decades over which the lack of development problem had also persisted. So there must be other reasons why it has been so difficult for development to catch on. The focus on the economic parameters might not be enough.

## **2.10 Working definition of Development**

Development can be defined as the process of improving the quality of human lives involving three equally important aspects: raising peoples levels of living-their incomes and consumption levels of food, medical services, education etc- through relevant economic growth process; creating conditions conducive to the establishment of social political and economic systems and institutions that promote human dignity and respect, and by enlarging the range of people's choice variable as by increasing varieties of consumer goods and services. [6]

Development implies a qualitative change in the way the way the society carries out its activities, exhibiting more progressive attitudes and behaviours by the population, the adoption of more effective social organisations or more advanced technology which may have developed elsewhere. Its can be perceived more in subtle aspects rather than the material aspects which usually accompany its presence. Development is a process and not a program. Though discontinuous it is never ending. It involves not just economic development but also social development as well.

### **2.10.1 Economic Development**

Economic development entails a self sustained increase in living standards evident in an increase in incomes, better education and health as well as appropriate environmental husbandry. It results in the increase of the economic wealth of nations or regions and the well being of their inhabitants. Visible in the process are conditions which enable the sustainable generation of capital and provide incentives for investments and innovations leading to efficient production and distribution systems for goods and services.

## **2.10.2 Social Development**

Social development is a process which results in the transformation of the social structure in a manner which improves the capacity of the society to fulfil its aspirations. Economic, cultural systems, legal political and other traditional systems, constitute the edifice of social structure. Social development as such must encompass survival, growth, progress and evolution.

In the text the term development will frequently will be associated with the words social and economic but otherwise development will be understood as embodying both the social and economic dimensions.

### **Summary**

Development is a complex process which goes beyond just economic development. It has its social, cultural and historical dimensions. Development can be perceived, yet it is elusive and the paths which countries have taken towards it are varied. But development is certainly proven to be a gradual and discontinuous process which can be enhanced or retarded by external influences. For it to thrive there is a need for sufficient economic resources to accompany it. Countries are always at different stages in the development process and so it is hard to come up with a definite economic measure which can capture the exact state of a country's level of development. That is evident in the plethora of terms that have turned up and then phased out or nomenclature that are misnomers. However for the purpose of the present exercise we will employ the terms developed and developing to group countries according to their level of economic attainment given that these are the most commonly used terms. Meanwhile it is clear that no matter how high a country's level of economic attainment may be it will still depend on other world economies. The working definition of development in the text will be understood as a process in which the quality of human living is improved and the use of the term will be associated with its economic and social dimensions

## **3 Theories and Concepts**

The essence of this section is to introduce the mix of theories and concepts that will be feature in the discussions in the different chapters and sections. The subject matter discussion comprises different facets and is of such a magnitude as manifest by the plethora of theories it has spawned as well as the number of concepts which have been involved in the bid to explain or understand the phenomenon. An attempt will be made to connect them

### **3.1The Theory of Comparative Advantage Revisited**

Given that revenue through trade was a major option for the newly form states to earn revenue necessary for launching their economic development it implied that they had to export the commodities which could produce most efficiently. Revenue from this trade would procure for them the goods which they need but could not produce- both consumer and capital goods- as well as enable them to generate surplus revenue.

The overall process was supposed to lead to the creation of wealth – sufficient to cater for enhancing productive capacity through investments which generated quick returns as well as vital socio-economic investments with a substantial lag in returns if any.

#### **3.1.1 Assumptions of the Theory of Comparative Advantage**

According to the Theory of Comparative Advantage propounded by David Ricardo as an edification of Smiths Absolute advantage, trade would be beneficial for countries if they concentrated on the production goods in which they were most efficient and cost effective

Therefore a country should concentrate on the production of goods in which it has a lower opportunity cost compared to that of its potential trading partners of partners. Referring to his examples with two countries (Portugal and England) producing wine and cloth, the country which could produce cloth at a lower opportunity cost than wine should concentrate in the production of cloth. The opportunity cost is here employed given the difficulty in comparing production costs across countries. The opportunity cost is the foregone alternative, in this case the amount of wine that has to be given up in order to produce an additional unit of cloth.

To accompany the theory the following set of assumptions were made

- Two countries producing two goods
- Homogenous goods i.e. identical goods
- Perfectly mobile factors of production

- Not transportation costs
- Constant costs and no economies of scale
- Perfect knowledge at the disposal of buyers and sellers
- No tariffs and other trade barriers

The assumptions were of course necessary in order to simplify real world conditions and to highlight the insights that the theory proposed to demonstrate. In the real world these condition can hardly be fulfilled.

This notwithstanding two striking results can be derived from the principle of comparative advantage. First claiming technological superiority is not sufficient to indefinitely maintain production of a good in free trade. A country must possess comparative advantage and thus in this regard a country with a less favourable technological position can still compete with a country having a more performing technological capacity for as long as it has the comparative advantage in the production of the tradable good. The second, for as long as a country possesses comparative advantage for the production of a good in one industry, low wages in that same industry in another country is not sufficient to a decline of the former country's industry through free trade between both countries.

### **3.1.2 Re-Interpreting the Theory of Comparative Advantage**

One of the idea axis on which this paper runs has to do with the disparity of the good that were traded between the countries- not in good types but the nature of the good themselves.

Not only has the theory of comparative, though simply stated been difficult to grasp because of it s counter intuitive nature, it has very often been grossly misrepresented. A fact which has been largely ignored, as demonstrated by the examples used in numerous texts, is the nature of the goods that Ricardo used in his example. Of Ricardo's set of goods to be traded, cloth and wine, we find goods of the same calibre: goods which had been transformed from raw materials into finished goods-Cloth (bales of wool) weaved from the sheep's wool and wine pressed from the grapevine of the vineyard. So it was not primary good against finished good. It was finished- good against finished- good. The transformation process entails cost which is reflected in the prices – valued added on the original raw material. Furthermore, regarding the assumption about identical goods being produced in the two countries, it can be deduced the countries must have a comparable productive capacity, in which case trade between the countries would be rather beneficial for both than detrimental to one.

### **3.1.3 The Relevance of the theory of Comparative Advantage**

So exchanging manufactured good for primary products, between countries with dissimilar productive structures, as it happened in the between industrialised and the non industrialised countries, flawed or flaunted the basis of the theory of comparative advantage. Rather than generating beneficial trade, this exchange was a negation of what the theory of comparative advantage stood for. Under the comparative advantage free trade is supposed to result in efficiency in production and consumption. So Ricardo was right but the practice was wrong. This kind of trade had nothing to do with comparative advantage, but differences in country endowment of natural resources. “Market prices tend to be fixed not in terms of value but of price of production”[ Celso Furtado, Development and Under Development 1971].The markets could not satisfactorily equate the prices because incomparable cost levels happened on the markets, running at parallel planes, one high, one low. The trade deficits and falling revenues faced by the primary product exporters could only be but natural, and the attempts at stemming the persistent decline in export earnings, through import substitution, were a realisation of this trade defect. With the mitigated results from import substitution, the decline in earnings could not be reversed and the search for capital from external sources resulted in heavy borrowing and the adverse effects that followed. The latter themes will be explored in subsequent chapters and sections.

## **3.2 The Harrod Domar Model**

The reason for introducing the Harrod Domar model has to do with the central role of savings and investment to all the theories of growth and development

### **3.2.1 The Incremental Capital Output Ratio ICOR**

The Harrod Domar Model states that national rate of growth- the growth of the Gross national product- is the product of the ratio of savings to the national income and the national capital-output ratio. The capital output ratio refers to the amount of capital investment required to produce a unit of output. The Capital out- put ratio eventually came to be known as the incremental capital out put ratio ICOR bases on the premises that further investment on investment would lead to further increase in output and so ploughing in the country’s savings would lead to self sustaining economic growth. However provision must be made for the increase in population. The growth of the income per capita must more than compensate for

the growth in the population in order to cater for redistribution of national income so that the pace of development does not slow down stagnate or regress.

### **3.2.2 The Incremental Capital Output Ratio and Rate of Return**

The development drive involved heavy investment which necessitated a considerable savings capacity for those countries. As shall be seen further, the newly established states undertook vast arrays for investment projects which involved a high ICOR- infrastructural developments in transport, public utilities such as water and electricity, energy industries and some heavy industries, social investments in health and education. However given the slow rate of return in out which characterise these investments it was not easy to generate the saving which could be used for further investment on these investments so as to maintain a self-sustaining growth.

The differences in the ICOR and the return times represent a crucial element in choice of investments and a major challenge in the effort to strike a balance between the quick return investments and vital social and infrastructural investments with slow returns.

The capital output ratios also differ from sector to sector and are not static- they keep changing over time. During instances of a major structural transformation and the emergence of new values, attitudes and institutions, significant changes in the capital output ratios do occur. Changes with a country which involve the move from subsistence agriculture to commercial farming, from small traditional industries to huge factories supplied by power stations, from rudimentary transportation modes to rail roads and highways, the ICOR for each of the activities will change at a different pace and in different ways. In the manufacturing sector, additional investments which lead to an increase in size will produce increasing returns due to economies of scale. This will in turn lead to a lower ICOR.

### **3.2.3 The Incremental Capital Output Ratio in the Primary Sector**

When it comes to primary production activity such as the extraction of mineral resources, forest exploitation or the use of land in agricultural production, increasing investments produce diminishing returns and increasing ICOR. This factor was important for most of those newly emerging states whose productive capacity had been built around the primary export trade pattern –a vestige of the colonial times. In self-sustaining economies characterised by continuous development, capital can be reallocated continuously as new investment opportunities arise. This flexibility ensures that specific capital output ratios and national ICOR remain low [1]. In primary industry dependent economies where the resource base diminishes as soils are over-utilised, mineral resources are exhausted and forests are

cleared for export activities, there is inherent inflexibility which produces a high ICOR. This inflexibility is also manifest in cases where industrialisation proved unsuccessful as with the attempts at import substitution industrialisation.

With the characteristic inflexibility in primary sector activity, diminishing returns and the high ICOR that this generates, it makes sense to orient investment towards activities where inputs of capital and labour are more significant than natural resources and where scarce capital could be used more effectively [2].

### **3.2.4 Growth Models and Capital Efficiency**

The Harrod Domar model, the ICOR, as well as all the other growth models, emphasise the effective use of capital. Therefore the capacity for the economy to generate capital for investment is vital. Earnings from trade if substantial enough to produce a steady surplus will constitute an important source of capital accumulation. The incapacity to generate capital internally or through export revenue leaves the drawing from external sources as the only other alternative. This could come as aid, concession loans or borrowing on economic terms from the capital markets.

## **3.3 The Water Diamond Paradox or the Paradox of Value**

The Water –diamond paradox featured famously in Smith’s work *The Wealth of Nations*, even though others like John Locke, John Law and Nicolas Copernicus had pondered over it as well. Smith noted this in the following terms “Nothing is more useful than water, but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods many frequently be had in exchange for it” [Adam Smith, *An Enquiry into the Nature and the Causes of the Wealth of Nations*].

Water which is more vital for human survival has a low per unit price, whereas diamonds which little or no value to human survival has a very high per unit price. Consumption at the margin has been used to explain this paradox. Water which is highly abundant has a higher total utility than diamonds which are much more scarce and limited in supply. But marginal utility is what determines the demand. The higher is the marginal utility of a commodity, the higher the demand for it and the higher its price per unit. Due to its abundance, water faces a rapid diminishing marginal utility whereas with diamond it is insignificant. Goods are sold on an incremental basis so the additional satisfaction which is the marginal utility, determines the

demand price. So with its low marginal utility, the price of water low, while diamonds with their high marginal utility command a high price.

### **3.3.1 Value disparity in the trades of Agricultural Products, Diamonds and Petroleum**

At various times in the nineteenth century and especially in the twentieth century when agricultural food exports such sugar cane, bananas, cocoa, coffee experience falling prices, crude oil and diamonds enjoyed steadily rising prices. A combination of a steady demand, scarcity and cartel price support kept the prices of oil and diamonds high while technological changes, glut, falling terms of trade and the absence of cartels caused the prices of agricultural forest and mineral products to fall.

While the trade in most primary exports has not contributed towards the generation of a surplus for capital accumulation, some have. Primary product export has proven to be a fatality in every case. The richly petroleum endowed primary exporters of the middle east and Botswana the diamond exporter have been able to generate surplus earning while the exporters of primary agricultural goods, forest exports and other minerals have been unable to experience the same. Has it got to do with value disparity? If so why have all the other diamond or oil exporters not been able to enjoy the same? Or has it got to do with the stability of prices, demand or internal political instability?

### **3.4 Dualism**

Dualism theories [3] assume a split of economic and social structures of different sectors so that they differ in organisation, level of development and goal structures... The traditional subsistence sector consists of small scale agriculture, handicraft and petty trade has a high degree of labour intensity but low capital intensity and little division of labour...the modern sector of the capitalist-intensive industry and plantation agriculture produces for the world market with a capital-intensive mode of production with a high division of labour. The two sectors have little relation and interdependence and develop each according to its own pattern. The modern sector can be considered an enclave of industrial countries and its [multiplier] and growth effects will benefit the industrial countries but have little effect on the internal market...Economic, technological and regional dualism are often the consequence of a social dualism...which in many cases is a legacy of colonialism. [Boeke, Eckhaus] [4]



### **3.5 Circular Deterioration of Terms of Trade**

The structure of Demand and supply is such that the industrialised countries offer industrial products and [purchase] raw [materials] and the developing [countries] do the reverse. According to Engel's Law the demand for raw materials tends to be inelastic while the demand for industrialised goods is elastic. The technological progress in the production of [industrial] goods not only makes it possible for industrialised countries to increase their incomes and thus [their] standard of living, but because of the elastic demand on the world market, also enforce higher prices. The situation in the developing countries is the opposite: technological progress in primary production results in lower prices because of the inelastic demand. This mechanism leads to deteriorating exchange relations between industrialised and developing countries [Prebisch][5]

### **3.6 Immiserizing Growth**

This theory follows the argumentation of the theory of the circular deterioration of terms of trade and concludes that countries, in order to improve their balance of trade have to increase their exports to compensate for falling prices. This means a further deterioration of terms of trade. The unchanged structure of supply intensifies the structural dependency and regardless of growth, there is no development but only 'immiserizing growth'. This situation is especially pertinent for countries with agrarian monoculture [Bhagwati] [6].

### **3.7 Theories on Multinationals**

The Multinationals, as source of capital accumulation, they also participated in economic activity that shaped the trade patterns of the countries the developing countries. The overarching nature of their global reach invited a lot of scepticism while at the same time their prowess on the ground as motors of economic activity was incontestable.

As the intense debate about the impact on MNCs in the developing world raged on, vast literature developed for and against the soundness of MNC activities. Some of them extolling their beneficial effects, others, very critical.

The table below shows the four main approaches and their main proponents

**Table 3 Theories on Multinationals**

	<b>Pro MNC</b>	<b>MNC Critics</b>
<b>Non- Marxist</b>	<b>Neo.classical</b> ( <i>Reuber, Meier, Vernon, Rugman, Balasubramayam</i> )	<b>Global Reach</b> ( <i>Barnet and Muller, Streeten Lall, Vaitsos, Halliner, Newfarmer</i> )
<b>Marxist</b>	<b>Neo-Fundamentlist</b> ( <i>Warren, Emmanuel, Schiffer</i> )	<b>Neo Imperialist</b> ( <i>Baran, Sweezy, Magdoff, Girvan, Frank</i> )

Source: International Political Economy (1996), **Rhys Jenkins**, *Theoretical perspectives on the transnational corporation*, 1987

**The neo-classical** views saw the existence of MNCs as a response to market imperfections and regarded them as efficient resource locators. They held that if because markets were not operating freely MNCs were constrained to implant themselves internationally in order to internalise country markets. As such they could offset problems of uncertainty in the market for intangible assets, take advantage of economies of scale in order to offset the slow returns investments that needed long maturity times, avoid government intervention, contravene trade barriers, capital movement restrictions and differences in tax rate across countries [7]. So they exhorted policies which encourage a favourable investment climate for MNCs

**The Global Reach** proponents emphasised the oligopolistic nature of MNCs and stress that foreign investment was more than just a mere conduit for resource flows but an integral part of the strategy of oligopolist firms in avoiding anti-trust restrictions. With privileged access to capital and raw materials, control of technology and marketing through advertising and product differentiation, they exercised considerable oligopolistic market power- a negation of the principle of firm atomicity in neo-classical theory where firms are subject to prevailing market conditions. The Global reach writers took an opposite view of their neo-classical counterparts regarding MNCs as agents of global efficiency by overcoming market failure. They considered the oligopolistic strategies of MNC as generating market imperfection and hence a reduction of efficiency [8]. They advocated the need for state control of MNCs.

**The Neo- Imperialist** approach can be traced back to classical Marxist writings on imperialism. At the time when the Third World connotation was in vogue, as the blanket

connotation for developing countries, the Neo- imperialist writers viewed MNCs as a major obstacle both to development and the drive towards socialist transformation in the Third World. It was based on the premises that economic surplus in form of mass profits and the simultaneous limits imposed on capital accumulation to avoid the creation of powerful cartels and trusts, pushed capital to seek outlets abroad. They saw the use of foreign investment through the extension of MNC activities in developing countries as a means of creating these capital outlets. They downplayed the rivalry between the capitalist poles- the US Japan and western Europe – and linked the foreign capital from these sources to underdevelopment- contributing to the “blocking of development”[Samir Amin 1977] or “the development of underdevelopment”[ A G Frank, 1969]. They associated MNC activity with three principal vices- siphoning away surplus from the underdeveloped countries depriving them of the necessary resources for economic progress, indiscriminate extracting of raw materials, partly to the aggravation of balance of payment problems that beleaguered the those countries. [9].The neo-imperialist saw the complete break out of the capitalist system through socialist revolution as the sole alternative for transcending underdevelopment. Such a stance was sure to provoke the hostility of the MNCs and their home governments.

**The Neo – Fundamentalist Marxists** lay claim to Marx’s view that the replacement of pre-capitalist structures with structures that permitted capitalism to flourish was a progressive impact of imperialism. They argued that the impact of the MNCs was overwhelmingly positive in that it represented a progressive activity through which capitalism would later on lay the material foundations for the creation of a socialist society. MNCs were regarded not as the cause of underdevelopment per se but rather capitalism as a whole. They were keen on making a clear distinction between anti -MNC rhetoric exploited by the local bourgeoisie to their advantage and true anti-capitalist struggles.

The role of Multinationals in world trade, their impact in the flow of trade and direct foreign investment will be returned to in subsequent sections of the paper

### **Summary note the use of theory**

Where appropriate, the above theories and concepts have been integrated into the analysis. In areas regarding the short fall in international trade expectations the theory comparative advantage or theory of deteriorating terms will feature. The incremental capital output ratio ICOR will be frequently mentioned, in relation to investments in massive development projects with slow rate of returns. The concept of immiserizing growth will might frequently appear in the terms ‘growth without development.’ The Dualism theory will be manifest in issues of parallel economies within the same economy one extrovert and not in sync with the

national economy—as in colonial era plantation economies or multinational economies. The water- diamond paradox or the paradox of value will relate to issue of the nature of primary export commodities or natural resources and the differences in the prices, their demand their relative scarcity or revenue earning capacity Multinational theories with appear in issues of short fall in international trade, capital accumulation, transfer of value added and dual economies.

## **4 The Expectations of the International Trade and the Economic development Non- Starter**

In this chapter the paper revisits the way in which new states and their economies integrating the international economic system proceeded; a way which prove to be a bad start and rendered their drive to economic and social development a fundamental non-starter.

### **4.1 The Search for Capital Resources through Trade**

The economies of the newly emergent states, now comprising an integral part of the world economic system and linked to it by trade, saw before them the possibility to pursue their economic growth and development. Depending on their natural resources endowment they could identify which line of production activity provided the most lucrative export opportunities – primary products from farm, forest, mine or wells, or a manufactured product. Revenues from these exports could then be used to procure consumer goods not yet produced at home, but most importantly the procurement of capital goods which could generated further productive activity, stimulate domestic demand and broaden the basis of the home economy. Not surprisingly the natural resource abundant countries opted for the primary sector specialisation strategy with the export of primary products. And with the dire consequences which were to follow given the very nature of primary products and the changing fortunes of world trade.

#### **4.1.1 Primary Export Promotion**

To follow the path of export –led development meant for most developing countries, the export of primary products such as sugar from Guyana, cocoa, from Ghana, tea from Ceylon, bauxite from Jamaica, copper from Zambia or rubber from Malaysia. The primary products exported often accounted for a very high proportion of the exchange revenue which was earned. In 1960 for example, cocoa exports in Ghana accounted for 60 percent of the country's foreign exchange revenue. In Zambia copper represented 97 percent in 1979 and in

Nigeria before the growth of oil exports, cotton, groundnuts, cocoa and other crops accounted for 89 percent of such earnings. This meant that if the prices for these commodities fell the impact upon the national economy was dramatic. Home markets were usually too small to absorb the surplus production and to act as a buffer; fluctuations in world trade were thus felt immediately [1]). Table 4 below shows the structure of merchandise exports between 1960 and 1980. from the table it is evident that the developing economies most of them in low income and low middle income groups remained basically pursued the export promotion of primary commodities.

**Table 4 The Structure of Merchandise exports 1960 and 1980**

	Percentage of commodity exports			
	Primary commodities		Manufactured Goods	
	1960	1980	1960	1980
<b>Low in come economies excluding China and India</b>	<b>91</b>	<b>71</b>	<b>9</b>	<b>29</b>
<b>China and India</b>		<b>50</b>		<b>50</b>
<b>Low middle income*</b>	<b>96</b>	<b>82</b>	<b>4</b>	<b>18</b>
<b>Upper middle income*</b>	<b>84</b>	<b>55</b>	<b>16</b>	<b>45</b>

*Source: World Bank Development Report 1983*

*ES Simpson*

\*Primary exports include the oil exports from major producers except Libya, Kuwait, Saudi Arabia and the United Arab Emirates which are classified as high income

#### **4.1.2 The Downside of Primary Export Promotion**

The primary export led policy had a number of difficulties. First over a long period of time the value of raw materials relative to manufactured products tended to decline with the effect that primary products would increasingly buy less of manufactured imports in exchange. This sort of holds back the rate of development.

Secondly agricultural harvest is marked by the favourability of weather and climate. In times of shortage agricultural producers of similar commodities saw this as emerging market opportunities and ended up competing with each other in commodities with inelastic demand. Supply shortages led to the development of substitutes like synthetic rubber. Technological development in manufacturing in many cases led to an increase in one raw material say tin, at the detriment of another say copper, thus affecting the country that was copper export dependent. The very nature of agricultural production made it difficult to react readily to

changing market conditions. It was not possible for example in the short run to cut down a coffee plantation and replace it with a tea plantation even if that were environmentally possible. An iron mine and its equipment are designed to produce iron ore. This lack of flexibility in alternative output made primary producers vulnerable to the vicissitudes of the world market especially as they had markedly undiversified economies.

### **4.1.3 Declining Terms of Trade for Primary Products**

The prices of primary products tend to be more sensitive to global economic downturns and usually fall more decisively. “.. From 1928 to 1933, export revenues for the 41 largest primary product exporters fell 50 percent” [Herman M Schwartz, *States Vs Markets*, p. 161] [2]

The income spent on food and food imports experienced a steady decline as industrialisation and the levels of income increased in Europe and America. Growth in the exports from primary commodity producer countries followed the growth in the total population of the industrialised countries but at a very slow rate. “The demand for food rises sharply in the early stages of development but the rate decreases once certain levels of real per capita income are reached. The demand for manufactured consumer goods shoots up when the rate of growth of food consumption begins to decline” [Celso Furtado, *1964 Development and Under Development*, p. 67]

The slower growth of demand for agricultural goods compared to that of manufactured goods led to declining terms of trade, making it harder for primary commodity exporters to import manufactured goods in the volumes to which they had become accustomed. The fall in the terms of trade which occurred from 1953 to 1973 led to economic stagnation in the primary exporter economies.

## **4.2 External Stimulus from Trade**

Given that the economies were operating in a world economic system with the characteristics of a free enterprise economy, growth phenomena were rather cyclical in form. As the price mechanism was subject to prevailing market conditions, the price inelasticity of their primary products and their relatively fragile position in the international market, meant that the decline in prices caused the physical productivity of labour in the export to accrue abroad.

In order for the processes of development started through external impetus to be self sustaining, the distribution of income generated from trade earnings is determinant. New investment usually follows the sectors where consumer demand exerts pressure on prices. The stimulus from abroad on the developing economies characterised by a large labour surplus was rather mollified. The structure of their export economies were organised in such a way

that revenue from foreign trade accrued to a small group with extroverted consumption tastes. Where the increase in income is expressed almost entirely in profit, the increase in consumer expenditure has little impact on aggregated demand and the formation of a domestic market. This is true of a mining export sector denominated economy where the workers represent but a minority of the larger populace and whose consumption needs are usually catered for by imports.

The more real wages increase the more diversified the demand, the more diversified the economy becomes and the more attractive it is for investments both internal and external. Without such a diversification, any surplus generated will remain idle. The application of income in consumer expenditure and investment generates the most widespread diversification of demand. Diversification of the economy's productive structure follows the diversification in the demand structure as higher levels of development are attained [18]. The potential for an economy to become diversified remains intact because there will always be a vast array of goods and services which cannot be imported. As Furtado states it "This explains why even economies that have evolved towards growing integration into international trade have gradually diversified their productive structures" [Celso Furtado, 1964 Development and Under Development, p.68]

Revenue formation through trade therefore would provide the economy with the margins necessary to initiate endogenous capital formation. Of course for the trade to have any impact it is necessary for there to be a possibility of profit creation by the commercial sectors which by facilitating accumulation and improved production techniques will lead to efficiencies and an increase in average social productivity. Moreover revenue from trade needs to stream in steadily over minimum duration necessary for the emergence of a diversified demand commensurate with the on going capital formation. The creation of a more dense and sophisticated economic structure with increasing productivity, rising real incomes and diversified demand generates new investment opportunities. Under such a dynamic process, the foundations for self sustaining economic are gradually laid.

The contraction of trade following the great depression or the recessions in the 1970s and their devastating impact on most of the developing countries was evidence on the importance of the role expanded trade in the development process. "If the impulse from abroad ceases when the average level of productivity is still very low, it is probable that the development process will be interrupted". [Celso Furtado, 1964, Development and Under Development, p. 65].

### **4.3 Minor Role in the Trade in Manufactures**

Much of the trade was in manufactures and this trade was predominantly between the N. America Europe and Japan- something which mutually added value creating and led to high trade revenues. The primary commodity exporters on their part not only had an increasingly smaller share of the world trade, they could not be part of the value adding trade in manufactures

#### **4.3.1 The Surge in the Trade in Manufactures at the opening of the Twentieth Century**

As long distance world trade, which was essentially associated with the industrial revolution spreading throughout Europe and over to North America increasing in its volume and reach, the new industries that emerged created the new resources which in turn created new demand and new markets for their products .’’ The great upsurge of colonial activity was very much associated with acquiring access to new raw material and new markets... In 1914 European countries accounted for around one half of the world’s export trade and some percent, by value of all imports. Much of this trade was between European countries. The developing countries played only a very small part in this world trade but it was a growing part. In 1900 they accounted for around 16 percent and in 1913 for 19 percent of the world trade...The trade of the developing countries had risen to 25 percent of world exports by 1938’’[E S Simpson, The Developing World, p. 128] [3]

#### **4.3.2 The Gradual Fall in Share in World Trade for developing countries between 1938 and 1970**

The participation of these countries in world trade experienced a steady increase after 1945 as the need for recovery in Europe stimulated manufacturing and trade. Decolonisation also gathered momentum and in the years between 1950 and 1970 almost all of the former colonially occupied territories had become states in their own right- states confronted with the challenges of self governance and economic development, and would carry on with the same trade pattern already established in the colonial era.

Industrial developments in Europe, North America and Japan created a new demand for raw materials. Some of this was due to technological developments such as those which created new uses for aluminium and thus a greater demand for bauxite and some due to the increasing



exhaustion of European mineral resources. The post war recovery led to an enormous increase in production in the industrialised countries, and to a big upsurge in trade. Much of this trade was however concerned with manufactured products. The nature of manufacturing was changing. Processing was becoming a larger part of input as products became more sophisticated. The relative contribution of raw materials fell away so that as total trade increased, that in raw materials, though it rose, did so by a smaller amount. In this trade in manufactured goods the developing countries were little involved. So as the world trade grew, and with it that of developing countries, their share of the trade total fell. From being 25 percent of world exports in 1938 and 31 percent in 1950 it had fallen to 21.3 percent by 1960 and 17.8 percent in 1970. In the developing countries as a whole the rate of growth of their trade was less than that of their Gross Domestic product. [4]

As we will see in chapter six, those countries which possessed valuable primary products in great demand did not experience this decline and adverse balance of trade. In the rest of the developing countries trade was thus even less buoyant. By 1970 Latin American countries demonstrated trade deficits and so did those of Asia; Africa was in slight credit and the Middle East showed a major credit balance.

The big growth in world trade has been, therefore, mostly in manufactured products and has been between the industrialised nations. In table 5 below shows the bulk of the exchange in world trade in merchandise in the 1980s, as having taken place between the industrialised market economies. They accounted for 63.2 percent of the total value of exports and 65.4 percent of the total value of imports.

**Table 5 World Trade in Merchandise 1981**

Country Group	Exports		Imports	
	Value (millions US\$)	Percentage share	Value: (millions US\$)	Percentage share
Low income (India and China)*	42,444 (29,624)	2.21 (1.54)	60,117 (36,567)	3.04 (1.85)
Low middle	98,497	5.14	122,588	6.21
Upper Middle-income	238,675	12.46	283,141	14.30
High-income oil exporters#	174,131	9.09	60,117	3.04
Industrial Market economies	1,210,104	63.21	1,290,415	65.45
E. European non- Market economies+	150,270	7.85	146,968	7.45

Source: World Bank Development Report 1983

ES Simpson

\*Figures for India and China are included in the low-income economy totals

# Libya, Saudi Arabia, Kuwait, United Arab Emirates

+ Includes the Soviet Union (formerly of)

As predominantly primary product exporters, their participation was therefore of a different kind and on a smaller scale.

## **4.4 Export Promotion versus Import Substitution Trade Strategies for Development.**

### **4.4.1 Export Promotion of Manufactures**

Export led development backed by manufactures was regarded as a vital means of obtaining revenue, compared to the primary product exports. Further more the production of manufactured goods would necessitate the establishment of industrial activity which when introduced would shake of the economy's dependence on agriculture and other minerals, provide more employment, and create better self sufficiency and efficiency.

Advocates of export promotion of manufactured goods cited the efficiency and growth benefits of free trade and competition, the importance of substituting large world markets for narrow domestic markets, the distorting price and cost effects of protection, and the spectacular success of the East Asian export oriented economies of South Korea, Taiwan, Singapore and Hong Kong. They stressed that firms in these economies did learn a great deal from firms in the US, Japan and other economies that had been their long term customers. [5]

#### **4.4.2 Import Substitution**

Advocates of import substitution believed that developing countries should initially substitute domestic production of previously imported simple consumer goods and then substitute through domestic production for a wider range of more sophisticated manufactured items- all behind the protection of high tariffs and quotas on these imports. They held that in the long run there would be benefits of greater domestic industrial diversification, and the ultimate ability to export some previously protected manufactured goods as economies of scale, low labour costs, and positive externalities of learning by doing cause domestic prices to become more competitive with world prices. The import substitution view predominated in the 1950s and 1960s. [6]

In the political context of newly acquired independence, the majority of developing countries sought to achieve some degree of economic independence in terms of industrial goods from industrialized countries. Some with the essential resource base attempted to lay the foundation of a vertically-integrated manufacturing structure and established capital intensive basic industries such as iron and steel, heavy engineering and heavy chemicals; others, the majority, sought to establish import substituting industries producing consumer goods essentially for the home market but also generating capital which could be used, where possible in backward extension of linkages through intermediate to basic industries. Import substitution appeared both from the political and economic view points to be the way to spear-head industrialization. [7]

Most of the developing countries employed both import substitution and export promotion strategies with varying degrees of emphasis at one point in time or the other. In the 1950s and the 1960s the inward looking industrialisation strategies of the larger Asian and central and South American countries like Chile, Peru, Argentina, India, Pakistan and the Philippines were heavily import substitution oriented. By the end of the 1960s Nigeria, Ethiopia, Ghana, and Zambia had begun pursuing import substitution strategies and some smaller nations in the Americas and Asia also joined in.

#### **4.4.3 The limited Success of Import Substitution**

Despite the good intentions surrounding the initiation into industrial methods, the development of production techniques through home industries did backfire in most cases. There was a great use of imported inputs, low priority industries were created such that while the output of home based products increased there was a commensurate loss in foreign

exchange hence defeating the very intentions maintaining a favourable balance of payments – investments were directed to the production of consumer goods rather than the establishment of capital goods industries – in the end it was not competitive manufactures for exports that emerged, but rather goods for domestic consumption in quantities which could not adequately satisfy domestic demand due to the expensive imported inputs. In Ghana for example in 1964 twenty- two out of thirty-one state industries not only failed to make a profit but achieved massive losses; in Chile the privately owned motor vehicle industry in the 1960s was not very efficient in its use of resources and in Pakistan inefficiency was present in a large proportion of industries. [8] However large countries like Brazil, India, China and Nigeria persisted with import substitution due to their large home markets which offered economies of scale to scale- sensitive countries.

By the mid 1970s the export promotion strategy was gaining an upper hand and was increasingly adopted by a growing number of countries. The early export promotion adherents- South Korea, Taiwan, Singapore and Hong Kong- were thus joined by countries like Brazil, Chile, Thailand and Turkey which had switched from an earlier import substitution strategy. Nevertheless even the most successful Asian export promoters have pursued protectionist import substitution strategies sequentially and simultaneously in certain industries.

## **4.5 Multinational Companies and Trade**

The role of the Multinational companies MNCs was polarising in light of the theories that were spurned expounding the pros and the cons. For some it was a response to market distortion. For others it was the enforcer of the domination of the periphery and by the core. For some it did create trade and for others it subverted and substituted trade at the detriment of the host countries.

### **4.5.1 The New Wave of Multinational Trade in the 1960s and 1970s**

As world markets gradually reopened up in the during the 1960s and 1970s MNCs were able to integrate their production flows on global scale by the 1980s roughly half of the trade of developed countries occurred within firms as part of their administration of globally oriented production plans. Scarcity in raw materials had driven the older forms of direct foreign investment (DFI). The new MNC wanted access to markets that were closed for political reasons and to take advantage of low cost high skills. By increasing inter-firm international

trade the rise of MNCs dispersed manufacturing activities globally. It also accelerated the diffusion of hard and soft best practice manufacturing technologies. International investment flows shifted away from portfolio investments towards DFI in which the investor could retain control of daily operations. Already by 1975 it was estimated that half of the world's trade was taking place within the multinational companies.

#### **4.5.2 The Regionalisation of Multinational Activity**

But the mostly US MNCs invested primarily in other high income countries, and not in raw material or in the agricultural producer countries. The MNCs were investing in leading sector products and production processes. "By the end of the 1980s direct foreign investment had created three rough regional blocs characterized by high levels of bilateral trade and investment flows and centred on the US Japan and the European community as [MNCs] sought to establish themselves in the three major blocs" [Herman Schwartz, *States Vs Markets*, p.244].

This regionalisation caused a profound change in the nature of international trade. Most of the newly emerging states were, of course, not located in those three major poles.

Countries outside the major pool then were mainly spectators to the huge trade volumes that were taking place and could not be substantial recipients of the capital accumulation and know how that followed the establishment of MNCs in a country. Since 1945 DFI in the high income countries accounts for about three quarters of total DFI [9].

#### **4.5.3 States and Multinationals**

With the new type of MNC that went for manufacturing processes, rather than the search for raw materials, the representation of MNCs in most of the raw material exporting countries was therefore relatively scanty. This was not helped by the expropriations which took place in the 1970s in the form of nationalisations. The potential for dispute between host governments fearful of foreign domination or neo-colonialism on the one hand and MNCs wary of nationalisation or a moratorium on remittance on the other was considerable. For example Nkwame Nkrumah of Ghana, claimed that foreign capital was used for "the exploitation rather than for the development of less developed parts of the world."<sup>[10]</sup> This is not to say that the multinationals were always operating in harmony with the states in the industrialised poles where they were concentrated or that the interest of those economies and the objectives of the multinational were identical. Britain, Germany and France for example adopted different approaches to Japanese and US car MNCs. Britain gave unrestricted access to the US car

firms, the French were sceptical and the Germans adopted a dual approach. The outcome was adverse for British industry and in the mid 1970s the country faced persistent labour unrest and foreign exchange crises. With the second wave of Japanese MNCs, Britain industry did however gradually absorb efficient Japanese production practices. The French state rather pressured its car companies to assimilate US manufacturing techniques but continued to use tariffs and import quotas to restrict competitive threat from US and Japanese firms, and also blocked direct foreign investment. By the 1980 France was a net exporter of cars with one quarter of the European market. Germany chose the middle way approach by restructuring its economy in order to gain maximum benefits from the US firms. German firms competed with US firm leading them to attain world market levels of competition and productivity [11]. In cases of Germany and France the strong state impulsion was necessary to shield their economies from dominance of the MNCs. In the UK where MNCs had a leeway the economy suffered an adverse impact only to recover later. It is therefore clear that their dominance would be felt even more markedly in the budding sovereign states.

#### **4.5.4 The Shift in Trade Patterns through Multinational Activity**

MNCs changed the nature of international trade. From the traditional open market exchange between firms and consumers located indifferent countries, goods and services were now flowing within an internationally spread single company. This change affected micro economic stability in the sense that market signals alone no longer sufficed to stimulate or restrict exports and imports when a country was experiencing trade deficits. Trade flow were now structured by corporate planning and administration with the MNCs [12]

In any case given that most of the MNCs now had their own internal economy within which the bulk of trading took place, the developing economies could not expect substantial export revenue earnings from the relatively few MNCs they were hosting; but also the benefits of export promotion of manufactures through MNCs ended up being concentrated just in a very narrow geographical spread. With their financial clout and economic strength the MNCs could decide where to locate and where not to.

It is worthwhile noting that MNCs numbered around 7000 in the early 1970s and at the end of the last century there were 44,000 in operation. These were operating with nearly 300,000 foreign subsidiaries, employing 12 million people and producing one-quarter to one-third of total world out put with global sales in the trillions of dollars. By the mid 1990s they accounted for 75 percent of the trade in manufactures and 40 per cent of world trade was within the branches of the same multinationals. [13]

## **Chapter summary**

The benefits from trade suggested by principles of comparative advantage could hardly be attained primary exporting countries because pattern of trade and the differences in the productive structures. Industrialised countries with a productive structure for manufactures goods differed greatly with the productive structures of the predominantly primary commodity exporters. The value gap between the goods exchanged only widened. Consequently the trade pattern was not mutually beneficial but unbalance to the detriment of the exporters of untransformed primary commodities. The expected stimulus from trade could only be effective of the only if the demand for the export commodities were steady and if the revenues generated were substantial. This could not effectively materialise with primary commodity exports which faced a steady decline in the course of the twentieth century and especially during the recessions.

The new shift in focus of multinational firm activity from locating for the extraction of raw materials to location for obtaining market access had the effect of changing trade flows. Trade was now increasingly taking place within the multinationals' internal economies and their tri-regionalisation led to the concentration of trade in three industrialised poles. Market signals alone no longer sufficed to stimulate or restrict exports and imports when a country was experiencing trade deficits.

These two eventualities tempered the capacity of international trade to fully serve as a stimulus to development.

Most of the developing countries employed both import substitution and export promotion strategies with varying degrees of emphasis at one point in time or the other. In the end the four developing economies which became accomplished manufactures pursued export promotion strategies and attained high levels of development.

## **5. Capital Accumulation**

### **5.1 Initiating the Process**

Capital accumulation results when some proportion of present income is saved and invested in order to augment future output and income. New factories, machinery, equipment, and materials increase the physical stock of an economy (the total net real value of all physically productive capital goods) and make it possible for expanded output levels to be achieved. These directly productive investments are supplemented by investments in what is known as social and economic infrastructure- roads, electricity, water, sanitation, communications, housing, and so forth- which facilitates and integrates economic activities. Indirectly they include all forms of investments which improve the quality of existing land resources like irrigation, land reclamation, fertilizers; or investment in human resources that can improve its quality like schooling vocational and on the job training, direct investment in buildings, equipment and materials like computers, science equipment, machinery and vocational tools. The essential feature of capital accumulation is that it involves a trade-off between present and future consumption- giving up some now so that more can be constituted in the future.

Once the dynamic of self- regenerating and self reinforcing growth goes on stream, the possibility of putting aside enough income for capital formation is greatly enhanced.

In the process of economic development the steady introduction of new combinations of factors of production increases labour productivity and a rise in real social income. This increase in social incomes kick-starts processes in consumer behaviour which alters the structure of demand in the economy. The changes in the composition of demand further lead to a modification of the productive capacity- a kind of virtuous circle. Capital accumulation facilitates the increase in labour productivity as it enables the introduction of those new combinations of factors. In the newly emerging states where the economies were basically agrarian based with a substantial part of the population involved in subsistence agriculture, the capacity for surplus accrual sufficient to support a sophisticated consumption structure or cater for any vigorous investment was rather miniscule.

As most of the economies had already been introduced to the world trading system through the colonial economic system, it is not surprising that they did inherit and pursue the already established trade patterns as an external source of capital accumulation. “The creation of a



flow of foreign trade enables an economy with a low level productivity to get development underway without previous capital accumulation” [Celso Furtado, Development and Underdevelopment 1964, p.64]

Steady development reflected by an alteration of previous levels of productive capacity in favour of new, larger and more performing ones , necessitates large amounts of capital per unit of labour or natural resources. “Economic development, as currently defined, thus involves increasingly capitalistic processes”. [Celso Furtado, Development and Underdevelopment, 1964, p. 64]

Endogenous or autochthonous capital accumulation does not preclude the use of the capital already accumulated in external sources.

With the present world economic system, the use of loans is not the problem in itself; what is important is the effective and appropriate use of the loans in investments with quick returns. The nature of investment and the magnitude of socio- economic transformation depend on the levels of the incremental capital output ratio, ICOR, the rapidity of returns and consequently the debt redemption. Investments with low ICOR and rapid rate of returns will easily redeem their debts, making borrowing on capital markets rather worthwhile than burdensome.

## **5.2 Capital Accumulation and the extroverted nature of Plantation agriculture**

### **5.2.1 The Rise of the Plantation Economy**

Prior to the nineteenth century, plantations were essentially associated with the Americas .The Portuguese organised sugar plantations in North- East Brazil as early as the sixteenth century. By 1939, plantations and plantation economies were dotted over tropical lands in south and Central America, Africa, Asia, the Indian Ocean and the Pacific involving a wide range of crops (note plantations and the plantation economy [1]. All the plantations produced crops in demand in the industrialised countries. Apart from food crops such as bananas and sugar cane, non-essential commodities such as tea, coffee, and cocoa became important plantation crops enjoying increasing consumption in Europe and North America. With the invention of the motor vehicle and the pneumatic tyre, rubber became a predominant plantation crop in South East Asia.

Sugar and later coffee in Brazil as early as the sixteenth century, sugar and tobacco in the west Indies islands of Trinidad and British Guiana ( Guyana today), sugar and later bananas in Jamaica, sugar in Cuba, coffee and later tea in Ceylon and India with the British, coffee,

sugar, indigo, tea, cinnamon, cloves , nutmegs, later rubber and cinchona with the Dutch, rubber in Ceylon(Sri Lanka) and Malaya, sugar in Mauritius, Fiji, South Africa and Nyasaland(Malawi), with the British, oil palm plantations in the Congo with the Belgians, sugar cane in Hawaii with the Americans, green tea, rubber, palm oil, cocoa, bananas, in the Cameroons, with the Germans and later the French and the British [2]

### **5.2.2 Induced Dualism**

Here we find one manifestation of the concept of dualism defined in chapter two. Most often sparsely populated and little cultivated areas were chosen to set up the plantations. As shortage of labour was a characteristic problem, most of these extensive plantations were manned by immigrant labour or their descendants. Local farmers were either too few or saw no advantage in working in the plantations or were considered unsuitable in some cases. The plantations were foreign owned and managed, funded by external capital and worked by paid workers who originated from some other land or their descendants. The majority of the products were exported and often their profit repatriated. The plantation economy was largely insulated from its host country.

### **5.2.3 Multinationals and the Plantation Economy**

The nature of the plantation economy practiced by multinational companies was such that many activities became vertically integrated within the same company. The transportation and marketing of the products were also handled within the same company. The economies of these producer countries become simultaneously linked to markets of the industrialised countries and the wider multinational company economy so that even after political control and land ownership were relinquished the relationships persisted [3]. The new states did inherit the plantation system and which in effect was not an indigenous form of agriculture. Given the focus on cash crops earnings, it took precedence over indigenous agriculture which was rather fragmented and subsistence oriented. The extrovert system of the plantation agriculture in place did not lend itself to any meaningful domination by the newly independent states which had suddenly become dependent on them for export revenue. At the time when these lands became colonies, the different autochthonous communities were not grouped together as states, thus there was no extant state authority over the newly carved out territories. So under the colonial regime their economies followed the orientation of the colonial authority and their agricultural exports were destined for industrial markets abroad. After the decolonisation a lot of effort and resources went into strengthening the role of the state and the consolidation of its hold on the territory under its jurisdiction. Moreover the territorial distribution of the

plantation was set and the crops already in place. For many countries it was difficult to exert control over the multinational corporations running the plantations. Eventually some states took over the plantations but at the time when it was too late to extract a meaningful surplus. The agricultural prices were falling steadily.

#### **5.2.4 The Limited Nature of Colonial Era development**

As long as these countries were mere extensions of the economies of the industrialised Europe, North America and Japan, the economic development that took place was tailored to suit the goals of the industrialised economies. For the most part, the economic development efforts during the colonial era reflect their external origin and focus. “The capital formation took place outside the developing countries and ancillary developments were restricted if they had advanced technological requirements”. [ES Simpson, *Developing World* 1987, p 99] Indeed most industrial developments were designed to further and sustain the industrial economies of Europe, North America and latterly Japan. But when these countries emerged as new states, with their own economic and political autonomy, they became separate entities facing the high GDP economies as their new trading partners. They had to start from somewhere in transforming their economies into self sustaining entities. To generate the revenues destined to the fulfilment of this goal it was natural to draw on their exportable resources of farm, forest, mines and wells which they were endowed and in so doing followed the trade patterns that existed during the colonial era.

#### **Chapter summary**

For new states which starting off with country building capital accumulation must happen to provide their economies with the directly productive investments which make it possible for expanded output levels to be achieved. For most of the countries it proved a very strenuous endeavour because of the fledgling nature of their economies and as is explained in the following chapter many countries did resort to capital import when their primary commodity export could generate sufficient resources.

## **6. Capital Import**

### **6.1 Borrowing to bridge the resource gap**

Participation in the world economy implies export opportunities, loans and foreign investment- operating within the world economic system where attracting capital from external sources is a natural economic process.

Low productivity coupled with high concentration of disposable income in a small segment of the population was characteristic of these countries at their early stages of construction. Countries trapped in the pincers of immobility where their economies are incapable of autochthonous capital formation naturally veer toward external sources for succour. “Historically the impulse to overcome those difficulties has always come from sources outside the community” [Celso Furtado, Development and Underdevelopment 1964 , p 64]

#### **6.1.2 The Slow Returns from Loans used in Developmental Construction and Primary Export Promotion**

Besides the provision of basic infrastructure and development, borrowing also aimed at the establishment of new productive facilities for export so as to generate export revenue. Many of the new states were staking their development drive on export revenue did borrow directly from commercial banks However given the low earning power for primary products export commodities, those countries whose primary exports did experience a decline in prices could hardly muster the financial clout to service their debt, let alone sustaining the rhythm of their drive for economic development.

Whereas a gestational time lag separated the stream of incomes from the investments in developmental borrowing, payments on the debts contracted usually began immediately, a situation which simply encouraged further borrowing and the consequent capitalisation of the interest rate. This capitalisation of the interest rates further amplified the magnitude of the debt burden.

Infrastructural investments demand huge amounts of initial capital, especially as they are usually of large scale in order to be optimal-huge amounts of initial capital which in the short run do not produce immediate returns. The incremental capital output ratio ICOR for infrastructural investment projects is high whereas the returns for such projects are indirect

and their benefits material over very long periods. However these are investments which if neglected, will have future negative repercussions on the development drive.

Building the infrastructure which enables other activities, develop, erecting the appropriate capital and intermediate product industries for the supply of basic or semi-manufactured goods, constructing consumer goods industries to substitute imported goods, even initially, previously, is very demanding and difficult to implement, without a steady and forceful earning capacity.

In addition to obvious social investments in health and education at the same time some states got heavily involved in infrastructural projects like gigantic energy, irrigation and land reclamation schemes, large agricultural estates and transportation. In many of these countries state-run heavy industrial projects were common mostly because of the high incremental capital out put ratio ICOR and the need for substantial investments, even though in some cases government involvement derived from ideological or strategic reasons.

State development programs had to grapple with a complex number of considerations

- generating domestic capital and how to gain access to external capital
- balancing investment between infrastructural needs , manufacturing activities and social investments in health and education
- ensuring agricultural activity and hinterland communities in the development drive
- the context of national economics relationship with the rest of the world – comparative advantage, export earnings, import substitution.

### **6.1.3 The Fall in Concessional Loans and the Increasing cost of Capital Import**

Lending as aid with concession interest rates and terms which made debts service relatively lighter did decline in the 1970s. This low cost transfer of resources gave way to portfolio lending by banks which was gaining greater significance as developing countries sought to bypass multinational corporations by borrowing directly from the capital markets. “In constant 1990 dollars, in 1970, developing countries owed commercial banks about \$200 billion, but by 1979 they owed about \$450 billion and by 1988 \$650 billion. At that point overall developing country debt, including concessional lending, amounted to around \$1.2 trillion”. [Herman Schwartz, State Vs Markets, 1994 p.150] Subsequent loan renegotiations to offset payments, on capitalizing the interests further led to an increase in the debt burden. The increasing debt in the in the 1980s did not represent net new lending; most of the debt

increase came from negotiations that capitalized interest payments on them in arrears. These payments simply added unpaid interest to the total debt with dire long term consequences for the debtor. [1]

## **6.2 The Magnitude of Debt Servicing and Unpredictability of Agricultural Export Prices**

With the characteristic inelasticity of supply, the capacity of raw material price recovery can be very low especially for agricultural exports whose production can be replicated over wide expanses in land whose climates and soils are favourable for their cultivation. Debt servicing by a country whose economy is dependent on the export revenue from such a primary product will certainly run into difficulty when the primary product prices experience a sustained fall as it happened to Brazil in the opening years of the 20th century. “Brazil’s pre-world war one coffee exports ... doubled five times to peak at 7.8 million tonnes in 1900-10. Brazil’s success stimulated market entry by other producers and states in Latin America and colonial Africa. The coffee market became glutted, and prices began dropping around 1900. Brazil encountered difficulty servicing its debt and defaulted in 1898-1900, and then made only partial payments in the next decade. Its major competitor, Colombia, also defaulted for part of that decade”[ note Herman Schwartz, *States Vs markets*, 1994, p. 145]

This was a harbinger of what was going to befall the newly independent former colonies in the second half of the twentieth century who were dependent in the exports of one or several raw materials of farm forest or mine. The producers of petroleum fared a lot better when their reserves did not run out.

Borrowing from external source of capital did not only happen to the new states in the wake of the decolonisation. Other former colonies, some referred to as dominion lands in empire vocabulary, such as Australia, Canada and the US and South Africa owed about £3.5 billion to European creditors by 1914, about \$150 billion in current terms [2]. However with the eventual transformation of these economies to industrialised economies, with self sustaining economies, producing high value commodities, these debts were eventually redeemed one away other the other.

## **6.3 The liquidity crisis of the 1980s and its Impact on Economic Transformation**

In the 1980s the countries which had borrowed for development encountered liquidity crises which stemmed in part from the financial policies of creditor countries. Countries which had staked their investments on a narrow range of seemingly promising industrial sectors like textiles garments shoes toys, basic, steel production and cheap automobiles, were hit by the US recessions in the early 1980s just as their production was booming. The US federal reserves decision to ratchet up the interest rates to combat inflation generated the recession, forcing protectionist policies in the US and Europe and subsequent quantitative restrictions on the volumes of imports. As the debtor countries fiercely competed with one another for the sale of their exports in now very restricted market in the US and Europe, their foreign exchange earning power contracted and hence their ability to service their debt. This was especially aggravated by the fact that between 1974 and 1986 the terms of trade of most of the developing economies had fallen about 60 percent [3]. Further rescheduling of the debt payments of the developing economies, through the IMF, led to almost a doubling of the debt, due to the capitalisation of the interest rates. Debtors scale down their investments almost 20 percent in order to service their debt and in so doing did weaken their capacity of break out from the debt burden [4]. The subsequent devaluations and import controls by the debt countries led to the slowdown of economic activity in the creditor countries which in turn led to falling demand for exports from debtor countries. As a result the countries returned to the primary exports commodity status quo. “The banks’ fear of extending new credits...slowed down the transition to new export commodities. Most indebted [low-income countries were] still trying to export the same old commodities to the same glutted and protected markets” [Herman Schwartz, States Vs Markets, 1994 p.165]

## **6.4 The Difference with Japan, Taiwan and South Korea**

Whereas a significant number of the tropical agricultural exporters did not manage to extract surplus from their agricultural exports, Japan did carefully utilise the agricultural sector as a source of capital accumulation for investment

Japan was able to industrialise without any significant foreign debts because the state was able to accumulate and reinvest the agricultural surplus. “The land tax extracted about 30 to 40 percent of the value of agricultural production for the state, providing between 60 and 70 percent of state revenue”. [Herman Schwartz, *States Vs Markets*, 1994 p.102]

This pool of capital was invested in rail road construction and in generic heavy industries but also was state directed formerly large family- owned merchant companies which transformed themselves into banks and exercised control over much of the industrial investment.

Almost a century later South Korea and Taiwan did follow the same methods as Japan by using the agricultural sector as the source of initial capital accumulation for their industrialisation. When their industrialisation did happen they were basically debt free.

In the case of Japan, South Korea, and Taiwan this extraction was done by an established state with the power to impose reforms and eject nominal landlords to whom the profits used to accrue.

Agricultural reforms in Japan occurred in the early stages of the Meiji regime (1867-90), at which time the country was not facing any external hostilities. The agricultural land reforms in Taiwan and South Korea took place at the time when these two countries had become significant strategic allies to the US, which actually weighed in to back those land reforms.

In the lands where agriculture was taking place under a colonial regime, any form of the agricultural surplus through taxation served to finance the colonial administrations. Where plantations were controlled by multinational corporations, the surplus remained in the MNC economy. And when new states emerged from the colonial lands, they did not have the sufficient clout to reign in multinationals which had become dominant players in their economies

“Late development succeeded only in economies where the state intervened to protect local producers, provide investment capital by squeezing agriculture, and control labour” [Herman Schwartz, *States Vs Markets*, 1994 p.102]



## **6.5 'Resource Curse or Debt- overhang'?**

In the 1970s, counting on the revenues from the primary product exports, many primary commodity exporters did borrow substantially from the world capital markets for their development plans and projects. In the 1980s when these prices of raw material collapsed a host of the countries came under increasing debt service burdens which placed enormous strain on all development programs as well as on the resilience of their economies. This trend lasted in the 1980s and the 1990s which have been notable as lost decades in the drive towards development. What appeared to be the resource curse could well be a debt overhang [5]. Countries which had obtained capital surpluses from their primary products like most of the petroleum producers of the middle east did not face balance of payments problems, whereas the capital –deficient primary exporters face persistent balance of payments problems. Rather than a problem associated with the presence of natural resources, it did seem that credit market imperfections had been the reason for the bad performance. If the primary commodity production of countries were considered as apart of their collateral, an increase in prices relaxes the degree of credit constraint allowing those governments to increase their foreign debt commitments. Following a drop in prices and the subsequent collapse, the countries were unable to continue borrowing and had to repay their debts. In the end in order to balance the current accounts devaluations and other rationalising measures had to be implemented, measures which usually take a toll on growth. It was a was then a boom-bust cycle in commodity prices no different from a bubble in stock markets as was the case with Japan, or a bubble in real estate prices as was the case in New England and Thailand [6].

## **6.6 Valued Added Lost**

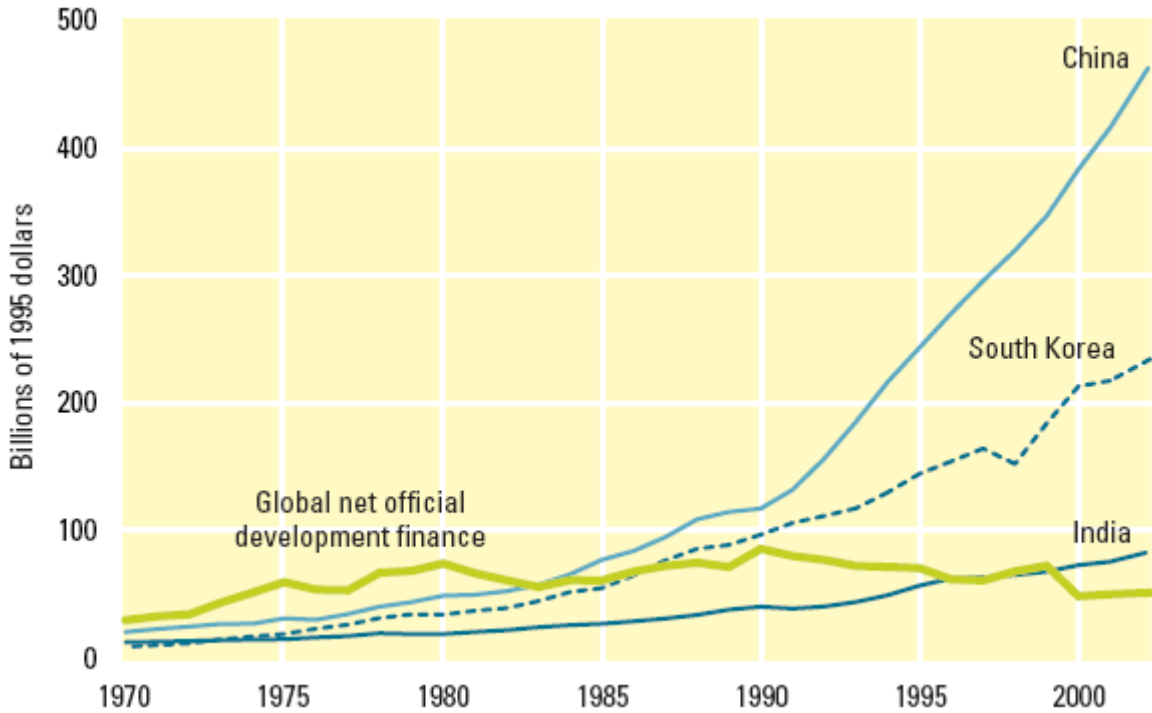
Value Added is defined as the amount of the product's final value added at each stage of production. Value added lost is understood here as the potential or latent loss of manufacturing value added consequent upon lack of capacity of primary commodity exporters to transform these raw materials domestically. The value is lost abroad to the economies where these primary commodities used as inputs are transformed into finished or semi-finished goods. By accident of the industrial revolution, this transfer of value and its corollary the drain of foreign exchange from predominantly primary exporters which heavily relied on the import of manufactures became a permanent fixture in trade relations.

All countries are bound to interact in an integrated world economic system in which exchange is inevitable for better or for worse. The value gap which underlines the exchanges as well as the differences in the value content of the products emanating from the high income and low income lands exercises a certain strain on the predominantly primary exporting low income economies. Not having attained the point where the production of high value industrial goods constitute the major part of the productive activity and income earning capacity, many of the low income countries which coincidentally are abundant in natural resources of farm forest mines and wells did revert to and still are pursuing in the export of these resources as the natural alternative. Natural value is invaluable certainly but is taken for granted regarding primary products which always earn lower revenue compared to any finished or semi finished products derived from them. The costs incurred in the transformation of primary products into finished or semi finished goods add a certain economic value in them represented by their higher per unit prices relative to the primary product inputs.

Most often finished consumer or capital products represent a combination of primary products sufficient reason enough to confer on them higher economic value per unit than the per unit prices of the raw materials consider separately.

The ability to capture manufacturing value added is a key source of bridging the capital resource gap and reducing the recourse to borrowing from the capital market. This was the case with most of the primary commodities exporters in the 1950s, 1960s, and 1970s and beyond which, unable to establish the manufacturing capacity to add value, lost this value abroad where the transformation of the primary products into finished products was taking place. Given the slump decline in the price of raw materials, capital sufficiency, for the lack of generating it internally could only be procured externally. Persistent borrowing and compounded interest of debt servicing only helped to install a vicious cycle because by sapping away the resilience of the economy, its capacity to recover autonomously without recourse to capital from abroad is greatly reduced. The latent manufacturing valued added lost could only uphold the recourse borrowing from the international capital markets. The burden of debt servicing by limiting the chances of successful economic transformation orchestrated further loss in value- unleashing the downward spiral with its incalculable and lasting consequences. The figure below shows how manufacturing value added in a single country can far exceed net global official development finance. The data for China, South Korea and India show manufacturing value added over a thirty year time span

**Fig 1 Manufacturing value added for China, South Korea and India comparing to Global net official development finance**



Source: OECD online data base and World Bank (2004a)

The constancy in the adding value-the accumulation of value- is the key to economic self-sustenance- and this is better realised through the activities of the secondary, tertiary and quaternary sectors.

The power of value retention of the economy is enhanced through well developed economic activity, a diversified a flexible domestic labour force and a self sustaining domestic consumption stimulate and maintains demand as well as domestic economic activity.

Dependence on primary products exports no matter how high the value, leaves an economy on flimsy and ephemeral economic foundations. Without the development of a diversified self sustaining domestic economic system the gains in foreign exchange cannot be successfully retained; they will eventually be lost due to the economy’s weak retention capacity.

In a world economy dominated by producers of high value products, any economy without substantial activities in the secondary, tertiary and quaternary sectors can hardly withstand the burden of unequal exchange and will as such under-perform economically

## **Chapter summary**

For the countries that had been colonies most of the capital investment that was made during the colonial era was geared toward primary export activities and rarely involved any manufacturing. For the few that had not been colonised like Liberia, Ethiopia or Iran, not much manufacturing was in existence. So most of these countries did enter international trade as exporters of primary products and importers of manufactures.

Earnings from trade if substantial enough to produce a steady surplus will constitute an important source of capital accumulation. This was not the case with most of the primary commodity exports especially as a substantial part of foreign exchange was spent on imports.

Without the existence of a manufacturing tissue to transform raw materials, their export in the untransformed state represented the transfer of latent added value abroad. Added value which would have constituted a substantial amount of internally generated capital had it been retained. Unlike Japan earlier and South Korea and Taiwan later, the other countries with agricultural economies did not manage to extract value from the land. The incapacity to generate capital internally coupled with short falls in export revenue left the drawing from external sources as the only other alternative.

This came in the form of aid, concession loans or borrowing on economic terms from the capital markets. With a debt overhang orchestrated by the burden of servicing of existing debt usually with compounded interest, the chances of any meaningful economic transformation from predominantly primary sector based economies were highly compromised.

## **7 The Primary Commodity Export Trap**

### **7.1 The Nature of primary commodities and the paradox of value**

Grouped together, primary export commodities include products of farm, forest, mines and wells. These comprise agricultural cash crops, food crops, lumber, mineral and fuel exports. Looking at them as such it is of course clear that not all primary products have the same market value. There are very different products with different profitability and different behaviours over time. Some minerals like diamonds, gold, uranium, oil and gas are of a much higher value than most of the agricultural primary exports. But the maintenance of the relatively higher prices they command depends on the prevailing demand and their scarcity or abundance. Increased exploration, the discovery of new reserves and the coming on stream of their production could flood the market and drive down prices; the advent of synthetic

alternatives can render the natural ones obsolete or global recession could lead to a drop in demand.

In terms of fuel exports, most of the producers of highly marketable primary products like crude oil and gas have been able to amass vast export earnings over a more sustained period of time than exporters of agricultural and forestry products. The former group of countries has generally fared better than the latter. However it is important to draw a distinction between the countries that constitute the fuel exporter group especially with the decade between 1973 and 1983 when oil booms were followed by the oil slump of the early 1980s. One subset is so called capital-surplus petroleum exporters while the other is capital-deficient. The capital sufficient oil exporters were able to benefit from and re-invest part of their export earnings and felt less the impact of oil price volatilities while the capital deficient oil exporters actually were badly affected by oil price volatility and became net capital importers. The capital-surplus subgroup with rather smaller labour and less diversified economies could not completely absorb all their export revenues and as such did run balance of payment surpluses until the price slump of the early 1980s. This subset includes countries like, Kuwait, Libya, Saudi Arabia, Qatar and the United Arab Emirates (UAE). (The latter three will feature in the country discussion section). As for the capital-deficient subgroup, these petroleum exporters were characterized by a large skilled labour force and more diversified economies. Their economic structure thus facilitated the absorption of all the oil revenues from the oil booms and, except for the period from 1974 to 1976, they were generally net capital importers. This subset includes Cameroon, Nigeria, Iran, Ecuador, Egypt, Gabon, Indonesia, Mexico, Oman, Algeria, Trinidad and Tobago and Syria [1] (The first three will feature in the country discussion section)

Regarding the mineral exports, diamonds for example have over many decades benefited from a steady high demand and high prices. Diamonds are the hardest material known to humans and are specifically renowned as materials with superlative physical qualities. They make excellent abrasives. Roughly 49% originate from central and Southern Africa notably in Botswana, South Africa, Namibia, Angola, Tanzania, Democratic Republic of Congo and Sierra Leone. Significant reserves have also been found in Canada, Russia, Australia, India and Brazil. The industry is dominated by the DeBeers group. With its limited geographical distribution, an oligopolistic market structure, its superlative physical qualities have rendered it a relatively scarce primary export with high demand and high world market prices

## 7.2 Cartels and Primary Commodity Export Prices

Faced with the declining prices of primary export commodities, there were many attempts to form cartels in order to protect world market prices for these products. Most of the attempts foundered. The agricultural products were numerous and cartels could not be created for every one of them. With the wide geographical spread of the producer countries, the unpredictability of harvests, control over production quotas could not pre-determined as would be done with crude oil barrel quotas.

Regarding minerals, many deposits occurred in industrialised countries in which the use of rent was less significant, and these countries were not willing to team up with the predominantly primary exported oriented economies to protect prices.

After 1973 roughly 80 per cent of new investments in raw materials extraction from 1973 to 1980 went to what were deemed politically safe countries: Australia, Canada, and the USA.

Moreover to avoid higher prices importer countries sought to cut down on the use of raw material inputs and to use substitutes. In addition Japan went a long way to foster global over capacity in some raw material in order to drive down prices [2]. With such pressures cartel member could hardly cooperate and so many failed to respect their cartel-set quotas. In general, most cartel agreements tend to be economically unstable because there is always the incentive for members to violate agreements by selling below the agreed price or by selling more than the agreed quotas. Empirical studies in the 20th century show that the mean duration of a discovered cartel is 5 to 8 years. Besides cartels are prohibited by anti trust laws in most countries.

Only the Organisation of Petroleum Exporting Countries OPEC founded in September 1960 is the publicly known cartel that has withstood the test of time. OPEC as a group of sovereign states cannot be pursued by under anti trust for lack of jurisdiction by the virtue of the doctrine of state immunity under public international law.

OPEC has always had the core of Middle East countries in proximity united by ethnic religious and regional commonalities. There was also the swing producer Saudi Arabia which could play the whip. The quasi-homogeneity of petroleum, the somewhat malleability of the product's extraction (can be increased or reduced), the uniqueness of oil as fuel for the countries all over the world and the heavy dependence on it by all the major industrialised countries have all contributed to the longevity of the cartel. However since the 1973 oil

embargo, its ability to control the price of oil has somewhat diminished due to the subsequent discovery and development of large oil reserves elsewhere like in the Gulf of Mexico and the North sea, but also due to the re-emergence of Russian exports and market modernization. But as of 2005, OPEC still accounted for two thirds of global oil reserves and for 41.7 percent of world oil production while the OECD and the Post- Soviet States accounted respectively for 23.8 per cent and 14.8 percent of world production [3]

The dominance of the DeBeers group in the market of Diamonds has been crucial in maintaining high diamond prices. The DeBeers family of companies is responsible for about 40 percent of the world diamond production by value [4]. Founded in 1888, the company is active in every category of diamond mining, production and marketing. Registered in Luxembourg, The DeBeers went private as a company in 2001 and is today jointly owned by the government of Botswana, 15 percent, Anglo -American, 45% and the rest the Centrals Holding Group.

### **7.3 The paradox of Value Revisited**

The paradox of value is clearly manifest in the price decline that exporters of agricultural food products faced for a better part of the twentieth century but more especially in the 1970s and the 1980s. Notwithstanding the immense size of the world population and the daily need for human food consumption, Petroleum and other minerals did enjoy relatively more favourable prices compared to agricultural food products. Despite their immense natural value to human life their renewable nature and widespread cultivation makes them relatively abundant. The finite and exhaustible nature of minerals and fuels and the limited scope of their exploitation make them relatively scarce and thus ensure them much better world market prices.

#### **Chapter summary**

Given the differences in the market value of primary export commodities the slump in the raw materials did not affect all primary commodity exporters in the same manner. A combination of glutted supplies declining demand and, no cartels to uphold prices, caused exporters of primary products such as tea, sugar, cocoa, bananas, oil palm, natural rubber, coffee etc. to face falling world market prices for their commodities. With the exception of the some petroleum producers of the Middle East and Botswana with its diamonds, most of the other primary export producers did not generate enough trade surpluses to warrant sufficient capital accumulation for development projects.

## **7.4 Summary of Part One and Theoretical Conclusion**

International trade served as an engine of growth that propelled the developed countries to high levels of economic attainment. Rapidly expanding export markets provided an additional stimulus to domestic demands that engendered the establishment of large scale manufacturing industries. The increased export earnings enabled these countries to borrow funds from the international capital markets. The capital accumulation in turn stimulated further production, made possible increased imports and led to a more diversified industrial structure. In the nineteenth century, European and North American countries were able to participate in this dynamic growth of international exchange largely on the basis of relatively free trade, and free capital movements. The situation for most developing countries was markedly different at the time when they were struggling to build viable economies in the twentieth century. With the exception of a few very successful East Asian countries, the non oil-exporting and indeed some oil exporting, developing countries formidable difficulties trying to generate rapid economic growth on the basis of world trade. Since the First World War many developing countries were already experiencing a deteriorating trade position. Their exports had expanded, but usually not as fast as the exports of the developed nations. Their terms of trade (price they receive for their exports relative to the pay for their imports) were declining steadily. Export volumes therefore had to grow faster just to earn the same amount of foreign currencies as in previous years. Any growth thus produced was immiserizing growth. For the majority of the primary commodity exporters comparative advantages did not translated to wealth creation. The differences in productive structures made this impossible. Latent manufacturing added value was lost abroad. Moreover the development of synthetic substitutes for traditional primary commodities from developing countries further diminished foreign exchange earnings. Capital accumulation through primary export earnings was not sufficient enough to back the high ICOR investments that characterized initial development drives. Where developing countries were successful at becoming lower cost producers of competitive products like textiles, clothing, and some light manufactures, world economic recessions made their sustained commercialisation on world markets rather problematic. Through multinational activity international trade became regionalised concentrated mainly between Japan Europe and North America.

With the short fall in export revenues and capital resources many of the capital deficient countries did borrow from the international capital markets. The recessions and the slumps in primary commodity exports prices and other light manufactures not only prevented full



economic transformation it also led to an increase the debt burden through compounded interest payments. The international engine of growth that facilitated the economic attainment of developed countries was not been able to do the same for developing countries, safe a few in East Asia, which successfully pursued the export promotion of manufactures. And today the gap between the developed and the developing nations is characterised by that late development which though not permanent does represent a development deficit.

As a conclusion based on the theoretical premises, unfavourable external international economic conditions contributed in setting back the pace of the development process for most of the developing countries.

## **PART TWO**

Considering the short fall in resources which those states could muster for their socio-economic transformation they were bound to experience a set back in their development drive. Most observers reached this conclusion but directly linking them to geopolitical strife. Just the observed economic indicators were analysed.

Now in this second part of the paper will take a look at the impact that geopolitics had on development of the newly emerging stated of the twentieth century. It is also worth noting that many a time, conflicts end up producing gain for some and losses for others. So as we shall see, there are cases where the same geopolitical conflict did result in boon and ruin in different places.

### **8. Geopolitics and the Development Deficit**

Geopolitical tensions and mutual suspicions have led to delays in economic progress in many lands – conflicts are not new to human history but it is clear that they are destabilising and have a certain negative economic impact. In the increasingly integrated and interdependent world of the last century, as is the present century, political conflicts which ended in armed confrontation resulted in consequences which reverberated across many countries; the interests of the countries had become interwoven with even greater complexity. The two major geopolitical struggles which will feature here will be the Middle East crises of the 1970s and the Cold War struggle between Capitalism and Socialism are the ones which the

paper considers to have had the most lasting impact on the development process in the developing countries.

Socialism, better known as Communism in the Cold War terminology, which by Marx's predictions should have started in places like the US or the UK bastions of capitalism, did instead take root in Tsarist Russia, marking the beginning of some of the most intense struggles for economic development mankind has ever known. An ideological struggle taking off from the economic sphere, it quickly translated into heightened tensions, a fierce arms race eventually attaining astronomical heights. Given worldwide expansion of the struggle, resulting in many cases to proxy wars, the ripple effects impacted the sustained development of most of the emerging states in the twentieth century especially, for better or for worse.

The Middle East crises of the 1970s spread over to the petroleum sector, which by virtue of its status as the fuel for the world economic engine, set in a chain reaction of oil price shock waves that severely hit the world's economies -and the fledgling ones the most.

Finger pointing, accusations or recriminations are not the matter at hand here - the history of humankind and nations, is as full of good sense as it is rife with an unfathomable number of errors. But humans are humans ; not gods. Nevertheless learning from the lessons of history and the acknowledgement and regret for errors of the past are highly vital elements of human progress into the future.

## **8.1 The Oil shocks of 1973 and 1979**

Rooted in geopolitical struggles the petroleum shocks had adverse effects on the world economy in general and more severely in respective country economies. In what has proven to be an enduring geopolitical flash point in the series of Middle East conflicts involving Israel and its neighbours, one of them -the 1973 Yom Kippur War- was the catalyst to the oil shock that rattled the world economy from 1973 to 1974 and beyond. In the immediate aftermath the real price of oil doubled at the refinery level causing severe shortages in the US. The world economy was plunged into recession all through 1974. Coupled with the breakdown of the Breton Woods Agreement and its effects on the world's financial system, a series of recessions and high inflations did set in and would persist until the early 1980s after having been amplified by the 1979 oil shock.

The oil exporting nations of the Middle East amassed vast amounts of wealth. Some of this wealth was dispensed to come to the aid of other developing nations whose economies had

been caught up between high prices of oil and lower prices for their own export commodities and raw materials. Given the shrinking in the demand for their goods from the markets in Europe and North America these countries were thrown into dire balance of payment situations. Many of the oil- importing non-communist industrial countries were hit by sudden inflation and economic recession.

Much of the wealth from this petroleum windfall was absorbed in the purchase of armaments, process which further exacerbated the geopolitical tensions already in prevailing in regions around the world and the in the Middle East in particular.

Saudi Arabia awash with the wealth from the windfall, undertook a series of ambitious development plans beginning in 1980. Other cartel members followed in that direction.

The second Oil shock in 1979 resulted from the ouster of the pro-US shah of Iran, and the advent of the Iranian revolution as well as the Islamic State of Iran. The wave of protests and demonstrations that followed led to shattering of the Iranian oil sector. When the new regime resumed exports, the volumes were lowered than previously forcing oil prices up. Saudi Arabia and other OPEC members rallied to increase the oil output in order to offset the decline. The overall loss in production was 4 %. However it was the resulting widespread panic that drove the prices higher to artificially high levels.

### **8.1.1 Geo-Strategic Manoeuvres**

The both oil shocks were a regional manifestation of a broader geopolitical and geo-strategic struggle.

In 1973 the pro-USSR Egypt and Syria against clashed US- backed Israel; here the influences of the US and the USSR were played behind the scenes leading up to the war. During the war the US directly assisted the state of Israel against the Egypt- Syria camp which at the time was pro- soviet. Busily pursuing the detente with the US at the time, the Soviet Union did not actively participate in the war nor did it provide Egypt with the arms it was demanding. The OPEC led by Saudi Arabia, a regional heavyweight, sided with the Egypt- Syria camp through the oil weapon-the embargo which caused the flare up in prices and produced the shock.

As for the 1979 it was the other Middle East regional heavyweight Iran against the world heavy weight the US sparking the Iranian revolution .

### **8.1.2 The impact of crises on the world economy**

The oil shocks had significant and long lasting economic implications. This geopolitical conflict represented a massive transfer of wealth to the Middle East within a record short period of time after the sharp hike on oil prices. This same hike in oil prices sent the highly oil dependent oil industrial economies into recession which in turn placed severe burdens on the non-oil producing developing economies. First it hiked their expenditure on oil imports, but also led to a loss for their export revenues due to the recession that hit the Europe, North America and Japan. This then led to the simultaneous expansion of production outside OPEC and the drive towards more energy efficiency. The combined effect was oil over production and a relative decline in oil demand. The world price of oil which had attained the 80 per barrel mark in 1979 decreased in the early 1980s to \$ 38 per barrel- in real terms the oil price fell back to pre-1973 levels. By the mid 1980s as countries sought to gather as much revenue as possible with the low dollar price per barrel, over production ensued amidst the relative decline in the demand for oil.

This reduction in prices thereafter, represented a wind fall for the heavy oil importers- Europe, Japan and the USA and a boon for the oil importing developing countries. On the other hand countries whose national revenues heavily depended on oil export earnings faced severe balance of payment problems. For the oil producing nations of North Western Europe like Norway and the UK and of the Middle East this represented a major problem. Mexico, Algeria, Libya and Nigeria whose economies largely depended on oil were heavily affected.

## **8.2 The Cold War**

### **8.2.1 The Origins of the Cold War**

The ideological clash between capitalism and communism that began in 1917 following the Russian Revolution went on to spur the Cold War [1], which characterised Russian-American relations over 70 years. The US, Britain and Russia had been allies in the First World War until the Bolsheviks took power in 1917. After the end of the Russian Civil War in which the Western allies had intervened, the US refused to recognise the Soviet Union until 1933. For their part after winning the civil war, the Bolsheviks proclaimed a world wide challenge to Capitalism.

The term Cold War was introduced in 1947 by the Americans Bernard Baruch and Walter Lippmann to describe the emerging tensions between the former wartime allies. There was never a direct engagement between the US and the USSR but there was half a century of military build up and political battles for support around the world. The cold war spread outside Europe to every part of the world as the US sought the containment of communism and forged numerous alliances to this end. This period of intense rivalry between the US and the USSR led, among other things, to costly defence spending, a massive conventional and nuclear arms race and many proxy wars. Direct military attacks on adversaries were deterred by the potential for assured mutual destruction through a thermo-nuclear weapons exchange.

### **8.2.2 The Steady Escalation of the Ideological Struggle after World War II**

After 1945 as Europe pursued its reconstruction and many new states emerged from former colonial empires, the ideological confrontation between the Communist bloc of countries and the Capitalist bloc was gathering momentum. With USA and its ideological allies on one side and Russia and its ideological allies constituting the Soviet bloc, the struggle for the maintenance of the ideological edge was reflected by drive for the strategic occupation of geographical space as well as the possession of strategic arms and control over strategic resources. Caught in the middle of this were the newly independent states of Asia, Africa, Central and South America, faced with the urgent task of nation building. As a result of the Cold War which had developed between the capitalist and the socialist bloc of countries, substantial resources, vital for launching their development, were diverted into preventing the countries from falling from one camp to the other or used in the numerous proxy wars that were fought in the 1950s, 1960s and 1970s. The threat to internal political stability in many of the countries led to the diversion of resources to quell insurgents, rebels, or opposition figures that were pro-communist or pro-capitalist depending on which camp the reigning government found itself. Numerous military takeovers with their devastating effects on socio-economic space were visible manifestations of the invisible Cold War struggles

### **8.2.3 The Policy of Containment**

The Soviet Union was committed to world wide socialist revolution and was not going to stop at any thing to ensure its expansion. The USA responded with the policy of containment of communism the prevention of the spread of communism to non-communist countries-ensuring that communism remained within it borders. The Marshall Plan which led to the

quick reconstruction and recovery of the Western European economy played a decisive role in halting the communist takeovers in Greece, Turkey, France and Italy. The containment policy was expanded to Asia, Latin America and Africa. In 1949 the Socialist revolution led by Mao Tse-tung had overthrown the US back nationalist Kuomintang Government. At the same time pro-socialist National revolution movements were fighting for independence from Europe's colonial empires in Africa, Latin America and South East Asia.

### **8.2.4 Decolonisation and the Spread of the Ideological Struggle**

As the decolonisation gathered momentum in the 1950s the newly emerging states, now referred to as the Third World, constituted the new arena for the Cold War struggle. Given that the traditional Cold War allies of the US, notably the UK, France, the Netherlands, Belgium and Portugal were now losing sway over their colonial empires the USA rushed to fill this vacuum. As an instinctive reaction to the uneasy relations of the colonial times, the nationalists in a good number of the newly independent states were unsympathetic to the Western bloc. This led to a series of proxy conflicts between the US and the Soviet Union in Africa, Asia and Central and South America as the decolonisation gained momentum. Notable flashpoints were Guatemala, Iran, The Philippines and Indochina. US backing led to change of government in Iran after the overthrow of Mohammad Mossadeg and in Guatemala with the ousting of Jacobo Arbenz Guzman in 1954.

### **8.2.5 The Rise of Alternative Groupings to the Broader Divide**

At the Africa-Asia Summit held at Bandung, Indonesia in 1955, twenty five states resolved to stay out of the Cold War. As a follow up to this consensus the Non-Aligned Movement involving a larger number of states was formed in 1961.

However between the 1960s and the 1970s the world was no longer exactly divided between the two Superpower blocs as Europe and Japan already fully recovered, and independent groups of countries like the OPEC, the Non-Aligned Movement, the Organisation of African Unity -OAU, the Arab League, were beginning to assert themselves. Nevertheless the indirect conflict between the rival blocs did continue through the 1960s and the 1970s. The Congo crisis saw US, Belgian, Soviet involvement in support of the main rival factions during the conflict. The Cuban missile crisis of 1962 which brought the USA and the USSR to the brink of nuclear war marked a highpoint in the cold war confrontation. In the 1970s the detente did ensue between the US and the USSR but was short lived

## **8.2.6 The Proxy Wars**

At the close of the 1970s and from the dawn of the 1980s into the mid 1980s the proxy conflicts raged on. The Soviet invasion of Afghanistan, the Iranian revolution, the Nicaraguan revolution saw the ousting of pro-US governments. The Afghan civil war, the Iran- Iraq war, the Contra- Sandinista Nicaraguan civil war underlined the US response; then there were among others, the direct US actions in Lebanon (1983), Libya (1986), Grenada(1983) and proxy the civil wars in Honduras, El Salvador, Guatemala, Angola and Mozambique. The struggle which pitted the ANC and its hosts- the Front Line States [2] against Apartheid South Africa was a formidable sub plot in the larger cold war confrontation. And even almost two decades after the end of the cold war the US- Cuba and the US- Iran standoffs, born during the cold war are still in force.

What often appeared to be internal civil strife for natural resources and territorial control were actually sub plots of a broader struggle of economic domination through arms examples Ethiopia, Sudan, Chad, Niger, Guinea Bissau, Guinea Conakry and others

A lot of the natural resources were strategic resources and the lands which bore them were theatres of the struggle. The other natural resources were the non-tradable strategic locations on sea routes where tradable goods- primary commodities or finished consumer and heavy capital goods and other vital supplies like crude oil- were transported. Many of the conflicts in the horn of Africa in the 1980s or the feuding between the former North and South Yemen republics [3] especially reflected the struggle for the feuding rival blocs to establish full control around the gulf of Eden and the Red Sea straits of Bab el Mandeb.

Only those of the new states which for one reason or the other were capable of staying independent or switching sides at will depending on the geopolitical winds did, manage weather the storms.

## **8.2.7 The ‘Peace Dividend’**

The peace dividend was widely used in the early 1990s to refer to the potential long term benefits resulting from the cuts in military budget spending after the end of the Cold War. It was assumed that some of the defence budget saving would be redirected to social programs or dedicated to economic growth. Without all the mutual suspicion, without the ensuing cutting edge rivalry which absorbed stratospheric amounts of resources, the development deficit today may have been minimal or might have hardly existed. The US alone, within the

span of eight years of the Reagan administration spent some \$2.2 trillion dollars on defence spending [4]. Some might argue that the stalemate between the two rival blocs prevented a more devastating world war. However the fact is that those countries which served as theatres for the proxy wars were often left severely devastated- be it Vietnam, Cambodia, Angola, Laos or Guatemala. As Todaro and Smith state, “one of the benefits of the end of the 45-year cold war between the United States and the former Soviet Union has been a substantial decline in foreign military and political presence in the developing world” [Todaro, Smith, Economic Development 2006, p. 45] But they immediately mitigate positive effects by claiming that this withdrawal led to an acceleration of ethnic tribal and religious conflict in area around the world..

### **8.3 Summary and Theoretical Conclusion**

At the bottom line two ideological paths towards economic progress and development came to clash head on for the greater part of the twentieth century, dragging all the world’s countries along, the most seriously affected ones being the newly emerging states with their fledgling primary export oriented economies. Only the four former NICs’ none, of them significantly endowed in natural resources but with vital strategic positions during the Cold War struggle, emerged from the development struggle to mimic the OECD development levels-and this within some of the most tense decades of the cold war.

The theoretical conclusion here is that the overwhelmingly, the geopolitical struggles which prevailed in the better part of the twentieth century especially in the 1960s, 1970s and 1980s constituted adverse external influences on development. The cold war constituted an export of the US –USSR ideological clash to broad areas of the world with developing countries; the two oil crises in the 1970s generated severe world economic recessions.

## **9. Country Cases**

This chapter and its sections will take a look at particular countries how the economic and geopolitical factors have played out in the development process of the countries. In some cases geopolitical factors have outweighed purely economical factors and vices versa. For most of the countries small historical background is mention. Given the limited magnitude of paper the particulars of all the countries cannot be treated in great detail. However the essentials necessary for the analysis have been outlined.



For most of the countries which are still basically raw material exporters care has been taken to show that some industrialisation has occurred, but also that they are still major importers of manufactures whether light or heavy. So the primary export and manufactured import oriented pattern is still dominant. Some of the countries through their primary products exports became capital surplus countries while others remained capital deficient. A section will be devoted to the countries which successfully emerged as exporters of manufactures, the former NICs, which are now OECD members and in the group of high income developed countries.

The most important economic indicators have been highlighted [1]. The Gross national Income and GDP per capita both at purchasing power parity (PPP) [1a] are used. The income categories-low income- low middle, upper middle income, high income- are classifications of the World Bank group dividing the Gross National Income (GNI) using the atlas method. Low income: \$765 or less; lower middle income (LMC); \$ 766-3,035; upper middle income (UMC), \$3,036-9,385; and high income \$ 9,368 or more

A concluding analysis will follow at the end of the chapter to link up all the vital aspects.

## **9.1 Cameroon**

### **Brief History**

Archaeological evidence suggests that humans may have inhabited parts of Cameroon as far back as 50,000 years ago.[2] As of today the earliest inhabitants are known to be the Baka peoples who still inhabit the forest zones of the south and the east of Cameroon. In the 5th Century AD the Sao civilisation did rise in the north of present day Cameroon around the vicinity of the Lake Chad area. Recorded contact with Europeans did begin in the fifteenth century, even though ancient historical chronicles mention Hanno the Carthaginian sailor as having reached the shores of Cameroon some 2000 years earlier. In 1472 the Portuguese sailor Fernando Po happened on the Wouri estuary filled with shrimps which he called Rio dos Cameroes. Its from this appellation that the country derived its name. After Portuguese, Dutch and British influences followed by Germans from the 1880s and the English again and the French onwards from 1914, Cameroon became a sovereign state in 1960.

The country has generally remained stable since this time. However a bitter pre-independence war against France did rage on from 1948. Most of the nationals were pro- Marxists and their struggle was brutally repressed by the colonial administration and pursued by the administration that took over at independence. The stability that obtained was still haunted by

the ghosts of the liberation struggle thence. The one-party system established in 1966 was as much a manoeuvre to quell any legitimate vents of dissent as it was to consolidate Cameroon firmly on the pro-west capitalist camp. It was not until 1991 after the end of the Cold War that the one-party system was dismantled.

### **Development Efforts since 1960**

Plantation agriculture which had been established by the Germans was pursued by the English and the French. Cameroon was thus drawn into the international economic system, as the colonial trusts produced raw materials for European industries and imported manufactured goods. This system persisted on Cameroon's emergence as a new state and thereafter. The country has been basically a primary product exporter and predominantly an importer of industrial goods. Exceptions to the latter are refined petroleum products, cement textiles and clothing, beverages, aluminium and some other light manufactures. Expansion of export cash crops in the 1960s and 1970s were destined to raise foreign capital. The 1973 green revolution ensured food self sufficiency. The discovery of commercially exploitable petroleum in the 1970s was a great booster to the economy as oil became the most valuable export. The petroleum revenues were used to raise agricultural prices and boost farmer revenues, pay for the import of technology and industrial inputs and to build financial reserves. Unfortunately revenues went into projects which were derailed particularly by technology transfer problems. Large scale industrial development projects foundered, much capital was lost and the country remained dependent on the import of industrial manufactures. The promotion of agribusinesses and small and medium size enterprises producing goods for domestic consumption was more successful. The fostering of education was also successful. Cameroon adopted five year development plans and did embark on large scale high ICOR infrastructural projects- roads dams, hydroelectric and thermal power plants, transmissions lines for electrification, ministerial and administrative buildings, schools, university centres, hospitals and the like.

The variety of the country's primary exports did to a certain extent shield it against the market fluctuations in any one particular commodity.

However despite the export revenues from its diverse cash crop base and petroleum, the country still remained a net capital importer. This was amplified during the price slump in oil and other primary commodities that that ensued in the 1980s so that by the close of the 1980s and in the course of the 1990s the country, still a net capital importer, did undergo IMF structural adjustment. The devaluation of the CFA franc in 1994 touching all the thirteen members of the CFA franc zone did help in reducing excessive importing and in making

exports more competitive. According to IMF data Cameroon's external debt at 2003 stood at US\$ 9 billion [3]. The figure was down to US\$6.2 billion in 2005 [4]. Only recently, in 2006, were the debts servicing cancellation effected through IMF and the World Bank group arrangements. Under the enhanced debt relief initiative for heavily indebted countries Cameroon did obtain what would amount to a reduction in future debt service payments by about US\$ 4.9 billion in nominal terms. According to the IMF and the World Bank group with all the arrangements completed, the debt relief represents a 100 percent debt cancellation. [5] The freed up resources are expected to be redeployed towards economic growth and other social development programmes.

Cameroon did register periods of growth in the 60s and the 70s but it was growth without profound economic transformation. The appropriate conditions that could lead to a transformation of the economy by expanding its secondary (industrial) and tertiary bases substantially and decisively did not obtain. So while economic progress has been made since independence the primary export dependent nature of the country has not been offset. As such while development is within sights but is still elusive and a long and winding road lies ahead.

### **The Economy of Cameroon in brief**

Estimates from 2006 put the population of Cameroon at 17,340,702. The GDP/PPP in 2005 was estimated at 31.77 billions and a per capita GDP of \$ 1,900.

Agricultural production provides almost half of the country's gross domestic product – estimated at 45.2% in 2006 [6] and was the main stay of the economy before the advent of petroleum exploitation. Cameroon has a very diverse agricultural export cash crop base. However subsistence agricultures and animal husbandry are the predominant rural activity. An estimated 70 % of the country's population is engaged in agriculture

The major agricultural export crops are grown in plantations. Cameroon inherited plantation agriculture from the colonial times. Cocoa coffee, tea, bananas, oil palm, rubber, pepper, peanuts, cotton, and tobacco in the main are plantation crops.

Forestry exports are mainly timber from the equatorial rain forest of Cameroon providing about \$60 billion in state revenue annually.

Oil refining, crude oil extraction and the production of petroleum product remain the leading component of Cameroon's industry.

Besides refining, the secondary sector comprises aluminium smelting oil and other mainly light industry like food processing, saw milling, cement production, the manufacture of light

consumer goods textiles and ship repair. Most of smelted aluminium is exported. Traditional handicraft in wood carving and hides and skin are common.

Cameroon's exports mainly comprise, petroleum, aluminium, agricultural and forestry products. Cameroon imports mainly machinery, electrical equipment, transport equipment, fuel and food. Exports totals stood at \$ 3.236 billion f.o.b (free on board) [6a] according to 2005 estimates while imports amounted to 2.514 billion f.o.b following 2005 estimates. Cameroon's main Trading partners are Spain, Italy the UK, France, The US, South Korea, the Netherlands, Nigeria, Belgium China, Germany (2004)

The country is still classified as a lower middle income economy and it still imports mainly high value added capital intensive goods.

## **9.2Nigeria**

### **Brief History**

Nigeria is the most populous of African countries and upon independence in 1960 was an assemblage of lands and peoples from the coast of West Africa and its hinterlands carved out by colonial boundaries. The first inhabitants of these lands were thought to have been the Nok people from BC 500 to AD 200. The Portuguese first made contact with the Nigerian coast in 1482, in the same year as they did neighbouring Cameroon. They were followed in turn by the English, the French and the Dutch. Between 1842 and 1897 Britain had carved out most of the territory that came to be known as Nigeria.

### **Post Independence Development**

Six years after independence in 1960 internal upheavals accompanied the drive to development right into the late 1990s-Regional antagonisms, civil war a mixture of military and civilian administrations oil boom and slump.

The 1973 oil shock resulted in an oil boom for Nigeria. This led to the adoption of an ambitious third development plan creating new states and introducing a series of infrastructural development projects all which called for a high level of governmental spending. It also encouraged the state to borrow on the international market leading to a significant rise in debt commitments. Amidst high inflation and unemployment the oil boom in the 1970s only weakened government institutions leading to an uneven distribution of national wealth.

With the oil slump that followed and the world economic recessions, cuts in investments were made leading to unemployment and discontent. Major projects which made good long term economic sense had to be abandoned or at least indefinitely postponed. As for the basic infrastructure investments that had been undertaken, they were of a high ICOR and with no immediate economic impact. Infrastructural programmes which had been completed such as roads, universities transmission lines and power stations required maintenance and staffing. In the meanwhile the country continued to import manufactured consumer goods, components for assembly industries, but also food. Nigeria's oil dependent economy was greatly affected. Oil which accounted for 3 per cent of government revenues in 1963 represented 80 per cent in 1982 and 90 percent of the value of all Nigeria's exports [7]. Overdependence on oil led to the neglect of agriculture and the fall of agricultural production by 14 percent between 1978 and 1981 [8]. Due to penalties and late servicing, Nigeria's external debt which had been contracted in the 1970s and the 1980s had ballooned to more than US\$ 35 billion in the 1990s. Fortunately given the country's steady oil revenues and especially after recent the 2006 oil bonanza Nigeria has been able to settle most of its external debt. In April 2006, after negotiations with the club of Paris, the remainder of its debts was written off. Nigeria bought back the rest of the existing debt to the tune of US\$12.4 billion in addition to the US\$ 8 billion that had been repaid. The offset of the debt burden clears the way for greater government spending on infrastructure, healthcare and education and is hoped will prompt greater foreign investment. With a better credit rating the country can now solicit capital from international markets on more favourable terms.

Nigeria is yet to broaden its production base and the road to development filled with a lot of challenges. In its development bid it did demonstrate difficulties in quickly developing a capacity broad enough to absorb investment.

### **The Economy in Brief**

According to 2006 estimates Nigeria has a population of about 132 million people. The GDP/PPP stood at \$132.9 billion with a GDP per capita of \$ 1000

More than half of Nigeria's labour force is still engaged in subsistence agriculture- Agriculture historically had been the land's mainstay until the advent of petroleum exploration which started in earnest in the late 1950s and became in the early 1970s the country's main foreign exchange earner. The boom in the petroleum sector accelerated the rush to the urban areas to the detriment of the agricultural sector which is largely based in the

rural areas. During the colonial era, the main cash crops were, palm nut and kernels, cocoa, cotton and peanuts.

Seventy percent of Nigeria's labour force is engaged in agriculture, forestry, fishing and animal husbandry; Ten per cent in industry and twenty percent in the service sector (1999 estimates). Besides petroleum Nigeria's other natural resources include coal, tin, columbite, iron ore, coal, limestone, lead and zinc. Nigeria has mainly light industry which involves the processing of agricultural goods, the manufacture of textiles, soap, tobacco products, paper, cement, fertilizers, chemicals, steel and small commercial ship construction and repair. Fishing and forestry are also important as well as the traditional handicraft and artisan sectors producing traditional woven goods, pottery, metal objects and carved wood. Nigeria's exports, estimated at \$52.16 billion f.o.b in 2005 are mainly petroleum and petroleum products- 95 percent of the total, followed by cocoa and rubber. Nigeria's imports are machinery, chemicals, refined petroleum products, transport equipment-motor vehicles, manufactured consumer goods, food and live stock. Total import estimates as of 2005 stood at 25.95 billion f.o.b. Nigeria's major trading partners are the US, Brazil, Spain, The UK, China, the Netherlands, France, Germany.

The premier oil exporter in Africa and the fifth exporter world wide, Nigeria produces high quality crude, and is a steady supplier of the US markets.

The country is still classified as a low income country but the removal of the burden of debt servicing will free up the country's resources for domestic use.

## **9.3 Congo DRC**

### **Brief History**

The Congo used to be Zaire from 1975 until 1997 when it reverted to the name it had at independence.

The area within Congo's borders is thought to have been inhabited by Neolithic peoples as far back as two millennia BC. These Neolithic Bantu speaking peoples are thought to have added to and displaced the indigenous Twa or Bitwa peoples [9]. Subsequent migrations from the Darfur and Kordofan regions of Sudan as well as from East Africa into Eastern Congo added to the mix of ethnic groups.

In more recent times European exploration mainly by Morton Stanley began in this area in the 1870s under the sponsorship of Leopold II of Belgium who eventually claimed it in 1885 as

the Congo Free State. Brutal rule ensued until 1908 when under international pressure the Belgian parliament wrested it from the monarch's control. The country became independent in 1960 ending more than 80 years of Belgian colonial rule during which time the vast oil palm plantations were established and mineral extraction flourished.

### **The Impact of the Cold war**

The Congo crises, a major theatre of the cold war, did plunge the country in turmoil from its independence in 1960 until 1965. Within this period the turmoil had resulted in the demise of the UN Secretary General Dag Hammarskjöld and the Nationalist leader Patrice Lumumba, whom after falling out with the Belgians had turned pro- soviet eastern bloc. After the takeover by the pro- US western bloc- backed Mobutu, a long autocratic rule ensued with a widespread nationalisation of the national economic sphere. After the fall of Mobutu, a new leadership under Kabila emerged but the country was again plunged into sporadic internal conflicts culminating with the 1998 civil war which fortunately ended with peaceful negotiations. In 2001 Kabila was assassinated and was succeeded by the younger Kabila under whom the country has had to grapple with sporadic armed civil struggles. Even after the recently held elections in October 2006 a couple of sporadic violent armed exchanges gripped the capital city. The crises which erupted from its year of independence, in the midst of the Cold war, have haunted the country to date.

The Congo DRC is a striking example in which geopolitical woes became internalised, manifest in an autocratic rule and a latent rebellion. Expenditure on armaments was a drain on resources and latent instability an inhibiting factor to economic liberalization. The dependence on a raw material exports oriented economy, creating an avenue for rent seeking, which the autocratic regime exploited with impunity, led to the appropriation of resources into personal hands as well as its wastage on megalomaniac projects. A Cold War induced conflict at independence and a Cold War induced autocracy had negative economic implications for an economy which largely remained primary export oriented. The far reaching effects in retarding the country's economic development are undeniable

### **The Economy in brief**

The Congo DRC's population is estimated at about 62, 660,551 as of 2006 and the GDP /PPP of 46.37 billion with \$800 per capita

Today Agriculture involves the cultivation of coffee, sugar cane, oil palm, rubber, tea, quinine, tapioca, bananas, and maize

Natural resources include cobalt, copper, cadmium, petroleum, industrial and gem diamonds, gold silver, zinc, manganese, tin, germanium, uranium, radium, bauxite, iron ore, coal, hydro power, timber. Seventy- five percent of the country is covered by the equatorial rain forest with valuable wood types such as ebony mahogany and teak. The country boasts significant offshore petroleum deposits where the Congo River enters the Atlantic.

Industries include mining (diamonds, copper, zinc,) mineral processing of copper zinc and cassiterite( tin ore) petroleum refining, the manufacture of consumer products- like cement textiles, footwear, cigarettes, food processing and beverages, commercial ship repair

Major Exports, diamonds, copper crude oil, copper, coffee and cobalt. Most of Congo's foreign exchange revenue still comes from primary product exports which makes the economy vulnerable to volatility in the prices of those commodities. Following the decline of copper productions, diamonds became the country's leading export since 1994. Congo produces a significant portion of the world's small industrial diamonds.

Imports include mining equipment and other machinery, transport equipment, fuels

Major trading partners include Belgium, Finland, US, China, South Africa, France, Zambia, Kenya, Germany,

Congo DRC is classified as a low income country by the World Bank group

## 9.4 Cuba

### **Brief History**

Although Cuba had been a Spanish colony for almost 400 years, the island developed increasing trading links with the US in the 19th century. Cuba became an independent republic 1899 but remained a US protectorate until 1902. Sugar cane production in large plantations boomed on the island as early as the 1800s. As economic and political ties grew between the two countries, there was substantial US investment in the production of sugar and tobacco for export as well as preferential aspects for Cuban exports to the United States. By 1926 US companies owned 60 percent of the Cuban sugar industry and imported 95 percent of the total Cuban Crop [10]

### **The Lasting impact of the Cold war Struggles**

The coming of Fidel Castro to power in 1959 led to the severing of Cuba's traditional relations with the US. The 1952 military pact with US was rescinded; US assets were confiscated and soviet style collective farms were established. The first agrarian reform law



passed by the new government led to the appropriation of large scale American- owned land holdings. Relations with the US were broken in January 1961 and Cuba formalised its alliance with Soviet Union. The arms embargo which entered into force in 1958 was followed by a partial economic embargo in 1960. An array of other measures culminated in the freezing of Cuban assets in the US and the consolidation of existing restrictions. The Soviet Union promptly stepped in offering Cuba preferential trade prices mainly for the Cuba's sugar exports and its crude oil imports from the USSR. After the unsuccessful US backed Bay of Pigs invasion of in April 1961, the US and the Soviet Union squared over Cuba in the missile crises that marked the high point of the Cold War confrontation. Cuba went on to foment and back communist revolutions around the world notably in Angola where its troops were stationed in the 1980s. The dissolution of the Soviet Union and the halt in the flow of Soviet aid plunged the economy into severe crises. Its foreign trade plummeted as it had long been dependent on trade with the Soviet Union. The American embargo, strengthened in 1996 and 2004 is still in force.

Since Cuba became a declared socialist republic in 1961, the US government has initiated various policy measures which have had a considerable political and economic effect on the Island. The Organisation of American States did also impose Multilateral sanctions on Cuba lasting from July 1964 until July 1975. With the unfavourable geopolitical situation and its economic consequences, the vast resources consecrated in maintaining the survival of the regime and defence, very little has been or can be done about a comprehensive structural economic reform.

### **Cuba's economy in brief**

Today Agriculture accounts for 21.2 per cent, industry 14.4 per cent and services 64.4 percent of the active labour force. The state sector employs 78 per cent of the labour force and the non state sector 22%. Industries include sugar petroleum, tobacco, construction, nickel, steel, cement, agricultural machinery.

Exports are sugar, nickel, tobacco, fish, citrus, coffee, medical products. Sugar remains Cuba's major export followed by nickel. Export estimates for 2005 were \$ 2.388 billion fob. Imports, estimated at 2005 \$6.916 billion fob, are in the main petroleum, food products, machinery, equipment, chemicals.

Cuba's major trading partners are the Netherlands, Canada, China, Russia, Spain, Venezuela, the US, Italy, Mexico (2004)

Manufacturing on the main involves the processing of agricultural products like sugar milling and tobacco but also the manufacture of textiles, fertilizers and cement. There is a substantial oil refining industry.

Tourism today is the country's most important foreign exchange earner. Population estimates for Cuba 11,382, 820 2006 est. GDP/PPP \$37.24 billion

Today Cuba is classified as a low middle income country by the World Bank group.

## 9.5 Iran

### **Brief History**

The history of the land today known as Iran, formerly Persia, dates back 6000 years but modern day Iran can be traced back to the 1501 with the founding of Shi'a Islamic state under the Safavid dynasty by the Shah Ismail I. In the eighteenth century the rising Imperial states Russia and Britain did wield considerable political influence in Teheran under the Qajarid kings but Iran maintained its sovereignty and was never colonized. In 1921 with rise of Reza Khan to power as the Shah of Iran, a new phase of the lands history began in the twentieth century. After the Anglo Russian invasion of 1941, the younger Pahlavi Reza Mohammed was installed as Shah. Mossadeg deposed him and nationalised the Anglo American oil company.

### **Geopolitical Upheavals**

Suspected by the USA and the UK of having communist backing via the Tudeh (communist party) Mossadeg was in turn overthrown. Pahlavi Reza Mohammed was returned to the throne and from then on Iran has moved from one political upheaval to the other- the 1979 revolution, the Iran-Iraq war, the US and UN sanctions and the ongoing nuclear enrichment crises.

Iran sees itself as a regional power in the gulf region and has since the 1979 revolution pursued a defiant foreign policy towards the United States and Israel especially and has sought to diminish foreign interference within the region.

Iran is another striking case of how a highly charged geopolitical climate has slowed the pace of economic development of a country largely dependent on a single primary product.

But Iran is also an example that can nuance the effects of a colonial economic system on the trade pattern that newly established states followed after attaining political independence. Iran at the beginning of the 20th century was equally a newly emerging state in a way similar to

the emergent states at the time. Although it was never colonised Iran had suffered repeated foreign intervention in the nineteenth century. Then with the discovery of oil in 1908, it entered the twentieth century international trading system as a primary commodity fuel exporter for industrialised economies in Europe and North America especially.

### **The Economy of Iran in Brief**

The population of Iran according to 2006 estimates stands at about 68,688,443 inhabitants. The Gross domestic product at purchasing power parity GDP/PPP for 2005 stood at \$ 552.8 billion giving a per capita income of \$8,100. Of the active labour force 30 percent are engaged in agriculture, 25 percent in industry and 45 percent in services according to 2001 estimates.

The Iranian industry sector includes petroleum, petrochemicals , and among other lines of production textiles, cement, other construction materials, food processing notably sugar refining and vegetable oil production, metal fabrication (the country has an iron and steel plant) and armaments.

Exports at 2005 estimates totalled \$55.42 billion of which 80 percent was petroleum; the rest - chemical and petrochemical products, fruits, nuts, carpets,

Imports at 2005 estimates stood at \$ 42.5 billion comprising mainly industrial raw materials, intermediate goods, capital goods, foodstuff, other consumer goods, technical services, and military hardware.

Petroleum was discovered in Iran in 1908 and since then oil and natural gas have remained the predominant sector of the economy.

Iran's economic activity was severely disrupted during the revolution and was further depressed by the war with Iraq and by the decline of oil prices from late 1985.

Growth resumed in the two years after the war and oil revenues from the windfall in 1990 after the Iraqi invasion of Kuwait, partly contributed to this growth. In 1991 after the Iraq was forced out of Kuwait oil prices fell again leading to a decrease in oil revenues and a growing external debt. It was a direct demonstration of the economy's dependency on the petroleum sector. In 1991 steps were taken to move from a command system economy to the free market mechanisms, but today the country's economy is a mixture of central planning, state ownership and other large enterprises, rural agriculture and small-scale private trading and service ventures. Its economic infrastructure has been improving over the last two decades even though it continues to be affected by inflation and unemployment. Through the construction of many dams through out the country and new irrigation schemes, the

agricultural sector grew faster than any other during the 1990s, with the extension in the production of export -based agricultural items like dates, flowers and pistachios.

Iran is classified a lower middle income country by the World Bank Group

## 9.6 Peru

### **Brief History**

Peru used was once part of the Incan Empire before coming under Spanish rule in 1553. It proclaimed its independence from Spain in 1821 but the independence war lasted another three years until 1824. Peru and Spain were at war again between 1864 and 1866 when Spain attempted to reassert its rule.

### **The Long Road towards Development**

After ceasing to be a political colony, Peru's economy still bore the marks of a colonial form of economy. Peru's minerals resources were not only large but varied. As the exploration of the resources progressed mining became increasingly capital intensive with foreign companies providing the capital and technology. So while minerals exports formed a large part of raw material exports, mining sustained only a small labour force. Since labour was abundant the wages of those participating in the export economy remained low. The greater part of the Peru's population and economy was detached from these export developments. There was growth therefore without development. With the limited size of the domestic market the development of import substitution industries financed by export earnings was limited.

While the variety of Peru's exports gave it a degree of protection against the market fluctuations in any one particular commodity, Peru's mineral exports in particular were geared toward the needs of the industrialised countries of Europe and North America. So when these countries experienced recession as in the 1920s and early 1930s or in the 1970s and the 1980s so too did the markets for most of Peru's exports.

The pattern of Peru's development in 1950s and the 1960s was thus clear and very much the situation as in the previous century. Much of it came from external stimulus and much involved foreign capital and expertise and was largely a development in which the value added to Peru's raw materials took place outside Peru. It is true for example, that smelters for refining the ores such as copper, zinc and lead were set up in Peru by the mining companies

form broad but their products were for export. So between 1950 and 1960 the annual growth rate of the country's GDP averaged 5.3 per cent. [11] Much of this growth was connected to investment from abroad and most, was concerned with the export of primary products. The multiplier effect of these developments was limited and a large part of the population was not involved. The result was that the capacity of Peru's economy to absorb and make use of the retained earnings of its export activities was much diminished. The essential component of absorptive home developments, particularly in the manufacturing sector but also in essential infrastructural development, was missing. So unlike the case of Hong Kong, Taiwan, Singapore or South Korea, export-led growth was not leading to a full and self-sustaining development.

### **Attempts at Industrialisation and Agrarian Reform**

All was not negative as industrialization was beginning to accelerate and social and physical infrastructural investments were taking place but while land reform had already been successfully dealt with in the Taiwan province and South Korea, through US impulsion, only frail attempts were made in Peru's case. The USA's decisive implication in both countries during the cold war era led in land reformed which served as a catalyst to socio-economic development while the lack of similar reforms in Peru was a significant impediment to the country's effort at self-sustained development. The agrarian reform which took place after the Agrarian reform law of 1969 did not achieve either equity or the improvement it previously intended. As ES Simpson stated, the military government of Peru in the 1970s could have learnt much from either Taiwan or China [12]. However the histories and land traditions, size or geography or cold war significance in terms of strategic location were not the same.

The massive political violence from the actions of the Shinning Path guerrillas and the Tupac Amarillo communist movements in Peru in the 1980s and the 1990s did not prove to be a super power proxy cold war conflict but the campaigns of the shining path especially did result in substantial loss of life property and did breed internal instability especially in the countryside. About 69,000 people were killed during the two decades of fighting between the government and the rebel movements. The impact of their campaigns was a lot more severe through the 1980s when the country faced a huge external debt and rising inflation.

In 1987 ES Simpson wrote "In the 1950s when many former colonies achieved their independence and were characterized by colonial initiated primary export economies, Peru, which had achieved independence some 130 years earlier, was still in that same a category. Changes were to come but they came slowly" [ES Simpson, *The Developing World*, 1987 p 301]

The case of Peru demonstrates the difficulty in which countries face in breaking out of a pre-set a pattern of trade despite unfavourable nature and but also how long a time it may take for a county to finally land on the path of a self sustaining development

### **Peru's Economy in Brief**

Peru has a population of 28, 302, 603 inhabitants according to 2006 estimates. In 2005 the country's GDP/ PPP \$169.5 with a GDP per capita \$ 6,100. Agriculture provides for the livelihood for the majority of Peruvians

Natural resources include copper silver gold, timber petroleum, timber fish, iron ore, coal, phosphate, potash, natural gas and hydro power.

Exports, which amounted to \$ 15.59 billion fob 2005 estimates include, copper, gold , zinc, crude oil and petroleum products, coffee, fish meal, cotton, sugar .

Imports 12.15 billion fob 2005 petroleum and petroleum products, plastics, machinery, vehicles, iron and steel, wheat and paper

Major trading partners the US, China, UK, Chile, Japan, Spain, Brazil, Columbia (2004)

Peru has a large mining and mineral processing industry where copper and silver are the most significant. Industry also includes steel and metal fabrication, fabrication of textiles, petroleum extraction and oil refining fishing and fish processing. Peru has one of the world major fishing industries. There is a substantial tourist industry. The difficulties in establish land transport net work due to Peru mountainous topography has further complicated the drive towards economic development. The inadequate transport net work has left large segments of the country isolated.

High inflation and high foreign debt hindered the economy through out the 1980s. In the 1990s Peru has made great strides in paying off its internal debt and soliciting foreign investment and privatizing state owned industries even in the midst of the Asian financial crises.

Peru is classified a lower middle income country by the World Bank Group

## **9.7 Saudi Arabia**

### **Brief History**

Saudi Arabia homeland of Arab peoples came under the control of the Ottoman Empire in 1517. It was not until 1932 that Ibn Saud founded the present day Saudi Arabia from the ruins of the defunct Ottoman Empire.

Oil was discovered in 1936 and commercial production began during the World War II period.

### **Beyond the Oil Boom**

The oil boom after 1945 led to the undertaking of vast development projects. With continuous heavy expenditures on social programs and on armaments due to the adverse geopolitical climate in the Middle East, the country began running annual deficits in the mid 1980s as oil prices plummeted. Recession which slowly crept in the late 1990s due to low oil prices pushed the country to effectuate cuts in budgetary expenditure. Saudi Arabia's dependence on the oil sector is not only manifest in the way oil prices affect the economy. It also depends heavily on foreign labour for its oil sector

Saudi Arabia along with other smaller gulf nations backed Iraq during its war with Iran fearful of the consequences of an Iranian victory under the ayatollah Khomeini. Flouting of quota limits by other OPEC members, competition from non- members oil producers and efforts at energy conservation and efficiency by the major importers combined to undermine world oil prices. Rising oil production outside OPEC and a falling demand of oil led to the reduction of oil revenues of Saudi Arabia, holding third of the world's oils reserves, from \$120 billion in 1980 to less than \$ 25 billion in 1985. Saudi Arabia faced a threat to its influence in the gulf region and domestic unrest.

### **A Regional heavy weight in the midst of geopolitical upheaval**

For the last five decades Saudi Arabia has been drawn to many different sides in the labyrinth of geopolitical conflicts in the Middle, be it its involvement with the Arab Israeli conflicts, frictions with Egypt, Syria and the Hashemite Jordan, the clash with Egypt over the two former Yemens, the OPEC oil embargo against the US, its allies and Israel, the Iran- Iraq war, the Iraq- Kuwait conflict, the first and second Iraq wars, even its border disputes with the United Arab Emirates UAE.

The predominance of oil as the leading energy fuel over this period, the price fluctuations notwithstanding, Saudi Arabia's pre-eminence as the swing oil producer with the capacity to impose production costs in order to rescue prices or carry out the threats to glut the market and derail prices, its strategic importance as a source of oil supplies to the major industrialised poles in North America, Europe and Southeast Asia, the unchallenged authority of the family of Saud as the state establishment, has preserved the resilience of its economic progress. However the vast diversion of resources into defence and security and the interventions, direct or indirect, the multitude of other geopolitical conflicts in the region have only served to

increase Saudi Arabia's dependence on the petroleum sector as well as the concentration of the kingdom's efforts to preserve the sector's vitality. With its vast foreign exchange reserves the country still has the capacity to engage the economic diversification which can result in weaning it away from its overwhelming dependence on the oil sector. The kingdom has remained an aid donor country and as the other Middle East oil producers, and unlike the capital deficient oil producers, has never experienced the devastating effects of debt servicing. Oil exploitation is expensive so fields do not go on-stream overnight and besides there is no real substitute for oil in the petroleum-tailored world economy. Any sudden interruption of world supplies has the potential to cause severe economic problems. Ready daily Saudi supplies even for the US which is the second largest producer is vital because of the extent of the daily demand and the sensitivity of the oil markets. With its immense oil reserves America and Europe had by the 1970s become dependent on Saudi Oil a fact which gave it considerable leverage power in form of a deterrent: an oil embargo. By the early 1980s the kingdom gained full ownership of Aramco. As the premier world oil exporter Saudi Arabia emerged as a regional power on its own right that could switch sides at will. As such Saudi Arabia was able to weather the storms of the Cold War conflict and other geopolitical upheavals in the Middle East.

### **The Economy of Saudi Arabia in Brief**

As the world number one oil exporter, the oil industry dominates the Saudi economy representing more than 90 percent of all exports earnings. These earnings amounted to \$165 billion f.o.b according to 2005 estimates.

The population according to 2006 estimates stood at 27,019,731 inhabitants. The GDP/PPP according to 2005 estimates was 340.6 billion giving a per capita of \$12,900. Of the active labour force 12 percent are employed in Agriculture 25 percent in Industry and 69 percent in services.

Industries include crude oil extraction, petroleum refining, basic petrochemicals, ammonia, industrial gases, sodium hydroxide (caustic soda), cement, fertilisers, plastics, metals, commercial ship repair, commercial aircraft repair and construction.

Saudi Arabia's major imports are machinery and equipment, foodstuff, chemicals, motor vehicles, textiles. Imports amounted to \$44.93 billion fob according to 2005 estimates. The kingdom's major trading partners include the US, Japan, South Korea, China, Province of Taiwan, Singapore, Germany and the UK.

Saudi Arabia is classified as a high income country by the World Bank Group



## **9.8 Qatar and the United Arab Emirates**

Qatar and the United Arab Emirates (UAE) are two cases of primary commodity producers which have made substantial progress in their social and economic development. Both states were largely free from geopolitical confrontation and so suffered no economic devastation. They have long remained capital sufficient oil exporters and so did not suffer from the burdens of debt servicing. Their exports remain primary products, their imports manufactured goods, but both have a highly developed service sector proof of economic diversification. This diversification provides the states with the ability to absorb the value added gap and to establish the built in capacity to absorb the economic shocks that may arise from oil price volatility or decline.

### **Qatar**

Qatar used to be administered by sheiks from Bahrain but after the fighting that broke out in 1867, Al Thani the head of a leading Qatari family was installed as ruler. In 1916 Qatar became a British protectorate. Qatar gained its independence from British rule in 1971. Oil was discovered in the 1940s and by the 1950s and 1960s oil revenues brought in abundant wealth to the country. With oil constituting about 85 % of the country's revenue, the people of Qatar enjoy one of the highest per capita incomes in the world. Qatar is one of the world's biggest producer Liquefied natural gas. Present Oil reserves are estimated at 15 billion barrels while gas reserves are estimated at between 800 and 900 trillion cubic feet.

The social and economic transformation of Qatar is proceeding with full steam. In order to ensure economic diversification, the country seeks to stimulate the private sector, develop a knowledge economy and raise the capacity of its financial services. The Qatar Science and Technology park established in 2004 is designed to attract and serve technology based companies and entrepreneurs from overseas and within Qatar. Qatar has become a regional banking hub. The Qatar Financial Centre has been created with the long term perspective to support the development of the country, develop local and regional markets and strengthen the links between energy based economies and global financial markets.

Of the Population of 885 359 inhabitants (2006 estimates) less than one- fifth of the people is ethnic Qatari. The sheikdom's GDP/PPP in 2005 was estimated at \$ 22.51 billion, with a GDP

per capita of \$ 26,100. Industries include crude oil production and refining, ammonia, fertilizers, petrochemicals, steel bars and commercial ship repair.

Exports in 2005 were estimates at \$ 24.9 billion fob. Exports include Liquefied natural gas (LNG), petroleum products steel and fertilisers. Imports according to 2005 estimates stood at \$6.706 billion fob. The major imports include machinery, transport equipment, food and chemicals. Qatar's major trading partners include Japan South Korea, Singapore, India, France, the USA, the United Arab Emirates (UAE), Saudi Arabia, Germany, and the UK (2004)

### **The United Arab Emirates -UAE**

The UAE is a federation of sheikhdoms, formerly part of seven so called Trucial states constituted in 1820 with British mediation. In 1892 an agreement between the states established a British Protectorate. The federation gained its independence in 1971. Qatar and Bahrain were to be part of the federation but they decided to remain independent. The hike in prices which followed the OPEC embargo of 1973, led the federation to amass colossal revenue from the oil exports. A rapid transformation of the economy followed and shot up the federation into a high income society with a broad social welfare system.

The Population of the UAE is about 2,602,713 according to 2006 estimates. And the GDP/PPP was \$74.67 billion with a per capita of 29,100 according to 2005 estimates.

Of the active labour force 87 per cent were engaged in services, 15 per cent in industry, and 7 percent in agriculture (2000 estimates).

Industries include petroleum and petrochemicals, fishing, aluminium, cement, fertilizers, commercial ship repair, real estate and infrastructure construction, small scale boat construction and textiles.

Exports in 2005 were estimated at \$ 103.1 billion f.o.b. UAE exports include mainly crude oil, 45 percent, natural gas, dried fish, and dates. Imports stood at \$ 60.15 billion fob according to 2005 estimates and these include machinery, transport equipment, chemicals, and food. The UAE's major trading partners are South Korea, India, Thailand, China, Germany, the UK, France and the US.

Traditional occupations like fishing and the fashioning of pearls are still being practiced but oil and gas are still vital for the federation's economy. As of 2006 the proven oil reserves of the emirates were estimated at 97.8 billion barrels [13]. The proven gas reserves for 2005 were 6 trillion cubic meters [14].

To reduce its dependence on the petroleum sector, federation's economy has become increasingly diversified into international banking, financial services, regional corporate headquarters, and tourism.

The federation is classified as a high income country by the World Bank group.

## **9.9 Botswana**

Botswana in Southern Africa, carved out as a British protectorate in 1885, became a sovereign state in 1966. The earliest inhabitants in the land were the San who were later followed by the Tswana. [15]

### **A Sustained Economic growth through Diamond Exports**

Since its independence the country has had one of the fastest growths in per capita income in the world. Economic growth averaged over 9 per cent per year from 1966 to 1999. The mining sector has been more significant revenue earning sector. Gold, manganese, asbestos, nickel, copper salt and soda ash are mined besides diamond. Botswana's diamond mines collectively make constitute the largest diamonds reserves in the world. The mining is carried out jointly by the government of Botswana and the DeBeers, a South African mining company. Debswana the only diamond mining company operating in Botswana is 50 percent owned by government and generates more than half of all government revenues. With the world's largest diamond mines, demand for Botswana's diamonds has remained high. The country has maintained an impressive foreign exchange reserve amounting to almost two and a half years of current import-over \$7 billion in 2005/2006. The countries foreign debt is negligible. Primary sector has remained the main stay of Botswana's economy and is dominated by mining, (especially diamond mining), but also cattle farming from which proceed exports of beef and other dairy products. The country's economy is closely tied to South Africa.

### **Attempts and Economic diversification**

The steady high prices of diamond in the world market kept the momentum of the growth. It was only in 1999 that Botswana suffered its first budgetary deficit when the price of diamonds slumped in the world market-demonstrating how vulnerable the economy still was to swings in the world economy. Faced with this reality the country is seeking to diversify its economy away from minerals. Minerals now account for one third of the country's GDP compared to almost half in the 1990s. To facilitate foreign investment and management Botswana lifted

foreign exchange controls in 1999 as well as any prohibitions on foreign ownership of companies.

The wealth in diamonds has led to the stratification of the economy and unemployment typical of primary economic activity that does not involve the general participation of the populace like unit farm agriculture. Botswana's mineral wealth has made it one of the wealthiest countries in Africa in general and in the Southern Africa in particular.

### **The Benefit of Internal Stability**

Botswana was not a theatre of the any geopolitical conflict so it experienced peace, stability and uninterrupted economic growth for decades, even with fact that it is landlocked and does not have abundant precipitation. Botswana, mainly a primary commodity exporter has been able to establish the foundations for future self sustaining economic growth.

Botswana's example is important for two reasons. Despite the geopolitical conflicts that rocked the Southern Africa region- liberation wars in the frontline states of Namibia, Zimbabwe, proxy cold war conflicts in the Angola and the Mozambique, the apartheid struggle in South Africa, Botswana did not suffer from the ravages of internal conflict and war. As for its major primary export it has been fortunate to have experienced a steady world demand for its diamonds as well as high world market prices for its diamonds. Diamond prices remained steady and high without the need for a cartel due to its relative scarcity and no viable substitutes. Most other agricultural and mineral primary commodities did not have this advantage especially as no cartel managed to survive, let alone start up, save OPEC. Congo with its diamonds and high prized minerals was not that lucky due to geopolitical conflict. Zambia dependent on copper exports was not that fortunate when copper prices collapsed; Zambia also face geopolitical adversity; marked by hostility from Ian Smith's Rhodesia (now Zimbabwe) and apartheid South Africa easy links to South African ports to which the country had come to depend since colonial times were severed. With the assistance from the People's Republic of China, landlocked Zambia had to embark on the construction of gigantic Tanzam railway to have access to Tanzanian sea ports- a very high ICOR project worth about US\$500 million [16]. So while landlocked Botswana could prosper with its diamonds, landlocked Zambia could not prosper with its copper.

### **The Economy in Brief**

Botswana's has a population of 1,639, 833 according to 2006 estimates. The GDP/PPP was \$16.48 according to 2005 estimates with an income of per capita \$10,000. The countries

industries include diamonds, copper nickel, salt soda as potash, livestock processing, and textiles.

Exports amounted to \$3.68 billion fob according to 2005 estimates

The country's exports in the main are diamonds, copper nickel, soda ash, meat, textiles

Imports totalled \$3.37 in 2005. The imports mainly include machinery, electrical goods, transport equipment, textiles, fuel and petroleum products, wood and paper products, metal and metal products but also foodstuffs

## **9.10 The former newly Industrialised Countries**

Taiwan, Singapore, South Korea and Hong Kong registered a spectacular economic transformation over the same period when prices of most primary commodities could not enable a great many number of countries to accumulate enough capital for their socio-economic transformation but also at the same time when the world was gripped in tense geopolitical conflicts- The foremost being the Cold War. Their endowment in raw materials was nothing compared to most of the other raw materiel exporters featured above. Yet they achieved a spectacular surge economic progress which many countries others which used to be in a more or less similar state of development like them have not been able to replicate after more than half a century now. Not only did they come to dominate the external trade of the developing countries, they went on to pose uncontrollable threats to the established producers of particular goods in Europe and North America. Even though they represented what seem to be a vindication of the tenets of free market economics, their performance hardly correspond to the axioms of the free market mechanism. Neoclassical economists were quick to observe that it was public policy which achieved the swift growth.

From among the four South Korea will be used as the main focus for discussion but relevant reference will be made to the other three.

### **9.10.1 South Korea**

The case of Korea is interesting because of importance as venue of the first open cold war conflict between the United States and the Soviet Union but also because of the differences in the levels of economic attainment and development of the two Koreas which is largely a

legacy of geopolitical conflict. Korean history dates back at least four millennia but for the purpose of this paper the history in the twentieth century will serve as the starting point.

After the Russo- Japanese war 1904-1905, Japan declared a virtual protectorate over Korea and formally annexed the country in 1910. Already between 1910 and 1940 manufacturing output increased on average by 10 percent annually. The economy was dominated by Japan which provided most of the capital employed in manufacturing. War time destruction and the loss of markets following the fall of the Japanese colonial trading system scaled back the progress that had been made this far. South Korea came into being after World War II as a separate territory under US control, while the northern part beyond the 38th parallel came under Soviet Union control.

Draconian land reforms which took place in the South Korea in the run up to the war through the impulse of the American administration eliminated the land owner class and led to an annual increase in agriculture of 3.5 percent by 1952

By 1981 agriculture and industry which in 1953 respectively accounted for approximately 47 and 9 percent of South Korea's Gross National Product, were now accounting for 16 and 30 percent of GNP. As for the contribution of heavy and chemical industries to industrial output it moved from 23 percent between 1953 and 1955 to 42 percent from 1974 to 1976 [17]. By 1982 two thirds of the population was engaged outside agriculture compared to the two thirds that were engaged in agriculture in 1960. And in real terms demand for South Korean goods in the world market grew at 18 percent per year after 1970.

“The Korean war, the first open conflict in the long contest for world supremacy between the United States and the Soviet Union, involved new levels of destruction.”[Nigel Harris, *The End of The Third World*, 1986 p. 35]. About 1.3 million people lost their lives while more were maimed or rendered homeless. The economic costs were estimated at about nearly two years of the country's gross domestic product. But after the war ended in a stalemate in 1953, the South Korea which emerged enjoyed a long period of internal stability. It maintained a close cooperation with the US onwards from that time onwards. Korea's strategic location and the highly significant US military presence made it a vital linchpin for The USA's policy of containment of communism. Through massive US military aid and civil assistance coupled with tight economic controls the economy slowly re-established its vitality. For nineteen years from 1960, the country stayed under military rule and it was during this period that the country experienced its economic miracle. In the sixties and the seventies the driving force behind the country's rapid economic growth was the state with large government spending, and active public savings. Within this time government expenditure constituted 40 per cent of

the national product total. In the heavy industry sector ship building was one of South Korea's spectacular success and a classic example of effective government creation of comparative advantage. In the 1960s with small coastal boats and trawlers the country was producing an annual output of about 20, 000 gross tonnes. When the state took the decision to enter into tanker ship building to exploit the boom in oil trades, the expansion that ensued resulted in the country creating an annual capacity of 4 million tonnes by 1983. At this time the country was controlling 23 per cent of the world tonnage market.<sup>[18]</sup> “ To put it in another way – in 1973, Sweden's out put was 230 times south Korea's; in 1983, Korea's out put was five times larger than Sweden's ”[ Nigel Harris, *The End of The Third World*, 1986 p 39]

It should be noted that even though Korea had an advantage with relatively low wages, compared to European and Japanese levels at the time, lengthy working times, higher productivity with its advanced technology, reliable and swift construction times, rigorous organisation and discipline, ship building was capital intensive characteristic of a capital abundant economy. However, this contradiction was the result of massive government impulse through financial backing, the facilitation of mergers, the constitution of a cartel and orientation towards specialization. The economy had its share of economic ups and downs. During the crises that were provoked by the 1973 oil shocks the country did increase overseas borrowing. Balance of payment problems did surface in 1979 when the increase in exports declined to 1 per cent coupled with high the oil price of the second shock, rising interest on debt and the world slump which led to a fall in export demand. There was political upheaval as well- in October 1970 General Park, the country's leader was assassinated and the military temporarily lost control over the country leading to widespread demonstrations against the atmosphere of oppression for over twelve months. But after the brief political and economic crises of 1979-1980, the country did carry out a wide-ranging readjustment of its economic and political direction. For example by 1982 the vehicle manufacturing industry was producing 121, 000 cars and made projections for half a million in 1986 and between 5 and 6 million in 1991 of which 3 million were to be exported.

### **The South Korean Economy in brief**

**GDP/PPP:** \$ 965.3 billion and a per capita of 20,400 (2005 estimates).

**Population:** 48,846,823 inhabitants (2006 estimates)

**Agricultural production:** rice, root crops, barley, cattle rearing, dairy products, poultry

**Industries:** Electronics, communications, automobile production, chemicals, ship building, steel production

**Natural resources:** Coal, tungsten, graphite, molybdenum, lead

**Exports:** US\$ 288.2 billion f.o.b (2005 estimates): Semi conductors, wireless telecommunications equipment motor vehicles, computers, steel, ships, and petrochemicals

**Imports:** US\$256 billion f.o.b (2005 estimates): machinery, electronics and electronic equipment, oil, steel, transport equipment, organic chemicals, plastics

**Major Trading partners:** China, USA, Japan, Hong Kong, Saudi Arabia (2004)

South Korea is classified by the World Bank group as a high income economy and is a member of the OECD.

## 9.10. 2 The Feat of the former NICs

Between the late fifties well into the mid 1960s, Hong Kong, Taiwan , South Korea and Singapore all substantially expanded their gross national products in a relatively swift manner through active export promotion of manufactured goods. Between 1965 and 1973 all the four countries experienced their highest and most sustained growth. Afterwards the fluctuations which set in the growth rates of all the four gradually synchronised.

With the exception of Hong Kong where the state was neutral, there was active state participation in the economic success of South Korea Taiwan and Singapore. For reasons of security during the cold war period, South Korea and Taiwan did engage in massive military expenditures. It was the same for Singapore even though to a lesser extent.

As for Hong Kong for most of its history it was the protected colony of the UK until 1997 when it reverted to Chinese rule. Although Hong Kong is the nearest approximation to the neoclassical model, it is very small and it the relationship it had with both relationship with the UK and China makes it rather a very special political case than a neoclassical prototype [19]

Contrary to the postulates of development economics they did grow through the export promotion of manufactured goods. While Hong Kong displayed the reflection of free market forces, state direction was predominant in Singapore, South Korea and Taiwan. In the latter two countries the state did impose draconian agrarian policy in the agricultural sector not dissimilar to those which did about in the command socialist economies. Regarding export promotion policies and import substitution industrialization, the experience of the four was not a vindication of the former or the repudiation of the later but rather an opportunistic combination of both approaches [20].

This is the case of a group of countries which did succeed within the same geopolitical and economic climates as the others, but on the basis of favourable external stimuli which most of the other countries did not benefit from. The four had no strategic resources to warrant any



predation; there were no direct armed struggles or wars interrupting progress after 1953 when the Korean war ended; They were engaged in the export of value added manufactures which were enjoying a more steady demand and prices compared to declining demand and prices for a vast array of primary commodities; a steady flow of a mixture massive aid and investments from the US, Japan, the UK and other capital abundant countries. "In the late 1970s, of foreign investments in Hong Kong, 46 percent were American, 20 percent Japanese and 7.5 per cent British. The remainder was a mix of Asian and European investors". [ES Simpson, *The Developing World*, 1987, p. 313]. In Singapore the government signed investment guarantees with Canada, the Netherlands, Switzerland, The United States, Belgium, Luxembourg, and Sri Lanka [21]Theirs is the case where, in the geopolitical struggle, the balance of forces rather produced stability; Hong Kong was not threatened – it was going to revert to Chinese rule eventually in 1997; Taiwan and South Korea and Singapore to a lesser extent were receiving steadfast US military backing; but above all at the time when the US policy of containment of communism in South East Asia and Oceania was almost complete

### **9.11 Country Case Summary**

Apart from the four former NICs the rest of the other countries were predominantly primary commodity exporters and faced with the task of building self sustaining developed economies the twentieth century. Some were affected adversely by a fragile international trade position or geopolitical troubles; some were capital deficient, others capital sufficient, some adversely geopolitically affected and capital deficient, others encountering no spill-over from surrounding geopolitical conflicts.

Clearly most of the countries are found at different stages of the development process and going it at different paces but all the same there has been lateness in development. This lateness in development has been due the relative youth of most of the countries as independent states, their dependence on primary commodity export and/or their embroilment in geopolitically induced conflict. Care then has to be taken when viewing just in terms of purely economic indicators currently observed at the expense of historical factors. Given its nature as a cumulative process over time, the evaluation of the development of countries needs historical hindsight.

Hong Kong, Singapore, Taiwan, South Korea did achieve spectacular social and economic transformation to usher in high economic attainment. At the time when the Cold War was still raging, they went on to become successful producers and exporters of manufacturers. They

were relatively young states but by virtue of the policy of containment of communism and their strategic location they became closely associated with the USA, Japan and their other allies. The paper believes that these factors did offset any problems of fragile statehood, lack of access to industrial country markets and difficulties with direct foreign investment, transfer of technology and know-how. And so four states went ahead to attain high levels of development within three decades while the vast majority struggled along.

Development in most cases a long drawn in many ways country specific. Yet with strong external stimuli it is accelerated as in the case with the former NICs. And with adverse external influences it is retarded or reversed altogether.

## 9.12 Theoretical conclusion: Validity and generalisation

### Country Box: Summary of external factors

*Predominantly affected unfavourably by external international economic factors:*

***Cameroon, Nigeria, Peru***

*Adversely affected predominantly by Geopolitical factors: **Congo, Cuba, Iran,***

*Positively affected by economic factors and largely unaffected by geopolitical conflict:*

***Botswana, Qatar and the United Arab emirates***

*Positively affected by the oil crises, geopolitical effects neutered, not a theatre of a proxy war **Saudi Arabia***

*Prospered during the same times largely due to favourable external impulsion: **the former NICs- Hong Kong, Singapore, Taiwan, South Korea***

If emergent countries benefit from favourable external stimuli they make developmental progress. It could be rapid in the case of the former NICs or steady in the case of Botswana, Qatar and the Emirates and Saudi Arabia. In the latter case their chances of operating far upward economic and social transformations are higher. If economy is adversely impacted persistent adverse world economic conditions, or are theatres of geopolitical conflict their development is retarded.

On this basis the effects of external factors could be generalised to explain lateness in development observed in the world or to explain rapid development of the former NICs or even post-war reconstruction of Western Europe and Japan.

## **10. The Development process in Future Perspective with Lessons from the Past in Retrospect**

Not all countries will reach a high developmental scale at the same time. So viewing development as a game to be won or lost is faulty and unrealistic. Development is not static but a discontinuous process of structural transformation. It is not the same thing as economic growth, which is usually an enlargement without change.

The paper in essence sought to explain the development deficit on the premises of unfavourable external factors- mainly through trade failure in raw material exports and geopolitical upheaval in the latter part of the twentieth century. Its objective is not to make blanket recommendations on how development should come about- the paper recognises the specificity of each country and the fact that different paths do lead to country development. However the paper expects that by looking in retrospect, countries can approach future development challenges with the consciousness that operating in a global economic system, influences from abroad whether deliberate or inadvertent are important in the social and economic development of every country. Favourable external stimuli will strengthen internal processes while unfavourable external factors will hamper them.

### **10.1 Trade in Natural resources: Once bitten twice shy?**

The invaluable nature of natural resources cannot be questioned. The developmental success of all countries today has depended on the use of natural resources and their continuous survival still depends on this continued use. However the reliance on the export of goods which without transformation, have a low economic value, has made the primary export dependent countries vulnerable to adverse swings in the world economy and without a solid basis for rapid development. Trading between countries without a comparable productive capacity has been the mechanism which produced this revenue earning disparity- and also a revelation of the misplaced interpretation of the theory of comparative advantage. Above all the theory of comparative advantage only makes sense when countries with a comparative

productive structure do trade. So while countries abundant in raw material will always export, they need to simultaneously diversify their productive capacities by developing the secondary, tertiary and quaternary sectors so as to avoid dependence on primary commodity exports.

Dependence is the issue given the risks of volatility, the decline in demand, exhaustion of supplies or the emergence of alternatives.

Raw material export in itself is not a curse, nor a hindrance to development for as long as it is not the sole source of an economy's revenue or for as long as its revenue earning capacity is sustained over long periods as to generate substantial capital surplus. The key factor was the short fall in capital as the substantial resources needed for state construction could not be fully covered revenues from raw materials. Neither did the raw material commodities prove to be sufficient collateral enough for debt repayment.

Drawing attention to the issue of primary commodity export dependence is important now as it was in the 1950s, 1960s, or 1970s for two important reasons. The need for raw materials by newly industrialising countries and the increasing importance of bio fuels like ethanol. First Many raw material exporters may lapse into this primary commodity bonanza and start another cycle of borrowing. Secondly the efforts at food security and self sufficiency could be affected through the shift of agricultural production of food to non food agricultural crops for ethanol production

## **10.2 Geopolitics, Interdependence and Development**

The paper has attempted to stress that development cannot be explained way from world geopolitical context because constant rivalry amongst countries, especially those with dominant economies and militaries, always has economic impact on the countries themselves and other countries. Most works on economic development usually give the impact of geopolitics on development but passing comments or scanty references. Giving this aspect it ample treatment is wholly worthwhile. In a world were plunder, rapine, destruction, war, exploitation, impunity are no longer an internationally accepted norm, primitive methods of capital accumulation of the past cannot be employed today. But while the ideological struggle between capitalism has faded away with the end of the Cold War, the geopolitical crises of the Middle East are still unresolved and the risks of geopolitical conflict along religious or uranium enrichment lines are real. Even the spectre of a renewed arms race looms with the persisting disagreement Russia and US (the NATO) about the US proposed missile defence shield system on European soil. Understanding the strong influences that hostile geopolitical

conditions can wreck on developmental progress across countries is vital in the very interdependent world of today.

No matter how high the levels of economic attainment countries may reach, it is not a finite point where economic activity ends. Countries need to preserve what has already been achieved-the economic engine has to keep running. Countries no matter how robust and self sustaining economies their economies might they do not get completely economically independent. On the contrary the stronger they get the more (inter)dependent they become. That signifies that economic bridges will be continually built and strengthened among countries. External stimulus to economic development through trade and investment is enhanced for all countries when mutually beneficial ties exist between them. As has been stated earlier in the text one key factor to the success of the four former NICs was their close association with the economies of North America, Western Europe and Japan. It is in this regard that geopolitical stability becomes all the important. No matter where geopolitical tensions escalate and no matter how small the scale may be, when they lead to embargoes or sanctions or war, development always takes a beating- Cuba, North Korea, Myanmar, Iran, Iraq, Sudan and Afghanistan are a few current examples.

It is vital for the world's economy that countries that are economically strong stay strong and that the emerging economies catch up and make the world economic system self reinforcing. That might certainly take long but the history of countries and nations shows that countries always strive for social and economic progress and development. In a world that has become more global, with mass media and an information age, the knowledge about the benefits of a high level of economic attainment is getting more and more generalised. With the ever growing interdependence, it becomes clearer that closer economic cooperation and the consolidation of social and economic development create more wealth for nations collectively.

### **10.3 Working from within: Institutions and Internal Capital**

The potential for internal stimulus to development is equally important. Development cannot be simply transplanted from one land to another. It is internally generated even though it is vital that external global conditions which can stimulate it do persist. Without favourable external markets for exports for example, successful industrialisation cannot flourish especially if the domestic market is not sufficiently large or if the domestic purchasing power is limited.

The vitality of the internal dimension of the drive towards economic and social development can be reinforced through appropriate concerted forward looking decisions, actions and broad based reforms. Granted internal peace and stability, appropriate conditions still have to be created in terms of political administrative and social organisations to ensure that countries not only experience growth but also experience development. If countries can experience substantial savings even through the export of raw materials, the chances of instituting reforms which can enhance the transformation of the productive structure of their economies are much higher. The cases of Botswana, Qatar or the United Arab Emirates for example do demonstrate this.

## **10.4 Institution Building for Better Development Dynamics**

Institutional reforms may take long and will require immense resources but are vital for social and economic transformations to emerge. These reforms will facilitate the establishment of formal property rights, proper functioning of the market, the strengthening of enforcement mechanisms, and accountability, but will also facilitate the active participation of citizens in the national as well as in the international economy.

The reforms that guarantee a formal property system for example will enable capital creation. It gives the possibility to produce surplus value over and above physical assets. Fixing the economic and social aspects of an asset in a formal property system greatly increases its velocity of circulation in the market. Integrating the whole formal representation system will serve as a means to all parties and to create accountability through the provision of all information references, rules and enforcement mechanisms. This does not come to pass over night. It did happen only about a hundred years ago in most countries in Western Europe and North America and for Japan a little over fifty years ago. Many developing countries have implemented macro-economic reforms which have permitted the internationalisation of the economies. However Additional reforms on formal property systems need to be implemented to enable their citizens to get integrated into the expanded global markets that have developed in the age of rapid globalisation [1]. The importance of these internal reforms notwithstanding, they need substantial resources to be implemented and even after such reforms are instituted they need to be fructified. To this effect the external dimension is still vital for two things: the potential direct foreign investment (DFI) pool from abroad and foreign exchange from the expanded global markets

## **10.5 The Hidden Potential of ‘Undiscovered’ Internal Capital Accumulation**

As was stated in Chapter 4, to cover the substantial capital requirements for country building many of the countries did count on revenues sales from the primary commodities to earn sufficient foreign exchange. Apart from a few countries most of the other primary commodity exporters remained capital deficient and to cover the capital short fall they resorted to loans from capital markets abroad which in turn caused severe treasury problems over decades. Internal capital accumulation through agriculture did not prove successful. However a distinguished study carried out by Fernando de Soto [2] and his associates in the second half of the 1990s demonstrated that over the last half century in the developing countries the entrepreneurial ingenuity of the people had created a vast scale of wealth that by far constituted the largest source of potential capital for development- a source which by far exceeded the holdings of governments, local stock exchanges, direct foreign investment as well as all the aid from abroad and loans extended by the World Bank group. Most of this capital is held in assets which remain undocumented and as such cannot be readily turned into capital or easily traded, used as collateral for loans or as a share against an investment.

Fernando De Soto and his team came up with interesting estimates just for real estate in urban and rural areas in selected countries. In Haiti for example untitled rural and urban real estates holdings were together worth some US\$5.2 billion. A sum which was four times the total of all the assets of all the legally operating companies in Haiti, nine times the value of all assets owned by the government and 158 times the value of all direct foreign investment in Haiti’s recorded history to 1995. In Peru they estimated that the value of extra legally held rural and urban real estate amounted to some US\$ 74 billion. This amount represented five times the total valuation of the Lima stock exchange before the 1998 slump, eleven times more than the value of government enterprises and facilities that could potentially be privatized and fourteen times the value of all foreign direct investments in the country throughout its documented history. In the Philippines they found the value of untitled real estate to be four times the capitalization of the 216 listed companies on the country’s stock exchange, seven times the total deposits of the country’s commercial banks, nine times the total capital of the state owned companies and fourteen times the value of all foreign direct investment. In Egypt they found the country’s dead capital in real estate to be worth some US\$240 billion. That figure

represented 30 times the value of all the shares in the Cairo stock exchange and fifty five times the value of all foreign direct investment ever made in Egypt.

In short they estimated that the total value of real estate held but not formally documented by people in the developing countries was at least US\$9.3 trillion

This figure is about twice the total amount of US monetary supply in circulation, almost equivalent to the total value of all the companies listed on the main stock exchanges in the world, more than twenty times the total direct investment in the developing countries between 1989 and 1999, forty six times the world bank group loans in the past three decades and ninety three times all the development assistance to these countries in the same period.

Such is the mammoth potential of internal domestic capital that institutional reforms can bring to life if formal property systems are established and enforced. With such vast sums of capital already accumulated but inert, with no regeneration capacity, what the developing economies need are easily accessible property mechanisms which can enable assets owners to produce or secure greater value both in domestic and in expanded global markets. But once they are connected to the expanded global markets then their economies will be linked even more to the fortunes of the global economy- be they boom or bust. The impact of external economic influences will always be there.

## **10.6 The Development Deficit within World Economic Evolution**

Practically it is not possible for all the about 125 countries to attain a high level of economic development in a relatively short time and at the same time. Looking at the historical path of the economic development of countries, it reassembles more like a gradual process of world economic evolution. Any sort of evolution takes time and only progresses as favourable conditions fall in place. After many millennia of Europe's collective existence, industrialisation began in the UK. It did spread rather slowly to all the other countries that eventually became industrialised. Today most of the developing countries have experienced some form of industrialization or another. The lateness of economic development has certainly debilitated successful socio- economic transformation in many lands. However this development deficit should be regarded as a temporary set back caused by a combination of factors at the time when they were facing the challenging task of country building. This temporary situation is of course full of economic management difficulties and hardship for the populace. However once the influence of the debilitating factors is diminished the development drive runs its course. It takes time but is consistent with world economic



evolution- the long process toward the improvement of world societal life. It is important for the time component to be recognised so that countries still considered as developing should not be viewed as failures but as economies under construction on the path towards self sustaining social and economic well being. World economic evolution progresses as the number of robust economies increases because synergies through mutual self reinforcing processes are amplified.

## **10.7 Conclusion: Harmonising Analysis with the theoretical Premise**

In the contemporary interlocking world economic system characterised by a continuum of development, countries are situated at different stages of economic attainment with disparate resources levels. The mobility of world capital resources through trade and investment is necessary to palliate the gap in the areas in which they are deficient and in so doing enhance the development process. Favourable world economic and geopolitical conditions can facilitate this. It was not the case in the 20th century during three to four critical decades over which a host of emergent states were initiating the drive towards a of socio-economic transformation required to become self sustaining. The paper in accordance with the general analysis and the theoretical premise considers this to have substantially contributed to the present world development deficit.

## Notes

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3. Michael P Todaro, Stephen C Smith, Economic Development, Ninth edition, 2006 p.14
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5. UNCTAD website, 2007
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1. ES Simpson, *The Developing World: An Introduction*, 1987 p.118
2. ES Simpson, *The Developing World: An Introduction*, 1987 p.119
3. Dualism (note)
- 4 -6 Causes of Underdevelopment and Concepts for development; An introduction to development theories by Dr Fritjof Khunen- *The Journal of the Institute of development Studies*, NWFP Agricultural Vol. III, 1986, 1987 University, Peshawar
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2. Herman M Schwartz, States versus The Markets, 1994 p. 161 quoting in Fishlow “Lessons from the Past”

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4. ES Simpson *The Developing World: An Introduction*, 1987 p. 129
- 5-6. Michael P Todaro, Stephen C Smith, *Economic Development*, Ninth edition, 2006 p.621
7. E S Simpson *The Developing World An Introduction*, 1987 p. 102
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11. Herman M Schwartz, *States versus The Markets*, 1994 p. 253
12. Herman M Schwartz, *States versus The Markets*, 1994 p. 249
13. *The New Globalism and Developing Countries*, John H. Dunning and Khalil A Hamdani

#### **Chapter 4**

1. ES Simpson *The Developing World: An Introduction*, 1987 p. 91
2. ES Simpson *The Developing World: An Introduction*, 1987 p. 92
- 3 ES Simpson *The Developing World: An Introduction*, 1987 p. 92-93

#### **Chapter 5**

1. Herman M Schwartz, *States versus The Markets*, 1994 p. 150
2. Herman M Schwartz, *States versus The Markets*, 1994 p. 149
3. Herman M Schwartz, *States versus The Markets*, 1994 p. 161
4. Herman M Schwartz, *States versus The Markets*, 1994 p. 160
- 5-6. Resource Curse or Debt Overhang, Osmel Manzano, Roberto Rigobon, working paper 8390, July 2001).

#### **Chapter 6**

1. Terry Lyn Karl, *the Paradox of Plenty, Oil Booms and Petro-States*, 1997 p. 18
2. Herman M Schwartz, *States versus The Markets*, 1994, p. 243
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4. DeBeers online, Feb.11 2007

#### **Chapter 7**

- 1 Wikipedia, Cold War, Yom Kippur war, proxy wars [http://en.wikipedia.org/wiki/Cold\\_War](http://en.wikipedia.org/wiki/Cold_War)
2. The Front Line States were the six states which teamed up to form an anti- apartheid alliance against South Africa namely Angola, Botswana, Mozambique, Tanzania, Zambia and Zimbabwe
3. North and South Yemen became unified as the Republic of Yemen on May 22 1990

4. 'Reagan spent \$ 2.2 trillion for the military over eight years. Military spending combined with the legacy of the economic structural problems of the 1970s, transformed the US from the worlds leading creditor in 1981 to the world's leading debtor. From Wikipedia Free Encyclopaedia, quoting Walter La Feber "Cold War", *A Readers Companion to American History* Eric Foner and John A Garraty

## **Chapter 8**

1- Unless stated otherwise the statistics for the country economy briefs in the country cases in Chapter Nine are quoted from, The Columbia Electronic Encyclopaedia (Columbia University 2007) and the Information Please Database (Pearson Education Inc, 2007). These sources also provided some of the general country information.

1a. See glossary for the definition of purchasing power parity (PPP)

2 Cameroon <http://www.sfu.ca/archaeology/museum/ndi/History.html>

3. IMF 2005 data, World Bank

4. Club de Paris June 17 2006, press release

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6a. Free on board- Seller pays for the transportation of the goods to the port of shipments plus loading costs.

7. ES Simpson *The Developing World: An Introduction*, 1987 p. 205

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9. Wikipedia, Congo DRC

10. Hugh Thomas: *Cuba the pursuit for freedom* p 336 quoted on Wikipedia

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17. Nigel Harris, *The End of the Third World*, 1986 p.31

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20. Nigel Harris, *The End of the Third World*, 1986 p. 69

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## Glossary<sup>1</sup>

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**Cartel** an organisation of producers agreeing to limit the output of their product in an effort to raise prices and profits

**Capital – output ratio** A ratio that shows the number of units of capital required to produce a unit of output over a given period of time.

**Comparative advantage** A country has a comparative advantage over another if in producing a commodity it can do so at a relatively lower opportunity cost in terms of the foregone alternative commodities that could be produced.

**Development economics** The Study of how economies are transformed from stagnation to growth and from low income to high income status

**Export promotion** Governmental efforts to expand the volume of country's exports through export incentives and other means in order to generate more foreign exchange and improve the current accounts of its balance of payments

**Gini coefficient:** An aggregate numerical measure of income inequality ranging from 0 (perfect equality) to 1 (perfect in equality). It is measured graphically by dividing the area between the perfect equality line and the Lorenz curve by the total area lying to the right of the equality line in a Lorenz diagram. The higher the value of the coefficient, the higher the inequality of income distribution; the lower it is, the more equitable the distribution of income.

**Gross National Income GNI:** This is the total domestic and foreign output claimed by the residents of a country. It comprises gross domestic product (GDP) plus factor incomes accruing to the residents from abroad, less the income earned in the domestic economy accruing to persons abroad. It was formerly known as the gross national product GNP.

**Human Development Index HDI:** This is an index measuring the national socio economic development, based on the measures of life expectancy at birth, educational attainment, literacy, and adjusted real per capita income

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<sup>1</sup> Apart from the PPP definitions all the other definitions are drawn from Economic Development, Todaro, Smith Ninth edition, 2006

**Import Substitution:** A deliberate effort to replace major consumer imports by promoting the emergence and expansion of domestic industries such as textiles, shoes, and household appliances. Import substitution requires the imposition of protective tariffs and quotas to get new industry started.

**Purchasing power parity (PPP)** is used instead of exchange rates and conversion factors. The PPP is calculated using a common set of international prices for all goods and services produced, valuing all goods in all countries at US prices. It is defined as the number of units of a foreign currency required to purchase the identical quantity of goods and services in the local market as \$ 1 would buy in the United States.

**Term of Trade:** The ratio of a country's average export price to its average import price; also known as the commodity terms of trade. A country's terms of trade are said to improve when this ratio increases and to worsen when it decreases, that is, when import prices rise at a relatively faster rate than export prices (the experience of, most developing countries in over the past several decades)

**Value Added:** This is the amount of the product's final value added at each stage of production.

## Appendix

**Table1: High Income Economies**

Andorra	Germany	Netherlands Antilles
Antigua and Barbuda	Greece	New Caledonia
Aruba	Greenland	New Zealand
Australia	Guam	Norway
Austria	Hong Kong, China	Portugal
The Bahamas	Iceland	Puerto Rico
Bahrain	Ireland	Qatar
Belgium	Isle of Man	San Marino
Bermuda	Israel	Saudi Arabia
Brunei Darussalam	Italy	Singapore
Canada	Japan	Slovenia
Cayman Islands	Korea, South	Spain
Channel Islands	Kuwait	Sweden
Cyprus	Liechtenstein	Switzerland
Denmark	Luxembourg	United Arab Emirates
Faeroe Islands	Macao, China	United Kingdom
Finland	Malta	United States
France	Monaco	Virgin Islands (U.S.)
French Polynesia	Netherlands, The	Taiwan Province(note)

Source: World Bank, *list of economies April 2007*

**Table 2 The Destination of merchandise exports 1960 and 1980**

Source	Destination (percentage of total)							
	Industrial Market Economies		E. European non-market		High income oil exporters		Developing Economies	
	1960	1981	1960	1981	1960	1981	1960	1981
Low in come economies	51	50	21	5	1	4	27	41
Low middle-income	73	70	7	3	1	2	19	25
Upper Middle income	67	63	6	4	-	3	28	30

Source: World Bank Development report 1983

ES Simpson