

Dependency Theory and Its Limits: A Review

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Abstract

If states are connected with each other, what is the nature of this relationship? Why do a few states (mostly of the global North) get richer, and the many others (mostly of the global South) remain poor? In other words, why do some states fail and others not? The “dependency school” built upon the history of colonial experience of the South to suggest answers for these questions, pointing out that the world economy was exploitative structurally. This essay presents a review of the literature on dependency theory, using insights from postcolonial theory.

Keywords: Underdevelopment, Dependency, Core-periphery, Modernization, Postcolonialism

I. THE RELEVANCE OF DEPENDENCY THEORY

Globalization is the “big idea” of the twentieth century that encapsulates the contemporary world context (Held et al. 1999a). As an integral part of political vocabulary, it divides scholars and policy makers as much as it unites them (Zamagni 2003, 182). As Danilo Zolo (2004) puts it, the emergence of “a global network of social connections and functional interdependencies” has linked individuals and the states in a certain way. No one can miss that the process of globalization has broadened, deepened, and sped up the worldwide interconnectedness in all aspects of life, cultural, financial, environmental or politico legal. It has created a shared global economic and political arena (see Held et al 1999b). This means that the fate of the developed, industrialized, and rich states (the West or the global North) and the developing, non-industrialized and poor states of the world (the non-West or the global South) are now tied to a common, shared future. Inquiry of such interconnections is the subject matter of recent studies in development studies.

If the states are more connected with each other than before, what is the nature of this relationship? Why do a few states (mostly of the global North) get richer, and the many others (mostly of the global South) remain poor? In other words, why do some states fail and others not? Jeffrey Sachs (2005) suggests that the factors such as location and natural resources are the key to understand why some states thrive while some poorer states fail to improve their lot. On the other hand, Acemoglu et al. (2001) and Acemoglu and Robinson (2012) ask us to look into the past of the poorer states, most

notably the period of colonization which gave them a kind of institutions that failed them. The poor states are poorer because they have inherited “extractive” institutions from the colonizers that hinder growth and development (Acemoglu et al. 2001, 1370). It is interesting to note that in a supposedly globalized and interconnected world, people are looking into the history of colonial exploitation to argue why poor states remain poor.

Scholars have debated this question before, too. In the decades following the end of the World War II, the economic performance of the states in the global South provided the basis for such an inquiry. The states of Asia, Africa, and Latin America, most of them newly independent, showed unimpressive economic development. W. W. Rostow (2000[1960]) and Talcott Parsons (2000[1964]) explained this by drawing on European experience of stage wise development. Analyzing the patterns of change in the non-industrialized states of the South, they hoped that the states would catch up with the states in the North, if they followed the same or similar strategies. Against this linear, “evolutionary view,” known as “modernization theory,” a body of literature soon came up with a thesis that the world economy’s structure differentiated the states along a “core-periphery” model which produced poverty in the South (see Freidmann and Wayne 1977, 400; Candler 1996). The role of “periphery” was to supply raw materials and agricultural food resources for the “core.” For these structural reasons, the core developed while the periphery did not. These arguments are reflected in the works of Andre Gunder Frank (2000[1969]), Fernando Henrique Cardoso (2000[1972]), Immanuel Wallerstein (2000[1979]) and Peter Evans (1979). Although they differ from each other in terms of analysis, together they form what is known as “dependency school.”

The “dependency school” built upon the history of colonial experience of the South to suggest that emulating the North would not help, that the present world economy was exploitative structurally and that the poor states would remain poor as long as this structure remains. However, they did not account for the nature of the colonial experience that had forced them to remain in a situation that aggravated their poverty. Postcolonial theory, drawing on the works of Edward Said (1983), Gayatri Spivak (1986) and Homi K. Bhabha (1994), asserts that economic structural analysis alone cannot help understanding the colonial encounter (Slater 1998; Kapoor 2002). Colonialism also ensured colonization of the mind. The strategies, tools, and methods of understanding, developed in the North, are adopted in the South even though they are rarely helpful. The states in the South don’t choose these strategies; rather the choice has already been made on their behalf.

My purpose in the essay is to review a selected body of literature from the “dependency school.” I will use insights of postcolonial theory to critique the dependency school. I will argue that, for a proper understanding of the reasons why some states remain poor and others not, we need to consider the cultural and political consequences of the colonial experience that the global South had to endure.

II. THE WORLD ECONOMY STRUCTURE

Before the academic ascendancy of the dependency school, the field of development economics was debating how the traditional, feudal, and agrarian societies could become modern. W. W. Rostow (2000[1960]) came up with a model which suggested that all the modern societies had to pass through a delineated stage of growth. A poor, traditional society can follow this trajectory and achieve prosperity. It underlined a belief that a modern society was characteristically different from a traditional society. In a similar vein, Talcott Parsons (2000(1964) claimed to identify the features of a modern society. Parsons believed that these are “evolutionary universals” in society and that every modern society would exhibit such characteristics as social stratification, cultural legitimation, bureaucratic organization, evolved legal system with a monetary exchange economy (Parsons 200, 84). The societies that lack this were traditional societies. In views of Alex Inkles (2000[1969]), we could distinguish modern men from others, and that such men also existed in the “developing countries” such as Argentina, Chile, India, Israel, Nigeria and East Pakistan, and that changes in such countries could be brought about such men (134-135). As we notice, in this body of work the prime mover change in society was sought within the characteristics of the society itself (Friedmann and Wayne 1977, 400).

In contrary to this evolutionary approach, Andre Gunder Frank led the search for a new theoretical framework for interpreting and explaining development and underdevelopment. His unit of analysis is not the state, but the “exploitative” relation between the states (Frank 2000,161-62). The modern history of any state will make sense if only understood against the historical process of capital accumulation which has created a world system. If some states appear underdeveloped now, it is because they did not benefit out of this relationship (Frank 2000; Friedmann and Wayne 1977, 401). The most important contribution of dependency theory has, therefore, been to analyze the consequences of the world capitalist system for the dependent regions of the system.

In dependency theory, the world economic system is characterized as a relationship of dominance and dependence between two sets of states. This relationship is described as “metropolis-satellite” by Andre G Frank (2000, 161); while Wallerstein (2000) prefers to use “core-semi-periphery-periphery” model (199). According to Friedmann and Wayne (1977), conceptualizing the interaction of the states as “a dyadic relation” is central to all the scholars of dependency theory (399). The states are not to be understood as self-contained units; the consequences of this relationship are different for states. The advanced industrial states, and the Organization of Economic Co-operation and Development (OECD) form the “core.” The states from Asia, Africa and Latin America, earning foreign exchange through export of single commodity, constitute the “periphery” (Ferraro 2008).

The states from the “core” and the “periphery” are hierarchically related, and

their roles are contingent on the position they occupy in the hierarchy. State A exploits state B; state B exploits state C; and state D may exploit state A. The higher the order of a state, the more exploitative it is. The lower the order of the state, the worse victim it is. Due to this structure, state A has developed, while state B has underdeveloped, because the resources of B have been used for the benefit of A. This historically observable consequence could be understood only by analyzing how a world capitalist system brought the states in a differentiated hierarchy of roles.

Yet another characteristic of this arrangement is that it reproduces this mode of exploitative relationship at various levels. Dominance or dependence may also be observed at the sub-national or intrastate regions. The state B, a satellite to state A, may exhibit this pattern at the sub-regional level also. A developed center b1 in the state B may act as a metropolis and reproduce the same conditions of dominance-dependence vis a vis another center b2 (see Wallerstein 2000; Cardoso 2000; Evans 1979)

The relationship of dominance and dependence is dynamic; the former get richer while the latter get poorer. In other words, this relationship produces “development of underdevelopment” (Frank 2000). As Frank puts it, “underdevelopment was and still is generated by the same historical process which also generated economic development: the development of capitalism itself” (Frank 2000, 163).

This means that “dependency” is a continuing state of the states located in the “periphery.” The question, therefore, is not whether a state is integrated with the world system or not; rather *how* a state is integrated with the other states. Underdevelopment is a characteristic feature of the states at the periphery. The developed states were never underdeveloped. As long as the world economic structure continued, the states in the periphery would not benefit.

III. WHAT CAUSES DEPENDENCY?

The dependency school, following a Marxist line of argument, has shown the mechanism through which dependency occurs. The states form the “periphery” are suppliers of raw resources, food items, receiving finished products from the “core”, which also dumps old technology into the production process of the periphery (Farrero 2008). The economies of the “periphery” states are geared to benefit the economies of the “core,” which controls the movement of capital and services into the periphery.

In the writings of Karl Marx, we do not get a systematic treatment of the phenomenon of colonialism or imperialism; nor do we get any sympathetic analysis of the non-European societies or the states of South (Brewer 1980; Candler 1996, 6). In Lenin’s view, capitalists turned to “backward countries” when domestic markets of Europe and North America got saturated (Lenin 1939), leading to establishing imperialist control abroad for securing raw materials and markets. Lenin saw the capital penetration into these “backward countries” as progressive. In his view, this would prepare the way for a proletarian revolution.

This benevolent outlook of European capitalism, however, was challenged. The dependency theory, in part, thus, was “a theoretical justification for ignoring Lenin’s implied support for capitalist development in non-industrial society” (Candler 1996, 6). The argument that developed suggested that the global South should be understood with respect to international capitalist system. Wallerstein talks about one capitalist system, which operates at the world level (Wallerstein 2000, 192). As this system expanded, it brought every state closer to the international market, and it developed by role-differentiation: the “periphery” transferred its resources to the “core.” He talks about “semi-periphery” which helps understand the characteristics of the “core” and the “periphery,” and helps run the world system smoothly (Wallerstein 2000, 200). He notes that the three structural positions in the world economy— core, periphery, and semi periphery – had become stabilized by 1640(199), and this makes capitalism an affair of the world economy from the beginning, not of the individual states. The local bourgeoisie is dominant and acts as the agent of the “core.”

A G Frank (2000) makes a similar analysis. In his assessment, Latin America was colonized in the sixteenth century due to the expansion of capitalism in Europe. A metropolis-satellite structure developed which penetrated and structured the life of Latin American colonies and countries (Frank 2000, 161). This relation grew to form a chain of “metropolis and satellites”: the national capital of a state became satellite of the metropolis from the world system, the satellite became a metropolis with respect to the productive centers and population of the interior. When we examine this structure, we find that “each of the satellites serves as an instrument to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites” (Frank 2000, 161). The “world capitalist system” operated this way, causing “development” of the metropolis and “underdevelopment” of the satellites. Development in the satellites was clearly “neither self-generating nor self-perpetuating” (Frank 2000, 162). In this way, the present state of underdevelopment is “a historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries” (Frank 2000, 160). The “colonial bourgeoisie” was the medium through which wealth transfer from the satellite to the metropolis was made.

Despite a persuasive argument, Frank’s analysis did not succeed in convincing other scholars. One notable figure was Fernando Henrique Cardoso, a Brazilian sociologist who was later elected its President in 1995. The term “development of underdevelopment,” as used by A G Frank, according to him, summed up a mistaken view that assumed a “structural ‘lack of dynamism’ in the dependent economies” under imperialism (Cardoso 2000, 177). In his view, imperialism produced “different forms of dependency” (Cardoso 2000, 178) by creating an “internal structural fragmentation” connecting the most advanced economies of Argentina, Brazil, Mexico, South Africa, India, and some others to the “international capitalist system”(Cardoso 2000, 174). Foreign investment no longer remained a “simple zero-sum game of exploitation as was

the pattern in classical imperialism” (Cardoso 2000, 174). Therefore, it is easy to show that “*development and monopoly penetration* in the industrial sectors of dependent economies are not incompatible,” and so, “there occurs a kind of *dependent capitalist development* in the sectors of the Third World integrated into the new forms of monopolistic expansion” (Cardoso 2000, 174; emphasis in the original).

Echoing the arguments of Cardoso, Peter Evans contributes to the debate by focusing on “the interrelationship of foreign capital, local capital and the state in building an industrialized economy” (Evans 1979, 5). According to him, “capital accumulation took place in the periphery even under conditions of ‘classic dependence’, that is the export of primary products in exchange for manufactured goods” (Evans 1979, 10). The process of accumulation in Brazil, he notes, is different in the sense that it “includes a substantial degree of industrialization, and also the more complex internal division of labor and increased productivity that this implied.” He labels this as “dependent development” (Evans 1979, 10). This is dependent on strengthening of the states in the periphery (Evans 1979, 11), as opposed to the phenomenon of classic dependence which depended on weak states.

Dependent development is a “special instance of dependency” (Evans 1979, 32), characterized by a triple alliance of international capital, local capital, and the state. In the peripheral states, this could be observed where capital accumulation and diversified industrialization were transforming its economy and social structure. It is not a “negation of dependence,” rather dependence combined with development.

IV. POLICY IMPLICATIONS

The dependency theory grew in stature, it would be pertinent to note, as a response to the recommendations of Raul Prebisch who was the Director of the United Nations Economic Commission for Latin America (see Ferraro 2008). Prebisch noticed that economic growth in the industrialized, rich states in the global North was not leading to growth in the non-industrialized, poorer states in the South. He explained that the poor states were exporting raw materials and food items to the rich states. The finished products were imported back to them at a higher cost. The foreign exchange earned through exports was not enough to pay for the imports. The solution therefore lied in a policy which allowed for earning of foreign exchange through exports but also emphasized upon import substitution. This way foreign exchange reserves would not dry up in purchasing the manufactured goods from abroad. The policy which Prebisch proposed is known as import substitution industrialization (ISI).

However, this prescription did not succeed and prompted other responses. The poorer states did not have well developed internal markets and production did not support the economy of scale to keep the prices low. They did not have any control of the terms of the trade of the primary products. They were dependent on the developed world which negotiated on terms more favourable to them. A G Frank called for exiting

this exploitative structure if the poorer countries wanted to escape the relationship of domination and dependence (Frank 2000). He argued that the import substituting industrialization (ISI) was impractical. As underdevelopment is based on systems of relations between the metropolis and the satellites, development may best be achieved by severing these relationships (see Candler 1996, 8). Nevertheless, Peter Evans suggests that the policy of import substitution could be helpful for the states in the periphery where large state-owned firms require the state to maneuver itself for sustained growth (Evans 1979, 277-8; Candler 1996, 8). Cardoso's analysis of the internal situation of the Latin American states, prompted him to prescribe that the policy of development should be directed at making the best of a bad situation through getting the internal house in order (Cardoso 2000; Candler 1996, 11). As we note, the dependency theorists differed from each other in proposing policy recommendations.

V. THE LIMITS OF DEPENDENCY THEORY

In his essay "The Underdevelopment of Development Literature: The Case of Dependency Theory," Tony Smith (1979) criticizes dependency theory for its lesser treatment of the local histories and overemphasizing the role of the "outside forces." In doing so, dependency theory subordinates an analysis of the parts to the whole (see Caporaso 1980, 607). While the theorists like Frank succeed in examining class relations within the dependency, he does not examine the class relations within the imperialist metropolis (Friedmann and Wayne 1977, 407). Moreover, the "dependent incorporation into a world system" has been treated as a given, and itself left "unanalyzed" (Friedmann and Wayne 1977, 402). Cardoso has been attacked both from the Left and the Right for failing to implement the policies when he was the President of Brazil. While the Right found the policies of Cardoso as a result of "seeing the error of his ways," the Left took on him for "selling out" (Candler 1996, 1). Clearly, dependency theory saw its acceptance as well as decline as a mode of theoretical interpretation. Interestingly, the criticisms have also, like the dependency theory itself, focused on the economic and structural aspects only (Kapoor 2002, 647).

With the rise of postcolonial theory in the academia, the critics have turned their attention in understanding the phenomenon of colonialism and its aftermath (period of neo-colonialism) in post-structural and socio-cultural terms (Kapoor 2002, 647; Slater 1998). One central theme of the postcolonial theory is to view the encounter between the "colonizer and colonized, center and periphery, the metropolitan and the 'native'" in a "mutually constitutive role" (Rattansi 1997; cf Slater, 652-653). In contrast to dependency theory, this takes us beyond the fixed meanings and categories of conceptualizing the center and the periphery in homogeneous terms. The interactions between them were far from one-sided. We get to see the multi-modal process through which a state at the periphery deals with the international and local capital in Peter Evans (1979), but his analysis, too, does not go beyond economic and structural

explanations. Discounting the role played by culture ignores the influence of idea in decision-making.

The politics of the postcolonial encourages thinking on the edge, and along the margins. More importantly, it also motivates a “decolonization of imagination” (Slater 1998, 669). Thus, in contrast to earlier dependency perspectives, the postcolonial theory can generate a wider context of issues and linkages. Ilan Kapoor, therefore, recommends that “reading dependency alongside and against postcolonial theory can help reinvigorate and re-validate some of the insights of the former, while at the same time supporting the latter’s ascendancy” (Kapoor 2002, 647).

I think that postcolonial theory begins and takes up from where the dependency theory ended. Privileging the economic and structural mode of analysis ignores the role of other social actors which have impacted the course of history of the states, whether in the North or in the South. In so far as dependency theory neglects this, it proves to be inadequate. Acemoglu et al. (2001, 2012) explain why some states remain poor today. In their analysis, inheriting the “extractive” institutions from a colonial past is the reason why we do not see a high growth rate in these states. If we take the claims of postcolonial theory seriously, in my opinion, we would also be able to understand *why* such states continue with the kind of the institutions they inherited.

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