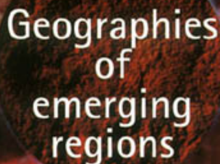

Alternative CAPITALISMS

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Alternative Capitalisms

GEOGRAPHIES OF EMERGING REGIONS

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A member of the Hodder Headline Group
LONDON
Distributed in the United States of America by
Oxford University Press Inc., New York

For Andrea, Jeanne and Maruja

First published in Great Britain in 2003 by
Arnold, a member of the Hodder Headline Group,
338 Euston Road, London NW1 3BH

http://www.arnoldpublishers.com

Distributed in the United States of America by
Oxford University Press Inc.
198 Madison Avenue, New York, NY10016

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The advice and information in this book are believed to
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British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
A catalog record for this book is available from the Library
of Congress

ISBN 0 340 75943 7 (hb)
ISBN 0 340 76321 3 (pb)

1 2 3 4 5 6 7 8 9 10

Typeset in 9.5/11.5pt Palatino by Charon Tec Pvt. Ltd, Chennai, India
Printed and bound in the United Kingdom by MPG Books Ltd.

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Please send your comments to feedback.arnold@hodder.co.uk

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PREFACE

The events of September 11th represented an unprecedented attack on US soil and therefore a sudden jolt to US society. The aftermath of that day's occurrences, however, will reverberate throughout the world-system for years to come. The US government is responding to the attack by orchestrating a multifaceted global 'war on terrorism' that excludes no world region. Countries that previously focused on matters such as increasing industrial exports, attracting international flows of capital or fighting AIDS find themselves in an international arena in which attention has shifted towards the new international campaign. When the war on terrorism is coupled with the global economic repercussions of a growing number of scandals at major US-based transnational corporations, then the profound impact of the world's most powerful and wealthy country on the global agenda is underscored. This book is about the challenges of economic development, policy formulation and democratization in so-called emerging market countries as they grapple with a world-system dominated by the United States and its principal allies in the other core countries.

In the post-September 11th world, globalization continues to be at the heart of much debate in academic circles about the nature of contemporary transformations in politics, economics and culture. Much of this debate has focused on North America and Western Europe. This book aims to examine the effects of globalization, and economic and political transformations, in those parts of the developing world that are now regularly referred to as 'emerging regions'. In these regions we are concerned to understand the historical expansion and extension of capitalism and how its contemporary forms of production, exchange and regulation are evolving. We believe that at the present time these processes have produced 'alternative capitalisms' – economic and associated developments that, while assuredly capitalist, differ in various ways from those typical of the capitalist West or the 'core economies' of North America and Western Europe (and there are significant variations in the nature of capitalism between these core economies). The other member of the global triad of core economy regions, Japan, has also developed a distinctive form of capitalism, and this model has had an important impact on East Asia and on the notion of the state guiding the market in order to gain success as a late industrializer. Alternative capitalisms are the products of the effects of history, culture and the variant ways in which different regions of the world have been and are being incorporated into the global economy.

Some academics see globalization as reducing inequalities in the world and producing convergence between states and regions within states. However, the evidence does not support this thesis. For example, increasing divergence between Latin American countries, on the one hand, and the core economies, on the other, is indisputable. The differences in the per capita incomes enjoyed by inhabitants of the core economies and those of the six poorest countries of Latin America changed from a ratio of 12:1 in 1978 to one of 30:1 in 1995. Even in the case of Latin America's six wealthiest countries the ratio changed from 5:1 to 7:1 over the same period. Trends for the world as a whole are no more

inclusive. While the world's richest 200 people saw their total wealth more than double from 1994 to 1998 to over US$1 trillion, at the other end of the world-system were more than 80 countries that saw their per capita income fall during the 1990s.

This book is based on the premise that we live in an increasingly differentiated world and not one that is becoming increasingly uniform as a result of globalization. This differentiation manifests itself in various ways, including international divisions of labour, positions and movement in the world-system hierarchy, and local expressions of democracy and politics.

'Emerging regions', as discussed in Chapter 1, are regions of the world that have been defined as such by international agencies, such as the World Bank and the International Monetary Fund (IMF), and by global investors on the basis of selected criteria. This book particularly focuses on three 'emerging regions': Latin America and the Caribbean; East Central Europe (ECE) and the former Soviet Union (FSU); and East Asia. These three regions contain the lion's share of countries regularly referred to as 'emerging markets'. However, not every single part of these three regions would be defined as 'emerging' by World Bank criteria, and therefore our use of the word is eclectic and catholic. We try, however, to discuss trends that are significant in all three regions and that seem to reflect the special positions they occupy within the world economy.

We are very conscious of those regions that we are not focusing upon, especially South Asia and the Middle East, which – using certain criteria – might qualify as 'emerging'. As authors we are specialists on Latin America, the Caribbean, the former Soviet Union and East Central Europe. All of us at various times and in different ways have worked on East Asia. Rather than increase the complexity of our analysis and venture into regions of which none of us have first-hand knowledge, we felt it wise to restrict our coverage to the regions specified. We are, however, fully aware of the significance of South Asia and the Middle East to any full treatment of 'geographies of emerging regions'. We are also conscious that we say little about Africa, whose innate importance we also recognize. Again we plead lack of specialist knowledge, plus the fact that most of Africa is regarded as falling outside the category of 'emerging regions' by the key international actors.

This is not a conventional development geography; our book attempts to show that contemporary geographical analysis can benefit from cross-cultural and cross-regional comparisons. We seek to move beyond the stale and anachronistic concepts of 'Third World' and 'developing world' and towards more contemporary and useful analytical catgories. Ours is an attempt to reconceptualize the trajectory of global change from the twentieth century and into the early twenty-first.

We conclude this Preface with a brief description of each chapter. Part 1 comprises the first three chapters and provides a conceptual framework. Chapter 1 introduces the notion of thinking about certain less developed countries as 'emerging markets'. It also introduces key issues such as neoliberal or free market policies, time–space compression, and debates over the nature of globalization. Chapter 2 presents world-system theory. It provides an overview of the theory and its geographical components (core, semi-periphery, periphery), it describes the basic parameters of the evolving world-system, and it offers some cautions and caveats associated with a world-system approach. Chapter 3 employs a world-system approach to describe the history of global capitalism. It stresses that the world-system must be understood as a product of centuries of European overseas expansion and colonization whose many after-effects are still evident today.

Part 2 of the book comprises three chapters on our interpretations of the historical background to the alternative capitalisms in the three emerging regions the book focuses on. In particular, we describe the contrasting economic development policies and outcomes in each region during the twentieth century. Chapter 4 describes the former Soviet Union and Eastern Europe from the communist period to the current 'transitional' period as countries struggle to rejoin the capitalist world. Chapter 5 traces the evolution of capitalism in Latin America and the Caribbean from colonial times and the export-oriented era after independence, through the mid-twentieth-century period of inward orientation and the recent phase of economic and political liberalization. Chapter 6 describes East Asian paths to industrialization. It focuses on the Japanese and Chinese development models and their influences on other East Asian countries.

Part 3 consists of five chapters, each of which addresses a particular economic aspect of contemporary global capitalism in relation to emerging market countries. Chapter 7 describes tendencies towards

commonality in macroeconomic policies and development strategies. These commonalities include an interest in regional economic integration and in economic liberalization, particularly for trade and capital flows. Chapter 8 explores how economic liberalization is reshaping regional and local geographies in emerging market countries with particular reference to those that rely heavily on natural resource exports. Chapter 9 focuses on the strategies and impacts of transnational corporations, and the theories used to describe their behaviour in a globalizing world. Chapter 10 targets the relationships between emerging market countries and transnational corporations as priorities have shifted from extracting primary products to servicing internal markets and exporting manufactured products. Chapter 11 plots the growing significance of an array of offshore services, and asks to what extent they hold promise for a redistribution of wealth towards their peripheral host countries.

Part 4 focuses on the political dimensions of global change in the policy arena and in the realm of nationalism and democratization. Chapter 12 examines the problems and challenges for state structures and nation-building efforts in the emerging market countries that are posed by an array of factors including globalization, modernization, ethnic divisions, new social movements and democratization. Chapter 13 addresses the apparent spread of democracy through the semi-periphery. It highlights the limitations and open-ended character of the democratization process when one considers civil and citizenship rights and various social movements. Chapter 14 concludes the book by characterizing the positions and evidence brought to bear in support of arguments for or against economic globalization in its present form.

ACKNOWLEDGEMENTS

The authors would like to acknowledge the endurance of our publishers. We have now worked with a total of four geography editors at Arnold since the idea of this book was first mooted with Laura McKelvie in 1998. We would like to extend our warm appreciation for the help, patience and guidance offered by Laura, Luciana O'Flaherty, Liz Gooster and Lesley Riddle in the completion of this book. At the School of Geography and Environmental Science at the University of Birmingham, Denis and Bob are very grateful for the efficiency and support of Anne Ankcorn, Kevin Burkhill and Geoff Dowling in the production of figures and artwork. Tom would like to express his thanks and appreciation to Janice Glenn, Alice Macharia, Michelle Brym and Tim Westrich from the Miami University Geography Department for the various materials they assembled for the book.

GLOSSARY OF ACRONYMS

AG	Andean Group
ASEAN	Association of South East Nations
APS	advanced producer services
CACM	Central American Common Market
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
COMECON	See CMEA
EBRD	European Bank for Reconstruction and Development
ECE	East Central Europe
EMC	emerging market country
FDI	foreign direct investment
FSU	former Soviet Union
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ISI	import substituting industrialization
KGB	Committee for State Security (the Soviet secret police)
MERCOSUR	southern cone trade bloc
NAFTA	North American Free Trade Area
NIC	newly industrializing/industrialized country
NGO	non-governmental organization
OECD	Organization for Economic Cooperation and Development
OFC	offshore financial centre
SAP	structural adjustment programme
UNCTAD	United Nations Conference on Trade and Development
WST	world-systems theory
WTO	World Trade Organization

Part 1

CONCEPTUAL FRAMEWORKS

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1

'EMERGING MARKET COUNTRIES' AND ISSUES OF GLOBALIZATION

From the 1950s until the 1980s, the terms 'Second World' and 'Third World' were commonly used to describe countries outside the rich, industrialized regions. Today it is increasingly common to hear many of those same non-core countries referred to as 'emerging markets'. Labels such as these that encompass wide swaths of human diversity are important to examine. The labels both signify profound shifts in the global political economy and have evocative power in themselves. Upon reflection one might wonder in what sense such countries were thought to be 'second' or 'third', and in what ways they are now said to be 'emerging'. Whole books are devoted to decoding the histories and connotations of such fundamental labels and concepts of economic development (Sachs, 1992).

This chapter traces the rise of the idea of referring to certain countries as 'emerging markets'. We identify which countries have been awarded this label, and seek to understand the global shifts and motivations that lie behind the change in lexicon. We are also interested in how the terminological shift affects conventional thinking about how to achieve development. Further, we are concerned with how the shift in labels affects the relationship between the rich, industrialized countries and the rest of the world. We are also concerned to consider different interpretations and uses of the contested concept of 'globalization'. Finally, the chapter introduces other key characteristics of the global political economy since the 1980s. In particular, neoliberalism is introduced as the dominant paradigm for global development.

A WORLD-SYSTEM IN TRANSITION: FROM GLOBAL CRISIS TO NEOLIBERAL SOLUTION?

In retrospect, the 1980s can be seen a crucial turning point for the global political economy. A variety of crises erupted, neoliberalism was unveiled and the idea that there are 'emerging markets' in the developing world was launched. In this chapter we will briefly review the combination of factors that have precipitated a worldwide convergence towards neoliberal or free market development policies since the 1980s.

At a global level in the 1980s, there was a crisis associated with the end of a long-wave business cycle that had run its course. This refers to a time of declining profit rates and hence a search for new stimuli for economic expansion. This is a central theme of world-systems theory (WST), which we will focus on in Chapter 2; Box 1.1 introduces a brief definition of WST. Other aspects of the crises were felt more heavily in the non-core regions of the global economy. These were multifaceted crises associated with foreign debt both in the Third World and in Eastern Europe, decline in traditional primary exports, and the collapse of state socialist regimes in the Soviet Bloc.

As a way out of these combined crises, many governments began to adopt a range of so-called 'neoliberal' policies. (The 'neo' reflects back to parallel policies from the late nineteenth century, while 'liberal' refers to economic liberalism or, in other words, to minimal state regulation of economic interests and

Box 1.1 Defining world-systems theory

World-systems theory (WST) represents a rich body of scholarship aimed at understanding broad trends in the global economy and their interrelationships with world regions and countries. WST argues that any particular country's development conditions and prospects are primarily shaped by economic processes and interrelationships operating at the global scale. Contrary to much social science thinking, WST stresses that it is futile (and, indeed, misleading) to attempt to analyse, interpret, or shape development by focusing at the level of individual countries. According to WST, each country is deeply ingrained in a hierarchically arranged world-system, with a single international division of labour and wedded by **commodity chains** that stretch from raw materials and industrial components to consumer goods (Gereffi and Korzeniewicz, 1994).

to open trade.) Early advocates for the worldwide adoption of neoliberal policies were Margaret Thatcher and Ronald Reagan, who came to power in two leading core countries in 1979 and 1981 respectively. These leaders, working in concert with the World Bank and the International Monetary Fund (IMF), dispatched economists to less developed countries to put into operation what came to be known as the 'Washington consensus' on neoliberal development policy. Geographically the Washington consensus refers to the fact that the predominant institutions that shape global economic policy are located there (the World Bank, the IMF and the various branches of the US government).

Jeffrey Sachs was arguably the most influential of those globe-trotting economists. Another leading policy-maker was Joseph Stiglitz, a Nobel Prize winner in economics in 2001 for his work on market imperfections. Both are now critical of how the World Bank and the IMF imposed neoliberalism on countries outside the core (see Box 1.2). From the insider revelations of Sachs and Stiglitz, it is apparent that neoliberalism was conceived of as a blanket prescription for the problems of the less developed world. Given its origins in the core regimes of Thatcher and Reagan, neoliberalism and its basic notions of less government and more economic freedom have profoundly influenced policies in core countries as well. To domestic audiences Reagan argued that 'Government is not the solution to our problem, government is the problem.'

From this brief introduction it should be apparent that neoliberalism has had many powerful forces behind it. It emanated from the Washington consensus and, owing to the crisis conditions in non-core countries, was thankfully received by their governments. Subsequent chapters examine components of the neoliberal package in greater detail.

While neoliberalism has been incredibly influential it is not monolithic. The neoliberal prescription for development has evolved over time in response to criticisms from inside and out. In the early years it mainly emphasized economic policies such as deregulation and privatization. By the late 1980s ideas of good governance and an increased role for non-governmental organizations (NGOs) in social service provision entered the lexicon. In the late 1990s the importance of social welfare protection, and of tapping the 'social capital' of ordinary people, became part of the agenda. As components are added to the prescription they improve on it without altering neoliberalism's fundamental commitment to opening borders for the free movement of capital.

Neoliberalism undoubtedly constitutes the dominant paradigm of global development and therefore features centrally in this book. However, at its heart, there is a huge theoretical contradiction. Liberal economic theories from the nineteenth century argued that economic welfare would be maximized if factors of production were mobile. The two key factors of production are capital and labour. In the early twenty-first century, capital is increasingly mobile at the world scale. In contrast, labour, particularly of the low-skilled variety, lacks mobility *between* the countries of the semi-periphery and periphery, on the one hand, and the countries of the core, on the other. Advocates of neoliberalism from core countries have maintained that freedom of capital flow (from core to non-core economies) provides the best hope for development in the great majority of poorer countries (World Bank, 1993: 202). However, the issue of labour mobility (from semi-peripheral and peripheral to core economies) is rarely mentioned by such advocates.

A commonality of most of the neoliberal economic policies is the way that they open up new opportunities for international capital to profit from investments in the host country. This contrasts with

Box 1.2 Two neoliberal insiders turned critics: Jeffrey Sachs and Joseph Stiglitz

During the 1980s and 1990s Jeffrey Sachs was the World Bank's most prominent economic consultant. He visited and advised governments on every continent on how to implement neoliberal reforms. In a 1999 interview, Sachs reflected critically on how the global elite imposed a neoliberal policy prescription on the less developed world:

A consensus came, at least within Washington, about how countries should change from non-market economies to market economies. Now, the basic idea was that if a country would put its economy as an integrated piece of the world system, that it would benefit from that with economic growth. I concur with that basic view. The Washington consensus listed 10 or 12 steps – the recipe for economic development. When you look at those, they're all pretty reasonable. But it's a kind of bland list of commandments, rather than a real blueprint of how to get from A to B, much less from A to Z, when you're trying to make an extraordinarily difficult passage from one disaster to hopefully something better. There are so many land mines around that just having the list of the to-do's, the good things that one should do, is not really a strategy or a set of tactics. … It became a substitute for assistance, because the idea was, 'You don't need us. You don't need any help. You don't even need a time-out on your debt payments. You just have to follow the magic rules, one through ten, and you'll be just fine.' So, in this sense, everything became over-simplified. The actions of the IMF and the World Bank became very stylized. The US Treasury had its model, and unfortunately, at that level of simplicity, it just doesn't work.

(Sachs, 1999)

Joseph Stiglitz chaired President Clinton's Council of Economic Advisers from 1993 to 1997, and was then the World Bank's chief economist and vice president from 1997 to 2000. He resigned from the World Bank in protest over its policies, but he reserves his sharpest criticisms for the bank's sister agency, the IMF:

When the IMF decides to assist a country, it dispatches a 'mission' of economists. These economists frequently lack extensive experience in the country; they are more likely to have firsthand knowledge of its five-star hotels than of the villages that dot its countryside. They work hard, poring over numbers deep into the night. But their task is impossible. In a period of days or, at most, weeks, they are charged with developing a coherent program sensitive to the needs of the country. Needless to say, a little number crunching rarely provides adequate insights into the development strategy for an entire nation. Even worse, the number crunching isn't always that good. The mathematical models the IMF uses are frequently flawed or out-of-date. Critics accuse the institution of taking a cookie-cutter approach to economics, and they're right. Country teams have been known to compose draft reports before visiting. I heard stories of one unfortunate incident when team members copied large parts of the text for one country's report and transferred them wholesale to another. They might have gotten away with it, except the 'search and replace' function on the word processor didn't work properly, leaving the original country's name in a few places. Oops.

(Stiglitz, 2000)

the previous era of development policies associated with local producer and market protectionism and import substitution. Today, the global semi-periphery and periphery are more exposed to external policy influences and to the in- and outflows of capital. New global geographies of capital flows have been created. Global investors have leapt at the new range of profit-making opportunities that neoliberalism has produced in the 'emerging markets', particularly during the mid-1990s (see Chapter 7).

While capital appears to 'flow' freely across the world in the early twenty-first century, labour does not. Mass migration from low-income to high-income economies has not occurred 'legally' in recent decades. This would undoubtedly have taken place if a free flow of populations were to be allowed at a global scale – as liberal economics favoured in the nineteenth century, when massive European migration to North America, South America and Australasia occurred. The core economies have played a central role in the problematization of demography as a global issue. 'Western demographic consciousness is strongly shaped by the consideration of strategic demography. The central focus of contemporary strategic demography is the contrast between falling birth rates in the North and rising birth rates in the South' (Furedi, 1997: 53).

Studies of global demographic trends assume that population has a considerable influence on relations of power between countries. Figure 1.1 demonstrates the relative increase in the demographic weight of semi-peripheral and peripheral regions in the latter half of the twentieth century, and forecasts the likely trends until 2050. Population growth in the core

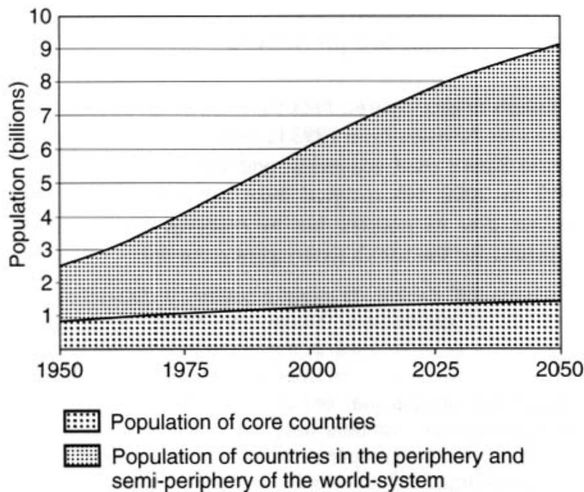

FIGURE 1.1 *Population growth trajectories of core and peripheral regions of the world*
Source: US Bureau of the Census, international data base

economies has had a very slow upward trend since 1950. In contrast, the countries of the world's semi-periphery and periphery recorded high rates of population growth during the latter half of the twentieth century and will continue to do so during the first half of the twenty-first. This is partly due to the demographic transition that most of these countries are still experiencing (see Box 1.3).

In 1950 the population of the core economies was as much as two-thirds that of the semi-peripheral and peripheral economies. By 2000, the relationship had experienced fundamental change, with the populations of core countries now only equivalent to 20 per cent of the populations of semi-peripheral and peripheral countries. The first half of the twenty-first century should see the balance between the more prosperous inhabitants of the world's core and the poorer inhabitants of the world's semi-periphery and periphery become even more accentuated; if present trends continue, only one in ten of the world's population may live in the prosperous core by 2050. It is in this context that Kennedy (1993: 45) argued that the relative diminution of the core economies' share of world population would present them 'with their greatest dilemma' in the first quarter of the twenty-first century. According to these arguments, the increasing demographic weight of China, India and the non-core regions in general will signify the decreasing global influence of core economies.

Box 1.3 Emerging countries and the demographic transition

The countries of the world's semi-periphery and periphery are recording high rates of population growth due partly to their experiencing a demographic transition – a period in which birth rates far exceed death rates before a point of near-equilibrium is reached with birth rates more in line with death rates (Findlay and Findlay, 1987). There are significant differences in demography between the three regions of the emerging world. Population growth in Eastern Europe and the former Soviet Union is low as most countries have achieved equilibrium between fertility and mortality. In Latin America and East Asia, population growth is still significant although birth rates have declined sharply in the last two decades. For China, which accounts for 21 per cent of all of humanity, a strict one-child policy, combined with rapid economic growth, has pushed fertility and mortality rates towards equilibrium over recent decades. In fact, the 2000 census indicates that Shanghai province would now being experiencing a declining population (i.e. deaths now exceed births) were it not for the massive inflow of workers from the western provinces.

WHO RUNS THE WORLD-SYSTEM?

Concomitant with the explosive growth in capital moving in and out of semi-peripheral countries is a new lexicon aimed at defining how development can be achieved. From where do the new terms originate and what are their implications for development in countries outside the global core regions? Relatedly, what has become of the priorities from the Cold War era of Third World development and development policy now that we are in the era of neoliberalism, market triumphalism and globalization (Peet and Watts, 1993)? We seek answers to these questions by drawing from a range of written sources that document the agendas and viewpoints of global elites and their advocates. In the process of reviewing these sources of elite opinion and agendas, we are also able to reveal additional aspects

of the current neoliberal view of the appropriate development policies for non-core countries.

As illustrated by our introduction to neoliberalism, and the quotes from Jeffrey Sachs and George Stiglitz about the World Bank and IMF (see Box 1.2), we occasionally make reference in this book to the ideas and roles of 'global elites'. Who or what are they? We use 'global elites' as shorthand to refer to the international investors and their allies who have a profound influence on global development prescriptions and trends. Definitions of who exactly is included in the group vary, but it is revealing that descriptions by insiders and critics are remarkably consistent.

Take David Rothkopf, former Deputy Undersecretary of the Commerce Department under the Clinton administration, as an example of an insider. For Rothkopf the principal members of this elite cadre are the high-level representatives of the World Bank, the IMF and the G7 countries, approximately 30,000 financial traders and fund managers, and the domestic elite of countries outside the core (Rothkopf, 1999). For critical sociologist Leslie Sklair, the group is comprised of those who run the transnational corporations (TNCs), but also 'globalizing bureaucrats, politicians and professionals, consumerist elites [i.e. merchants and media leaders] and the institutions in which they operate, to carry out their work effectively' (Sklair, 2001: 295).

The key difference between the two definitions is in the private sector. Rothkopf highlights the importance of key players in the financial sector, whereas Sklair points to the heads of global corporations. Considering the dynamics of the unfolding global economy, we therefore believe that it is important to consider the influence of both of these economic groups. Together with the elite working in political institutions, both economic groups are well represented when the global agenda is discussed. They comprise the approximately 1000 attendees of the World Economic Forum, normally held each January in Davos, Switzerland. It is important to appreciate the connections between the global elite and global development policies such as neoliberalism. Whatever the prevailing global development models and prescriptions at any point in time (and, as Krugman (1996) shows, they have varied markedly over time), one can find behind the discourse that they serve the material interests of such a global elite (Sklair, 2001: 22).

Even conservatives have raised concerns over the power wielded by the relatively small number of people in this elite group. The eminent free trade economist Jhagdish Bhagwati is one such conservative, and his compelling analysis of these elites has led others to conceptualize a 'Treasury–Wall Street–IMF complex' (Wade and Veneroso, 1998). Reference to the power and influence of the global elite takes many forms. Neoliberal insiders and advocates have declared the worldwide adoption of free market policies as a 'Universal convergence' (Williamson, 1990; 1993). In turn, critics of a world-system administered top-down by the global elite have more pejoratively labelled them 'the Masters of the Universe' (Dyer, 1999).

Of course, members of the neoliberal elite group do not always agree. Such disagreements recently received a public airing. Prompted by the 1997 Asian financial crisis and its domino effect across the global semi-periphery, leaders of the World Bank, the IMF, the United States government and the business community have debated whether states should regulate international capital flows. Robert Rubin, US Secretary of the Treasury under Clinton and former Wall Street banker, led an opposition to such regulation that was well represented on Wall Street. Rubin (1999) flatly asserted that 'We do not believe that capital controls are a sensible approach or an approach that's consistent with ... promoting long-term economic growth in the global economy.'

But many prominent economists and business leaders have called for the creation of a regulatory system. George Soros, who had earlier made a fortune in international currency trading, was among regulation's chief advocates. He attacked what he called 'market fundamentalists [that] recognize that the role of the state in the economy is always disruptive, inefficient, and generally has negative connotations. This leads them to believe that the market mechanism can take care of all the problems' (Soros, 1999). Elite disputes tend to be over tactics, not over global vision. Although Soros wants some financial regulation, he maintains that 'It's very good to have capital flows, but you also have to recognize that they can be destabilizing. Therefore, you need some mechanism to prevent them from creating these dislocations' (Soros, 1999). Global elites presently share a view that free market capitalism is the right policy for the whole world, but differ primarily over how to implement it.

Thus far in the financial debate those, like Rubin, who prefer a *laissez-faire* approach have won out over those arguing for greater state regulation of and control over capital flows (Onis and Faruk Aysan, 2000).

Unravelling the concept of 'globalization'

Capitalism is the dominant socioeconomic system in the global economy, and capitalism has always been an international system. However, today, the international integration of the world-market economy is progressing at a very rapid pace. Perhaps it is because of the speed of this integration that the process has been termed 'globalization'. This process encompasses economic transformations in production, consumption, technology and ideas. It is also intimately linked with transformations in political systems as well as sociocultural and environmental changes.

One way of beginning to unravel the concept of globalization is to focus on the economic processes involved. This can lead to the binary comparison between models of a global economy (representing globalization) versus those of an international economy model (or internationalization). The **international economy model** defines an economy in which the principal economic entities are still states, and their governments are involved in facilitating the process of increasing economic interaction at the global scale. The international economy is determined largely at the level of national economies, and international phenomena are outcomes that emerge from the distinct and different performance of national economies (Michalak, 1994). This model can be used to explain the increasing importance of **trading blocs** in the contemporary world. It could be argued that individual states make significant efforts to come together in regional groupings in order to achieve greater economic stability within a world economy that is increasingly uncertain as markets (and thereby prices) become more 'global' in character.

In the **global economy model**, the key assumption is of movement towards global markets and global prices. In this model, national economies become 'subsumed and rearticulated into the international system by international transactions and processes' (Michalak, 1994). Although nationally determined policies still operate, they are subordinate to wider international determining factors. The key actor becomes the TNC, detached from constraints of government regulation and unconstrained by any specific national base. The TNC can thus be seen as the single most important force in economic restructuring both between and within nation-states (we will return to this theme in later chapters). The present 'reality' lies somewhere between these two models. However, contemporary processes of economic globalization are historically unprecedented, so that governments (national, regional, local) are having to adjust to a world in which there is no longer a clear distinction between international and domestic.

Many social scientists define the current reality as one of unprecedented globalization. This viewpoint is so often repeated in the news media and in scholarship that it has the status of a truism, so obvious that it is beyond refute or need for empirical substantiation. Many observers go one step beyond, presenting globalization as an unquestionable empirical manifestation of contemporary capitalism. They present globalization as a process that itself has power, and in so doing reify globalization (Klak, 1998a). It may, therefore, be useful to refer to some of the key discourses on globalization in the social science literature. Held *et al.* (1999) identify three such discourses or, as they call them, theses: hyperglobalist, sceptical and transformationalist.

Key discourses on globalization

The hyperglobalist thesis

According to the hyperglobalist thesis, globalization defines a new epoch of human history in which traditional nation-states have become unnatural, even impossible, units in a global economy (Luard, 1990; Ohmae, 1995). This thesis privileges an economic logic to globalization and argues that economic globalization is bringing about a 'denationalization' of economies through the establishment of transnational networks of production, trade and finance (Strange, 1996; Deardorff and Stern, 2000). Held *et al.* (1999) maintain that within this framework, at least two discourses prevail. On the one hand, there is the neoliberal version, which welcomes the triumph of individual autonomy and celebrates the dominance of the market principle over state power that such

a thesis of globalization implies (Ohmae, 1995). On the other hand, this thesis has neo-Marxist adherents for whom contemporary globalization represents the triumph of oppressive global capitalism (Peet and Watts, 1993; Petras, 1999).

The geographical view of this thesis emphasizes the steady erosion of old hierarchies and the generation of new patterns of regional winners and losers. A new global division of labour replaces the traditional core/periphery structure and a more complex architecture of economic power evolves. In the creation of these new world geographies, the neoliberals stress advantages in global competition. Some spaces within a country may be made worse off as a result of such competition, but other spaces will have a comparative advantage in producing certain goods for global markets. The neoliberals tend to see all countries (rich and poor) benefiting from globalization, although within each country significant restructuring will take place. In contrast, the neo-Marxists believe that global capitalism creates and reinforces structural patterns of inequality both between and within countries.

The sceptical thesis

Facing the tidal wave of globalization discourse, a few sceptics have countered that many of the fundamental features and empirical manifestations of global capitalism today remain as they were decades and even centuries ago (Hirst and Thompson, 1992; 1996; Wallerstein, 2000). Using statistical evidence of world flows of trade, investment and labour from the nineteenth century, Hirst and Thompson (1996) argue that contemporary levels of economic interdependence are by no means historically unprecedented. The sceptics think that 'true' globalization must imply a fully integrated world economy, which remains a long way into the future. As we noted earlier in the chapter, one crucial economic factor of the world economy – labour – remains relatively immobile, particularly compared with capital.

Sceptics emphasize the enduring power of national governments to regulate international economic activity. Thus, they regard the early twenty-first century as indicating only heightened levels of internationalization. Economic interactions occur between predominantly national economies, although some of these economies may link together into trading blocs where the law of 'one price' can become a reality (unlike in the global arena). However, the law of 'one price' has so far only been achieved in the European Union, where full labour mobility within the trading bloc distinguishes it from other examples. The geographical view of the sceptics sees globalization as increasingly marginalizing the countries of the world periphery. Globalization provides economic growth for core economies and certain countries of the semi-periphery, but a whole series of economic and political factors retard the economic growth of the poorer countries of the world, most notably in Africa.

The transformationalist thesis

This thesis sees globalization as a powerful transformative force, which is responsible for a massive 'shake-out' of societies, economies, institutions of governance and world order. The direction of this shake-out remains uncertain, since globalization is conceived as an essentially contingent historical process replete with contradictions. 'At issue is a dynamic and open-ended conception of where globalization might be leading and the kind of world order which it might prefigure' (Held *et al.*, 1999: 7). Contemporary processes of globalization are historically unprecedented such that governments and societies across the globe need to adjust to a world in which there is no longer a clear distinction between international and domestic, external and internal affairs (Rosenau, 1997).

The geographical perspective of this thesis emphasizes the continuation of global divergence – increasing inequalities between and within countries. Distinctions between North and South or First World and Third World 'overlook the ways in which globalization has recast traditional patterns of inclusion and exclusion between countries by forging new hierarchies which cut across and penetrate all societies and regions of the world' (Held *et al.*, 1999: 8).

What do these theses have in common?

All theses regard capitalism as having entered a distinctly 'globalizing' phase, though the nature and outcomes are much debated. What is interesting from a geographical viewpoint is that most perspectives (apart from the neoliberal) do not see global convergence (that is, fewer inequalities between and within countries) resulting from globalization.

Growing inequalities appear to be the result of production, exchange and finance becoming increasingly transnational in dimension. The transformationalist thesis sees some (but by no means all) countries, regions, communities and households benefiting from being more closely linked to the fortunes of the global economy, while others will suffer. As a result, globalization is associated with new patterns of global stratification in which some states, societies and communities are becoming increasingly enmeshed in the global order while others are becoming increasingly marginalized (Held *et al.*, 1999: 8).

Divergence and unevenness, therefore, have become interwoven with globalization. Some argue that, as a result, 'globalization' (a word that implies convergence) can be a misleading term for the unfolding process. Harvey (1995) suggests that we jettison 'globalization' altogether and replace it with the 'uneven spatio-temporal development of capitalism'. That is a mouthful, but it points in the right direction. Analysts must strive to be self-conscious about their use of terminology, to employ a lexicon that gets as close as possible to the processes of concern, and to avoid simply reiterating and reifying the language of power, domination or obfuscation. In this book we will continue to refer to globalization processes, but we take care not to overgeneralize about them and their impacts.

TIME–SPACE COMPRESSION AND THE GLOBAL ECONOMY

The technological underpinning of the contemporary world-system is time–space compression. By this we mean that places are coming closer together in terms of travel or communication time or costs (Knox and Marston, 2001). Although such convergence has occurred for centuries, the pace has quickened markedly in recent decades. To illustrate, consider three examples (Girvan, 1999) of cost reductions using 1990 as a benchmark:

1. shipping costs have fallen by more than two-thirds since 1920
2. airline transport costs have fallen by more than 60 per cent since 1960
3. the price of international telephone calls has fallen by 90 per cent since 1970.

But cost reductions are just the beginning. Communications satellites, fibre-optic lines, digital information formats and the Internet have virtually eliminated the 'friction of distance' for communications. Messages, prices, television images, various services, processed data and other information are transferred as quickly and cheaply across 10 miles as 10,000 (Harvey, 1989). Telephone connections from the USA to India are as immediate and clear as phoning next door. One result is that for the first time in history, we have a **global economy**: that is, an economy capable of working as a unit in real time at a global scale (Castells, 2000).

Time–space compression has therefore dramatically opened up new possibilities for the geographical configuration of economic activities. Computer-based technological advances have made it possible for certain types of production, capital flows, communication and decision-making to become transnational in scope. Activities previously confined geographically are now coordinated instantly across great distances and national boundaries. Because they are less material or tangible than traditional industries, many services are able to exploit these technologies, to travel great distances electronically and to decentralize (see Chapter 11).

That technological breakthroughs make time–space compression possible should not be interpreted to mean that the latter plays out in politically or socially neutral ways. On the contrary, the capacity for, and the interest in, taking advantage of time–space compression is distributed highly unequally. As we will see in later chapters, corporate and individual capital is able to take greatest advantage of time–space compression. Evidence of the increasing power of global corporations is presented in Chapter 2. That concentration of economic power is related to the advantages and powers that time–space compression delivers to those able to tap into it. TNCs can coordinate production across national boundaries, benefit from differences in resources and regulations between the states involved, and switch activities (e.g. labour deployment, transfer pricing, reporting of taxable income) between states in pursuit of the firms' interests (Dicken, 1998).

A key point to take from the above paragraphs is that TNCs (as well as individual capital), through their capacity to exploit time–space compression, have accrued certain advantages *vis-à-vis* national political actors whose powers derive from immobile

jurisdictions. Indeed, this imbalance has many impacts on the relationship between globalized economic actors and localized political actors.

Globalized economic actors are now better able to reduce state regulatory oversight, and to move capital in and out of jurisdictions as they see fit. This is exactly how the editors of a website with a professed devotion to 'tax minimization' depict the situation:

> The Internet has introduced a permanent shift in the balance of power between the taxman and his tax-paying corporate targets: countries are anchored in the physical reality of their territory, while companies will increasingly be free to locate large parts of their economic activity in low-tax areas.
>
> (Hetherington-Gore *et al.*, 2000)

States are less able to tax mobile capital, and therefore need to downsize, which further weakens their authority. In turn, global capital has become involved in a greater range of activities, from the privatization of state assets to a range of offshore activities made lucrative by the reduction in state oversight and regulation. As we have emphasized, labour too is less mobile than capital and is therefore at a growing disadvantage.

What is the relevance of time–space compression for countries outside the global core? It is that time–space compression is also highly uneven across global regions. As we shall see in Chapter 2, access and participation are highly correlated with position in the world-system hierarchy (Wallerstein, 2000). Core countries, especially their world cities (discussed in Chapter 11), are much more connected than non-core countries. Geographically uneven time–space compression creates some distorted and bizarre geographies that challenge conventional map-based views of how the contemporary world is organized (Dicken, 1998: 153). To illustrate these uneven geographies of globalization, Figure 1.2 presents the location of major cities of the world in terms of the per minute price of a telephone call to the United States. On the one hand, cities in the core countries of Europe, Japan and Australia appear close to the USA – the Atlantic Ocean appears as the 'pond' to which it is sometimes referred in international business circles. On the other hand, there is a big gap between the United States and Mexico, while cities of the Caribbean and Africa are also placed much further away than they are in terms of their physical distance. An additional point about time–space compression and the world-system is that the roles that actors and institutions from different countries play in transnational interactions are also hierarchically arranged. Core countries play most of the high-end, high-value, and decision-making roles, whereas semi-peripheral and peripheral countries are involved mainly in low-end, low-value, and labour-intensive activities.

THE CREATION OF 'EMERGING MARKETS'

In this section we show how certain countries in the semi-periphery have come to be known as 'emerging markets'. We trace the process as it has unfolded over the past two decades. We start with the term's coinage in the mid-1980s, and end with its becoming a common term in investment circles, politics, the media, academia and even popular discourse by the late 1990s, and continuing into the twenty-first century.

The World Bank created 'emerging markets' in two senses of the term. First, it coined the term to refer to those countries outside the core that are most attractive to international investors. In so doing, the World Bank began what is often an implicit or unstated process of conceptualizing what countries must do to develop in the neoliberal era. In a word, the emerging market countries are the models for the less developed world to emulate. Second, the World Bank initiated a new real material opportunity for foreign investors to profit from investments in these countries. This was in the form of a new 'emerging market' investment fund.

Following the World Bank's lead, international investors, economic and political leaders, and the news media, have embraced the label and the investment opportunities associated with emerging markets. The term substitutes for others, such as 'the Third World' and 'developing countries', that were popularized during the post-war economic cycle. 'Emerging markets' has become the standard label for the semi-periphery in the unfolding world-system of the new millennium. The terminological and material shift has implicit but profound impacts on how development itself is conceptualized, evaluated and pursued.

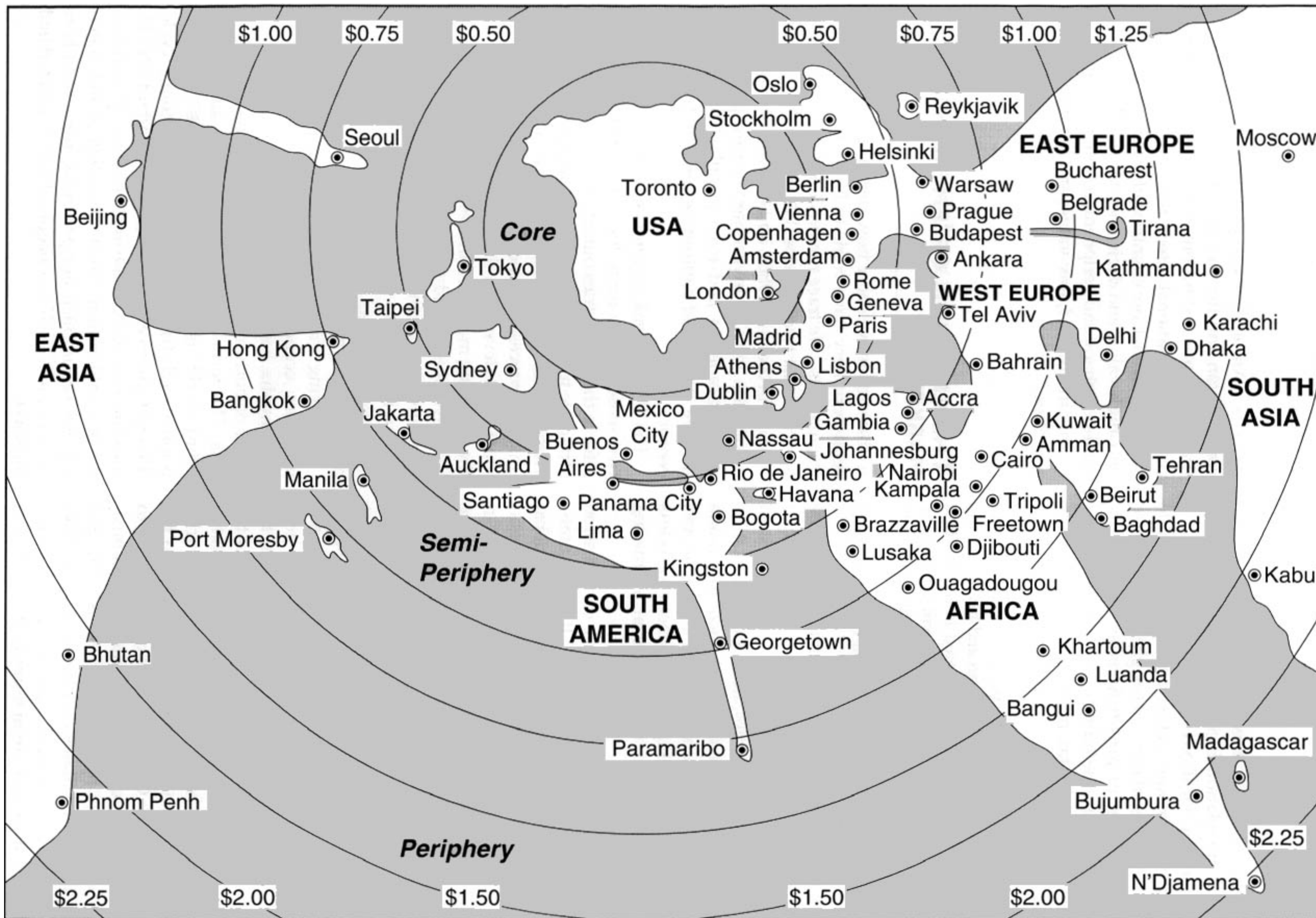

FIGURE 1.2 *The world-system as a function of telephone rates: cost per minute of calls made from US*
Source: adapted from Knox and Marston (2001)

Although its tactics have changed since the 1940s, the World Bank retains its original logo, created after the Second World War. It continues to espouse its principal devotion to creating 'A World Free of Poverty'. Creating 'emerging markets' was one such tactic in the 1980s. The World Bank created 'emerging markets' as investment opportunities primarily through two sets of actions. First, beginning in the early 1980s, it made a concerted effort to push Third World countries to relax restrictions on the in- and outflow of international capital, under the auspices of structural adjustment. Second, in the late 1980s, the World Bank organized the first cache of investment funds for countries it judged to be of 'emerging market' status, based on their profitability for foreign investors and the extent of their neoliberal reforms. Mutual fund investment in emerging countries then mushroomed from about US$1 billion in 1991 to US$32 billion in 1996.

As recently as 1984, no one spoke of emerging markets in the Third World. At that time, the term was used only its conventional, non-geographic, and pre-neoliberal meaning from the field of product marketing. That is, 'emerging market' was used to refer to the potential customers of a firm that was developing a new product line out of a certain innovation, such as a new type of airplane or other technology. In other words, an 'emerging market' described new market niches, not countries. In late 1985 and continuing to the end of the decade, however, the World Bank led a campaign to give the term 'emerging market' a new, much broader, meaning. Judging from how the term is now used in investment circles, governmental bodies and the news media, an emerging market has come to refer to a semi-peripheral country that provides attractive, high-return business opportunities for TNCs and foreign investors.

The World Bank began to publicize its new investment initiative in December 1985. The responsibility for publicity was assigned to one of the Bank's many affiliates, the International Finance Corporation (IFC), which the Bank created in the late 1950s to promote private investment in the Third World (Sidaway and Pryke, 2000). Today the IFC operates under the mandate of promoting neoliberal-style private sector-driven capitalism in the Third World. The IFC's logo parallels the World Bank's professed priority of eliminating poverty, but with an explicit reliance on the role of private investment: 'our mission: to promote private sector investment in developing countries, which will reduce poverty and improve people's lives' (www.ifc.org).

To promote investment in emerging markets, the World Bank gave the IFC a variety of resources, including a US$50–60 million fund that it invested in the public stock markets of certain developing countries deemed sufficiently neoliberal. In the first round of creating emerging markets, the IFC judged the stock markets of seven Latin American and East Asian countries – Argentina, Brazil, South Korea, Thailand, Malaysia, Chile and Mexico – worthy of investment. These countries were considered to have met the IFC minimum criteria for market liquidity, investor information and official regulations, including fiscal soundness and foreign exchange repatriation rules. The IFC first distributed shares in the fund among a few large institutional investors from Europe, Asia and the USA (Dunne, 1985).

When the first emerging markets were designated, the Soviet Union and its trading bloc (CMEA) still existed. Soon after their collapse in 1989–91, certain countries in the former Soviet realm, particularly those of Eastern Europe, would be added to the lists of 'emerging markets'. These are identified below.

Although the first emerging market fund dates to the late 1980s, emerging markets did not become part of the standard lexicon until the mid-1990s. As of the early 1990s, observers were still getting used to the new terminology to describe the huge new profit-making opportunities in the capitalist semi-periphery. Here is one newspaper report that captures both the terminological transition and the investment surge of 1992:

> Nothing draws American money like rising prices. A few years ago, when stock prices were low in what used to be called Third World countries, few [in the US] were interested. Now those countries are called emerging markets, many of them have seen soaring prices, and the money is pouring in.
>
> (Norris, 1992: 13)

Discussions of emerging markets in the news media focus squarely on how investors can reap economic gains from them. Compared to the post-war period, focus has shifted away from economic development issues *per se*, to ways that outsiders can profit from economic conditions in certain countries outside the core regions. Issues of social development are even further from the focus. Most reports suggest that the

flow of investment benefits, first, foreign investors and only second emerging economies. The impacts on people usually go unmentioned, implying that people in such economies are included in the universal benefits from neoliberalism. The tone is also one of neocolonial conquest: how these wild and risky places abroad can amply reward the adventurous investor. The following example from the mid-1990s is illustrative.

> Investing in emerging markets still seems, for most of us, a peripheral venture into the exotic: a gamble on the side. That is out of date. For investors, at least, developing countries are developing faster than ever before. Poor Asian nations are scrambling up the ladder, ailing Latin American economies are at last benefiting from swallowing IMF medicine and former communist states are making up for lost time.
>
> (Searjeant, 1996)

Such a depiction represents a distinct conceptual shift from terms commonly used in the post-war period such as 'Third World' or 'developing countries'. Certainly, investor concerns have always dominated discussions of developing-country issues, but a range of other issues, such as employment, health, education and the environment, also used to surface. In contrast, poverty alleviation is rarely mentioned in discussions of emerging markets. In the rare cases where the two are discussed together, emerging market activities are said to cure poverty, as in this example from South Asia:

> Finance Minister Saifur Rahman of Bangladesh said the country's 'comprehensive economic reform program' will go forward despite current political tensions. Bangladesh has been one of the best performing emerging markets this year, and government officials are eager to encourage foreign investment to ensure the success of its privatization program. 'We must move the economy to a higher plane,' he said. 'Millions of Bangladeshis are on the poverty line.' Bangladeshis will put their political differences aside 'for the future of the country,' he said.
>
> (Platt, 1994: 3A)

By the late 1990s emerging markets had become something of an investment craze for global mutual fund managers and other money handlers from core countries. Concerns about the semi-peripheral countries themselves, other than whether their investment 'fundamentals' were in place (fiscal austerity, low inflation, etc.), were scarcely mentioned. The issue was whether there were quick profits for people from rich countries. Here is an example from early in 1997:

> Investors who bet on emerging markets and developing countries had a particularly profitable quarter. Stocks in Russia continued to post extraordinary gains, and other countries that barely registered a blip on investors' radar screens last year delivered powerful returns. In Africa and Latin America, economic reforms and privatization rewarded investors willing to take big risks on nascent markets.
>
> (Block, 1997: 11B)

The investor euphoria captured in the above statement from April 1997 ended abruptly three months later. The Thai baht collapsed and the 'contagion effect' caused investors to flee from emerging markets around the world. During the second half of 1997, investors pulled US$105 billion out of South Korea, Indonesia, Thailand and Malaysia alone, representing an incredible 11 per cent of those countries' combined GNPs (Friedman, 1998). Here is how the leading currency trader George Soros described the human impacts:

> [T]here have been tremendous economic dislocations, tremendous human suffering as a result of what happened in financial markets, affecting what is now called innocent bystanders. Millions of people who are not entrepreneurs, who hadn't made any decisions, didn't borrow foreign currency. A lot of them, rather poor people, who have actually benefited over the years, in an improvement in their standard of living. Suddenly a collapse – losing their jobs, having much less income, much higher prices, and so on. Losing their savings, in the case of currencies that collapse.
>
> (Soros, 1999)

However, because certain Third World countries are now defined as emerging markets, international investor profits are the main concern. The 'recovery' that has been widely reported since 1997 also focuses on the interests of global investors. By 1998 they began to profit again from a new round of investments in certain parts of the Third World. Here is how one report, entitled 'Emerging Markets on the Mend', told of the good news for 1998: 'Indeed, it was the Philippines, South Korea and Thailand that came to the rescue of beleaguered emerging-market investors' (Rehak, 1999: 15).

To summarize, this section has shown how the World Bank created the original idea of thinking

about non-core countries as emerging markets. It also initiated the associated opportunities for foreign investors to move money quickly in and out of, and thereby profit from, emerging markets. Following chapters examine in more detail how all this plays out in specific emerging countries and regions.

MAPPING THE EMERGING MARKET COUNTRIES

Which non-core countries have been granted the status of an 'emerging market'? Unfortunately, this is not an easy question to answer. Emerging markets are often discussed without specific place referents. After all, what is key is their profitability, not their location. In many investment reports, emerging markets are vaguely places somewhere 'out there' (read: outside the developed world) with untapped profit potential. This placelessness is enhanced by the fact that during the first half of the 1990s a large share of private capital flows into emerging markets was not in the traditional form of foreign direct investment (FDI). A significant share of capital took the form of short-term 'portfolio equity' investments into stocks and bonds through investment firms (Onis and Faruk Aysan, 2000). For these short-term capital flows, the investment houses serve as a barrier between the investor and the place of investment. Further, much of the short-term capital flow is organized into mutual funds for emerging markets in which several countries are pooled. These agglomerated funds are sometimes global in scope, but often they are regionally organized for Asia, Latin America or Eastern Europe. These same, pooled emerging market mutual funds are commonly listed in the business section of international newspapers, and in the prospectus mailings of the investment houses themselves. Typically, no countries are specifically mentioned.

In the relatively unusual situations when lists of emerging market countries are drawn up and publicized, one finds considerable diversity in the countries selected. There are at least five reasons for this variation. First, conditions change over time. Poland has become relatively more attractive since the early 1990s, while Russia is now (2002) considerably less attractive. Second, lists will vary depending on the economic sector or type of investment that a particular evaluator emphasizes. Chile is well endowed in natural resources, China is more attractive as a site for export-oriented manufacturing, whilst Brazil enjoys comparative advantages in both resources and manufacturing. Third, there may be regional biases. Some financial analysts prioritize certain regions and are less committed to others. Fourth, investment is as much about perceptions as economic fundamentals, and analysts read different messages in the national accounts and the international conditions. Fifth, the data concerned with a country's attractiveness to investors are diverse and, unlike the notion of being either in or out of the emerging market category, are not binary. Qualifying depends in part on where the line is drawn.

To sort through this problem of ambiguity and to arrive at a consensus definition of emerging market countries, we consulted the websites of some of the key organizations in the business of creating and using the concept. Our five sources are:

1. the World Bank's International Finance Corporation (IFC)
2. the International Monetary Fund (IMF) (the United Nations Conference on Trade and Development (UNCTAD) also uses the IMF emerging market list)
3. the Institute of International Finance (IIF) in Washington DC – an international bankers' think-tank and information source
4. the *Economist* news magazine
5. Internet Securities Incorporated (Internet SI), a provider of electronically delivered emerging market business information.

Additional information about the nature of these five organizations may be found in the sources of Table 1.1. The *Economist* is the most detailed of these sources, in that it provides weekly tracking of economic indicators for an evolving list of emerging markets. To begin to accommodate the fact that countries considered emerging markets change over time with changing investor perceptions of their business climates, we have included two lists from the *Economist*, one from 1999 and another from 2001. Other emerging market listings from the 1990s are not easy to find. The business of emerging market identification is quite time-sensitive and present-oriented. Website archives are rarely maintained for the emerging market analysis of even a few years ago.

TABLE 1.1 *Countries listed as 'emerging' markets*

Source					
Internet SI '01	**IMF/UNCTAD '99**	**IIF '01**	**Economist '01**	**Economist '99**	**IFC '99**
Asia/Pacific					
China	Bangladesh	China	China	China	China
Hong Kong	China	India	Hong Kong	Hong Kong	India
India	India	Indonesia	India	India	Indonesia
Indonesia	Indonesia	Malaysia	Indonesia	Indonesia	Malaysia
Malaysia	S. Korea	Philippines	Malaysia	Malaysia	Pakistan
Philippines	Malaysia	S. Korea	Pakistan	Philippines	Philippines
S. Korea	Philippines	Thailand	Philippines	S. Korea	Sri Lanka
Singapore	Singapore		S. Korea	Singapore	Thailand
Taiwan	Thailand		Singapore	Thailand	
Thailand			Taiwan		
			Thailand		
Latin America					
Argentina	Argentina	Argentina	Argentina	Argentina	Argentina
Brazil	Brazil	Brazil	Brazil	Brazil	Brazil
Chile	Chile	Chile	Chile	Chile	Chile
Colombia	Colombia	Colombia	Colombia	Mexico	Mexico
Ecuador	Mexico	Ecuador	Mexico	Venezuela	Peru
Guatemala	Peru	Mexico	Peru		Venezuela
Mexico	Uruguay	Peru	Venezuela		
Peru	Venezuela	Uruguay			
Venezuela		Venezuela			
Eastern Europe and post-Soviet realm					
Bulgaria	Czech Rep.	Bulgaria	Czech Rep.	Czech Rep.	Czech Rep.
Croatia	Hungary	Czech Rep.	Hungary	Greece	Greece
Czech Rep.	Poland	Hungary	Poland	Hungary	Hungary
Estonia	Russia	Poland	Russia	Poland	Poland
Hungary	Slovenia	Romania		Portugal	Portugal
Latvia		Russia		Russia	Russia
Lithuania		Slovakia			Slovakia
Poland					
Romania					
Russia					
Slovakia					
Ukraine					
Africa/Middle East					
Azerbaijan	Egypt	Algeria	Egypt	Israel	Egypt
Armenia	Kuwait	Egypt	Israel	South Africa	Jordan
Georgia	Morocco	Morocco	Saudi Arabia	Turkey	Morocco
Turkey	Nigeria	South Africa	South Africa		Nigeria
	Saudi Arabia	Tunisia	Turkey		Saudi Arabia
	South Africa	Turkey			South Africa
	Tunisia				Turkey
					Zimbabwe
Total 35	29	29	27	23	29

(continued)

TABLE 1.1 *(continued)*

Sources listing 'emerging markets' and how they describe themselves

Internet SI (Internet Securities Incorporated)

'Established in 1994, ISI is the pioneering provider of electronically delivered emerging markets business information. The company has offices in 18 countries and is headquartered in New York City, New York. *ISI Emerging Markets* delivers news, company and financial data direct from emerging markets to thousands of emerging markets specialists around the world.'

The ISI's 'Comprehensive List of Emerging Market Countries' may be found at: http://www.securities.co.uk/cgi-bin/ishp.

International Monetary Fund (IMF)/UNCTAD

The IMF is an international organization of 183 member countries. Its stated goals are to 'promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.'

Its emerging markets list was published in *World Economic Outlook*, May 1999. (UNCTAD (United Nations Conference on Trade and Development) 1999, adopts the IMF emerging market list.)

Institute of International Finance, Inc. (IIF)

The Institute of International Finance, Inc. (IIF), is an international bankers' think-tank and information source. It describes itself as 'the world's only global association of financial institutions. Created in 1983 in response to the internatonal debt crisis by 38 banks of the leading industrialised countries, the IIF has evolved to meet the changing needs of the financial community. Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies, investment management firms, multinational companies, trading companies, export credit agencies, and multilateral agencies. Over half of its members are European-based financial institutions, and representation from the leading financial institutions in emerging market countries is also increasing steadily.'

Source: press release – *Private Capital Flows to Emerging Markets Subdued – January 24, 2001*, http://www.iif.com/PresRel/2001KFLJan.html.

The *Economist*

The *Economist* website describes the magazine as follows: 'a weekly international news and business publication offering clear reporting, commentary and analysis on world politics, business, finance, science and technology. Founded in 1843 to support the cause of free trade, the Economist has remained a radical publication of opinion with a reverence for facts. It has become firmly established as one of the world's most authoritative and influential publications.' See http:/www.economist.com.

International Finance Corporation (IFC)

A branch of the World Bank, the IFC's website summarizes its agenda as follows: 'Our mission: to promote private sector investment in developing countries, which will reduce poverty and improve people's lives.' See http://www.ifc.org/.

Source: Internet SI, 2001; IMF/UNCTAD, 1999; IIF, 2001; Economist, 2001c; Economist, 1999d; IFC, 1999

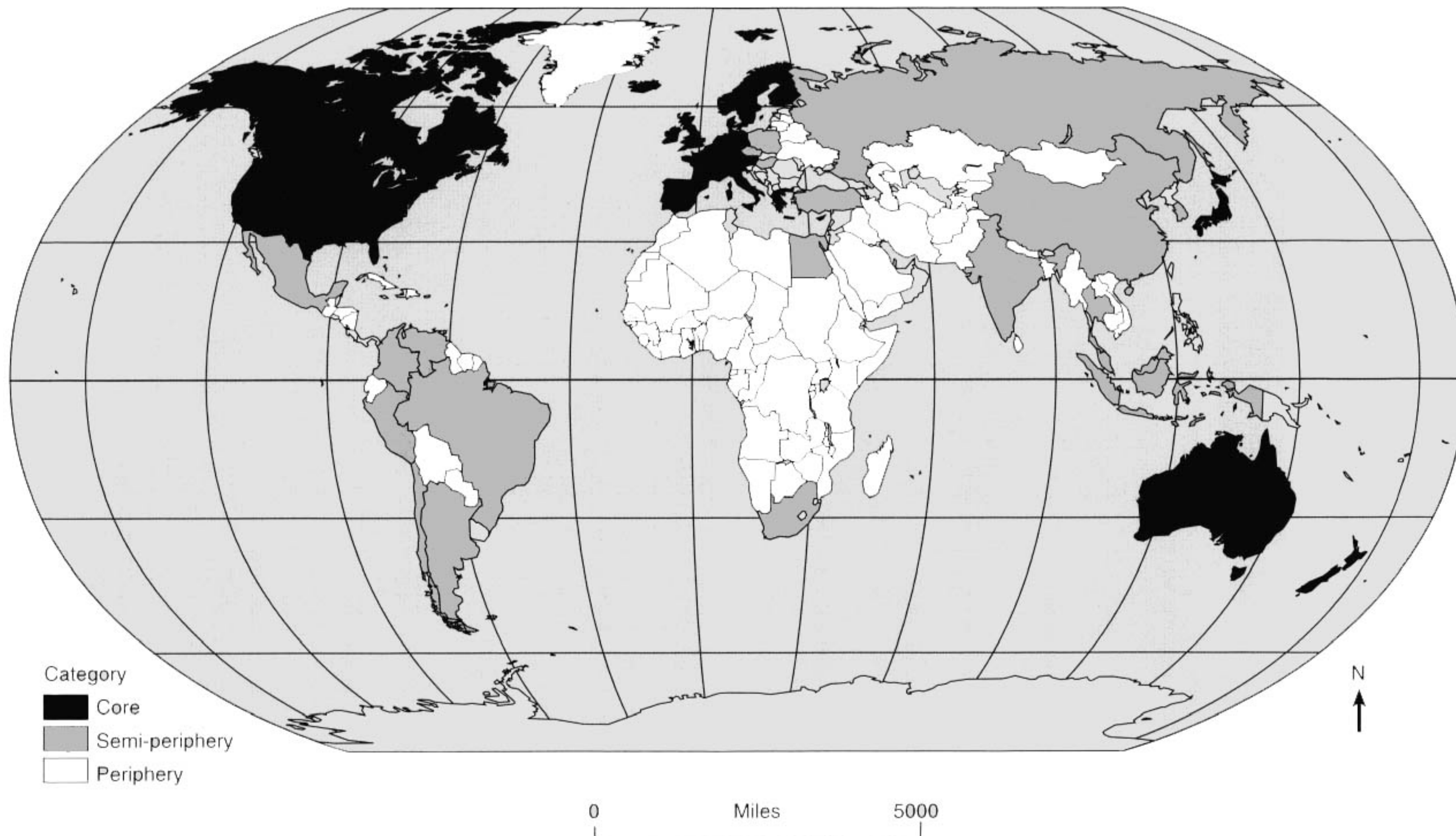

FIGURE 1.3 *The world-system: countries of the core, semi-periphery and periphery at the dawn of the twenty-first century*

Our definition of the consensus emerging market group of countries requires that they appear on at least four of the six lists (Table 1.1). A total of 31 countries were listed as emerging markets in only one or two of the six lists. By our definition, only 22 countries are consensus emerging markets. These 22 emerging market countries are mapped as the world-system's semi-periphery in Figure 1.3. Notice how these consensus countries are clustered in Eastern Europe (Czech Republic, Hungary, Poland) and Russia, East Asia (China, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand), and Latin America (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela). This regional clustering of emerging markets supports our emphasis in this book on comparing economic change and conditions in those three areas of the world. The four remaining consensus emerging market countries – Turkey, Egypt, South Africa and India – are not part of the three principal regional clusters that are the focus of this book.

As the *Economist* notes, one problem of such a classification is that it ignores 'small' countries with limited markets. Alongside this map of consensus emerging markets, we have developed a more diagrammatic representation of the world according to the population size of countries and how the World Bank classified each country in terms of their income in 2000 (see Figure 1.4). The World Bank (2001: 334–5) classifies the world according to per capita income into four groups:

1. high income
2. upper middle income
3. lower middle income
4. low income.

In this book, we would loosely refer to all middle-income countries as emerging markets even though their population sizes and markets are small. Thus countries such as Uruguay and Costa Rica in Latin America or Slovakia and Lithuania in Eastern Europe would be included. Incidentally, there are two low-income countries (India and Indonesia) that are included in the 'business-oriented' classification of emerging markets depicted in Figure 1.3, mainly due to the large size of their markets. Figure 1.4 underlines the point made earlier in this chapter that core countries now contain a relatively small minority of the world's population. A much larger proportion of the world's population now lives in the middle-income countries that are the focus of this book.

EMERGING MARKETS AND THE GLOBAL PERIPHERY

The World Bank's initial concept of emerging markets has expanded in meaning and scope. Once the term emerging markets became established among global investors, then derivative terms such as emerging countries, emerging nations, emerging regions and emerging world crept into the lexicon. Whereas originally in the late 1980s the designation was stock market investment in certain non-core countries, the widespread use of the broader referents today signals a reconceptualization of whole societies. Countries and peoples with long histories and rich cultures are now said to be suddenly emerging.

From what they are emerging is almost always left unspecified. From the context provided by investment and media reports using these broader terms, however, a wider meaning can be extracted. These countries are said to be emerging from economic and/or cultural backwardness, socialistic thinking, statism and regulation, and/or inward economic orientation. The earlier quote from Jeffrey Sachs (see Box 1.1) indicated that they are emerging from being 'non-market economies' to becoming 'market economies'. In this way, terminology created by and for international investors now permeates descriptions and analyses of countries as a whole, and not just their profit-making sectors. To encompass the wide-ranging meaning that the term emerging markets has quickly come to designate, we use the abbreviation EMCs (emerging market countries).

Investors continually seek new horizons over which to find profits. That centuries-old pursuit continues today but from within the new lexicon. The United Nations Conference on Trade and Development (UNCTAD) recently published a report entitled 'Investing in *Pre*-Emerging Markets' (emphasis added). The report speaks of a new outlook by a growing number of investors who recognize the need to conquer the world's last investment frontiers (UNCTAD, 1998: xi). The UNCTAD report is significant on several counts. First, the labelling of pre-emerging markets signifies the perceived investment opportunities within marginalized peripheral

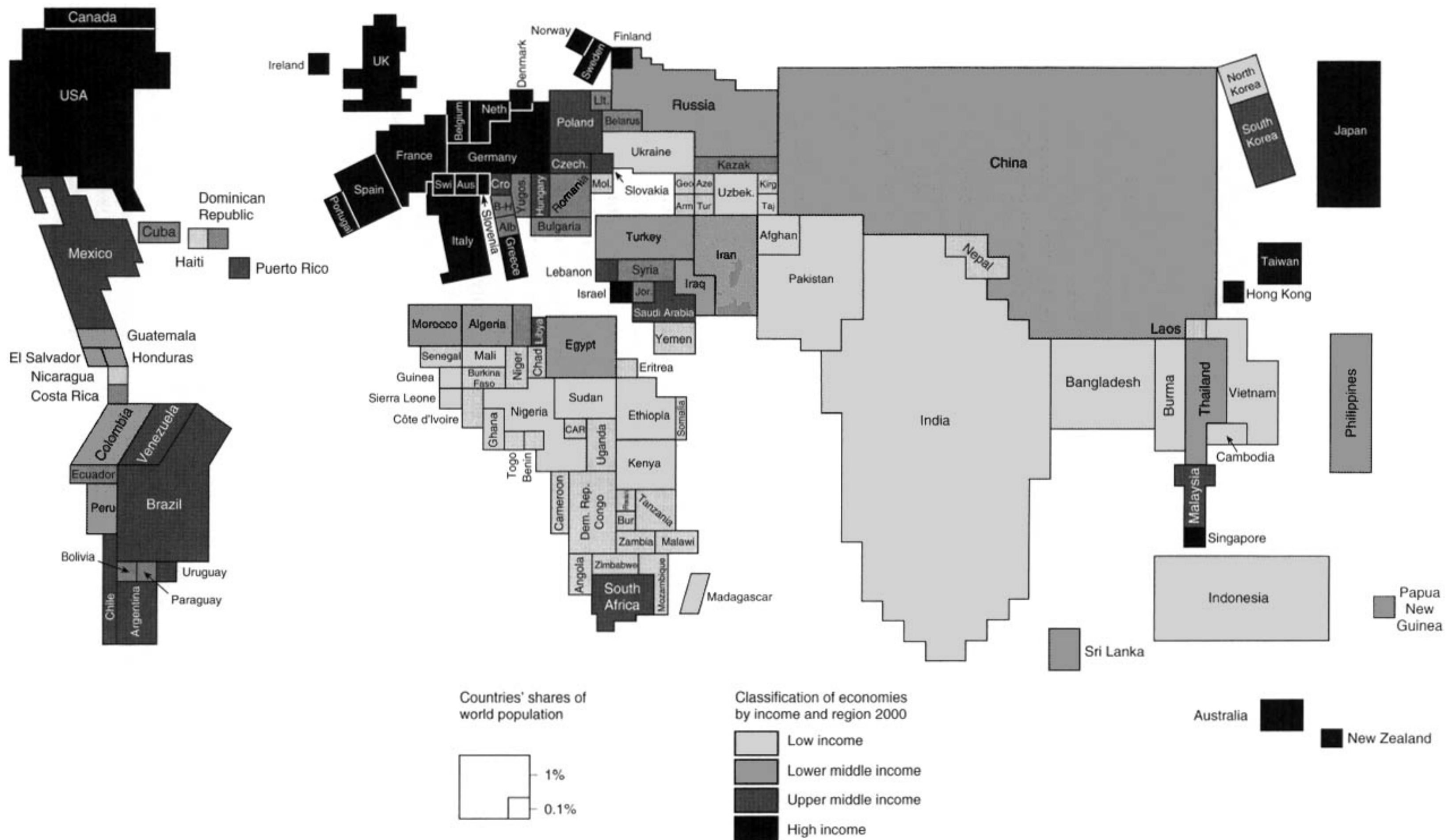

FIGURE 1.4 *An alternative vision of the world-system according to income and population size*
Source: World Bank (2001)

capitalist economies and the possibility of their deeper integration into the global economy in the future. The report focuses on the countries of Africa and Asia that are not normally labelled emerging markets, and refers to them as less developed countries (LDCs). This categorization suggests the perception that the countries have already been granted emerging market status are no longer perceived as LDCs, despite what is revealed by other indicators (e.g. poverty, nutrition, health, education, economic vulnerability and dependency, relative per capita income).

The UNCTAD report focuses on the investment opportunities in tourism, agro-industry, and the extension of publicly owned or privatized infrastructure. These are economic sectors in which the report says the LDCs have a distinct comparative advantage and private investment gaps. However, past experience in the Third World has demonstrated that having a comparative advantage in non-industrial sectors or in low-cost labour holds little long-term promise. With regard to tourism and agro-industry, the report argues that these economic sectors are 'underexploited or not exploited efficiently which gives investors an opportunity to realize potentially high returns' (UNCTAD, 1998: 4). The fact that these countries are liberalizing their economies gives them 'added attractiveness'. Of course, risks such as political and economic instability, and poor existing infrastructure are included as a warning to potential investors, but the report promises that investors can earn a 15 per cent or more per annum investment return (1998: 51). This United Nations report suggests an important way in which the world-system is integrated and unified. In this way the neoliberal formula and associated global investors extend their influence beyond the semi-peripheral emerging market countries.

Conclusion

This chapter shows how the concept of emerging markets arose out of the neoliberal model that came to dominate global economic thinking in the wake of the economic crises of the 1980s. Emerging markets form a component of the new architecture of the world order, which have largely replaced an older order based around concepts of First, Second and Third Worlds. But this newer architecture is no less unequal than the old one. Indeed, according to numerous observers, it fosters greater divergence between the richer and poorer countries of the world. One of the apparent contradictions of globalization is that as time–space compression brings about global interaction of peoples, products and services, economic and social marginalization are the fate of many. According to Ankie Hoogvelt (1997), the 1990s witnessed the emergence of a new global social structure at the base of which are the increasingly marginalized masses.

Instead of focusing on broader issues of development and the reduction of poverty the current rhetoric of EMCs and LDCs speaks of the world as a field for global capital flows and profit-taking. In effect, this has produced close capital linkages between financial institutions and investors in core economies and spaces in the rest of the globe. In many ways, this suggests the appearance of a new stage in the world capitalist system. In order to further our argument, we turn to the topic of world-systems theory in Chapter 2.

Further Reading and Useful Websites

The **Economist**, 'Emerging-Market Indicators', available at: http://www.economist.com/markets/index.cfm.

Escobar, A. 1995: *Encountering Development: The Making and Unmaking of the Third World.* Princeton: Princeton University Press. Escobar is a major figure in the Latin American movement to find 'alternatives to development', often termed the 'antidevelopment' school of thought.

Hirst, P. and Thompson, G. 1996: *Globalization in Question: The International Economy and the Possibilities of Governance.* Cambridge: Polity. This is the most thorough and careful interrogation of the ideas and evidence behind economic globalization to date.

Klak, T. (ed.) 1998a: *Globalization and Neoliberalism: The Caribbean Context.* Lanham, Maryland: Rowman and Littlefield. Through the analytical lens of political economy, the book examines the impacts, adjustments and coping strategies found in the Caribbean as it undergoes a rapid and profound transformation.

New Internationalist, http://www.oneworld.org/ni/index4.html – monthly news magazine critical of

top-down development and sympathetic to building capacities at the grassroots level.

Sachs, W. (ed.) 1992: *The Development Dictionary: A Guide to Knowledge as Power*. Atlantic Highlands, NJ: Zed Books. This collection provides a critical etymology and ecopolitical interrogation of the principal concepts used in the discourse of Third World development.

Sidaway, J. and Pryke, M. 2000: The strange geographies of 'emerging markets', *Transactions of the Institute of British Geographers* 25, 187–201. Discusses international financial flows in and out of 'emerging market' countries.

World Bank 2001: *Globalization, Growth and Poverty: Building an Inclusive World Economy*. NY: Oxford University Press, online at http://econ.worldbank.org/prr/structured_doc.php?sp=2477&st=&sd=2857 – recent statement of the bank's philosophy that free trade promotes development and reduces poverty.

2

CONCEPTUALIZING THE WORLD-SYSTEM

The previous chapter referred to the concept of a world-system. As we have seen, this concept forms the core of a body of theory known as world-systems theory (WST). The virtue of this body of theory is that it attempts to analyse how richer and poorer countries interrelate in the world economy. We acknowledge that there are some problems in applying this theory, but its advantage lies in the way it takes a global and historical perspective. Unlike some other attempts to explain global development trends, it also allows for the fact that different parts of the world will experience different development trajectories. Therefore it provides a suitable paradigm for this book. For a definition of world-systems theory, see Box 1.1.

HISTORICAL DIMENSIONS OF THE WORLD-SYSTEM

For how long has there been a world-system? As we shall see in Chapter 3, the time-frame involved is in dispute, even among the theory's staunchest advocates. What is less debatable and more relevant to the purposes of this chapter is the point that there has been at least a century of global capitalism.

According to WST, while economic processes tend to play a lead role over other institutional relationships, the world-system is at once a world-economy, a world-polity and a world-culture (Wallerstein, 1991; Straussfogel, 1997). These systemic features and their interactions, along with the ways that this world-system is both temporally and geographically ordered, are introduced in this chapter and explored further in subsequent ones.

WST can be linked to a number of regularly occurring historical cycles associated with the level and quality of business activity. These cycles account for economic booms and busts of various durations (Knox and Agnew, 1998: 11). The main economic periods for WST are often explained with reference to **Kondratieff cycles**, named after the Russian economist who described them in the 1920s based on past variations of prices (see Table 2.1). According to Kondratieff, each cycle or 'long wave' lasts about 50 to 60 years.

Kondratieff had little to say about the causes behind the empirical regularity he discovered. However, one writer who did attempt to explain cycles and waves in economic development was Joseph Schumpeter (1934; 1939; 1943). Schumpeter disagreed with the neoclassical analysis of capitalist growth as a gradual and harmonious process, without major ups and downs. He believed that capitalist growth occurs in leaps and spurts as great new investment opportunities open up, such as the wide variety of opportunities created by the expansion of the railroads in the mid-nineteenth century. What he termed 'railroadization' created opportunities for direct investment in the iron and coal industries, reduced transport costs and expanded the spatial extent of markets and resource extraction. Thus Schumpeter argued that each new Kondratieff wave represented a major upsurge in innovation and entrepreneurial dynamism.

Kondratieff cycles are each divided into a period of expansion and stagnation. There is first an A-phase

TABLE 2.1 *Kondratieff's long-wave cycles*

	Rise: A-phase	Decline: B-phase
1st long wave	1780s/90s to 1810–17	1810–17 to 1844–51
2nd long wave	1844–51 to 1870–75	1870–75 to 1890–96
3rd long wave	1890–96 to 1914–20	1914–20 to 1944–51
4th long wave	1944–51 to 1967–73	1967–73 to C. 1990
5th long wave	C. 1990–	

of upswing, economic expansion and profitability based on certain technological innovations and within established rules. But price inflation increases during the A-phase. This then leads into a B-phase of economic downturn, stagnation, price deflation and profit decline (Knox and Agnew, 1998: 72). The profit squeeze toward the end of the B-phase pushes capitalists and policy-makers to seek new and innovative ways to accumulate capital for the future. They work to shift investment out of established economic sectors, regulated environments and production locations, and thereby create the conditions for a new Kondratieff cycle (Lee, 1994b).

While Kondratieff cycles have considerable historical and empirical support (Mandel, 1980) they remain controversial. Other researchers have assembled evidence to cast doubt on the existence and significance of long waves, and to suggest instead that capitalism moves through phases of differing lengths, problems and features (see, e.g., Maddison, 1991). The regulation school can be seen as one alternative conceptualization of capitalism's very recent evolution (see below).

The most recently completed fourth Kondratieff cycle is said to have begun in the late 1940s, expanded until 1967–73 (A-phase), and then contracted through the late 1970s and 1980s (B-phase). Each cycle's organizing institutions and rules are both economic and political. Table 2.2 contrasts the key economic and political features of the fourth Kondratieff cycle with those of the fifth or present one. Although Table 2.2 distinguishes between the US and USSR spheres of influence during the fourth cycle, it is important to stress that WST is really a theory about the history of global capitalism rather than about the relatively brief period of Soviet-style communism. In particular, the terms 'semi-periphery' and 'periphery' refer to very different kinds of relationship in the communist world than in the capitalist one. Soviet domination over Eastern Europe and the three Baltic states was more political and military than economic. Indeed, parts of Eastern Europe and the Baltic states had higher living standards than parts of Russia itself. Many of these spatial patterns across Eastern Europe and Russia perpetuated themselves from the pre-communist period through the Soviet period and beyond it. Relationships with the communist core and periphery were also different. Although Moscow kept Cuban planners from pursuing the industrial diversification they so desired, Cuba benefited enormously from US$5 billion-worth of annual trade subsidies from the USSR. Cubans now longingly refer back to the 1970s and 1980s as their 'golden age', in terms of its security and stability.

With these caveats in mind regarding the applicability of world-systems theory to the Soviet system, it is now possible to outline the most salient economic and political features of the fourth Kondratieff cycle. Key economic rules and structures included a reliance on the US dollar as the global currency, and the establishment of supranational bodies such as the World Bank, the IMF and the G7. Political structures included the United Nations and the geo-political arrangements made at the Yalta conference towards the conclusion of the Second World War. The major powers (the USA, USSR and Britain) participating at Yalta divided Europe into US- and USSR-dominated zones and, in effect, initiated the Cold War, pitting capitalism against communism. The two zones were far from equal. Virtually all the former core countries of Europe, together with the USSR, were in ruins after the Second World War. The USA, however, emerged basically unscathed. At that time, the USA had only 6.3 per cent of the world's population but possessed

TABLE 2.2 *World-Systems and Kondratieff's fourth and fifth long waves*

Time period of the cycle	The fourth wave, 1940s–1980s		The fifth wave, 1990s–
Key world-system organizing themes	US hegemony over the capitalist world, the Cold War and global bifurcation (see below), Fordist mass production, the Third World		The core triad, global corporations and culture, 'emerging markets'
Key political-economic policies unifying world-system member countries	Capitalist world: regulated capitalism and electoral democracies in core countries	Communist world: state socialist one-party systems and central planning	Shifts towards open-market capitalism, neoliberalism and electoral democracies
Key unifying economic bodies	Bretton Woods, G-7, World Bank, IMF	CMEA	IMF, World Bank, G-8, WTO, expanding regional groupings such as the EU and NAFTA
Key unifying military alliances	NATO	Warsaw Pact	NATO expanding eastward into the former Soviet Bloc
Core leaders	US	USSR	The US within the core triad (includes Western Europe and Japan)
Other core members	Western Europe, Japan, Canada, Australia,	–	Canada, Australia
The semi-periphery	NICs	Eastern Europe	'Emerging market countries'
The periphery	The capitalist periphery	Peripheral countries aligned with the USSR	'Lagging' and marginalized countries

about half of its wealth. According to George Kennan, principal architect of post-Second World War US foreign policy (who was the head of the State Department's policy planning staff), the USA was committed to maintaining this concentration of wealth in the post-war world. As he explained in the State Department's policy planning staff document PPS23 in 1948, 'our real task in the coming period is to devise a pattern of relationships which will permit us to maintain this position of disparity'. The USA succeeded for a while (i.e. throughout the A-phase), as illustrated by the relative size of its transnational corporations (TNCs), one gauge of global power. In 1956, 84 per cent of the world's largest corporations were American (Table 2.3).

Over the post-war decades, however, Western Europe and Japan quickly recovered their industrial capacities. By the B-phase, the dominant role of the United States began its decline (Hopkins and Wallerstein, 1996). In 1980, the big US corporations had fallen to 46 per cent of the total, while the other core triad members (i.e. Japan and Western European countries) accounted for approximately the same share – 48 per cent (Table 2.3). At that time, three semi-peripheral countries were home to one large TNC each, but their prominence proved ephemeral. Those were three state petroleum firms from among Latin America's largest countries (Brazil, Venezuela and Mexico). They have since been eclipsed by the growth of other firms from the core triad (Table 2.3). Similarly, the more recent rise of South Korea's Daewoo Group into the ranks of the world's largest TNCs appears to be temporary (see Box 9.1). The most recent data indicate that, once again, all 50 of the world's largest corporations are from the core triad.

TABLE 2.3 *The World's 50 largest corporations**

Country of origin	Long wave phase and year			
	A-phase 1956	B-phase 1980	A-phase	
			1997 (pre-Asian crisis)	1999 (post-Asian crisis)
Core triad	50	47	49	50
Japan	0	5	19	19
Canada	1	0	0	0
United States	41	23	17	15
EU countries	7	18	11	14
Switzerland	1	1	2	2
Semi-periphery	0	3	1	0
Brazil	0	1	0	0
Mexico	0	1	0	0
Venezuela	0	1	0	0
South Korea	0	0	1	0
Periphery	0	0	0	0
Total	50	50	50	50

* Defined by annual revenues.
Source: Ikeda (1996) and *Fortune* magazine (3 August 1998 and 24 July 2000)

The dawn of the twenty-first century finds all countries united within one US-led capitalist world-system that is taking shape within a new long-wave cycle. Institutions and organizing principles are being contested, fixed or expanded. Neoliberalism, deregulation and free trade are designed to stabilize and ensure continued profitability and global power for core countries and their TNCs in this new Kondratieff cycle (Table 2.2).

Western Europe and Japan are now members of a more economically balanced core triad within which there is both cooperation and competition with the USA. While the USA continues in this new cycle, as in the last, to be the unchallenged core leader, it no longer singularly dominates as it did in the A-phase of the post-Second World War cycle. For one, there are regional spheres of dominance and subordination, functioning as regional sub-systems within the global system. Each member of the core triad has a less-developed world region in which its influence is greatest: North America in Latin America, Japan in Southeast Asia, Europe in Eastern Europe, the Middle East and Africa, and all three in the Pacific Rim and China (Ohmae, 1985; Michalak, 1994). For another, Japan and Western Europe have grown many globally influential corporations. As in the most recent B-phase, the core triad is now virtually synonymous with global corporate power. Each of the triad's regional components is presently well represented at the top of the corporate hierarchy (Table 2.3). Most of the world's wealth is now shared between the USA and the other members of the core triad. The 20 per cent of the world's population that lives in the core triad enjoys 86 per cent of global income (UNDP, 1999).

WORLD-SYSTEM THEORY (WST) IN ITS SOCIAL SCIENCE CONTEXT

Where does WST fit into social science past and present? A quick look through WST bibliographies will reveal that it is almost synonymous with its principal architect, Immanuel Wallerstein. Indeed, few influential theoretical perspectives are so

closely linked to one contemporary scholar. WST's conceptual roots are largely in Marxism. World-systems theory builds upon some of the ideas of Karl Marx to construct a concept of capitalist development that is both historical and global. It also borrows ideas from more recent thinkers like the French historian Fernand Braudel and the sociologist Andre Gunder Frank.

Wallerstein (1979) says that WST follows 'the spirit of Marx if not the letter'. Evidence of Marx's 'spirit' can be found in WST's emphasis on class, the state, imperialism and control over the means of production and labour power. WST's objections to classical Marxism primarily concern a theoretical component, embraced by some, though by no means all, Marxists, which is known as **developmentalism**. This is the idea that individual societies move sequentially through feudalism, capitalism and socialism to communism (Cohen, 1978), and that they can be analysed and transformed individually and separately from the world-system. WST's alternative view – that there has been for centuries but one world-economy driven by capital accumulation – employs a concept of mode of production that is closer to that of Karl Polanyi than to that of Marx (Gregory, 2000).

The similarities and differences between Marxism and WST are worth examining further. It is important to understand that although WST uses much Marxist terminology, there are important differences between it and classical Marxism. Like Marxism, WST analyses capitalism as a 'mode of production' but defines the latter to include not only the ways in which goods are produced and the social relationships bound up with that process but also issues of consumption, accumulation, distribution and exchange. Because, according to WST, capitalism is by its very nature an international and, nowadays, global phenomenon, the key issue is when and how individual countries and parts of the world were inserted into the capitalist world-system and what role (core, semi-peripheral or peripheral) they play in it.

The internal economic and social organization and conditions of each individual country are a relatively minor issue for WST. For example, WST could regard the former USSR as a semi-peripheral part of the capitalist world-system despite the fact that its command economy, centralized social and political system, and socialist ideology were very different from the economies, societies and ideologies of Western countries (see Wallerstein, 1979). Classical Marxism, by contrast, stresses the significance of the interrelationship between, on the one hand, the process of production including the social relations that are inevitably involved in that process and, on the other, the (ultimately dependent) complex of institutions, practices and beliefs of which each society is composed. All these things together constitute a 'mode of production'. At any one time, in any given society, one particular mode of production (for example, feudalism or capitalism) may be expected to dominate.

We regard WST as a useful way of analysing the present-day structure and workings of the capitalist world-system. As a historical mode of analysis it is also useful in exploring the general evolution of that system, and in particular its links with European imperialism and the ways in which the history of imperialism impinges upon the global political economy today. However, we are much more cautious than WST tends to be in using the term 'capitalism' to describe conditions in individual countries and regions of the world at periods in the past. We fully subscribe to the view that capitalism constitutes the prevailing mode of production throughout the world today. Historically, however, just because a particular country or world region began to play a role in the burgeoning world-system at a particular point in time does not necessarily mean that it was itself 'capitalist' until much later. This is a point we would make with respect to both Latin America and Russia, whose participation in the world-system clearly long predated the advent of fully fledged capitalism in those regions.

WST's perspective and claims have much interdisciplinary relevance, and it has therefore attracted both supporters and detractors from across the social sciences. WST complements political-economic analysis in the traditions of **dependency theory** (Frank, 1966; Cardoso and Faletto, 1979), **uneven development** (Smith, 1984), and **dependent development** (Evans, 1979). A conceptually overlapping but perhaps less economistic and highly influential alternative to WST is the **regulation school**. Usually applied at a more local level than WST (i.e. to national or subnational systems), regulation theory seeks to identify historical phases of capitalism based on relations between a particular prevailing method of accumulating capital, and an associated set of state regulations and behavioural norms (Boyer, 1990; Tickell and Peck, 1992).

THE UNEVEN GEOGRAPHICS OF THE WORLD-SYSTEM

What about the *geographical organization* of the world-system? The world-system impacts upon geographical space in complex and highly unequal ways. It follows that WST has many important geographical components, and these are introduced and explored below. The theory has therefore, not surprisingly, been adopted, refined and extended by scholars working in the broad fields of economic geography (Lee, 1994a; Dicken, 1998) and political geography (Taylor and Flint, 2000). WST is especially useful for identifying and studying the semi-periphery, and so it provides an appropriate organizing framework for this book.

Today, the world-system is enormously unequal across space. Despite (or, world-system theorists argue, because of) several centuries of worldwide economic integration and trade, and a half century of World Bank-led international development, global inequalities are stark, and they continue to worsen. The numbers behind these assertions are remarkable and deserve some elaboration and consideration. The difference in per capita income separating the richest and poorest countries was 3:1 in 1820, 35:1 in 1950 and 72:1 in 1992 (UNDP, 1999). In 1998, the world's three richest people – Microsoft's Bill Gates and Paul Allen, and Warren Buffett of the insurance and investment firm Berkshire Hathaway – had assets worth US$156 billion. This is as much as the combined GDPs of the world's 43 poorest countries, home to 600 million people (UNDP, 1999). While the world's richest 200 people saw their total wealth more than double from 1994 to 1998 to over US$1 trillion, at the other end of the world-system, more than 80 countries saw their per capita income fall during the 1990s (UNDP, 1999). As noted earlier, the core triad's 20 per cent of global population has 86 per cent of global GDP; these same rich countries hold 56 per cent of the votes on the IMF board. At the other extreme of the global distribution of power and wealth, we find that one out of three people in the world must try to survive on an income of less than one dollar per day (Brown, 1999). In fact, the world has grown more unequal at most levels – not only between rich and poor countries, but also among the non-core countries, and within most non-core countries themselves (Porter and Sheppard, 1998: 13–18; Gwynne and Kay, 1999: 5–6; Dicken, 1998).

Within this highly unequal global hierarchy of countries and peoples, however, are some important place-specific dynamics. At times, individual countries and whole world regions rise and fall in terms of power, development and economic potential. WST has mainly described this globally differentiated space by reference to countries and regional groupings thereof. Compared to long waves, the geographical components of the world-system are less conceptually refined and empirically specified. With that caveat in mind, general geographical features can nevertheless be described. Using a consensus definition of 'emerging market' countries to define the semi-periphery (this was discussed in Chapter 1), countries have been placed into three categories (see Figure 1.3).

According to WST, countries of the **centre** or **core** tend to have the following features. They are sites of global economic (and especially industrial) power and diversity, technical sophistication, the creation of and control over innovations, wealth, and mass consumerism. To provide one illustration of the mass consumerism in the core, there is a close match between the countries identified as members of the core in Figure 1.3, and those with at least four televisions for every ten citizens in 1991 (Clark, 1996: 124). Regarding control over innovations, core countries hold 97 per cent of the world's patents (UNDP, 1999). Following from these features of economic prowess are the associated military power and political influence. Most key decisions about the constitution of the world-system are made in core countries. Interests from core countries collectively establish and enforce the rules of the global order. In the economic sphere, such influence is often exercised via a network of **world cities**. These control centres are located predominantly in core countries, but also have selected representation outside the core (see Figure 11.2). World cities are where the largest TNCs have their main headquarters, branch offices and regional headquarters. World cities also host the producer services catering to these TNCs (Friedmann, 1995; Clark, 1996: 148–9).

The **semi-periphery** is a mix of characteristics of the core (e.g. industry, capital, export power, prosperity) and the periphery (e.g. poverty, primary product reliance, vulnerability to outside decision-making). These features are correlated with size, however imperfectly. That is, semi-peripheral countries tend to be larger in terms of population, natural resources

and economic output than peripheral countries. This size distinction is clearest in Latin America. Giants such as Brazil, Argentina and Mexico belong to the semi-periphery. Small states such as El Salvador, Panama and Guyana fall into the periphery (Figure 1.3). One way to understand the role of size is by noting that core countries cannot afford to ignore the natural resource base, economic power and market potential of the large semi-peripheral countries. The semi-periphery is also the most turbulent category, in that its members most frequently rise or fall in the global hierarchy. Much of the restructuring of the geographical organization of the world-economy later in the B-phases involves countries or whole regions rising and falling through the semi-periphery.

In semi-peripheral countries there is much hope for development and for the prospects of joining the core, and narrow windows of opportunity for doing so. But there are also intense interactions with core countries bent on fostering their own development while maintaining the hierarchical status quo. The enlarged contact with and attention by the core gives non-core peoples hope for a brighter future and for a bigger share of the world's fruits of development. Given the last two centuries of growing inequality, that hope may be unrealistic for the majority of the world's people. The interactions and results are not predetermined, however, and in large part are the subject of this book.

The **periphery** is the backwater of the world-system. It participates less vigorously in global interactions. In international trade, it does little but provide raw materials for industries elsewhere. It has poor living conditions and bleak development prospects. Peripheral countries possess all the negative features of semi-peripheral ones, but fall short of the semi-periphery's complement of positive indicators.

Peripheral countries are marginalized in the world-system for one of both of two basic flaws, so far as core interests are concerned:

1. they are insufficiently profitable, or
2. they present challenges to the world order.

First, most countries are marginalized because they offer core investors few profit-making opportunities. Their instability and unpredictability, and weak infrastructure for capitalist development, makes them generally unattractive to investors. Recall that those peripheral countries that are relatively interesting to global investors were described as 'pre-emerging markets' in Chapter 1. Peripheral status applies to about half of all countries. Evidence for this categorization is the fact that well over 100 countries receive less than 11 per cent of foreign direct investment (see Figure 2.1). On the other hand, the top ten semi-peripheral countries receive 75 per cent of that FDI. For the peripheral countries, this lack of investment interest can be seen as marginalization by neglect, so long as we remember that the intensity of relationships was much greater during the colonial era. Most of these now marginal countries were in the past deeply integrated with Europe as overseas colonies (Wolf, 1982; Richardson, 1992).

Second, the peripheral states that are most *purposefully* marginalized by core states are those whose domestic and/or international behaviour challenges the latter's established norms and rules. A recent term for such renegades, coined by the US State Department, and then absorbed by the international news media and popular conceptions of the world-system, is 'rogue states'. These would include Cuba, North Korea, Iraq, Iran, Libya, Afghanistan and a few others.

Finally, note the regional clustering of countries in the three categories in Figure 1.3. At present the core is mainly North America, Western Europe and Japan. The semi-periphery is East Asia, the larger countries of Latin America, Russia and key Eastern European countries, plus Turkey, Egypt, India and South Africa. The periphery is everything else, but is mostly Africa and Southwest Asia.

THE IMPORTANCE OF THE SEMI-PERIPHERY/PERIPHERY DISTINCTION

As the previous section suggested, the semi-periphery versus periphery distinction for non-core regions is absolutely essential to world-system theorization. Unfortunately, summaries of world-system thinking sometimes collapse the two (see, e.g., Clawson, 2001: 15–18). The distinction is important for conceptualizing the world as a relational, dynamic, evolving and unpredictable system. This contrasts with viewing countries with respect to a unilinear and teleological development escalator, as in the influential modernization paradigm, on which they are distinguished

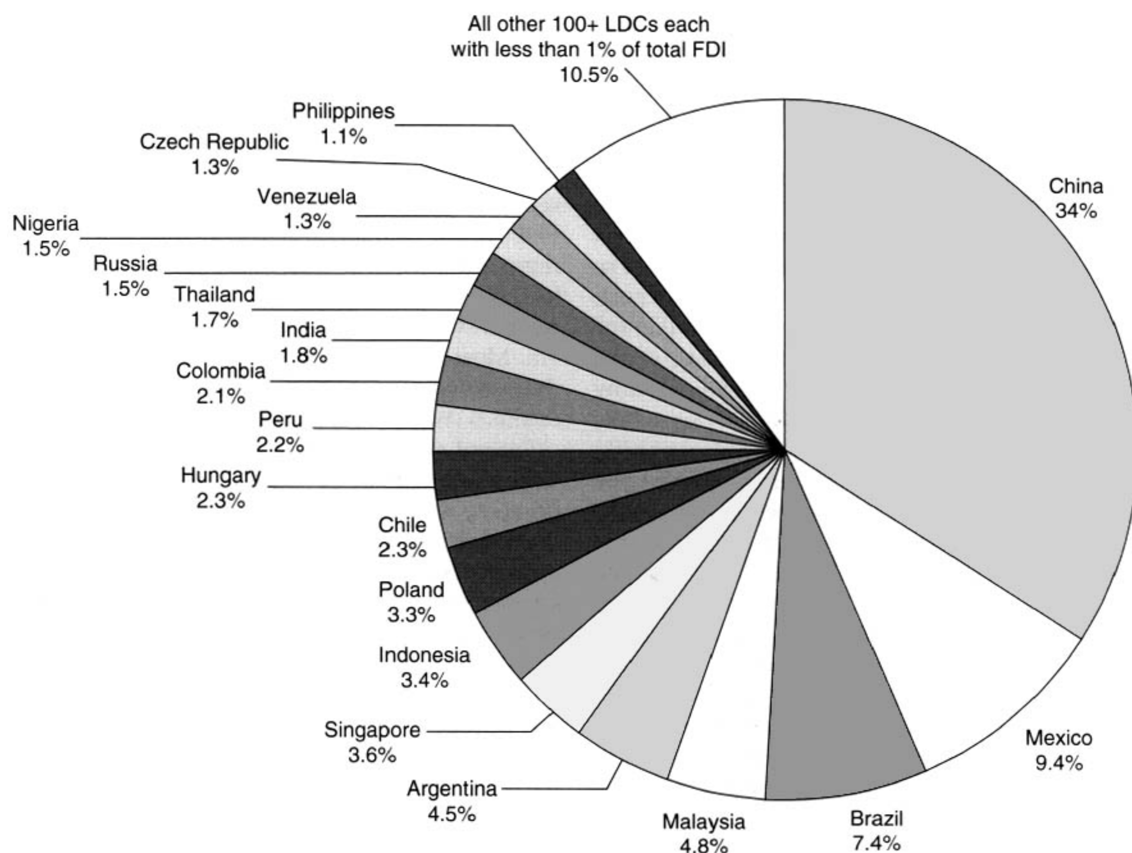

FIGURE 2.1 *Foreign direct investment in non-core countries, 1993–97*
Source: UNCTAD (1999b) *Comprehensive Study of the Interrelationship between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)*

simply by economic size and/or social indicators (Harrison, 2000).

The former 'relational' view clearly inherits much from a Marxian analysis of capitalism, in which a central concept is dialectics (Gregory, 1994). The latter 'unilinear' perspective, like much of social science and popular thinking about the world, extends (implicitly or explicitly) from modernization theory (Brohman, 1995). The conflation of modernization and world-system theories that sometimes occurs may be attributable in part to terminological overlap. Friedmann's (1966) presentation of the modernization process at the national level also employed the concepts of centre (core) and periphery. For Friedmann (1966), core and periphery are embedded in a teleological and developmentalist view of the world that is distinct from concepts extending from Wallerstein.

There are other considerations behind making the distinction between semi-periphery and periphery. It avoids grouping together as the 'Third World' or the 'developing world' such a highly heterogeneous set of countries with respect to global relations, development, industrialization, trade, resource control and technological advance. To cite one simple example, semi-peripheral Thailand has more mobile phones than all of Africa (UNDP, 1999). Further, semi-peripheral countries have more international bargaining power than peripheral countries. So, for example, Brazil and Mexico could negotiate better debt relief deals for themselves with the World Bank and western creditors than could Bolivia or Nicaragua. Differences in negotiating power are among the many factors helping to explain how semi-peripheral countries have been able to make

relative economic gains in the world-system over peripheral countries (Gwynne and Kay, 1999: 5–6).

Given that the size of the periphery (more than 100 countries at present) exceeds that of the core and semi-periphery combined (fewer than 80 countries combined), most efforts to address the inter-group heterogeneity have focused on the periphery. Decades ago, the term 'Fourth World' entered the development studies lexicon to distinguish the poorest and least industrialized countries from the 'Third World'. More recently, terms such as 'advanced periphery' versus 'true periphery' make a similar distinction (Van Rossem, 1996; Sharda *et al.*, 1998). Still, these distinctions contribute to world-system theoretical progress only if they capture differences in international *relations*, not just in the *amount* of development. A relational analysis of the current world-system was introduced in Chapter 1 in the context of a discussion of the World Bank's new label for semi-peripheral countries: 'emerging markets'.

Certain semi-peripheral countries have become known as development success stories. Sometimes collections of these countries are given special names in the development lexicon, such as the NICs (newly industrializing/industrialized countries), the East Asian tigers, and now the 'emerging markets'. Policy experts select their favourite semi-peripheral countries, perhaps the most accommodating and profitable ones at a particular point in time, and hold them out as 'development models' for peripheral countries to aspire to and attempt to replicate. However, the 'lessons' about development demonstrated by the selected countries are only partly attributable to their own policies. They may have more to do with conventional wisdom in economic policy at that time. As Krugman (1996) and others have observed, the conventional wisdom on how to achieve development in the 1920s and 1930s was similar to the 'Washington consensus' supporting deregulation that emerged in the 1980s (see Chapter 1). But in another development era that ran from the late 1940s to the 1960s, policy experts were exuberant about the development payoffs of the import substitution model of development that pervaded policy circles.

In recent decades, a principal way in which such global development lessons have been disseminated is through the World Bank's publications on global development trends. Of these publications, the one that best captures current thinking at the Bank and that is most influential outside of the Bank, is the annual *World Development Report*. The World Bank's trumpeting of the 'East Asian Miracle' in the 1980s and early 1990s is the most obvious example of this type of model construction. The World Bank held out East Asia as testimony to the success of *laissez-faire* capitalism for raising countries out of the periphery (World Bank, 1993). In more recent years, the discrepancy between the myth of the free market model and the reality of East Asia, where the state had an important role in development, has been revealed (Wade, 1996; Wade and Veneroso, 1998); see Chapter 6.

But the fact that the discrepancy between model and reality has been exposed does not mean that the model was unsuccessful in drawing peripheral states towards the policies of deregulation favoured by the USA. The systematic deployment of such universal conventional wisdom and development models contributes to world-system unity. It helps keep countries or regions that the World Bank deems 'lagging' (Qureshi, 1996) on target, and aspiring to replicate the models. It also discourages them from withdrawing from the system in which the core countries fix the rules and dominate.

MOVEMENT UP AND DOWN IN THE WORLD-SYSTEM HIERARCHY

A country's position in the world-system is historically path-dependent (Grabher and Stark, 1998). This means that the past history of each country will have a bearing on its future development path. But this process cannot be seen in a narrowly deterministic fashion. Countries can move between categories over time, depending on their development success, international aid and alliances, and the nature of the current accumulation regime. Indeed, WST is quite useful for analysing and projecting the upward and downward movement of countries over time. In addition, relative positions *within* each of the three categories can also shift over time. Some examples will illustrate these points. (For an overview of how the concepts of core, semi-periphery and periphery can be applied in a description of the capitalist global system historically, see Chapter 3.)

Intra-core movement is illustrated by Britain's gradual fall from its position as the world's pre-eminent imperial and industrial power around 1880 (i.e. core leader), to its present post-colonial and de-industrialized status. Britain is undoubtedly still

a member of the core and a global leader, but now as a team player, alliance-maker and partner to the United States, rather than one that can go it alone and globally enforce its will. Britain's position in the global hierarchy is well illustrated by its staunch support for the United States in its military actions in the Persian Gulf, Balkan and South Asian regions.

The differences between the three categories in development possibilities surface again when we consider movement in the world-system. As noted earlier, the semi-periphery is the most dynamic of the three categories. Wallerstein's (1991) interpretation of trends over recent centuries is that most of the inter-category shifts are between semi-periphery and core. More specifically, he notes that some semi-peripheral countries have made it occasionally to core status. The United States and Japan come to mind.

Portugal illustrates the movement between semi-periphery and core over time. A leading core power in the sixteenth century, Portugal then descended into the semi-periphery over subsequent centuries. In recent decades Portugal arguably has rejoined the core. Evidence would include its memberships in the EU and Euro zone, NATO and the western democratic community. One could argue that Portugal, before admission to the EU in 1986, was semi-peripheral considering its weak industrial base, middle-range per capita income, small size, out-migration and limited global influence. Indeed, Portugal (along with Greece and Ireland) is still sometimes grouped with the semi-peripheral 'emerging markets', despite being an EU member (e.g. IFC, 1999).

In contrast to the occasional movement near the top of the global hierarchy, Wallerstein (1991) argues that the periphery is almost impossible to escape. However, the rise of East Asia since the Second World War seems to contradict this assessment. Rather, East Asia seems to illustrate how a number of countries can achieve rapid economic growth and development, and consequently rise quickly into the ranks of the semi-periphery. A few countries are worth mentioning as among the clearest cases of this pronounced upward trend. Following massive US aid and industrial export growth in recent decades, South Korea has been knocking on the core's gate, although it was set back by the 1997 Asian financial crisis. Indonesia has traditionally been peripheral, but in recent decades it has arguably joined the semi-periphery. Its increased clout derives from economic growth based on industrial exports for Nike and other corporations, large resource endowments including oil exports, and its status as the world's fourth most populous country. Like Indonesia, Thailand, Malaysia and especially China are clear examples of movement in recent decades from periphery to semi-periphery (Figure 1.3). The evidence would include the rates of growth in GDP, manufacturing and exports, and the decline in poverty rates (see Chapter 6).

Critical reflections on world-system theory

This section has three aims: it identifies some of the principal criticisms of WST that have recently surfaced in the literature. It considers the merits of these criticisms, and specifically how serious a challenge they present to WST as an analytical framework for contemporary global political economy. Lastly, in light of a careful consideration of the criticisms, it explains how we employ WST in this book.

One capitalist world-economy since at least 1450?

As noted already the time-frame for the rise and development of the world-system is a matter of dispute. Compared to Wallerstein (1976; 1980; 1989), few writers employing a WST framework are as deeply historical, and few treat economic activities before the twentieth century in such a globally holistic way. Much work, for example, has been done to identify the evolving features of capitalism associated with five Kondratieff cycles extending back only to the 1780s (Lee, 1994b). Other WST-borrowing scholars are primarily concerned with the dynamics of contemporary capitalism. WST purists may reject these approaches as insufficiently historical (see Chapter 3).

World-systems theory: testable or meta-theoretical?

WST scholarship says much about the world that remains untested, and is perhaps untestable. In fact, outside Wallerstein's Braudel Center at Binghamton University in New York, most WST-influenced scholarship focuses on the contemporary global political economy. The lack of time series data limits testing. Much of the WST-inspired writing tends to read like

an open-ended analysis of unfolding world events. Critics have justification for claiming that this method allows one to find and fit the data anecdotally to the theory. Perhaps it is better to think of a world-system *analysis* or *perspective* rather than a fully fledged world-system *theory*.

Core, semi-periphery and periphery: empirically grounded or merely heuristic?

Issues of measurement and testing are well illustrated by a discussion of the three-category spatial division of the world-system. What empirical evidence is there for WST's claim that the world divides into core, semi-periphery and periphery? Arrighi and Drangel (1986) attempted to test this claim. They divided the world's countries into core, semi-periphery and periphery based on GNP per capita. Their reasoning was that a country's share of core activities can be represented by the overall share of the benefits of the world division of labour it receives (i.e. GNP per capita). They measured changes in the three spatial categories between 1938 and 1983. If the world were polarized between core and periphery these distributions would be bimodal. The semi-periphery thesis suggests there should be trimodal distributions. They produce nine distributions from 1938 to 1983, which can all be interpreted as trimodal.

Taylor (1988) refined Arrighi and Drangel's test by further specifying the analytical units. He replaced countries with 100 approximately equal-sized population cells. Taylor argued that this reduces the measurement error associated with internally heterogeneous countries. Indeed, Taylor's measurement refinement yielded even stronger statistical support for a tripartite world-system.

How convincing are these analyses and results? Is GNP per capita a fair measure of WST's three geographical categories? It seems reasonable for measuring some of the material *results* of the world-system. GNP per capita is less useful, however, as a measure of a dynamic and interactive process involving decision-making, the establishment and enforcement of rules and regulations, policy influences, resource extraction, investment, production, and trade among members of the world-system.

In this book, we are especially interested in understanding the process associated with the relationships between countries in the world-system's three categories. In this vein, Table 2.4 presents some simple data on FDI flows that provides *relational* evidence for the three categories (Sadd, 1996). Note that the vast proportion of FDI circulates within the core. The intra-core FDI is followed in size by core investment into the semi-periphery. As a result of this FDI inflow and the various dimensions of economic and political integration outlined above, the semi-periphery has more development opportunities than the periphery. Outward investment by either semi-peripheral or peripheral countries is comparatively small. Overall, the data suggest three types of countries with respect to FDI flows.

TABLE 2.4 *FDI flows by geographical category for 1990 (in billions of US dollars)*

	Outward	Inward
Core	1593.0	1132.9
Semi-periphery	51.2*	351.1
Periphery	negligible	154.9

*Semi-periphery and periphery together, the latter is very small.
Source: Sadd (1996)

While his findings are revealing, Sadd (1996) unfortunately replicates a common flaw in the world-systems literature. He simply borrows the three groupings of countries from previous literature without discussing how their cut-off points are determined. These world-system divisions are something we devote greater attention to, as suggested by the discussion in Chapter 1 of the idea of 'emerging markets' as a working definition of the semi-periphery. The next section addresses additional issues concerned with categorization.

Does WST need core, semi-periphery and periphery?

Good measurement can only follow from good concept-building. One conceptual problem with WST that has led to measurement difficulties is that the definition of the semi-periphery is weak and fluid. Straussfogel (1997) notes some of the varied ways that the literature portrays it:

A semiperipheral state is also a semicore state, the idea of 'semi' implying 'somewhere in between'. 'In between-ness'

is variously defined. A semiperipheral state may be in between a core state and a peripheral state in its trajectory of economic development. It might be in between in terms of the mix of its economy and the nature of its exports. It might be spatially in between a core region and a peripheral region. Or a semiperipheral state might stand between core and periphery states in a mediational role.

In actuality, the semi-periphery is most likely a combination of the above features. However, an affirmation of such a set of characteristics would require agreement on which features matter, followed by rigorous testing.

Short of that, at present there is no universal agreement over which category each country belongs to. Too often, authors provide little justification for their chosen cut-off points between the three categories. Categorizations appear almost arbitrary, or at least quite dated. Many recent and important works on the global economy by geographers and non-geographers alike display virtually the same global map to portray the three-way classification of the world-system (see Figure 2.2). This map contains some glaring miscategorizations. Mexico is said to be part of the core. Moldova and Albania are classified as semi-peripheral. Malaysia, Thailand, Israel, Chile and Colombia are all said to belong to the periphery. Clearly there is a need in geography for more precise work on which countries constitute the three categories of the world-system, something we attempt in this book (see Chapter 1).

However, even when authors are explicit about their method of categorization and use data to determine world-system position, the results can still vary widely in terms of which country belongs to which group. This is because categorization schemes differ regarding the defining characteristics and where the categorical boundaries are drawn. Van Rossem (1996), for example, classifies countries using 1980s data for trade, diplomatic and military relations. Most countries fall into the expected world-system category based on the conceptualization by Wallerstein and others. There are, however, some questionable exceptions: Brazil, China and Saudi Arabia are found to belong to the core; Sweden, Switzerland and Austria are in the semi-periphery; Denmark, Hungary and South Korea are in the periphery. Despite the fact that findings such as these contradict a basic, qualitative understanding of the world-system, Van Rossem's results are influential. The quantitative basis of Van Rossem's classification method increases its legitimacy and impact on how social scientists conceptualize the world-system (see, e.g., Sharda *et al.*, 1998).

One way out of this conceptual and methodological problem is to back off from any rigid adherence to the three-way categorization. Many scholars have done this and instead argue that it is better to think of countries as lying along a continuum of core-periphery characteristics (Chase-Dunn and Hall, 1993; Straussfogel, 1997). But there are pros and cons to this modification of WST's geographical form.

On the positive side, thinking in terms of world-systems continua captures the variations in position and strength within each of the three categories (e.g. the difference between the USA and Portugal within the core, or between South Korea and Indonesia within the semi-periphery). Further, world-systems continua are better able to capture the notion that there are always some countries moving up and down within the global hierarchy. Third, countries can be viewed as holding somewhat different positions in the world-system hierarchy depending on the issue. Rankings can differ depending the economic feature (e.g. FDI flows or indigenous technologies), sector (e.g. manufacturing or banking) and/or political issue (e.g. trade sanctions or regional trade alliances) under examination.

China, Brazil and Poland would be considered semi-peripheral across a wide range of considerations. For certain types of capital flow, however, other countries gain in semi-peripheral prominence. Considering the capital flows associated with manufacturing, countries such as Thailand and Mexico are among the key sites within the semi-periphery. If we look at capital flows for natural resource exploitation, then the Middle East and Nigeria gain prominence within the semi-periphery. Caribbean countries are generally considered peripheral owing to their weak economies, limited resource bases and small populations. But some can be viewed as semi-peripheral on certain dimensions if we consider Cuba's sophisticated exports from its biotechnology sector as an example. If we begin to examine the large capital flows through offshore banking centres, then a very different list of semi-peripheral sites emerges. In offshore banking, otherwise remote and peripheral sites such as the Cayman Islands (and other eastern Caribbean financial centres) suddenly become quite important. The prominence of these island sites is because of both

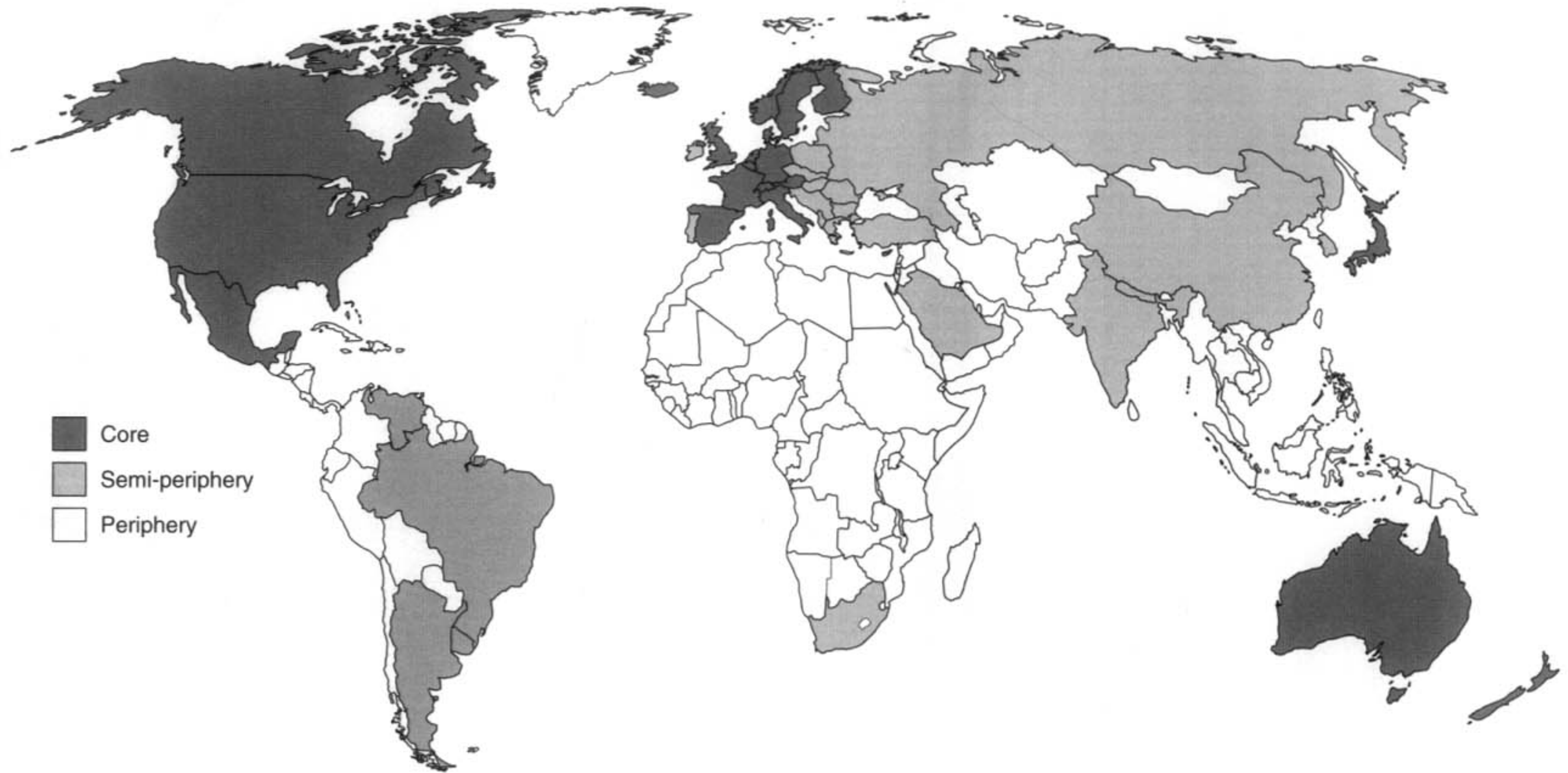

Figure 2.2 *The prevailing map of the world-system*
Source: Clark (1996: 9); virtually the same map is presented in Knox and Agnew (1998: 60); Potter *et al.* (1999: 21), and other recent and important works on the global economy by geographers and non-geographers

the sheer quantity of offshore capital involved, and the concern that the OECD has recently expressed about them. Issues of offshore finance are taken up in Chapter 11. For now our main point is that the precise geographical demarcation of the semi-periphery can shift with the particular aspect of the global economy in question.

The main conceptual loss of thinking about the world-system as a series of continua pertains to what it means to be part of the core, semi-periphery and periphery. Is the world-system hierarchy simply a gradation from powerful and wealthy to weak and poor? Or, as argued earlier, are there important relationships between the three categories? Taking the latter view, one could further argue as follows: the core treats the semi-periphery differently from the periphery. Semi-peripheral countries have greater access to the core-based centres of power, decision-making, trade and innovation. Semi-peripheral countries are more likely to be 'in the loop' (i.e. involved in international decision-making bodies such as those shaping trade policies). The semi-periphery also receives more investment from the core in industry and other productive enterprises, and it trades more with the core in sectors other than primary products. Further, the policies of semi-peripheral countries more closely follow the currently dominant development paradigm and, as discussed earlier, semi-peripheral countries are held up as development models for the periphery to follow. All these *relational* characteristics of the semi-periphery *vis-à-vis* the core seem particularly appropriate for capturing important dimensions of global affairs.

Neglect of other geographical scales of analysis, including the local

When WST puts the world's 192 countries into just three groups it inevitably glosses over much of the global inter-state dynamics and much intra-group heterogeneity. Operating at the global level and concerned with economic cycles over decades if not centuries, WST is too holistic to account for localized dynamics. Indeed, WST downplays the role of local activities, initiatives and people.

How many categories should be employed? Taylor and Flint (2000), while heavily indebted to WST, work from a threefold organizational structure of world-system, state and locality. At a higher level of resolution, one can usefully distinguish six levels or scales of space:

1. the **global**, at which such supranational organizations as the World Bank, the IMF and the World Trade Organization (WTO) operate
2. the **world regional**, where trading blocs such as NAFTA and EU are situated
3. the national or **state**
4. the **sub-national regional**
5. the **local**, at which scale urban areas are found, and
6. the **neighbourhood**.

Many political geographers wish not to exclude what is happening at the level of everyday life experiences, as Taylor and Flint (2000) call it. Another reaction to WST's top-down bias has been to show how, in some cases, 'the local makes the global', as when Japanese production methods have outcompeted other ways of producing and spread across continents (Storper and Walker, 1989).

Conclusion

World-systems theory, with its keen sense of historical, cyclical, technological and geographical patterns, has undoubtedly deepened our understanding of the global political economy. It is also a satisfying antidote to the reductionism, ahistoricism and superficiality in most popular interpretations of economic change. WST's historical and holistic perspective and level-headedness serve to counter the recent hyperbole about the uniqueness of the present globalization and inevitability of neoliberalism (cf. Wallerstein, 2000).

In practice, most scholars employing a WST perspective tend to be murky about the details and measurement of the cycles of upswing and downswing in the global economy. Instead they usually focus primarily on contemporary trends, and adopt a qualitative approach to understanding business cycles, global systemic change, and the associated realignments of economic power and potential. Many economists and some WST purists would judge this more qualitative version of WST to be insufficiently rigorous and therefore theoretically deficient. Defenders would counter that a more qualitative approach is most suitable, given their aim

to see the 'big picture', and to decipher and rectify contemporary economic and political institutions and options.

This chapter has aimed to outline and critically evaluate WST for the purpose of this book. To conclude, we would like to stress four points.

1. WST provides one useful way to organize our thinking about economic relations among regions and countries, the temporal cycles in the global economy, and the evolving geographical hierarchy of global capitalism. Because our main interest is in the relatively dynamic middle tier of the world-system, the semi-periphery, WST provides a useful organizing framework.
2. WST cannot be expected to account for all of the important trends and local impacts. It is important to be sensitive to economic and policy trends, at all geographical scales from global to local, that follow a different logic from that emanating from the capitalist world-system. Further, the important point of how economic change and policy initiatives are received at the sub-national, local, popular or grassroots levels is not a central concern for WST, and therefore must be conceptualized in other ways. For example, when confronted by corporate influences in forms such as investments, advertising or products, people – acting in groups or individually – react in myriad ways. People variably absorb, hybridize, cope with, resist or confront the growing corporate influences on them and their communities. Some resistance is communicated and coordinated electronically across much of the earth and has been termed 'globalization from below' (see the websites listed at the end of the chapter). It is important to take account of the many responses, and in particular of the ways that people resist changes that are imposed upon them from the outside or above, for a richer understanding of the dynamics of contemporary globalization.
3. One must be flexible and open-minded about employing analytical frameworks, and to draw on WST as well as other related approaches to grasp the enormous complexity of contemporary economic change. Important alternative or complementary frameworks are found in the literatures on new social movements (Radcliffe and Westwood, 1996), feminist global political economy (Peterson and Sisson Runyan, 1999), and post-structural or post-colonial studies (Escobar, 1995).
4. In this book we are employing a flexible framework in which we see some key commonalities between the concepts of semi-periphery (as derived from WST) and our definition of emerging market countries (as outlined in Chapter 1). The focus of this book is on territories that are generally accepted as embraced by these terms.

FURTHER READING AND WEBSITES

On world-systems theory

Knox, J. and Agnew, P. 1998: *The Geography of the World Economy* (3rd edition). London: Arnold. Employs WST within an overview of the field of economic geography, and uses it to explore the workings of the contemporary global economy.

Shannon, R.T. 1996: *An Introduction to the World-System Perspective* (2nd edition). Boulder: Westview Press. Useful overview of WST, endorsed by Wallerstein.

Wallerstein, I. 1976: *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century.* NY: Academic Press.

Wallerstein, I. 1980: *The Modern World-System II: Mercantilism and the Consolidation of the European World-Economy, 1600–1750.* NY: Academic Press.

Wallerstein, I. 1989: *The Second Era of Great Expansion of the Capitalist World-Economy, 1730–1840s.* San Diego: Academic Press. Historically organized trilogy of Wallerstein classics on the rise and development of the Europe-centred capitalist world-system.

On 'globalization from below'

The Whirled Bank Group, http://www.whirledbank.org/ – irreverent website critical of IMF and World Bank policies, with issue-by-issue coverage of development themes.

World Development Movement, http:// www.wdm.org.uk/ – a website for a British organization

focused on confronting global poverty and reporting on resistance in all corners of the world to top-down globalization.

Zapatistas in Cyberspace, http://www.eco.utexas.edu/faculty/Cleaver/zapsincyber.html – this site thoroughly documents the struggle in southern Mexico and its global linkages, noting that 'The international circulation through the Net of the struggles of the Zapatistas in Chiapas, Mexico, has become one of the most successful examples of the use of computer communications by grassroots social movements.'

3

CAPITALISM, IMPERIALISM AND THE EMERGING WORLD: A HISTORICAL OVERVIEW

Chapter 2 discussed how, in accordance with WST, all parts of the world are today embraced by a single capitalist economy known as the world-system. But as we have seen, the exact nature of the link between the world-system and capitalism is a matter of some dispute, and further consideration is given to this matter in this chapter. Also in dispute is the time-frame of the world-system's development, and that too deserves further consideration. What is not in dispute is the fact that the world-system as we now know it is the product of a long period of European overseas expansion and colonization that profoundly affected the rest of the globe and whose after-effects are still in evidence today. The bulk of this chapter therefore focuses on the phenomenon of European imperialism.

EUROPEAN CAPITALISM: NATURE, EXTENT AND HISTORICAL EVOLUTION

Immanuel Wallerstein's account of the world-system argues that that system is inherently capitalistic. Chapter 2 has already made some reference to capitalism as a 'mode of production'. But something more needs to be said about the nature of capitalism before we can understand its disputed relationship to world-systems ideas. This also raises questions about other disputed aspects of WST, namely where and when capitalism arose. This section suggests some possible answers to these questions.

What is capitalism?

Historians have discussed a number of changes that began to affect the economies of some parts of Western Europe, and of some other regions, in the late medieval and early modern periods (from, say, the fifteenth century AD). Such changes include: the growing importance of production for exchange rather than merely for use or for meeting tax obligations; the rising significance of market-type trade in which prices are freer to respond to supply and demand ('free markets') rather than being controlled by some other agency such as the government; the rise of the profit motive; monetization of trade transactions, together with the beginnings of such activities as banking and financial dealing; the increasing importance of non-agricultural activities like crafts, manufacture and services. Other features of the capitalist economy, like the rise of towns, and the marketization of land, property and labour relations, have also been described as beginning to appear in this period (Sweezy *et al.*, 1976; Aston and Philpin, 1985; Braudel, 1981 and 1982; Brenner, 1982; Cipolla, 1974; De Vries, 1976; Jones, 1987; Wallerstein, 1974).

While such changes must not be exaggerated, for they took several centuries to develop to the global scale we witness today, their significance becomes apparent when we consider what went before. Thus

in Europe and in other parts of the world before the transition to capitalism, market relationships played only a small part, or even no part, in the lives of most people. Most people, in fact, were engaged in subsistence activities, trying to raise enough food from the land (agriculture, hunting, fishing, collecting etc.) to feed themselves and their families and perhaps to meet the tax and other obligations that were placed upon them. Before capitalism, such activities as crafts and manufacture, merchandising and trading, fighting and governing, or the priestly calling, were minority pursuits. The exchange of goods might take place other than through the market (for example, in the form of tax or tribute whereby goods are redistributed by some central authority for some purpose like feeding officials and soldiers), and where markets did occur they were often restricted and controlled in various ways. Similarly a variety of rules and obligations restricted the labour market, and it was often very difficult to buy and sell land and other property.

It was only in the eighteenth and nineteenth centuries that people began to theorize about the nature of the new capitalism. One of the most celebrated of these was the Scottish philosopher Adam Smith whose *Inquiry into the Nature and Causes of the Wealth of Nations* appeared in 1776. As the title of his book suggests, Smith was interested in the process of wealth creation and argued for the wholly beneficial effects of the free market, which allowed producers or manufacturers to make profits by selling what they produced at prices determined by the law of supply and demand. One effect of the market, argued Smith, was to force manufacturers, through the effects of competition, to be as efficient as possible by keeping down costs. This they might do by paying minimum wages and the minimum possible for other necessities as well as by specializing and/or investing in new technologies. Profits formed the basis for capital whose investment in the manufacturing process enhanced efficiency. Those manufacturers whose profits were insufficient to keep them competitive in the marketplace went out of business, but the successful would flourish and society as a whole would benefit. Of course, Smith's account of capitalism is in many ways simplified and even idealistic, but his ideas continue to be influential today, especially among those who argue for the wholly beneficial effects of free markets.

Very different were the views of the nineteenth-century German political and economic theorist, Karl Marx (Marx, 1967; 1973). It was Marx who first popularized the term 'capitalism', understood in a pejorative way. Far from regarding the free market as the basis of social wealth, as did Smith, Marx argued that its origins lay in the forcible expropriation of the European peasantry at the end of the medieval period. The expropriators, who thus came to be the owners of land and other sources of wealth (capitalists), were able to use their position to hire labour at exploitative wages (the labourers or proletariat having no alternative way of earning a living) to produce goods for the marketplace. Marx agreed with Smith that the market was highly competitive and would force the inefficient out of business, but argued that the major benefits would accrue to the capitalists, whose wealth was based on the exploitation of the workers.

It was Marx who first described capitalism as more than an economic system. He argued that it was in fact an entire social formation (a 'mode of production'), linking a particular set of economic processes and accompanying social relationships with a complex of political, cultural and ideological relations and institutions. This view has been influential ever since. An alternative approach, however, is to regard capitalism as a term that describes the economic system alone. According to this view, the rise of capitalism was only one of the changes that affected Europe in the early modern period; others would include the intellectual changes associated with the Renaissance and the Scientific Revolution, the rise of the nation-state, and the onset of imperialism (Baechler *et al.*, 1988; Heffernan, 1998: 13ff.; Jones, 1987).

As we have seen, Wallerstein borrows Marx's idea of capitalism as a mode of production but defines the term differently (see Chapter 2). Wallerstein in fact discusses the capitalist mode of production as a particular division of labour and system of exchange rather than in terms of forces and relations of production and their wider societal linkages in the way that Marx does (Wallerstein, 1979 and 1984; Aronowitz, 1981; Gregory, 2000). For Wallerstein, therefore, what matters is the capitalistic way in which the world-system operates rather than the kind of societies found in different parts of that world-system.

There are thus different ways of understanding capitalism. In this book we accept Wallerstein's point that historically there was a close link between the development of a world-system and European imperialism. But while we recognize that that system had many capitalistic features (for example, the growing

importance of free trade and competition), we feel that the full impact of those features took many centuries to be felt, especially in semi-peripheral and peripheral regions. In other words, we prefer Marx's definition of mode of production to Wallerstein's and dispute the latter's contention that it is the world-system alone that determines the development history of each country.

Where was capitalism?

Wallerstein argues that the capitalist world economy that we know today had its origins in Western Europe and that these regions (according to Wallerstein, first Spain and Portugal, then later north-western Europe) formed the core of that economy for several centuries. Other scholars, however, have doubted whether European developments were particularly unique. For example, historians have detected signs of growing capitalism in other societies at earlier periods – signs that for some reason or other never came to full fruition (see, e.g., Silver, 1983; Garnsey, 1983). A growing number of scholars are arguing that the economic and social changes occurring in Western Europe from the late medieval period can be paralleled elsewhere (Blaut, 1993; Lieberman, 1999). In the opinion of some, the commercial protocapitalism detectable in some parts of Western Europe in this period was paralleled by, and to some degree interlinked with, analogous processes in coastal parts of Africa, South Asia and the Far East.

Scholars who have seen European development as unique have looked for special factors in Europe's history and make-up to explain that uniqueness, whether such factors lie primarily in Europe's ecology, political and institutional complex, its culture or some superior rationality (see, e.g., Jones, 1987; Hall, 1985; Mann, 1986; Baechler *et al.*, 1988). However, this whole tendency has been denounced by Blaut, among others, who argues that Europe's sole advantage over Asia and Africa lay in its ability, for largely geographical reasons, to tap into the wealth of the Americas through colonization, thus providing a stimulus for its later headlong rush into capitalism. Blaut regards arguments about Europe's innate superiority as part and parcel of what he terms 'geographical diffusionism' – the tendency to ascribe to Europe and the West more generally the role of sole innovator and modernizer, leaving the rest of the world to follow behind. Such Eurocentric views, which are now being challenged by scholars in the 'Third World', have been denounced as an example of European cultural imperialism (Blaut, 1993).

When was capitalism?

Wallerstein's contention that the capitalist world economy, a unique system in human history, arose some time after 1450 in Western Europe and then spread to embrace the rest of the world by about 1900, has been challenged at a number of levels. On the one hand, there are scholars who contest the idea that this economy was unique, arguing, as noted above, that there have been earlier analogous systems, or even that there has been a single world-system for several thousand years, of which Wallerstein's is only the latest version (see Frank and Gills, 1993). Wallerstein's response to the latter contention is not to deny capitalist-type features to earlier systems, but to assert that the European capitalist economy was the first in which 'the ceaseless accumulation of capital' was central (Wallerstein, 1993). On the other hand, some scholars question whether the term 'system' can meaningfully be applied to expanding capitalism before, say, the middle of the nineteenth century. The argument is that before this stage the different parts of the growing international economy were too loosely interconnected and too uncoordinated for that economy to be described as a single system. Only with the onset of European industrialization and urbanization, with growing demands being made on and opportunities available to overseas regions, was a single system created (Dodgshon, 1993).

Because of their disagreements about how to define capitalism, which were described above, scholars find it difficult to agree about the period when even Western Europe became fully capitalist, to say nothing of outlying regions like Latin America, Russia and Southeast Asia. Wallerstein, however, has a more definite chronology. For example, according to him, in the sixteenth century the core of the world-system was based on Spain and Portugal and north-western Europe, the semi-periphery embraced central and Mediterranean Europe (the latter having declined from its medieval pre-eminence) and the periphery included Eastern Europe, and Spanish and Portuguese America. The rest of the world at that time lay beyond the bounds of the world-system and fell into a series of mini-systems or world-empires (see Chapter 2).

In Wallerstein's view, the world-system gradually expanded over the succeeding centuries to embrace the entire globe by the beginning of the twentieth century. However, in this book we regard the full development of capitalism in the semi-periphery and periphery to have been a more extended process than that envisaged by Wallerstein, as shall become clear in Chapters 4–6.

The point to underline, therefore, is that neither the concept of a long-term, historical 'world-system' nor that of 'capitalism' is uncontentious. What the rest of this chapter seeks to do is to underline the close historical link between the momentous changes we have been describing above and the onset of European overseas expansion. With some antecedents (notably, the Crusades in the Holy Land), the latter began in earnest after about 1450 (Parry, 1981; Boorstin, 1983).

EUROPEAN IMPERIALISM: CHRONOLOGY

Imperialism can be described as the territorial expansion of one people at the expense of another, usually involving the conquest of the latter, or at least of the latter's territory. In this way the term has been used to describe many historical episodes of expansion (Lichtheim, 1971). For the present purpose, however, the term will be reserved to denote a situation of economic and (usually) political dominance by a capitalist (or at least incipient capitalist) core over a peripheral region, typified by European imperialism from the fifteenth century onwards. This section will consider the chronology of European imperialism, leaving consideration of the reasons for that expansion to a later section.

Figure 3.1 depicts European territorial expansion over the rest of the world during the period from 1500 to 1950, showing how only a small part of the globe escaped that phenomenon.

Only certain European states participated in this expansion, notably Portugal, Spain, the Netherlands, England/Britain, France and Russia. A minor role was played early on by Denmark, Sweden and Brandenburg-Prussia. Belgium, Germany and Italy, together with the non-European states of the USA and Japan, participated from the late nineteenth century. It is important to note that imperialism was as much the creation of individuals as it was of governments and armies, though governments inevitably became involved sooner or later. It should also be stressed that, although one might speak generally of European imperialism, the individual European states expanded their empires in intense rivalry with one another, frequently involving open warfare.

It must not be thought that European expansion was a story of uninterrupted success for the European imperial states. Figure 3.2, based on Taylor (1993: 114–16), which is derived in turn from the work of Bergesen and Schoenberg (1980), depicts two long waves of European colonial expansion and contraction between about 1500 and the middle of the twentieth century.

It will be seen that imperial expansion peaked in two periods, divided by a period of reduced activity round about 1800. The latter coincided with a phase of decolonization when European colonies in North America (the United States), and Central and South America achieved political independence. Rather different imperial states participated in the two main periods of imperial expansion, and different regions of the world and types of colonization were involved.

Whilst almost any attempt at periodization is open to objection, for ease of exposition the story of the European imperial experience will be broken down into six historical periods:

1. 1450–1600 – the period of Spanish and Portuguese expansion
2. 1600–1776 – imperial rivalry between the Dutch, French and English
3. 1776 to the 1820s – the first decolonization
4. the 1820s to *c.* 1870 – British hegemony
5. *c.* 1870–1919 – the 'Age of Imperialism'
6. after 1919 – the second decolonization.

We will now look at each of these in turn.

1450–1600: the period of Spanish and Portuguese expansion

The initial phase of European expansion was pioneered by the Portuguese, whose seamen had been venturing down the West African coast since at least the early fifteenth century in search of gold, slaves and spices (Parry, 1981; Boorstin, 1983; Livingstone, 1992: 32–62). By the 1460s the latitude of Sierra Leone had been reached, somewhat later that of the Equator, and by 1483 the Congo. An increasingly sophisticated grasp of geography now began to open the eyes of the Portuguese to the possibilities of finding a new route to Asia. Asia's spices, silks, textiles

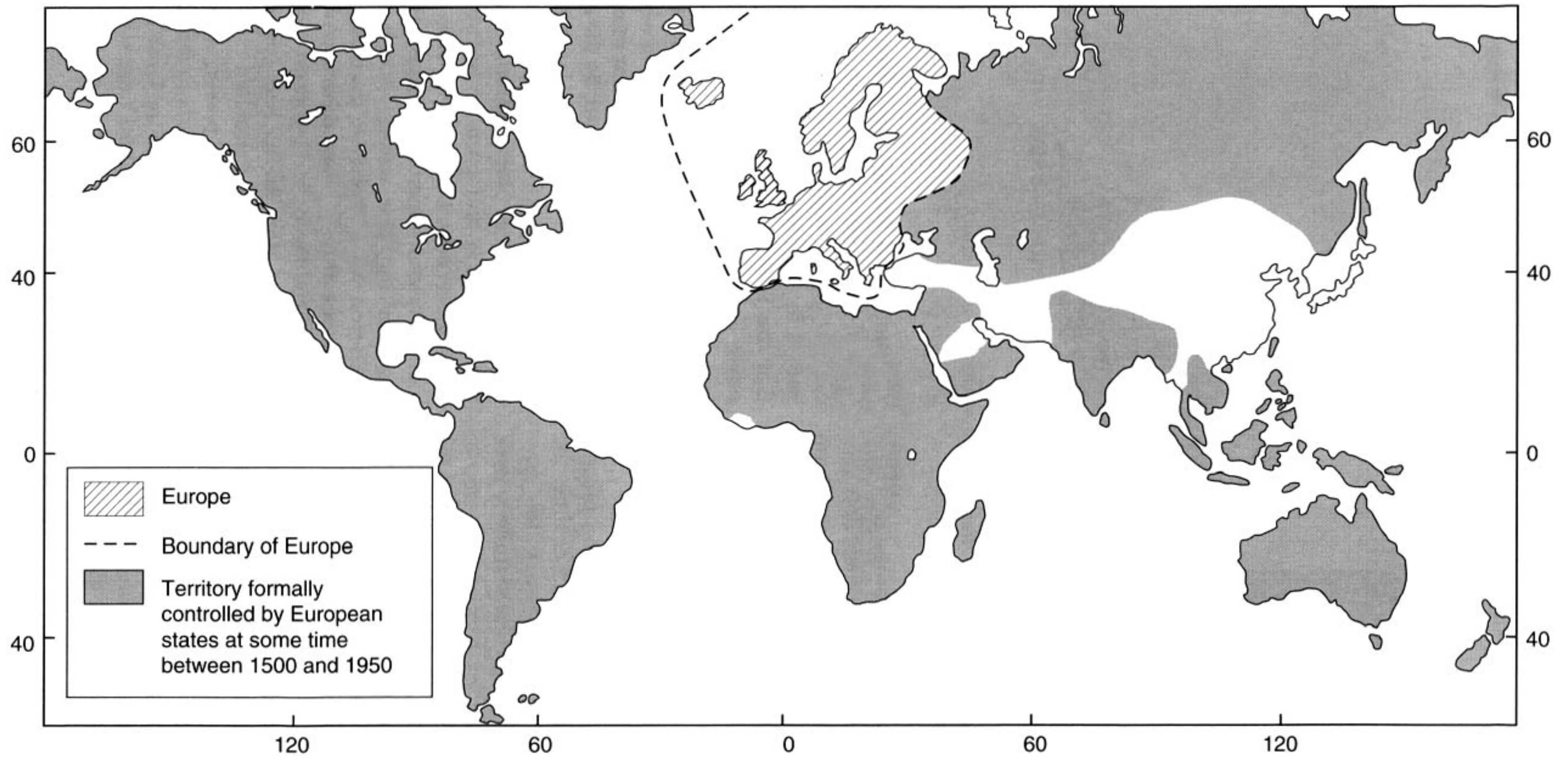

FIGURE 3.1 *The geographical extent of European control of the periphery*
Source: modified from Taylor (1993: 105)

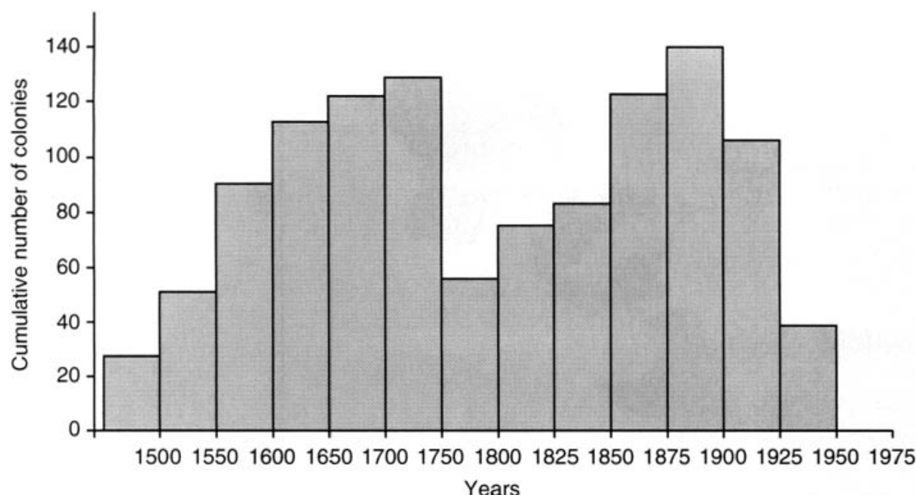

FIGURE 3.2 *European imperial expansion and contraction from the late fifteenth century*
Source: modified from Taylor (1993: 115)

and porcelains had long reached Europe overland and by way of the Indian Ocean but their flow into Europe was now being threatened by the expansion of powerful Islamic states in the Middle East, notably Mamluk Egypt and, more especially, the Ottoman Turks. The rounding of southern Africa's Cape of Good Hope by Bartolomeu Dias in 1488 opened the way for the Portuguese to bypass these Islamic powers and, by 1497, under Vasco da Gama, a Portuguese expedition had reached India by way of the Cape and the Indian Ocean. There now began a process whereby, in a remarkably short period of time, the Portuguese succeeded in suppressing the pre-existing Arab-dominated Indian Ocean trade to their own advantage and founded a sea-based empire linking trading bases and coastal colonies around the shores of Africa, South Asia, China and Indonesia.

Perhaps even more impressive was the colonial acquisition by Spain and Portugal of Mexico, Central and South America, and the Caribbean islands (McAlister, 1984; Bethell, 1984; Lockhart and Schwartz, 1983). This phase of imperial expansion was heralded by Christopher Columbus's celebrated voyage to the west in 1492, once more in the hope of finding a new route to Asia. The Italian Columbus sailed under the patronage of Spain. His 'discovery' first of the islands of the West Indies, where over two million people resided, and then of the even more populous mainland of the Americas (though he himself thought he had found Asia) opened the door to Spanish and Portuguese penetration of what, to them at least, was a new continent. Their respective colonial claims were demarcated by the Pope and agreed by the Treaty of Tordesillas (1494), meaning that the Portuguese were able to establish themselves in Brazil and the Spanish in what they could take of the rest of the Americas. The Spanish conquest of the Aztec empire, based in Mexico (1522), and then of that of the Incas, centred in what is now Peru (1531), provided Spain with unprecedented wealth in supplies of silver and gold. By the end of that century their empire embraced at least the most accessible parts of central and western South America. However, most of North America (with the exception of Florida and parts of the south-west) was neglected as potentially unprofitable.

An overland imperial movement that is regularly neglected by those western scholars of European expansion who emphasize overseas imperialism is that by the Russians into Siberia (Armstrong, 1965; Lantzeff and Pierce, 1973; Gibson, 1980). This movement began after Russia had conquered the two states of Kazan and Astrakhan on the Volga river in the 1550s. These two powerful Tatar states had long barred access by Russia to the rich fur-bearing forests lying to the east of the Urals. In the 1580s the Russians overthrew a third Tatar state (Sibir in West Siberia) and, after a pause caused by a period of internal anarchy, were poised to begin an unprecedented expansion eastwards towards the Pacific.

1600–1776: imperial rivalry between the Dutch, French and English

The Dutch, French and English had played only a minimal role in the imperial enterprise before 1600, partly because all were preoccupied by European and internal affairs. All, however, had undertaken exploratory voyages and engaged in piratical adventures at the expense of the Spanish and Portuguese. After 1600, all this was to change. The Spanish entered a period of relative decline, though managing to retain most of their American territories, whilst the Portuguese (actually annexed by Spain between 1580 and 1640) found it increasingly difficult to maintain their power and possessions around the Indian Ocean and in Asia in competition with the aggressive Dutch. The latter, who had long fought for their independence from Spain, built a flourishing maritime commercial empire modelled on, and to some degree replacing, that of the Portuguese (Boxer, 1965). In this they were buoyed up by the growing international role of Amsterdam, which now found itself at the centre of a network of trade embracing the Americas, Western Europe, the Baltic lands and southern Asia. Gradually, however, they were challenged by the English and French, who were also increasingly active in Asia, and, by the later eighteenth century, London had replaced Amsterdam as the hub of the growing international economy.

This period was marked in the West by the gradual occupation by the three powers of the eastern islands of the West Indies, long neglected by the Spanish (Parry *et al.*, 1987), and by their increasing competition in North America. The eastern seaboard was eventually successfully colonized by the British, who expelled their rivals in this area, while the French established themselves in eastern Canada, the Ohio valley and Louisiana. Colonial rivalry between the British and French, the latter much preoccupied by European affairs, resulted in French expulsion from Canada in the Seven Years War (1756–63) and, at the same time, their effective surrender to British interests in India.

In the meantime, the Russians had occupied Siberia as far as the Pacific, building their first town on the Pacific coast in 1649. They then began to encroach on China until a series of military confrontations led to an agreement at Nerchinsk in 1689. Russians were then diverted north-eastwards towards the Bering Strait, which they eventually crossed, seeking furs and other resources in Alaska and along the northwestern littoral of North America.

1776 to the 1820s: the first decolonization

This period formed an interlude in European imperialism as British naval control of the seas proved insufficiently effective to prevent the 13 British colonies of the eastern seaboard of North America from declaring their independence (1776) and establishing themselves as the United States of America. This action resulted from a growing dissatisfaction with the way the British handled their colonial policies, a dissatisfaction that was to become of growing significance in colonial affairs generally in future years. The American bid for independence was aided by the French and Spanish, eager to avenge themselves for earlier colonial defeats (interestingly enough Adam Smith, whose views on the nature of capitalism were discussed above, tried to ameliorate the British loss by arguing that colonies were an economic burden on the state). After 1810, the Spanish themselves (together with the Portuguese) suffered the loss of almost all their American possessions (see Figure 5.2). Following the example set by the USA, the local colonial elites seized the opportunity presented by the Napoleonic Wars in Europe to gain their independence (Lynch, 1973). Eventually some 20 independent republics were thus established in Latin America and the Caribbean. This time British naval power (reinforced by the anti-colonial stance of the United States) was effective enough to prevent Spain and Portugal from reclaiming their colonies once the Napoleonic Wars had concluded (1815). The British now began to use their commercial predominance to bring many of the new republics within their commercial sway. The latter situation, involving economic rather than formal political dominance, is sometimes referred to as 'informal imperialism'.

The 1820s to c. 1870: British hegemony

After the Napoleonic Wars the British exercised commercial and naval hegemony over the international economy, a hegemony much aided by Britain's rapid industrialization in this period. The British used their position to enforce free trade wherever feasible (which benefited the hegemonic power), to establish their commercial dominance in South America, and

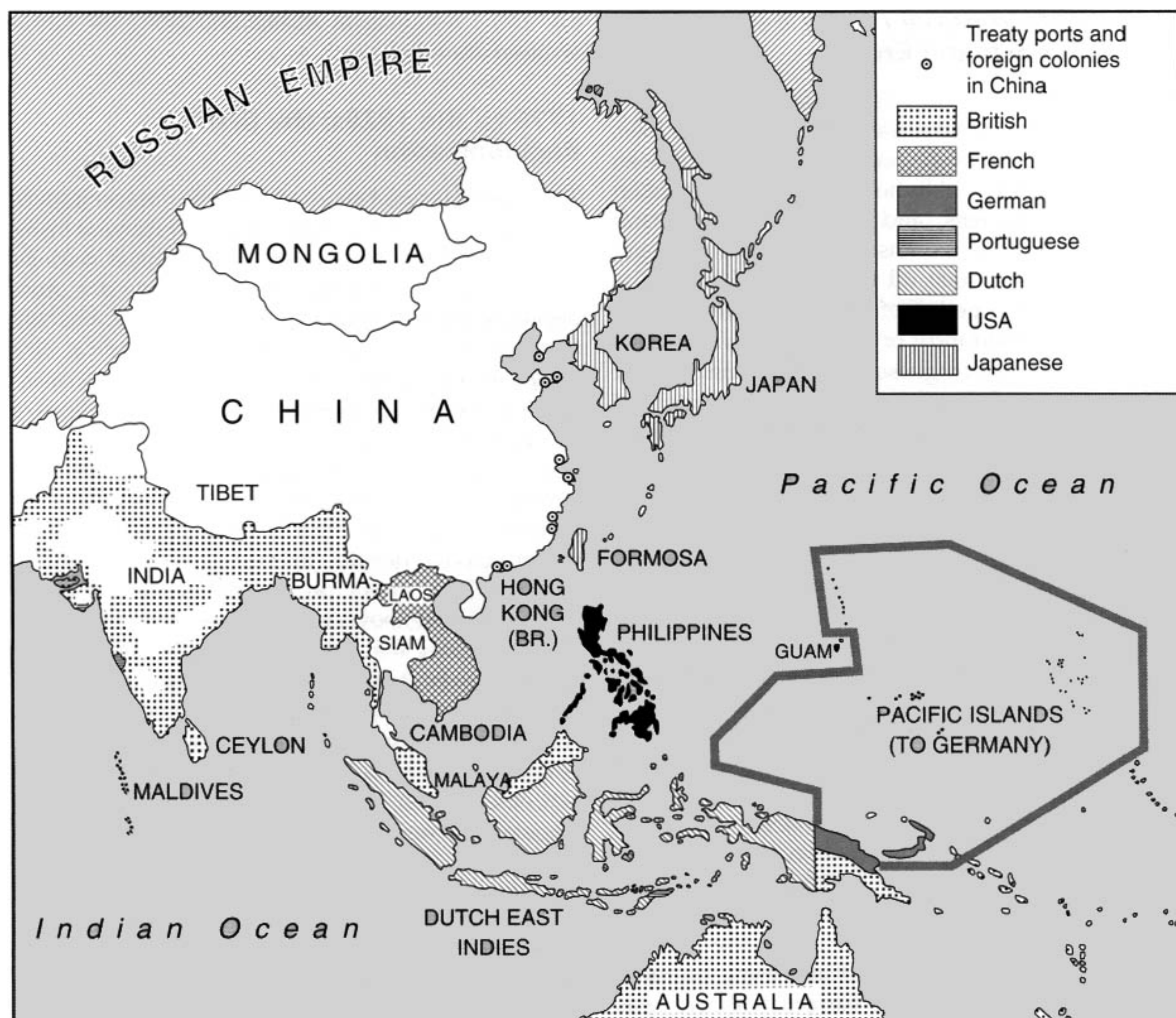

FIGURE 3.3 *Imperialism in Eastern Asia before the First World War*

to expand in South Africa, Australia and New Zealand. Other colonial powers were less active, with the exception of the French in North Africa and the Russians in Central Asia and the Far East.

c. 1870–1919: the 'Age of Imperialism'

The last great period of European imperial expansion – often referred to as 'the Age of Imperialism' because of its frenetic character – coincided with major developments both in Europe and overseas. Britain now entered a period of relative decline as it found it increasingly difficult to compete, both economically and politically, with a newly unified Germany and, beyond Europe, with the United States and Japan. The United States emerged from decades of internal colonization and development to become a major industrial and global power. Japan, having been forced to open its doors to European trade, underwent rapid modernization and industrialization. All three states joined the imperial enterprise (Anell and Nygren, 1980).

The most significant development in this period was the so-called 'Scramble for Africa' after 1880 as the European states, previously largely confined to the coastal regions, rapidly divided the continent

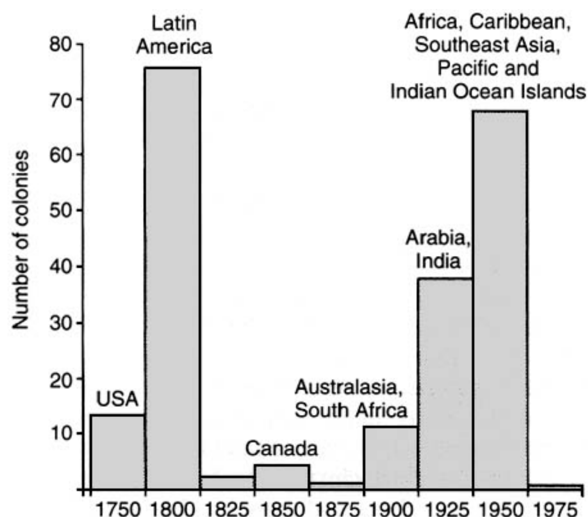

FIGURE 3.4 *Decolonization, 1750–1975*
Source: Taylor (1993: 117)

among themselves. European states, together with Russia and Japan, undertook further expansion in Asia (see Figure 3.3). Meanwhile, in the Caribbean (notably Cuba and Puerto Rico) and the Pacific (notably the Philippines) the United States itself became an imperial power.

After 1919: the second decolonization

The high point of the imperialist tide was reached in the 1920s and 1930s, after which decolonization began (see Figure 3.4). With the exception of the USSR (successor to the Russian empire), the European colonial empires had almost entirely disappeared by 1980. This issue will be addressed in a later section.

EUROPEAN IMPERIALISM: ECONOMY AND GEOGRAPHY

Now that the chronology of European imperialism has been considered, this section will focus on its economy and geography. The argument about precisely when the world capitalist economy came fully into being is particularly difficult to resolve precisely because of the long period of transition that preceded the fully fledged capitalism with which we are familiar today. This transitional period is sometimes rather loosely termed 'mercantilism' (Coleman, 1969). Mercantilism refers to a set of beliefs quite influential in the early modern period, which maintained that a country's wealth could only be increased by its ability to accumulate precious metals, and that this could only be done by making sure that the country exported more by value than it imported. This in turn called for all kinds of restrictions and regulations governing trade and commercial activity. More broadly, mercantilism can be taken to refer to policies designed to control the free market in the national interest. In a sense, it was the tendency to prolong some of the controls that characterized the medieval economy into the early modern period. And it was precisely this tendency that was attacked by Adam Smith.

Mercantilism, or more broadly protectionism, had an important influence over the way colonies were developed. Thus the norm was for the imperial countries to restrict trade with their colonies to their own subjects and to forbid the carrying of goods between the colony and the metropolis by foreign vessels or traders. Regulations tended to restrict the kinds of economic activities that might be engaged in by colonial subjects, partly to protect the economy of the metropolis, but also to ensure that those subjects engaged in pursuits needed by the metropolis, thus in a sense guaranteeing their markets. By the eighteenth century it became normal to regard colonies as markets and sources of raw materials for the metropolis, which in turn would have a monopoly on manufacture. Regulations also severely limited trade contacts between colonies belonging to different imperial powers, and between the colonies of one imperial power and the metropolis of another. Such restrictive policies probably worked reasonably well when colonies were undeveloped but began to cause problems when colonial economies became more diversified. An example of the latter was the resentment caused in the American colonies by British trade restrictions and taxation policies, especially after about 1750 (Brogan, 1985: 111–71). In the nineteenth century, in their period of international economic hegemony, the British began to move towards free trade within their empire and tried to persuade other imperial powers to follow their example. This helped lead to an unprecedented level of international trade by the latter part of the century. However, in the more competitive international atmosphere of the latter period most empires began to move once more in the direction of protectionism and finally,

especially following the Great Depression in the 1930s, the British were obliged to follow suit (Bairoch, 1989). Protectionism therefore played an important role in the imperialist project.

As we shall see, this tendency towards protectionism in the colonial period has been blamed by many scholars for some of the problems inherited by the post-colonial countries. The purpose of this section is to give a brief account of the various ways in which imperial powers developed, or alternatively exploited their colonies, under the varied circumstances in which colonialism occurred. For this purpose the framework suggested by D.W. Meinig, which he describes as the 'macrogeography of Western imperialism' will be used (Meinig, 1969). Meinig was less interested in the chronology of western imperialism than in its 'areal patterns' or 'morphologies'. The advantage of this approach is that it suggests a framework for discussing the different geographies of imperialism. The disadvantage is that the looseness of the chronology means that, in the end, the geographies are impermanent as one geography or morphology changes into another. But it does at least help us as geographers to make some sense of the spatial complexity of imperialism.

Meinig, then, recognizes five geographies, or morphologies, of imperialism:

1. Spain's continental empire in Latin America
2. the sea empires
3. boreal riverine empires
4. settler empires
5. nationalistic empires.

We will now look at each of these in turn.

Spain's continental empire in Latin America

According to Meinig, this was a natural extension at the imperial scale of the system of conquest and colonization invented by the Spanish in their late medieval reconquest of the Iberian peninsula from the Muslim Moors (and ultimately derived from Roman precedents). As we have seen, the Spanish conquest took root with the subjugation of the Aztec and Inca empires and ultimately led to the occupation of the whole of the Americas from Mexico to Argentina apart from Brazil. Over these regions Spain organized a strictly hierarchical and formalized administrative structure, based around a system of Viceroyal capitals, provincial capitals, towns and minor centres (missions, presidios, pueblos). All was planned and land allocated according to laws and schemes drawn up in Madrid. It was at one and the same time a system of Christianization, assimilation and exploitation, particularly focused around the control of populations. Intermarriage produced a racially mixed population in many areas, but in this hierarchical society there was still a tendency for society's top positions to be occupied by whites while native Indians were widely subject, especially at first, to forced labour. This was supplemented, in some regions, by the labour of imported African slaves. An unfortunate side-effect of colonization by Europeans was the import of European diseases, which frequently decimated the Indian populations (best estimates show that there was by 1650 a 75 per cent reduction of the population of 50 million people living in the Americas in 1492). Economic activities varied through time and in accordance with geographical conditions, but among the more important for the imperial economy were mining, tropical products (sugar, dyes, cacao, coffee), tobacco and stock-raising.

The sea empires

Meinig contrasts Spain's Latin American empire with the Portuguese empire initially based, as we have seen, on a network of trading routes interconnecting the Portuguese homeland with a system of trading bases, forts and minor colonies located discontinuously along the shores of Africa, Brazil, southern Asia, Indonesia and the Far East. According to Meinig, this sea-based empire was more strictly commercial in character than that of Spain, and the Portuguese were little interested in the idea of political control of native populations and their land. The major exception before the nineteenth century was Brazil where the native Indian populations was either decimated by disease or otherwise disappeared, and the development of sugar production on coastal plantations necessitated the massive import of African slaves.

From the seventeenth century, as noted already, the Portuguese found themselves in increasing competition with the Dutch, English/British and French, who founded sea empires on a similar pattern. These empires intertwined with that of the Portuguese, except in the West Indies where they encroached on

that of Spain. An innovation was the appearance of the joint stock chartered company, like the Dutch and the English East India companies, which enjoyed the monopoly right to pioneer colonial activity on behalf of their respective governments (a classic instance of mercantilism). The commerce of all the sea empires involved trading with native peoples and states and, in the case of the West Indies, the establishment of plantations using African slaves to produce sugar, tobacco, cotton and other products. Other commercial items of significance included the spices, medicinals, dyes and woods of Indonesia and Malaysia, the textiles, metals and spices of India, and the slaves, gold and ivory of West Africa. Black slaves were widely used by European traders who, however, rarely settled on a permanent basis. In Meinig's words, therefore, in these cases the Europeans were 'sojourners' rather than settlers.

Boreal riverine empires

These imperial systems were established at the same time as the sea empires and, like them, were primarily commercial in nature. However, these were land-based empires, constructed in the northern boreal forests for the exploitation of furs. The two primary examples are the Russian boreal empire, constructed across the forests of Siberia and on into Alaska between the late sixteenth and nineteenth centuries, and the North American (mainly Canadian) one built between the seventeenth and nineteenth centuries by the French, Dutch and particularly the British. These empires depended upon a network of river routes and portages to interconnect the system of summer camps, winter bases, trading posts, storage depots and larger regional centres, protected by a system of forts. A major role was played by freebooting individuals, especially at first. Later more organized systems emerged like commercial companies (for example, Hudson's Bay Company in Canada and the Russo-American Company in Alaska) and, in Russia, systems organized by the state. Since the purpose of these empires was the exploitation of furs via the native peoples (who were traded with or forced to deliver tribute), and because of the harsh environment, there was at first a minimum of European settlement – another similarity with the sea empires. Gradually, however, European population increased in association with the exploitation of other kinds of resources (minerals, timber) and as settlers encroached on the northern forests from more favoured lands to the south. In Siberia a significant role in the European colonization process was played by convicts and forced labour (Wood, 1980; 1991).

Settler empires

In a number of places in the world where the natural environment permitted the introduction of European-type settlement and agriculture, European settlers began to move inland from their early coastal settlements (which had formed parts of sea empire systems) and establish themselves and their activities in continental interiors. Gradually this might mean the wholesale removal or marginalization of the pre-existing native peoples (who, particularly on the American continent, were decimated by European diseases) and the complete replacement of their economies by entirely new ones. The most obvious examples of this process are the United States (where, however, a big part in the settlement process was played by slaves forcibly imported from Africa especially to the southern states), Canada, Australia (where a significant role in European settlement was initially played by convicts) and New Zealand. Other examples include parts of southern Russia and Ukraine, Argentina and Uruguay, Brazil (where black slaves were also imported and where there was considerable mixing with the pre-existing Indian population) and South Africa (where whites relied mainly on the black population to provide labour). Some of the former settler colonies have now become core countries of the world economy.

Nationalistic empires

These are the most varied of Meinig's types, but they essentially refer to the nineteenth-century acquisition of colonies in many parts of the globe by European powers eager to outcompete one another in the race for strategic advantage and international supremacy. Although the economic motive behind such imperialism is not hard to find, such factors as the military one and the desire for international prestige were also very apparent. Perhaps the most obvious case of such imperialism is the 'Scramble for Africa' in the late nineteenth century. Another example is the Anglo-Russian rivalry over Central Asia, including such regions as Afghanistan, Persia

and India's north-west frontier (an imperial competition that is sometimes described as the 'Great Game'). Colonial rivalries around China, which involved Russo-Japanese conflict over Manchuria and other northern provinces, French pretensions in the south, and European seizure of various colonies and 'treaty ports' on the east coast are a further case in point, as is the European, American and Japanese occupation of the many island groups in the Pacific. The colonial economies resulting from these imperial ventures varied in accordance with differing circumstances, but European states were keen to exploit local resources in keeping with their own interests and to open up markets for their products. Another important point is that, because most of these regions were already well settled by non-Europeans, they received relatively few European settlers. Their predominantly tropical climates were also unattractive to Europeans (though in some cases ethnic mixing occurred as a result of the encouragement given to the immigration of non-Europeans – see Clarke *et al.*, 1984). Given the circumstances under which this type of imperialism took place, there was a tendency for incoming Europeans to keep themselves aloof from non-Europeans, fostering feelings of distance, superiority and even racism on the European side, and corresponding resentments on the other.

Resistances to European imperialism: Russia, China and Japan

In its expansion across the globe, European imperialism met many instances of resistance by non-European peoples. Naturally, European colonizers were most successful in subduing non-Europeans where the latter were less economically developed and politically less organized. It was particularly in the case of the highly organized states of Eurasia that they encountered their greatest difficulties. Three such cases will be considered here: Russia, China and Japan.

Russia is an anomaly in as much as it was itself a European imperial power, as we have seen, and yet in a sense on the periphery of Europe. With its own distinctive Orthodox Christian culture, Russia consisted until the fifteenth century of a series of principalities subservient to the Khanate of the Golden Horde, a successor state to the Mongol empire. Gradually the country was united around Moscow and renounced its dependence on the Golden Horde in 1480. As we have seen, it was then ready to begin its own career of imperial expansion. In the meantime, however, it was courted commercially by the Baltic cities and states and, from the 1550s, by the English and Dutch arriving via the White Sea. West European visitors to Russia, acutely aware of the country's distinctive religion, culture and customs, routinely regarded the Russians as uncouth and barbaric (Anderson, 1958). Both the English and the Dutch attempted to draw Russia into their commercial empires and in the early seventeenth century there was even a project for the English colonial subjugation of the country (Liubimenko, 1914). However, the vast distances of Russia, to say nothing of the country's military organization, proved more than a match for such pretensions, and Russia soon began to menace not only the powers and peoples to its east but even some of the other European states. Yet for various complex reasons Russian development always lagged behind that of Central and Western Europe and the eventual onset of capitalism (the late nineteenth century or even later, according to many Marxist analyses) exacerbated social and political tensions. The Russian Revolution of 1917 perhaps reflected its semi-peripheral position at that time within the world capitalist economy, involving Russian exploitation of Siberia and neighbouring territories whilst being itself a target for capitalist penetration by the West.

Like Russia, China for long successfully resisted European expansion – although, unlike Russia, it was ultimately to prove a partial victim. China had an ancient and highly developed civilization, excelling in many areas of endeavour down to early modern times. Long in touch with Europe overland and with other regions by sea, it was a target for European commercial endeavour from the sixteenth century. However, until the nineteenth century it was able to retain its political integrity. In that century, with the establishment of a more integrated world economy, China found itself subject to the increasing commercial and political pretensions of European states. Eventually, European powers succeeded in setting up a series of trading colonies and treaty ports along China's eastern coast, while the country lost considerable territories to Russia in the north. Thus Chinese capitalism, unlike Russia's, had a definite coastal orientation and was very much dominated by the

Europeans. Russian ambitions on China were eventually checked by Japan in the war of 1904–05, after which Japan launched its own imperial campaign at China's expense. That campaign continued, with a number of interludes, until 1945. Foreign pretensions against China naturally provoked resentment, helped undermine the country's stability and arguably facilitated the communist takeover in 1949.

Japan entered the world of European imperialism in the sixteenth century with the arrival of Portuguese traders and of Jesuit missionaries. However, the latter were expelled in 1614 and the country then entered more than two centuries of political and economic isolation. Not until the mid-nineteenth century did the western powers force a re-opening of Japan to western-type capitalism. The ensuing political crisis in that country resulted in the overthrow of the regime in 1868, and a forced programme of industrial modernization and militarization. By the 1890s Japan was ready to embark on a series of overseas adventures – first, at the expense of China and Russia, and later more generally in eastern Asia and the western Pacific. This phase in Japanese history finally came to a close in 1945 with its defeat in the Second World War.

Capitalism was fully embraced by the Japanese after the 1860s, but its impact on China and Russia was less far reaching. This no doubt helps explain the latter countries' isolation from world capitalism during their periods of communist rule (Russia/USSR, 1917–91; China, from 1949). Since the 1970s China has embraced capitalist-type development policies, but very much on its own terms.

THE END OF IMPERIALISM AND TWENTIETH-CENTURY DECOLONIZATION

The period of the late nineteenth and early twentieth centuries, which has been described as 'the Age of Imperialism', was a time when a number of major developments at global level changed the nature of the relationship between the imperial powers and their colonies. First, this was the era of European industrialization, when the Industrial Revolution spread beyond the shores of Britain to the European continent, to the United States and Japan. Industrialization meant the availability of capital for investment in overseas empires while the industrial economies themselves provided expanding markets for colonial enterprises. Second, new technologies like fast steamships, telegraph, telephone and railways greatly reduced the apparent distances between the European powers and their colonies, and allowed the development of the latter to proceed apace, not only along coasts but now also in continental interiors. This was also the era when the first multinational corporations began to appear and when international finance was becoming organized through such banking centres as London. More and more regions felt the impact of commercialization as their economies became intertwined with the world capitalist economy and as their products began to enter the world market. Two very striking examples, out of many possible ones, can be mentioned. One was Argentina and Uruguay, no longer of course part of anyone's formal empire (Crossley, 1983; Bulmer-Thomas, 1994). In the nineteenth century both countries borrowed capital, primarily from Britain, to develop their communications networks and open up their extensive pampas grasslands to grain and stock farming using American agricultural technology. At the same time both states received large numbers of European immigrants to work in the new activities. These countries thus became major agricultural commodity exporters for the expanding European market, using the new technologies (steamship, refrigeration) to make themselves competitive. Another example of the same phenomenon is the regions of Central Asia, annexed by Russia in the second half of the nineteenth century (Spring, 1975). These remote and environmentally difficult territories soon found themselves linked by rail to European Russia and, through colonization, the expansion of their irrigation systems and the introduction of new agricultural technologies, devoted ever more land to the growing of cotton to supply European Russia's expanding textile industry.

Whatever may be the scholarly disputes about when exactly the world capitalist system came into being, most scholars agree that such a system had become a reality by the late nineteenth century. But it was by no means a universal blessing, and it would be true to say that the international economy worked much more to the benefit of the imperial states than to that of their colonies and clients. Needless to say, European rhetorics celebrating an alleged European superiority in race, culture and/or environment, which were becoming fashionable about this time

(Kiernan, 1995; Livingstone, 1991; Driver, 2001), did nothing to calm feelings of resentment that such ideas, along with the harsh economic realities of life for many colonial subjects, provoked in the colonial peripheries.

Even as late as the 1930s imperial states like Italy (in Africa) and Japan (in China) were trying to extend their empires. However, it was clear by this stage that European imperialism had had its day. Both in Europe and in the colonies (where European-style education had had some impact) various intellectuals and politicians were beginning to denounce imperialism as aggressive and unjust. It was three great events of the first half of the twentieth century that finally doomed imperialism. The First World War (1914–18) seriously weakened the economies of all the European states while promoting the power and prestige of non-European powers like the United States and Japan. The Great Depression (1929–33) devastated the economies of many colonies, which the imperial powers, themselves in great stress, were unable to prevent. Finally the Second World War (1939–45) further undermined the power and prestige of European states to the advantage of the USA and the USSR. Japan's temporary seizure of European colonies (British, French, Dutch) in the Far East did much to suggest that the time for colonial freedom had come.

Beginning with the independence of India (1947) all the imperial powers now began to surrender their colonies, unfortunately not without resistance or military action in some cases (and not without considerable turmoil in others). By the 1970s most of the former colonies were free (the major exception being the USSR). However, this did not mean the end of the former imperial powers' attempts to maintain their influence and investments overseas or to manipulate events there. Institutions like the British Commonwealth and the French Union were designed to keep the former colonies within an umbrella of informal imperialism. Moreover, in giving independence to their former colonies, the imperial powers had tried to ensure that people educated in European ways would take power within political frameworks deliberately designed to emulate European systems of government. In this way they hoped to maintain their influence. This desire was soon reinforced by the tendency of some of the new rulers, inspired by resentment of the colonial legacy and by the wish to redress some of the resulting injustices, to seek new answers to their countries' problems in experiments with communism and other left-wing causes. Such experiments provoked the opposition not only of the European states but more especially of the United States, which after the Second World War had become the acknowledged leader of world capitalism. In a world split down to the late 1980s between capitalist and communist influence (though many Third World countries tried to retain their neutrality in this so-called Cold War), the USA and its allies were determined to ensure the ultimate triumph of capitalism. In the eyes of some, this also meant ensuring the triumph of informal imperialism.

Understanding imperialism

The post-colonial era has been one in which scholars, both in the West and in the Third World, have pondered the meaning of development and how the wide and apparently widening gap between the world's richer and poorer countries might be closed. Among other things, this has turned their eyes to the imperial heritage and to the problems that heritage has left to the post-colonial countries. Theoreticians of imperialism have largely built on ideas that were developed in the nineteenth and early twentieth centuries, and that were designed not merely to explain imperialism and capitalism but also to combat them. Some of these must now be considered.

The view that the term 'capitalism' refers to a whole social formation rather than just to a type of economic system derives, as we have seen, from the ideas of Karl Marx. Marx himself was not greatly interested in the phenomenon of imperialism, but what he said clearly showed that he regarded it as closely linked with capitalism. Thus it was in the nature of capitalism to expand to a global scale in the search for markets, raw materials and cheap labour, destroying pre-existing economies as it did so. It has been suggested that Marx, while deploring the negative impact of the capitalist West on the colonial world, saw capitalism as the only means whereby the latter could progress towards socialism (Fieldhouse, 1999: 42–7). However, there is some evidence to suggest that, towards the end of his life, he had some doubts about the matter (Nove, 1972: 33–9).

Probably the best-known theoreticians of imperialism were a number of Marxists who lived in the late nineteenth and early twentieth centuries, at the

time when western states were indulging in their 'Age of Imperialism', a process that helped bring about the catastrophe of world war in 1914–18. All regarded imperialism as a natural feature of capitalism (Brewer, 1990). Thus the German Marxist Rosa Luxemburg argued that western capitalists needed overseas markets to which to sell their surplus production and maintain profits because the workers at home were too poor to buy all this production. Overseas territories were also important as sources of cheap raw materials. The need to acquire and protect overseas markets and resources sparked off imperialist competition between capitalist states. The Austrian Marxist Rudolf Hilferding and the Russian revolutionaries V.I. Lenin and N.I. Bukharin placed much more emphasis on the rise of capitalist monopolies that could successfully control the markets of their home states. Because this control kept workers' wages low, such monopolies, together with their financial backers, needed to export their surplus capital to develop new enterprises and markets overseas. Once again this sparked off imperialist competition over space between the main capitalist states. According to Lenin, the term 'imperialism' referred not merely to overseas expansion but to an entire late phase in capitalist development.

The Marxists, of course, were less interested in providing a theory for the whole phenomenon of European imperialism than in explaining it in the context of nineteenth- and early twentieth-century industrial capitalism. More ambitious is the neo-Marxist world-system theory (WST) of Wallerstein, who links capitalism with a much longer history of imperialism (see Chapter 2). For Wallerstein, capitalist exploitation by the core is the inevitable outcome of the world-system. Whether exploitation of the periphery takes the form of formal or informal imperialism is less important than the fact of exploitation itself.

Few historians will deny the importance of the economic factor in explaining imperialism, but many will question whether the kinds of theory described above can provide a complete explanation of this complex phenomenon (e.g. Scammell, 1989: 51–70). Thus, while it is clear that colonies were important to imperial countries, their patterns of trade and international investment were more complex than some of the economic models of imperialism would seem to imply (Bairoch, 1989: 104–5; Ashworth, 1987: Chapter 7). Historians have thus cast around for other causes of imperialism. Hence such factors as the demand for international prestige, for military advantage, for cultural influence and for what Hitler was later to call *Lebensraum* (space for settlement and for overseas adventure) have all been cited as important. Moreover, major roles were played not only by government but also by groups and individuals ranging from adventurers and entrepreneurs, soldiers, diplomats, administrators, missionaries and humanitarians, to imperialistic and military pressure groups. Historians have also argued persuasively that imperialism was a two-way process, often encouraged by individuals and actors native to the periphery as well as by those from or living in the core.

It therefore becomes very difficult to explain imperialism by a single theory or model. Such a complex phenomenon seems to require a complex analysis that takes full account of geography, chronology and varying circumstance. The important point for this chapter, however, is to understand the links between imperialism and the global spread of capitalism and to note the long-term consequences of imperialism for the countries of the periphery. Many of these have been referred to in passing, but some of the key ones are summarized below.

THE LONG-TERM CONSEQUENCES OF IMPERIALISM

The consequences of imperialism varied from place to place and some have been more long-term than others. Rather than attempt to give a balanced view of the long-term effects of imperialism across the former colonial world, this section will outline some of the obvious problems bequeathed by the phenomenon, which are still apparent in many former colonies today.

1. **Narrow and dependent economies.** At the economic level, imperialism often exacerbated inequalities at the global scale. Particularly as it operated in the tropics, it frequently gave rise to narrow, export-based economies, over-dependent on primary production, with an underemphasis on manufacturing and sophisticated services. Infrastructures were often under-developed, or too narrowly developed around the basic economic specialism(s), making it difficult

and expensive to pursue a policy of more balanced growth. In many cases the ex-colonies had become too dependent on the former imperial power. The benefits of economic growth were frequently restricted to particular areas or segments of the population, and wage levels were usually depressed. Education and training were generally limited.

2. **Unevenly modernized societies with associated demographic and social problems.** While imperialism cannot be held responsible for the rapid population growth that usually followed the improvements in medicine and hygiene Europeans eventually introduced into their empires, that growth – in the context of economies that were usually too underdeveloped to absorb the additional labour – is clearly associated with the impact of rapid modernization on societies that had many traditional features. Thus economic change, associated with imperialism, was only partially successful in transforming society. Whatever may be the reasons for this, the result has often been a rate of population growth that cannot easily be coped with and, more broadly, the development of sharp economic and social differences between more and less urbanized, and more and less modernized regions and groups.
3. **Problems of state and nation building.** Imperialism was associated with many cultural changes and associated political problems. Thus, because colonial frontiers were generally drawn to suit the convenience of the imperial powers rather than to reflect local cultural differences, ethnic groups and cultures were frequently divided by colonial frontiers and/or grouped with other dissimilar peoples within the same colony. The most obvious example of this is in Africa, where the now-independent states, having the same boundaries as the former colonies, often have a multiplicity of cultures, peoples and languages, some of which overlap their frontiers. This makes the task of finding a single national identity to bind the population together, or finding agreement over such matters as language, education and civic values, particularly difficult. In many former colonies the imperial legacy includes class structures that partly reflect the rigid structures of the imperial period, the after-effects of slavery and the continued importance of non-indigenous settlers (for example, the mixtures of Europeans, Africans and peoples from the Indian subcontinent found in parts of the West Indies). In numerous places (for example, in many white settler colonies) the indigenous population has been marginalized or is threatened with marginalization. Where the descendants of white settlers have been able to retain control over resources like land, mines and other economic activities (as in parts of southern Africa), colonial resentments may give way to racial and social tensions.
4. **Cultural domination by the West.** Imperialism tended to encourage particular cultural (and often racial) attitudes associated with ideas of European supremacy that were designed to uphold the imperial power. Decolonization has resulted not only in the desire to develop political and economic systems that will reinforce independence but also in a search for ways of decolonizing the mind (Said, 1993). According to this view, therefore, history writing, literature and other cultural activities should reflect post-colonial identities, and imperial assumptions, values and priorities should be questioned and even altogether rejected. As noted already, this process is made more difficult where different and perhaps rival cultures exist in the same space as a result of the legacy of imperialism.
5. **Problems of political instability and uncertain democratization.** Imperialism often left behind it political systems modelled on that of the imperial power, which may have been quite unsuited to the social and political realities of the new state. Upholding democratic values has frequently proved difficult in circumstances where power is exercised by a small, often European-educated elite, and where the mass of the population lack education and/or political experience. Democracy does not flourish in conditions of civic strife or where populations are deeply divided along ethnic, class and other lines (see Chapter 13).

The heritage of imperialism helps to explain some key problems of the EMCs discussed in the rest of this book, but of course by no means all of them. Imperialism's complex consequences for both colonizers and colonized are the subject of continuing debate among scholars (for a summary, see Fieldhouse, 1999: 9–67).

CONCLUSION

This chapter has considered both the disputed nature of capitalism, and the links between the world capitalist economy as we know it today and the long history of European imperialism. It would be no exaggeration to state that the world has been remade by capitalism. It would also be no exaggeration to state that much of the world was remade by imperialism. The formal imperialism of European states is now a matter of history. But its long-term consequences are still apparent across much of the post-colonial world, as we have seen in this chapter. Moreover, many would argue that it has now been replaced by neocolonialism, a more informal kind of imperialism (which may be informal, but none the less real), under the aegis of the United States and its allies in the world-system's core. This, in essence, is the teaching of world-systems theory.

Capitalism and imperialism have remade the world and are arguably still doing so in the form of globalization. But the end product of globalization is a world that is far from equal or uniform. One reason for this is the very different histories and recent development experiences of different parts of the world-system. This issue is the subject of Chapters 4–6.

FURTHER READING

Abernethy, D.B. 2000: *The Dynamics of Global Dominance: European Overseas Empires, 1415–1980.* New Haven: Yale University Press. A good general historical overview of European overseas imperialism which ignores Russia.

Blaut, J.M. 1993: *The Colonizer's Model of the World: Geographical Diffusionism and Eurocentric History.* New York: Guilford Press. Very much in the radical tradition, this book challenges widely-held Eurocentric views of the reasons for the West's rise to international pre-eminence in the last half millennium.

Brewer, A. 1990: *Marxist Theories of Imperialism: A Critical Survey* (2nd edition). London: Routledge. The classic exposition of the various Marxist theories of the nature of imperialism.

Christopher A.J. 1988: *The British Empire at its Zenith.* London: Croom Helm. A highly suggestive geographical analysis of the character and functioning of the British empire at its prime in the early twentieth century.

Knox, P. and Agnew J. 1998: *The Geography of the World Economy* (3rd edition). London: Arnold, Chapters 3 and 8. An informative discussion of the political economy of imperialism.

Scammell, G.V. 1989: *The First Imperial Age: European Overseas Expansion c. 1400–1715.* London: Unwin Hyman. An historian's account of the first phase of European overseas imperialism which calls into question some simplistic theoretical treatments of that complex phenomenon.

Shannon, T.R. 1996: *An Introduction to the World-System Perspective* (2nd edition). Oxford and Boulder, CO: Westview Press, Chapter 3. This book introduces WST and gives some historical insight.

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Part 2

THE HISTORICAL CONTEXT OF ALTERNATIVE CAPITALISMS

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4

CENTRAL AND EASTERN EUROPE AND THE FORMER SOVIET UNION

In the 1970s up to a third of mankind lived in societies ruled by communist governments. Claiming to base their policies on the ideas of Karl Marx, communist governments explicitly rejected capitalism. They regarded it as an unjust, exploitative and ultimately non-viable form of development, fated to be condemned by the progress of history itself. Most communist regimes lost power after 1989. Since then the countries they ruled have been struggling to rejoin the capitalist world. They are commonly referred to as the 'transitional economies'.

This chapter is concerned with the transitional economies of the former Soviet Union (FSU) and Eastern Europe (nowadays usually referred to as East Central Europe or ECE) and the problems they now face. Given their histories and geographical position astride Europe and Asia, these countries have a certain amount in common, having basically been developed as a unit for more than 40 years. The USSR (Soviet Union) appeared after 1917 out of the ruins of the former Russian Empire as the world's first communist state. Most of the ECE states were occupied by the Soviet armies towards the end of the Second World War as Nazi Germany was defeated. They were then more or less forced by the Soviets to adopt communist-type systems. However two states, namely Yugoslavia and Albania, adopted communism with relatively little Soviet help and subsequently pursued policies that were somewhat different from those followed by the USSR and its ECE satellites.

The fall of communism after 1989 had far-reaching consequences for the political geography of the region. The USSR, where communism collapsed towards the end of 1991, split up into 15 independent states. Some of the ECE states also split up, notably Yugoslavia (becoming five states initially) and Czechoslovakia (which split up into Slovakia and the Czech Republic). The former German Democratic Republic (East Germany) was united with the German Federal Republic in 1990. The political geography of the region before and after 1989 is illustrated in Figures 4.1, 4.2 and 4.3.

EASTERN EUROPE AND THE FORMER SOVIET UNION: THEIR HISTORY BEFORE 1989

Although all the transitional economies face the common task of rejoining the capitalist world after decades of isolation and distinctive development, the exact nature of that task varies in every case. Indeed, were it not for their common experience of communism (an experience that was by no means uniform, as we shall see), there would be absolutely nothing to justify treating these countries as a group. In ethnic history, language, religion, culture, long-term economic and political evolution, and in relationships with the outside world, the countries of the FSU and ECE often have relatively little and sometimes virtually nothing in common. In fact, the whole region is highly diverse

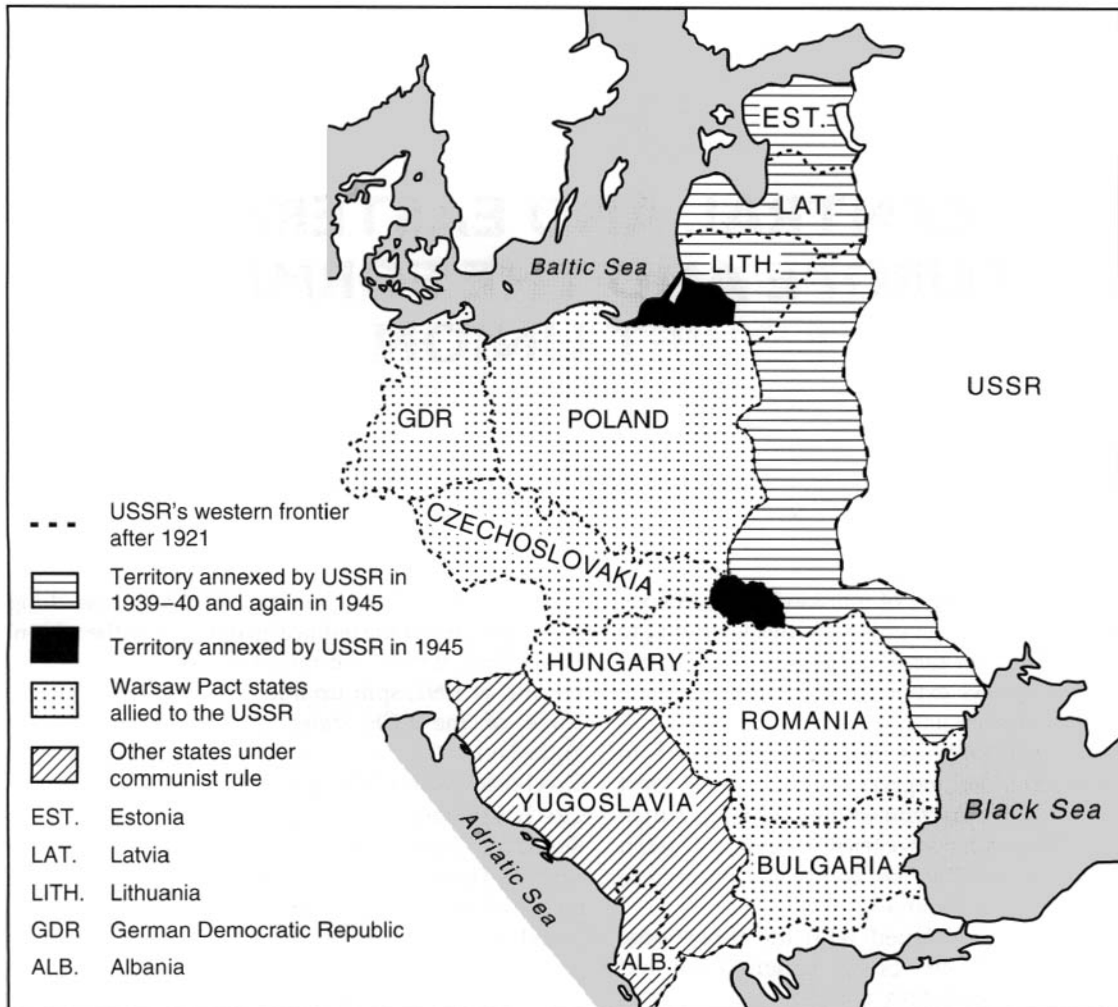

FIGURE 4.1 *East Central Europe after 1945*

with a particularly complex and turbulent history. In order to understand the region's problems today, we must understand something of that history (Davies, 1996; Glenny, 1999; Longworth, 1992).

For the sake of clarity, this section will consider the development histories of the FSU and ECE separately, before bringing the two stories together towards the end. Something was said about the history of the FSU, especially the Russian Empire, in Chapter 3 (see also Figure 4.4). There the point was made that, although Russia strove to develop economically (especially from Peter the Great's period in the early eighteenth century) and to transform itself into a great European industrial and imperial power, it was only partially successful. By the early years of the twentieth century, over 80 per cent of its population still lived in the countryside and its major industrial regions were confined to the area around Moscow and to certain peripheral locations in the European part of the empire (Spechler, 1980; Gattrell, 1986). Clearly it was lagging seriously behind the other European industrial states, some of which threatened it militarily. Russia was a semi-peripheral rather than a core member of the world economy, but one that aspired to a core role internationally. In other respects, too, Russia scarcely seemed modern, with an antiquated political regime and a culture that seemed torn between welcoming modernization and

FIGURE 4.2 *The 15 post-Soviet states after 1991*

FIGURE 4.3 *East Central Europe since the end of communism*

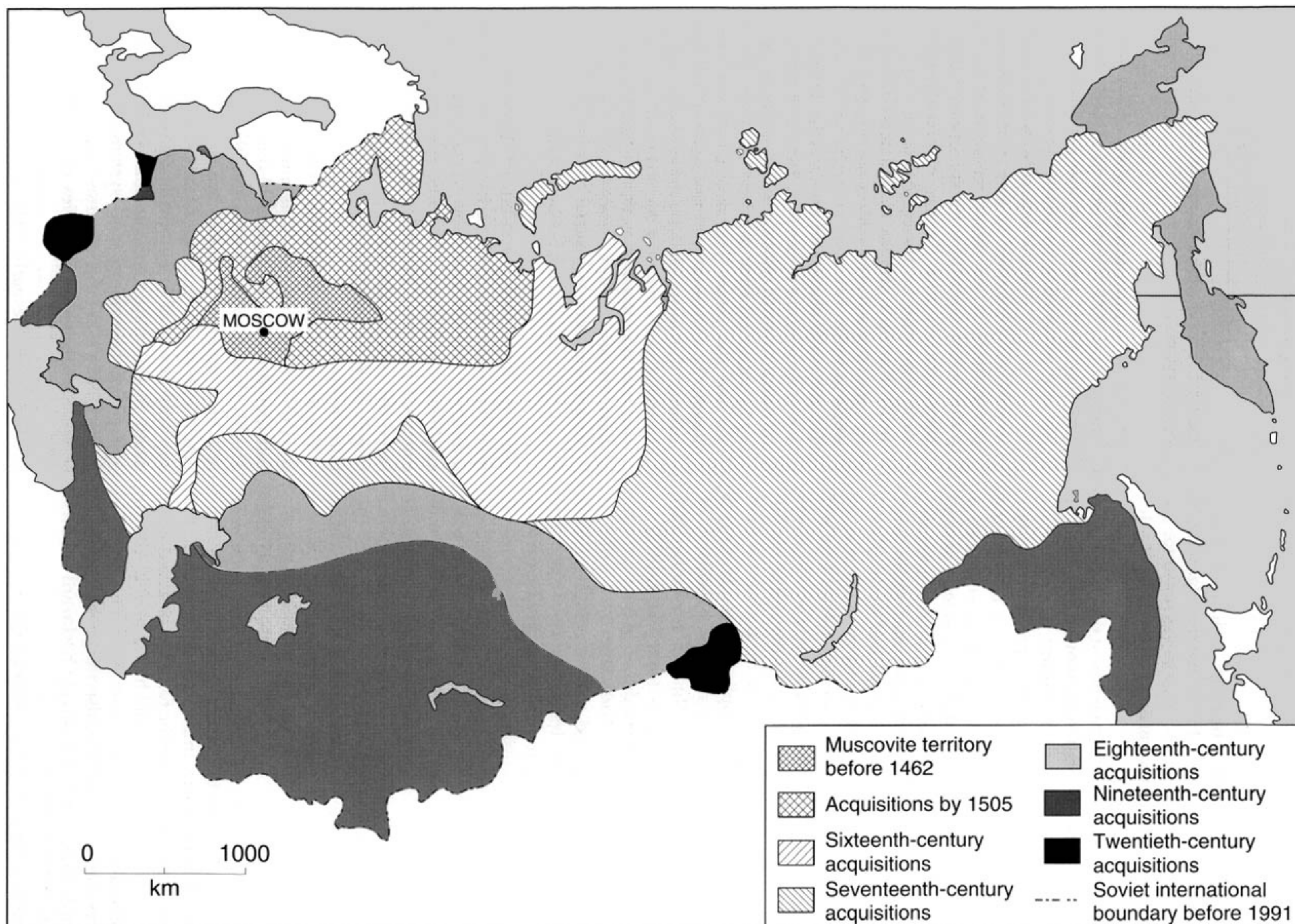

FIGURE 4.4 *Russian territorial expansion, fifteenth century to 1991*

treating it with deep suspicion. Industrialization, which took off from the 1880s, abetted many social and political problems, and Russia was noted for the strength and uncompromising nature of its revolutionary movements.

One European political movement that had a deep impact on those revolutionary movements towards the end of the nineteenth century was Marxism. Russians were attracted by the apparently scientific nature of Marxism and by the way it foretold the overthrow of capitalism and its replacement by a much fairer and more efficient economic system known as socialism (maturing into communism). The problem was that Marxism had really been constructed to address the social and development problems of the advanced industrial economies of western Europe. It hardly seemed relevant to still backward Russia where capitalist-type development was only just beginning. Towards the end of his life Marx himself had grappled with the problem of how far his doctrines could be applied to less developed countries, without reaching any firm conclusion. It was an issue with which Russian revolutionaries continued to struggle after his death (Nove, 1972).

Russia's relative backwardness helped precipitate its defeat in the First World War at the hands of the Germans (1917–18) and also the overthrow of its autocratic, tsarist regime. In the political chaos of this period the main beneficiaries were the Bolsheviks, the most uncompromising section of the Russian Marxists, who finally seized power under the leadership of V.I. Lenin. Eventually Lenin was able to make peace with the Germans (1918), defeat his anti-Bolshevik opponents within Russia and reconstruct the former Russian Empire as a pseudo-federal state, known as the USSR or Soviet Union. It was the world's first state to proclaim itself socialist, aiming to develop itself in a completely non-capitalist way.

How it was to do this was by no means straightforward, however (Nove, 1972; Smith, 1989: 17–23). Since the USSR was the first socialist state, there was no obvious model to follow. Moreover, Marx himself had been more interested in analysing the nature of capitalism and the forces he believed were speeding its downfall. He had had relatively little to say about what socialist society would be like *after* the revolution. There was also the problem of how to apply Marxism to a relatively backward country where, for example, the Bolsheviks and their natural supporters, the industrial workers, were only a small minority. Lenin soon found himself thinking about how to industrialize a still backward country, rather a different problem from how to take over already established industries (the issue that traditionally exercised European Marxists). In the meantime he faced the task of rebuilding an economy that had largely been ruined by years of world war, revolution and civil war.

The answers the Bolsheviks eventually found to their dilemmas were based as much on pragmatic considerations as on ideological ones (Shaw, 1999: 31–45). They emerged during the 1920s in the context of a number of significant events, amongst which one of the most important was the rise to supreme power of Joseph Stalin following Lenin's death. Stalin's long-term contribution to the development of communist-type systems was multifaceted, but a number of the most important aspects should be emphasized (Davies *et al.*, 1994; Smith, 1989: 24–33). First, at the economic level, Stalin succeeded by the early 1930s in establishing the

Box 4.1 The Soviet command economy in the 1970s

The Soviet command economy, which existed from the end of the 1920s virtually until the very end of the communist period, meant that most economic activities were controlled by the Communist Party and the state. Almost all economic enterprises were in state ownership and controlled by government ministries or departments at local/regional, republic or all-Union (national) level, depending on the size, type and importance of the enterprise. The organ of national government, responsible for planning (known as *Gosplan*), would draw up a complex national economic plan for a given time period (monthly, annual, five-year). This would be broken down both sectorally and regionally. The plan would descend the administrative hierarchy and be disaggregated at each level. Finally, each individual enterprise would receive an individual plan specifying its output and other targets to be achieved over the next plan period. The whole system was tied together by a framework of financial plans and other controls. Thus every enterprise and its activities were controlled by the state and the market was virtually eliminated as an economic mechanism. Figure 4.5 indicates the administrative framework for the Soviet command economy as it existed in the late 1970s.

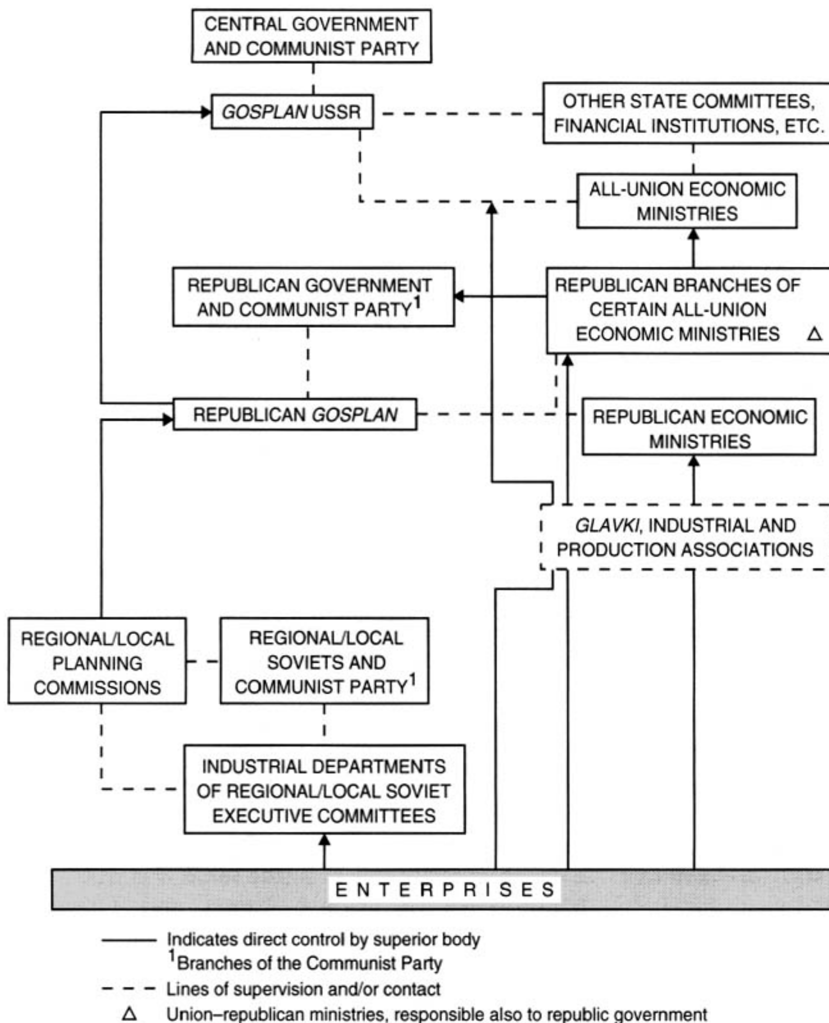

FIGURE 4.5 *A simplified view of the Soviet economic planning system*

world's first fully fledged command economy. What this meant was the virtual abolition of market-type relations and their replacement by a system of state planning (see Box 4.1). Almost all the basic infrastructure was now owned by the state and most decisions regarding investment, production and distribution were made by it. There were also stringent controls over such matters as migration, the distribution of labour, wages and other matters. Henceforward, heavy industry and the military were to enjoy priority while sectors like agriculture, transport and the consumer sphere were to suffer relative or even absolute neglect.

At the political level, and ironically enough in a revolutionary movement that had worked assiduously against the arbitrary and autocratic practices of the tsarist regime, Stalin bequeathed a one-party and highly centralized state, intolerant of dissidence in any form and much given to brutality and repression. It was the Bolsheviks' history as a party of revolutionary conspirators during the tsarist period, together with their experiences in the Russian civil war, their sense of isolation in a society where their natural political supporters were few, and the international threat, that helped give the communist regime its particular character. Added to all these were

Stalin's peculiar psychological defects, clouding his outlook with a fear, suspicion and malevolence that permeated the whole of society during this period.

The third aspect was the development of what was in effect an entirely new kind of industrial society (Lane, 1982). The nobility, capitalists, bureaucrats and ecclesiastics who had been the chief pillars of the tsarist regime were largely swept away. What replaced them was a new class of party functionaries, administrators and newly trained specialists and scientists, many from quite modest proletarian or peasant backgrounds, who were equipped to staff the many new posts and to undertake the new tasks set by the regime. The regime's political stability was soon ensured by a greatly augmented working class, brought into being by the new industries. In the meantime the traditional peasantry lost migrants to the towns, were tied down and exploited through collectivization or (in the case of the relatively wealthier or of those who opposed collectivization) were brutally repressed. Stalin created a highly unequal society, but the point was that inequality was on a different basis from that in a capitalist society – not on the basis of differential access to wealth and inherited position, but on differential access to political influence, acquired skills and class position.

Whatever the shortcomings and sufferings associated with Stalin's policies, he succeeded in industrializing and militarizing the USSR to such an extent that Nazi Germany's invasion in 1941–5 was ultimately repelled (albeit not without immense loss of life and destruction, as well as considerable material help by the western allies). By the end of the war, Stalin's forces were in occupation of much of Eastern and Central Europe. It was at this point that relations with the western powers (with which the Soviet Union had been allied during the war) deteriorated once more. Fearing capitalist encirclement, Stalin decided to impose communist-type government on the countries his armies had occupied. What emerged by the late 1940s were five, ultimately six, new 'people's democracies' (Poland, Czechoslovakia, Hungary, Romania, Bulgaria plus the GDR, organized from the former Soviet-occupied zone of Germany). In all of these, Soviet-type political and economic regimes were imposed. As relations with the West were now in a state of 'Cold War', these states were tied ever closer to the USSR, especially by such means as the Warsaw Military Pact (1955) and the new economic organization known as the Council for Mutual Economic Assistance (CMEA, or COMECON). However, as noted above, neither Yugoslavia nor Albania, where communist regimes had also triumphed, became dependent on the USSR in quite the same way.

Stalin aimed to develop his new Eastern European empire as a unity together with the USSR itself. However, this task was made particularly difficult by the diverse histories, societies and cultures of this region, the historic enmities between different peoples and the fragility of political structures. In the inter-war period the region had been plagued by political instability, border disputes, ethnic rivalries and economic depression. It fell an easy prey to Nazi occupation after 1938. It seemed to Stalin after 1945 that only by keeping a tight grip was he likely to be able to control this territory.

An important difference between the USSR and its Eastern European satellites derived from their variant political and economic evolutions. Thus in the case of the USSR the revolution had been a domestic affair, preceded by a long and honourable (and Russian) revolutionary tradition. Moreover, most of the subjects of the former empire had little understanding of the outside world in 1917, and little experience of capitalism. In Eastern Europe the situation was quite different. Here, especially in the industrialized regions, capitalism had made deep inroads by the late 1940s and people continued to have vivid memories of it (the same was true of the Baltic states of Estonia, Latvia and Lithuania, annexed by the USSR only in 1940). Unlike the USSR, many of the peoples of Eastern Europe were well aware of the outside world and of how their situation compared with that in the West in particular. Moreover, their communist 'revolution' had been imposed from outside. Although, before 1945, the communists had been quite popular in some countries (notably Czechoslovakia), they were hated in others. The Soviet-inspired communist takeover was widely resented throughout the region.

In fact it was not long before the harsh Stalinist regime in Eastern Europe had to be modified. The changes were precipitated by Stalin's death in 1953 and by subsequent, cautious moves towards 'de-Stalinization' in the USSR itself. Troubles in Poland (where there was a strong Catholic and nationalist tradition, and a highly developed peasant agriculture) led to decollectivization in 1956. In Hungary, marked by its unsuccessful anti-communist uprising in 1956, cautious experiments with economic

TABLE 4.1 *Average annual growth rates in the USSR in the post-Stalin period*

	1951–55	1955–65	1966–70	1971–75	1976–80	1981–83	1984–87
GNP	5.5	5.4	5.2	3.7	2.7	2.3	1.6
Industry	10.2	7.5	6.3	5.9	3.4	1.5	2.1
Agriculture	3.5	3.5	3.5	−2.3	0.3	4.2	0.8
Services	1.9	4.0	4.2	3.4	2.8	2.1	–
Consumption	4.9	4.7	5.3	3.6	2.6	1.7	2.4
Investment	12.4	9.1	6.0	5.4	4.3	4.2	3.0

Source: Gregory and Stuart (1994: 128, 133)

decentralization and in the retail market (sometimes dubbed 'market socialism') led to the adoption of the so-called 'New Economic Mechanism', a modified form of the command economy, in 1968. Subsequently Soviet leaders learnt the wisdom of allowing their satellites some measure of autonomy – for example, permitting Romania to pursue a somewhat idiosyncratic foreign and domestic policy. However, the limits to their tolerance were firmly demonstrated in Czechoslovakia in 1968 when a radical experiment in democratic socialism, which seemed to threaten the future of communism itself, was suppressed by the forces of the Warsaw pact.

Changes in Eastern Europe were to some degree paralleled by those in the USSR itself. Stalin's death led to modifications to some of his more draconian policies, including a reduction in the use of official terror and arbitrary arrest, and attempts to make the economy somewhat more consumer-friendly. However, such changes occurred under a regime that was determined to maintain, and even enhance, the country's status and role as a superpower, in competition with the major capitalist states, especially the USA. But this placed enormous strain on the command economy. As time went on, and despite impressive economic growth in absolute terms in both the USSR and its Eastern European allies (see Table 4.1), it became clear that the command economy lacked the flexibility, efficiency and capacity to innovate possessed by many of its capitalist rivals. How far this problem was innate to the very nature of the command economy, and how far the result of mistakes in policy and approach, is hard to say. But various experiments in economic reform (usually involving attempts to modify the planning system – for example, by introducing more market-type features) seemed to have little effect, not least because they were widely resented and resisted by officials and others with vested interests in the established system, or who regarded such reforms as a threat to socialism. Eventually, in the late 1980s, by which time economic growth had slowed to dangerously low levels, attempts at radical reform by the Soviet leader Mikhail Gorbachev precipitated a crisis in the system. This resulted in the fall of the communist regimes and the subsequent moves to restore capitalism.

THE COMMUNIST HERITAGE

Restoring capitalism in countries where it was rejected for more than 40 years (or more than 70 in the case of the former USSR) has proved far from simple. Among the major hindrances is the heritage of communist-type development. Here some consideration will be given to that heritage, although it must be remembered that the exact nature of the heritage will differ from country to country, and even from place to place in accordance with their varied histories.

The command economy is frequently described as inefficient and as having been incapable of outcompeting capitalism on the world market. What is often forgotten is that the Soviet economy was designed to achieve very different goals from those of a capitalist economy. It probably owed its essential nature to the attempt, in the difficult circumstances of the 1920s and 1930s, to achieve very rapid industrialization in a relatively backward country (recall the Russian Marxists' uncertainties about the correct way to build socialism in Russian conditions). The point was to build an economy that would be capable of

sustaining the enormous military effort needed for the competition with capitalism (in the first instance, Nazi Germany). In this it largely succeeded. Unlike capitalism, the command economy was not designed to satisfy the consumer, at least to begin with. Of course, it was hoped that eventually it might prove productive enough to achieve this aim as well. It could be argued that the indefinite postponement of this goal into the far future was one of the most significant ways in which the Soviet leadership departed from Marxist principles.

The post-communist countries therefore inherited economies with a highly developed heavy industrial sector, very much geared to military requirements, but with a seriously underdeveloped consumer and service sector (Gregory and Stuart, 2001). Unlike the advanced capitalist economies, where processes of de-industrialization led to the closing or downgrading of many heavy industries in the 1970s and 1980s, such industries (largely isolated from the world market) continued to produce in the USSR and its satellites, and they were relatively unaffected by pressures to economize on inputs like energy and labour. This was much to the detriment of the natural environment. Post-communist economies are also generally characterized by an underdeveloped rural sector, particularly in the former USSR where much havoc had been wreaked by collectivization and where an anti-rural bias continued to operate even after the days of Stalin. Shortages of capital, which became more apparent in the straitened economic circumstances of the 1970s and 1980s, led to widespread deterioration in the infrastructure (for example, urban infrastructure, housing, transportation). Finally, communism bequeathed many social and spatial inequalities – for example, between town and country, and between different cities and regions, as policies to smooth such differences were all too frequently sacrificed to more pragmatic considerations.

The command economy and the communist-type system naturally affected the outlook and attitudes of organizations and individuals, and these attitudes have continued to be influential in the new era. First, one must note the absence of a traditional capitalist class, used to taking risks and with the means to establish and run businesses in a market-type economy. Under communism, organizations and individuals expected to take their orders from above, usually lacked incentives to take initiatives or risk innovations, and generally paid little attention to such issues as costs, profits, demand or quality. The skills needed for success in the command economy (where, generally speaking, political skills paid much higher dividends than economic or technical skills) were very different from those required under capitalism and there was a lack of understanding of the concept of competitiveness. Individuals no less than organizations were very dependent on the state, expecting secure employment, welfare benefits and other considerations as of right. The world outside the boundaries of the communist state was little understood, especially in the USSR, since the regime took great care to minimize contacts, especially for the mass of the population, and monopolized foreign trade. Needless to say, the infrastructural requirements of the command economy were very different from those of capitalism, and the banks, financial infrastructures and legal frameworks needed to make capitalism work were largely absent.

In a broader sense it would be true to say that the democratic procedures and legal processes typical of western-type capitalism were not well understood in the post-communist states, especially in the USSR where decades, and even centuries, of autocratic and arbitrary rule had bred a widespread distrust of the state and its workings on the part of ordinary people. Post-communist government, too, has inherited something from the communist era, including an apparent willingness in some cases to resort to arbitrary action when necessary, and a frequent assumption that the political should take precedence over the economic. However, it would be unrealistic to imagine that people lacked all autonomy under communism. One of the skills stimulated by the command economy was the ability to adapt and get by, and to bend the law if necessary. All the command economies were characterized by lively, semi-official or unofficial 'grey' and 'black' markets, which not only made life easier for individuals and even organizations but which, in the opinion of some, were essential to the functioning of the command economy itself (Nove, 1987). Such 'coloured' markets have naturally influenced the nature of the new capitalism.

It can thus be argued that the command economy and communist-type system have had important effects on the post-communist states, effects that are by no means always conducive to the re-introduction of capitalism. As noted already, those effects will vary

TABLE 4.2 *Selected socio-economic indicators for USSR and Eastern Europe, 1988*

	Bulgaria	Czecho-slovakia	GDR	Hungary	Poland	Romania	USSR
Urban population (%)	67.0	75.6	76.8	59.4	61.2	54.3 [a]	65.9
Industrial contribution to NMP (%)	59.5	60.6	67.3	50.1	49.1	62.1 [a]	42.7
Agricultural contribution to NMP [b] (%)	13.1	7.1	10.2	13.8	13.9	18.3 [a]	22.8
Industrial employment (% of total)	38.0	37.4	37.4	30.1	28.6	37.1 [c]	39.0
Agricultural and forestry employment (% of total)	19.3	11.8	10.8	20.5	28.5	28.9 [c]	19.0

Notes: [a] 1987 data; [b] Net Material Product (Soviet Bloc method of measuring value of output); [c] 1985 data.
Source: Bradshaw and Stenning (forthcoming)

between states. What may also affect the character of nascent capitalism are the cultural differences between states. Thus some scholars have wondered whether Russia's traditional Orthodox Christian culture, or long-lasting traditional institutions like the peasant commune, can help explain the nature of Soviet communism and of the capitalism that is now developing to replace it (see, e.g., Hedlund and Sundstrom, 1996; Ioffe and Nefedova, 1997). Similar questions have been posed about the other states – for example, Poland with its strongly Catholic culture (Davies, 1981; Millard, 1999). Capitalism, in other words, cannot develop in a vacuum, and is bound to be influenced by the varied histories of the places it encompasses. Table 4.2 gives a range of economic and other indicators for the USSR and the other post-communist states at the end of the communist era, and suggests something of the differences between states.

TRANSITIONS TO CAPITALISM

In order to understand the policies that have been pursued in the transitional economies since the late 1980s, it is necessary to know something of the political context in which they were introduced. The failure of Gorbachev's quest to reform the Soviet command economy and political system, which resulted in his resignation from office and the collapse of the USSR in December 1991, was widely seen as evidence that the command economy was, in principle, unreformable. In Eastern Europe Gorbachev's willingness to tolerate radical change and even challenges to Soviet hegemony (in part because of his wish to cultivate good relations with the West in order to facilitate disarmament and reform of the Soviet system itself) was seized on by those who had always resented Soviet-type communism to undermine communist rule. Across the region there was a yearning for a 'return to Europe' or a removal of the iron curtain that had for so long separated the region's peoples from their neighbours to the west. This dream was effectively realized by the end of 1989. In the USSR itself communism was widely discredited by revelations in the press and other media (now much freer than before Gorbachev's period) about the Communist Party's extremely murky past and about the many economic, social and environmental problems its rule had abetted. The failure of Gorbachev and of the USSR as a unified state therefore also signalled the failure of communist power. And, in the minds of many people both in Eastern Europe and the USSR, that failure seemed to discredit other ideas, like democratic forms of socialism or even the notion of the state having an active role in running the economy, which appeared to be too close to the principles of communism.

In these circumstances it therefore became almost inevitable that people should see their salvation from communism in the adoption of principles that were regarded as its diametrical opposite. Not

surprisingly, the embodiment of these principles was widely felt to be the West, the core of the global economy, a region of apparently unparalleled prosperity, and representing the aspirations of many people in Eastern Europe especially – aspirations that had been so cruelly denied during the long years of communist power. It was thus easy to see the future transition as a process that would move the countries concerned away from communism and towards the West. It has become common, indeed, to speak of a 'triple transition' (Yergin and Gustafson, 1994). At the political level, this would involve a movement away from communist totalitarianism and towards the kind of pluralistic, parliamentary democracy that typifies the West. At the economic level, it means movement away from the command economy and towards the market. At the social level it means a movement from the kind of controlled and dependent society that characterized communism and towards the pluralistic, capitalistic society of the West, with the rise of a middle class, of a 'civil society', and so on.

With the virtual collapse of the command economy at the end of the 1980s and beginning of the 1990s (not least because of the arguably ill-conceived reforms of Gorbachev), it became necessary to seek an alternative as quickly as possible. Here, the politically popular goal of seeking salvation in the market accorded with a neoliberalism that had become widespread in both the West and the developing world, signalling a disillusionment with forms of state-centred development (see Chapters 1 and 7). Under the influence of the IMF, the World Bank and other international and western agencies and institutions, the former communist countries thus set out to establish market economies as soon as possible. Quite apart from the pragmatic consideration that they appeared to have little alternative in the prevailing circumstances, their policies were influenced by a number of arguments. For the ECE countries there was the compelling argument that this was the way to assure their future links with the West and thus make certain of their hard-won independence from any future resurgent USSR or its successor. There was also the view that moving quickly towards the market would be the best possible guarantee of success, cutting the inevitable pains of transition to a minimum. Many western advisers also pressed the argument that rapid marketization would undermine the political position of the market's opponents and their chance to sabotage the process. Marketization would create groups with a vested interest in capitalism and in its future success.

What policies have actually been pursued? Aslund (1995) identifies four key 'pillars' for the successful achievement of a market economy (see also Chapter 7). They are as follows.

1. **Market liberalization**. Under the command economy, the managers of industrial and other enterprises were required to take all their instructions from superior agencies, ultimately from government ministries, and their overriding duty was to fulfil the plan given to them. The supplies, raw materials and other essentials necessary to plan fulfilment were allocated by the state. Similarly, the state was responsible for the allocation of what enterprises produced and set the prices charged. Liberalization means freeing enterprises from state control and from the plan, allowing them to plan their own output in response to market conditions, set their own prices and acquire their own inputs in the marketplace. Enterprises thus become responsible for their own costs and profits, and for paying their way. Unprofitable enterprises would be closed.
2. **Stabilization**. In theory a command economy could work without using money, but money is obviously vital to a modern market economy. This means that governments must ensure a stable monetary environment if the economy is to flourish. Thus issues like money supply and inflation become a matter of concern. Among other things, stabilization means governments pursuing sound fiscal (taxation) policies, not borrowing too freely, taxing too heavily or allowing expenditure to run too far ahead of expenditure. It also means not subsidizing too many unprofitable activities.
3. **Privatization**. In the command economy most things of significance were owned by the state. Neoliberals argue that, in practice, this means that political considerations will almost always outweigh economic ones, leading to economic inefficiencies. This is because politicians will find it almost impossible not to intervene in economic affairs, since they are after all ultimately responsible for those affairs. Politicians also find it very difficult not to pursue sectional interests, which are not always reconcilable with economic

interests. The argument is that privatization will create a class of owners with a vested interest in capitalism and willing to take risks and to innovate in response to market opportunities. It will also make it more difficult for politicians to reverse marketization in future. Given the lack of private entrepreneurs in the command economy with the capital to take over state-owned industry, different routes to privatization have to be taken. One is privatization of enterprises by their existing managements and workers. Another is voucher privatization, whereby vouchers are issued to the population, representing their nominal share in state-owned industry. The vouchers can then be used to buy shares in specific companies, or sold for cash.

4. **Internationalization**. Under the command economy links with the outside world were restricted to a minimum (the COMECON countries mainly traded among themselves). Foreign trade was a state monopoly. While this made it easier to plan, it reduced the possibility of importing capital, and also restricted the import of innovations. Internationalization means opening up the economy to the world market, allowing firms to import and export, permitting the import and export of capital, and the foreign ownership of national assets. The argument is that this will ensure that the economy becomes competitive internationally and break down internal monopolies.

While the policies of all the transitional economies have revolved around these four pillars, their detailed characters, and the enthusiasm with which they have been pursued, have varied greatly between countries in accordance with the political and economic circumstances in each. For example, a number of countries in both ECE and the FSU initially embarked on policies of 'shock therapy', which is to say policies designed to apply the economic reforms as quickly as possible. But they have varied in the success or consistency with which such policies have been pursued, whilst other states, particularly in the FSU, have been much more cautious right from the start. One official World Bank report groups the transitional countries of ECE and FSU into four, in accordance with the policies pursued (*Transition*, 2002). First come states like Hungary, Poland and Estonia, which have been resolute in their liberalization policies and in their policies to regulate change. Encouragement has been given to the development of new enterprises and economic activities, and the climate for both domestic and foreign investment has been hospitable. A second group includes states like the Czech Republic, Lithuania and Slovakia where, for various political and other reasons, policies to liberalize and stabilize their economies, whilst essentially similar to those of the first group, have been pursued somewhat less consistently. The third group includes Romania and Bulgaria as well as the FSU states of Russia, Ukraine, Moldova and Kyrgyzstan. These states, whilst pursuing liberalization policies, have been less successful in stabilizing their economies or regulating change. Change in these countries has been hindered by the vested interests of powerful groups which have been able to retain their influence from communist days, as well as by new entrepreneurs who, having once benefited from post-communist reform, have been able to use their position to prevent others from doing so. The final group includes the FSU states of Belarus, Turkmenistan and Uzbekistan. While pursuing some liberalization, these states have retained many features of the command economy, and thus many of the activities and vested interests from the past. At the same time, because their political systems remain authoritarian, they have been able to prevent some of the unregulated change and corruption that have characterized the other groups.

In addition to the economic reforms, there are significant aspects of transition to do with nation building, political reform and social reconstruction, which have affected all the transitional countries. These issues are examined in detail in Chapters 12 and 13.

RESULTS OF TRANSITION POLICY

Figures 4.6 and 4.7, which group the transitional economies into those of the ECE plus the three Baltic states on the one hand, and the 12 FSU states that are members of the Commonwealth of Independent States (CIS) on the other, illustrate the effects of transition policy to 2001. It can be seen that all of the transitional economies experienced sharp falls in output following the introduction of neoliberal reform policies. This is what proponents of such policies fully expected, but the hope was that, following a short sharp shock, economic recovery would quickly

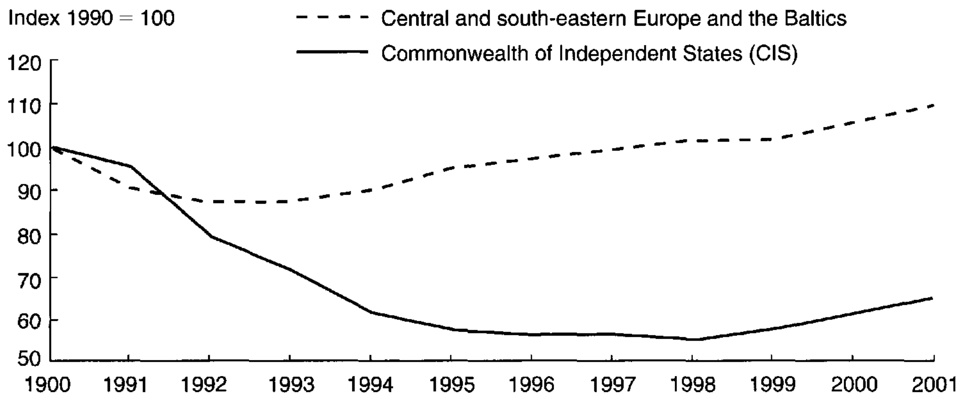

FIGURE 4.6 *ECE and FSU: changes in real output, 1990–2001*
Source: *Transition: The First Ten Years* (2002: 4)

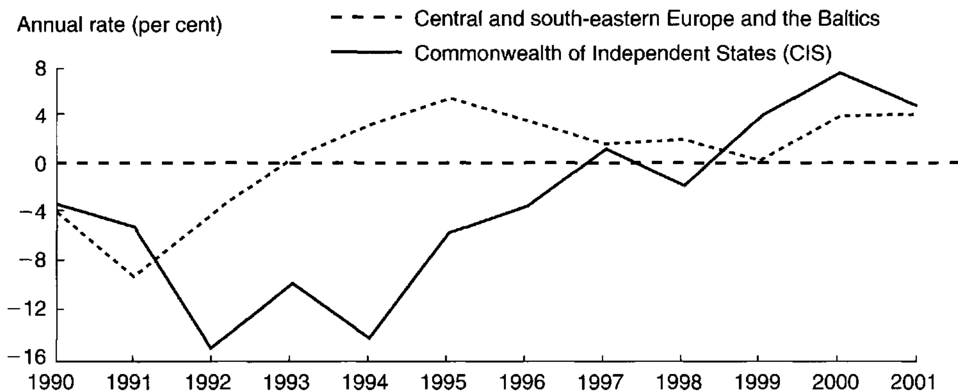

FIGURE 4.7 *ECE and FSU: output growth rates, 1990–2001*
Source: *Transition: The First Ten Years* (2002: 4)

follow. What underlay this expectation was the belief that it was the burden of the state and its demands that was the essential problem in these countries. Once that burden was removed through policies that helped build the four 'pillars' discussed above, it was expected that market forces would quickly be unleashed and economic growth would be ensured. Clearly the actual situation has been more complex. Thus the fall in growth rates was both more severe and more prolonged in the 12 CIS states than in the others. In the CIS, as of 2000, officially measured GDP was still only 63 per cent of the 1990 level, whilst in the other group it had recovered to the 1990 level by 1998 and exceeded it by 6 per cent by 2000. Whereas Russian GDP shrank by over 40 per cent during the 1990–99 period, Polish GDP actually grew by over 40 per cent. Problems of poverty afflict many throughout ECE and FSU. Thus, in 1998, it was estimated that 20 per cent of the population of the region was subsisting below the poverty level of US$2.15 per day (ten years earlier fewer than one person in 25 lived at this level). The percentage in some countries is much higher: 40 per cent in Armenia, 50 per cent in Kyrgyzstan and 68 per cent in Tajikistan (*Transition*, 2002: xiii).

Naturally enough, the results of transition policy have been subjected to intense debate. Quite apart from the bald data alluded to above, critics have pointed out a number of highly undesirable side-effects of the policies pursued, effects that have influenced virtually all the transitional economies to some degree. One has been the way in which privatization

policies have all too often benefited those like managers and officials left over from the communist period who have been able to use their contacts, influence and political skills to their own advantage and enrichment. Quite apart from the fact that such people are rarely the kind of risk-taking entrepreneurs the new capitalism demands (in other words, contrary to neoliberal expectations, privatization has often done little to encourage enterprise), the result has been a major increase in social inequalities. Such *Nomenklatura* capitalism (the *Nomenklatura* were the favoured officials of the communist regime) does little to underpin fragile democratic structures, particularly when it is accompanied by the social exclusion of the more unfortunate. Another undesirable side-effect of transition has been a sharp rise in crime, as people seek to survive or to profit from the opportunities and ambiguities inherent to the process. Related to this has been the burgeoning of 'shadow economies' or 'grey markets', and many other kinds of 'informal market' or even non-market activities as people strive to survive in the new situation. In some rural regions whole communities of people seem to have been excluded from the market altogether, surviving on pensions, hand-outs, subsistence farming, hunting and similar activities (see, e.g., Pallot and Moran, 2000). When one considers the prevalence of barter, payment arrears, tax avoidance and similar activities in numerous transitional economies, one can see that the borderline between what is official and unofficial, between the legal and the illegal, becomes especially unclear.

Attempting to explain the way in which the process of economic transition has unfolded in the different countries is far from easy, not least because of two significant factors. One is that, in such a contentious area as transition, interpreting social change is as much a political and ideological activity as it is a scientific one. Scholars and other commentators are bound to disagree both about the ultimate kind of societies it is desirable to build in the post-communist states and about how to go about building them (for example, what costs should be borne by whom). Some scholars and politicians, as we have seen, believe that the most desirable societies are those that most resemble the West. Others reject this view, arguing that the West, too, has its serious problems and that, in any case, it would be impossible to build western-type societies in many of the countries concerned. Another complication in trying to explain the transition process is a lack of empirical evidence. Many of the official data on which analysts rely are inaccurate or incomplete. For example, much of the informal economy, which has been claimed to embrace up to half of all economic activity in some countries, simply escapes the official statistics. Much crime obviously goes unreported. Even official industrial output data – which, for example, underlie the GDP statistics in Figures 4.5 and 4.6 – may be inaccurate as industrialists under-report production as a tax avoidance measure.

Attempts to explain transition may, somewhat simplistically, be categorized into two schools of thought. On the one hand are the neoliberals, sometimes described as the proponents of 'economic orthodoxy', whose views continue to be influential in the IMF, World Bank and similar agencies. Such people naturally regard policies based on neoliberal thinking as essentially correct and as those most likely to achieve a successful market economy with the least pain. Countries such as Poland and Hungary are therefore extolled as models for others to follow. Where transition appears to have foundered or experienced severe difficulty, as in Russia and other parts of the FSU, this is blamed on incorrect policies, or on policies that are correct but that have been pursued inconsistently. More recently, some neoliberals have begun to argue that the initial formulation of post-communist transition was somewhat simplistic and that such complicating factors as history and geography need to be given more consideration in formulating policy. Nevertheless, the basic soundness of the neoliberal approach is not doubted.

Entirely different are the views of a growing but diverse body that is critical both of the theoretical underpinnings to neoliberalism and of the policies to which they have given rise. Criticism has particularly been directed at the simplistic concept of 'transition' underlying neoliberalism, implying a straight forward change from one known state (communism) to another (capitalism). It has been pointed out that this conceptualization pays scant attention to the deep-seated cultural differences between countries that affected the way communism developed in each case (differences between the USSR's and Eastern Europe's experiences of communism were noted above). The various ways in which the command economy evolved in each country and the implications for attempts to move away from that

system are also inadequately considered, in this view. A related criticism has focused on the oversimplified concept of capitalism, which is associated with the neoliberal position. Critics point out that capitalism is a complex phenomenon, assuming rather different forms in Western Europe, North America, Latin America and Asia, and that therefore it is hardly realistic to 'design' some entirely artificial form based on abstract principles for the FSU and ECE. Furthermore they argue that, wherever it develops, capitalism evolves gradually, and is underpinned and supported by a whole host of social institutions (including state institutions). People must learn how to adapt to capitalism as it develops: they cannot do so overnight, as they have been expected to do in the FSU and ECE. Thus some theorists now speak of the 'path dependence' of social change, whereby change in any given case takes place within constraints posed by institutions, customs, attitudes and beliefs inherited from the past (Grabher and Stark, 1998). Where change is forced or imposed in an inappropriate way as in the FSU and parts of ECE, according to this opinion, the results are likely to be different from those envisaged. It is arguments such as these that have persuaded some scholars to desist from using the term 'transition' to describe events in the FSU and ECE, regarding it as having the simplistic and inappropriate connotations described above (neoliberal proponents of transition are sometimes denigrated as 'transitologists'). Instead they prefer to use the term 'transformation' – arguing, rightly or wrongly, that this conveys a nuanced and complex notion of social change that, they believe, more accurately describes the true state of affairs.

In a sense it would be true to say that the neoliberals are more concerned about applying their concepts of transition and the market economy to the post-communist states than they are about explaining actual events on the ground. Where reality deviates from their predictions or expectations, neoliberals tend to see the causes in policy mistakes (or sometimes in some mystifying cultural effects). Their opponents, by contrast, are more interested in theorizing about the nature of transition and in explaining why it appears to be taking different forms in different countries. Whilst it is too early to talk of a 'theory of transition', a number of scholars have been seeking alternative conceptualizations to neo-liberalism. Thus a number have been turning to social theory, especially political economy, critical and cultural theory (Smith and Pickles, 1998). Borrowing concepts from western political economy, including debates about globalization and the restructuring of western industrial economies, is regarded as important in placing the transitional economies into a global context. This is one way of making sense of the emerging geographies of transition, the subject of the last section of this chapter.

GEOGRAPHIES OF TRANSITION

This chapter has emphasized the different forms that transition appears to be taking across the countries of ECE and the FSU. There is, in other words, a geography of transition. But, as we have seen, explaining that geography is difficult. Many different factors appear to be involved, the principal ones having been alluded to above. The rest of this chapter will survey the emerging geographies of transition in slightly more detail.

An important point to note is that the way we are encouraged to view the transitional economies and assess their processes of change is very much influenced by the kind of hegemonic discourse that is associated with powerful elements in the world's core countries and agencies dominated by the West, such as the IMF and the World Bank. It is this discourse that tends to reinforce the view that western societies should somehow be regarded as 'the norm' or 'the standard' against which all other countries should be measured. Thus the European Bank for Reconstruction and Development (EBRD), in its annual assessment of 'progress in transition' in each of the transitional countries, awards marks out of four on a range of 'transition indicators'. Top marks are awarded to countries whose indicators suggest that they have made the greatest progress towards assuming similar economic standards, institutions and performances as the countries of the West (EBRD, 1999). Such countries include ECE states like Slovenia, Hungary, Poland, the Czech Republic and Slovakia, together with the FSU Baltic states of Estonia, Latvia and Lithuania. At the other end of the marking scale come countries of the former Soviet south, including Turkmenistan, Tajikistan, Uzbekistan, Azerbaijan and also Belarus. Squarely in the middle are Russia and Ukraine together with other FSU and Balkan republics.

We ought not to be surprised by these patterns, as they essentially replicate those of the pre-communist period! Thus before the Second World War, as suggested already, Central Europe was part of the West both economically and culturally, and the idea of conforming to European norms comes naturally to such countries. Most of these states are set to join the EU in the very near future. The former Soviet Baltic states of Estonia, Latvia and Lithuania are also close to the West, having oriented themselves towards western and northern Europe during their period of pre-Soviet independence (1918–40). They too are soon to acquire EU membership. By contrast, the Balkan countries – notably Romania, Bulgaria, much of former Yugoslavia and Albania – belonged historically to one of the less developed parts of Europe with strong peasant and agrarian traditions that were only partially dissolved during the years of communist development. Similarly the Transcaucasian republics (a very mixed area both culturally and economically) and Central Asia were economically the least developed parts of the USSR. Indeed one western geographer described the Soviet republics of Central Asia, with their cotton monoculture based around irrigation and heavy dependence on European Russia, as 'plantation economies' (Dienes, 1987).

Of course, these days there is no guarantee that countries that were less developed during the communist period will remain so in the future. However, patterns of underdevelopment and dependence, like those that arose in Central Asia, and deep-seated transformations produced by the command economy, are not easily eradicated. Another factor that is clearly important, and that is in a sense a structural factor, is ethnic relations. Owing purely to the accidents of history, countries like Poland, Hungary, the Czech Republic and Slovenia are relatively ethnically unified (though there are significant Hungarian minorities in Romania and Slovakia) and have witnessed little in the way of ethnic strife. No doubt this has eased their transitions from communism. By contrast the former Yugoslav states, the Transcaucasus and the North Caucasus in Russia have witnessed considerable ethnic conflict adding greatly to their transitional difficulties.

It is not only from state to state that transition is producing a variegated geography, but also within each state. Nowhere is this more true than across the vast spaces of Russia where studies have shown not only considerable diversity across the 89 administrative regions but also within many regions themselves (Hanson and Bradshaw, 2000; Bradshaw and Stenning, forthcoming). Different regions have taken different stances on transition issues – for example, in the enthusiasm with which they have pursued economic and political change and/or reform. (As is the case in other transitional countries, economic and political change does not always mean change in the directions deemed desirable in the West – what the West dubs 'reform' – sometimes it amounts to their exact opposite.) Certain cities and their regions, like Moscow, St Petersburg and Nizhnii Novgorod, seem to have sped along the road to capitalism, attracting international investment to convert themselves into commercial and financial nodes to the undoubted financial benefit of at least part of their populations. Other regions have been able to benefit from their resource or even industrial endowments, whilst yet others have suffered from having more than their fair share of economic activity geared to the old Soviet military–industrial complex. Regions having particularly difficult living conditions (the far north, for example) or predominantly rural regions with conservative outlooks and few non-agricultural resources (parts of the south) are among those where transition problems have been particularly grave. Transition has therefore abetted considerable inequality from place to place as well as between individuals and social groups.

CONCLUSION

It is clear that while the processes of transition vary spatially, its costs and benefits are exceedingly difficult to measure. The unreliability of the official statistics, the pervasiveness of the grey economy and of crime, the malleability of institutions and the significance of informal social relations (all of which suggest societies that operate differently from those of the West) compound the problems of discerning what is happening on the ground and how individuals are coping. Some evidently thrive in the new situation, making vast fortunes and building economic empires; others suffer acute deprivation; others, possibly the majority, get by and survive, often perhaps in ways that elude the attentions of the scholar no less than those of the government official. Quite what sort (or sorts) of capitalism all this amounts to is a matter that

demands further theoretical consideration as well as much more empirical research.

FURTHER READING AND WEBSITES

Bradshaw, M.J. and Stenning, A.C. forthcoming: Introduction: transformation and development. In Bradshaw, M.J. and Stenning, A.C. (eds) *The Transition Economies of East Central Europe and the Former Soviet Union*. London: Pearson. A theortetical introduction to concepts of transition, transformation and so on in the context of a book which tries to place the recent experiences of ECE and FSU countries into the context of the developing world.

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5

CAPITALISM IN LATIN AMERICA AND THE CARIBBEAN

It is a matter of considerable debate when feudalism gave way to capitalism in Latin America and the Caribbean. Nevertheless this exploration of the nature of Latin American capitalism traces the evolution of capitalism from the colonial period and through to the export economy period after independence. It then analyses some of the key phases of how capitalism developed in Latin America through what Hobsbawm (1995) has categorized as the 'short twentieth century' from 1914 to 1991. The short twentieth century is associated with a period of inward orientation in the trajectory of Latin America's version of capitalism within which three phases can be distinguished: external dislocation and the shift to inward orientation, 1914–45; state intervention and industrialization, 1945–80; the debt crisis and the lost decade from 1980 to 1991. Since 1991 it could be argued that Latin America has entered a new phase of capitalist development in which economic and political liberalization have become key features. These themes are explored in Chapters 7 and 13 respectively.

THE COLONIAL PERIOD

Preston (1996: 140) has argued that European colonial expansion from the fifteenth century onwards involved a 'process of absorption and reconstruction of other peoples'. This provides a useful framework for understanding European colonial expansion in Latin America and the Caribbean. Virtually all the main colonial powers of Europe gained footholds in these lands (Spanish, Portuguese, British, French, Danish and Dutch). According to Preston, there were political, economic and ideological processes at work: construction of machineries of control and order; establishment of a material base within a global system; elaboration of legitimating ideologies.

These three processes are evident in the expansion of all colonial powers in Latin America and the Caribbean. Spanish and, to a lesser extent, Portuguese expansion concentrated most heavily on constructing machineries (or institutions) of control and order (see Chapter 3). The ideology that legitimated their actions was a strongly religious one – the conversion of indigenous populations to the Catholic Church. Such an ideology permitted the agents of colonization to ignore the negative results of the process, such as the massive population decline of the sixteenth century; it has been estimated that in Peru the population was reduced from about 6 million in 1530 to 1.1 million in 1586 (Newson, 1996: 37). This decline was largely the product of the decimating effects of the introduction of European diseases and of the exploitation of native labour, especially in mining.

What was the nature of the Spanish and Portuguese states as they embarked on empire-building at the end of the fifteenth century? Certain authors (Kay, 1989; Larrain, 1989; 2000) have argued that the two main colonizing powers, Spain and Portugal, were feudal (rather than capitalist) at this stage and remained so until independence in the early nineteenth century. Thus colonization 'did not mean the direct introduction of the capitalist mode of production even though production was exported to a world capitalist market' (Larrain, 2000: 46). As we have seen in Chapter 3, however, this view is contrary to the arguments of Wallerstein, who asserts that capitalism

arrived much earlier with the opening up of trading links between the imperial countries and the American colonies.

Two institutions of Spanish control and order that are briefly worth exploring are: the *encomienda* and the town. The *encomienda* is one of the crucial 'feudal' institutions of the colonial period. In effect, throughout Spanish America, groups of indigenous populations were 'commended' or entrusted to a Conquistador (or Spanish colonist) who was to be responsible for the secular and religious instruction and control of these populations. As Furtado (1970: 10) notes, the *encomendero*, 'as guardian and protector of the native population entrusted to him, came privately to exercise public law functions, which placed him socially in a position comparable only to that of the feudal lord in medieval Europe'. Although the *encomienda* was subsequently replaced by land grants, its framing of social, political and economic relations in the countryside were long lasting.

The town, associated in Europe with the rise of capitalism, also had an important role in the early Spanish empire. The Latin American urban system was largely a creation of the sixteenth century. Indeed what were to become some of the principal urban foci of Spanish Latin America were founded between 1520 and 1570 – Mexico City, Guadalajara, Guatemala, Havana, Caracas, Bogota, Cali, Quito, Lima, Cuzco, La Paz, Asuncion, Buenos Aires and Santiago de Chile. Between 1540 and 1580, the basis of the Brazilian city-system was laid with the founding of Recife, Salvador, São Paulo and Rio de Janeiro in the Portuguese territories.

The rapid establishment of the Spanish urban system was a response to the desires of the Spanish Crown, Catholic Church, bureaucracy and adventurers to control effectively the resources and population of the Americas. In geographical terms, Spanish towns were attracted to areas of densely indigenous populations (Morse, 1965). According to Portes and Walton (1976) the town became 'the source of energy for the occupance, exploitation and administration of the New World'; it was where the *encomenderos* (and subsequently the large-scale land-owners) generally resided. The colonial town thus contained the religious, administrative and military functions through which the Spanish Crown effectively controlled and organized the surrounding rural areas; the jurisdiction of the town included the surrounding countryside up to the boundaries of the next urban jurisdiction. The Spanish colonial town was thus inextricably linked to a semi-feudal system based around an elite that emerged from the initial colonization and control of land.

The material base of Spanish America was closely linked to precious metals (gold and silver), at least during the first two centuries of occupation. Mining, like conquest, was a joint enterprise between the Crown and private individuals. With conquest the Crown assumed ownership of all of the subsoil and permitted individuals to mine ores in return for one-fifth, or a *quinto*, of the gold and silver produced (Newson, 1996: 23). Mineral production in the sixteenth century was dominated by the silver mines of Potosi in Upper Peru, and Zacatecas and Guanajuato in northern Mexico. Labour for the Potosi mines was provided by the *mita*, a system of forced labour inherited from the Incas. 'Under the *mita* each Indian village was required to supply one-seventh of its adult male population to work in the mines for a year' (Newson, 1996: 24).

A more varied material base (involving more agricultural products) evolved in the empires of the other European powers in the Americas during the seventeenth and eighteenth centuries. However, these often involved the creation of plantations (producing sugar and tobacco, for example) and the import of large numbers of African slaves. In the near 400 years of the transatlantic slave trade, over nine million Africans made the crossing (Curtin, 1969). Two out of five were destined for Brazil with Spanish America receiving 17 per cent – very similar to the proportions received by the British and French Caribbean (see Figure 5.1). Thus, in terms of labour, two essential pre-capitalist modes of production were widely established through the colonial period in the Americas: (black) slavery and (Indian) serfdom.

If we see capitalism as a historically specific form of economic and social organization, which evolved in distinctive ways from feudalism (see Chapter 3), it could be argued that capitalism in Latin America came after colonialism. Not all would agree on this point. For example, Gunder Frank (1969), rather like Wallerstein, argued that Latin America became capitalist from the moment it was colonized because it was at that stage that its economy became integrated into the world capitalist market. However, the global integration of Spanish America was distinctly limited in what could be termed a mercantilist phase (see Chapter 3). Trade was controlled by

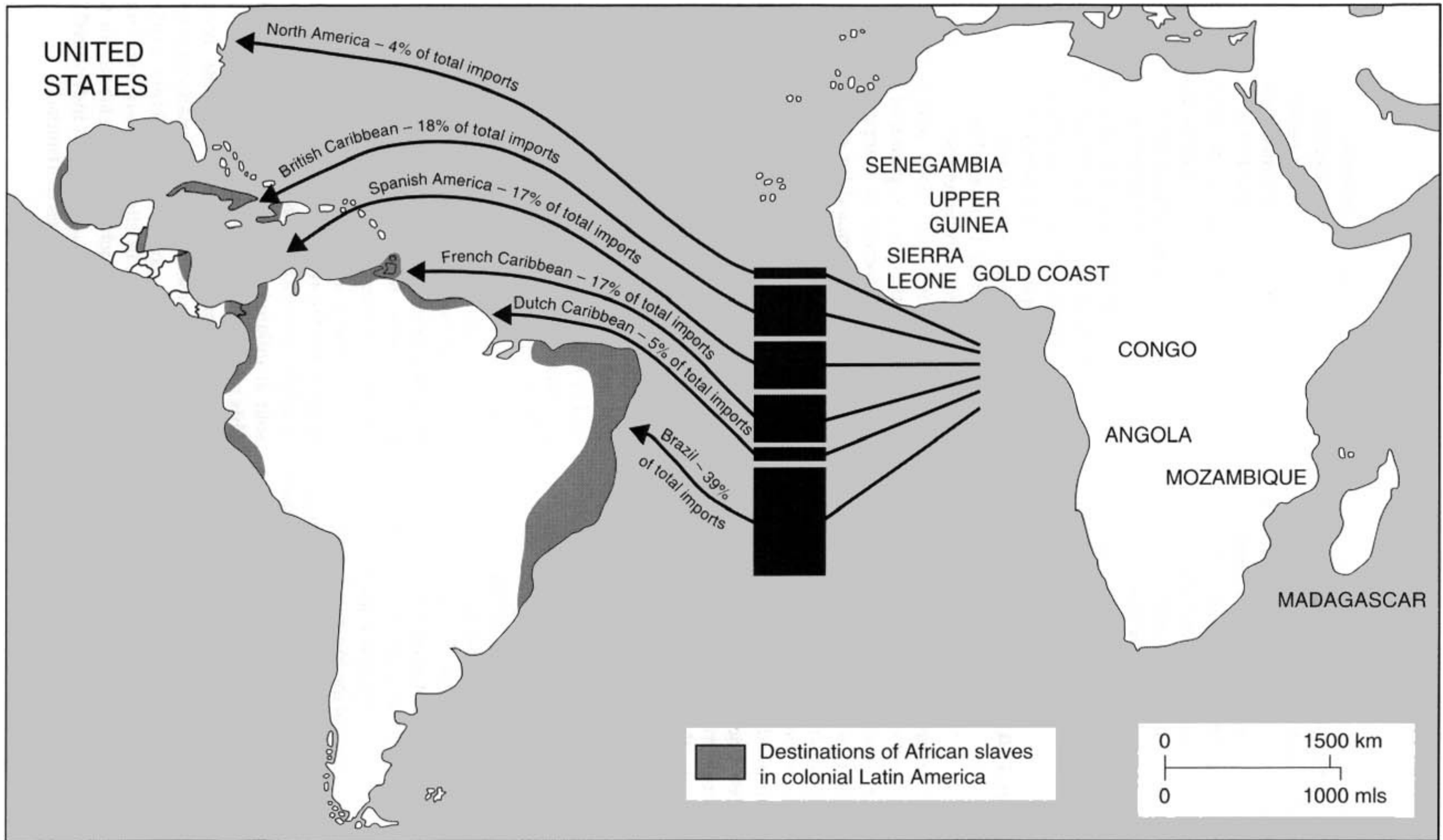

Figure 5.1 *The African slave trade to the Americas*
Source: based on Collier *et al.* (1992: 139)

the state and had, in the first instance, to be with Spain (via Seville and, later, Cadiz). Large numbers of towns had been founded but they did not constitute service centres for a productive hinterland. Rather they were locations of imperial control, and after a century of growth the urban system experienced at least two centuries of stagnation and decline. Such vital characteristics of capitalism as the rise of the profit motive and the shift to freer trade and markets would not become evident until after independence and the arrival of the nineteenth century.

INDEPENDENCE AND THE EXPORT ECONOMY

The end of the colonial period came in the early nineteenth century for most of mainland Latin America, much earlier than independence in the islands of the Caribbean; the latter was largely a twentieth century phenomenon. In Spanish America the economy had remained relatively stagnant for two centuries. Trade was so tightly controlled by Spain that commercial interaction between regions was small. Regional specialization in industrial or craft production was severely restricted by the Spanish Crown. Mainly local systems of supply and demand prevailed in food and agriculture. The frictional effect of distance (between Europe and Spanish America, and within the latter) and commercial stagnation were keenly felt by the Spanish American elites.

The 'geographical' fusion of Hispanic America under the Spanish Crown was partly achieved through the creation of the hierarchical urban system of the sixteenth century. By the late eighteenth century, the Spanish American empire was organized into four viceroyalties whose political urban centres were Mexico City, Bogota, Lima and Buenos Aires (see Figure 5.2). The key figure of the Independence movement in South America from 1810 to 1830, Simon Bolivar, wished to maintain a form of political unity (following the example of the recently independent northern neighbour, the United States of America). However, ten years after Bolivar's death in 1830, the highly centralized Spanish colonial system had 'disintegrated' into 16 separate states based around the cities of contemporary importance with strong local allegiances (see Figure 5.3). In contrast, the more decentralized Portuguese colonial system remained intact. B. Roberts (1995) argued that this was closely linked to the weak administration of the Portuguese authorities and the considerable autonomy that regional elites enjoyed. Brazil became an independent empire in 1822 and remained united, despite five 'regional' revolutions in the 1830s.

The large number of 'small' states that emerged from the independence movement made the advance of capitalism a slow process in nineteenth-century Latin America. Economic growth was concentrated in the larger and politically more stable countries such as Argentina, Brazil, Chile and Mexico. The ruling elites were in general attracted by the prospects of the transition from imperial monopoly to free trade and the incorporation into the world capitalist system. However, as Bulmer-Thomas (1994: 31) points out, 'an elite accustomed to innumerable colonial restrictions on the movement of goods and people was ill prepared for full-scale acceptance of Ricardian trade theory and the doctrine of comparative advantage'. The international demand for exports was certainly apparent (particularly from Europe's industrializing powers) but there were a number of supply-side constraints, most notably those of labour and capital.

Despite modest demographic growth since the population catastrophes of the sixteenth century, labour provided a serious constraint for the growth of export activities. According to Larrain (2000: 79), the exploitation of servile labour increased; slavery was not finally abolished in Latin America until the end of the nineteenth century (in Brazil and Cuba). In addition, the export sector attracted its labour supply through internal and international migration. This created the conditions for the emergence of capitalist enterprises in both agriculture and mining. Wages were often made attractive for internal migrants, as for those who migrated from the Chilean Central Valley to the nitrate fields of the northern desert. However, wage benefits to workers could prove illusory as employers often tried to reduce labour costs through the operation of 'company stores at which workers had to redeem their wages on goods sold at inflated prices' (Bulmer-Thomas, 1994: 87). This was certainly a prevalent practice in the nitrate mines of northern Chile in the late nineteenth century (Blakemore, 1993). International migration, when selective, could also generate exploitative labour conditions. In effect, workers were imported for specific tasks, such as Chinese labour for the cotton industries of Peru or Indian indentured labour for the sugar plantations of Trinidad.

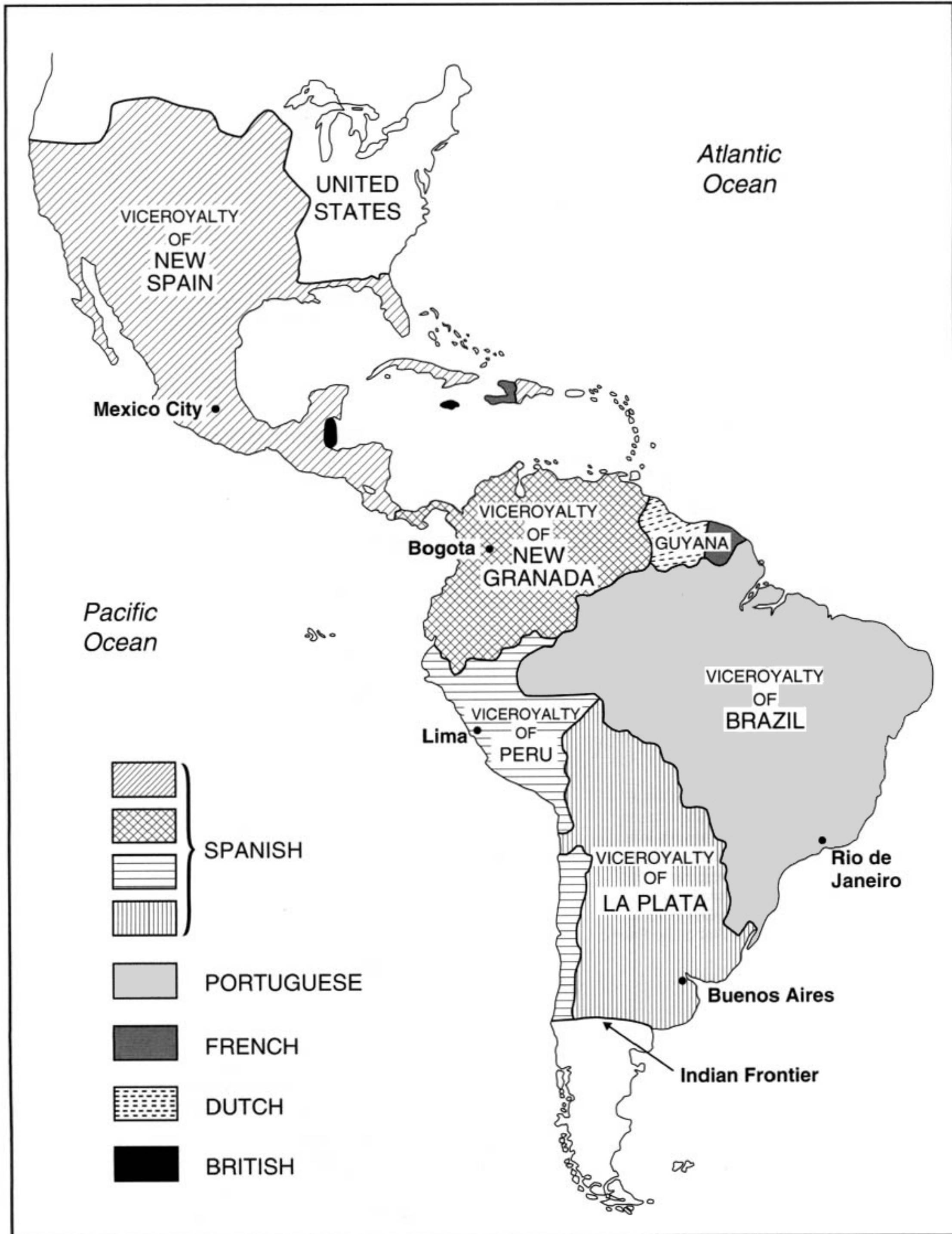

FIGURE 5.2 *Late eighteenth-century colonial Latin America*

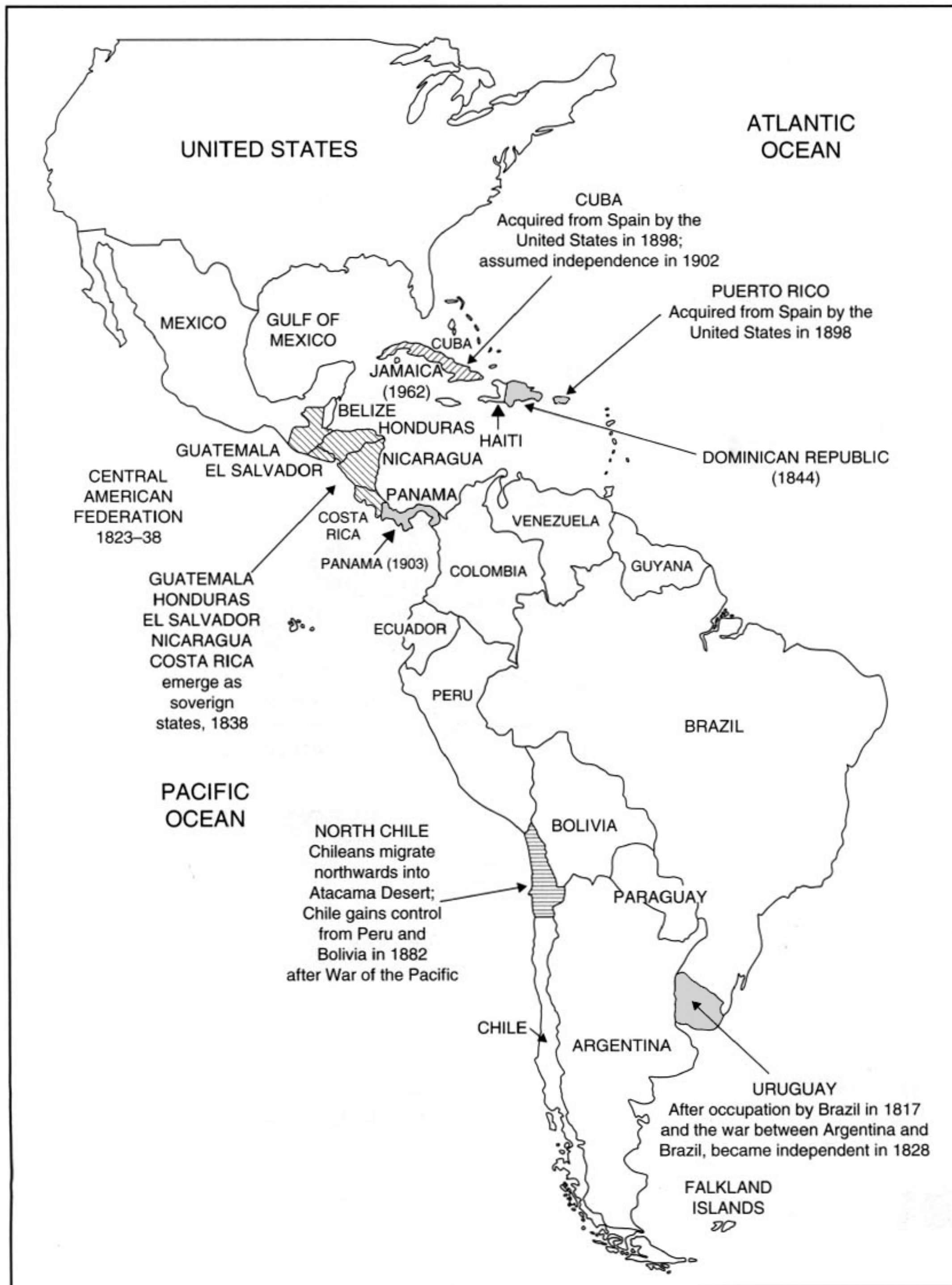

FIGURE 5.3 *Later Independence movements and border changes (after 1830)*
Source: adapted from Hillman (1997)

The nineteenth century was also a period of mass and unrestricted migration, particularly from Europe. The case of Argentina was significant as its population rose from 1.2 million in 1852 to 8 million by 1914. Migrants accounted for half of the increase in population and for more than half of the increase in the labour force (Bulmer-Thomas, 1994: 89). As a result, labour shortages never seriously interfered with the phenomenal economic expansion of Argentina, based on refrigerated beef and other agricultural exports. Wages tracked upwards, particularly in the rapidly expanding city of Buenos Aires, the only Latin American city with more than a million inhabitants by the turn of the century. Buenos Aires and the Argentine Pampas became a thriving node of capitalism and, in terms of labour and investment, one of a particularly European variety.

Foreign capital was readily forthcoming in Argentina's so-called Golden Age, from 1888 to 1914. Indeed before the First World War broke out, Argentina was in receipt of an astonishing US$3217 million of direct foreign investment – 43 per cent of the Latin American total and three times that received by Brazil at the time (Bulmer-Thomas, 1994: 104). Outside of the special case of Argentina, capital proved a more severe constraint on economic growth. All countries required capital for the growth of mining and agricultural exports. The overall capital requirements associated with the export-led model were considerable. Profitability of the export sector often depended on complementary investments in related activities, such as transport, public utilities, ports, communications, housing and industry. According to Bulmer-Thomas (1994: 101), capital markets during the nineteenth century suffered severe deficiencies and reinforced the 'tendency of the export-led model to concentrate on a limited number of exports and discouraged diversification both inside and outside the export sector'. By 1913, in all Central American countries and five countries in South America more than 50 per cent of exports consisted of only one resource: in the case of the South American countries, the key resource exports were tin (Bolivia), coffee (Brazil and Venezuela), nitrates (Chile) and cocoa (Ecuador).

The role of foreign investment, particularly from the UK, became fundamental. It proved decisive in those areas where technological barriers and access to capital restricted the entry of local firms. A good example was that of railways, which dramatically reduced the friction of distance from hinterland to port for resource exports. The geography of railway construction in Latin America up until 1913 could be used as a crude indicator of how export-oriented capitalism had fared in each Latin American country (see Table 5.1). Just four countries (Argentina, Mexico, Brazil and Chile) accounted for 87 per cent of all railway track constructed by 1913. In these four countries (plus Costa Rica and Uruguay), the export-led growth had recorded some significant successes. In contrast, El Salvador and Venezuela (with minimal railway construction) had largely suffered a century of isolation from the export-led model, although Venezuela's export fortunes were about to be transformed by the discovery and production of oil (see Table 5.1).

Railways were a key area for foreign investment from the 1860s to 1913. But foreign investment also became significant in mining and agriculture, as Latin American capitalism became characterized by the role of supplying a wide range of raw materials for the world's industrialized and industrializing countries. Up until the 1870s, foreign capital was still less significant than domestic capital in these export-oriented activities (Cardoso and Faletto, 1979: 59). However, in the three decades before the First World War, foreign capital became more dominant and gained significant political influence. This was particularly the case in the many smaller countries, where foreign capital could control not only the export economy but also the political process.

TABLE 5.1 *Ranking of countries in mainland Latin America in 1913 in terms of railway track kilometres per 1000 population*

Country	Rank	Country	Rank
Argentina	1	Paraguay	8=
Costa Rica	2	Peru	8=
Chile	3	Ecuador	11=
Uruguay	4	Guatemala	11=
Mexico	5	Nicaragua	11=
Panama	6	Venezuela	14
Brazil	7	El Salvador	15
Bolivia	8=	Colombia*	16

*Colombia used parts of its internal river system for the transport of exports

Source: data from Bulmer-Thomas (1994: 107)

Cardoso and Faletto (1979: 65) quote the example of US banana companies (such as United Fruit) taking control of banana production in small Central American republics and, as a result, effectively controlling both the economic and political life of these countries. This historical example is the origin of the derogatory term 'banana republic', meaning a poor country whose economy is dependent on foreign capital. Similarly, in such mining republics as Chile and Peru, foreign capital exerted substantial economic and political influence in what were classic cases of 'enclave development' – localized economic activity in the hands of a foreign company that controlled labour, technology, investment and the international marketing of the product.

However, this was also a period of divergent trends in national and regional development in Latin America. Given the 'disintegration' of Spanish America in the early nineteenth century, one crucial factor explaining the divergent paths was that of country size. The larger countries, such as Brazil and Argentina, with the development of significant entrepreneurial and middle classes by 1913, managed to keep greater control of investment, labour and technology than the smaller countries. The key export activities in both Brazil (coffee, sugar) and Argentina (beef, cereals) were largely in the hands of national (or regional) producers who found it profitable to re-invest their export surpluses within these large and growing markets. Meanwhile, Mexico was an 'intermediate' case 'where foreign ownership of production was important but where a strong national state developed' (B. Roberts, 1995: 42).

By the end of the export economy period in 1913, not only had Latin America become fully inserted into the global economy but this insertion had created very divergent forms of development. The export-led model had transformed the economies of some countries so that they had become very wealthy outliers of European capitalism (Argentina, Uruguay) whereas other countries (such as Venezuela) remained sleepy, colonial backwaters, relatively untouched by the capital, technology and trade of the 'long nineteenth century', which did not end until the outbreak of the First World War. In between these extremes, there were a wide variety of pathways to capitalism. With the start of the 'short twentieth century' in 1914 (Hobsbawm, 1995), Latin American capitalism was highly varied but essentially neocolonial in its trading relations if not (always) in ownership patterns.

Inward orientation and the 'short twentieth century'

Hobsbawm's (1995) periodization of the short twentieth century, stretching from 1914 to 1991, has a certain resonance in the history of capitalism in Latin America. In 1913, Latin America was a set of countries where governments such as that of Argentina actively pursued policies promoting export growth and free trade, and encouraging the inflow of capital and technology. By 1991, this description of the political economy of Latin America would again have been valid. However, in between was a period in which inward orientation largely characterized the trajectory of Latin American capitalism. The period can be divided into three as follows:

1. external dislocation and the shift to inward orientation, 1914–45
2. state intervention and industrialization, 1945–80
3. the debt crisis and the lost decade, 1980–91.

We will now look at each of these in turn.

External dislocation and the shift to inward orientation, 1914–45

The shift to inward orientation can be said to have started with the dislocation to the world economy produced by the First World War. This was the first of three external shocks to demonstrate the vulnerability of Latin American economies in the first half of the twentieth century (the other two were the Great Depression of 1929–33 and the Second World War). However, as Thorp (1998: 97) argues, these shocks between 1914 and 1945 provided opportunities as well as threats: 'it is no accident that this is the only period of the twentieth century when Latin America grew significantly more rapidly than the world average'. Economic growth experienced major fluctuations and different countries adapted in different ways to this period of inward orientation – linked to their commodity profile and success at promoting manufacturing production for domestic markets.

As an external shock, the First World War was not negative for all countries in Latin America. Indeed producers of strategic minerals (Venezuela – oil; Chile – nitrates and copper) fared reasonably well. There was a major shift in external influence as the USA became the main economic partner of virtually all Latin American countries, replacing the UK in most

cases. The USA thus became the major partner for trade and source of private capital. After the war, this change in pre-eminence generated an external problem in economic relations for Latin America as 'trade was not as crucial for the United States as it had been for the UK' (Thorp, 1998: 102). In the 1920s, the USA continued its protectionist policies, which dated back to the 1860s. With the leading European powers shifting to protectionism during the 1920s, Latin American governments started to become more protective of their own national economies as well.

Nevertheless, it was not until the severe disruption caused by the Great Depression (in which world trade halved) that Latin American governments more firmly set their course towards inward orientation. Between 1928 and 1933, Latin American exports declined from about US$5 billion to US$1.5 billion (Bulmer-Thomas, 1994). This was partly due to a decline in volume. As Table 5.2 reveals, export volumes declined by 22 per cent in Latin America as a whole between 1928 and 1932. Mineral producers (not badly affected by the world wars) fared worst with the volumes of Bolivian (tin) and Chilean (copper, nitrates) exports falling by more than a half. In addition, export prices were in freefall, declining by two-thirds between 1928 and 1932 (see Table 5.2).

The prices of manufactured imports also declined. The net barter terms of trade (NBTT) measure the behaviour of export prices in relation to import prices. The overall effect in Latin America was of a 44 per cent reduction in terms of trade in four years. A more accurate indication of the effect of the Depression on Latin America's outward-oriented economies is found through the purchasing power of exports (where the NBTT is adjusted for changes in the volume of exports). The purchasing power of exports fell by 57 per cent in Latin America over the four-year period but in mineral-exporting countries (Chile, Mexico, Peru and Bolivia) the fall was even more catastrophic.

The severe crisis in the world economy and the high dependency of Latin American countries on that economy suddenly demonstrated their extreme vulnerability. After the Depression, Latin American governments endeavoured to restrict the relatively free and easy interaction with the world economy that had existed hitherto, particularly with regard to trade. Restrictive policies towards import trade included the raising of tariffs on imports (effectively taxes on imports), the establishment of quotas for imports from foreign countries and the creation of exchange controls (not permitting importers to have the foreign exchange necessary for them to import). There were

TABLE 5.2 *Price and quantity changes for exports, net barter terms of trade, and export purchasing power, 1932 (1928 = 100)*

Country	Export prices	Export volumes	Net barter terms of trade	Purchasing power of exports
Argentina	37	88	68	60
Bolivia	79	48	n/a	n/a
Brazil	43	86	65	56
Chile	47	31	57	17
Colombia	48	102	63	65
Ecuador	51	83	74	60
Mexico	49	58	64	37
Peru	39	76	62	43
Venezuela	81	100	101	100
Latin America (all countries)	36	78	56	43

Source: Bulmer-Thomas (1994: 197)

also restrictive policies on export trade, such as the popular Latin American policy of multiple exchange rates, which effectively taxed the export sector.

Thus Latin American governments became more involved in issues of economic management. Indeed, governments were forced to respond to at least two pressures that the Depression inflicted on the economies of their countries. First of all, there was the external financial imbalance, caused by the collapse of national earnings from exports and the drying up of capital inflows from international sources. The second imbalance in finances was internal, due to the decline in government revenues as a result of falls in the volume of export and import taxes. Thus, some state interventions in the economy (such as increasing import taxes through raising tariffs) can be seen as an attempt to improve state finances.

These measures provided domestic producers with protection from foreign competitors by making the entry of foreign goods more expensive or, indeed, impossible. Latin American entrepreneurs, observing the scarcity of goods and the level of protection, began to produce or increase the production of goods previously imported. Industrial production and employment increased as a result in most Latin American countries.

State intervention and industrialization, 1945–80

Industrialization became a key theme during this second phase of inward orientation. It was argued (correctly) that all core economies had industrialized behind high protective tariffs; only after a country had developed a more mature industrial structure could it become involved in the freer trading of goods (Prebisch, 1950). In order for Latin American countries to achieve a more mature industrial structure, the political consensus was that governments should actively intervene not only through the elaboration of industrial policy but also through the creation of state-owned development corporations.

Further justification for strong government involvement in the economy came from the core economies in the form of Roosevelt's New Deal policies and Keynesian economics. Meanwhile, the main theories of political economy emerging from Latin America were those of structuralism and dependency (Kay, 1989; Kay and Gwynne, 2000). These contextualized the problems of Latin American countries developing within a world economy characterized by highly asymmetrical relations, especially in terms of trade. The recommended policies for Latin American countries were to shift their trading patterns away from a reliance on primary commodities, and industrialize within the framework of a strong state.

A policy of import substitution industrialization (ISI) became formalized during the 1950s and 1960s. The policy broadly envisaged four overlapping phases of industrial production. It was intended that governments would create favourable conditions for each of these phases and would 'plan' the progression from one phase to the next. The first phase had started in many countries in the 1930s when the range of restrictive policies had allowed domestic entrepreneurs to expand production of textiles, clothing, footwear and food products. The second stage of ISI became the focus of industrial policy in the 1950s and 1960s, and involved the production of consumer products, such as refrigerators, motor vehicles and televisions, for national markets – and with the frequent involvement of foreign companies (such as Ford and VW) in providing capital and technology.

The third stage followed on logically in that it would provide inputs for the 'second-stage' industries discussed above. There were two varieties of third-stage industry. First, there were basic feedstock industries, such as steel, chemicals and plastics. The state became heavily involved in financing these sectors (as in Brazil and Chile). It was thought that national private firms would be unwilling to venture into such large-scale projects, whereas the sectors were seen as too strategic for economic growth for foreign companies to get financially involved.

The second type of 'third-stage' industry involved the production of a wide range of components for the production of consumer products. Here the state would only get involved in a coordinating capacity. One example is provided by Kubitschek's *Programa de Metas* (1956) in Brazil as it related to motor vehicle production. Between 1956 and 1960, motor vehicle production (controlled by foreign companies) was to rise from negligible levels to 350,000 a year. However, in terms of component production, there was to be a progressive 'nationalization' of supply. In this way, Brazilian-made components in the vehicle assembly industry would rise from 35 to 90 per cent of the total component cost of a vehicle over the four years.

The fourth stage was set for the 1970s and involved the production of capital goods – machinery and

plant installations. However, it was only in Brazil that a significant capital goods industry developed. The Brazilian state played a strategic part in developing capabilities for this most technologically demanding of sectors. The role of the state was therefore significant in orchestrating the policy of ISI, and became very involved in the third and fourth stages of the process. In addition, the state was laying the wider infrastructural foundations of industrial and economic growth – investing in energy, transport and communications.

In reality, the success of inward-oriented industrialization partly depended on the size of the national market. In large markets, such as that of Brazil, where competition between producers occurred and where reasonable economies of scale could be achieved, manufacturing industry could approach international levels of competitiveness. Between 1950 and 1978, manufacturing GDP in Brazil expanded ten times in real terms (Gwynne, 1985: 36) – equivalent to an average annual growth rate of 8.5 per cent over the three decades. Indeed, Brazil was able, with the help of some subsidies, to finish the 1970s as a major exporter of manufactured goods (around 40 per cent of total exports) – the only newly industrializing country (NIC) of Latin America to approach the export record of the East Asian NICs (see Chapter 6).

The policy of ISI thus had the result of spatially concentrating manufacturing in the larger countries of Latin America. By 1978, the two largest countries (Brazil and Mexico) accounted for 62 per cent of Latin American manufacturing production. Within these two countries, manufacturing production came to be concentrated in two of the world's largest metropolitan areas – São Paulo and Mexico City.

In contrast, in the many smaller countries of Latin America, a lack of economies of scale and competition between firms meant that manufacturing production became high cost and suffered low internal demand. For smaller countries, one solution to the restrictions of low demand and low economies of scale was for countries to group together and form schemes of economic integration. However, within the framework of inward orientation, neither the Central American Common Market (created in 1960) nor the Andean Group (created in 1969) were able to promote industrial growth and manufacturing trade between small markets (Gwynne, 1985).

This period was one in which Latin America's participation in world trade declined overall. Table 5.3 shows that total Latin American exports as a percentage of total world exports fell from 13.5 per cent in 1946 to only 4.4 per cent in 1975. Larger countries that had failed to boost manufacturing exports fared worst (Bulmer-Thomas, 1994); for example, Argentina's share of total Latin American exports declined from a substantial 25.5 per cent in 1946 (when it was the major exporter) to only 8.2 per cent by 1975.

TABLE 5.3 *Latin America's shares of world and regional exports, 1946–75*

Year	Share of total world exports			Country shares of total Latin American exports		
	Total Latin America	Major countries*	All other republics	Argentina	Brazil	Venezuela
1946	13.5	8.9	4.6	25.5	21.2	11.1
1950	10.7	6.7	4.0	18.4	21.2	14.5
1955	8.9	4.9	4.0	11.8	18.0	23.0
1960	7.0	3.5	3.5	12.8	15.0	27.2
1965	6.2	3.2	3.0	13.9	14.9	22.8
1970	5.1	2.8	2.3	12.0	18.5	17.7
1975	4.4	2.2	2.2	8.2	24.0	24.3

*Includes Argentina, Brazil, Chile, Colombia, Mexico and Uruguay
Source: Bulmer-Thomas (1994)

This serious decline in the global importance of Latin American trade was a result of inward-oriented policies. Exchange rate policies created an overvalued exchange rate for most national currencies. As a result, exports became more expensive than they should have been, making it more difficult for entrepreneurs to expand price-sensitive exports, such as manufacturing or agricultural products. Imports were of course theoretically cheap, but their entry was prevented by high tariffs and quota restrictions. Expensive exports and restricted imports were two powerful reasons behind the stagnation of South American trade.

The resulting export profile of most Latin American countries proved highly vulnerable. Exports were mainly in resources that were not too price-sensitive in terms of demand on world markets, such as oil. Latin America's main oil exporter, Venezuela, was the country with the most sustained growth in exports in the post-war period (see Table 5.3). The export profiles of most Latin American countries came to be characterized even more by a reliance on just one or two primary commodities. As we have seen, it was only in Brazil that the export profile developed a significant manufacturing content.

This inward-oriented phase of Latin American economic history did bring high rates of economic growth and a rapid expansion of the manufacturing product. However, industrial growth was very much geared to the domestic market and, with the notable exception of Brazil, manufacturing exports remained negligible. The emphasis on consumer goods production implied a strong dependence on importing foreign technologies, a factor that contributed to the large trade deficits of the 1970s and the debt crisis of the 1980s.

The debt crisis and the lost decade, 1980–91

Latin America's inward-oriented version of capitalism had been a response to the dislocations of the first half of the twentieth century. After 1945, industrialization alongside a powerful state presence in the economy had kept economic growth rates respectable for most countries up until the late 1960s although critical signs of economic stagnation linked to the ISI model were already appearing. During the 1970s it could be argued that policies of inward orientation survived due to the huge inflow of capital from international banks, recycling the capital surpluses of the oil-rich countries. However, poor financial and budget control by governments was leading to high inflation, which came to be characterized as a distinctive and negative feature of Latin American capitalism.

Latin American countries gained a reputation for high inflation (annual price rises of between 10 and 50 per cent) and even hyperinflation (above 50 per cent). Table 5.4 shows that only two countries (Paraguay and Colombia) in Latin America did not suffer from hyperinflation after 1970. Four countries recorded annual inflation levels of over 1000 per cent, with two countries (Bolivia and Peru) recording figures around the 8000 per cent mark – when prices increased by over one-fifth each day of the year! It is very difficult for both producers and consumers to live through such periods. Savings rapidly become worthless and speculation becomes rife. Very high price rises create economic (and often political) instability. Uncertainty increases for consumers and producers alike as major shortages of basic products can occur. Low investment, low savings and capital flight are three further problems associated with high inflation.

The legacy of inflation within inward orientation left countries short on national savings and increasingly reliant on external finance. Indeed the 1970s and early 1980s became a notorious period of what

TABLE 5.4 *South American countries peak inflation years since 1970 and inflation average, 1984–93*

Country	Peak inflation and year	Inflation average, 1984–93
Bolivia	8170.5 (1985)	1051.6
Peru	7649.6 (1990)	1283.7
Argentina	4923.6 (1989)	811.5
Brazil	2500.0 (1993)	944.8
Chile	650.0 (1973)	19.5
Mexico	159.2 (1987)	52.9
Uruguay	129.0 (1990)	75.5
Ecuador	85.7 (1988)	44.5
Venezuela	81.0 (1989)	34.0
Paraguay	44.1 (1990)	24.5
Colombia	32.4 (1990)	24.8

Source: Edwards (1995); Gwynne (1976)

could be termed debt-led (and inflationary) growth in Latin America. The end of this period came in another dramatic crisis for the continent – the debt crisis that started in August 1982 after Mexico declared a moratorium on its debt repayments. The confused and messy aftermath of this crisis was instrumental in causing Latin America as a whole to suffer a decade of stagnation and policy turmoil in the 1980s. The global capital markets that had appeared so benign during the 1970s turned against Latin America in the 1980s. As a result, the reliance of Latin American countries on external finance (due to low domestic savings, partly a result of the legacy of high inflation) became the Achilles heel of their efforts at economic growth in the 1980s.

During the 1980s, it took time for Latin American governments to come to terms with the realities of the new world economy. Since the 1930s, they had tried to protect their economies from the vagaries of the global trading system and from the economic influences of resource and manufacturing multinationals in their economies. They thought that the dependence of their countries on the global economy would thereby be reduced. In retrospect, Latin American economies were becoming more closely linked to the global economy – albeit in new ways. Governments did not realize that international bank lending, although not strongly regulated at that time, was intimately linked to business confidence. When business confidence in Latin America collapsed in August 1982, bank lending, the lubricator of Latin American economies for nearly a decade, dried up virtually immediately. Multinational banks tried to drastically reduce their exposure in Latin America, with policies of no new lending, tight renegotiations and even insistence on the socialization of private debt – where Latin American governments were forced to take responsibility for bad private debts in their country (for which they were not legally bound) as well as the bad public debts for which they were legally answerable (Congdon, 1988).

In an experience similar to that of the Great Depression, Latin American governments faced severe imbalances both on the external and internal front. Their external accounts were characterized by large current account deficits, partly because of high interest payments and partly because of the drying up of new funds. Interest payments increased because of high world interest rates in the early 1980s and the fact that most international bank lending in Latin America had been in the form of roll-over credits, where the credit is 'rolled over' periodically for interest rate review (such as every six months); in this way the risks of interest rate movements had been passed to the borrower. In addition, most Latin American countries faced the problem of capital flight, another legacy of high inflation. During the 1980s, the more affluent Argentines, Mexicans and Venezuelans held dollar deposits and other deposits abroad worth nearly as much as their countries' debt (Mahon, 1996). On the internal side, Latin American Treasury departments were not only having to deal with big increases in interest payments on their loans and extreme difficulties in finding new funds but also with the problems of increased expenditure as economic activity declined, state firms declared increasing losses and unemployment, and other social problems increased.

The only possible way to receive some external financing was through loans from multilateral agencies such as the IMF and World Bank. However, this came with strings attached; in other words, Latin American governments would have to impose major economic reforms, even if they were only short term, in order to receive external financing from these organizations. Between 1980 and 1986, net capital flows into the continent declined by around 40 per cent, but private net flows from international banks declined by an astonishing 80 per cent, demonstrating the impact of the change in perception of Latin America from the international banks; meanwhile, the net flows from bilateral loans were halved in value (World Bank, 1992). With other financial flows static, the only significant increase came from official loans from multilateral agencies.

Multilateral institutions exerted considerable influence in searching for ways out of the debt crisis. As the IMF and World Bank became the main sources of new funds for the debt-laden countries of Latin America, they had the leverage to release funds on condition that those countries implemented basic reforms. The emphasis was on achieving export-led growth (trade liberalization, exchange rate action), improved domestic capital formation (tax reform, financial reform) and reduction in government interventions in the economy. During the 1980s, many governments resisted the implementation of conditional reforms, but others (Chile, Mexico and Colombia, for example) moved faster than was required by the multilateral agencies.

The IMF and World Bank thus introduced their own outward-oriented and market-led solutions to the problem. The international banking community endorsed this view and strongly urged that the burden of new financing be placed on multilateral institutions. Debt-restructuring operations, IMF-sponsored programmes and World Bank structural adjustment loans were the most important elements of this strategy; between 1983 and 1988, Latin American countries engaged in 29 debt-restructuring operations with the private banks. Nevertheless, Latin American countries remained starved of finance as international banks insisted on debt repayments without new money. It was not until 1989 (via the Brady Plan) that a breakthrough occurred in the approach to the debt crisis when the international creditors and multilateral institutions recognized that providing some debt forgiveness could be in everyone's interest. Between, 1989 and 1991, direct debt-reduction agreements between the international creditor banks and individual countries became more common, as did the use of debt-reduction schemes based on secondary market operations.

Conclusion

Most Latin American countries had little alternative but to impose these economic reforms in return for assistance to alleviate their serious financial dilemmas. Latin American countries had a great need for foreign finance, due to low internal savings as well as the great need for investment after a decade of economic stagnation. These financial dilemmas demonstrated that Latin America still had a dependent relationship with the world economy; no longer was this just in relation to trade but also to foreign finance, where shifts in bank confidence and interest rates could have such a huge impact on the management of national economies.

Crises often reveal the true nature of economic and social relations. In Latin America, they have revealed that economic performance there is highly dependent on the world economy, both in terms of growth and decline. In the crisis of the 1930s, Latin American governments understood this and attempted to protect themselves from the extremes of the world economy. After the crisis of the 1980s, governments have responded by becoming more closely connected to the world economy. Crises have been important in changing the nature of the prevailing economic paradigm. Paradigmatic shifts have not necessarily been guided by ideology – although the Chilean shift during the 1970s was more ideologically driven. Rather, the aftermath of crises could be represented as Latin American governments deciding (with different chronologies) to respond in highly pragmatic ways to the contingencies of the crisis.

Further reading

Bulmer-Thomas, V. 1994: *The Economic History of Latin America Since Independence*. Cambridge: Cambridge University Press. An authoritative and detailed survey of the economic history of Latin America.

Gwynne, R. and Kay, C. (eds) 1999: *Latin America Transformed: Globalization and Modernity*. London: Arnold. Examines the contemporary political economy of Latin America, and focuses on how economies and societies are being transformed. Provides a critical yet balanced analysis of the neoliberal policies pursued by Latin American countries.

Kay, C. 1989: *Latin American Theories of Development and Underdevelopment*. Routledge, London. The classic text on Latin American theories of development. Explains clearly and concisely the key theoretical debates that were influential in Latin America before the onset of neoliberalism.

Larrain, J. 2000: *Identity and Modernity in Latin America*. Cambridge: Polity Press. An ambitious book that examines the trajectories of modernity and identity in Latin America, and reinforces theories from the social sciences with reference to literature and other cultural forms.

6

EAST ASIA: THE JAPANESE AND CHINESE DEVELOPMENT MODELS AND THEIR REGIONAL IMPACTS

East Asia as defined here is all of the countries from South Korea and Japan in the north and China in the west, to Indonesia, Thailand and the Philippines in the south-east. East Asia occupies a prominent position in the world-system. Following on the heels of Japan's spectacular economic expansion both before and after the Second World War (as discussed below), the so-called 'four tigers' or NICs have since led all world regions in economic growth (Table 6.1). Their growth has recently slowed but is still strong by world standards. At the same time, other East Asian countries have surged forward (Table 6.1). East Asia's growth by more than 7 per cent annually since 1980 is particularly impressive when compared to that of core countries, which averaged only 2.2 per cent. Non-core countries as a whole grew by just 1.5 per cent (Chang, 2002). Many East Asian countries have now reached the semi-periphery (Figure 1.3), albeit accompanied by considerable economic volatility since the capital exodus of 1997.

How has East Asia achieved such progress when, according to world-systems and dependency thinking, the periphery is almost impossible to escape (Wallerstein, 1991)? Indeed, East Asia offers lessons

TABLE 6.1 *The economic growth record: the four Asian Tigers compared to other non-core regions, 1960–97*

% change in GDP per year	1960–70*	1970–80*	1980–90*	1990–97**
The 'four tigers' or NICs				
Hong Kong	10.0	9.2	7.1	5.3
Singapore	8.8	8.3	6.4	8.5
South Korea	8.6	9.6	9.7	7.2
Taiwan	8.8	9.8	7.7	6.7***
Non-core regions				
East Asia and Pacific	5.9	6.7	7.6	9.4
Latin America and Caribbean	5.3	5.4	1.7	3.8
Middle East and North Africa	n/a	4.6	0.2	2.9
South Asia	3.9	3.5	5.6	5.6
Sub-Saharan Africa	4.2	3.6	1.7	2.0

Sources: *Brohman (1999); **World Bank (1999c); ***Easterly and Sewadeh (2001)

about development policy for other aspiring peripheral regions (Wade, 1990). This chapter follows the region's industrial success from the Japanese development model to its influence on South Korea, Taiwan and beyond. Like Japan, South Korea and Taiwan have shown the developmental benefits of a strong centralized state that 'governs the market' (Wade, 1990). The chapter then reviews China's development from the Maoist period of self-sufficiency and equity to the current era emphasizing growth and industrial exports. Lastly, the discussion turns to East Asia's economic difficulties since 1997, before it concludes by noting the region's development lessons and its emerging realignment with China at its centre.

In contrast with Latin America (Chapter 5), East Asia's greater commitment to exporting during the twentieth century can be traced to its more positive historical economic experience. The 1930s Depression did not have the same negative effect in East Asia, mainly because most countries were less exposed to global trade. East Asia at that time was still closely integrated economically with the colonial powers, be they European or, in the case of Taiwan and Korea, Japan. In the 1930s, Japan maintained itself as a major industrial exporter and domestic producer of military armaments, and achieved annual economic growth rates of over 5 per cent.

Having made some general points about East Asia, we must caution that, despite the commonly held notion of an 'East Asian development model', there has been no region-wide uniformity to policy adoption. Indeed, East Asia contains the extremes of inward and outward orientation, depending on the time period and country in question. There are countries whose industrialization was almost completely focused on a protected home market (e.g. China and Vietnam until the 1980s), and territories whose industrial growth has been dominated by exports (e.g. Hong Kong and Singapore). Between these extremes, East Asia has almost every shade of industrial policy in terms of relative orientation to external and internal markets.

THE RECORD OF EXPORT AND MANUFACTURING GROWTH

Table 6.2 presents data for manufacturing in nine East Asian territories that suggest the continued industrial pre-eminence of Japan. First, consider the data in column B, the rank order of the territories based on per capita value added of manufacturing production in 1984. Unsurprisingly, Japan heads the list. Note, however, that Japan continues to lead the region in 1998 (column E). Further, with the two exceptions of the heavily trade-oriented territories of Singapore and Hong Kong (discussed below), Japan also heads the lists for manufacturing *exports* in 1984 and 1998 (columns C and F).

In fact, the rank order of countries in columns B, C, E and F changes little between 1984 and 1998 despite the diffusion of manufacturing development throughout the region. As domestic factory wage rates rise, investors relocate lower-skilled and labour-intensive aspects of production to lower-wage countries. This disperses the more routine aspects of manufacturing down the regional industrial hierarchy but retains the higher-value activities in the more developed countries and thereby maintains the overall rankings. These economic relations among East Asian countries are said to be analogous to a skein of flying geese. Japan leads the skein and is followed in the V-pattern by three 'generations' of NICs (Edgington and Hayter, 2000). While this relationship has held for decades, many in Japan now fear that China's vast pool of low-wage labourers and its increasingly skilled workforce is draining Japan of its industrial employment base (Brooke, 2001).

Turning to the export of manufactured goods, we find that by 1984 Japan was already considerably behind both Singapore and Hong Kong in per capita terms. This demonstrates how Japan's manufacturing success has not been over-reliant on exports but has instead been oriented as much to serving its expanding local market. Singapore, with a tiny internal market, has needed to follow a different course. By 1998 Singapore continued its climb as Asia's leader in per capita manufacturing exports; Singapore's level was nearly ten times that of Japan's, the second-ranking country.

Note that for several East Asian territories, manufacturing exports *exceed* manufacturing value added. In 1984 and 1998 this condition applied to both Singapore and Hong Kong, and is explained by their roles as manufacturing entrepôts. Many of their manufacturing exports are actually products made elsewhere and transported through Singapore (primarily from southern Malaysia) and Hong Kong (primarily from China's Guangdong province and Taiwan) on their way to other markets.

TABLE 6.2 *Growth in East Asian manufacturing, 1984–98*

East Asian territory	1984			1998			1984–98	
	Population (millions)	Per capita manufacturing value added*	Per capita manufacturing exports	Population (millions)	Per capita manufacturing value added*	Per capita manufacturing exports	Per capita manufacturing v.a. growth (%)	Per capita manufacturing export growth (%)
	A	B	C	D	E	F	G	H
Japan	120.0	3439	1388	126.3	8332	2981	142	115
Singapore	2.5	1542	5581	3.2	6407	28835	315	417
Hong Kong	5.4	1286	4772	6.7	1740	2417	35	−49
South Korea	40.1	665	664	46.4	1670	2498	151	276
Malaysia	15.3	443	290	22.2	1092	2509	147	765
Thailand	50.0	167	52	61.1	731	623	338	1098
Philippines	53.4	162	52	75.1	191	332	18	538
China	1029.1	140	13	1238.6	287	126	105	869
Indonesia	158.9	83	15	203.7	123	101	48	573

Notes: monetary units are US$

*Value added in manufacturing measures only contributions made within a particular territory, while it excludes the cost of purchased resources and inputs.

Source: Gwynne (1990), World Bank (2000; 2001)

FIGURE 6.1 *The new economic zones of south-eastern China*

Manufacturing exports also exceeded manufacturing value added in 1998 for South Korea, Malaysia and the Philippines. These statistics indicate how manufacturing activities in these countries are part of international commodity chains (Gereffi and Korzeniewicz, 1994). Because many of these commodity chains integrate two or more East Asian countries, they further support the 'skein of geese' representation of East Asian industrialization.

In 1998 Hong Kong continued its pattern of exporting more manufactured products than its manufacturing value added but, compared to 1984, the difference narrowed more than anywhere else in East Asia. This trend suggests how Hong Kong has shifted away from manufacturing and towards corporate services. Whereas 47 per cent of all jobs in Hong Kong were in manufacturing in 1970, by 1997 they had fallen to only 11 per cent of the total, while service jobs increased from 41 to 79 per cent. Hong Kong is now a regional corporate centre, a provider of advanced producer services, and the major investment conduit into China. As part of this sectoral transformation, Hong Kong is now the world's fourth largest banking centre after New York, London and Tokyo (Howlett, 1997: 235). Hong Kong's declining role in manufacturing trade reflects the fact that China is increasing its manufacturing exports directly to outside markets, particularly via the massive new export-oriented industrial city of Shenzhen, and thereby relies less on Hong Kong for this purpose (see Figure 6.1 and Smith, 2000).

Other East Asian countries, such as China and Indonesia, followed very different policies until the 1980s. They were much less intent on expanding exports. Table 6.2 reveals the low per capita export figures for manufacturing in China and Indonesia, especially in 1984 but even in 1998. It should be borne in mind, however, that they have very large populations, 60 to 70 per cent of whom are rural and therefore work at least part-time in agriculture. By

1998 China's total manufacturing value added had reached US$355 billion, a figure larger than the entire GDP of any East Asian country except Japan.

THE JAPANESE DEVELOPMENT MODEL

Many components of the Japanese model have influenced East Asia and offer an alternative to the US-led, neoliberal free-trade model that prevails in the global economy today. The Japanese model is also closer to the historical trajectory of most of the western industrial powers, which protected their own domestic markets to grow internationally competitive firms (Krugman, 1996; Chang, 2002). The essential ingredients of the Japanese model are as follows.

- **The pre-industrial groundwork.** The Edo or Tokugawa period (1603–1868) laid the groundwork for the initial and rapid development of industry at the end of the nineteenth century. In the 1850s Japan already had a high potential for saving, a well-developed system of national markets, an emerging national communications network, a comparatively well-educated and economically motivated population, national unity, and independence from foreign domination.
- **A state-guided economy, moving through development phases.** Japan's industrial expansion was achieved by passing through sequential phases of growth under state direction. Each phase required a qualitatively distinctive ensemble with regard to four key issues:
    1. the role of the state, its direct economic involvement (whereby it guides but does not control business decision-making), its protectionism, its provision of physical and financial infrastructure, and its distribution of subsidies
    2. the roles assigned to different strategic economic sectors, from agriculture to light and heavy industry to high technology
    3. the precise combination of inward and outward orientation for each major economic sector
    4. divisions of labour across East Asia.

Unlike modernization theory, these developmental phases are neither teleologically predictable nor immutable (Johnston *et al.*, 1994: 115). Instead, each phase is a dynamic and adaptive response to conditions thus far achieved and to changing external circumstances.

- **Learning and borrowing from the West.** Japan has attempted to extricate the vital ingredients of western capitalist success while preserving Japanese culture. This has been the case ever since Japan opened up to western commerce and trade in the late nineteenth-century Meiji period and adopted the slogan 'Wakon Yoksai' ('Japanese spirit, western technology'). Japan has distilled the essence of the various product, process and organizational innovations from industrialized countries and developed a unique synthesis of the most relevant factors (Watanabe, 1968: 121–2).
- **Synergistic relations between large and small firms.** Modern, efficient, large-scale enterprises exist alongside small, labour-intensive production units within the same industrial sectors. Interactions include sub-contracting, long-term cooperation, technical assistance and the absorption of fluctuations in economic cycles.
- **Creating dynamic comparative advantage, first from ISI and then from EOI.** Every Japanese export industry has achieved significant overseas penetration only after the state helped to create a large domestic market base. As industries nurtured in the domestic market have become internationally competitive, they have been left on their own to contribute to growth and development.
- **Consensus and inclusion.** Japan is a society of consensus and inclusion that transcends class. Strong loyalties to one's employer can be traced back to the concept of 'ie-ism' from the Edo or Tokugawa period. In Japan's modern corporate landscape, similar cultural values still appertain to some extent (at least until the upheaval of the 1990s; there is more on this below).
- **Scale economies.** Japan has been able to achieve increasing economies of scale in a range of industrial sectors over time.
- **Dense corporate networks.** At the corporate level, there are the advantages of the *keiretsu* system in which groups of companies are linked around the central focus of a bank and with the constituent companies investing in each others'

enterprises. This system provides the framework for technological and managerial assistance between the constituent companies of a group, and it concentrates competition between rather than within groups (Sayer and Walker, 1992: 232).
- **Just-in-time**. Regarding more recent technological change, Japan has pioneered the 'just-in-time' system of manufacturing, which allows for the combined advantages of economies of scale, quality control and quality circles, low inventories and improved labour relations. It also provides a framework for technological advance with maximum workforce participation.

These ingredients generated impressive growth rates for Japan throughout most of the last century. Japan's economy grew by about 10 per cent annually from 1945 until the global energy crisis of 1973. By the late 1960s, Japan had one of the strongest international balances of payment and was a considerable lender to other countries, especially those of East Asia. Even in the 1970s, when global growth rates were stagnant, Japan maintained a 4.8 per cent annual growth rate. By the late 1980s, however, the Japanese economy began to stall, brought on in part by the significant appreciation of the yen against the dollar. Annual growth was only 2.9 per cent between 1985 and 1995. The title of the annual report of Japan's Nikkei stock index still read 'Japan as Number 1' in 1990, but by 1995 its title was 'Weakness and Crisis' (Sklair, 2001: 156). Since then economic conditions have continued to worsen, with forecasts of an economic contraction of up to 1 per cent in 2001 and 2002.

Major Japanese employers have begun, for the first time in history, to lay off or dismiss Japanese workers in large numbers. They are moving production facilities and jobs to lower-cost sites in Asia. Japanese imports from Asian subsidiaries of Japanese companies increased eightfold during the 1990s. Japan itself has eliminated three million manufacturing jobs, a cut of almost 20 per cent. In 2001, unemployment reached the significant psychological threshold of 5 per cent for the first time since the Second World War.

China has been the main recipient of Japanese industrial investment. A Chinese factory employee works two days for what a Japanese factory worker earns in an hour. If imports from China keep surging and Japanese manufacturers keep moving factories overseas at recent rates, Japan's four-decade-long trade surplus will disappear by 2005, if not sooner. A survey of 562 major Japanese manufacturers found that 49 per cent planned to increase overseas production. Of this group, 71 per cent said they were moving production to China (Brooke, 2001: 230).

Policy adjustments have been inadequate to stave off Japan's recession. Its banking system has failed to address the problem of bad loans. It continues to prop up companies that are effectively bankrupt, while potentially more productive sectors of the economy are deprived of credit. Japan's Ministry of International Trade and Industry, and Ministry of Finance seem to have lost most of their capacity to guide the market. All this has raised questions about the limitations of the Japanese development model, which until the 1980s seemed practically unstoppable.

Still, Japan's climb from periphery to core in less than a century has implications for aspiring non-core countries. The Japanese method of industrial growth has greatest relevance for other East Asian countries that share certain historical and non-industrial features, including regional proximity and the related economic linkages, a wide variety of historical ties and cultural connections. Frank (1998) argues that the rise of East Asia is best understood as continuing forward a tradition of regional integration that pre-dates by centuries the arrival of capitalism in East Asia.

Through the 1990s, East Asia's rise in economic power continued to be Japan-centred. The linkages have increased as Japan has relocated factories throughout the region and imported assembled manufactured goods. Japan has also provided a model of how densely populated, resource-poor countries in East Asia can achieve rapid economic growth through concentrating on industrialization. In particular, the Japanese model of government, which actively encourages selected industrial expansion but leaves the actual business initiatives to the private sector (i.e. the notion of the state guiding the market) has influenced many East Asian governments (Berger and Beeson, 1998). Beyond that, the precise interpretation of the salient features of Japanese industrial success varies from country to country. None the less, there have been many attempts in East Asia to follow the broad outline of the Japanese model, although its impact beyond East Asia has been decidedly muted (Box 6.1).

Box 6.1 On following the East Asian model: observations from World Bank insider Robert Wade

Why is East Asia's success with the state governing the market not more influential globally? There are of course many reasons, including the fact that East Asia's historical trajectory and cultural norms cannot simply be exported wholesale to another region, and that the concept of an 'East Asian model' obscures much intra-regional variation.

Yet another part of the explanation comes from the insights of economist Robert Wade, who worked at the World Bank in the 1980s. He offers the following account of what happened when, in the early 1990s, Japan sought greater influence on World Bank policy by promoting state-guided development. Because a country's contribution to World Bank funds are a function of its GNP, Japan had grown as a financier of World Bank activities, yet its policy influence remained minimal. Japan asked for and offered to contribute US$1.2 million toward a major study of the policies behind East Asian development, which the Bank hesitantly and reluctantly agreed to carry out. However, the Bank loaded the report-writing team with US-trained economists. Only late in the drafting process were economists with Asian experience added. East Asian nationals were marginalized to writing country case studies that have less impact than the general chapters. In the end, *The East Asian Miracle* (World Bank, 1993) only minimally acknowledges the positive contribution of state-guided development in East Asia.

Wade explains these results as a logical outcome of a filtering system operating within the Bank, which ensures that 'market friendly' findings and policy recommendations, favoured by the USA, predominate. Filters operate at five levels.

1. Fully 80 per cent of the PhDs in economics employed at the Bank were trained at universities in the USA or the UK. They tend to see the world from within the neoclassical economics paradigm, which allows little room for state intervention. In contrast, the Bank employs virtually no East Asian-trained PhDs in economics.
2. The Bank employs few non-economists. Those that do work there are usually assigned to more marginal topics such as resettlement programmes. They have little involvement in the larger issues such as charting the course for global development, extracting general lessons from case studies, or setting loan conditionalities.
3. Draft reports pass up the World Bank hierarchy. Those higher up tend to be less tolerant of alternative views.
4. Experienced in-house copy-editors edit out unconventional language and replace it with accepted World Bank language.
5. All of the above filters are situated within a monetary filter, namely the USA, still the Bank's biggest contributor. This means that US Congress must approve of World Bank activities. In turn, thanks to campaign contributions and lobbying pressures, US TNCs must be happy with Bank policy.

Source: Wade (1996)

SOUTH KOREA AND TAIWAN

As Enos and Park (1988: 217) explain in their study of South Korean manufacturing:

> To the extent that any country has been the model for Korea in its industrialization it is Japan. Explanations are easy to find: geographical propinquity; recent experience; familiarity with the language, particularly in its written form; recognition that the Japanese have already adapted Western technology to Eastern social and political mores; and, surely a necessary part of the explanation, Japanese success in their own endeavours.

Enos and Park also note the importance of transformations during the period 1907–45 when Korea was part of the Japanese empire. Japan introduced a modern administration, monetary system, railway network and education system. Under Japanese rule, Korea became a secondary manufacturing centre within the empire. The manufacturing share of GDP rose from 1 to 15 per cent between 1910 and 1940 (Harris, 1986: 33). However, it was dependent industrialization, with most of the capital and technicians being Japanese.

Japan's defeat in the Second World War brought the removal from Korea not only of the ruling order but also a good portion of the business and technical class. Further economic instability ensued from the partition of the country between the heavy industrial north (now North Korea) and the light industrial south (South Korea). For the south, the loss of external markets and access to resources caused half of

the existing factories to fail and employment to fall by 40 per cent (Harris, 1986: 34).

The post-war American occupation of Korea introduced radical land reform (Harris, 1986: 34), something analysts of Latin America have long said is a crucial, yet neglected, component of sustained regional development (De Janvry, 1981). The rural Korean landscape became characterized by large numbers of smallholders and a market for domestically produced manufactured goods.

Between 1950 and 1953, however, the Koreans experienced a horrific war that left 1.3 million people dead and brought economic ruin. After the war, the South Korean economy was supported by massive American military and civil aid, designed as a counterbalance against communist China and the USSR. By the late 1950s, a reasonable recovery was in progress, led by manufacturing. With annual growth rates between 8 and 20 per cent, manufacturing benefited both from protection against imports and from generous export credits. The corporate hallmark of South Korean industrialization, the *chaebol*, was born. *Chaebol* and the Japanese equivalent, *keiretsu*, are written with the same Chinese characters meaning 'fortune clusters'. The *chaebols* are the approximately 30 enormous and diversified business conglomerates run by family groups including Samsung, Hyundai, Daewoo, Goldstar and LG (see Box 9.1). Over the decades, state banks have fostered the growth and diversification of *chaebols* with generous guaranteed loans (Weightman, 2002: 302).

The role of South Korea's military in industrial development became especially important after 1961 when the 18-year dictatorship of General Park began. His regime initiated a strongly export-oriented industrial policy by halving the value of the Korean currency, easing restrictions on external trade (so that exporters obtained virtual freedom to import provided they exported) and increasing tax incentives to export. It would be difficult to exaggerate the extent of South Korean state power, particularly in the 1960s and 1970s: 'by means of political patronage, discriminatory tax, credit and pricing policies, medals and awards, orders, bribery, bullying, and monthly conferences between Ministers and businessmen, the wishes of the state shaped the whole development process' (Harris, 1986: 41–2).

US military aid declined through the 1960s while South Korea's economy switched to manufactured exports. The country entered a new industrial phase in the late 1960s when the government focused on developing heavy, intermediate (feedstock) industries. As the South Korean government fostered industrial expansion through both import substitution and export stimulation, the similarities with Japan increased. These include a crucial role of government in guiding industrialization, the deployment of new technology, economies of scale, and sequential industrialization.

The associated heavy foreign borrowing by the government and *chaebols* to expand selected industries did have critical consequences from the early 1980s. World oil prices and interest rates increased and world trade stagnated. South Korea not only entered a political crisis after Park's murder in 1979, but also a debt crisis as it became the world's third largest debtor (after Brazil and Mexico). External debt reached US$58 billion in 1985 and US$116 billion in 2000.

South Korea's crisis of 1979–80 prompted a change in its industrial path, partly due to external forces (the IMF and US government) and to internal pressures. Trade liberalization began through tariff reform and reductions in non-tariff barriers. The government took these actions to ensure that core markets would remain open for South Korean manufactured exports. The *chaebols* switched their investment plans from heavy to lighter industry – motor vehicles, electronic goods and office machinery – and further into hotels, construction and finance. Such a policy shift, although responding to a crisis and external pressures, copies the Japanese example of shifting industries. Trade liberalization and the industrial shift helped to reverse South Korea's trade deficit of the early 1980s. However, South Korea has continued to depend on favourable terms of trade from and the market in the United States, while running a trade deficit with the rest of the world and particularly Japan (mainly composed of machinery and capital goods).

Direct Japanese influence in Taiwan dated back even further than in Korea, to 1895 (Allen, 1981: 50). But while Korea obtained Japanese industrial investment, Taiwan received relatively little. Japan saw Taiwan primarily as a supplier of food for its empire. Japan increased the productivity of Taiwanese agriculture, and built significant infrastructure: railways, roads, health facilities and schools. 'The Japanese also transferred to Taiwan their own belief in the importance of education, and of an educational system

geared to mass literacy and practical skill formation' (Corbridge, 1986: 181).

The immediate post-1945 period was particularly difficult in Taiwan. The island lost its Japanese administration, its overseas markets, and became part of China until 1949 under Chiang Kai-shek and the Kuomintang. The BBC described the situation after 1945 as follows:

> On Taiwan itself liberation from Japanese rule was initially welcomed, but many quickly came to resent the corruption of the new government and what was seen as the exploitation of Taiwanese resources for mainland post-war reconstruction. Taiwanese industry, which had been closely tied to Japan, was redirected to supply the needs of the mainland and the island's economy slid into crisis. Unemployment soared and, as protests grew, a brutal crackdown took place in 1947. In what became known as 'the White Terror' an estimated 18,000–30,000 members of the island's native-born political and academic elite were executed as Chiang's government asserted its control. For decades afterwards the government insisted the action was a crackdown on communists and gangsters.
>
> (BBC, 2000)

The 1949 communist victory in mainland China led up to two million Kuomintang-supporting refugees to flee to Taiwan and form a new one-party ruling order, administration, business class and army. It took another 40 years for a native-born Taiwanese, Lee Teng-hui, to hold the country's highest office.

US aid and market access, land reform and the creation of rural industrial demand paralleled South Korea's experience. Taiwan's radical land reform transformed the rural class structure. Tenants declined from 39 per cent of farmers in 1949 to just 9 per cent in 1976, while agricultural owner-operators increased from 36 to 82 per cent of the total (Chinese-American Joint Commission on Rural Reconstruction (JCRR), 1977: 229). By 1976, the average farm was only one hectare in size but was highly productive. Growth in agricultural production greatly outpaced that of population. Whereas the average Taiwanese consumed just over 2000 calories daily in 1952, s/he consumed 2700 by 1976. Land reform and the associated farmers' cooperative movement supported industrial development by creating a large demand for low-level agricultural technologies (Corbridge, 1986: 182).

Only in the late 1950s did the Taipei government begin to seriously promote manufacturing. Attracted by Hong Kong's success, Taiwan has relied more on smaller companies and less on an interventionist state than did South Korea. After years of maintaining an overvalued exchange rate (to keep manufactured imports cheap), the government halved the Taiwan dollar's value in the late 1950s. Tariffs remained high and non-tariff barriers elaborate. From the early 1960s, however, manufacturing output and exports grew rapidly. Taiwan shows how the product life cycle model (see Chapter 10) can work for a less developed country. During the 1960s Taiwan's annual manufacturing growth rate fluctuated between 8 and 24 per cent as textile and clothing exports boomed. During the 1970s fast growth in such standardized electronic products as radios and televisions made them Taiwan's major export. Taiwan's more open policy towards foreign investment compared with South Korea since that time is significant.

With Taiwan's Sixth Plan (1973–76), the Taipei government followed Japan and South Korea by promoting heavy industries, but in Taiwan, most were state-controlled. In the early 1980s, Taiwan again followed South Korea by switching towards producing technologically sophisticated electronic products. By the late 1980s, biotechnology and other higher-technology sectors became government priorities (King, 1987: 4).

Although the state's role is less prominent than in South Korea, Taiwan's public sector has been important. It has provided infrastructure and education, and promoted heavy industry. However, Taiwan did not borrow heavily from abroad, which meant no serious debt crisis in the 1980s or since. Its external debt was only US$620 million in 1992. Although it did increase to US$25 billion by 2000, this represented only 8 per cent of Taiwan's GDP compared to South Korea's 27 per cent.

Since 1987, when Taiwan lifted its formal ban on the growing indirect trade and investment with China, these have greatly expanded. Taiwan limited any single investment in China to $50 million, but Taiwanese investors surpassed this limit by investing through Hong Kong and elsewhere. By 2001, Taiwan had invested about $40–$70 billion in China, suggesting that the legal limits are fairly meaningless (*Economist*, 2001a). Taiwan is now China's third largest trading partner after the USA and Japan (Weightman, 2002: 308).

INDUSTRIALIZATION ELSEWHERE IN EAST ASIA

South Korea and Taiwan present similar historical patterns of development to Japan. Hong Kong and Singapore have also industrialized rapidly but they are 'city-states', with limited territory and agriculture. Their economic base has by necessity depended on successful trade and, as Table 6.1 demonstrates, they have had the highest per capita values of manufactured exports in the region and, in fact, in the world.

But Singapore and Hong Kong have grown based on different development ideologies, with the former representing a state-led mixed economy and the latter a *laissez-faire* version (Woronoff, 1980). Even in Hong Kong, however, one must not overlook the state's contributions to private-sector success through public housing provision for more than half of the population and massive land reclamation to create new investment sites (Figure 6.2). Whereas government direction in Hong Kong's industrial growth is small, the government of Singapore has intervened strongly, selecting sectors of labour-intensive manufacture in the 1960s and subsequently shifting to increasingly more capital- and knowledge-intensive sectors. In this sense, Singapore's policies resemble those of South Korea and Taiwan.

Singapore's economy is organized around large companies, many of which are fully and majority foreign-owned enterprises, whereas Hong Kong contains a mass of small companies. In 1997 Hong Kong was reincorporated back into China (albeit as an autonomous district), while the future independence of Singapore seems assured. Hong Kong's further integration with China is achieved by its investors establishing labour-intensive plants in the nearby mainland region, most notably north of Shenzhen in Guangdong province (see Figure 6.1). Chinese investment in Hong Kong itself has rapidly increased since the early 1980s. Years before the 1997 reunification, Hong Kong firms were investing Chinese funds in firms back in China to benefit from the Chinese government's privileges being awarded to overseas Chinese investors.

Although the Japanese model has permeated the development strategies of the four NICs, the model has been adapted to the different contexts of other parts of East Asia. The temporal context also matters, as other East Asian countries face a different international division of labour from that of decades earlier. One country that has made great efforts to follow the East Asian models of industrialization is Thailand. The country has been a major recipient of manufacturing investment from the NICs and, thanks mainly to industrial exports, its economy grew faster than anywhere on earth in the decade 1985–95, 8.8 per cent per annum above population growth. This has led to Thailand being dubbed the 'fifth Asian tiger'.

Until 1977, however, Thailand's industrial policy was based on import substitution. Between 1977 and 1983, Thailand attempted to copy South Korea by establishing costly capital-intensive projects (Housego, 1988: 121), backed by tariff protection. Despite these state subsidies to new heavy industries,

FIGURE 6.2 *Economic expansion in Hong Kong: these aerial photos of Hong Kong island in 1982 and 1997 attest to the state's efforts to reclaim land, build highways and construct public housing, all supporting an economy increasingly emphasizing transnational producer services*

there was still little incentive to export these and other products because the baht was fixed in parity to the dollar. The Thai government eventually devalued the baht and has linked it to a basket of international currencies since 1985. The depreciation of the baht has considerably helped exporters – in a similar way that an undervalued exchange rate fuelled industrialization in Japan, South Korea and Taiwan.

Other Thai policies have also promoted economic growth, foreign investment and industrial exports. A Thai government statute on foreign investment from 1972, which was distinctly unfavourable to foreign enterprise, was steadily revised in subsequent years in favour of foreign firms. The government has also provided incentives for domestic saving, attractions for foreign investors, large infrastructural investments and some government involvement in the industrial process. In addition, the full integration of the Chinese business community into Thai society is a significant explanatory factor behind the recent economic growth (Housego, 1988; Crawford, 2000). By the late 1980s, Taiwanese and especially Japanese investment in Thailand was booming. Japan and Taiwan were by then overshadowing investment both from domestic sources and from the USA (Gwynne, 1990). By the 1990s, however, Thailand and all other East Asian countries were finding China to be a formidable competitor for most forms of FDI.

In contrast to Thailand's integration of its resident Chinese, Housego (1988: 12) suggests that Malaysia's New Economic Policy (1970–90) emphasized 'helping the Malays to the extent that the Chinese feel discriminated against'. Nevertheless, as Table 6.2 indicates, Malaysia stands out as the 'next' country after South Korea in terms of manufacturing success in East Asia in both 1984 and 1998. As with Korea, the state has played a strong role in promoting industrialization, with large investments in heavy industries.

Until the 1980s, Malaysia's limited success with manufactured exports was in part attributable to the perception of its low priority in a country richly endowed with natural resources. However, with declining commodity prices in the 1980s, trade deficits surfaced. By the 1990s Malaysia was courting foreign investment in high-technology products. Relying like the rest of Southeast Asia on highly exploitable young female labour (Standing, 1999), Malaysia rose quickly to become the world's largest producer and exporter of semiconductors.

Trends similar to those experienced in Malaysia can be identified in Indonesia, another country richly endowed in natural resources. As with many oil-exporting countries, Indonesia's surplus oil funds have been invested in manufacturing, but mainly oriented towards the domestic market. Like Malaysia, Indonesia began to develop its industrial export sector following the collapse of commodity prices in the 1980s. Foreign investors have been attracted to the state's assurance of a vast, low-cost and compliant labour force, composed mainly of young women (La Botz, 2001). Over the last two decades Indonesia has arguably joined the semi-periphery. Its increased clout derives from economic growth based on industrial exports for Nike and other global firms, its continued large resource endowments including oil exports, and its status as the world's fourth most populous country.

CHINA: AUTONOMOUS DEVELOPMENT

Because approximately one out of every five people in the world are Chinese, and because no country has ever developed as fast as China has over the last two decades, the policies of the People's Republic are of considerable relevance to this book. While we only briefly discuss China prior to the 1949 communist revolution (but see Sheridan, 1973; Meisner, 1977), we say more about the policies promoting self-sufficiency until about 1980, and those since then emphasizing economic growth and exports.

Chinese civilization and its overland empire are well over 3000 years old. For many centuries prior to the 1500s, China was more advanced than the West. Centuries before Europe, China had invented and deployed the iron plough, steel, the suspension bridge, petroleum-derived fuels, paper and the crossbow (Weightman, 2002: 234). China's spatial development over recent centuries displays some significant patterns (see Table 6.3). After centuries of inward orientation punctuated by sporadic westward expansion, China began to experience European encroachment in earnest during the nineteenth century. The east-coast, urban orientation of this quasi-colonial period resulted from European attempts to open China's economy. The treaty ports were Chinese cities accessible by ocean vessels in which western businesses established light

TABLE 6.3 *China's urban, rural and spatial orientations over time*

Period	When	Urban, rural and spatial priorities
Qing dynasty	1644–1911	Westward overland imperial expansion
Quasi-colonial	19th C–1949	Urban bias, treaty ports, east coast
Mao Zedong	1949–80	Urban industry, professedly anti-urban ideology, land reform, spatial equity
Deng Xiaoping	1980–late 1990s	Urban bias, special economic zones, east coast
State capitalism	early 21st century–	Continued east-coast urban bias, initial urban industrial development in west and interior

take advantage of local raw materials, products, labour and markets (Ma and Hanten, 1981). After 1949, Mao reacted directly against China's capitalist treaty port bias by shifting attention back to the countryside and by emphasizing national autonomy and egalitarianism (Meisner, 1977). China under Deng shifted eastward and outward once again, but from a position of greater economic strength and political unity. Nowadays Chinese planners are responding to the extreme east-to-west disparities and a 'tidal wave' of migration resulting from Deng's policies, and regard the western provinces as a development frontier.

The dynamics of China's relationship with the West two centuries ago, as Becker (1999) describes it, parallel the pre-1979 communist period: 'As the European powers scrambled to gain a foothold [in China], the Emperor Qianlong famously rebuffed Lord Macartney's mission in 1793, saying China had no need for Britain's manufacturers nor its ingenious articles.' Europe then sold opium in China over the ensuing century and more. The resulting widespread addiction in key cities such as Canton (now Guangzhou), reinforced feelings of animosity towards the West. Europe's treaty ports and the extra-territorial privileges taken by Europeans further entrenched Chinese hostility. Resentment ran high among peasants who toiled under an exploitative landlord gentry. The rural elite in turn was aligned with Chiang Kai-shek and his urban-based Kuomintang army against Mao's in the Chinese civil war that erupted after Japan's defeat (Schram, 1973). In this light, Mao's expulsion of what he saw as abusive and decadent foreigners, his nationalization of foreign assets, his push for self-reliance, and his partial rectification of urban and rural disparities can be understood. So can the seeming reversal of Mao's inward policies in recent decades. The current outward reorientation comes after China re-established internal order and could negotiate from a position of strength, as investors have found out. Today foreign corporations accept investment contracts with relatively low profit margins from shrewd Chinese government negotiators.

Chinese state socialism: stability, self-reliance and basic needs provision, 1949–80

The comrades must be helped to preserve the style of plain living and hard struggle.

Mao Zedong in 1949, Chinese leader (1949–76)

When Mao's peasant soldiers marched into Beijing and other urban areas in 1949, most had never even seen a city. To Mao's army, cities represented foreign exploitation and decadence, opium addiction, national weakness, corruption, vast inequalities and the defeated Kuomintang. And while many of Mao's policies did promote rural areas and agricultural productivity, the fact that Chinese cities thrived under Mao reveals an important and under-appreciated element of urban bias and pragmatism during his three decades of power. Throughout the Maoist period China's major cities remained the principal centres for administration, industry, education and modernization. The eastern urban bias to these important functions has only strengthened during the market-oriented era since Mao.

Maoist state socialism was orchestrated by a powerful centralized government and based on notions of equality, basic needs provision and self-sacrifice. During the first three years of the People's Republic, a strong central state was established that was able to revitalize war-torn areas, revive the national

Box 6.2 China's 'Great Leap Forward' and 'democratic' India compared

Containing about two out of every five people on earth, China and India are the world's two population giants. No other country in the world has even a third of the population of either of the two. China and India therefore make for an illuminating comparison in terms of social and economic development over recent decades.

China's 'Great Leap Forward' from 1958 to 1960 was a failed experiment in rural industrialization. Planners felt that the urban industrialization programme of the 1950s had been spatially and socially inequitable. They shifted industrial investments to rural areas and encouraged villagers to create backyard consumer and intermediate industries, and even iron and steel furnaces. Three million urban bureaucrats were transferred to rural jobs. Nearly 30 million people died from the disruptions in food production and delivery systems, and from the single-minded zeal with which central planners pursued this rural utopianism.

India, fortunately, has never experienced its own Great Leap Forward. It has a vibrant and independent news media and an open political system capable of exposing a policy failure of this magnitude before it could reach its full impact. But India's democratic freedoms mean little to the many millions of its citizens who are impoverished and marginalized. As its Nobel laureate in economics Amartya Sen has noted, India experiences greater ongoing human misery than China thanks to its vast inequalities and wrenching poverty. Since the early 1960s, Indians have lived an average of about ten years fewer than the Chinese. This translates into about 3.8 million more Indian deaths per annum and, over the decades, tens of millions more deaths than during the disastrous Great Leap Forward period (see Figure 6.3 and Table 6.4). In this light, poverty is a silent killer, more deadly than better-known cases of human rights violations.

economy and eliminate gentry landlords as the first step towards the agricultural collectivization of 1955–56. In 1950, the Korean War drained China's human and economic resources, but the eventual stalemate solidified Chinese nationalism. Despite the Korean conflict, by 1952 China's agricultural and industrial productivity exceeded pre-1937 levels (Meisner, 1977). Then planners implemented China's First Five Year Plan based on the Soviet example but with only modest Soviet assistance. The plan showcased large capital investments in new urban-based heavy industries, effectively subsidized by farmers (Ma and Hanten, 1981).

Following on from the Soviet-oriented period came the generally disastrous Great Leap Forward (see Box 6.2), but even that had some positive legacies, including the establishment of small-scale manufacturing in rural villages, something that has proven lucrative for villagers located near cities in the current market-oriented period (Li, 1997). Another positive legacy is a greater policy balance between urban and rural development, and between types of industry. In the subsequent two decades, industrial output grew by about 10 per cent annually, albeit from an initially low base. Agricultural output and food availability also grew

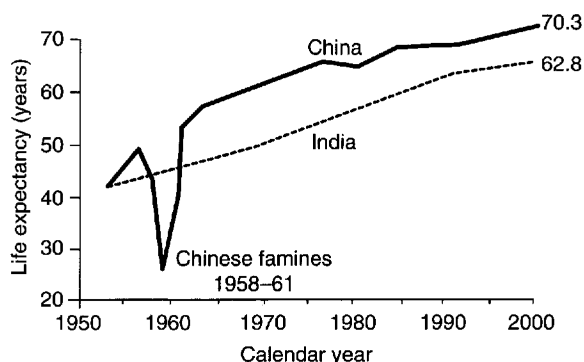

FIGURE 6.3 *Life expectancy in China and India compared, from the 1950s to 2000*

impressively and have considerably outpaced those of India (Table 6.4). The most important rural change under Mao was the reorganization of agriculture, with communes and their component production teams replacing the landlord-dominated system. The state's maintenance of vast irrigation and terracing systems also helped, as did the redeployment of traditional farming methods such as labour power, draft animals and 'night soil'. By the mid-1980s China was harvesting 4.5 metric tons of rice

TABLE 6.4 *Poverty indicators, China and India, 1985 and 2000*

	China		India	
	1985	**2000**	**1985**	**2000**
GNP per capita (US$)	310	840	270	450
Calorie consumption per head	2602		2189	
Under-5 mortality rate (per 1000)	50	39.5	158	88
Excess Indian 'normal' annual mortality (millions)			3.8	
Malnutrition prevalence (% of children under 5)		10		47*

*1999 data

Source: Sen (1989); World Development Report (various years); Population Reference Bureau (2000); World Bank (2002)

per hectare compared to only 1.9 in India. In 1979 China replaced Taiwan in the sole Chinese seat in the UN, symbolic of the growing recognition of the People's Republic as a global power.

Chinese state capitalism: managed global integration and economic growth, from the 1980s onwards

To be rich is to be glorious.

Deng Xiaoping in 1980 (Chinese leader, 1977–98)

If the first eight decades of the twentieth century were not turbulent enough for China, few societies have ever changed as dramatically as it has since 1980. The economic reforms introduced under Deng Xiaoping and Jiang Zemin (1998–2002) redirected most national priorities. They abandoned notions of social and spatial equity and greatly expanded market incentives, opportunities, pricing and distributions. They tightened a population policy initiated in the 1970s so that annual population growth fell from 2.8 per cent in 1975 to just 0.9 per cent in 2000.

The Maoist era of securities and guarantees is history. Gone is the 'iron rice bowl' (i.e. the system of job security with social welfare and workers' benefits). Gone too are the communes, replaced by an agricultural responsibility or contract system. Over their prescribed quotas with state purchasers, growers sell their produce on the open market. The state has also reduced its commitment to water control and irrigation systems, which have subsequently deteriorated (Sturdevant, 1988). There are now anywhere from 150 to 300 million redundant peasants seeking work, more than 100 million of whom have migrated eastwards (Li, 1997). State capitalism has replaced state socialism.

Foreign investment, especially in export manufacturing, has expanded dramatically since the 1980s, making China the major semi-peripheral recipient of FDI (see Figure 2.1). Domestic business initiatives have also expanded, particularly in food production and retailing, construction and manufacturing for both Chinese and foreign consumers. Whereas state firms accounted for more than half of all domestic output in 1990, by 2001 they were responsible for less than a third of it, and were burdened by debt (*Wall Street Journal*, 22 June 2001: A11). The opening to foreign capital has included the financing of expansion through taking on foreign debt, which reached US$133.2 billion in 2000.

China's per capita GNP grew by 8 per cent yearly from 1985 to 1995. Only Thailand's rate was higher but its population is a mere 5 per cent that of China. Further, Thailand has since been embroiled in the Asian economic crisis that, revealingly, China has escaped unscathed. The World Bank predicts that China's growth will continue at around 7 per cent annually. In December 2001, after 15 years of negotiations, China was accepted into the World Trade Organization, taking a major step towards its full participation in the capitalist world-system.

China's unprecedented economic expansion since the 1980s has had varied impacts. On the positive side, reforms have yielded a dramatic increase in consumer purchasing power and living standards for many urban dwellers. Although the majority of Chinese – an estimated 65 per cent – still live in rural areas, China's economic expansion has been urban-focused. City dwellers now have access to a greater quantity, quality and variety of fresh food and

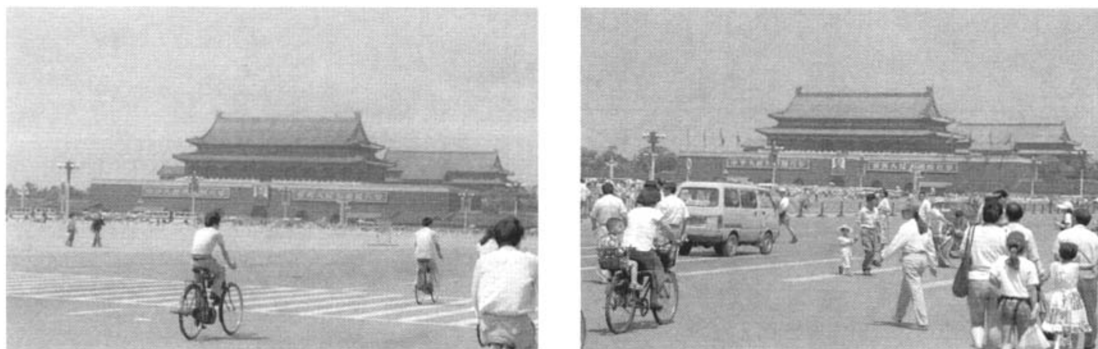

FIGURE 6.4 *Tiananmen Square in 1982 and 1997: Mao's photo still marks the entrance to the Forbidden City, but much else has happened in recent years in Beijing; during the interim between the photos there was the 1989 Tiananmen Square political crackdown on the pro-democracy movement, when soldiers killed approximately 1000 protesters; the event illustrates the continuation of political authoritarianism during China's economic opening*

clothing than they did 20 years ago (see Figure 6.4). A much greater share of the Chinese population can now afford to purchase large consumer durables. In 1985, for example, only 7 per cent of urban households in China had refrigerators, but by 2000 an estimated 82 per cent had them. Such consumerism has been accompanied by increasingly open stock markets; 20 per cent of Chinese are now playing the market or are interested. Consumer opportunities such as these tap into the world's highest saving rate, around 30 per cent – creating an underutilized investment pool of US$260 billion.

China is undergoing an unprecedented construction boom. One out of every three building cranes in the world is in China. A large share of the construction is residential. Guangzhou, now China's richest city, has been the node for the export growth in southeastern China that has tripled its output every eight years. Guangzhou has also been a major beneficiary of the new consumerism. It experienced a massive expansion of residential space, which tripled at a per capita level between 1985 and 1997. The number of private cars, taxis and motorcycles in the city increased by at least 15 times from 1981 to 1997.

On the negative side, China's economic opening has had significant social and environmental costs. There are now vast and growing social and spatial inequalities in a society focused on equity since its 1949 revolution. Now the gap between rich and poor is among the world's largest, by some estimates comparable to that of the USA. China's life expectancy improvements are levelling off while India's draw closer (see Figure 6.3). In China's more remote countryside, there have been fewer benefits from the economic opening. Indeed peripheral regions have been major source areas for the eastward 'tidal wave' of undocumented rural migrants seeking work. Many rural families now have more consumer goods, but they have been able to buy these because part of the family has left the village and sent back money (Li, 1997). In a country the size of China, and with its geographical disparities and restrictions on urban migration, remittances are important at the intra-national scale.

The environmental consequences of Chinese development are massive. China's rapid economic growth has been fuelled primarily by coal, which accounts for two-thirds of China's energy supply. China already consumes about 50 per cent more coal than the USA, the world's second largest user. The negative impacts of China's increasing use of coal for fuel are both local (the burning of fuels contribute to making Chinese cities among the world's most polluted) and global (as China approaches the USA's massive contribution to atmospheric carbon). At recent rates China will surpass the former Soviet Union to become the world's second largest contributor to carbon emissions by 2010, and reach US levels before mid-century. Very recently, however, China has substantially slowed its coal consumption by promoting energy efficiency and alternatives. While China's GDP has grown by 36 per cent since the mid-1990s, its emissions of carbon dioxide actually fell by 17 per cent (Eckholm, 2001). How China will

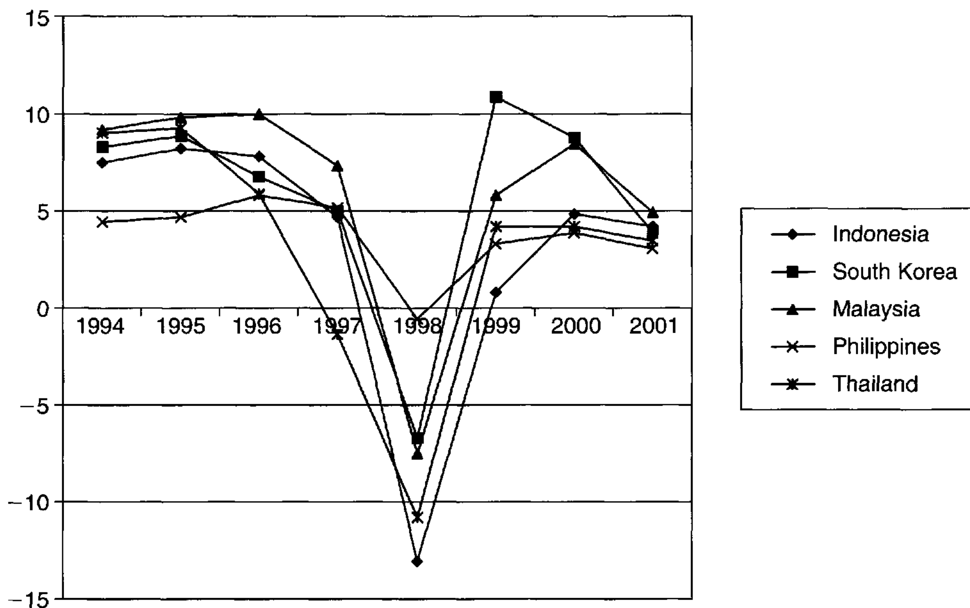

FIGURE 6.5 *East Asian economic growth rates, 1994–2001*
Source: Asian Development Bank (http://www.adb.org/)

balance its increasing demands for coal power and its conservation efforts during future development years will remain a crucial local and global issue.

The vast majority of the economic activities described above have occurred in the eastern provinces. Planners are now attempting to rectify the grave geographical imbalances. A major transnational highway system is being built to connect the central provinces with the coast. The Three Gorges Dam, the world's largest, is under construction on the Yangtze River (Chang Jiang) and will bring ocean-going liners to Chongqing (Kennedy, 1999). Tourism infrastructure is going up across the western and less populated half of the country to take advantage of the spending power of the eastern Chinese. However, these decentralizing initiatives do not reverse China's overall eastern urban bias, which is driven by its growing integration with global markets.

EAST ASIAN ECONOMIC DOWNTURNS, 1997 ONWARDS

After four decades of rapid economic growth (Table 6.1), many East Asian countries fell into crisis in 1997 (Figure 6.5). The Thai baht collapsed in July and the ensuing 'contagion effect' caused investors to flee from many emerging markets in East Asia and beyond. During the second half of 1997, investors pulled US$105 billion out of South Korea, Indonesia, Thailand and Malaysia alone, representing an incredible 11 per cent of those countries' combined GNPs (Friedman, 1998).

Already in 1998, however, some international investors began returning to East Asia and recording profits there, as Rehak (1999: 15) observed: 'Indeed, it was the Philippines, South Korea and Thailand that came to the rescue of beleaguered emerging-market investors.' By mid-1999 economic analysts were declaring that East Asia's crisis had largely passed. The major stock market indices in Thailand, Indonesia and Malaysia were up by 40–60 per cent during the first half of 1999, while South Korea's stock values doubled to near record levels. Asian currencies strengthened, inflation and interest rates fell, and GDPs began to grow again (Figure 6.5).

The recovery has been slower for the region's lower-income citizens, millions of whom worked in the export-oriented factories in early 1997. Various estimates indicate that in 1999, twice as many East

Asians lived in poverty compared to 1996. Poverty increased from 3 to 7.5 per cent in relatively well-off South Korea (Gan, 1999). The situation was much worse in Indonesia, where between 2.5 and 6.6 million people lost their jobs and 80–100 million of Indonesia's 200 million citizens lived in poverty in 1998, four times more than in 1996 (Bullard *et al.*, 1998; Francis 1998). Indonesia's President Habibie admitted that the long-term human impacts of the crisis include a 'lost generation' of children lacking adequate nutrition and health care (Emerging Markets Datafile, 1998).

Even during the 1997–98 financial crisis, however, electronics exporters from Malaysia, South Korea, Thailand, Indonesia and the Philippines continued to increase their sales, and provided much-needed support for these weakened economies. But in 2001, the vulnerability of East Asia's electronics sector was exposed when the US computer industry, its largest market, went into recession. The bursting of the technology bubble threw workers out of jobs in both Asia and the USA's Silicon Valley. What appeared to be a leading-edge export for East Asian development for the twenty-first century had faltered (see Figure 6.5).

Even Taiwan is not immune. Heavily dependent on exports of computers and other high-technology equipment, mainly to the United States, Taiwan has been one of the worst casualties of the information technologies' downturn. After 50 consecutive years of economic growth, Taiwan was in recession in 2001. Hopes of recovery were dangerously dependent on the US market. Thus many Taiwanese businesses see no alternative but to rely more on investing in export factories in China, with its low labour costs and numerous incentives (*Economist*, 2001b: 228).

CONCLUSION

Will the twenty-first be the pacific century? Observing the East Asian industrialization experience through the 1980s, Robert Wade (1990) offered six prescriptions that many scholars took as accepted wisdom for development (see, e.g., Corbridge, 1995). The state should:

- promote industrial development that will lead to future growth
- protect industries so that they become internationally competitive
- prioritize exports, if trade is to be an important part of the strategy
- welcome TNCs, but direct them towards exporting
- promote and regulate a domestic financial system
- gradually and sequentially liberalize trade and the national financial system.

Since Wade offered these prescriptions, East Asia's development has been shaken. Japan's surge has been halted while China has sped forward. Most other East Asian countries became over-exposed to short-term investments that abruptly departed in 1997. Like Japan, most of East Asia was also burdened with a domestic banking system that had made excessive loans, and is now saddled with bad debt. Even Taiwan is in recession having relied too much on high-technology exports to the USA. East Asia seems not to have followed all of its own prescriptions.

The prognosis is for Chinese development to set the course for the region and beyond. China's rise in the world-system has generated considerable concern in Washington DC. When the growing economic power of East Asia as a whole is considered, then observers begin to conceptualize a major reorganization of the world-system during an emerging 'Pacific Century' (Borthwick, 1998). Like core leaders historically, the USA will continue to work at fixing the rules of economic globalization, such as maintaining the free movement of capital and the dollar as the reserve and lending currency, so as to retain its advantages in the world-system (Wade, 2002).

The *Economist* recently surveyed East Asian economies five years after the crisis and came to conclusions that reinforce this chapter's main points. Viewing China now as central to East Asian development, the survey highlights the continued importance of regional ties, technological phases, and domestic and external markets:

> Countries with the most advanced technologies, such as South Korea and Taiwan (and of course, Japan), are in the best position to benefit from China's growth, by continuing to invest there and by specialising in new services and high-end manufacturing. Less advanced nations, such as Thailand, Indonesia and the Philippines, face more pressure, and have to try even harder to compete. And the two small but rich islands, Hong Kong and Singapore, are caught somewhere in between: with the capital and

brainpower to seize opportunities, but no big domestic markets to fall back on.

(*Economist*, 2002)

A key point is that the linkages with the East Asian growth poles may not be conducive to long-term industrial growth in poorer countries if they remain at the level of simple assembly and sub-contracting that does not generate technological change.

FURTHER READING AND WEBSITES

Asia Times On Line, http://www.atimes.com/index.html – daily news and archives on geopolitical, political, economic and business issues.

Asian Development Bank, http://www.adb.org/ – development news and statistics.

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Part 3

ECONOMIC DIMENSIONS OF CHANGE

7

TRADE LIBERALIZATION, ECONOMIC TRANSFORMATION AND INTEGRATION

The last three chapters have emphasized the contrasting nature of capitalism in three major regions of the semi-periphery. Countries within these regions face the question of how to relate to a world of global capitalism. For example, countries can interact with the world economy as individual entities or in some form of regional grouping. As argued in Chapters 4 to 6, there has recently been a certain convergence of economic policies between and within countries in these regions. In this chapter we not only examine tendencies towards regional economic integration but also the increasing commonalities of economic liberalization, most notably in relation to trade and capital flows.

The nature of economic transformation and liberalization in emerging market countries (EMCs) has been framed by the policies of the multilateral institutions based in Washington. The IMF and World Bank were behind the Structural Adjustment Programmes (SAPs) of the late 1980s – what came to be called the 'Washington consensus' in the early 1990s. This had four main policy prescriptions for the economic transformation of EMCs. (For parallel policies affecting the post-communist transitional economies, see also Chapter 4.)

1. **Market liberalization**. This policy reform involved increasing the significance of the market in the allocation of resources within the EMC, and making the private sector the main instrument of economic growth through deregulation, secure property rights and financial liberalization.
2. **Stabilization**. One key concern of the IMF in relation to EMCs has been that of high inflation. The IMF strongly emphasizes policies that reduce inflation and that subsequently maintain low inflation (normally single-digit). In line with monetarist analysis, the IMF has argued that high inflation is linked to an unwarranted growth in the money supply. It has indicated the importance of the technical relationship between the growth of the money supply and inflation and, hence, emphasized that the expansion of money is the crucial variable for EMC governments to measure and regulate. This normally meant high interest rates for EMCs, particularly in the early stages of reform. The IMF has also been keen that governments of EMCs should maintain a fiscal balance, so that their spending (including debt repayments) would be broadly equivalent to that of income generation though taxes and other sources. This has often meant severe austerity for government budgets, particularly for budgets in social and welfare areas.
3. **Privatization of state-owned firms**. A policy much favoured by the Washington consensus. Policy advisers to the IMF and World Bank saw privatization expanding the class of capitalist entrepreneurs within EMCs. It was argued that this would enhance the taking of risks, the adoption of new innovations and the response to market opportunities. Shares could be sold to workers or small investors, thus giving rise to the idea of 'popular capitalism'. In reality, the

new entrepreneurs of privatized companies were more interested in reducing costs in order to maximize profits, which normally involved major reductions in the labour force. Privatization assisted the generation of income for the government exchequer. These 'windfalls' could prove difficult to manage, as privatization is a short-term phenomenon. After the end of privatization, government finances could suddenly move into deficit – one of the factors behind the Argentine collapse of 2001/02.

4. **Globalization**. This signified making the economies of EMCs more outward-oriented and more closely linked to the global economy. It involved, in particular, lowering the barriers between the national market and the world economy in terms of: the liberalization of trade; easing the restrictions on the inward (and sometimes outward) flow of capital and direct investment (into manufacturing and services); the lifting of restrictions on the inward flow of technology. In this chapter we will focus mainly on this theme of globalization in order to see how EMCs have inserted their economies into the global economy.

TRADE LIBERALIZATION AND EMERGING MARKET COUNTRIES

By the early twenty-first century, most EMCs trade internationally and, furthermore, trade significant proportions of their national income. For the EMCs focused on in this book, trade has now reached unprecedented levels. Each year, trade becomes more and more significant as a key motor for their economies. Trade has become a key mechanism for moving both goods and services in and out of EMCs and has become very significant for the process of technology transfer into EMCs.

Trade connects EMCs to countries in the world's core economic regions. For the last two centuries world trade has been dominated by the core economies. Indeed their very definition as core economies is strongly linked to their historical control of substantial trading systems linked to colonial possessions or relationships (see Chapters 2 and 3). Furthermore, between the Second World War and the 1970s, trade between core economies was the most rapidly growing component of world trade (Anell and Nygren, 1980).

The present liberalized nature of trade in EMCs is, as we have seen, historically new (see Chapter 1 and Box 7.1). Some EMCs were colonies until the mid-twentieth century, their trade controlled directly by governments and companies of core economies. Other countries, particularly China and others in East Central Europe (ECE) and the former Soviet Union (FSU), adopted autarkic policies of self-sufficiency and hardly involved themselves in world trade until the late 1980s and early 1990s (see Chapters 4 to 6). Since the 1980s, large numbers of developing countries have liberalized their trade policies and become active members of the global trading system. During the 1990s, China and the countries of ECE and the FSU have, if anything, been even keener to follow in the path of trade liberalization.

How can we envisage the relationship between trade and the developing world after this process of trade liberalization? One point to make is that our definition of EMCs is intimately linked to those countries that have 'successfully' entered the global trading system – in other words those countries that have had a comparative advantage in some products and/or services for export to the global marketplace. Trade is thus central to the contemporary definition of an EMC.

Meanwhile, those developing countries that have not enjoyed rapid growth in export trade have not normally enjoyed the economic growth necessary to be defined as an EMC. Thus, trade can also be seen as exclusionary. For those countries that have not 'successfully' entered the global trading system, the economic record has been dismal. This is not to say that all those countries that have enjoyed growth in export trade have enjoyed similar rates of economic growth. There are countries that have recorded growth in export trade over the past decade but have only been able to generate modest or low rates of GDP growth. These are particularly small countries (as in Central America and the Caribbean) that have always been more trade-dependent than large countries.

This is leading to an increasingly complex differentiation of those countries in the developing world. Export growth can provide criteria for the distinction between countries of the semi-periphery and periphery (see Chapter 2). Many countries of the periphery have not enjoyed success in promoting exports within the context of a liberalizing world. For example, in 1998, Rwanda, Mozambique, Tanzania, Malawi, Niger, Burundi, Sierra Leone and

Box 7.1 A bottle of Scotch: some personal reflections of Bob Gwynne

When I was doing my PhD research in Chile in 1973 during the government of Salvador Allende, I was discussing with a Chilean friend, Juan, an interesting bequest from a grandparent that had died. In his will, the grandfather had specifically left Juan 'a bottle of Scotch whisky'. At first, I thought this rather strange until I realized that quality 'Scotch whisky' could not be bought in shops and cost about £100 on the black market – making it a very valuable commodity. At the time, Chile had a very closed economy with imports of whisky requiring very high tariffs and prior deposits of foreign exchange. As a result, a bottle of Scotch had high value and was worthy of being entered in one's will.

In 2001, Bob checked out the price of the same bottle of quality 'Scotch' whisky in a Chilean supermarket and it only cost about £10. In nominal terms, this was a huge reduction in price on that of 1973 and, in 'real' terms (accounting for intervening inflations), a truly massive reduction. Whisky had changed from a luxury and cherished commodity to one that was frequently bought (and drunk). Indeed in 2001, its Chilean price was only one half of the price of the same bottle of whisky in the UK! In the intervening period, Chile's economy had experienced significant trade liberalization, probably making it the most open economy in Latin America by 2001.

Such an example indicates that dramatic economic transformations can be associated with trade liberalization. Imports can go from being scarce, luxury items to being relatively cheap and widely purchased. It is important for the long-term growth of the economy of an EMC that imports of machinery, components and manufacturing inputs become much cheaper. However, it can also mean big reductions in prices of non-essential consumer goods (such as whisky) and the closure of many factories producing consumer goods for the national market, such as clothing and televisions (Gwynne, 1980).

the Congo were the eight poorest countries in the world for which there was comparable trade data for 1983 and 1998 (World Bank, 2000: 230–1, 268–9). Over this 15-year period, their overall exports had either declined or risen very modestly, leaving them as a group of countries with a lower export total in 1998 than in 1983.

Historical context of and regional variations in policy change

In retrospect, the latter half of the twentieth century saw the gradual but uneven emergence of a more liberalized world trading system. Some have argued (Hirst and Thompson, 1996) that this period was broadly comparable to the era of freer trade in the latter part of the nineteenth and early twentieth centuries. However, during that period markets, for manufactured goods at least, were spatially limited. By the end of the twentieth century the world trading system could be defined both as 'an intensive network of trading relations embracing virtually all economies' and 'evolving global markets for many goods and services' (Held *et al.*, 1999: 176). World trade growth was higher than growth in production between 1950 and 2000, and especially since 1985.

Trade liberalization was a key issue in the post-Second World War reconstruction of the world economy. The result was the General Agreement on Tariffs and Trade (GATT), a multilateral forum for tariff negotiations. GATT was set up in 1947 in order to reduce tariffs in international trade and to eliminate all other measures preventing free trade. The GATT regime was based on four main principles:

1. non-discrimination
2. reciprocity – that tariff reductions in one country should be matched by reductions among its trading partners
3. transparency – that the nature of trade measures should be clear
4. fairness – so that practices like the dumping of goods at below-market prices were deemed unfair and national governments were entitled to institute protection against them.

GATT formed the basis for the post-war trade regime and the framework for seven subsequent rounds of global tariff reduction negotiations. The number of countries involved rose steadily – from 30 in 1950 to around 120 in 1995. In 1995, GATT was replaced by the World Trade Organization (WTO). This is theoretically a more powerful institution as its dispute panels have the authority to make binding judgements in cases where trade rules are subject to dispute (Held *et al.*, 1999: 165). By the end of the twentieth century, tariffs on manufactured goods were at their lowest level and barriers to trade in services had been significantly reduced. What has been the historical context of trade policy change in the EMCs?

East Asia

From the 1950s up to the 1980s the shift to a more outward-oriented trade policy in the EMCs was less than in the advanced economies. Certain countries of East Asia (most notably 'the four tigers': South Korea, Taiwan, Hong Kong and Singapore) were the key exceptions. Of these countries two had effectively been constituted as free-trading cities under British colonial rule (Singapore becoming an independent state in 1965 and Hong Kong being re-incorporated into China in 1997). The other two countries had adopted inward-oriented policies in the 1950s but found that their small size (allied to their lack of resources) had created early and serious brakes on their strategies of economic growth. Taiwan shifted to more outward-oriented policies in the late 1950s and South Korea in the mid-1960s (see Chapter 6; Gwynne, 1990). According to the World Bank (1987: 83) analysis of outward orientation, these were the only 'strongly outward countries' in the whole of the developing world between 1963 and 1985. Other countries in East Asia did not immediately follow the policy shift set by these countries. In the remainder of East and Southeast Asia, only Malaysia and Thailand were classified as 'moderately outward oriented' by the World Bank (1987: 83) between 1963 and 1985. Since the 1980s, policy shifts towards trade liberalization have become more common, partly due to China's gradual shift to a more outward-oriented political economy since 1979. Imports and exports of goods and services in East Asia and the Pacific have increased from 26 per cent of total GDP in the 1970s to 55 per cent in the 1990s (World Bank, 2000: 52). However, the shift to outward orientation in East Asia has not normally been associated with increased political liberalization and democratization.

East Central Europe and the former Soviet Union

The most dramatic policy shift from inward to outward orientation occurred in ECE and the FSU. Before 1989, these countries were very largely cut off from the world economy, most trade occurring only within the regional trade grouping of the CMEA or COMECON (see Chapter 4). Since the symbolic fall of the Berlin Wall in 1989, trade liberalization has been rapid, intimately linked to the neoliberal economic and political policies discussed in Chapter 4. By the beginning of the twenty-first century, most of the countries concerned had liberalized their trade regimes so that their tariff levels are now little higher than the OECD average.

Latin America

One of the key elements of Latin American economic reform after the 1980s debt crisis was that of trade liberalization. Throughout Latin America, tariff and non-tariff trade restrictions were reduced during the late 1980s and early 1990s. The impact of the debt crisis, which started in 1982, and the aftermath of economic decline in the 'lost decade' of the 1980s provided the context for this major shift in policy away from inward orientation. Economic reform allied to trade liberalization offered the possibility for exchange-rate devaluation (though not in Argentina), increased exports and higher trade surpluses (exports over imports). These surpluses provided a valuable source of finance to start balancing the current and capital accounts of the indebted Latin American countries. Practically all Latin American countries began significant programmes to liberalize their trade regimes between 1985 and 1991 (see Table 7.1). In Latin America, too, the shift to outward orientation was closely linked with a significant degree of political liberalization and democratization.

According to the Inter-American Development Bank (IDB, 1996: 95), Latin American and Caribbean countries at the end of the twentieth century had achieved the most liberalized trade and foreign exchange system since the 1920s. Taking the region as a whole, average tariffs declined from 44.6 per cent in the early 1980s to 13.1 per cent in 1995 (IDB,

TABLE 7.1 *Chronology of trade liberalization in Latin America. 1985–91*

Year	Country
1985	Chile, Mexico
1986	Bolivia, Costa Rica
1988	Guatemala
1989	Argentina, El Salvador, Paraguay, Venezuela
1990	Brazil, Ecuador, Honduras, Peru
1991	Uruguay, Colombia

Source: IDB (1996)

1996: 98). Another important feature of the liberalization process was the gradual adoption of more uniform tariff structures. Meanwhile, quantitative limits on imports were gradually eliminated both unilaterally and multilaterally (through the Uruguay Round of the early 1990s).

Policy shifts to outward orientation are relatively recent phenomena in the EMCs. It is only since the 1980s that the governments of most countries in Latin America, ECE and the FSU, alongside governments of the larger countries of East and Southeast Asia, have taken decisions to insert national economies more fully into the world capitalist system through liberalizing their trade. Indeed the 1990s could be seen as an unusual decade as it was the first of the twentieth century in which the push to freer trade became a global characteristic.

The changing composition of export trade from EMCs

Trade liberalization in the world during the 1950s and 1960s, partly due to GATT's priorities, was very much focused on reducing trade barriers between the core economies. By 1970 nearly two-thirds of world trade took place between the core economies (see Table 7.2). Semi-peripheral and peripheral countries generally had significant trade protection for their economies. Most of their exports were in the form of resources to the core economies, whilst their imports were mainly manufactured goods from the core economies. This pattern of trade meant that they suffered from adverse trade because the prices of resource exports had tended to fall in relation to the prices of manufactured imports between 1945 and 1973.

The Arab-Israeli war of 1973 and the quadrupling of oil prices between 1973 and 1974 temporarily changed these adverse terms of trade between core and periphery. The prices of most resources shot up in the mid-1970s, though not as much as those of oil. Oil prices rose sharply again during the Iran-Iraq war at the end of the 1970s. Thus, by 1980 the pattern of world trade had changed somewhat. Held *et al.* (1999) unfortunately only divide their trade data between core and what they call the periphery (that is, both semi-periphery and periphery). They show that trade between the core and periphery was approaching that between the core economies due to the increased values of oil and other resource exports (see Table 7.2). The composition of trade had changed little, with primary exports dominating the export profile of peripheral countries and manufactured goods their imports. The value of trade between peripheral economies had also increased, largely due to the rapid rise in the oil price and its impact on oil-importing countries of the periphery.

Since the early 1980s there has been a significant decline in the importance of primary goods in the export profile of most non-oil producing countries of the periphery. This is linked to the relative decline in demand for primary products by the core economies and the concomitant reduction in prices for primary commodities. The real prices for many resources hit their lowest levels of the twentieth century in the mid-1980s. During the 1980s, trade between core and periphery declined in relative terms (see Table 7.2), and trade between the countries of the periphery stagnated.

As already noted, trade became more liberalized in the countries of the semi-periphery and periphery from the late 1980s onwards. For these countries, exports of primary goods have increasingly been replaced in importance by exports of manufactures and services. This has reversed the relative decline of the semi-periphery and periphery in world trade during the 1990s, with trade between countries notably increasing in both absolute and relative terms. Trade between countries of the core and those of the semi-periphery and periphery nearly reached the relative proportions of the 1970s but with exports

TABLE 7.2 *Direction of world exports, 1970–95*

	Between core economies	Core – periphery	Between economies of the periphery
1970	62.1	30.6	3.3
1975	46.6	38.4	7.2
1980	44.8	39.0	9.0
1985	50.8	35.3	9.0
1990	55.3	33.4	9.6
1995	47.0	37.7	14.1

Note: totals do not add up to 100 due to trade with COMECON countries, countries not classified and errors.

Source: adapted from Held *et al.* (1999: 172)

TABLE 7.3 *Export data for the eight major exporters in East Asia*

Country	1983 exports ($ mn)	1998 exports ($ mn)	Annual rate of growth 1983–98	Manufacturing % of 1997 exports
China	22151	183757	14.1	85
Hong Kong	22454	174145	13.7	93
South Korea	24446	133223	11.3	87
Taiwan	25094	109890	9.8	96
Singapore	21833	109846	10.8	84
Malaysia	14130	73275	11.0	76
Thailand	6368	53575	14.2	71
Indonesia	21152	48840	5.6	42
Total	157628	886551	11.5	79*

*Unweighted average.
Source: World Bank (2000: 268–9)

from the latter to the former now including significant proportions of manufactured goods and services.

Manufacturing exports from semi-peripheral and peripheral countries have risen not just for finished goods but also for semi-finished manufactures and components. Intra-industry trade is rapidly growing not only between firms in core countries and those of the semi-periphery and periphery, but also between firms in different economies of the latter. New geographical patterns and hierarchies of production and trade are developing at the global level, and are partly linked to the nature of contemporary growth in export trade from the EMCs. The growth of intra-industry trade is leading to the increased meshing of certain spaces in the semi-periphery and periphery into the global trading system. As a result, such spaces are becoming more integrated into what Gereffi and Korzeniewicz (1994) has called global commodity chains (see Chapter 10), linking producers in these areas to consumers in the core. What are the new characteristics and composition of exports from the EMCs under focus?

East Asia

East Asia has enjoyed dynamic growth in manufacturing exports of both finished goods and components. Let us examine the growth of exports in the eight major exporting countries of East Asia between the early 1980s (1983) and the late 1990s (1998 – a year of economic crisis for much of East Asia; see Chapter 6). In East Asia as a whole, exports grew by an average of 11.5 per cent a year – from US$137.4 billion in 1983 to US$806 billion in 1998 (see Table 7.3). East Asian exports as a percentage of global exports rose from 7.8 to 14.9 in this period. Excluding Indonesia, manufacturing exports constituted over 70 per cent of total exports in all countries in 1997. This export pattern from the 1990s represented a new phase for the semi-periphery's insertion in the world economy – one of rapid growth in manufacturing exports after previous phases more reliant on primary exports.

East Asia has been successful in shifting export structures away from resources to manufacturing exports and then to manufacturing exports with higher technologies. Furthermore, this has not only been evident in the most successful newly industrializing countries (NICs) of Hong Kong, Singapore, South Korea and Taiwan. It has occurred in second-generation NICs as well, such as Malaysia and China (see Figure 7.1). Malaysia, an earlier though cautious adopter of the outward-oriented model, still had 53 per cent of its exports classified as resource-based in 1985. By 1996, resource-based exports only constituted 18 per cent of the total and high-technology exports had soared to 60 per cent. Meanwhile, China, a late starter in following the outward-oriented model, has maintained an export structure dominated by low-technology exports (56 per cent in both 1985 and 1996). Nevertheless, high-technology exports

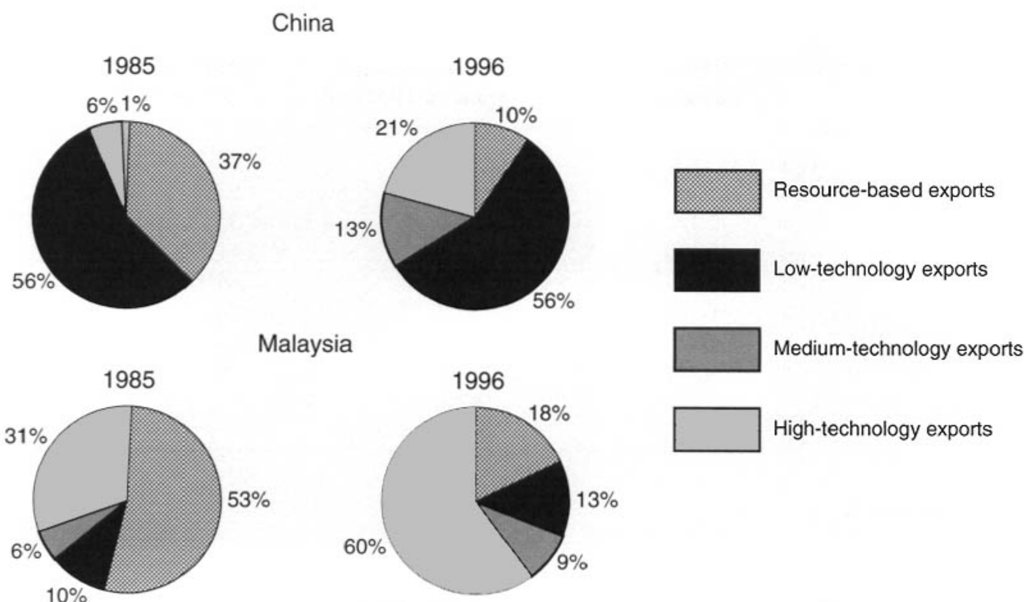

FIGURE 7.1 *Trade liberalization and the shift to higher-technology exports in East Asia, 1985–96*
Source: adapted from World Bank (2000: 59)
Note: Export groups are based on the use of scientists and engineers in production, and on the amount of research and development activity required. Resource-based exports are unfinished raw products. Low-technology exports are typically labour-intensive manufactures with low worker-skill requirements, such as textiles, garments and footwear. Medium-technology exports are products that entail fast-moving production technologies and some design effort, such as automobiles, chemicals, industrial machinery and consumer electronics. High-technology exports are products that combine intensive use of highly skilled employees with substantial research and development; examples include fine chemicals and pharmaceuticals, aircraft and precision instruments.

have expanded considerably from 1 per cent in 1985 to 21 per cent in 1996.

Latin America

The contrast with Latin America becomes very evident here, particularly if we examine the growth of exports in the eight major exporting countries of Latin America (see Table 7.4). Latin America's greater insertion into the world economy was more of a variation on the old theme of reliance on primary exports. Partly as a result, the annual rate of export growth in Latin America's eight major exporters between 1983 and 1998 was only 7.4 per cent, considerably lower than the East Asian equivalent. Excluding Mexico and Brazil, primary exports still constituted over 80 per cent of total exports in 1998.

The problem of relying on the growth of primary exports in Latin America is indicated by the case study of copper in Figure 7.2. Between 1970 and 2000, production of copper nearly doubled at the world scale but its real price declined by nearly two-thirds. The impacts on Chile (the single largest producer and exporter of copper in the world) are illustrative of the problem. Between 1990 and 1999, the volume of refined copper exports increased by nearly 130 per cent. However, with nominal prices for copper exports decreasing by 40 per cent over the period, the actual value of copper exports managed to rise by only 36 per cent (Banco Central de Chile, 2000). Thus the huge investments in Chile's copper sector through the 1990s brought scant reward in terms of increased trade. Such are the problems of countries that rely on primary resources for their pathway to export growth.

There are, however, two countries that have developed significant manufacturing exports in Latin America. Mexico had an export performance similar to that of East Asia – with an annual growth rate of 10.2 per cent between 1983 and 1998, and with 80 per cent of total exports from the manufacturing sector

TABLE 7.4 *Export data for the eight major exporters in Latin America*

Country	1983 exports ($ mn)	1998 exports ($ mn)	Annual rate of growth 1983–98	Manufacturing % of 1997 exports
Mexico	25559	117505	10.2	80
Brazil	21899	50992	5.6	53
Argentina	7836	25227	7.8	33
Venezuela	13937	17200	1.4	11
Chile	3830	14895	9.1	14
Colombia	3001	10890	8.6	30
Peru	3015	5550	4.1	15
Ecuador	2348	4133	3.8	8
Total	81425	246392	7.4	31*

*Unweighted average.
Source: World Bank (2000: 268–9)

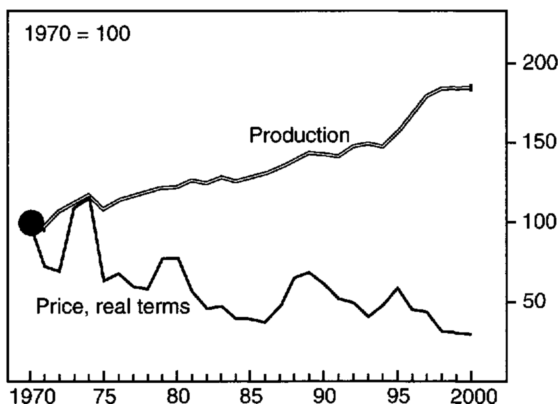

FIGURE 7.2 *The problem of relying on commodities: production and prices of copper, 1970–2000*
Source: adapted from *Economist* (28 August 2000: 54)

in 1997. This was partly due to Mexico's economic integration with the United States and Canada within the North American Free Trade Area (NAFTA) during the 1990s. This allowed corporations from the USA and other core economies to establish assembly and component plants in Mexico with two key locational benefits: ease of access to the large and affluent North American market, on the one hand; low costs of production, particularly in terms of labour and land, on the other. Meanwhile, Brazil's export growth has been more modest but half of that country's exports came from the manufacturing sector by the end of the twentieth century.

East Central Europe and the former Soviet Union

Since 1989, trade patterns have altered in three ways. First, there was a very marked increase in the volume and value of trade. Between 1992 and 1998, exports increased by an annual average of 10.9 per cent in the eight major exporting countries of ECE and the FSU – almost comparable with the performance recorded for East Asia and higher than that of Latin America's foremost exporters, albeit over a shorter time-frame.

Second, there were important changes in the composition of trade so that trade patterns began to reflect more closely the resource endowments and comparative advantages of each country on the world market. In Russia's case, for example, at the time of the Soviet Union's collapse the principal exports consisted of engineering and metal products. These accounted for 30 per cent of the total compared with only 13 per cent for electricity and fuels (though the real importance of the latter was hidden by the distorted nature of the COMECON price structure). By 2000 fuels had become Russia's largest visible export, accounting for about 59 per cent of the total, with metals coming second at about 19 per cent. Table 7.5 demonstrates that Russia (along with Ukraine) has become characterized as a heavy exporter of primary resources. In contrast, ECE countries have managed to become more significant as exporters of manufactured goods since liberalization. One must be

TABLE 7.5 *Export data for the eight major exporters in ECE and FSU countries, 1992–98*

	Exports 1992 ($ mn)	Exports 1998 ($ mn)	Annual rate of growth, 1992–98	Manufacturing % of 1997 exports
Russia	40000	73900	10.2	23
Czech Republic*	11982	26360	13.1	85
Poland	13324	26300	11.3	72
Hungary	10700	22940	12.7	46
Ukraine	8100	12825	7.7	–
Slovak Republic*	4848	10665	13.1	76
Romania	4299	8295	11.0	79
Bulgaria	3500	4275	3.3	61
Total	96753	185560	10.9	63

*Estimated figures for 1992.
Source: World Bank (1994: 186–7; 2000: 268–9)

cautious with data at this scale of analysis. For example, Poland's dominant export sector before liberalization was the electrical and mechanical engineering industry (accounting for 43 per cent of export sales in 1980); this had slumped to only 27 per cent by 1993, largely because of the loss of captive markets in the rest of COMECON. Meanwhile, Poland has developed a role as an exporter of basic manufactures (such as textiles) and semi-processed products with low value added, such as timber products.

The third significant change has been in the geographical orientation of trade away from the former COMECON countries and towards the EU, and to a much less extent the rest of the world. For example, in 1990 Russia exported some 70 per cent of its exports to other Soviet republics and derived 47 per cent of its imports from there. By 2000, non-CIS countries (the CIS consists of 12 FSU countries, excluding the Baltic states) absorbed 86 per cent of Russian exports and provided 70 per cent of its imports (the EU accounted for about 40 per cent of Russia's foreign trade). Likewise Poland's major trading partner in 1986 had been the Soviet Union, which accounted for 28 per cent of its exports and 33 per cent of its imports. By 2000 it had been displaced by Germany, which took 35 per cent of Poland's exports and furnished 24 per cent of its imports.

The liberalization of trade in the EMCs has thus become more and more extensive over the past two decades. Participation in freer trade by countries in the three world regions under focus has become virtually universal. Trading links with core countries still predominate but trade is increasing rapidly (admittedly from a low base) between different countries of the semi-periphery, and particularly between neighbouring countries (in East Asia, for example). Trade relative to output has reached unprecedented levels in all EMCs, and the upward trend seems set to continue into the future.

Nevertheless, increasing spatial unevenness is also a feature of increasing trade liberalization, both between and within countries. Significant differences have emerged in economic growth between those countries that have enjoyed rapid export growth (based on comparative advantage in either manufacturing or resource production) and those countries where export growth has been modest or negligible. Within countries, economic transformations have been much more substantial in regions of rapid export growth (as in the Chinese coastal regions) than in those with little growth (as in the Chinese interior).

The realities of the world trading system for the EMC can therefore be stark. On the one hand, it is difficult to be part of it as the world trading system is characterized by rapid technological change, increasing competition, volatile prices (particularly for primary products) and uneven development. On the other hand, it is difficult for the EMC to stay out of the world trading system as it can bring the

advantages of increased trade, greater inward investment and improved technological capability.

FINANCIAL LIBERALIZATION AND EMERGING MARKET COUNTRIES

The historical context of policy change

EMCs have also become more integrated into global financial markets. During the 1990s it was the rapid increase in the volume of capital inflow that became a distinctive characteristic of EMC regions. As Figure 7.3 indicates, the inflow of foreign direct investment (FDI) into the East Asia and Pacific region nearly trebled between 1992 and 1998, and virtually quadrupled in the Latin America and Caribbean region. Similar growth rates occurred in the East European and Central Asian region, albeit from a much lower base. Meanwhile, FDI inflows into the Middle East, North Africa, South Asia and Sub-Saharan Africa were low throughout the 1990s. Such data can be seen as differentiating the semi-periphery from the periphery in terms of the scale and growth of capital flows in the contemporary world economy.

However, the political economy of finance in EMCs is more problematic than that of trade, at least in terms of the theoretical strengths of market liberalization (Strange, 1998). For example, two of the most successful emerging countries since the 1960s have been Taiwan and South Korea, yet their rapid economic growth was coupled with relatively underdeveloped and 'repressed' financial systems for at least three decades – the 1960s to the 1980s (Haggard and Lee, 1993). The problems of conceptualizing financial liberalization in EMCs are highlighted in Box 7.2.

Since the 1990s, when financial liberalization became the norm in EMCs, a whole series of financial crises have hit some of their number. Financial crises include those of Mexico in 1994, Indonesia, Thailand and Russia in 1997, Brazil and Argentina in 1999, and Turkey and Argentina in 2001/02. The reasons given by international financial institutions and international banks for such crises normally focus on mistakes of government policy and regulation in the EMC at the centre of the crisis. There is a certain irony here as these institutions have pressed on the governments of EMCs the need for financial liberalization – in other words allow the market (national and international) to determine financial flows. However, when these flows go awry, it is governments that are blamed – sometimes because they did not exert sufficient regulation on the financial sector! The relationship between global private capital and EMCs reminds us of world-systems and dependency theories (see Chapter 2). Arguably, these theories suggest the need for governments to play an important role in framing how international actors should operate within their economies (Wade, 1990; Kay and Gwynne, 2000).

We will return to the empirical data shortly. Let us first briefly examine the historical context of capital flows to EMCs. Official capital (from multilateral organizations and governments) dominated financial flows from the core countries to the semi-periphery

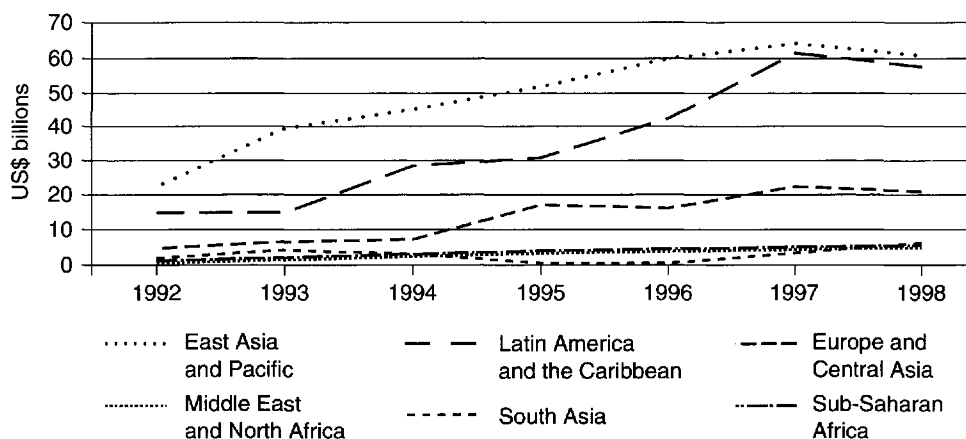

FIGURE 7.3 *Flows of foreign direct investment into non-core regions, 1992–98*
Source: adapted from World Bank (1999a: 57)

Box 7.2 Who benefited from financial liberalization in East Asia? An insider's perspective

East Asian countries were late to liberalize their regulations concerning the in- and outflow of capital. Whereas many Latin American countries were already deeply committed to such liberalization by the end of the 1980s, East Asian countries were able to rely much more on domestic sources of investment capital, including substantial pools created by personal saving rates of 30 per cent or more. East Asian countries did not dramatically open their financial sectors until the early 1990s; but even then East Asian countries had no obvious economic problems that financial and capital market liberalization could treat. Unlike most of Latin America in the 1980s, East Asian countries in the early 1990s were net exporters with records of consistent growth, low inflation and government budget surpluses.

The question therefore arises as to why the IMF and the US Treasury Department insisted on this financial market opening in the early 1990s. Joseph Stiglitz, who worked in US government and the World Bank from 1993 to November 1999, and was therefore in on policy discussions, raises similar questions:

> Most importantly, did America – and the IMF – push policies because we, or they, believed the policies would help East Asia or because we believed they would benefit financial interests in the United States and the advanced industrial world? And, if we believed our policies were helping East Asia, where was the evidence? As a participant in these debates, I got to see the evidence. There was none.
>
> (Stiglitz, 2000)

These are crucial policy questions because of the economic turbulence that financial liberalization caused. East Asia experienced a huge influx of short-term investments in the mid-1990s that paid high returns and contributed to an unsustainable real estate speculative boom, nowhere more so than in Bangkok (Bello *et al.*, 1998). In 1997, however, the international investors fled en masse. They left the region with depressed output, bankrupt local firms, collapsed wages, high unemployment and greater poverty, but with very limited social welfare systems to fall back on.

in the 1950s and 1960s. This was mainly because there were significant controls placed on the international flow of capital until the early 1970s when the Bretton Woods system of fixed exchange rates, set up after the Second World War, effectively ended. During the 1970s international banks became heavily involved in lending large sums of money to the more industrial and rapidly growing economies of East Asia and Latin America (Gwynne, 1990: 47). This came to a dramatic halt after August 1982 when Mexico declared a moratorium on its debt repayments. This marked the beginning of the debt crisis, which particularly affected those countries that had 'benefited' from large-scale bank lending in the 1970s. As a result, the rest of the 1980s saw weak capital flows to EMCs; however, capital flows between advanced economies rose significantly. The position for EMCs changed in the 1990s. The policy framework at both the international and national levels changed to facilitate the increasing flow of capital, and particularly that from private sources.

The role of the international institutions

The Washington-based multilateral organizations, most notably the World Bank and the IMF, have been influential due to their role as lenders of the capital required in the process of economic transformation. However, their influence on the strategic success of policy reforms in emerging countries goes much further than the capital they can dispense. Without their seal of approval, international banks and TNCs are very wary of lending to or investing in emerging countries. Meanwhile, an IMF seal of approval, whilst not necessarily leading to an inward flood of private-sector capital, nevertheless provides a crucial prerequisite for many international lenders and investors.

The role of national governments

National governments of many EMCs resisted these policy prescriptions of the IMF and World Bank during the 1980s, particularly larger countries with more bargaining power, such as Brazil. Smaller countries with less geopolitical weight tended to be drawn in earlier to the SAPs. However, by the early 1990s most EMC governments had decided to adopt these policies.

As a result of SAPs, EMC governments had to drastically restructure their economies and patterns of economic management. Governments reduced their

direct intervention in the running of the economy, and liberalized internal and external markets. In the short term, these policies were often associated with closures of large numbers of 'less efficient' firms.

Governments became increasingly technocratic (P. Silva, 1999), closely following the prescriptions of the Washington consensus and moving towards monetarist policies in order to stabilize their economies. The main economic priority was to reduce inflation and subsequently ensure a stable monetary environment. A more professional and technocratic role was given to central banks (some made independent of government) and economic ministries. Treasuries were measured in terms of how effective they were in promoting fiscal discipline (keeping expenditure under control) and balancing government budgets (between income and expenditure). This normally involved significant cutbacks in the budgets of the spending ministries (welfare, education, health) and, occasionally, reforming tax regimes.

The overall effect was to create policy packages that were more friendly to international capital. Lower inflation, fewer restrictions on capital inflows and outflows, relaxing rules on foreign direct investment and a booming private sector were attractions for a wide variety of international investors. In addition, rapid stock market growth and the privatization of state firms created considerable interest among portfolio investors.

The changing nature of capital flows into EMCs

The opening of financial markets in emerging countries permitted them to tap into a multitrillion-dollar pool of internationally mobile capital (World Bank, 2000: 70), and offered borrowers and companies in those countries access to a wide array of capital: foreign direct investment, portfolio investment, equities, bonds and bank loans. However, at the same time, financial crises have been associated with the opening up of markets.

These crises have significant costs for EMCs. 'Between 1977 and 1995, 69 countries faced banking crises so severe that most of their bank capital was exhausted. Recapitalizing these banks was extremely expensive, with budgetary costs reaching approximately 10 per cent of GDP in Malaysia (1985–88) and 20 per cent of GDP in Venezuela (1994–99) (World Bank, 2000: 74).

Dependency theory emphasized the financial vulnerability of developing countries (Kay and Gwynne, 2000). With the vast increase in capital mobility and its availability in the world economy since the 1970s, the economies of developing countries have become more and more dependent on foreign capital. This has greatly increased their exposure and vulnerability to changes in world capital markets and substantially reduced their room for policy manoeuvre, particularly in the 1990s. Furthermore, there are few controls on the types of capital flow permitted and some flows (as with those of Enron, see Box 7.3) seem to have little value for the economic development of EMCs.

Indeed the 1990s witnessed huge fluctuations in capital flows to EMCs. They have experienced both feast and famine over the decade without any real explanation for either being offered by bankers and financial advisers. This is extraordinary given that most countries have followed the Washington consensus and liberalized their financial markets accordingly. Let us look at the net flows (the balance between outflows and inflows) of private capital into EMCs during the 1990s. In 1990, US$50 billion of private capital flowed into EMCs. During the next six years the general trend was upward so that by 1996 (the peak year), net private capital flows had increased sixfold to reach US$336 billion (*Economist*, 1997: 139). However, the latter half of the 1990s saw a distinctly downward trend, so that by 1999 net capital flows had more than halved from their peak, reaching only US$150 billion; in 2000 and 2001, the broad trend of net flows continued downward.

What are the explanations for such a volatile pattern of feast and famine? The impact of the financial crises in some key EMCs on international investors may be one reason. As a result, international investors have shifted from risk-taking strategies in the mid-1990s to risk-aversion strategies in the late 1990s and early twenty-first century. Second, a contextual point is worth making here. Under normal circumstances (outside financial crises), a wide range of financial instruments pay similar returns in EMCs to those in advanced economies, provided that similar risks are involved. According to the World Bank (2000: 71) this provides evidence of the increasing integration of national capital markets, given that the returns on financial instruments 'varied widely across countries as recently as 10 or 20 years ago'. However, for the international investor the extra profitability of taking the risk of investing in EMCs has declined.

Box 7.3 The global capital flows of Enron

Enron provides a clear example of the problems of deciphering capital flow statistics and of the dubious impacts that capital inflow can have on EMCs. At the height of its power and influence in the first half of 2001, Enron was the seventh largest US corporation and the world's sixteenth largest. It had US$100 billion in annual sales, stock valued at US$90 per share and 20,000 employees. By early 2002 the energy trading company had become the largest firm ever to declare bankruptcy. As the investigation into the causes of Enron's collapse unfolded, it became clear that Enron had engaged in a number of questionable business practices, some of which incorporated small EMCs.

One such practice was the use of offshore subsidiaries to move money in and out of the United States. Enron had 881 offshore subsidiaries. The Cayman Islands hosted more than 600 of them, while the Turks and Caicos Islands hosted another 100 or so. Through these offshore affiliates Enron was able to use creative accounting methods to save itself hundreds of millions of dollars in taxes. The essence of these sophisticated accounting methods, arranged by tax consultants reportedly earning US$1000 per hour, is really quite simple. Enron moved taxable income offshore to accounts that are outside US tax authority. The offshore subsidiaries then returned the money to Enron in the US in a form that was not taxable. As a result, Enron paid no taxes at all during four of its last five years as a 'thriving' corporation. Creative accounting methods, including income averaging, had in fact managed to arrange for the US government to owe Enron US$183 million in tax credits. While Enron is the most notorious of the major firms that avoided taxation in these ways, it is certainly not alone. US tax codes have been revised in recent years to allow for such corporate practices. As a result, corporate taxes as a share of federal tax revenue have fallen, with the difference made up by individual taxes and by deficit spending. (See Chapter 11 for a discussion of offshore finance centres.)

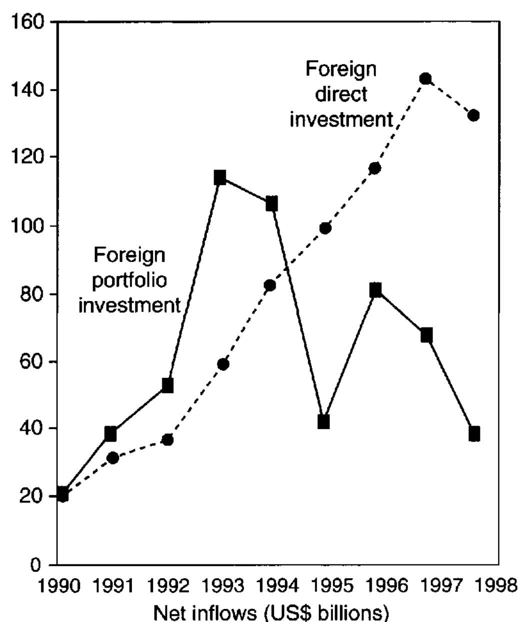

FIGURE 7.4 *Net inflows of foreign direct and portfolio investment to emerging market countries, 1990–98*
Source: adapted from World Bank (2000: 70)

A third and very geographical point needs to be made. When a financial crisis breaks out in an EMC, international investors not only withdraw funds from that country but also from its neighbours (even if there is no apparent financial problem in those neighbouring countries). International investors rarely have a detailed knowledge of how neighbouring EMCs differ. Even the World Bank (2000: 74) noted that financial crises in both Latin America and East Asia were not necessarily restricted to those countries with poor financial management in the 1990s, and admitted that geographical proximity was as important as 'institutional proximity' (similarities in legal and regulatory systems between countries) in explaining the patterns of financial contagion amongst EMCs during these crises.

The experience of feast and famine has been particularly notable in the record of portfolio investment (stocks and shares) during the 1990s. In the early 1990s, international portfolio investors (normally from core economies) were attracted to the early phases of economic transformation in many EMCs because of the low values of shares on the stock markets of those countries. Thus, international portfolio investment in the stock markets of EMCs increased rapidly as high profits could be recorded by investors on both existing stocks and the emergence of new stocks (many from privatizations). Thus between 1990 and 1993 the net flow of foreign portfolio investment in EMCs jumped from US$20 billion to US$115 billion (see Figure 7.4). Subsequently, after the rate

of privatizations declined and stock market values in EMCs ended their period of rapid growth, foreign portfolio investment plummeted – to reach only US$40 billion by 1998. Net portfolio investment has declined even further since then.

There is only one area in which a more sustained and less volatile pattern of capital flows has emerged: foreign direct investment (FDI) (see Figure 7.4). By 1997 approximately half of all capital flows to developing countries was FDI. Between 1998 and 2001, FDI accounted for virtually the entirety of net flows into EMCs (see Figure 7.5). Such rates of inward investment do result in the increasing foreign ownership of national assets, an issue that is still significant in Latin America and the Caribbean. Significant changes have occurred in the structure of FDI. In the 1980s, the majority of FDI was in the manufacturing sector. However, by 1997, according to the Institute of International Finance, FDI in service industries accounted for close to two-thirds of such capital flows as the share in manufacturing fell.

Particular problems attended the issue of financial liberalization in the post-communist states. As we have seen in Chapter 4, the command economies operated on non-market principles, which meant that in theory they could have dispensed with money altogether for internal transactions (they did not in fact do this). At the beginning of the post-communist reforms these countries thus lacked the banks and other financial institutions and regulations needed by the market. The reforms thus meant the need to establish a proper system of banks and other necessary institutions, and the legal and regulatory frameworks required for functioning markets. Also firms were expected to become financially transparent and operate within approved rules of corporate governance. In accordance with the ideas of the Washington consensus, it was considered essential that banks and other institutions in the financial sector be privatized as far as possible, and that a hospitable business climate be created that permitted the ready inflow and outflow of capital.

Most of the countries of ECE and the FSU have moved in the direction indicated and developed viable financial sectors, but inevitably some have been more successful than others. Those that hope to join the EU in the near future face the requirement that they meet EU-imposed goals of developing effective financial markets as soon as possible. Such countries are hoping to be able to benefit from their cheaper labour costs within the context of the EU and also require foreign investment to stabilize their external accounts and to improve their external competitiveness by fostering the transfer of new technologies and skills. The Central European countries have thus been keen to attract FDI and several among them are starting to introduce special investment incentives. Considerable FDI was initially attracted by privatization, but now that this process nears completion in several of these countries, it is becoming necessary to attract investment into other areas.

In the Balkan countries generally, and particularly in the FSU, the development of financial markets and the attraction of FDI have occurred more slowly. Slow reform, relatively slow privatization, and lower business confidence (fostered, as much as anything, by weak legislation and criminality) have naturally deterred FDI. Thus, Russia in the 1990s received less FDI (US$11.3 billion) than either Hungary (US$15 billion) or the Czech Republic – both countries with less than 7 per cent of Russia's population. At the end of 2000, cumulative FDI per head amounted to

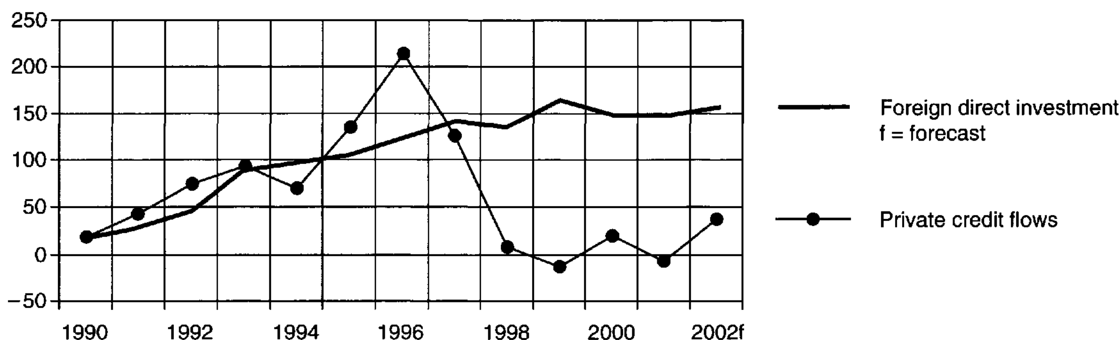

FIGURE 7.5 *Private capital flows for emerging market countries (US$ billions)*
Source: Institute of International Finance

only US$160 in Russia compared with US$2130 in Hungary, US$1950 in the Czech Republic, and US$1060 in Poland (EIU, 2001: 45). Russia has also suffered considerable capital flight (see Chapter 11). More recently, however, President Putin has been pursuing policies designed to create a more business-friendly atmosphere in Russia and there is some evidence of a reversal of these trends. Nowadays, in the FSU, much FDI is being attracted into resource-based developments, especially around the Caspian Sea (see Chapter 8).

With the vast increase in capital mobility and its availability in the world economy since the 1980s, the economies of EMCs have become more and more dependent on foreign capital. This has greatly increased their exposure and vulnerability to changes in world capital markets and has further reduced their room for policy manoeuvre. Furthermore, private capital has become much more important than 'official' flows of capital (capital from multilateral organizations and governments of core countries) for financing investment in emerging countries since the early 1990s. The growth in private capital, and particularly foreign direct investment, has inserted EMCs more fully into the markets of a globalized world. As certain countries have had more success than others in attracting foreign capital, EMCs are increasingly differentiated according to the size and stability of inward capital flows.

REGIONALIZATION AND THE EMERGING MARKET COUNTRIES

Globalization is undoubtedly being furthered by the liberalization of trade in goods and services, and by the liberalization of capital flows and direct foreign investment. However, these components of globalization are creating an increased economic differentiation of space between and within EMCs due to the nature of the insertion into the global capitalist system of each country. However, the forces of globalization are to some degree being counteracted by closer political and economic integration between countries at the level of large world regions. It is perhaps worthwhile pointing out that the term 'region' can be used at both the 'supra-state' and 'intra-state' scales of analysis. In this section we are examining the role of supra-state regional groupings in reacting to trade and financial liberalization, and other processes of globalization.

It is ironic that as the world economy becomes more and more liberalized in terms of trade and capital flows, supra-state regionalism is becoming more and more prevalent in many parts of the world. Ever since the 1950s, developing countries have seen integration as a method of achieving their shared aspirations for rapid economic growth and development. Integration has also been seen as a method for promoting regional peace and political stability.

In the EMCs, there is the belief that integration strengthens their ability to bargain and negotiate with core countries (and their economic groupings) on both economic and political issues. This introduces the geopolitical question of how EMCs should relate to the powerful economic blocs of the core economies, most notably that of the European Union (EU). The practical issue is whether each EMC should negotiate with these powerful groups individually or as a group. The deepening of economic integration in Europe means that it has become impossible for one EMC (say Chile or Thailand) to have bilateral trade agreements with just one core European economy (such as the UK). In terms of the EU, trade negotiations must be organized through the European Commission, representing the 15 member countries of the grouping. Governments of EMCs see their bargaining position enhanced if their negotiations with the EU are carried out through a regional trade grouping rather than as an individual country.

It should be emphasized that EMCs are integrating within a world economy where the economic cores can be seen as a triad – North America, the European Union and Japan (Ohmae, 1985; Preston, 1996) (see Chapter 2). The geographical proximity of the EMCs to these three cores of the world capitalist system provides an important context to patterns of regional integration. EMCs in Latin America are promoting economic links with large numbers of countries but particularly with the USA. Meanwhile the liberalizing countries of ECE and the Baltic states see their main future economic relationships with the richer countries of the European Union. The third member of the triad, Japan, is at the centre of growth in East Asian trade. Two other geopolitical factors have been significant here – the special trading relationships with the USA, especially during the Cold War (Wade, 1990), and the opening up of the massive Chinese economy since 1979 – massive in terms of population and market size. Some geographers have questioned the empirical validity of the concept of the triad but nevertheless note the strong

regionalization of trade that occurred during the 1990s (Poon *et al.*, 2000: 435).

To what extent are schemes of regional economic integration involving EMCs promoting a regional rather than a global orientation to trade in those countries? We will first examine their relationship to global trade and then move on to examine the record of regional integration in Latin America and ECE states and the FSU.

The global context

There are perhaps two points of context to mention. First, there is considerable differentiation in terms of levels of regional integration between the triad of core-dominated economic zones (Poon *et al.*, 2000). The European core zone is strongly identified with the 15 member countries of the European Union (as of 2002). In terms of economic integration, the European Union has moved from free trade area to customs union to common market, and is now moving to a full economic union with a common currency and tax harmonization.

In contrast, North America (the USA and Canada) has only forged a free trade area. It has done so with one major EMC, Mexico. By limiting economic integration to that of a free trade status, the governments of these two core countries allow the free movement of goods, services and capital across borders, but, crucially, do not permit the free movement of labour from Mexico. Bulmer-Thomas (2001: 362–3) argues that in terms of neoclassical economic theory, this is like 'Hamlet without the prince', and has damaging welfare implications as it privileges capital at the expense of labour. While FDI into and exports from Mexico have more than doubled since 1993/94, real manufacturing wages have fallen by 20 per cent. Meanwhile, Japan has not become a member of a region-specific trade bloc. Its only regional link is with a loose scheme of economic cooperation based around the Pacific Basin: APEC (the Asia-Pacific EconomicCooperation).

Second, one should emphasize that most EMCs are post-colonial in that in the past they have constituted colonial territories to imperial powers – normally though not always core economies (see Chapter 3). This crucially meant that, historically, their main trading links were with the colonial power. Post-colonial status has come at different stages over the past two centuries in the three emerging regions we are focusing on – in the early nineteenth century in much of Latin America, between 1945 and 1965 in much of East Asia and (arguably) in the 1990s in ECE and the FSU. Following independence, most post-colonial countries attempted to evolve a more multilateral trading network – normally with a wider variety of advanced economies. This was partly because their 'colonial' trading relationships were dominated by the core imperial power, and were characterized by a restricted pattern of trade involving the export of raw materials in return for the import of manufactures.

EMCs and regional integration

Economic theory predicts that there should be at least two crucial benefits from increased integration in EMCs: the expansion of intra-regional trade, and a boost to direct foreign investment as TNCs see opportunities to supply an expanded market. Furthermore, if there is a deepening of the process of economic integration (from free trade area to customs union to common market) a politically powerful directorate for greater regional integration would need to be created. Such a directorate could theoretically garner funds (from regional and international sources) to invest in regional infrastructure projects between countries, such as in transport and energy. This may radically change the economic geographies of EMCs, where communications with neighbours (such as through roads or telecommunications) can be much poorer than transport and communication links between each EMC and the advanced economies (such as through ports, airports and electronic media). The deepening of schemes of regional integration can thus provide huge potential benefits from regional investments in infrastructure. We will now review the record of regional integration in Latin America, the ECE states and the FSU.

Latin America and the Caribbean

This region has been particularly at the forefront of new and renewed schemes of regional economic integration (see Figure 7.6). The 1990s saw the revival of the Central American Common Market (CACM, including Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, and originally founded in 1960), the Andean Group (AG, including Venezuela, Colombia, Ecuador, Peru and Bolivia, and originally founded in 1969) and the Caribbean Community (CARICOM). In 1991, MERCOSUR (the common market of the southern cone) was created around

FIGURE 7.6 *Schemes of economic integration in the Americas*

the powerful economic axis of Brazil and Argentina, with Paraguay and Uruguay as additional members; subsequently Chile and Bolivia have been made associate members.

These three schemes have all been restricted to Latin American countries. However, Latin America has also recorded the first scheme of economic integration between an EMC and the core economies. In 1993, Mexico agreed to forge closer trade and investment links with the United States and Canada through creating NAFTA (the North American Free Trade Area). This provided the platform for the US and Canadian governments to consider further schemes of economic integration between core economies and Latin American countries. The year 2005 is pencilled in for the creation of the 'Free Trade Area of the Americas' in which all five continental schemes of integration (NAFTA, MERCOSUR, AG, CACM, CARICOM) will come together. At the time of writing, there are certain doubts about the extent to which the US government will be willing to pursue such levels of integration. However, according to Bulmer-Thomas (2001: 364), it is in the interests of the US government to deepen such integration in order to control more effectively the regional economic agenda as well as labour and environmental standards in neighbouring EMCs.

Latin American governments are now using the concept of 'open regionalism' to describe the continental shift to greater economic integration. This is supposed to distinguish the present phase of integration from that of the failed or frustrated attempts within the structures of inward orientation during the 1960s (Gwynne, 1985: 71–81). In contrast to those, open regionalism means that when a regional grouping is formed or revived, each member country continues to liberalize trade policy and open its markets to foreign investment. This not only occurs with respect to neighbouring countries (in the trade bloc) but also to so-called 'third countries' outside the bloc. Some argue that open regionalism also means the opening up of political frameworks, with particular regard to democratization and decentralization (Bulmer-Thomas, 2001).

Nevertheless, the policy emphasis of open regionalism is to promote trade growth between member countries of the regional grouping. Growth in intra-industry trade (trade within individual industrial sectors such as textiles or electrical goods) is seen as a key indicator of success for the regional grouping under open regionalism. Rapid growth in intra-industry trade has occurred in both Argentina and Brazil (as part of MERCOSUR), and has been notable in Mexico's links with the USA (Bulmer-Thomas, 2001). Less significant improvements have been recorded in intra-industry trade within the countries of the CACM, CARICOM and AG, possibly because of the less industrialized nature of the member economies.

Open regionalism also signifies a more encouraging attitude towards FDI, not only in manufacturing but also in primary sectors and service activities. FDI by foreign companies wishing to invest in Mexico rose substantially during the 1990s (see Chapter 10). FDI can also increase through corporations of one member state investing in activities in other member states – as in the case of Brazilian and Chilean companies investing in other countries of MERCOSUR.

However, open regionalism can also allow for a lack of policy coordination between the governments of member countries. Exchange rate policy is a case in point. Within MERCOSUR, there was a fundamental and damaging difference between Brazil and Argentina's exchange rate policy until the end of 2001. The Argentine government had followed since 1991 the policy of an exchange rate fixed to the US dollar. Meanwhile, Brazil had established a floating rate with relatively few controls on capital flows. The Brazilian currency (the real) thus experienced a significant and sustained process of devaluation against the Argentine peso from the mid-1990s until the end of 2001. This assisted Brazilian exporters much more than those in Argentina, and led to Brazil enjoying trade surpluses with Argentina and trade advantages over Argentina with respect to their mutual export markets.

East Central Europe and the former Soviet Union

While Latin America is pushing towards building greater economic integration at the continental level within the conceptual framework of open regionalism, the transcontinental scheme of economic integration known as COMECON, or the Council for Mutual Economic Assistance (CMEA), founded by the communists in 1949 and embracing much of what is now ECE and the FSU, has been abandoned. COMECON has been called a 'paper institution', enabling barter trade between member states, using a notional 'transferable rouble' as the accounting unit. The basic trading pattern (though one that was

hidden by price distortions) was for the Soviet Union to supply natural resources to its allies in Eastern Europe (especially oil and gas, at subsidized rates), and for the latter to provide the Soviet Union with food and finished products. COMECON effectively began to disintegrate in January 1989 when the USSR decided that intra-COMECON accounts would henceforth need to be settled in convertible currency. Since COMECON members lacked such currency, this effectively put an end to the trading relations that had existed up until then. On 5 January 1991, COMECON members agreed to dismantle the organization.

Since 1991 ECE and Baltic states have largely turned their backs on trade with the FSU and have tried to boost trade with the EU. However, ECE manufacturing firms proved uncompetitive in the international arena once their guaranteed markets within COMECON had disappeared. Many performed disastrously, some disappeared completely and others were bought up by foreign concerns (for example, from Germany). In the latter cases, foreign investment brought new technologies and skills, and manufacturing exports to the EU were on the rise by the late 1990s. However, there has been a tendency for ECE exports to the EU to focus on more traditional manufacturing and primary product sectors, and the states of the region are now trying to move into higher-value manufacturing and services. Furthermore, trade with the EU has increased trade deficits for the ECE countries as the volume and value of EU imports have soared, a product both of the needs of economic restructuring and of ever more demanding consumption patterns.

With the break-up of COMECON, ECE states began to cast around for alternative regional groupings. In January, 1993, for example, Poland, Hungary, the Czech Republic and Slovakia agreed to form a Central European Free Trade Area (CEFTA) to facilitate trade between themselves and also with the EU. However, CEFTA members differed among themselves over the purpose of the new grouping and it is now of relatively minor significance for the international trade of the countries concerned. Of far greater importance are relations with the EU. Most of the ECE countries aspire to join the EU, partly for security reasons and partly out of a desire to become part of the West, both economically and politically. For the EU itself, access to ECE markets is undoubtedly attractive as is the enhanced security that might flow from the economic and political stabilization of those states. In June 1993 EU members agreed in principle that membership of the EU might be extended to certain states in ECE and the Baltics, provided specified conditions were met. Between December 1991 and June 1996, EU Association Agreements were signed with ten states (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). These agreements established a framework for free trade in industrial goods. Actual negotiations for membership of the EU began with five of the candidate countries from December 1997, and with the other five two years later. Progress naturally depends on how quickly each country can accommodate itself to EU requirements in such matters as democratization and economic reform, but at the time of writing it is hoped that most of the candidates will be able to join the EU by 2004.

In 1997, five ECE countries (Albania, Bosnia-Herzegovina, Croatia, FR Yugoslavia and Macedonia) were deemed unready for EU membership. However, by means of a new instrument known as a Stabilization and Association Agreement (SAA), the EU hoped to offer enhanced economic integration in exchange for advances in economic and political reform. The first SAA was signed with Macedonia in April 2001.

With the exception of the three Baltic states, the FSU countries have followed a rather different route. From the time of the break-up of the USSR in 1991, 12 (originally 11) FSU states have been members of the organization known as the Commonwealth of Independent States (CIS) (the three Baltic states refused to become members). Originally the CIS was designed to ease the inevitable problems that arose from the break-up and to facilitate the economic, trade and security relations between member states. In the event, however, these goals were far from easy to achieve. The many economic difficulties of the post-communist transition militated against easy cooperation (see Chapter 4). It soon became apparent that each state had its own priorities, and all were afraid that the biggest and most populous member, Russia, might use the CIS to assert its dominance and hence recreate the USSR. It thus remained a rather shadowy entity. Soon new groupings began to arise, such as a 'mini-CIS' (Russia, Belarus, Kazakhstan, Kyrgyzstan, in 1996), a Russian-Belarusian union, and GUUAM, a political, economic and security alliance between Georgia, Ukraine, Uzbekistan,

Azerbaijan and Moldova. Five countries (Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan) formed a customs union, and in October 2000 signed a treaty to form a Eurasian Economic Community. In the meantime, many CIS states had signed Partnership and Cooperation Agreements with the EU, and some have applied to join the WTO.

The future of the CIS region is thus difficult to predict. The role of Russia is clearly crucial, and a number of scholars have seen significance in the fact that intra-CIS trade is still important for most of its members. If the Russian economy performs better in the future than it did throughout most of the 1990s, most CIS states will benefit and perhaps see advantages in furthering regional cooperation.

Conclusion

This chapter has focused on three key elements of the contemporary world economy: trade liberalization, financial liberalization and regionalization. The first two elements appear to be making EMCs more open to global forces of production, finance and trade. EMCs are becoming more closely incorporated into the world economy. Their governments have less room for manoeuvre and must increasingly operate within the 'economic rules' set by global markets, multilateral organizations and core economy governments. These rules can be difficult to interpret and follow, and the penalties of not following the rules difficult to forecast. The large number of economic crises in EMCs over the past decade bear witness to this. The most recent crisis has been that of Argentina in which neoliberal reform (including privatizations) had been followed during the 1990s. However, when the Argentine crisis broke in December 2001, representatives of multilateral organizations and core economy governments argued that the Argentine government had not followed the 'rules' correctly – they had allowed fiscal deficits (state spending over income) to increase within an economy in which the domestic currency was tied to the US dollar.

There is the idea in EMCs in crisis that the observations of dependency and world-systems theories are still apposite. Trade and financial liberalization may be inserting countries of the semi-periphery more fully into the world economy, but the trading and financial systems of that world economy are still characterized by asymmetric relationships – with core economies benefiting much more than those of the semi-periphery (let alone those of the periphery). Some have argued that this is why regionalization has become more popular in countries of the semi-periphery as countries attempt to create trading blocs to counter the full force of global markets. However, as we have seen in the above analysis, the end point of the main schemes of integration is to link EMCs more closely to core economies – Latin America and the Caribbean to the USA, East Central Europe to the European Union. Regionalization does not seem to be 'resisting' the economic forces of global markets in EMCs but rather developing strategic links with members of the global triad.

Further reading

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8

GEOGRAPHIES OF ECONOMIC TRANSFORMATION

In Chapter 7 we largely focused on economic restructuring in EMCs consequent upon trade and financial liberalization. The literatures of such restructuring are closely linked to the discipline of economics and, in particular, macroeconomic theory, which focuses on the geographical scale of the state. Economic geographers, however, are also concerned with how policy change at the national level impacts upon subnational, regional and local spaces. This chapter will explore how economic liberalization is influencing not only national but also regional and local geographies of transformation and transition in EMCs.

Explaining these geographies is by no means easy, since a multiplicity of factors appear to be involved. There are the many historical and cultural differences to consider. There are variations in policy: some countries have been more enthusiastic about economic and political reform than others. And there are the global factors: the transition is both geopolitical and geoeconomic, and the different countries are being moulded by those forces in different ways. Precisely how those forces work, and what their overall effects are, is very difficult to say. Western geographers and other scholars have had much to say about present-day processes of globalization and have had sharp debates about the way these are restructuring and remoulding the economies of the wealthier countries. The important point to stress is that such discussions and theoretical debates are very relevant to the EMCs. Post-communist transitional economies are being re-incorporated into the world economy and both they and also the world economy itself will be considerably changed as a result. What we are less sure about is what the long-term consequences for EMCs will be and to what extent they will be able to join the world's core economies.

How does economic liberalization impact upon space in EMCs? In conducting neoliberal economic reform within their national territories, EMC governments permit 'forces of globalization' to operate more freely than in the past within their national, subnational and local spaces. Of course, such spaces can be impacted by forces other than those of neoliberal economic reform. Changes in governance (such as from authoritarian to democratic – see Chapter 13) can, for example, change the nature of community participation in local governance with significant results. At national and regional spatial scales, however, the economic effects of neoliberal reform can seem more dramatic. The increasing reliance on trade liberalization and free markets to provide economic growth means that spaces within EMCs are being transformed in relation to global economic processes. EMC governments have little influence over these global economic processes and EMC entrepreneurs and workers have little prior knowledge or understanding of the nature of economic change that results. This chapter will look at the broad nature of these economic changes in relation to space before examining the more specific theme of the contemporary geographies of resource-oriented development in EMCs.

NEOLIBERAL REFORM AND REGIONAL DEVELOPMENT

It is first important to place neoliberal economic reform in EMCs into a historical perspective. In many

countries of East Asia, and virtually all countries of ECE, the FSU, Latin America and the Caribbean, the adoption of neoliberal economic reform in the late 1980s and 1990s came after a period in which economies were much more 'closed' to the world economy. Levels of closure varied greatly and could briefly be summarized as follows.

- The economies of ECE and the FSU had reasonable regional inter-linkages through COMECON (see Chapters 4 and 7) but were weakly connected to the world economy.
- The economies of Latin America were strongly protected in trade terms from the competitive 'realities' of the world economy but had closer links with that economy in terms of investment and technology flows.
- The economies of East Asia constituted a more complex mosaic, varying from the Chinese economy (effectively disconnected from the world economy until the early 1980s) to that of the free-market city-state of Hong Kong. It is illuminating to point out that these two former opposites are now combined within a single framework of 'one country: two systems' (Hunter and Sexton, 1999: 99).

The shifts from 'inward-oriented' to 'outward-oriented' models of economic development were due to a wide variety of economic and political factors, including debt crises, the inflationary results of inward orientation, and political reconstruction after the downfall of authoritarian and totalitarian regimes. However, in terms of economic theory, the attractions of shifting to 'outward-oriented' or export-led growth can be reduced to six arguments (Brohman, 1996: 64–5).

1. Given low levels of domestic demand, growth in a range of resource-oriented and manufacturing sectors is believed to be largely dependent on gaining access to global markets via export-oriented trade strategies.
2. Export-oriented policies enhance the efficiency of firms, in that they benefit total factor productivity (mainly in terms of the use of labour and capital) in the EMC economy more than any other popular policy option.
3. Foreign trade multipliers (including those into non-export sectors and firms) associated with exports are thought to play an important part in facilitating long-term growth by expanding overall production and employment.
4. Earnings from exports may foster macroeconomic stability by contributing to a more favourable balance of trade and external accounts; this is important for the EMC to attain better ratings in international financial markets – and thus gain easier access to foreign loans and investment capital.
5. Export earnings should provide foreign exchange for imported goods; it is argued that privileging the import of capital goods (machinery and new technologies) is crucial as these are needed to increase production and productivity; in contrast, if consumer good imports are privileged, the impact could be one of decreasing production as inefficient local firms are unable to compete with imported goods.
6. Rising export volume and competition within global markets are believed to create economic efficiencies associated with increasing scale economies and technological diffusion.

The chronological relationship between the two paradigms of inward and outward orientation is interesting to examine. It could be argued that inward orientation represented a necessary prelude to the subsequent shift to export-led growth. Because inward orientation 'was restricted to separate local markets, it eventually proved to be a constraint to the unification of the world market and the ability of capital to accumulate on a global scale' (Brohman, 1996: 68). This was particularly the case in terms of the manufacturing sector in Latin America and East Asia where the most successful exporters (Brazil, Mexico, South Korea, Taiwan) developed their export dynamism on the back of industries established during the inward-oriented period. The argument is less appropriate for those countries that were forced to rely on resource exports as they shifted to the 'outward-oriented' paradigm. In these (often smaller) countries, the legacy of manufacturing growth during the inward-oriented phase provided few benefits for an outward-oriented phase linked to developing 'new' or 'non-traditional' resource sectors in agriculture, mining, forestry and fishing.

Thus, most emerging countries have in fact 'emerged' from long periods of inward-oriented growth. As Chapter 7 demonstrated, neoliberal economic reform also included significant reductions in

the state control of economies and market liberalization. What impacts have these had on spatial development within EMCs? One key theme that is evident within most EMCs is an increased reliance on the private sector. This is partly related to neoliberal policies of market liberalization in general and the popularity of policies of privatization in particular. Regional economic development in emerging countries can increasingly be understood in terms of the investment decisions of the private sector rather than by the direct or indirect decisions of government. Investment from the private sector can fruitfully be divided into at least three overlapping spatial scales of analysis: from local or sub-regional entrepreneurs; from national companies; from transnational corporations (TNCs). The nature and impacts of TNCs will be examined in Chapters 9 and 10.

The private sector has responded to the government policies of trade liberalization and economic restructuring outlined in Chapter 7. However, private firms have done so only when:

- they have been able to do so, and
- when it has been profitable.

The ability of local and national private sectors to respond to neoliberal economic reform is an important issue and one that has been the subject of little research. The local and national private sectors in ECE and the FSU were virtually non-existent as neoliberal reforms were instituted in the early 1990s; private capital interests had been virtually outlawed for between 40 and 70 years (in the case of ECE and the FSU respectively). The culture of entrepreneurialism and taking business risks had effectively been forgotten and lost (see Chapter 4). It could be argued, however, that the widespread criminal activity in these countries at present represents a different form of entrepreneurialism, but one that militates against the ready acceptance of market relationships. This may be one reason for the relatively slow pace of marketization in some of these countries (Rutland and Kogan, 2001).

In Latin America and East Asia, already existing local and national entrepreneurs were able to take advantage of the opportunities that trade and market liberalization provided. However, even here, there were doubts about the true nature of the reforms. In Latin America, for example, large numbers of national entrepreneurs maintained their orientation towards the national market long after governments had liberalized their trade policies and stated that they were committed to export promotion. After over 50 years of inward orientation, many national and local entrepreneurs believed that the reforms were essentially temporary in nature and that governments would subsequently revert to policies of trade protection.

The large numbers of private-sector decisions to invest or not to invest produced differential impacts in space both between and within emerging countries. In essence, the restructured and outwardly oriented economies had to have products and services that were in demand from consumers in the wider world economy for entrepreneurs to invest in them. If countries did not possess such products and services, then economic stagnation and serious decline were inevitable. This is dramatically shown in the FSU country of Moldova, whose economy declined by two-thirds between 1989 and 1999 (see Figure 8.1). As a result, there were significant differences between countries as their governments attempted to become more closely inserted into the world economy. Indeed investment levels provide a crude indicator for identifying which countries are (or are likely to be) net 'winners' from the process of economic restructuring as investments in key export sectors provide the necessary stimuli for renewed growth in the national economy.

The key to regional economic growth thus becomes the level of private investment. Governments promote export-oriented growth through policies of trade and market liberalization, but have little influence on the size or nature of the resulting investments. In some EMCs, there have been significant investments in manufacturing. But most shifts to outward orientation have been characterized by growing investment in the exploitation and processing of resources. What, then, has been the relationship between the opening up to the world economy and economic spaces *within* EMCs? The evolution of economic space within these countries during the shift from inward to outward orientation can be categorized as belonging to one of at least five types.

1. **Spaces formerly oriented to production for local/national markets, and unable to supply those markets after liberalization**. After liberalization this production becomes unable (through price competition and lack of investment) to supply either national or international markets. As

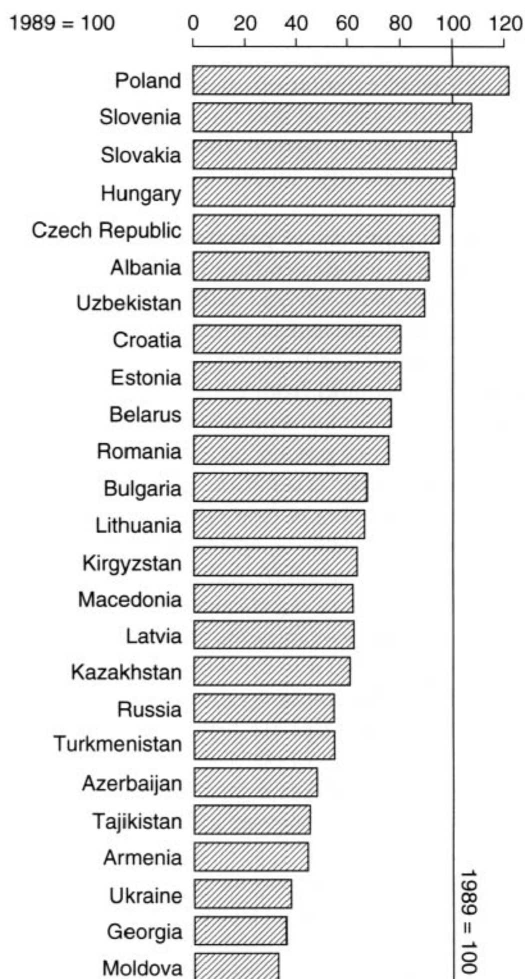

FIGURE 8.1 *Ten years of economic liberalization: GDP change in Eastern Europe and the former Soviet Union, 1989–99*
Source: adapted from *Economist* (24 April 1999: 144)

production declines, serious economic and social problems are recorded in such spaces: increased unemployment, poverty, outmigration etc.

2. **Spaces formerly oriented to production for local/national markets, and able to supply those markets after liberalization.** Although after liberalization this production is unable (through price competition and lack of investment) to break into international markets, it is able to maintain a presence in the national market (food industries can provide an example). Nevertheless, these forms of production record significant restructuring, particularly in employment levels, and hence economic and social problems are recorded in such spaces: increased unemployment, poverty, outmigration etc.
3. **Spaces formerly oriented to production for local/national markets, and able to supply both global and national markets after liberalization.** After liberalization this production is able to maintain its strong presence in the national market (through increased investment) and is able to break into international markets.
4. **Spaces in which output of one or more products declines but is counteracted by increased investment in and output of 'new' products for export markets.** In these spaces, there will be significant economic restructuring at the local or regional level, and some significant social and economic problems associated with restructuring will occur in certain localities.
5. **Spaces where there was limited production for local/national markets and where significant investment growth leads to output rapidly expanding in relation to export markets.** These economic spaces, limited in number, will be significant beneficiaries of the transformation to export-led growth.

Spaces of production in EMCs can thus be broadly classified through comparing the nature of their production systems during the past phase of inward orientation and the contemporary phase of outward orientation. Space economies can change quite dramatically with such shifts. The case of Poland is interesting to note in this respect (see Figures 8.2 and 8.3). The inward-oriented space economy of the communist period was very much geared to industrialization and the economic hub of this was the southern industrial region, comprising the Upper Silesian Basin and Krakow (Weclawowicz, 1996). A number of new industrial regions, such as Plock and Pulawy, had been planned within a 300-kilometre radius of Katowice (the heart of the southern industrial region), each based on a new heavy industry planned by the Polish state. The space economy thus looked south to its major industrial hubs and what economic links there were to the exterior went eastwards.

With the shift to outward orientation in the post-communist era of the 1990s, the industrial hubs, based on heavy industry, suffered notoriously (becoming Type 1 spaces in our categorization) with high

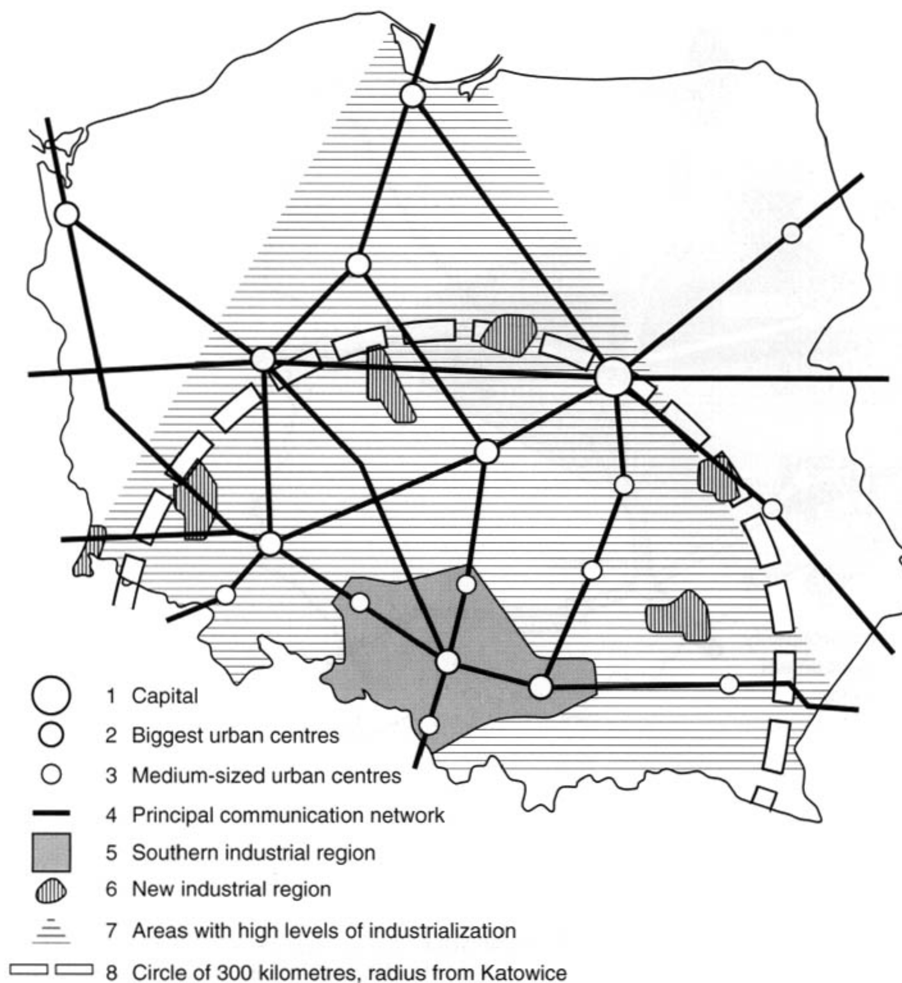

FIGURE 8.2 *Poland's communist space economy*
Source: adapted from Weclawowicz (1996: 35)

unemployment, poverty and out-migration. Instead the main axes of economic growth were in the west and along the main lines of communication with the EU and Germany. The biggest gainers from economic transformation became towns in the West (Szczecin, Poznan and Wroclaw) and the Polish capital of Warsaw. Near the western frontier, there were spaces where there was limited production for national markets under inward orientation but where significant investment growth since 1990 has led to output rapidly expanding in relation to export markets (Type 5 spaces in our categorization). The southern industrial region based on Katowice and Krakow started to recover with investment growth after ten years of restructuring (Czerny, 2002).

What is the nature of the 'new' spaces of production – zones where export-oriented growth has had a significant direct or indirect impact? There are at least three new spaces of production with high levels of investment in export-oriented activities that could be identified within EMCs:

1. export-oriented resource locations
2. export-oriented manufacturing locations where access to advanced economy markets is crucial
3. core cities of EMCs where high-level services necessary for the growth of export activities are located.

We focus on TNCs and export-oriented manufacturing in Chapter 10, and on services in Chapter 11.

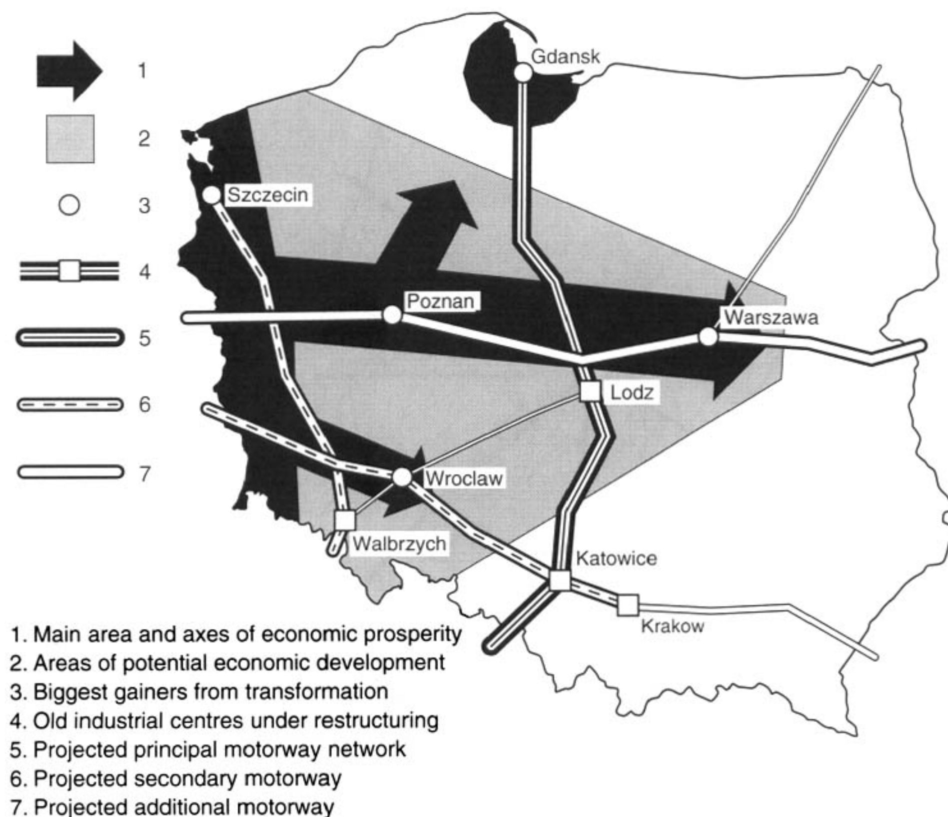

FIGURE 8.3 *Poland's post-communist space economy*
Source: adapted from Weclawowicz (1996: 174)

In the remainder of this chapter we will focus on export-oriented resource locations.

EXPORT-ORIENTED RESOURCE LOCATIONS

Comparative advantage, resources and space

Why do certain spaces in EMCs manage to operate successfully in a world economy that has been made more open for trade and capital flows? And, conversely, why do certain spaces that achieved economic growth within the context of supplying economic goods and services for national markets decline or stagnate as their production systems are opened up to global competition? One key but problematic concept to examine at this stage is that of comparative advantage.

Comparative advantage is a concept central to international trade and trade theory (Krugman, 1990; Todaro, 1994). The concept recognizes the geographical reality of a heterogeneous landscape with different areas or spaces of the world enjoying a comparative advantage in the production of contrasting goods and services. It is argued that this promotes trade between those geographical spaces and leads, in the contemporary era of globalization, to the geographical specialization of production in different areas and regions of the world economy. International trade promotes the locational specialization of economic activities within EMC spaces. It should be noted that such specialization changes through time as the economic factors (such as resource endowments and labour costs) behind comparative advantage themselves change.

How can comparative advantage be defined in geographical terms? It is perhaps best defined as a 'given' advantage that a particular geographical

space enjoys in relation to trade at a variety of spatial scales – local, regional, national or global. Within the framework of a globalizing world (see Chapter 1) and the shift in EMCs to economic policies that prioritize exports, the spatial scale that is increasingly critical for trade growth is the global. The given advantages can be seen to have broad components. First, there are 'the gifts of nature' or the natural resource endowments of any particular economic space; these relate to endowments of superior land for agriculture, the discovery and exploitation of mineral or energy resources, distinctive climates or endowments of forestry and fishing resources. The second component of comparative advantage relates to economic factors of production, such as labour and capital; within the EMCs of the world, such an advantage relates more to labour costs (cheapness, efficiency) and human resources (levels of education and training) than to other factors.

Resources, non-traditional exports and EMC spaces

Neoliberal economic reform has encouraged export specialization in primary products for many EMCs. This is not, of course, a new phenomenon. Countries of the global periphery have long been seen to have a comparative advantage in the production of resources and have been allocated the role of suppliers of primary products for the core countries of the world economy. This role was seen as detrimental to the long-term success of economies in the periphery by a number of Latin American writers from the structuralist and dependency schools in the 1950s and 1960s (Prebisch, 1950; Kay and Gwynne, 2000).

This was illustrated by using a simplified core-periphery model in which the countries of the core specialize in the production of manufactured goods and the countries of the periphery concentrate on the production of resources. Prebisch (1950) argued that this pattern signified worsening terms of trade for the primary product producers due to an asymmetry on the demand side – prices for manufactured goods would rise in relation to prices for primary products. Indeed, it was for this very reason that many countries in the global periphery started to protect their economies in the 1950s and 1960s – in order to promote manufacturing growth and reduce dependence on manufactured imports from countries of the core.

However, neoliberal economic reform has renewed the emphasis on promoting primary resource exports. A distinction has often been drawn between traditional and non-traditional exports in this context. The term 'traditional' exports seems to define those resources that were exported during the inward-oriented phase. The costs of production of these resource exports were much lower than international prices despite the distortions of overvalued currencies and protected markets in the peripheral economies. The best examples are provided by energy and mineral resources, such as oil, gas, copper and tin.

In contrast non-traditional exports (NTX) refer to a new range of resource exports (Barham *et al.*, 1992) that are much more price-sensitive than traditional exports in world trade, and can enter a wide range of niches in international markets in general and those of core economies in particular. The focus is on developing the comparative advantages of each country, whether that comparative advantage be based on natural resource endowments or economic factors of production (see above for definitions). The best examples of NTX are normally found in the agricultural sector (rather than mineral resources) and are hence labelled non-traditional agricultural exports (NTAX). Good examples of NTAX are off-season vegetables and fruit, exotic fruits, speciality nuts, and cut flowers. (See Box 8.1 for an example of NTAX growth and the sources of comparative advantage in the semi-arid region of northern Chile.)

The promotion of NTX forms part of a strategy that attempts to diversify resource exports away from a reliance on one or two traditional exports with the problems of price volatility and price decline that holds for the long-term health of individual economies in the global periphery. 'If a country can diversify into a broader range of exports so that the variability of earnings from one subset of exports is largely offset by that from another, then that country will tend to face less uncertainty in its ability to finance imports and other necessities for development' (Brohman, 1996: 73). It is worth examining briefly the argument that growth in non-traditional resource exports from EMCs is not only viable but can also transform spaces within those countries. We can take the particular example of agricultural resource exports, where the division between traditional and non-traditional exports is clearer than in other categories of resource exports.

Box 8.1 Comparative advantage and space in the semi-arid region of northern Chile

Chile has become a major exporter of counter-season table grapes since the mid-1970s. Exports have risen from US$30 million in 1976 to US$644 million in 2000 (Banco Central de Chile, 2001). About one-quarter of this production (and the most profitable) comes from the transverse valleys of Chile's semi-arid north, the Norte Chico (see Figure 8.4). What are the sources of comparative advantage in global trade for the production of table grapes in Chile's Norte Chico? Sources include both 'gifts of nature' and economic factors of production.

- **Climatic factors.** High spring and summer insolation (intensity and duration of sunshine – up to 345 days per annum in Vicuna, see Figure 8.4). This acts to ripen the fruit earlier than most competing locations in the Southern Hemisphere.
- **Counter-seasonality** of Southern Hemisphere locations in producing for Northern Hemisphere markets (especially core economy markets). In the Norte Chico, the harvest period lasts from November to March and thus this new space of production can produce table grapes for the most profitable period (that around Christmas and the New Year when table grape prices are at their highest).
- **A relatively cheap and skilled labour force.** This is important in what is a labour-intensive sector, particularly during harvesting and packaging of the grape bunches for international markets. In the mid-1990s, workers (both male and female) received about US$8 for an 8–10-hour day, considerably lower than workers in core economies (though not as low as some competitor countries in the Southern Hemisphere).

Agricultural resource exports: traditional and non-traditional

It has long been advised by the main multilateral agencies (World Bank, IMF) that EMCs should specialize in agricultural products in terms of the world trading system – exporting food and what are termed non-food agriculturals (such as cotton, rubber and sisal) to the core economies, and importing manufactured products from them. There has been a renewed emphasis on these policies (Barham *et al.*, 1992) with the shift to outward orientation and the promotion of new or non-traditional agricultural exports (NTAX). It has been argued that exporters of traditional agricultural products face at least four asymmetries on the demand side of this world trading system (Gwynne, 1996a). To what extent do exporters of NTAX face the same set of problems? Below we set out the demand constraints for the exports of basic foods alongside the arguments that NTAX are different.

1. Population growth in core economies is now very small and hence growth in demand for agricultural products is limited.
   - *NTAX argument* – market growth can come from diversification of products (into off-season products and exotic fruits).
2. The per capita income elasticities of demand for agricultural products are relatively low compared with those of manufactures – in other words, as incomes in core economies rise, consumers spend a smaller proportion on food.
   - *NTAX argument* – high-income consumers do demand more of some food products, such as fruit, than other foods.
3. The price elasticity of demand for most agricultural products is relatively low – in other words consumers in core economies do not buy significantly more of a certain type of food if the price of that food goes down. Thus as agricultural prices have declined in world trade, EMCs do not significantly increase the volume of their agricultural exports. Because increased volume has not compensated for declining prices, total export values have tended to decline.
   - *NTAX argument* – price elasticities for off-season fruits and vegetables and other NTAX are higher than for basic foods.
4. The levels of agricultural protection in the core economies (through tariffs, quotas and non-tariff barriers, such as sanitary laws regulating food imports) and domestic price support programmes have caused large (and very expensive) surpluses of agricultural production in the core economies, particularly of basic foods (World Bank, 1986). These interventions by core economy governments have subsequently distorted world trade in food, making it increasingly difficult for non-core economies to

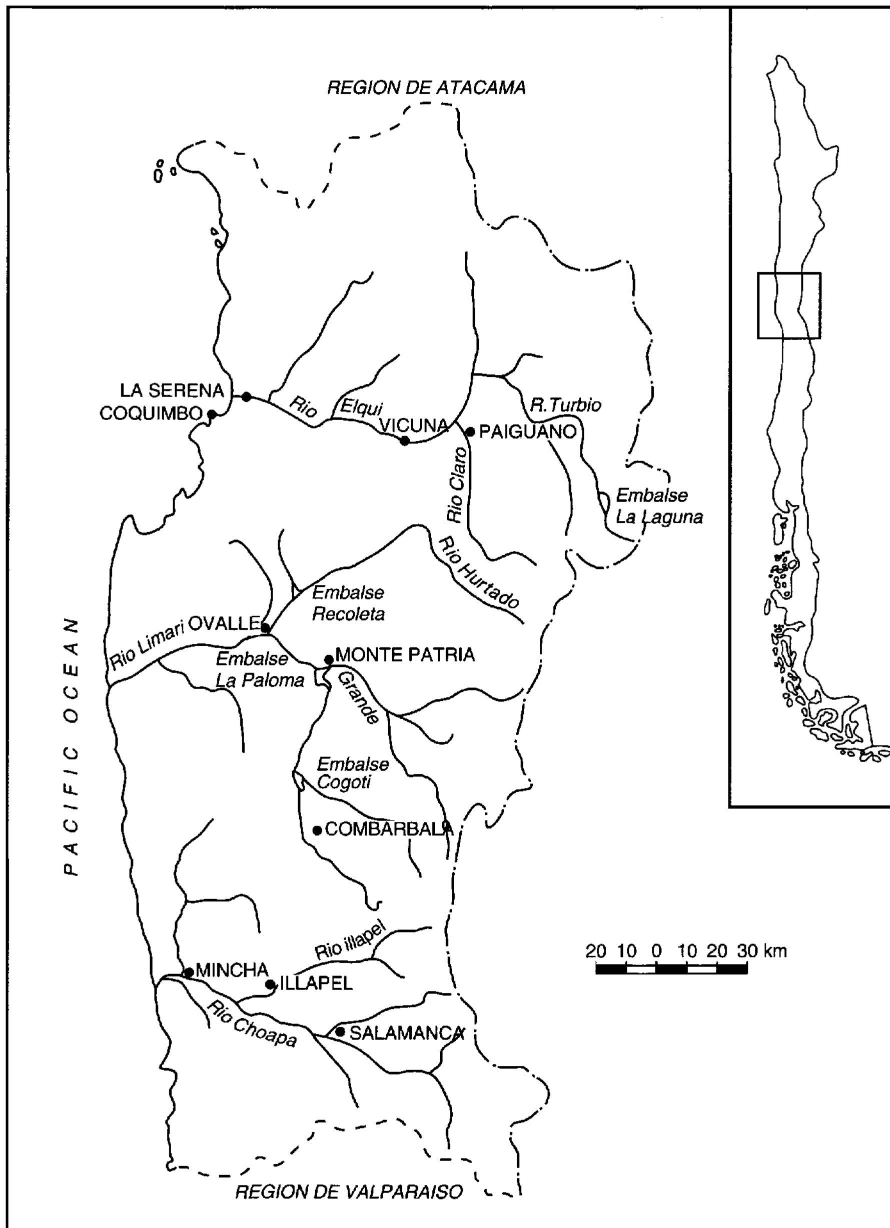

FIGURE 8.4 *Three river systems in Chile's Norte Chico*

compete – despite producing agricultural goods more cheaply.

- *NTAX argument* – agricultural protection in core economies emphasizes basic foods and does not cover off-season vegetables and fruits and other products typical of NTAX.

In terms of agricultural exports, EMCs have numerous comparative advantages in world trade. However, they tend to compete on an uneven playing field, particularly in relation to agricultural production in core economies. This is most notable for the export of basic foods, where erratic growth

and worsening terms of trade have characterized the past two decades. NTAX have not suffered the same fate but, given the previous analysis, EMC governments would find it difficult to rely solely on NTAX. Promoting NTAX could not be used as a policy for all EMCs because of the distinct market limitations for very specialized products in world trade.

It is worthwhile adding that Krugman (1990) also uncovered asymmetries on the supply side. He argued that the manufacturing sector of the core economies enjoys increasing returns to scale (based on superior capital endowments and the nature of manufacturing technologies) while the primary sector in EMCs enjoys only constant returns to scale. Free trade between core economies and EMCs will thus produce worsening terms of trade and increasing difficulties for industrialization in EMCs as entry into more sophisticated manufacturing sectors becomes more difficult. In the remainder of this chapter we will compare resource-oriented development in the FSU and Latin America. Both regions could be termed 'resource peripheries' (Murray, 1999).

Resource-oriented development in the former Soviet Union

Chapter 4 discussed the differential spatial impact of post-communist transition on and within the countries of ECE and the FSU. In the new situation of insertion into the global economy, those countries and regions that possess exportable resources have a distinct advantage over those that do not, especially since other economic activities inherited from the communist period are often unprofitable under market conditions. It is therefore not surprising that countries that are resource-rich – such as Russia, Azerbaijan, Kazakhstan, Uzbekistan and Turkmenistan – have begun to base their post-communist development around the export of resources. In some ways this is a continuation of trends that began under the communists. Thus, after about 1970, the Soviet Union began to depart to some extent from its previous policy of economic autarky to export considerable quantities of oil and gas to the world market. By so doing it was able to earn hard currency, which helped it to overcome various bottlenecks in the command economy – importing new technologies and food. The USSR also exported energy to its East European satellites at highly subsidized prices, thus helping to maintain its economic and political hegemony over them. But in the new post-communist situation trade in resources is much more open to market forces than it was in the past. It would also be true to say that the states concerned are now much more dependent on this kind of trade than were the Soviets.

Russia is a prime example of a country that has come to rely very heavily on resource exports for its economic development. In 2000 energy exports (primarily oil and gas) accounted for some 59 per cent of its total exports by value. This compared to 40 per cent in 1995. Russia's second most important export was metals, which, together with energy, brought Russia's export trade in these (mainly) primary products to some 78 per cent, compared to less than 60 per cent in the mid-1990s (EIU, 2001: 42). This naturally leaves the Russian economy dangerously exposed to fluctuations in world commodity markets.

A feature of the Soviet years was that, in the rush to maximize production, it was common for those natural resources that were most accessible and easiest to exploit to be developed first, often in the most short-sighted and wasteful manner. Eventually this meant that the country became more and more reliant on resources located in remote and usually inhospitable regions as those close to centres of population and economic activity were exhausted. Thus in 1996 just under 70 per cent of oil production came from the swamplands of western Siberia whilst over 90 per cent of gas production came from the harsh and inhospitable coastal territories to their north. Years of underinvestment mean that maintaining and enhancing levels of production may prove difficult for both oil and gas despite extensive reserves, especially in natural gas (Russia possesses about a third of the world's reserves of natural gas). But partly for political reasons the Russians have been reluctant to permit extensive foreign involvement in their established fields. An exception are the newly developing oil and gas fields located off the coast of Sakhalin island in the Far East, which are very well placed to supply Asian markets like Japan, South Korea and China. Here a series of consortia have been established that involve participation by a number of major international corporations (Paik, 2001). It is interesting to note that the Russian Far East is very well endowed with energy resources, but shortages of capital and delays in attracting foreign investment have led to local energy shortages.

As in other parts of the world, the economic advantages of resource development in Russia do not always accrue to the regions where the resources themselves are located. This was certainly true in the Soviet period when all resource developments were strictly controlled by Moscow, which alone decided what benefits, if any, were to be passed on to the local area. In the post-communist period, however, relations between the centre and the periphery have been more fluid, and resource-rich regions have often found some room to negotiate special revenue-sharing arrangements with Moscow. This has been true, for example, of the Sakha Republic (an 'autonomous territory' within the Russian Federation), situated in the northern part of the Russian Far Eastern region. Sakha is a producer of diamonds and other minerals, and has resources of gas and oil. With its own distinctive ethnic culture (albeit a minority of the total population), this republic has been keen to establish a greater degree of autonomy in its relations with Moscow. Much the same has been true of Tatarstan, a republic (another of Russia's 'autonomous territories') on the Volga in European Russia with oil and gas resources. In these and other cases the issue of resource development thus has both economic and political implications.

One of the most complex resource development issues in the FSU, involving not only Russia and other FSU states but also a whole range of international actors, is that of the Caspian Sea. The Caspian is a landlocked basin characterized by considerable reserves of gas and oil. However, the development of these reserves was neglected by the Soviets and only since the demise of the USSR has a concerted effort been made to exploit them. By 2000 the region produced about 65 million tonnes of oil; some forecast an output of 200 million by 2015 (EBRD, 2001: 76–7). Four FSU states (Azerbaijan, Russia, Kazakhstan and Turkmenistan) line the shores of the sea, together with Iran. All are extremely dependent on oil and gas exports, and also on the contribution made by these commodities to their GDP and to government revenues (see Table 8.1). Therefore all are keen to see the resources developed.

However, quite apart from the considerable environmental difficulties that afflict resource development in this region, three problems have beset such ambitions. First, all the countries concerned require FDI to develop the resources but such problems as political instability, legislative uncertainty and transit difficulties have deterred international investors. Recently, however, some of these problems have been overcome by the signing of special, guaranteed contracts, which involve agreements over such matters as ownership rights and taxation levels, between international oil corporations and several of the governments concerned. There is now therefore increasing international involvement in the Caspian oilfields.

The second problem has been a dispute between the participant countries over the ownership of the seabed. In Soviet times the Caspian was divided between the USSR and Iran, with the USSR owning the lion's share but the maritime boundary between the two countries never having been defined in law.

TABLE 8.1 *The dependency of Caspian Sea countries on oil and gas exports, 2000*

	Azerbaijan	Kazakhstan	Russia	Turkmenistan
Oil and gas as % exports	85.2	46.8	50.4	81.0
Oil and gas as % GDP	30.5	24.7	21.5	68.7
Oil and gas as % government revenues	36.2	27.5	30.1	42.0
FDI in oil and gas as % of total FDI	80.5	69.7	n.a.	n.a.
Oil production (mn tonnes)	14.9	35.3	323.3	7.4
Gas production (bn cu.m)	5.3	10.7	545.0	43.8

Source: EBRD (2001: 79)

There is a problem in international law as to whether the Caspian is to be defined as an inland sea or a lake. For a long time Russia and Iran (having the smallest shares in the Caspian) argued that the seabed resources should be jointly owned by the five countries concerned. More recently, however, Russia seems to have moved closer to Azerbaijan's position, which favours splitting the seabed among the five states in accordance with their coastline positions.

A third problem has been transit rights. Since the Caspian is landlocked, access to its resources must be via the territories of one or more neighbouring states, but every possible pipeline route has both economic (transit fees) and political implications. In Soviet times oil pipelines were routed via Russian territory and Russia is naturally happy for this arrangement to continue. However, the Russian route has been made difficult by the conflict in Chechnya and also by the fears of the other states regarding a Russian monopoly. Different states and consortia therefore favour different routes: via Georgia to the Black Sea (suffering from political unrest in western Georgia); via Turkey to the Mediterranean (much favoured by the USA, but suffering from the political instability of eastern Turkey); via Iran to the Persian Gulf (strongly opposed by the USA); via Afghanistan and Pakistan (hardly stable!) or even via China. Needless to say, quite apart from political considerations, some of these pipeline routes would prove very expensive.

Resource-based development therefore appears very much on the cards for a number of the transition economies. Revenue from the sale of natural resources might in principle be used to ease some of the problems of transition, such as the lack of investment and the need for social welfare programmes to cushion economic restructuring. However, there is also the danger that some of the revenue might be misspent or disappear into private pockets and, in accordance with the 'resource curse thesis', the process of economic transition actually be hindered (Auty, 2001).

A comparison with resource-oriented development in Latin America

It is useful to refer to Auty's (1993) concept of the resource curse thesis in comparing resource-oriented development in the FSU and Latin America. Auty suggested that a favourable natural resource endowment may be less beneficial to countries at low- and mid-income levels of development than conventional wisdom might suggest. Indeed, not only may resource-rich countries fail to benefit from a favourable endowment, they may actually perform worse than less well-endowed countries.

Resource-rich countries are easily and adversely affected by 'Dutch disease'. This results from the appreciation of the exchange rate brought about by a rapid rise in inflows of mineral rents. This occurs when there are commodity price booms (as in Venezuela between 1973 and 1981, when oil prices rose more than twentyfold) or when production and exports increase rapidly (as in Mexico where oil exports rose sharply between 1977 and 1982). The sustained appreciation of the exchange rate under such conditions leaves the resource-rich country with an overvalued exchange rate and means that exports to the global economy become more expensive. Whilst this has only a limited impact on the oil- or mineral-exporting sector, it does have an adverse effect on other sectors. In particular, manufacturing and agricultural exports become uncompetitive. The resource-rich economy becomes heavily dependent on the export of its key resource(s) and is unable to diversify and develop dynamic manufacturing or agricultural sectors.

This becomes a severe problem during periods of global recession, when commodity prices decline. The resource-rich countries then find it difficult to diversify their exports and the external funding crunch that ensues can initiate a downward economic trajectory – unless, of course, more resources are discovered and exploited. Furthermore, in the boom period, institutions (particularly those of the state) become geared to the huge incomes generated by resource export growth. Venezuela's political system not only spent the proceeds of the oil bonanza of the 1970s and early 1980s but also used its position as a major oil economy to borrow heavily on international markets. Since the early 1980s, Venezuela has witnessed a series of economic and political disasters as it has tried to grapple with the gross economic and political mismanagement of its resource-rich decade (1972–82) (Karl, 1997).

The issue of sustainability is key to understanding the potential for resource-oriented development in EMCs. When talking of resources and economic development, there are two different concepts linked to sustainability. The first is that of economic sustainability: can a particular model of resource development provide a sustained basis for economic growth or will it lead to a pattern of boom and bust?

Auty (1993) argues that it is difficult to generate sustained economic growth from relying on oil or mineral exports; the Venezuelan case seems to prove his point in this respect. The other concept is that of resource sustainability, which introduces environmental issues as well. A critical distinction here is between non-renewable and renewable resources. Non-renewable resources 'are substances which have taken millions of years to form and so from a human perspective are now fixed in supply' (Rees, 1990: 14); oil and gas are good examples here. Meanwhile, renewable resources are those that are 'naturally renewed within a sufficiently short timespan to be of relevance to human beings' (Rees, 1990: 14); products from agriculture or plantation forestry could be included here.

Returning to the comparison between Latin America and the former Soviet Union, one can argue that whilst the FSU continues to rely on the export of non-renewable resources (oil and gas), many Latin American countries have been able to diversify their resource exports into renewable products, such as agricultural and plantation forest exports.

Thus in 1994, 11 out of 20 Latin American and Caribbean countries relied on agricultural exports for more than one-third of their exports (Murray, 1999: 136). These have been the focus of various studies; Barham *et al.* (1992) investigated the expansion of agricultural exports from Chile, Costa Rica and Guatemala, Carter *et al.* (1996) explored the impacts of agricultural export booms in Chile, Guatemala and Paraguay on rural poverty, and Schurman (2001) focused on the relationship between growth in renewable resource exports and labour in Chile.

The impact of productive growth in renewable resources on national economies and spaces within those national economies has generally been more favourable than the impact of productive growth in non-renewable resources. Carter *et al.* (1996) explored the relationship between export-oriented growth of agricultural resources and the regional incidence of poverty in Latin American countries. They argue that there are at least two key transmission mechanisms in this relationship: the ownership patterns of the resource and the labour intensity of the productive activities.

We can explore these relationships within an EMC characterized by the growth of a wide range of resources for export, namely Chile. In Chile, investment has not only been drawn to non-renewable resources (such as copper) but also to an impressive range of renewable resources, such as fruit, table grapes, wine, plantation forests and salmon farming (Schurman, 2001). Furthermore, the growth in export-oriented production has involved most regions of Chile (see Figure 8.5). This has given most

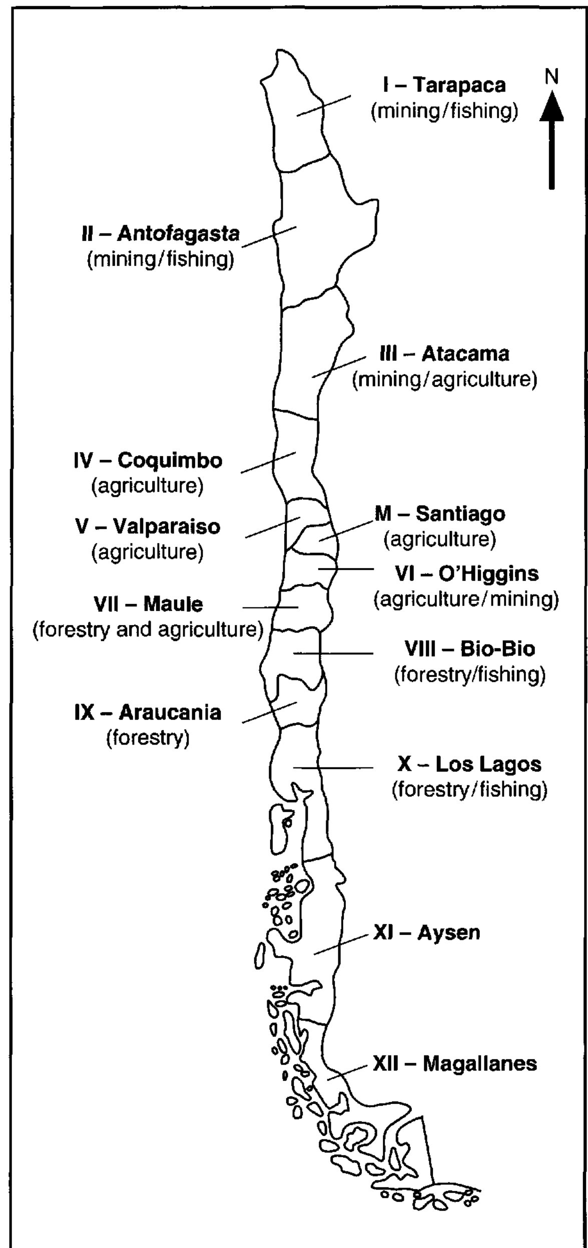

FIGURE 8.5 *Chile's regions and main export sectors*

Table 8.2 *Poverty headcount ratios and regional tradeability in Chile, 1987–1992*

Region	Poverty headcount ratio (per cent), 1987	Poverty headcount ratio (per cent), 1992	Tradeability index (per cent) 1990
I	44.2	29.3	34.9
II	38.6	29.7	67.1
III	44.1	28.8	66.8
IV	51.1	40.0	58.3
V	40.0	34.5	45.4
VI	45.2	27.1	64.4
VII	47.2	40.2	52.8
VIII	56.2	46.6	52.2
IX	61.3	43.4	36.5
X	50.6	34.9	42.6
XI	26.6	28.5	28.3
XII	19.3	26.2	66.1
Santiago	38.7	25.5	26.3

Source: adapted from Scott (1996)

Chilean regions a high tradability index (Scott, 1996), in terms of the amount of regional production entering world trade (see Table 8.2).

It is useful to compare the regional impacts of export-oriented production linked to two contrasting (renewable) resources – fruit production and plantation forestry. First, there are differences in ownership patterns between the two resources. In fruit production, small- and medium-scale producers can be as significant as large-scale producers, particularly in the early stages of export growth. Large companies in the fruit sector tend to specialize in international trade and distribution of fruit rather than in direct ownership of land and the production of fruit. In contrast, forestry, due to the industrialized nature of this sector, tends to be dominated by large-scale firms from an early stage (Gwynne, 1993; 1996b). Large Chilean corporations, such as Forestal Arauco, invest heavily in both land and value-added production (cellulose, sawmills). As ownership of productive activities is highly concentrated in forestry, poverty reduction should be lower in the producing regions compared to those regions specializing in fruit production.

Second, there are differences in labour intensity between the two sectors of fruit and forestry. Fruit production uses significant labour throughout the year and becomes very labour-intensive during the period of harvesting and packaging. In contrast, forest management (planting, pruning, clearing) has a 30- to 40-year production phase, requires relatively little labour and is organized through sub-contracting companies that operate over significant economic spaces. Meanwhile, forest-product factories (most notably cellulose) are very capital-intensive and employ relatively small numbers. As fruit production is more labour-intensive, again poverty reduction should be greater in regions specializing in fruit rather than forestry production.

Table 8.2 gives some support in general terms to these arguments, particularly if one compares the fruit-producing region of O'Higgins (Region VI) with that of Bio-Bio (Region VIII) where plantation forests provide the basis for the main export activity. Between 1987 and 1992, poverty reduction was much greater in the fruit-exporting region than in the region specializing in plantation forestry.

However, in resource-rich EMCs, the effects of export-oriented resource growth are not necessarily concentrated in the producing region. The primate city and its immediate environs can enjoy the highest rates of regional economic growth within export-oriented resource development. There are some logical economic explanations behind this phenomenon.

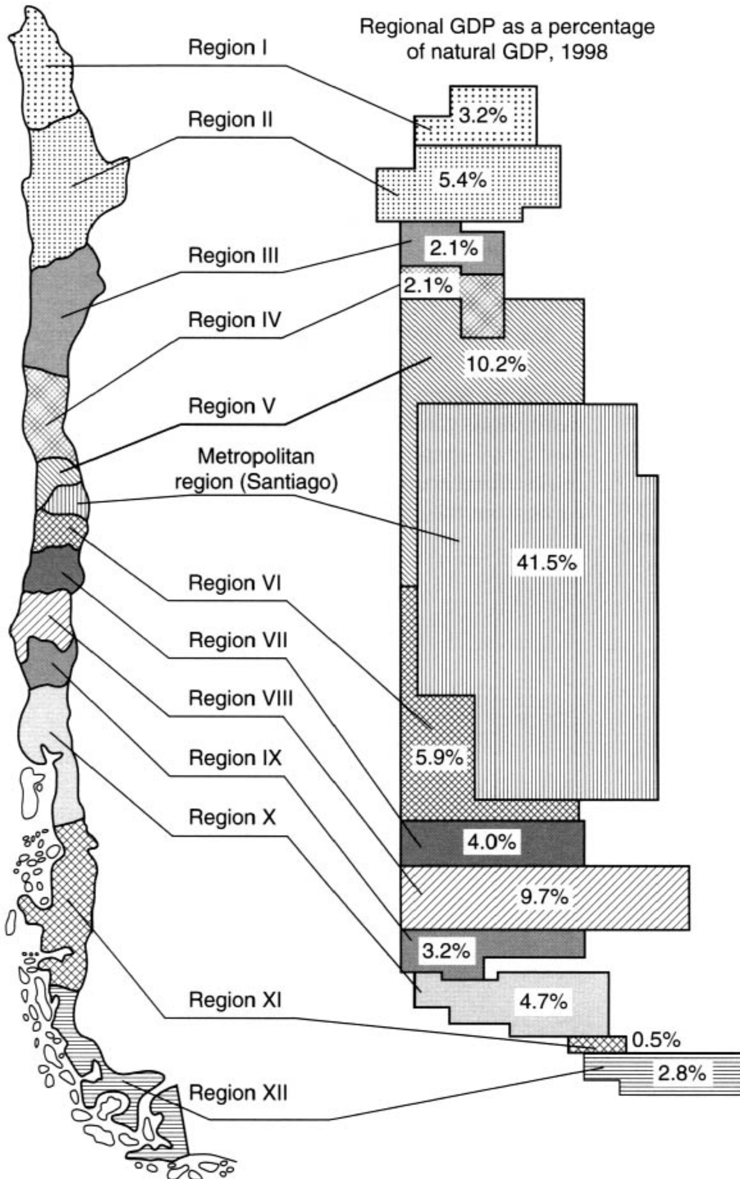

FIGURE 8.6 *The economic power of Chile's regions*

The primate city offers economies of scale in key related sectors (finance, manufacturing, business services, retailing) and constitutes the nexus of communications between the resource periphery of the EMC and the demands of the world economy. In Chile, the regional GDP of the metropolitan region of Santiago accounted for 41.5 per cent of national GDP in 1998 (see Figure 8.6) and completely overshadowed the GDP of other regions. The other 12 regions of Chile, some of which are immensely rich in resources (including non-renewable resources, such as copper-producing in Antofagasta, Region II), are much more similar to one another in terms of regional GDP. One is driven to the conclusion that the surplus capital from Chile's resource-rich regions inevitably becomes concentrated in its capital, where 5 million (33 per cent of the national population) now live.

Conclusion

This chapter has pursued the regional implications of trade liberalization and concentrated on the theme of export-oriented resource production. We have done this without focusing on the main agents of global trade: the transnational corporations (TNCs). It is now necessary to bring these into the argument and the next chapter has this as its main objective.

Further reading

Auty, R.M. 1993: *Sustaining Development in Mineral Economies: The Resource Curse Thesis*. London: Routledge. Provides a detailed analysis of the problems of achieving sustained economic growth faced by mineral-rich countries in the emerging regions of the world. Mainly economic in focus, but introduces some broad political themes as well.

Carter, M., Barham, B. and Mesbah, D. 1996: Agricultural export booms and the rural poor in Chile, Guatemala, and Paraguay, *Latin American Research Review* 31(1), 33–66. A classic paper that sets out the key relationships between export-oriented growth in agriculture and the rural societies it impacts upon. A useful introduction to all those interested in how to relate the operation of global markets to 'new' local spaces specializing in agriculture in emerging regions.

Karl, T.L. 1997: *The Paradox of Plenty: Oil Booms and Petro-states*. Berkeley: University of California Press. Develops some interesting analyses of how political institutions can become geared to the surpluses generated by oil-surplus states to the long-term disadvantage of sustained economic growth. Most detailed examples come from the case study of Venezuela.

9

THE TRANSNATIONAL CORPORATION AND EMERGING MARKET COUNTRIES

One key image of global power is that of the transnational corporation (TNC). Within the broad context of world-systems theory (WST), as set out in Chapter 1, TNCs can be seen as straddling the world whilst emanating from the core economies, where their head offices remain strongly concentrated. How do TNCs fit into a world-system in which the location of economic and political power is strongly concentrated in the core countries? Table 9.1 attempts to give an insight into the pattern of global economic power at the end of the twentieth century. Global economic entities are divided into three: core economies, emerging market countries (EMCs) and TNCs. The largest economic entities are six of the members of the G8 (USA, Japan, Germany, France, UK, Italy); all have economies of over US$1 trillion in GDP. They represent a clear top stratum in the world's economy, the size of their economies being greater than those of all other countries, including the heavily populated emerging countries of China and Brazil. After this top stratum, there follow 17 further countries before the first TNC, General Motors, appears. Nine of these countries (with large populations) are EMCs and eight of them (with smaller populations) belong to the group of core economies.

General Motors was effectively ranked 24th in the world in terms of the size of economic entities, whether nation-states or TNCs. After General Motors, Table 9.1 becomes dominated by TNCs rather than countries. If one takes General Motors and the next 56 largest economic organizations in the world, most of them (34, or 60 per cent of the total) are TNCs, all with head offices in the United States, Japan or Europe; only 13 entities can be classified as EMCs and 10 as core countries. TNCs may not (yet) be in the very top rank of global economic organizations but they remain very powerful in the second rank and beyond. In 1999 there were 60,000 TNCs worldwide with 500,000 foreign subsidiaries (UNCTAD, 1999a: 1). International production by TNCs has become more important than international trade in delivering goods and services to foreign markets. 'Foreign affiliate sales (of goods and services) in domestic and international markets were about $11 trillion in 1998, compared to almost $7 trillion of world exports in the same year' (UNCTAD, 1999a: 9).

A small number of TNCs dominate world markets in a number of sectors – oil, minerals, foods, key industrial sectors such as motor vehicles and rapidly growing services, such as accountancy and computer software. The 100 largest non-financial TNCs control about 15 per cent of global foreign assets and account for 22 per cent of total world sales of all TNCs (UNCTAD, 1999a: 2). Their impact on employment is not commensurate with such global economic power as they 'only' employ about 6 million workers in the world economy.

TNCs can be seen as key actors in the contemporary evolution of global inequality. They control about two-thirds of world trade, with up to one-third of world trade being intra-firm trade between branches of the same company (UNCTAD, 1995: 23). They are key players in international finance and (through media ownership) the globalization

TABLE 9.1 *Nation states versus transnational corporations (the top eighty)*

Country or corporation	GDP/sales (US$ million)	Country or corporation	GDP/sales (US$ million)
1. UNITED STATES	7745705	41. *Marubeni*	111173
2. JAPAN	4201636	42. *Sumitomo*	102443
3. GERMANY	2100110	43. **Malaysia**	97523
4. FRANCE	1396540	44. PORTUGAL	97357
5. UNITED KINGDOM	127171	45. SINGAPORE	96319
6. ITALY	1145370	46. *Toyota*	95181
7. **China**	825020	47. ISRAEL	91965
8. **Brazil**	786466	48. *General Electric*	90840
9. CANADA	603085	49. **Colombia**	85202
10. SPAIN	531419	50. **Philippines**	83125
11. **South Korea**	442543	51. *Nissho Iwai*	81932
12. **Russian Federation**	440562	52. *IBM*	78508
13. AUSTRALIA	391045	53. *Nippon Tel.*	77019
14. NETHERLANDS	360472	54. *AXA-UAP*	76869
15. **India**	359812	55. **Egypt**	75483
16. **Mexico**	334766	56. **Chile**	74292
17. **Argentina**	322730	57. IRELAND	72037
18. SWITZERLAND	293400	58. *Daimler-Benz*	71536
19. BELGIUM	264400	59. *British Petroleum*	71175
20. SWEDEN	227751	60. *Hitachi*	68599
21. **Indonesia**	214593	61. **Venezuela**	67316
22. AUSTRIA	206239	62. *Volkswagen*	65306
23. **Turkey**	181464	63. NEW ZEALAND	64999
24. *General Motors*	178174	64. **Pakistan**	64360
25. HONG KONG	171401	65. *Matsushita Electric*	64310
26. DENMARK	161107	66. *Siemens Group*	63731
27. **Thailand**	157263	67. **Peru**	62431
28. *Ford Motor*	153627	68. *Chrysler*	61147
29. NORWAY	153403	69. *Mobil*	59978
30. *Mitsui*	142754	70. *Philip Morris*	56114
31. **Poland**	135659	71. *Allianz Worldwide*	55397
32. **South Africa**	129094	72. *Sony*	55058
33. *Mitsubishi*	128982	73. **Czech Republic**	54890
34. *Royal Dutch Shell*	128108	74. *Nissan Motor*	53503
35. *Itochu*	126691	75. *AT&T*	53261
36. **Saudi Arabia**	125266	76. *Fiat Group*	52590
37. *Exxon*	122379	77. *Honda Motor*	48899
38. *Wal-Mart*	119299	78. *Credit Suisse*	48641
39. GREECE	119111	79. *Unilever*	48479
40. FINLAND	116170	80. *HSBC Group*	48404

Note: Core countries in capitals; emerging market countries (or of the semi-periphery) in bold; corporations in italics
Source: sales figures are from *Fortune*, 27 April 1998 and *Forbes*, 27 July 1998;
GDP figures are from World Bank, *World Development Report 1998/99*: 212–13.

Table 9.2 *The largest 15 transnational corporations from emerging countries and how they relate to the size of emerging countries, 1997*

Corporation or Country	Country of corporation	Industry type of corporation	GDP/sales (US$ million)	Transnationality Index*
Romania			**35204**	
Petroleos de Venezuela	Venezuela	Oil	34801	44.5
Sunkyong Group	Korea	Diversified	31692	16.6
Petrobras	Brazil	Oil	27946	4.4
Vietnam			**24893**	
Slovak Republic			**19565**	
Ecuador			**18887**	
Daewoo	Korea	Diversified	18802	50.8
China National Chems.	China	Diversified	17880	43.1
Guatemala			**17784**	
LG Electronics	Korea	Electronics	17640	30.1
Dominican Republic			**14936**	
Samsung	Korea	Electronics	13050	16.3
Jardine Matheson	Hong Kong	Diversified	11522	75.0
Paraguay			**10180**	
Petronas	Malaysia	Oil	10055	25.9
Costa Rica			**9350**	
Lithuania			**9265**	
First Pacific	Hong Kong	Electronics	8308	74.4
Bolivia			**8108**	
YPF	Argentina	Oil	6144	19.3
Trinidad and Tobago			**5894**	
Hutchison Whampoa	Hong Kong	Diversified	5754	37.3
China State Construction	China	Construction	5420	27.3
Hyundai	Korea	Diversfied	5405	37.6
Companhia Vale do Rio Doce	Brazil	Diversfied	4744	32.7
Honduras			**4490**	

Source: UNCTAD (1999a); World Bank (1999c)
*The transnationality index is calculated as the average of the sum of three ratios for each TNC: foreign assets to total assets; foreign sales to total sales; foreign employment to total employment

of culture. Perhaps the key area is that of the generation of technology as they 'play a major role in the generation and international diffusion of technology, accounting for around 80 per cent of world trade in technology and the majority of private research and development' (Held *et al.*, 1999: 236). Technology payments and receipts of countries in the form of royalty payments and licence fees have risen steadily since the mid-1980s. The intra-firm (between parent firm and foreign subsidiary) share of these expenditures has risen even faster. The global distribution of technological capability and payments now provides a powerful indicator of global inequality. In 1997, core economies received 98 per cent of cross-border flows of royalties and licence fees (UNCTAD, 1999a: 11). Thus, EMCs, in spite of

the growth in manufacturing exports (see Chapter 7), remain highly dependent on technology generated by TNCs from core economies.

It should be noted that some TNCs originate from emerging market countries (EMCs). Table 9.2 demonstrates the largest 15 corporations in the EMCs in terms of total sales and how they relate to EMCs of equivalent size. As the transnationality index demonstrates, most of these TNCs have more than 30 per cent of their assets, sales and employment overseas. There is a gap between their sales power and those of the leading TNCs from the core economies. Furthermore, there are some differences from the pattern evident in the core economies. First, there are many state corporations in evidence, such as some of the oil corporations (starting with Petroleos de Venezuela) and the large Chinese construction, chemical and engineering companies. Second, there are a large number of corporations, mainly from East Asia, that have not specialized in one manufacturing area but have developed a diversified manufacturing base. Third, some of these TNCs from the EMCs are unstable. Daewoo, all-powerful in 1997, was hit by the subsequent East Asian crisis and has since been split up, with some of its manufacturing divisions sold off (see Box 9.1).

Box 9.1 The rise and fall of South Korea's Daewoo Motor

Data for 1997 indicate that South Korea was the only semi-peripheral country hosting any of the world's 50 largest corporations (see Table 2.3). The story behind Korea's largest *chaebol*, the Daewoo Group, illustrates the trials and tribulations of a semi-periphery leader, and constraints against joining the core. The Daewoo Group includes South Korea's second and third largest car companies after Hyundai: Daewoo Motor and Ssangyong Motor. Unfortunately, Daewoo has financially collapsed since the 1997 Asian economic crisis. South Korean banks have declared Daewoo Motor bankrupt. At the time of writing (September 2002), Ford was negotiating with the South Korean government to buy Daewoo Motor for around US$6.9 billion. The Daewoo Group is selling its automobile division to help it pay off the estimated US$16–18 billion owed creditors. Such a buy-out could give Ford better access to Asia's growing markets, where Daewoo has become a major player, and to Eastern European markets, where Daewoo owns factories that produce low-price cars in Poland and elsewhere (*Economist*, 1999b).

What, then, is the relationship between the TNC and the development of the EMC? The remainder of this chapter will examine the relationship in two ways:

1. by exploring two alternative conceptual frameworks of how the TNC and the state can relate to each other
2. by discussing some of the major theoretical perspectives that have focused on the role of the TNC in countries of the semi-periphery and periphery.

GLOBALIZATION OR INTERNATIONALIZATION?

In Chapter 1 we introduced the binary comparison between models of the international economy on the one hand and the global economy on the other. According to the international economy model the principal mode of interaction is trade between countries. In this model each country specializes in producing goods and services in which it has a comparative advantage (a given advantage due to natural resources or factor endowments) or competitive advantage (created by governments or national firms in terms of subsidized investment and policies promoting technological capability or human resource development). Weiss (1997: 11) further argues that in all but the smallest countries trade constitutes quite a small share of GDP.

The international economy model can also be supported by sectoral interpretations of current trends in foreign direct investment (FDI), which has grown rapidly over the past two decades. The major part of FDI is now directed to services, particularly in developed countries (see Figure 9.1). Investment in most services (hotels, real estate, retailing, banks, insurance) is more locationally rooted and less footloose than investment in 'directly productive' sectors such as manufacturing. 'It is this footloose quality of TNCs – above all the threat of exit – that is seen to pose the greatest threat to territorially constituted forms of governance' (Weiss, 1997: 9). The threat of exit is much more serious in services than in manufacturing.

Thus, the role of the TNC may be important but power lies firmly with the state. International

phenomena are outcomes that emerge from the distinct and different performance of national economies. Weiss (1997: 4) argues forcefully that 'the novelty, magnitude and patterning of change in the world economy are insufficient to support the idea of a "transnational" tendency' and the creation of global markets 'in which locational and institutional – and therefore national – constraints no longer matter'.

The global economy model has a very different emphasis. The key actor becomes the TNC, increasingly detached from constraints of government regulation. In addition, this model regards TNCs as becoming more detached from their home bases, as exemplified by an increasing tendency to locate their head offices in tax havens such as the Cayman Islands and Panama (see Chapter 11). As a result, it is argued that the TNC is becoming the single most important force in industrial restructuring between and within states. Not only do TNCs control economic activities in more than one country, they can also exploit geographical differences between countries and regions in terms of factor endowments such as labour costs. Furthermore, TNCs are able to shift resources and operations quickly between locations at a global scale. The shifting of huge numbers of motor vehicle component plants from the US states that surround Detroit (Michigan, Ohio, Indiana) to the northern part of Mexico provides one key example. The shifting of electronics production by US TNCs from the USA to Taiwan in the 1960s and 1970s, followed by the movement of production from Taiwan to the Chinese provinces of Guangdong and Fujian in the 1980s and 1990s, provides a two-stage example (Zhang, 1994).

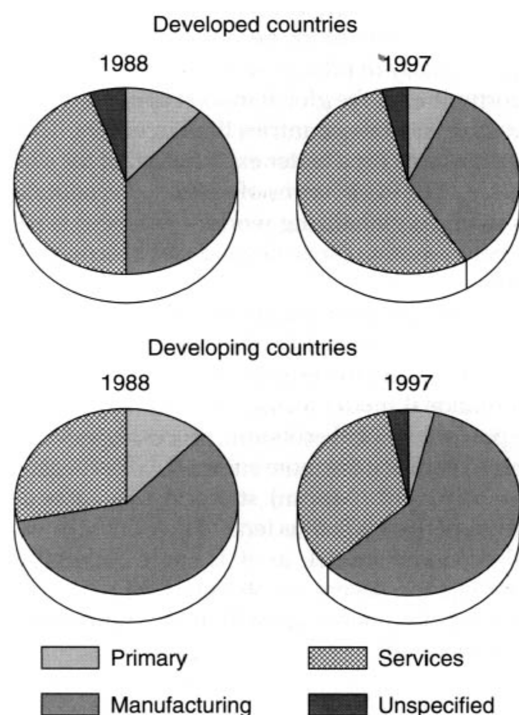

FIGURE 9.1 *Inward foreign direct investment stock in developed and developing countries by sector, 1988 and 1997 (percentage)*
Source: UNCTAD (1999a: Figure 1.13, 27)

The global economy model thus sees the world as one in which borders to interaction are falling. Investment is no longer geographically constrained, so that capital can flow to places that generate the highest return or the best opportunities for the TNC. This is particularly notable in TNCs specializing in international finance as evidenced by the huge growth in capital flows into EMCs from 1990 to 1997 before the Asian crisis curtailed such flows. It is thus argued that the state has lost control over the whereabouts of capital. State regulations and incentives are no longer effective in a world where the rapid growth in trading in bonds and equities, currency trading, international bank lending and FDI has increased TNC flexibility and bargaining power. These transformations have been combined with revolutions in information and transportation technologies. Such revolutions have enabled TNCs to operate in most parts of the world with low transaction costs. At the same time, it is argued that TNCs have been instrumental in both producing and reacting to a more homogenized world of consumption.

What is the record of foreign direct investment (FDI) in EMCs? In terms of UNCTAD data on developing countries (see Figure 9.1), these countries (unlike core economies) are being inserted into the world economy more in terms of manufacturing investment than in terms of services. It could be argued that TNCs invest in manufacturing plant in EMCs in order to exploit low-cost production sites, particularly lower wages. However, flows of FDI are still heavily concentrated into core economies. In 1991, 81 per cent of FDI was located in the high-wage, high-cost core economies. Why are TNCs not investing more in emerging market countries?

At least three crucial processes can be identified.

1. First, there is the issue of the nature of new technologies at the beginning of the twenty-first century. These technologies place a premium on fixed costs (equipment, machinery) whilst reducing the importance of variable costs (such as wages and raw materials). Weiss (1997: 10) argues that certain types of labour tend to be treated increasingly as a fixed cost. This applies in particular to knowledge-intensive labour, which is concentrated geographically in certain key locations (such as Silicon Valley in California) and can be seen as relatively immobile. Thus, the general effect of technological transformation is to reduce the cost savings to be gained by moving to low-income sites.
2. Second, there is the locational issue involved in new production methods. These methods emphasize the growing importance of physical proximity between producers and suppliers – especially in nonassembly operations. They privilege local supplier networks, thus driving a trend towards the constitution of regional, not global, sourcing networks. The cases of TNCs establishing new plants on the Mexican border or in China's Guangdong province correspond to locations in EMCs becoming part of regional supply networks that include either core economies (the USA in the case of Mexico) or first-generation NICs (Taiwan and Hong Kong in the case of Guangdong province).
3. Third, it must be remembered that TNCs derive considerable advantage from domestic linkages in their home base (Weiss, 1997: 10). For example, national institutional frameworks enmesh business in support relationships with trade associations, training and financial institutions. In many economies, one of the most important of these support systems is the relationship between government and TNCs, which underpins the striving for national technological capability. Being generally exclusive rather than open to all, support relationships of this kind constitute a competitive advantage.

Competitive advantage within an EMC is a crucial variable for achieving sustained economic growth and often reflects the state's capacity to adapt its economy to global processes. This brings the focus on the adaptability of states, their differential capacity and the historical framing of national institutions. Authors such as Wade (1990) have argued that the East Asian model has shown that strong states (with fairly firm control over socio-economic goal-setting and robust domestic linkages) are more successful at inserting EMCs into a globalizing world (see Chapter 6). Thus, rather than envisaging the powers of the state and global market as contradictory 'we find that 'globalization' is often the by-product of states promoting the internationalization strategies of their corporations, and sometimes in the process 'internationalizing' state capacity' (Weiss, 1997: 4).

One key problem in the argument of the proponents of globalization as regards EMCs and poorer countries is that they see the installation of global markets as bringing economic convergence to the world – that countries will become less and less unequal in their per capita incomes. This has patently not happened over the past 50 years (see Chapter 1) but the 'globalizers' would retort that convergence has not taken place because of the lack of true global markets. However, the argument here from the 'internationalizers' is that the crucial variable is that of state capacity. Furthermore, because state capacities differ (particularly in EMCs), so the ability to exploit the opportunities of the global market appears much more feasible in some countries than in others. This provides the basis for a better explanation of the differentiation of EMCs in terms of sustained economic success within a globalizing world – the focus is on the link between state capacities and global economic processes.

In this way, the international economy model is able to better contextualize the increasing global inequality so evident in the early twenty-first century. The international model focuses on the adaptability of state power to global economic processes and can differentiate between the more successful (East Asian) and less successful (African) states in this context. The authors of this book thus tend to favour the international economy model, as it is more successful in portraying the severe constraints EMCs face in achieving rapid economic growth in the contemporary world economy.

THEORETICAL PERSPECTIVES

Theoretical perspectives about the role of TNCs in economic development in EMCs can be divided into

those that are broadly supportive of TNC involvement and those that are critical. They have differed primarily about the role that the state should adopt in its relationships with TNCs. At the beginning of the twenty-first century, it can be said that the power of transnational liberalism has caused governments, and particularly those from the EMCs, to take a more encouraging policy stance towards investment by TNCs. Thus, these governments have reduced the barriers to the productive activities of TNCs in most sectors. The following analysis will first examine the logic of the prevailing paradigm (that of the neoclassical approach with subsequent modifications from transaction cost theory), which sees the involvement of TNCs as broadly beneficial for economic growth in EMCs. It will then take note of the existence of radical approaches and theories about TNCs that question their involvement in EMCs.

The neoclassical and transactional approaches

This influential paradigm sees TNCs as efficient allocators of resources internationally and as providing benefits for both home and host nations. Back in the 1950s the distinguished Caribbean economist and Nobel laureate, W.A. Lewis (1955) argued that capital inflow from TNCs brought far-reaching and generally positive benefits for poorer countries through providing foreign exchange, raising domestic income and increasing the labour and managerial skills of the host country. He emphasized the need to pose the right question in addressing the issue of whether TNCs were a positive or negative influence on developing countries:

> If the choice is between local capital and foreign capital the advantage may be with the former, but if, as is more often the case, the choice lies between foreign capital or leaving resources undeveloped, then there is little doubt that foreign investment plays a most useful role in providing income to pay for higher standards of consumption, of education, and of domestic improvement.
>
> (Lewis, 1955: 258)

Such a neoclassical argument did make questionable assumptions (Jenkins, 1987: 19). One was the so-called supplement assumption, that foreign resources supplement domestic resources and in their absence there would be no local production. This may have been true for certain resource-oriented sectors such as mining, which required large investments, but was more questionable for small-scale investments (as in agriculture) or, subsequently, investments in services such as fast-food restaurants, supermarkets and hotels.

There was a further questionable assumption related to competition. A standard assumption of neoclassical approaches is that markets are seen as approximating the perfectly competitive model so that profits should not be excessive. Where market imperfections do arise they are largely the result of misconceived government policies. One example of such government policies in EMCs was that of import substitution industrialization, in which TNCs were allowed to locate productive plants in developing countries (particularly in Latin America and East Asia) and benefit from dominating in often restricted national markets. Under these conditions, large TNCs tended to enter Latin American countries as a group, often referred to as **oligopolistic reaction** (see Box 9.2). This created greater inefficiencies for the industrializing nation, with a number of TNCs now competing for sales in a restricted market and charging high prices as a result. However, neoclassical economists argued that this was because of misguided government policies rather than because of market imperfections.

Since the 1960s, the neoclassical framework has been complemented by more firm-specific approaches (Vernon, 1977; Caves, 1982; Dunning, 1988). In broad terms this has been called the 'transactional approach' by Caves (1982: 2), or transactional cost theory. This theory focuses down at the micro level of the firm, in which the firm is faced by numerous decisions regarding supply and service contracts with other firms. Contracts can be defined as agreements between buyers and sellers that stipulate the quantity, quality, timing and duration of exchanges. The theory seeks to understand how the nature of contracts governing exchanges between firms moulds the ownership of successive stages of production.

As firms break out of a dependence on their domestic market, they normally start by selling their products in other countries. They prefer to trade internationally rather than invest in the manufacture of their products in other countries. As TNCs grow, however, they normally decide to produce in other countries, including those of EMCs. In this expansion overseas, TNCs can be classified according to whether they evolve through processes of **horizontal or vertical integration**. Both have significant

Box 9.2 TNCs and oligopolistic reaction

Oligopolistic reaction is a term used to define the strategic moves of a small number of very large TNCs that dominate production in a global industry such as motor vehicles or tyres. In this situation, TNCs recognize that the actions of their rivals could impact on their profitability and market share, particularly in protected markets. They are, therefore, likely to adopt simple patterns of imitative behaviour (Knickerbocker, 1973; Gwynne, 1979). The price leader raises its price, and others follow. One TNC expands capacity and the rivals imitate, so as not to be left in a disadvantageous position in some ensuing price war. The concept has important locational implications, particularly in emerging markets.

Within a loose-knit world oligopoly of TNCs, rival A establishes a subsidiary in a protected market (country X). Rivals B and C reflect that this investment is likely to substantially reduce their export business to country X, and give rival A the first-mover advantage if the investment should prove successful. Indeed rival A might do so well in its new market X that it could repatriate significant profits and extend capacity in other markets at the expense of rivals B and C. These considerations make firms B and C imitate firm A and develop their own industry in country X. The oligopolistic firms share both the risks and potential benefits of establishing themselves in a new country. However, the EMC has the problem of a large number of TNCs producing for its (often small) domestic market.

Oligopolistic reaction was particularly noticeable during the inward-oriented phase of Latin America's economic development. However, examples still occur in the contemporary outward-oriented phase where close competitors are anxious about market share in both foreign and home markets. Thus, in 1999, two French hypermarket chains, Carrefour and Casino, invested heavily in the large Brazilian market – either through equity purchase or takeovers. One reason was that Carrefour had expanded so rapidly and become so profitable in Brazil that its chief competitor in France, Casino, felt it necessary to lock horns with it in this strategic global market (Vega, 1999).

implications for how EMCs are inserted into the world economy.

Horizontally integrated TNCs

These are TNCs that expand internationally in order to steadily increase their market area. They are firms that turn out essentially the same line of goods or services from their plants in each geographical market (there may be some small modifications to suit the specific characteristics of local markets). Benefits accrue to horizontally integrated TNCs due to their potential for overcoming market imperfections, particularly in terms of such factors as knowledge, technology and marketing skills. It is argued that the horizontally integrated TNC, in order to maximize its rent from product or process innovation or some other technological advance that it has achieved, should produce or provide a service in all possible markets. It should therefore ignore all external market transactions – selling the technological package to national firms in each overseas market. Examples of horizontally integrated TNCs can be found in such diverse areas as:

- the food and drinks industry – Coca-Cola
- the motor vehicle industry – General Motors, Volkswagen, Nissan
- the manufacturing of packaging and containers
- the provision of fast-food service – McDonald's, Pizza Hut
- international accounting services – PricewaterhouseCoopers.

TNCs are guided by clear locational criteria as they set up industrial plants or service facilities in EMCs. A major factor they consider is the size and sophistication of the EMC as reflected in levels of income or purchasing power parity; thus Brazil has a wide range of motor vehicle assembly and component plants, whereas neighbouring Bolivia has no assembly plants. One should emphasize again that the term emerging market is critically one of perception (see Chapter 1). In this light, TNCs can make two critical distinctions in their strategies towards developing countries. First, there is the perceived difference between countries as to whether or not TNCs can sell their products profitably to them. Second there is the decision as to whether an EMC is important enough to invest in and produce the TNC's products; TNCs closely investigate the cost-related advantages of locating directly in the market as opposed to supplying the market via imports. Other factors affect the decision of the TNC depending on the nature of their product or service. These include: the structure of

demand given factors of income distribution; consumer tastes; cultural factors.

TNC expansion through horizontal integration has been a major factor in what Sklair (1994) has called the rise of global consumerism in developing countries. Horizontal integration has been particularly significant in the expansion of service TNCs and key symbols of US culture – Coca-Cola bottling plants, McDonald's and other fast-food restaurants.

Vertically integrated firms

These firms have adopted a different global strategy by attempting to internalize market transactions at the global scale. A vertically integrated firm aims to control its own sources of supply and the destination of its outputs; outputs of some of its plants serve as inputs to others of its plants. According to Caves (1982: 16), vertical integration occurs 'because the parties prefer it to the contracting costs and uncertainties that would mar the alternative state of arm's length transactions'.

Vertically integrated TNCs are particularly significant in intermediate products of global significance such as oil and aluminium (see Box 9.3). Intermediate-product markets can be organized in a number of ways. Products such as oil can be bought and sold on spot markets (as in Rotterdam) where transactions take place anonymously and in more of a 'pure' market framework. A second form of linkage is provided by long-term contractual arrangements between different corporations acting at arm's length. A third mode or organization is that of vertical integration, where the TNC itself internalizes the market for the intermediate product by ownership or control of the value chain.

According to Caves (1982), considerable cost savings are enjoyed by TNCs through adopting strategies of vertical integration. These mainly take the form of the costs of uncertainty (as with the spot market), or the costs of negotiating and monitoring arm's length contracts. The greater the degree of uncertainty – whether over the availability, price or quality of supplies, or of the price obtainable for the firm's product – the greater the advantage for the firm to internalize and control these transactions.

Radical approaches

Jenkins (1987) identified the neo-imperialist approach as one in which the TNC was seen in the most negative light, operating as the major mechanism blocking development in poor countries. Jenkins (1987) traced the origins of the approach back to Lenin's interpretation of the TNC as an agent of rival imperial powers competing for control over peripheral countries (see Chapter 3). The growth of the TNC reflected the need 'to control raw-material sources and markets in order to protect their dominant position and to secure their investment even on a relatively longer-run profit perspective' (Roxborough, 1979). The neo-imperialist framework thus assumes an intimate link between the interests of the core (home) country and the TNC that has its base there.

More recent neo-imperialistic writers have seen TNCs as blocking development (Amin, 1977) or contributing to the development of underdevelopment (Frank, 1969). According to these theories, three principal mechanisms link foreign investment to underdevelopment.

1. There is a drain of surplus value from the peripheral developing countries to the advanced capitalist economies. The TNCs constitute the most prominent agent in this transfer.
2. There is an extension of the monopolistic and oligopolistic structures of advanced capitalism to poorer countries. According to Jenkins (1987: 29), 'monopolistic firms with high profit rates will tend to repatriate profits, intensifying the drain of surplus and limiting the rate of capital accumulation within the host economies'. As Boxes 9.2 and 9.3 demonstrate, monopolistic and oligopolistic firms are still significant on the global scale. When TNCs do re-invest profits locally, they are likely to expand by acquiring local competitors or moving into new areas of activity (with the possibility of displacing local producers). Thus, there will be an increasing foreign control over the economy and a concomitant reduction in the activities left available to local capital. There will be a tendency for the latter to be confined to the least profitable sectors of the economy.
3. There will be an emergence of a dependent bourgeoisie, a class that becomes reliant on maintaining close relationships with the TNCs from core economies and thus incapable of playing its 'historical role' in promoting a nationally based form of capitalist development (Cardoso and Faletto, 1979). Thus, the governing elites

Box 9.3 Vertical integration, aluminium production and EMCs

What is the relationship between the vertically integrated firm and the EMC? An examination of the aluminium sector is instructive, partly because large amounts of bauxite (the mineral from which aluminium is derived) are located in EMCs. The international aluminium industry has for a long time been characterized by a considerable degree of vertical integration in that aluminium TNCs have internalized market transactions at the global scale. This has signified price stability in the sector but also the potential for transfer pricing. There are four well-defined stages in the international production of aluminium:

1. the mining of bauxite
2. the transformation of bauxite to alumina through chemical processes
3. the production of aluminium from alumina through a smelting process that requires a high electricity input
4. the manufacture of aluminium products and components.

The global aluminium industry was dominated for much of the latter half of the twentieth century by five corporations – Alcan from Canada, Alcoa and Reynolds from the USA, Pechiney from France and Algroup (formerly Alusuisse) from Switzerland. Each corporation had operations in each of the four stages of aluminium production, and exchanges between these operations were organized through long-term contracts between the subsidiaries of the aluminium TNCs.

These corporations controlled nearly 80 per cent of the western world's capacity in the 1970s. Bauxite prices were kept at low levels in the internal transactions of these powerful TNCs. Furthermore, these TNCs normally located further processing (bauxite to alumina, alumina to aluminium) in *other countries*. This was not only for reasons of locational cost (the smelting of aluminium needs abundant and cheap electricity) but also due to a global strategy of keeping the various stages of production in *different* countries. This meant that in the 1970s it was difficult for any EMC government to nationalize the bauxite mine or alumina plant of an aluminium TNC. Hence no nationalizations took place apart from the exceptional case of Venezuela. Jamaica's attempt to extract greater revenues from its bauxite exports by imposing a production levy led the aluminium TNCs to shift their mining elsewhere and to take a revenue reduction (Mandle, 1996).

In 1999, a series of mergers intensified industrial concentration and vertical integration in the aluminium sector. Two mergers reduced the five corporations to two – with the APA (Alcan, Pechiney, Algroup) merger and Alcoa's acquisition of Reynolds. In the latter case, an important element of increased vertical integration was important as Reynolds was strong in the aluminium products business, where Alcoa was relatively weak (*Economist*, 1999a). Investor and consumer pressures were important at a time of low commodity prices. Customers had pushed commodity companies to squeeze costs; in 1999, big customers such as GM and Boeing started pushing suppliers of aluminium to sign unusually long-term global contracts, including clauses agreeing to year-on-year price decreases (*Economist*, 1999c). Meanwhile investors had lost interest in the commodity corporations as their share prices performed poorly in relation to overall industrial shares.

The dramatic increase in concentration in the aluminium sector in 1999 gave rise to two corporations with even greater vertically integrated power. What impact has this had on EMCs? Aluminium corporations have not raised bauxite prices in the EMCs. Within the complex transfer pricing schemes of the aluminium TNCs, bauxite-producing countries may have had their already low prices even more severely squeezed. Vertically integrated TNCs in the aluminium industry have thus had quite negative impacts on the EMCs that produce bauxite.

make crucial decisions on production and accumulation in the light of the global interests of the parent companies of the foreign subsidiaries. This is particularly the case in small countries, such as those in the Caribbean. Local capital is unwilling or powerless to alter these structures and local economic development can be prejudiced as a result.

The competitive relationship between US, West European and Japanese TNCs perhaps made the close relationship between TNCs and core (home) economies less relevant in the latter half of the twentieth century. However, there is evidence that the historical process of corporate and industrial concentration within capitalism continues to thrive. The resulting monopolistic and oligopolistic corporations

may no longer be swayed by the governments of the core economies, but they are more and more swayed by investors within those countries – as recent developments in the aluminium sector demonstrated (see Box 9.3). Furthermore, this approach highlights the particular problems of small countries in their relationships with powerful TNCs.

Conclusion

This chapter has focused on the TNC and its changing relationship with the state in EMCs. It can be concluded that the potential conflict in terms of sovereignty between the state and the TNC seems most likely to be an issue in the EMCs of the world in the twenty-first century. This will be a bigger issue here than in the advanced economies (essentially the home countries of most TNCs) or in the poorer countries, where TNC involvement may continue to be minimal. Core states not only contain the head offices of many TNCs but also tend to have large and mature economies. These national economies can maintain a certain control over international transactions and processes. In contrast, EMCs, particularly the smaller ones, find their economies much more subsumed and re-articulated into the world-system through international transactions and processes.

Further reading

Dunning, J.H. 1988: *Explaining International Production*. London: Unwin Hyman. A key writer on the behaviour of transnational corporations, although the text does not focus very much on their role in emerging market countries or developing countries.

Gwynne, R.N. 1985: *Industrialisation and Urbanisation in Latin America*. London: Croom Helm. Examines the role of transnational corporations within the inward-oriented phase of Latin America's industrial development and relates their role to the other key institutions of industrialization, state corporations and large national firms.

Jenkins, R.O. 1987: *Transnational Corporations and Uneven Development*. London: Methuen. Still a classic in relating the behaviour of transnational corporations to a wide range of theories of development.

Vernon, R. 1977: *Storm Over the Multinationals*. London: Macmillan. Provides a relatively balanced and pragmatic view of US transnationals and their strategies for overseas expansion.

10

GEOGRAPHIES OF TRANSNATIONAL CORPORATIONS IN EMERGING MARKET COUNTRIES

The previous chapter explored some of the theoretical and conceptual issues of TNC involvement in EMCs, with particular reference to the impacts of globalization. In this chapter, we move to examine the changing geographies of transnational corporations in emerging market countries. Within the territories of these countries, TNCs have an increasing significance. On the one hand, they can 'transform' spaces within those EMCs that have decided to insert themselves forcefully within the evolving world economy. TNCs can be the main 'global' agents responsible for creating local specializations of production for world markets through the rapid inflow of capital investment and technology, and the subsequent growth in exports. On the other hand, spaces in EMCs can also be defined by lack of investment interest on the part of TNCs and lack of local specializations for world markets; the impacts are different (stagnant production, out-migration of inhabitants, lack of new technologies) but the lack of a global/local nexus is fundamental to understanding the economic geography of such spaces.

In the first half of this chapter we explore the changing geographies of TNC involvement in EMCs over the past century, with particular attention to a historical framework in which the role of manufacturing TNCs forms an important consideration. In the second half we analyse the relevance of some key concepts linked to labour, technology and capital mobility that have been developed to try to explain the contemporary role of TNCs in developing or emerging market countries.

CHANGING GEOGRAPHIES

The nature of investment by TNCs in EMCs has changed in a quite fundamental way over the last century. We argue that there have been three distinctive periods of TNC investment in EMCs. Each reflects a distinctive political economy of TNC involvement in these countries. The three phases are:

1. the phase of primary product exports and industrial imports, 1900 to 1950
2. the phase of inward orientation and import substitution, 1950 to mid-1980s
3. the phase of economic and political liberalization, mid-1980s onwards.

The phase of primary product exports and industrial imports, 1900 to 1950

During this period, TNCs acted mainly as traders, both exporting and importing goods between different markets. Due to significant protectionism in the advanced economies, TNCs traded only moderately between the markets of Europe and North America. The TNCs were much more involved in trade between their home base and countries that in this period could be classified as either colonial (as in Africa and much of Asia) or independent developing countries (as in Latin America). TNCs were involved in energizing the characteristic form of this trade – exporting manufactured goods from their home base to the colonial/developing countries and

importing raw materials from these latter countries mainly back to their home base but also to neighbouring countries.

Thus, there were three distinctive elements to the political economy of TNC investment in colonial/developing countries. The first was that investment was closely linked to TNCs whose home base was one of the imperial powers, such as Britain, France and the United States. Second, investments by TNCs from these countries were heavily concentrated in the colonies and other developing countries, rather than in the competitor imperial countries. Thus, at the outset of the First World War over 60 per cent of all foreign direct investment (FDI) by TNCs was located in colonies or developing countries (Dunning, 1983). This pattern was broadly maintained during the 1920s and 1930s. Such a geography of TNC investments was markedly different from that of the latter half of the twentieth century.

Third, TNC involvement in colonial countries was dominated by investment in primary commodities in mining, agriculture and energy. At the outset of the First World War, 55 per cent of TNC investment in developing countries involved resource development and extraction. Such a pattern was vital for supplying the raw materials needed by the industrializing European powers in particular. Only 15 per cent of investment was directed towards the manufacturing sector. Even in the USA, overseas investment (notably in Latin America) was dominated by TNC involvement in the primary sector – 39 per cent in mining (such as copper in Chile), 18 per cent in agriculture (such as in banana plantations in Honduras) and 13 per cent in oil (as in Venezuela). This pattern of a predominant investment by TNCs in primary resources in Latin America and elsewhere lasted until well after the Second World War.

The phase of inward orientation and import substitution, from 1950 to the mid-1980s

The first two decades of this period were ones of decolonization when TNCs from former imperial countries became less wedded to investments in former colonial countries. Furthermore, there was a major relative decline in the importance of the West European imperial states (United Kingdom, France, Belgium, Italy, The Netherlands) from about 70 per cent of total foreign direct investment (FDI) in colonial/developing countries in 1914 (Hamilton, 1986: 8) to only 25 per cent by the early 1980s. In contrast, FDI from United States TNCs rose substantially – from approximately 18 per cent of the total in 1914 to 55 per cent in the mid-1960s – before subsequently declining to around 40 per cent by the early 1980s.

This became linked to a second key trend: TNCs started to invest more and more in other advanced economies. As a result, the location of TNC investments became spatially concentrated in the competitor countries of the industrialized world and there was a concomitant relative decline in the importance of investments in the developing countries. By the late 1960s, over 80 per cent of total world FDI was being invested in the advanced economies (World Bank, 1985: 126). A prominent feature of increasing FDI in the advanced economies was the 'two-way' or 'cross-investments' by TNCs of these economies. This was particularly notable for US TNCs that invested heavily in the major European countries during the 1950s and 1960s. Between 1950 and 1970 investment by US TNCs more than doubled in real terms, and European destinations received the largest amount of these increases. Subsequently, in the 1970s and 1980s, West European and Japanese TNCs invested heavily in North America and Japanese TNCs in Western Europe. However, there has been relatively little investment by European and US TNCs in Japan.

There were changes not only in the direction of TNC investment but also in the structure. Manufacturing became the most significant sector (receiving 65 per cent of US FDI in 1970 compared to 35 per cent for the primary sector). This was the period in which the giant US manufacturing corporations of the period (such as General Motors, Ford, Chrysler, General Electric, Westinghouse and Du Pont) invested heavily in many developing countries, and particularly Latin America. It was a period when US corporations held an almost hegemonic position in the global economy, as discussed in Chapter 1. During the 1960s over half of the 100 largest TNCs in the world economy were of US origin.

This close link of the largest manufacturing TNCs with the most powerful state of the time led many commentators to talk of new forms of imperialism (see, e.g., Frank, 1969). It was the demonstration of the immense corporate power of US companies that led Barnet and Muller (1974) to write their critical analysis of US corporate power and its impact on developing

countries. Barnet and Muller talked of the 'global reach' of US corporations and discussed, among other things, the evidence for collusion between leading corporations, the abuse of market power, the adoption of restrictive business practices and the enjoyment of monopoly profits by leading US corporations. In terms of the relationship between TNCs and developing countries, the argument focused on an inequitable distribution of income 'by shifting capital from developing to developed countries through profit repatriation, payments for technology and sales of parts and equipment' (Bennett and Sharpe, 1985: 7).

The image of TNCs as being either negative or even abusive towards the economic aspirations of developing countries became relatively widespread during the 1970s (Grosse, 1989). Governments in developing countries reacted by promoting policies of:

- nationalization of resources and industrial plants owned by large US corporations
- closer control and monitoring by the state of investments by large corporations.

As a result, during the 1970s there was a wave of nationalizations of TNCs, particularly those engaged in extractive industries regarded as strategic. During the 1970s, such varied nationalizations took place as those of copper mines in Chile and Zambia, iron ore mines and steel plants in Venezuela, motor vehicle plants in Chile and sugar plantations in Peru. However, perhaps the resource that most changed the pattern of ownership during that decade was oil. The 1970s proved a dramatic decade for the global oil sector with two wars that affected its international supply (the Arab-Israeli war of 1973 and the Iran-Iraq war that began in 1979) and two substantial price hikes linked to those two wars (during 1973/74 and 1979/80).

Oil in the 1970s became the most strategic and costly of resources, and ownership changed from the TNCs to state firms. In 1970, nearly two-thirds (61 per cent) of the world's crude oil output was in the hands of the seven largest oil multinationals, known as the 'Seven Sisters'. The influence of state oil corporations was still very limited as they only controlled 6 per cent of world oil production. By the end of the 1970s, the share of the Seven Sisters had been drastically reduced to just one quarter of world oil production. Meanwhile, the state oil companies, of which there were now more than 100, had increased their share to 55 per cent of the total (Manners, 1986: 30). Many of these nationalizations took place on relatively amicable terms, with the oil-rich governments paying reasonable amounts for acquiring the assets of the TNCs. Furthermore, the oil TNCs often gained long-term marketing and refining contracts, and signed lucrative technology contracts for continued TNC support in specialized areas (Sigmund, 1980: 225).

In terms of TNC involvement in less strategic economic activities, stricter state controls on profit repatriation and other international transactions became the policy of many governments in the developing world. For those countries in East Asia and Latin America that had been industrializing within a framework of import substitution, national governments already exerted some control over the transactions of foreign manufacturing TNCs. Hence greater controls over profit repatriation and other international transactions of the manufacturing TNC could theoretically be imposed without much difficulty. For example, the South Korean government noted the importance of manufacturing TNCs in the 1970s but was also keen to develop South Korean manufacturing firms. Government policy came to favour joint ventures between TNCs and private South Korean firms. TNCs provided the technology, management skills and sometimes capital. South Korean companies provided labour, access to local supply networks, government contacts and capital. Crucially, overall ownership was maintained by the South Korean firms. Thus, they had the prerogative of determining how future capital investments should be made in the joint ventures. New capital injections normally came from South Korean sources. This had the effect of gradually reducing TNC involvement in the joint ventures.

In contrast, in such Latin American countries as Brazil and Mexico, complex bargaining arrangements between TNCs and governments tended to develop (Grosse, 1989). Within these negotiations, a wide range of issues would be bargained over, such as: local integration – the level of purchasing of locally produced parts the TNC had to comply with; amount and structure of planned investments; pricing policies; levels of exports expected; amounts of profits to be repatriated versus those to be re-invested in the host country.

In retrospect, two general points stand out from this period when the governments of developing countries attempted to control the activities of

TNCs within their territories. First, some very good 'bargains' were achieved on paper by the governments of developing countries (Bennett and Sharpe, 1985). Few of these actually came to fruition due to the debt crisis of the early 1980s and the subsequent shift to more open markets. A second trend was that the stronger the government controls on inward investment by the TNCs, the less the consequent investment. To a certain extent, this was a logical response from the TNCs. It also presaged a shift in their investment focus from the developing countries to 'safe' locations elsewhere. US and Japanese resource-based corporations in particular began to switch investments to countries such as Canada and Australia, which were seen as 'safe' from the nationalizing trends of governments in developing countries (Manners, 1986).

As governments of developing countries particularly restricted TNC involvement in strategic mineral and oil production, manufacturing and services became the major sectors to receive TNC investment in the 1970s and 1980s. Within the manufacturing sector, TNCs tended to concentrate in high-technology activities such as motor vehicles, computers, telecommunications and chemicals. This has led to the TNCs playing a significant role in the technological advance of developing countries. Some writers (e.g. Poznanski, 1986) saw this free flow of western technology between the leading industrial countries and developing countries as positive for export expansion and economic growth, particularly in the NICs. Other writers (Sunkel, 1973; Castells and Laserna, 1994) saw such a relationship as increasing the dependence of developing countries on the advanced economies.

Thus during the 1970s and early 1980s, manufacturing TNCs tended to be concentrated in the high-technology sectors of developing countries. In some regions, as in parts of East Asia and Latin America, they constituted one-third of a triple alliance (Gwynne, 1985). One of the other actors in the triple alliance was the state firm specializing in the production of strategic resources and intermediate products, such as steel and chemicals. The final institutional category was the national private company that tended to concentrate in the more traditional areas of production, such as footwear, textiles, clothing and components production.

From the 1950s to the mid-1980s, most EMCs imposed some restrictions on international flows of trade, investment and technology. These restrictions on international transactions were particularly severe on TNCs in the 1970s and early 1980s. Hence we have called this period the inward-oriented phase, despite the fact that there were a few developing countries, primarily in East Asia, with a more outward-oriented approach to economic development. However from the mid-1980s more and more EMCs subscribed to an outward-oriented framework as policies of economic liberalization took hold.

The phase of economic and political liberalization, from the mid-1980s onwards

After nearly four decades of relatively declining FDI in EMCs, the late 1980s and 1990s saw an increase in FDI to these countries relative to cross-investments by TNCs in advanced economies. It was the more industrialized, middle-income countries of East Asia, Latin America and Eastern Europe that received the majority of these TNC investments. TNC investments were particularly targeted at those EMCs that had liberalized their economies and adopted policies encouraging trade, inward investment and technology transfer.

TNCs from the advanced economies still dominated transnational investment. The dominance of US TNCs in global investments had considerably waned and a more equal role was being played by large TNCs from the other two zones of the triad. Thus, of the largest 100 TNCs operating in the global economy in the early 1990s, 32 came from North America, 37 from Western Europe and 23 from Japan (Mendez, 1997). The patterns of investment by TNCs from these regions reflected trends of both globalization and regionalization. Thus, US and European TNCs continued and intensified the cross-investments of the previous period, and Japanese TNCs substantially increased their investments in both North America and Europe. The main EMC investment area for US TNCs was the Americas (particularly Canada, Mexico and Brazil), whilst European TNCs mainly invested in Europe, and Japanese TNCs in the Asia-Pacific region.

This period has seen the rise of TNCs from emerging market countries. By the early 1990s, eight of the largest 100 TNCs had their head office in an EMC. Four head offices were located in South Korea. The South Korean *chaebol* represent the most successful

examples of emerging market TNCs (see Chapter 6). The strategic growth of the South Korean *chaebol* has been truly global with an important presence in advanced economies, particularly in North America and Europe, and in the Asia-Pacific region. Most other emerging market TNCs have focused on regional markets. Thus, Hong Kong and Taiwanese TNCs have invested heavily in China, Chilean TNCs in Argentina and Argentinian TNCs in Brazil. The process of diffusion of the branch plants and overseas offices of emerging market TNCs has been based on proximity, particularly important for the many small or medium-sized corporations that have invested beyond the borders of their home country.

Policies of liberalization in EMCs have included privatization, and hence there has been a significant reduction in the number and importance of state firms. Widespread privatization has occurred in many countries, most notably in Eastern Europe and Latin America. It is important not to exaggerate the significance of this shift. In some key Latin American countries, such as Brazil and Mexico, privatization has been quite limited, and even in countries that have had sweeping privatization, such as Chile, some key strategic firms remain in the state sector – such as Chile's giant copper corporation, CODELCO. Overall, the ownership and management of most key strategic resources (particularly energy and mining) have remained in the hands of state firms. There has been a more widespread shift to privatization in:

- intermediate product sectors (such as steel and chemicals)
- utilities (such as electricity)
- telecommunications (a sector that suffered in particular from outdated technologies in the hands of state firms and proved an obstacle to economic modernization).

These sectors were either purchased by TNCs from advanced economies (particularly common in the telecommunications sector) or provided the basis for large private corporations in the EMCs that subsequently had the potential to become international (such as the case of Chilean electricity TNCs).

During the 1970s, the governments of EMCs thought that they had some room for manoeuvre in the world economy and some leverage over TNCs. However, in retrospect, this constituted only a small window of opportunity for EMCs. The shift towards economic liberalization in Latin America, ECE, the FSU and East Asia in the 1980s and 1990s rapidly closed this small window. EMC governments came to be more and more aware of the need to reduce the constraints on TNC activities in their countries and, indeed, to 'encourage' TNC investment, trade and technology transfer.

There are some crucial differences between sectors that have emerged over the recent decades, particularly in the extent to which the TNC is involved with manufacturing/services or financial capital. Manufacturing and service TNCs have generally long-term interests in investing in EMCs and are more concerned to forge good relations with the government and other institutions within the host country. In contrast, financial TNCs can have much more short-term goals in EMCs and may shift capital into and out of these markets very rapidly – indeed instantaneously in highly liberalized economies. It is in the financial sector where the political sovereignty of EMCs is being partly eroded as a consequence of technological factors (advancements in telecommunications and computer networks) and economic liberalization. In EMCs, dramatic changes in capital flows can coincide with perceived crises in their economies – as in the Mexican crisis of 1994/95, the Asian crisis of 1997, and the Argentine crisis of 2001/02. In these crises, financial TNCs act in a herd-like fashion, effectively draining a country in crisis of capital in days (or even hours). It is in this sector where the conflict between the territorial power of the state and the global functional power of the TNC can be seen at its most extreme.

EXPLAINING THE CHANGING GEOGRAPHIES OF TNCS

What attempts have there been to construct theoretical frameworks and models to explain the involvement of TNCs in emerging market countries? As we have shown, TNCs have become a dominant force in the economies of EMCs. According to the ILO (1995: 69), the flexibility of TNCs 'has reduced the ability of government to affect the level of investment and its geographical location'. The power of the state in EMCs relative to that of TNCs has become a topic of both debate and research (Ould-Mey, 1994). Peck and Tickell (1994: 324) argue for a period of institutional searching in which a new global system of regulation will meet such minimum requirements as

mitigating 'uneven development, which both disenfranchises poor regions and places unsustainable pressures on growth areas'.

Such utopian visions seem to have little practical value in a world-system in which neoliberalism has taken hold, and most particularly in EMCs (see Chapter 7). However, the growing power of TNCs in emerging market countries needs to be contextualized in some form. In the following discussion we try to relate this growing power to global concepts that relate to labour, technology, and the mobility of capital and information. We end the analysis with a brief examination of export processing zones.

Labour

At the global scale of analysis, labour is relatively immobile. This seems a strange comment at a time when international business seems to depend on executives, professionals and workers migrating from one part of the world to another. However, such labour mobility is restricted to travel within the core economies or to travel by people from core economies to developing countries. For labour in developing countries and EMCs, there is little opportunity for legal migration to core economies unless the migrant is professional, highly skilled or owns considerable capital. Illegal migration is an option for some migrants (as with the migration of Mexicans and Central Americans to the USA) but this produces another set of problems and inequalities.

At the same time, the supply of unskilled labour from the developing countries and EMCs is potentially huge, with two countries, China and India, containing 1189 million workers in 1999, over 41 per cent of the world's total workforce (World Bank, 2001). This has led authors over the past few decades (Hymer, 1972; Walton, 1985; Gilbert, 2002) to talk of a 'new international division of labour' (NIDL).

Hymer (1972) concentrated on the strategies of manufacturing TNCs in particular and emphasized their growing significance as they invested in productive facilities throughout the world in the middle of the twentieth century. The TNC was developing significant advantages over domestic enterprises, particularly in developing countries, due to TNC size, market power, access to capital, and superiority in the generation and application of new technology. As TNCs integrated their operations vertically and horizontally across the globe (see Chapter 9), they not only increased their bargaining powers with states and suppliers, but were able to have much greater flexibility in their locational decisions. In particular they were able to develop strategic policies of **hierarchical diffusion**, in which TNCs were able to shift the location of branch plants from the home base in a core economy to countries with lower production costs, particularly those of labour.

Frobel *et al.* (1980) also focused on the shift of manufacturing production from core countries to those of the semi-periphery and periphery due to the search by TNCs for cheaper and cheaper sources of labour. The differential impact of these shifts on core, semi-peripheral and peripheral economies, and the nature of push factors from the core economies were their key concerns. Frobel *et al.* (1980) saw three factors as fundamental to TNCs shifting branch plant operations to cheap labour locations in the developing world. First, developments in transport and communications technology made global interaction within manufacturing enterprises more and more feasible. Second, developments in product and process technology permitted an increasing fragmentation of production and the standardization of specific tasks that could use unskilled labour. Third, within the context of a shrinking world, due to innovations in transport and communications, there was the emergence of a 'worldwide reservoir of potential labour power'.

The concept of huge reservoirs of labour power attracting the location of industrial plants increased in explanatory power during the last two decades of the twentieth century. Its applicability has been particularly notable in China since the shift to more market-friendly and outward-oriented policies since the 1980s (see Chapter 6). Labour-intensive industries such as clothing, footwear and electronic assembly have grown rapidly in China, particularly on its coastal fringes and near Hong Kong. In Guangdong province (see Figure 6.1) FDI in labour-intensive manufacturing has increased in dramatic form due to the province's close proximity to Hong Kong and that city's wide range of financial, entrepreneurial, transport and service functions. Hong Kong contains the enterprises (including those from Taiwan) that provide the capital, technology, high-order services and international linkages for industrial plants in Guangdong. The nearest town to Hong Kong, Shenzhen, has grown from a small fishing town of 100,000 inhabitants in 1980 to an industrial city with

an estimated five million inhabitants in 2000. In the mid-1990s, both wage rates and construction costs for industrial plants in Shenzhen were one-fifth of those in Hong Kong.

A brief examination of some Guangdong footwear enterprises will demonstrate the force of the argument of the NIDL approach in labour-intensive sectors (Chan, 1996). In the mid-1990s, hourly labour costs in Chinese footwear plants averaged 50 US cents per hour – the equivalent of one-fiftieth of hourly labour costs in Germany, a twenty-fifth of those in the USA, and one-tenth of those in neighbouring Taiwan. These low hourly labour costs have allowed Taiwanese TNCs to establish huge 'Fordist' industrial plants in Guangdong. These TNCs have organized joint ventures with Chinese government departments (such as those of the army or local government) and have developed strong marketing links with US retailers. As a result, they were able to switch production from their Taiwanese plants to Chinese plants in the late 1980s and early 1990s, attracted by the much lower labour costs and government incentives. In addition, the Taiwanese TNC offers access to international design (provided by US retailers), process and product technology, capital and highly disciplined management systems; the Taiwanese TNC thus becomes a crucial component of an international commodity chain (see below).

Chan (1996) focused on the Yu Yuan plant in Dongguan city, which produced ten brands of shoes including Nike and Reebok. The factory employed 40,000 workers, 70 per cent of them female. Labour is not only cheap but hard-working, productive and cost-effective for the TNCs. Military-style management of labour is common and is justified by TNC representatives because of the need to transform rural female migrants into an effective and locally concentrated industrial proletariat, living in dormitories on site and working long hours on an assembly line in which they perform repetitive tasks; 60 hours constitute the minimum weekly hours worked by most footwear operatives and some work over 76 hours a week (the maximum permitted by Chinese labour laws) at times of peak demand. Chan (1996) reported a high labour turnover rate in Yu Yuan of 7 per cent a month (about 3000 workers coming and going each month) despite the fact that the Taiwanese owners withheld the last two weeks of wages for those that had not finished their contracts.

The Chinese footwear industry shows the contemporary relevance of the NIDL approach. Truly massive factories with thousands of workers are being created in order to supply international markets (and particularly that of the USA) with cheap, quality products. TNCs (in this case Taiwanese) are at the centre of the operations, processing design requests from large retail or manufacturing groups in the USA (such as Nike or Sears) in Taiwan or Hong Kong, and rapidly installing manufacturing systems in highly disciplined factories of mass production in China. These rely on cheap migrant labour from the Chinese interior – a supply that is unlikely to decline for many years. Today, China produces almost half the world's shoes, along with a wide range of clothing, household gadgets and electronic products. Such industrialization has been heavily concentrated along the Chinese coast, giving rise to major spatial inequalities in China between the coast and the interior (see Chapter 6).

The NIDL concept is a broad-brush approach to the shifting of manufacturing production from core to peripheral economies. It emphasizes the attraction of locations with low labour costs for TNCs attempting to maximize their profits at a global scale. However, for many TNCs, the availability of cheap labour is not a fundamental locational consideration. Thus it can be said that the NIDL approach highlights but one strategic option available to TNCs as they expand production at the global scale.

Technology

Technology and technological change are now recognized as among the principal motors of changing territorial patterns of economic development. The rise and fall of new products and production processes takes place in territories, and depends to a great extent on their capacities for specific types of innovation. 'In the geography of production, we now know that activities based on standardized technologies that permit economies of scale inside the firm can delocalize, while those based on non-standardized technologies and economies of variety tend to locate in agglomerations' (Storper, 1997: 32). In this section we will first review the impacts of TNCs using standardized technologies in EMCs before briefly evaluating the impacts of those classified as non-standardized.

TNCs and standardized technologies

Though largely implicit in the early years, the notion of technologies emerging as rare and unstandardized innovations

and then developing into increasingly standardized 'mature' technologies, capable of exploiting economies of scale, became increasingly explicit through such models as the product cycle.

(Storper, 1997: 32)

The locational implications of the product cycle can be traced to Vernon (1966) and his focus on the spatial impacts of the increasing possibilities for both fragmentation and standardization in the production process of TNCs. The model sees TNCs seeking out cheap labour cost locations for standardized products or components that can be assembled or produced by cheap, unskilled labour.

The product cycle evolved from the marketing concept in which there are three phases in the sales evolution of a product: new, growth and maturity. The 'new' phase constitutes the period that follows the placing on the market of a new invention or innovation. During this period, numerous technical problems will have to be resolved in product design and the production process. The product is likely to be expensive, with limited sales and low growth. If the product passes successfully through this trial period, it will enter the 'growth' phase: a period of cost reductions and increasing sales. As a mass production system is organized for the production of the product and as economies of scale are taken advantage of, per unit costs will increasingly decline. This, in turn, will cause sales to increase as more and more consumers are able to buy the product. The phase of 'maturity' arrives when process technology becomes standardized and hence the potential for further cost reductions *in situ* becomes more difficult.

Within the global context of manufacturing TNCs, the product cycle can be seen as a framework for changing the location of production from core economies to within EMCs (Vernon, 1966; 1979) in the latter half of the twentieth century. The matching of the product life cycle with global shifts in production can be formalized in at least four stages (see Figure 10.1), as follows.

1. **Initial production**. This phase reflects the geography of innovation and invention of new products. According to Vernon (1966), from the 1950s to the 1970s, most new inventions and innovations, even if they originated elsewhere, tended to first be put on the market in the United States. This was a reflection of the financial muscle of US TNCs and the large domestic market of the USA and its significant high-income sectors. During the last quarter of the twentieth century, this pattern changed due to the increasing influence of Japanese TNCs in the world markets of new consumer goods. New Japanese inventions have normally first been placed for sale in their own Japanese markets.
2. **Mass production in the initial production location**. If the product catches on within the high-income sectors of the United States and/or Japan, the US or Japanese TNC involved will begin to organize the mass production of the *product near the location of initial production*. During this stage, many problems of product and process technology are solved by the TNCs and the product is exported from the home base to all other world markets, including those in EMCs.
3. **Mass production in other core economies**. During this period, production shifts to other core economies away from the home base of the TNC. The innovating TNC may start up mass production elsewhere or rival firms from other countries may develop their own prototypes for mass production. In this stage, the demand for the product in the markets of the core economies rises dramatically and larger plants are established that benefit from increased economies of scale. As per unit costs decline, the price of the product becomes more competitive for most income groups, leading to increasing sales. Meanwhile, EMCs continue to import the product.
4. **Mass production in EMCs**. As the product enters the late stage of growth, the process and product technology has become standardized. Furthermore, the TNC has become vertically integrated and self-contained. Reductions in price through technological improvements and increasing scale of plant become less of an option for the TNC. Instead, it may search to reduce costs by locating plants in EMCs where labour costs are low. If the cost of labour is an important factor in the production process (as in the assembly of electronic goods), then the TNC will use these EMC plants to produce for most of the world market – particularly during the product's mature phase when global demand tends to stabilize. In this stage, EMCs can enjoy rapid growth in investment and production. In this way Malaysia, for example, became the world's leading microchip producer in the 1990s.

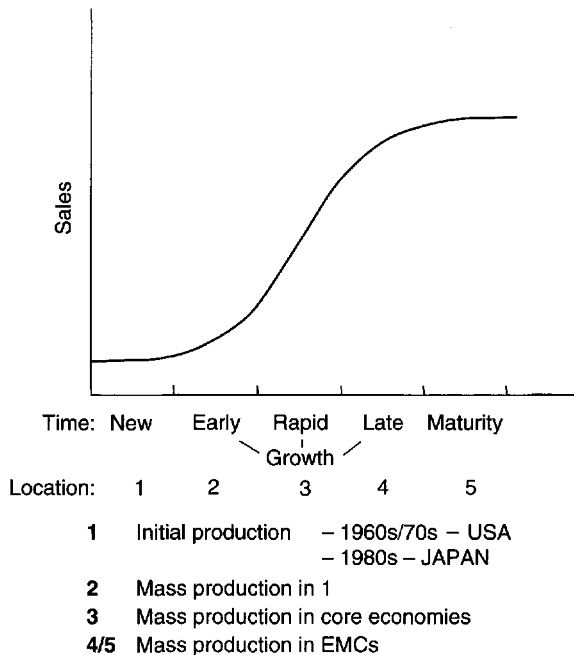

FIGURE 10.1 *Global shifts through the PLC*

The example of electronics production between the 1960s and 1980s is instructive. In the early 1960s Taiwan was a categorized as a poor developing country with little significant industry apart from textiles. Its labour costs were less than one-twentieth of those in the USA. In 1964, the first electronics TNC, General Instruments, arrived in Taiwan to assemble electronic products (Franko, 1976). Within the next two years another 24 US electronic TNCs had joined it, producing a range of electronic consumer products for the US market in particular. Electronics production increased gradually to reach US$1.4 billion in 1976. The US TNCs came to rely increasingly on electronic components from local Taiwanese suppliers, and the export of standardized components (from local producers) was added to the export of standardized products by the TNCs. A massive boom in electronics production occurred in Taiwan during the late 1970s and 1980s with 70 per cent of production for export. A large proportion of these exported products were typical of the late growth and mature phases of the product life cycle model at that time – radios, black and white televisions, colour televisions, radio cassettes, hi-fi systems, video recorders, computer terminals. However, during that period, labour costs in Taiwan rose significantly and the TNCs began to turn to other cheap labour cost locations for the production of standardized electronic products. Subsequently the local Taiwanese electronic component producers have become the main enterprises responsible for electronics production in Taiwan, and have stimulated a shift to the manufacture of goods of greater technological complexity and with more value added.

The Taiwanese example shows that the product life cycle model can be crucial in explaining the shift of technologically advanced but standardized production by TNCs to EMCs. It also explains why this can be a temporary phenomenon. TNCs will locate labour-intensive assembly plants for standardized products in EMCs only as long as labour costs are low. When these begin to rise significantly (as in Taiwan during the late 1970s and 1980s) then the TNCs move on to other locations – Thailand, China, Indonesia and Vietnam, for example. As with the NIDL model, the concept only has relevance to the location of manufactured products that have a well-defined and significant labour-intensive stage – and in which transport costs are low relative to total costs. In this way, it can be seen as a model of the 'Fordist' phase of industrial development in which mass production and standardization are the norm.

TNCs and non-standardized technologies

Standardized technologies have often been associated with Fordist modes of production. The shift to post-Fordist modes of production has involved gradual increases in technologies where economies of scale are not the dominant cost factor. Although technological innovation remains the key, flexibility of process technology and diversification of product technology have become the strategic targets for many TNCs, leading to 'economies of variety' becoming more important than economies of scale. High-technology TNCs now rely less on vertical integration and are more open to inputs and linkages with other firms. 'It now appears that development, at least in wealthy countries and regions, depends, at least in part, on destandardization and the generation of variety' (Storper, 1997: 32). Economies of variety mean that TNCs prefer to locate manufacturing operations in knowledge-intensive agglomerations, such as Silicon Valley, due to the need for short-distance inputs

from other high-technology firms. Core economy locations have become preferred by high-technology TNCs involved in manufacturing with less decentralization of production to locations in EMCs. There are exceptions in the more industrialized EMCs of East Asia, such as the machine tool industry of Taiwan (Fransman, 1986) where the role of the state was fundamental in building up this technological expertise (see Chapter 6). However, in general, EMC locations have become less desirable for TNCs as their technologies have become less standardized. This does not mean that there are some TNCs that still rely on inputs from EMC locations. However, one crucial factor to explain this is the mobility of capital and information.

Mobility of capital and information

We have argued that in the global economy of the early twenty-first century, labour is relatively immobile, particularly between the core and semi-periphery. However, in contrast, capital has become very mobile indeed. The ending of the system of fixed exchange rates between the major currencies of the core economies in 1971 has brought a period of increasing (if highly volatile – see Chapter 7) capital flows within the world economy at large and between economies of the core and semi-periphery in particular.

In order to achieve the level of functional integration required for the globalization of economic activities, three forms of international capital are needed. These are industrial, commercial and financial capital; each produces a particular type of global network. Industrial capital is generated by the establishment of international trade and production networks by manufacturing TNCs, such as Unilever and Ford. Commercial capital is created by the retail sector, where supermarkets or merchandisers of brand-named products develop and control global sourcing networks; examples would include Wal-Mart (Asda in the UK) and Reebok. Financial capital consists of the combination of commercial banks and multilateral financial institutions that we reviewed in Chapter 7. Here we will concentrate on the impact of industrial and commercial capital. Gereffi (1996a) argues that these have been linked to the formation of two distinct types of international economic network that incorporate EMCs; producer-driven and buyer-driven commodity chains.

Gereffi (1996a) argues that in order adequately to analyse the economic and social networks involved in a commodity chain, both forward and backward linkages must be examined in terms of:

- the commodity flows to and from each industrial node (as in core economies and EMCs)
- the relations of production – that is, the type of labour utilized at each particular stage of the commodity chain (such as professional, skilled or semi-skilled, male or female)
- the dominant mode of organization of production at each particular node, including the level of technology used and the size/capacity of the production unit
- the geographic location of each specific node within the commodity chain.

The capital flows inherent in the two types of commodity chain must be placed in this wider context. A combination of both producer-driven and buyer-driven commodity chains exists within any one region of EMCs.

Producer-driven commodity chains describe those industries in which TNCs control the mode of production utilized throughout the chain (see Figure 10.2 and Table 10.1). This is characteristic of capital- and technology-intensive industries, such as motor vehicles and computers (Gereffi, 1996a). The automobile industry provides a good example of a producer-driven chain, with multilayered production systems that involve thousands of firms. The Japanese production system in the late 1980s linked one motor vehicle assembler to an average of 170 first-tier component suppliers; in turn these first-tier suppliers had sub-contracting relationships with 4700 second-tier and 31,600 third-tier firms (Hill, 1989: 466). Just-in-time systems of component supply mean that such an organizational pattern has a strong tendency for the spatial concentration of these industries within core economies. However, regional systems of component production have developed in EMCs at considerable distances from key assembly locations – most notably engine and component production in north Mexico geared to supplying assemblers in Detroit as well as Mexico (Kenney and Florida, 1994).

Buyer-driven commodity chains refer to those industries in which retailers, designers and trading companies are fundamental to the development of decentralized production networks, which can incorporate a variety of export processing zones

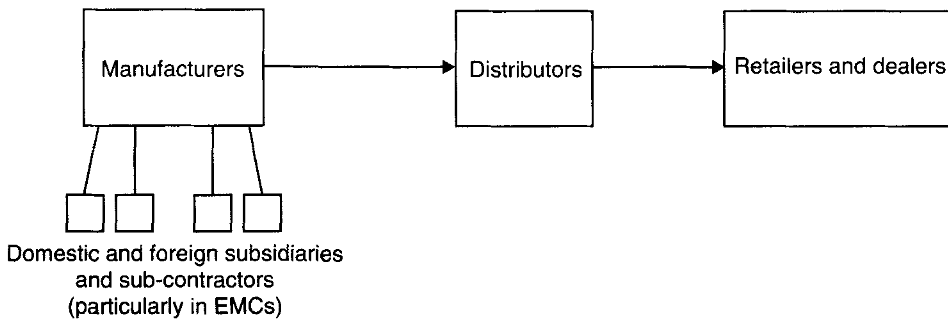

FIGURE 10.2 *The organization of producer-driven global commodity chains (in industries such as automobiles, computers, aircraft and electrical machinery)*
Source: developed from Gereffi (2000)

TABLE 10.1 *Global commodity chains and EMCs*

	Producer-driven commodity chains	Buyer-driven commodity chains
Drivers of global commodity chains	Industrial capital	Commercial capital
Core competencies	Research and development Production	Design Marketing
Barriers to entry	Economies of scale	Economies of scope
Economic sectors	Consumer durables Intermediate goods Capital goods	Consumer non-durables
Typical industries	Automobiles Computers Aircraft	Clothing Footwear Toys
Ownership of manufacturing plants in EMCs	Transnational corporations	Local firms and 'small' TNCs from EMCs such as Taiwan
Main network links	Investment-based	Trade- and contract-based
Predominant network structure	Vertical	Horizontal

Source: developed from Gereffi (2000: 36)

(see below). A distinct type of TNC, such as Nike or Reebok, is at the core of buyer-driven commodity chains (see Figure 10.3). TNCs of this type design and market their own-brand products, but are only indirectly involved in their manufacture. Essentially they are manufacturers without factories, at the centre of a highly flexible and global network of production, distribution and marketing. This has allowed firms from EMCs, such as Taiwan, to grow and become small manufacturing TNCs, albeit dependent in their early phases on the global networks of retailing or commercial TNCs (see Table 10.1).

The buyer-driven model is characteristic of much of the export-oriented manufacturing within EMCs that is geared to labour-intensive, consumer good industries such as garments, footwear, toys and consumer electronics. Production is sub-contracted by the TNC to a number of different factories located within the EMC. Factories supply either the finished product or a component product that forms part of the wider productive network of the TNC. The specifications, to which the finished product and component must rigidly adhere, are supplied by the retailers or designers that order the goods. The economic

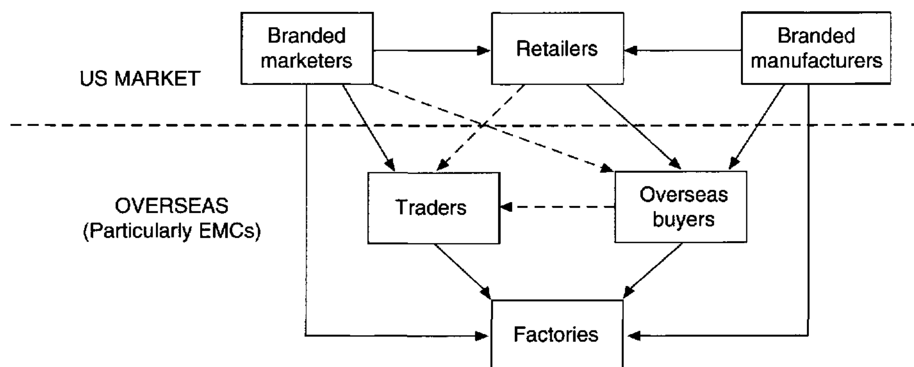

FIGURE 10.3 *The organization of buyer-driven global commodity chains (in industries such as garments, footwear, toys and housewares)*

Notes: Solid arrows are primary relationships; dashed arrows are secondary relationships; retailers, branded marketers and traders require full-package supply from overseas factories; branded manufacturers ship parts for overseas assembly and re-export to the manufacturer's home market.

Source: developed from Gereffi (2000)

surplus within buyer-driven chains is accumulated and concentrated within the TNCs and their core-economy head offices in terms of the research, development and marketing of the brand-named product and its associated image. Through the maintenance of the complex capital and information flows, the TNCs are able to exert control over how, when and where the manufacturing will occur and how much profit is accumulated at each stage of the commodity chain.

The role of export processing zones

Export processing zones (EPZs) provide an example of how TNCs interpret labour cost differentials, decentralization of standardized technology and buyer-driven commodity chains, and how their decisions can impact upon spaces within the EMCs. EPZs have been defined as labour-intensive manufacturing centres that involve the import of raw materials and the export of factory products (Klak and Myers, 1998: 89). Over 90 less developed countries had established EPZs by the end of the twentieth century (Klak and Myers, 1998). The popularity of EPZs in the latter decades of the twentieth century can be attributed to three groups of factors that link the economies of EMCs with those of TNCs and the world economy in general:

1. problems of indebtedness and serious foreign exchange shortfalls in EMCs since the 1980s
2. the spread of neoliberal ideas in the 1990s, which have encouraged open economies, foreign investment and non-traditional exports (Gwynne, 1999c; Klak and Rulli, 1993)
3. the search by TNCs for cost-saving locations, particularly in terms of wage costs, in order to shift manufacturing assembly and component production from locations in the advanced economies.

In EPZ locations, there is normally an added bonus for the TNC, as EMC governments offer them more favourable investment, trade, tax and labour conditions as compared with locations in other spaces of the host country. Concessions often include:

- trade – the elimination of customs duties on imports
- investment – liberalization of capital flows in and out of the EPZs, and occasionally access to special financial credits
- EPZs have often been characterized by important investments in the provision of local infrastructure by central and/or local government of the host country
- taxation – reduction of or exemption from federal, state and local taxes
- labour relations – limitations on labour legislation that applies in the rest of the country, such as permitting trades union activity, and adherence to minimum wage and working hours legislation.

EPZs can be spatial enclaves in which export-oriented manufacturing organized largely through TNCs is concentrated. These enclaves are separated from neighbouring areas by the wide range of incentives and exemptions offered to capital within them. Links with surrounding areas are mainly through the attraction of local populations to work in the EPZs. Inputs come from international sources and EPZ production is, by definition, exported. Within EMCs, EPZs have been established in a wide range of environments – from border areas (as in north Mexico), to relatively undeveloped regions, to locations adjacent to large cities. The most common location has been on the coast, as in the case of China's special economic zones. EPZs have been most concentrated in the Asia-Pacific region, where in the 1990s approximately 40 per cent of EPZs were located but where two-thirds of employment in EPZs was generated. Latin America and the Caribbean is the next most significant region for EPZs (see Box 10.1). Various experiments in the creation of EPZs were also undertaken in ECE and FSU countries, particularly in the early 1990s.

The creation of EPZs has been a popular policy for governments of EMCs because they represent a relatively easy point from which to begin industrialization in a country. The TNC normally provides the technology, capital, inputs and export markets. Central and local government authorities have relatively few commitments apart from investing in local infrastructure at the site of the EPZ.

Although the establishment of an EPZ could be seen as beneficial in the short term for the EMC, in the long term it offers a major problem as regards economic sustainability. TNCs are normally attracted by trade and tax incentives, low labour costs and labour flexibility to locate a branch plant in an EPZ. These locational attractions do not necessarily last. Governments can gradually withdraw the trade and tax incentives of the EPZs and labour costs can rise if the demand for industrial labour begins to increase rapidly. In these scenarios the type of TNC attracted to an EPZ (interested in reducing costs at a global scale for the manufacture of a labour-intensive product) moves on to a cheaper EPZ location. Thus a

Box 10.1 Export processing zones (EPZs) and the '*maquilization*' of Mexico

One of the largest zones of EPZs in the world is that of the north Mexican border with the United States. In this zone, 13 towns have had some form of EPZ status since 1965 when the Border Industrialization Program was established (see Figure 10.4). Within these border towns assembly production has predominated in plants known as *maquilas* (Sklair, 1989). Capital goods and parts were imported into Mexico duty free for transformation or assembly, and the finished product exported to the USA with Mexico taxing only the value added (Kopinak, 1997). The Mexican government hoped that the EPZs would stimulate the development of dynamic industrial growth poles in the border towns.

To what extent has the pathway from export processing allowed for more technologically advanced forms of industrial growth and encouraged improvements in labour skills? For at least the first 20 years, EPZ plants were engaged in routine and labour-intensive assembly of mature products and the great majority of workers were unskilled (George, 1990: 221). Most of these (up to 90 per cent) were women, a pattern that created enormous social tension within the traditional structures of Mexican migrant families; high male unemployment existed side by side with the double workload (assembly plant and home) of women (Fernandez Kelly, 1983). Since the mid-1980s, however, the nature of *maquilas* has changed with the attraction of TNC investors in high-technology, high value-added component-supply industries (Gereffi, 1996b). Along with this shift to more technologically advanced industry, there was a drop in the high proportion of women in the labour force – to below 50 per cent in some places according to Kopinak (1997: 182).

Has industrial growth been maintained in the *maquila* enclaves or has its impact spread to other parts of Mexico? The implementation of the North American Free Trade Area (NAFTA) between USA, Canada and Mexico in 1994 brought an interesting change in this respect. After 1994, the border EPZs came to enjoy fewer advantages over non-border locations in north Mexico in terms of attracting TNC investments. The electronics and automotive industries remain highly concentrated in the border towns, but the textile and apparel sectors have a greater presence in the interior (Gereffi, 2000). Some writers (e.g. Dominguez, 1994) see this as leading to the '*maquilization*' of Mexico with more assembly-based production for US markets spreading south from the border, and with the associated growth in unskilled and non-unionized labour.

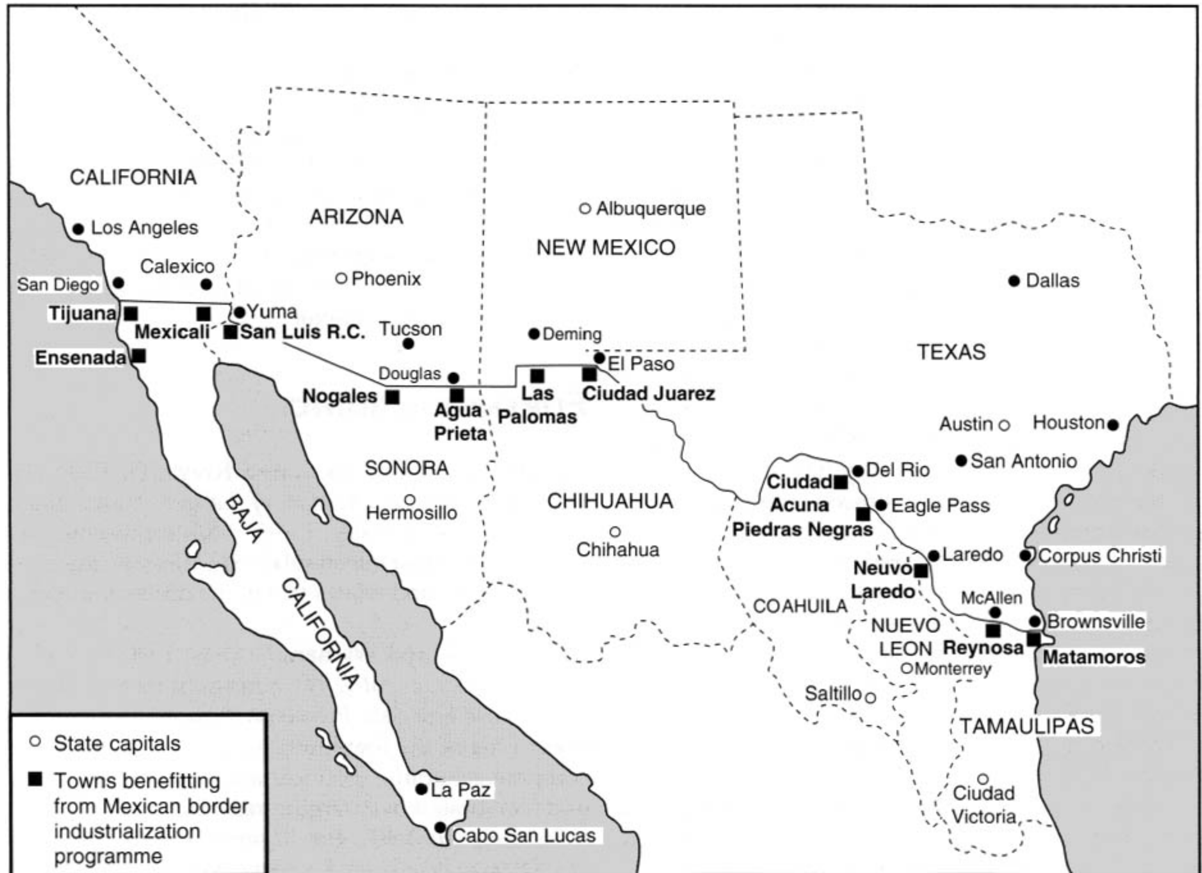

FIGURE 10.4 *The US-Mexican border region*
Source: Gwynne (1990)

reliance on simple export processing would at best perpetuate a reliance on low-skilled, labour-intensive assembly and, at worst, see the premature end of this type of manufacturing activity within the EMC.

Within East Asia, writers have talked about the 'flying geese' model in terms of the dynamic shift of industry from one country (and its EPZ) to another (see Chapter 6). The model can apply to groups of Japanese firms moving their productive capacity in stages through the countries (and EPZs) of Asia. Thus plants have moved from Japan to the first-generation NICs of South Korea, Taiwan, Hong Kong and Singapore; and then from the NICs to the countries of ASEAN (such as Malaysia, Thailand, the Philippines and Indonesia); then on to China, Vietnam and India (Edgington and Hayter, 2000). Governments of EMCs need to create pathways to more complex forms of industrial growth, including improved supply networks and advances in technological capability. This process has been difficult to achieve.

CONCLUSION

TNCs are important drivers of global industry and important agents of global economic change. As they make their decisions on a global panoply, they respond to the large differences in labour costs and labour productivity between countries and economic spaces. Their privileged access to advanced technology, capital and information gives them enormous power to transform certain economic spaces through direct investment or through other decisions. Nevertheless, it should be borne in mind that there are many differences between transnational corporations and emerging market countries.

The power of large manufacturing TNCs in a range of capital- and technology-intensive industries was significant in many EMCs during the latter half of the twentieth century, and particularly so in Latin America (Gereffi and Wyman, 1990). TNCs were especially influential during the import-substituting period that came to an end in the mid-1980s. Since then the shift to more outward-oriented policies in the EMCs has brought a much more varied range of TNC actors into the frame. In the past 20 years, it could be argued that commercial (or retailing) TNCs have become key global agents in many EMCs. They have developed an increasingly prominent role as importers to their core economy home markets and have generated huge shifts in EMC production networks through the policies they have implemented in their overseas buying offices. Ironically, such global forms of organization have permitted small manufacturing TNCs to emerge from the EMCs. A significant amount of East Asia's export-oriented industrialization has become locked within these productive networks, as have a small number of countries in Latin America and East Central Europe (Mexico and the Czech Republic are examples).

The distinctive pattern of industrialization in East Asian EMCs (see also Chapter 6) has not only led to an emergence of many East Asian TNCs but also to a distinctive pathway to industrial growth within a globalizing world. Gereffi (1996b) calls this specification contracting, which refers to the fact that East Asian sub-contracting firms make an entire product according to the specifications of the TNC commercial buyer. This commercial sub-contracting has significant benefits in terms of industrial deepening and the generation of local value added, according to Gereffi (1996b: 102). In contrast, in Latin America, ECE and the FSU, when TNC involvement occurs, it is normally linked to direct investment and control of production. Thus, EMCs in these regions may be rewarded by increased inward investment and manufacturing growth, but of a much more dependent nature than that in East Asia. Export processing and component supply manufacturing do not create the industrial deepening that can be found in some East Asian EMCs. Much of this analysis has focused primarily around TNCs that are directly or indirectly linked to manufacturing. However, much TNC growth is now in services, and it is to this subject that we turn in the next chapter.

FURTHER READING

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11

NEW TECHNOLOGIES AND THE GROWTH OF SERVICES

The [OECD] members are finding difficulty adapting to the new global environment, of which they have been the chief architects.

Owen Arthur, Prime Minister of Barbados and Chairperson of the CARICOM Heads of Government, responding to OECD attacks on offshore banking centres for allegedly harbouring tax evaders and money launderers, March 2001

As the quote from Owen Arthur suggests, there has recently been considerable international sabre-rattling over the growing role of offshore financial centres. It is an intriguing conflict for several reasons. It pits the economically dominant OECD core countries against some of the world's smallest and otherwise most peripheral jurisdictions, from Barbados and Bahrain to Tonga and Nauru. Wedding these two types of state is increasingly mobile capital (see Chapter 7). Most of that capital is based in or flows through the banks of those same core states pointing fingers at the offshore banking sites. The core states' claim that offshore banking hurts them by harbouring illegal activity is fairly predictable; to draw international sympathy, accusations must allege some sort of illegality. For their part, non-core states defend their gains, legality and sovereign powers.

Who is right? Who wins and loses, and at what cost? Do offshore services contribute to a global decentralization of financial benefits and to non-core development? Such questions underlie this chapter, which is about the growing role of offshore banking and other transnational services in non-core regions.

The frequent use of the term 'offshore services' in this chapter is admittedly based on a perspective grounded in the core countries. This is intentional. The term captures the fact that processes originating in the core propel the services that are the focus of this chapter – such as software development, data processing, telephone call centres, banking, insurance, e-commerce and tourism. Much of the growth in these services is generated from the global core – either by the demand on the part of TNCs and banks from core countries for less regulated or lower-wage environments, or by the surplus purchasing power of affluent tourists and other consumers from core countries. The economic orientation remains firmly core-focused. The economic development question this chapter addresses is 'Can non-core sites benefit substantially from the decentralization of these services?'

In a wide-ranging overview of global service industries, Daniels (1993) found that three main factors account for their recent expansion:

1. technological change through advances in telecommunications
2. the growing role of TNCs specializing in the provision of services
3. changes in the regulatory environment at both national and international levels.

By distinguishing between the contributions of technology, TNCs and public policies, Daniels provides a useful organizational framework for this chapter. Also of use to this examination of offshore services is the description of recent telecommunications-based technological changes in Chapter 1. There we described time–space compression and how TNCs have been able to harness new technologies to their

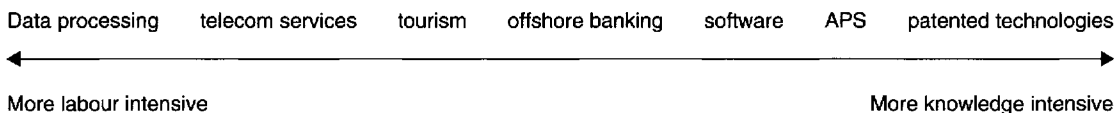

FIGURE 11.1 *Technical skill requirements for transnational services*

advantage. The Arthur/OECD clash mentioned above is but one of the examples drawn on later in this chapter of the political negotiations over how to regulate international capital flows and related services.

This chapter is therefore mainly concerned with the way that advanced electronics-based communications and computer technologies have influenced service activities outside the core regions. More specifically, the chapter reviews the experience of non-core regions with six types of offshore service:

1. **advanced producer services** (or APS, i.e. the international service provisions from the network of world cities – legal services, banking and finance, advertising, accounting)
2. **outsourced software development** (mainly to India)
3. **labour-intensive telecommunications-based services** (e.g. data processing, telephone operators and telemarketing)
4. **e-commerce**, involving non-core commodities, firms, and sites (e.g. business-to-business sales, business-to-consumer sales, domestic versus export markets, online gambling)
5. **offshore financial services** (found in three non-core regional clusters – the Caribbean, Southwest Asia, the South Pacific)
6. **global tourism** (this section compares tourism spending in core and non-core countries, and asks to what extent there has been decentralization of spending to the benefit of non-core countries hosting international tourism).

These transnational services can be arrayed along a continuum ranging from the relatively simple tasks associated with information processing, to the production of knowledge capital. Moving from left to right on the continuum requires more technical skills (see Figure 11.1).

Excluded from the above list is a wide variety of services, some of which are primarily domestically oriented, which have become very prominent in recent decades. Transportation, construction, education, real estate and other services are not treated here (but see Selya, 1999; Illeris, 1996). We focus on the developmental prospects of those services most affected by global time–space compression.

Throughout the chapter we also bear in mind the question of how far the service sector is similar to or different from the manufacturing sector. Warf has argued that offshore services replicate the problems associated with manufacturing. These problems include the fact that services provide the semi-periphery with mainly low wages and low-value contributions, and that TNCs control most of the value or commodity chains (Warf, 1999). But can the reduction of the 'friction of distance' help offshore services overcome any of these imbalances in the world-system? Peripheral states see some hope in this regard. Recently, when launching a new policy effort towards offshore services, Grenada's Prime Minister Keith Mitchell, for example, argued that 'information and communication technologies render the size of the economy less important than its knowledge and skill competitiveness' (Lee, 2001). Do services offer real advantages for development outside the core regions?

ADVANCED PRODUCER SERVICES (APS)

Global corporate decision-making activity is concentrated in a relatively few large 'world' cities, the distribution of which reflects the world-system hierarchy. Core countries host many of these world cities, semi-peripheral countries host a few of them, and peripheral countries have virtually none. Saskia Sassen (2000) has tried to explain the rise of these world cities. She argues that they 'are strategic to economic globalization because they are command points, global marketplaces, and production sites for the information economy' (Sassen, 2000: 144).

The research of Taylor *et al.* (2001a) has focused on the location and behaviour of transnational networks of firms. The research thereby seeks to overcome the conceptual blinkers of more traditional country-based thinking about economic processes.

Their findings are derived from data gathered directly from service-oriented TNCs, rather than from various surrogate measures such as population or trade statistics used in much of the literature on world cities.

One especially revealing data set is a sample of 69 TNCs in four major categories of advanced producer services (5 in accounting, 14 in advertising, 11 in banking and finance, and 39 in law) for 1997/98. The number of firms in each service category reflects their differing degrees of corporate concentration, from the 'big six' in accountancy, to law (the least concentrated and 'globalized' service). These firms represent the service-providing TNCs that Daniels (1993) noted were behind the recent growth of global service systems. Taylor and his co-authors placed cities into four categories according to how many of the four types of service TNCs have offices in them (Taylor *et al.*, 2001a). The top three groups (as described below) are called world cities for APS (see Figure 11.2).

1. **Ten Alpha cities**: Chicago, Frankfurt, Hong Kong, London, Los Angeles, Milan, New York, Paris, Singapore and Tokyo. These cities host many more advanced corporate service firms than the other categories. Eight Alpha cities are in core countries. Of these, New York claims top spot as the global information centre, with half a million people employed in the information business (Warf, 1999). Hong Kong and Singapore are in the Alpha group's second tier, and are the regional gateway cities through which TNCs access the emerging markets of the East Asian and Southeast Asian semi-periphery.
2. **Ten Beta cities**: Brussels, Madrid, Mexico City, Moscow, San Francisco, São Paulo, Seoul, Sydney, Toronto and Zurich. Six of the Beta cities are in core countries. The other four are the economic centres of major semi-peripheral countries: Brazil, Mexico, South Korea and Russia.
3. **Thirty-five Gamma cities**: Amsterdam, Atlanta, Bangkok, Barcelona, Beijing, Berlin, Boston, Budapest, Buenos Aires, Caracas, Copenhagen, Dallas, Düsseldorf, Geneva, Hamburg, Houston, Istanbul, Jakarta, Johannesburg, Kuala Lumpur, Manila, Melbourne, Miami, Minneapolis, Montreal, Munich, Osaka, Prague, Rome, Santiago, Shanghai, Stockholm, Taipei, Washington and Warsaw. Twenty Gamma cities are in core countries. Fourteen other Gamma cities are distributed across East and Southeast Asia (seven). Eastern Europe (four), and Latin America (three). Africa's only world city, Johannesburg, is in this third group. South Asia and Southwest Asia have no world cities (counting Istanbul as Eastern European) (Taylor *et al.*, 2001a).

These APS world cities closely parallel the world-system hierarchy and its component EMCs, which were described in Chapters 1 and 2. All but one of the 55 APS world cities are either in a core country (33 cities, 60 per cent of total) or in a country that is regularly listed as an EMC by international finance sources (21 cities, 38 per cent) (see Figure 1.2). Of the 22 countries in the consensus list of EMCs (see Chapter 1 and Table 1.1), 18 have at least one APS world city each. Among the EMCs, only China has two world cities (three counting Hong Kong). In the other 17 countries, the APS world cities are the country's largest city in each case. But the network of advanced producer services for these 18 cities is global and core-focused more than it is nationally focused.

Only four consensus EMCs are not anchored by an APS world city. One is India, whose most dynamic centre for information services is not one of its traditionally largest cities, but instead Bangalore (discussed below). The other three are Egypt, Colombia and Peru. All three are less integrated into global capital markets. Investment conditions have recently worsened for all three of these countries, and Egypt made the OECD's money-laundering blacklist for 2001 (see Table 11.1). Lower levels of transnational investment in these countries mean that there is less demand for the associated advanced corporate services.

The geography of APS contains an important lesson concerning the extent to which advanced services decentralize when time–space compression makes it possible. Although diseconomies of scale in the world's major cities (e.g. high rents, high cost of living, traffic congestion, pollution) provide further encouragement to decentralize, Taylor and his co-researchers explain why the opposite happens:

> Instead of declining, large cities such as London have prospered in the era of instantaneous communications across the globe. Cities are the places where information is transformed into productive knowledge. This knowledge is produced continually in cities through face-to-face contacts and networking to gain the expertise necessary to understand the significance of information received.

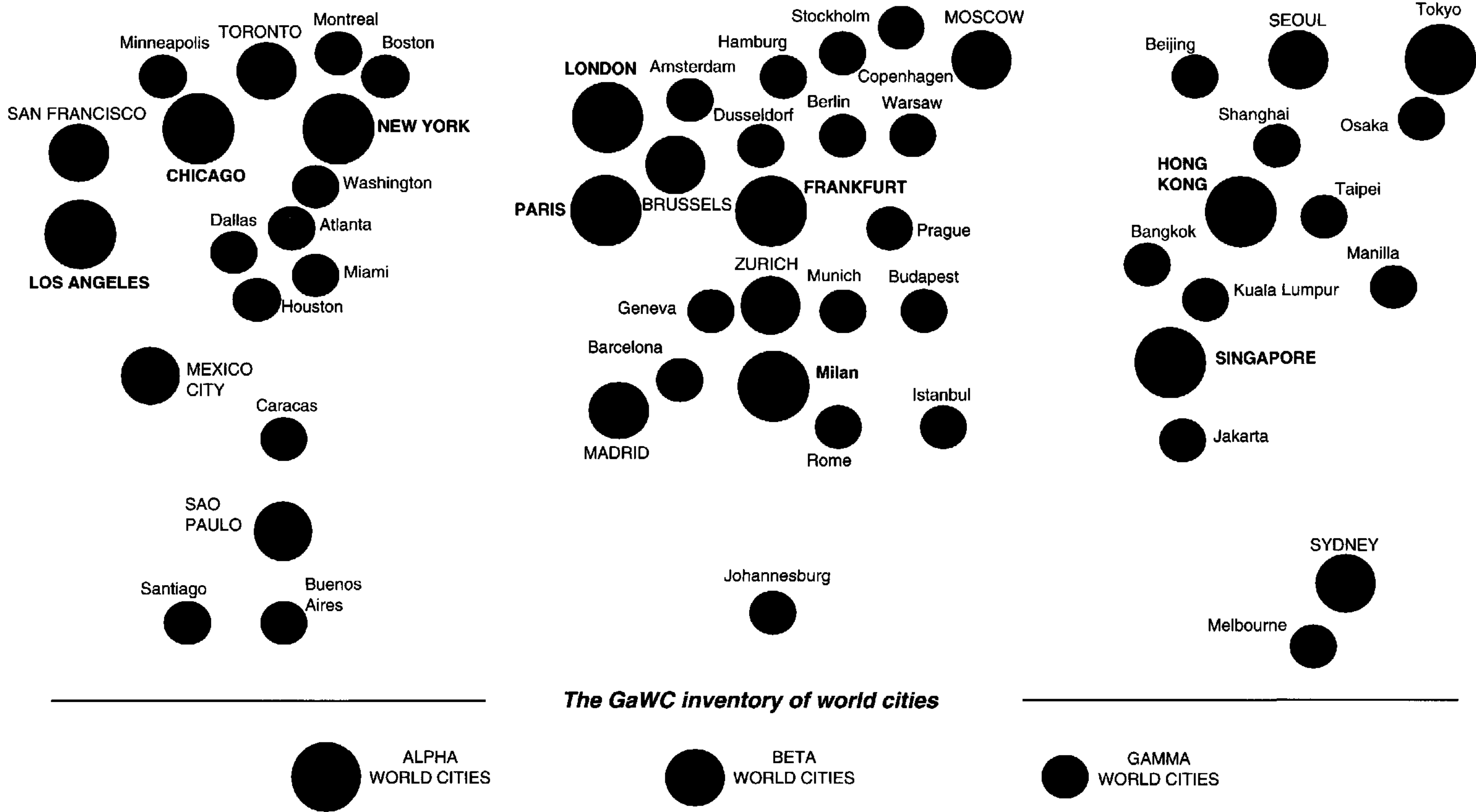

FIGURE 11.2 *World cities for advanced producer services*
Source: Taylor *et al*. (2001b)

The firms which have most to gain from knowledge-rich locations are corporate service firms which are engaged globally in accounting, advertising, law, insurance, and various consultancies as well as banking and finance.

(Taylor *et al.*, 2001a)

Questions remain regarding the developmental role of advanced producer services in the world cities of the semi-periphery. What advantages are there for the semi-peripheral cities that host APS networks compared to other major cities that don't? To what extent does national or regional development extend from these cities' roles as corporate service centres?

Sassen (2000) argues that the positive developmental impacts on the non-core host country and region are minimal. This is because the corporate service providers in world cities are fundamentally networked at a transnational rather than a local level. The urban system with which APS providers engage is not primarily national, but instead global and defined by the presence of similar services and related corporate activities in other world cities. And while the APS providers located in world cities do compete for customers and market share, they are also wedded to other providers in their own and other world cities through service-based global commodity chains. Despite their locations throughout much of the world, and thanks to instant global telecommunications, APS providers interact in relatively limited ways with their host societies (Sassen, 2000). These are broad observations, however (Warf, 2001); advanced services outside the core regions have received limited detailed empirical attention to date.

Corporate services are one important way in which TNCs from core countries extend their reach into the most profitable locations in the semi-periphery. Another way to extend TNC power is through political methods (see Chapters 2 and 9). The creation and enforcement in the international arena of laws and regulations that favour their interests exemplifies these methods. The enforcement of patent rights throughout the world and the promotion of neoliberal open-market policies are two connected, yet contradictory, manifestations of these pro-TNC political practices. The World Trade Organization (WTO) is now the main forum at which TNCs' interests are expressed. Chiquita Banana's lawsuit against the European Union, successfully filed on behalf of the Clinton administration to which Chiquita provided large campaign contributions, is a recent prominent example of this political expression.

OUTSOURCED SOFTWARE DEVELOPMENT

Software firms, as well as other TNCs from core countries with large, customized software needs, have for years been sub-contracting tasks offshore to save on labour costs. A variety of Asian sites, from Taiwan and Hong Kong to Thailand and the Philippines, have received contracts to write software.

India has received the greatest share of this software outsourcing owing to the unique qualities of a segment of its workforce. India's large, English-speaking, technical and computer-specialized, professional but low-cost workforce has attracted the most attention. India has the world's third largest population of engineers and skilled technicians. Computer professionals earned only one-sixth to one-eighth the wage of their counterparts in the USA or UK in the 1980s (Lakha, 1999). Still, wages paid to Indian software-code writers are much higher than, for example, the back-office jobs described in the next section. By the mid-1990s virtually all major hardware TNCs were outsourcing software development to India (Heeks, 1996: 372) (see Box 11.1).

LABOUR-INTENSIVE TELECOMMUNICATIONS-BASED SERVICES

High-order knowledge-based jobs may always be tied to the global centres of financial control, as suggested by the world cities literature, but various types of lower-skill and labour-intensive services have been decentralized to metropolitan suburban rings and offshore. Decentralization occurs in those aspects of services that involve routine information processing. This includes data handling for insurance firms, publishers, physicians, lawyers and airlines, telemarketing, and dealing with telephone enquiries. The main core country providing investors, capital and customers for offshore telecommunication-based services is the United States. The work is therefore subject to language constraints. Since English is the primary language for these tasks, Ireland and the Caribbean have been among primary recipients of the offshore work. Many of these decentralized lower-order services are of the 'back-office' type – routine clerical tasks performed on computer keyboards by low- or semi-skilled women (Warf, 1999).

Box 11.1 Bangalore: India's Silicon Valley

Since a 1986 policy document articulated the strategy, Indian policy-makers have attempted to fully exploit India's comparative advantage in software programming. They created three export-oriented software technology parks in the cities of Bangalore, Bhubaneswar and Pune. Indian policy-makers seek to regulate foreign computer firms and India's role in software development in ways that maximize local benefits. They hope that the continued growth of the software industry will propel India to a status comparable to that of South Korea and Taiwan in hardware (Lakha, 1999). Some evidence indicates that India's software industry is not simply an enclave, but instead has local spin-offs and linkages. For example, India has acquired technical know-how from its work with foreign computer firms such as IBM (after it withdrew from India in 1978) that have translated into successful local software firms (Lakha, 1999). The growth in Indian software exports has been phenomenal: from US$22 million in 1984 to US$117 million in 1990/91, US$734 million in 1995, US$3.9 billion in 1999/2000, to a projected US$8.5 billion in 2001/02. However, India's share of global software exports has remained less than 1 per cent, at least through 1997 (*Journal of Commerce*, 1997). India has therefore maintained a tiny but steady share of a rapidly growing global industry. Further, the wider social benefits beyond the high-tech sector are harder to find. Here is how one recent visitor to southern India described things:

> For all the talk about the Indian technology revolution, the technology industry has made only a glancing impression on the physical landscape of the country. Bangalore is ringed by technology parks that could be in Palo Alto or Austin. But the city itself is a mess, with potholed roads, crumbling buildings and a ramshackle, overburdened airport with no international flights.
>
> (Landler, 2001)

Through the use of global telecommunications technologies, some TNCs have begun to incorporate a segment of Bangalore's bright, young college graduates into their extended commodity chains. Beyond that, the impacts appear to be relatively few. In contrast to the earlier IBM example, these observations suggest that Bangalore's computer industry is more like an enclave than a growth pole from which benefits could spread.

There are many examples of US firms outsourcing labour-intensive services to the Caribbean. For years American Airlines has outsourced labour-intensive data-entry work there. Operating through a subsidiary called Caribbean Data Services (CDS), which it created in 1983, American once had a major presence in Barbados where it processed airline tickets and health insurance claims. By the late 1980s, CDS's Barbados activity was scaled back and shifted to the Dominican Republic where wages are lower. Caribbean policy-makers have had great expectations for the offshore data-processing industry to generate income (Klak, 1998b). Jamaica's disappointing experience with data processing offers a lesson on the difficulties that peripheral regions face when pursuing economic development through offshore services of this kind. Mullings (1995; 1998) identifies the major problems as: inadequate state support for local firms; the influence of a traditional and non-dynamic elite; investment fear on the part of foreigners; an extremely narrow role allotted to Jamaican firms and workers by US outsourcing firms.

Rather than propelling Jamaica to a heightened position in the international division of labour as the neoliberal development model predicts, the information services sector has slumped and entrenched the gender, class and international inequalities that have long characterized this peripheral capitalist country (cf. Klak, 1998a).

Labour-intensive telephone services that are now outsourced offshore take several forms. One such service is the handling of customer queries about the products or services of core TNCs (see Box 11.2). Another is known as pay-per-call information services. In most cases, money is made when callers from the USA charge their credit cards or bill their long-distance account to designated 1-900 or 1-976 phone numbers. Sex talk is popular. US telephone companies say the countries that are most often called for 'dial-a-porn' include the Dominican Republic, Guyana, Portugal, Moldova and São Tome. A half-hour call to São Tome costs about US$100 (Stroud, 1996).

Yet another offshore telephone service is telemarketing. Calls are placed to 1-800 numbers but the operator is sometimes outside the USA. Major US telecommunications firms such as AT&T, Sprint and TRICO (a Motorola subsidiary) use the Dominican Republic, the country's major Internet relay station,

Box 11.2 International telephone services from India

To the North American customers who call a toll-free number about an expensive gas bill, a bank account query or a broken appliance, she is Betty Coulter, a 21-year-old college graduate from Illinois whose favourite television series is *Buffy the Vampire Slayer*. She lives with her parents, Robert and Della-Grace, who are Irish immigrants, and her brother James, 15. Betty got her business degree from the University of Illinois. Her real name is Savitha Balasubramanyam and she answers calls routed through fibre-optic cables to CustomerAsset, one of many call centres in Bangalore, Delhi and other cities in India. She is one of about 20,000 recent college graduates in India that received months of job training in American, British or Australian accents, depending on the client they represent. They study sports, slang, regional weather and popular culture. Their training might include listening to the soundtrack of *Friends* and *Ally McBeal*, without the picture, and then reconstructing the dialogue. New recruits do role-playing sessions in which the trainer, posing as a caller, quizzes them on American movies or, for British clients, Yorkshire puddings and the royal family.

Projected revenues from Indian call centres (optimistically based on continued US economic expansion) may rise from about US$160 million in 2000 to US$4.3 billion by 2005, increasing jobs from 20,000 to 270,000 according to the National Association of Software Services Companies, an industry lobbyist. Labour costs in India are 30–40 per cent of those in the United States or Britain. Balasubramanyam earns the equivalent of US$211 a month on the overnight shift. By comparison, the average Indian earns only $680 a year. She takes dozens of calls from customers of a US company that she can't disclose, since most clients don't want callers to know they are talking to India. Many TNCs, including General Electric, British Airways, American Express, Harrods department store, and Amazon.com route some customer service enquiries to India. US companies can remotely access conversations and may cancel the contract if they hear an Indian asking an un-American question such as 'What is a superbowl?' (Harding, 2001; Landler, 2001; Merchant, 2001; Duff-Brown, 2001).

and its bilingual workers to telemarket to the growing US Latino population, which now exceeds that of African-Americans (Pantojas-Garcia, 2001).

The Dominican Republic offers other offshore telephone services. Television and newspaper ads for 'psychic consultants' now appear throughout the western hemisphere. Calls connect to 'psychic' wage labourers in the Dominican Republic. These, sometimes lengthy, phone calls have been profitable for US telecommunication and telemarketing firms, and for the US-based celebrities who lend their names to the psychic services. Benefits are fewer for the Caribbean workers and for the state coffers from this tax-free component of a service commodity chain (Pantojas-Garcia, 2001).

E-COMMERCE INVOLVING NON-CORE COMMODITIES, FIRMS AND SITES

Trends in offshore e-commerce

Why Togo needs the Internet: Togo is $1.5 billion in debt. If Togo's people had Internet access it would increase revenues and make Togo a prosperous nation. Togo will be left behind if it doesn't get up-to-date technology.

(http://www.moscholars.org/2000/togo/togo.html)

Is there any validity to such claims about the importance of the Internet and the commercial opportunities it could bring to the developing world? Judging by the number of international conferences in recent years on the subject, and the enthusiasm with which many non-core governments are pursuing and promoting it, the answer would seem to be an obvious 'yes'. But there are unfortunately many obstacles and limitations to e-commerce outside the core countries, as the following discussion suggests.

First of all, what is electronic commerce? The UN defines it as

> any form of commercial or administrative transaction or information exchange that is transmitted by electronic means. This could be by phone, fax, television, EDI, Internet, and so on, although much of current policy discussion centres on transactions undertaken over the Internet.
>
> (UNCTAD, 2000: 40)

Many non-core countries now have websites devoted to the sale of consumer products such as food and other household items. The target of these e-commerce sites is almost exclusively domestic shoppers. Even though the goal may be to sell

FIGURE 11.3 *E-commerce from Tunisia*
Source: http://www.ecom.tn/

online to core consumers, and thereby earn foreign exchange revenue, a domestic emphasis in the early stages is not necessarily a bad thing. This would parallel the experience with developing a domestic manufacturing sector in East Asia (Wade, 1996), South America (Bromley and Bromley, 1988) and even small Caribbean islands (Klak, 1998b). In all these cases, import substitution industrialization was used to develop and strengthen the firms and their products, who then successfully export many of those same products. For e-commerce, the next logical market after the domestic one is the diaspora community, which for many countries outside the core is large and wealthy by standards back home.

The greater challenge, however, is how to sell to customers in core regions in general. The idea of selling products over the Internet to core consumers immediately suggests a variety of advantages and disadvantages for non-core countries.

Some advantages

The Internet opens the possibility for vendors in non-core countries to offer their products directly to business or household consumers in the core countries, a large share of whom regularly access the web from home and office. The Internet effectively reduces the distance, and many other barriers, between vendor and consumer. Intermediaries and their rents are also reduced, leaving more income for the vendors. Small wonder, then, that policy-makers in many non-core countries have recently placed e-commerce high on their national priority lists (see Figure 11.3).

Many more disadvantages

Internet technologies and security regulations are so much further developed in core countries that vendors there are likely to usurp many of the non-core's vending opportunities. Vendors from core countries can (and do) simply appropriate products from outside the core and sell them themselves to core consumers. The actual physical location of the operator is a minor detail of any Internet site or in the suffix of its website address, and this is assuming that customers are aware of or care about where the vending originates. If customers do care, they are likely to favour core vendors. Concerns about the security of credit card information over the Internet only strengthens the core-based vendors. As one example, US credit cards have recently been refusing to pay out to offshore sites who are billing US customers for 1-900 number calls to the Dominican Republic (Pantojas-Garcia, 2001). Core vendors are also advantaged by their lower cost and faster

Box 11.3 E-commerce in China: its potential and obstacles

China is rapidly developing its capacity for e-commerce, which the government considers a development priority. Only the USA has more wired and wireless telephones than China. During the 1990s, China doubled its numbers of fixed and cellular phones, PCs and Internet hosts every two to three years. By early in the twenty-first century, fixed telephones are predicted to reach 150 million lines, or nearly 15 lines per 100 people. However, the distribution of telephone lines in China, like development and change there in general, is very uneven: while rural telephone access is comparable to the low end of the developing world, the dynamic coastal areas are close to the OECD average indicators. While the number of Internet users was around 4 million in 1999, estimates suggest that by 2003 the number of users will reach 20 to 40 million. The relatively high share of digitized telephone lines makes China already well adapted for e-commerce. However, there are many obstacles to surmount (UNCTAD, 2000: 73). For example, the main barriers to business-to-business e-commerce in China are similar to those for other countries outside the core:

- insufficient and uneven access to high-speed Internet networks
- inadequate procedures for electronic payments
- insufficient legal safeguards for secure transactions
- a regulatory structure that discourages investment and competition
- the monopoly practices of existing operators
- insufficient linkages with foreign capital and expertise to include China in the global marketplace via the Internet.

shipping to core buyers, and the greater ease of tracking down the vendor in the event that there are problems with the product. While e-commerce in core countries continues to make rapid advances in terms of technology, security and markets, Internet vending outside the core continues to be saddled with a host of constraints (see Box 11.3).

Online gambling

From early on, Central American and Caribbean countries saw their locational advantages for hosting Internet gambling sites. These advantages include the region's proximity to the world's largest gambling market (the USA), legal restrictions on electronic gambling within the USA, the region's 'tropical getaway' atmosphere, which is attractive to North American operators (some of these entrepreneurs have boasted of making a fortune while wearing shorts and flip-flops), a time zone within an hour of that of the eastern USA, and (for the Caribbean) convenient telephone area codes as in the USA. To exploit these locational advantages, Central American and Caribbean countries established some of the world's first offshore regulatory environments for Internet gambling (Martin, 2001).

As of May 2001, there were about 1400 offshore gambling sites operated by about 250 companies. All of these online gambling sites are located outside the United States, and most are in Central America and the Caribbean (see Table 11.1). Costa Rica hosts about 15 per cent of the gambling sites. Its start-up fees of less than US$10,000 are far below some Caribbean sites, which charge as much as US$250,000. Host countries also charge annual renewal fees. In Costa Rica, about 3000 workers, mostly college students and foreigners staying on after teaching English, earn US$4–5 per hour taking bets or answering customer queries over the phone. Staff include speakers of at least nine languages, including English, Spanish, German, Japanese, Italian and Portuguese (Delude, 2000). Wherever a gambling site is registered (and this is usually difficult for the public to discern), customers can log on from home or office to play virtual card games, craps, roulette, slot machines, bingo or the lottery, or to bet on professional sports or races. Extrapolating from recent trends, numbers of offshore gamblers have increased to about 43 million by 2001. Besides the United States, gamblers are concentrated in Canada and Asia. The industry made at least US$1.6 billion in 2000, and is projected to take US$5 billion by 2003.

OFFSHORE FINANCIAL SERVICES

[M]oney is an electron somewhere on somebody's hard drive and ... it can bounce from here to there faster than any legal system can ever figure out where it went.

(Jack Blum, UN Consultant on Financial Corruption, quoted in Masters *et al.*, 2001)

For more than a decade, offshore banking has been big business for many non-core countries and a big

concern for the OECD, worried about the exodus of capital. This section reviews the global geographies and core/periphery clashes associated with offshore banking. Most of the coverage pertains to the situation before 11 September 2001, during which time the US government, out of step with its OECD allies, opposed the regulation of offshore banks. Prior to September 11th, neither the OECD nor the USA seemed particularly concerned about the financing of terrorists. Only in the fine print did the OECD's *Financial Action Task Force Annual Report*, issued on 22 June 2001 broach the topic of international terrorism. After September 11th the global controversy over offshore banking shifted radically. The United States government declared that global terrorists were financing their operations through offshore banks and that global regulation is required.

Trends behind offshore banking

The confluence of three processes associated with the global distribution of capital has created a huge demand for offshore banking since the 1970s. First, there is the legal structure in core countries that regulates and constrains capital. Core investors control most of the world's wealth but face quite thoroughly regulated banking environments at home. There are fairly strict banking regulations and oversight systems in most core countries. Further, deposits are open to public scrutiny and subject to seizure in the event of legal challenge.

Second, there is the growing global electronic mobility of capital thanks to the technical revolution in computer electronics, and the political revolution of neoliberal policies promoting open markets, privatization and reduced regulation. A trillion and a half dollars now circles the global each day in currency trading. Public stock markets are open in various world regions that allow for 24-hour trading. Money can be moved 'virtually' anywhere with a keystroke.

Third, there were two rapid increases in global oil prices in the mid- to late 1970s. These created a surge in the volume of Eurodollars (dollars traded outside the USA) and other internationally tradable currencies in need of deposit (Corbridge, 1993b).

As a result of these trends, today there is indeed much money deposited offshore, over US$5 trillion according to the US government. Even more striking are a variety of estimates that place 50–60 per cent or more of world's wealth offshore; and the proportion of wealth offshore is growing. The scale of money involved has provoked aggressive policy actions by peripheral and core governments alike to snare a share of it.

Where in the world are the offshore banks?

> The problem ... for those who would control capital flight or crime through stopping up the money-laundering channels is that offshore resembles a balloon: pinch it in here, and it will expand over there. All 'tax havens' have to be stopped at once if anything is to be achieved. The OECD and its fellow multilaterals have attacked 20 or 30 jurisdictions in 2000, but there are nearly a hundred of them, with more opening up all the time. There are a lot more tropical islands than there are bureaucrats at the OECD!
>
> (Robinson, 2001, of Tax-news.com, a website devoted to 'international transactions and tax-minimisation techniques both on- and offshore')

As the above quote from some of the facilitators of offshore capital mobility suggests, it would be difficult even to generate a complete list of the offshore banking jurisdictions, let alone police them. If nearly 100 states can claim to be offshore financial centres (OFCs), then a very large share of the world's governments outside the major core countries are seeking to attract mobile capital. Leaders of small, peripheral states have been faced with the fact that most traditional as well as contemporary economic pursuits (besides, perhaps, tourism – see below) have proved to be weak and inadequate. They have therefore viewed offshore banking and other online services as an enterprise worth pursuing vigorously.

The availability of large amounts of Eurodollars in search of interest-bearing deposits since the 1970s accounts for why many offshore banking centres originated in the 1980s. They tend to be among the world's smaller jurisdictions (both independent and dependent). The 43 offshore banking jurisdictions in existence as of the early 1990s (what might be called the 'first wave of offshore financial centres') cluster into four regional groups (see Figure 11.4):

- Europe (12)
- the Caribbean (15)
- Southwest Asia (5)
- two clusters in the South Asia-Pacific region (9).

The remaining two OFCs are African: Liberia and Mauritius.

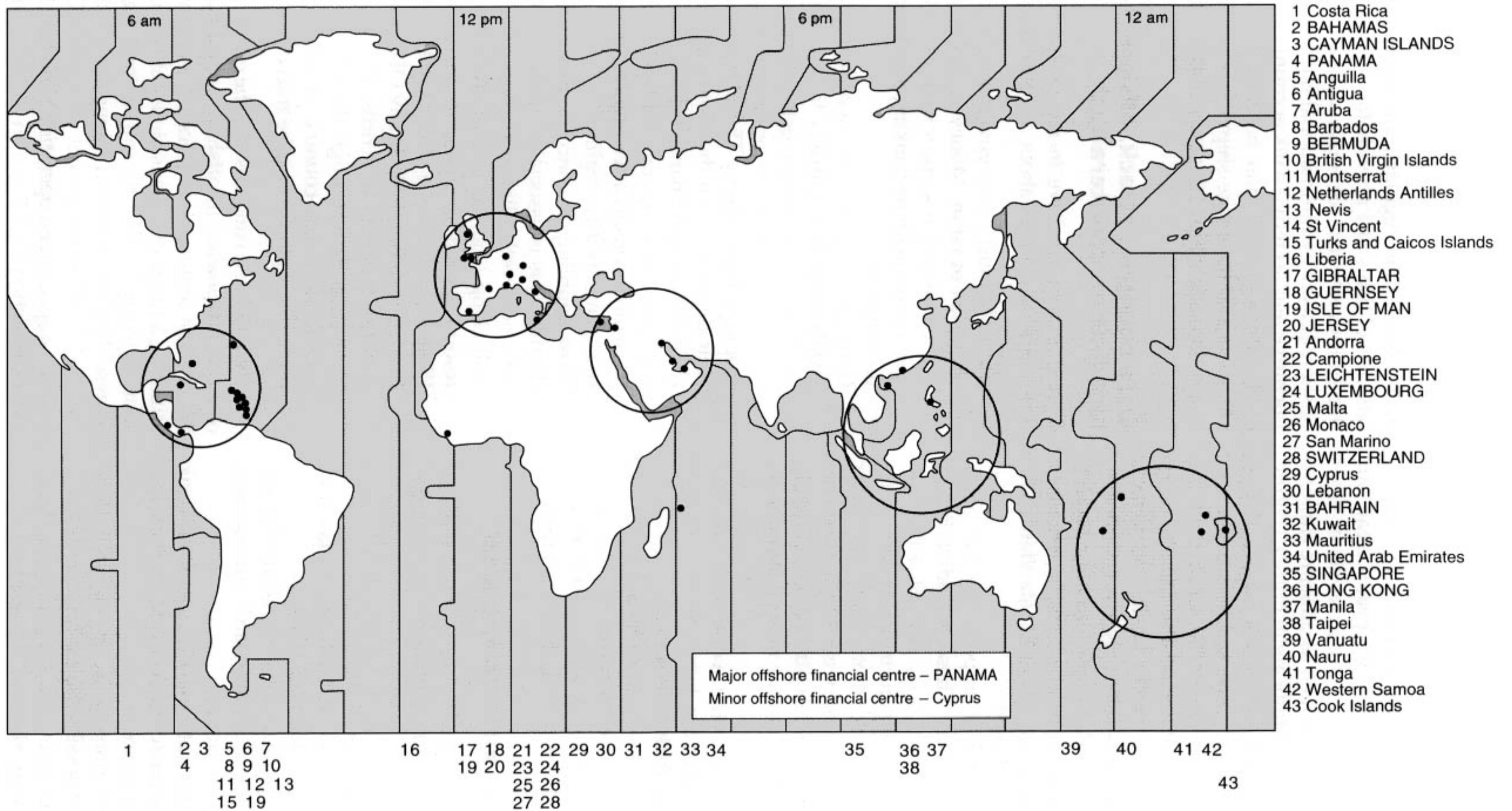

FIGURE 11.4 *World distribution of offshore financial centres as of early 1990s*
Source: Roberts (1994).

The divisions between core and periphery in the offshore banking controversy are pretty clear, but they are not total. This is because not all of what core governments have defined as offshore banking actually occurs offshore. Many are in Europe (Figure 11.4). Two of the most notable examples of rich countries whose vast, secretive and lucrative banking systems have come under the scrutiny of the European Union are Switzerland and Luxembourg. The latter hosts some 220 foreign banks, and attracts deposits in part due to its relatively low tax rates by European standards and its strict account secrecy laws. Other EU members are pressuring Luxembourg to harmonize its banking laws to EU standards and to renounce account secrecy.

A 'second wave of OFCs' appeared in the 1990s, mainly in the Caribbean. These included Belize, Dominica, Grenada, St Lucia, and St Kitts and Nevis. At least 20 Caribbean jurisdictions now offer offshore banking services, more than any other region. Many of these second-wave OFCs have very quickly come under OECD criticism for allegedly harbouring tax evaders and/or money launderers, as discussed below.

The main exception to the worldwide rule that smaller non-core states are hurrying to designate themselves OFCs is Africa. Relatively few African countries advertise themselves as OFCs. Two factors helping to explain Africa's absence are that the region has the fewest Internet connections, and that transnational capital perceives it as unstable and risky.

Benefits of OFCs for mobile capital

Offshore banks typically offer depositors a range of benefits compared to banking in most core countries. These include:

- banking secrecy laws
- asset protection against creditors or lawsuits originating outside the host country
- the ability to maximize corporate returns by setting up holding companies and subsidiaries, and using transfer pricing
- lower income tax rates on earnings from bank deposits (some jurisdictions even offer tax-free investment categories)
- higher interest rates paid on tax-free bank accounts (this is possible because of lower capital reserve requirements, and therefore the ability to lend out a larger share of deposits).

Such benefits are regularly invoked on the many websites of firms that provide the service of facilitating the movement of corporate and individual assets offshore (Lakeway International Equities Ltd, 1998). Lucrative and secretive bank accounts are only part of the offerings of offshore banking service centres. Others include insurance, shipping registration, trusts and even citizenship (*Economist*, 2000; Evans, 1993).

Core countries attack, offshore banking jurisdictions counterattack

Core governments have in recent years expressed three types of concern about offshore deposits.

1. Most obviously, core governments are worried about **tax evasion**. Money is moved out of the core countries to escape taxation. The OECD has termed this offshore banking provision 'harmful tax practices'.
2. Core governments are worried about other **unfair economic impacts** from offshore banking. Offshore banks are generally characterized by less regulation, oversight and taxation of accounts than others. The offshore banks and their depositors can therefore engage in unfair competition with financial institutions and their depositors who operate within the core countries' more conservative regulatory and lending rules, and taxation regimes.
3. Most troubling are concerns about **money laundering**. This is associated with a host of illegal activities worth billions of dollars, including drug trafficking (e.g. Colombia), the sale of natural resources such as diamonds for weapons (e.g. West Africa) and the theft of public assets (e.g. Russia – see Box 11.4). Many OFCs do not keep banking transaction records. This allows 'dirty money' to flow through the OFC and then to a bank in a core country, at which point the money's origins cannot be traced.

In light of these concerns and the growing volume of money deposited in offshore accounts, the early twenty-first century has witnessed core governments initiating a range of actions aimed at reigning in offshore banking. In 2000, the multilateral organization representing core economy governments, the OECD, took concerted action. In that year the OECD, acting through a specialized operation called the FATF (the Financial Action Task Force on Money Laundering),

blacklisted 15 offshore banking centres judged uncooperative in fighting money launderers. In 2001, the FATF removed four jurisdictions while adding six (see Table 11.1). The OECD demands changes in their laws and practices so that it can identify, combat and prosecute money launderers. The OECD also demands access to these jurisdictions' banking systems and records so that it can judge for itself whether or not compliance has been achieved and money laundering thwarted (FATF, 2001). Similarly, the OECD has targeted numerous jurisdictions suspected of harbouring tax dodgers (Table 11.1).

The efforts of the OECD and core governments to impinge upon OFC sovereignty and impose banking regulation may have only limited success. Their united front through the OECD against offshore banking began to fray when the Bush administration came to power in January 2001. The Bush team, largely consisting of conservative free-marketers, decided that it would like international banking reform limited to exchange of information between core countries and offshore banking centres. The team rejected the idea of trying to extend and enforce OECD banking rules on foreign soil, and also rejected international tax harmonization because it could raise US tax rates, anathema to the Republican Party's platform (Armey, 2000).

Many OFCs looked upon this intra-OECD disagreement as a window of opportunity to counterattack in the negotiations. To defend their interests CARICOM in 2000 created the Caribbean Association of Regulators of International Business (CARIB) to formulate and implement strategies. Then, early in 2001, the OFCs created the International Tax and Investment Organization to represent their interests against the OECD. This represents a disparate group of 12 offshore banking jurisdictions (Anguilla, Antigua and Barbuda, Bahamas, Barbados, British Virgin Islands, Cayman Islands, Cook Islands, Dominica, Malaysia, St Kitts and Nevis, Turks and Caicos Islands, and Vanuatu).

The political leaders of small peripheral jurisdictions seem to realize that their negotiating power exceeds their economic power. Yet, in the light of the evident difficulties in enforcing its will, the OECD may prefer to have the peripheral islands cooperate in its global agenda, including the fight against arms traffickers, computer hackers and virus spreaders. The challenge for peripheral leaders is to use their narrow negotiating leverage to strike deals that are to their jurisdictions' longer-term developmental advantage. In the meantime, numerous OFCs are actively trying to placate the OECD by passing new legislation in the hope of securing their removal from the OECD's annual blacklist.

Distributional impacts of offshore banking

Many peripheral governments have tried to attract offshore banks and insurance companies by advertising themselves and offering investment incentives, but only a few have succeeded on a large scale. The resulting geographical patterns are pretty clear, and follow the logic that 'success breeds success'. The places that are winners and losers in the casino capitalism associated with the quest for hypermobile international finance capital have their own set of pre-existing attributes and consequent problems.

In the Caribbean region, the islands that have been most successful at attracting offshore banking deposits, corporate subsidiaries and associated activities are relatively small territories with small populations, even by regional standards. And most of these 'winners' are those that continue to fly the Union Jack: the Cayman Islands (now the world's fifth largest banking centre), Bermuda, the British Virgin Islands, the Turks and Caicos Islands, and, until volcanic eruptions in 1997 made two-thirds of the island uninhabitable, Montserrat. Such British dependencies confer the highest level of political stability and investor confidence. While the legal structures of these British overseas possessions are deemed trustworthy by publicly traded corporations, some of those same firms use offshore sites as a way to reduce their tax obligations to core states.

Besides the British dependencies, other Caribbean islands notable for their ability to attract the financial holdings of thousands of foreign firms include the Netherlands Antilles and the Bahamas (which is politically independent but heavily dependent on the USA, accounting for more than half of its imports and exports). In some places, such as the Caymans and the British Virgin Islands, offshore finance has become such a major economic component as to dramatically alter domestic politics and social conditions (S.M. Roberts, 1995; Roberts, 1994; Evans, 1993).

Unfortunately, a peripheral jurisdiction's ability to attract legitimate investment capital into an offshore finance sector is negatively correlated with its

TABLE 11.1 *Forty-five offshore banking or gambling jurisdictions under OECD scrutiny*

Jurisdictions accused of harbouring tax dodgers (except^)	Region*	Historically part of the British Empire (now I independent or D dependent)	Jurisdictions blacklisted for harbouring money launderers**	Licensed online gambling centres***
Antigua and Barbuda	C	I		X
Anguilla	C	D		
Aruba	C			X
Bahamas	C	I	XO	
Barbados	C	I		
Belize	C	I		X
British Virgin Islands	C	D		
Cayman Islands	C	D	XO	
Dominica	C	I	XX	X
Grenada	C	I		X
Guatemala ^	C		OX	
Montserrat	C	D		
Netherlands Antilles	C			X
Panama ^	C		XO	
St Lucia	C	I		
St Kitts and Nevis	C	I	XX	X
St Vincent and the Grenadines	C	I	XX	
Turks and Caicos Islands	C	D		
US Virgin Islands	C			
Andorra	E	I		
Guernsey, Sark, Alderney	E	D		
Gibraltar	E	D		X
Hungary ^	E		OX	
Isle of Man	E	D		
Jersey	E	D		
Liechtenstein	E		XO	
Monaco	E			
Russia ^	E		XX	
Cook Islands	P	D	XX	
Indonesia ^	P		OX	
Maldives	P	I		
Marshall Islands	P		XX	
Myanmar ^	P	I	OX	
Nauru	P	I	XX	
Niue	P	I	XX	
Philippines	P		XX	
Seychelles	P	I		
Tonga	P	I		

(continued)

Table 11.1 *(continued)*

Jurisdictions accused of harbouring tax dodgers (except^)	Region*	Historically part of the British Empire (now I independent or D dependent)	Jurisdictions blacklisted for harbouring money launderers**	Licensed online gambling centres***
Vanuatu	P	I		
Western Samoa	P			
Bahrain	ME	I		
Egypt	ME	I	OX	
Israel ^	ME	I	XX	
Lebanon ^	ME		XX	
Nigeria ^	SSA	I	OX	

^ All jurisdictions in this table (except those marked ^) the OECD claims harbour tax evaders; those marked ^ the OECD says harboured money launderers in 2000 and/or 2001.
* The offshore banking jurisdictions under OECD scrutiny come from five world regions: 18 from the Caribbean (C), 8 from Europe (E), 10 from the Pacific/Indian Ocean (P), 3 from the Middle East (ME), and 1 from Sub-Saharan Africa (SSA).
** Each June, the FATF (the Financial Action Task Force for Money Laundering, an OECD-related organization) issues its annual report, which blacklists jurisdictions for 'non-cooperation' in fighting money laundering; XX on both 2000 and 2001 list; XO on 2000 list but not on 2001 list; OX not on 2000 list but on 2001 list.
*** Other jurisdictions that have licensed internet gambling but are not under OECD investigation for offshore banking practices include: Australia, Costa Rica, Dominican Republic, French Guiana, Guyana, Honduras, Jamaica, Nicaragua, South Africa, Suriname, Trinidad and Venezuela (Martin, 2001); the list continues to grow.
Source: compiled by the authors from a range of Internet sources

need for new sources of foreign exchange earnings. Most are now independent countries with many features viewed as unattractive to finance capital, including weak and unstable economies, poverty, high unemployment, and social tensions. These and other neocolonial legacies leave many places isolated and uninteresting in terms of capital investment. However, one thing that the smaller OFCs have going for them is mobile capital's desire to diversify and spread risk among OFCs and even across regions. Attracting even relatively small amounts of capital by global standards can generate significant income for a small jurisdiction. For South Pacific islands, for example, 'the income from the off-shore centres ... can comprise 8–10 per cent of GDP', according to Iosefa Maiava, Acting Secretary General of the Pacific Islands Forum Secretariat (PIFS, 2001). However, the money that the economically weaker, independent islands have been able to attract is often of questionable repute (see Box 11.4).

The impacts of September 11th on offshore banking

To follow the money is a trail to the terrorists.

(George W. Bush, 24 September 2001)

The US government's opposition to regulating global financial flows ended on 11 September 2001. Within days of the attack the Bush administration reversed its earlier position and publicly advocated the use of strong sanctions 'to pressure countries with dangerously loose banking regulations to adopt and enforce stricter rules' (*New York Times*, 24 September 2001). This regulatory offensive, coming on the heels of Bush's declaration that 'either you are with us, or you are with the terrorists', muted much of the public opposition to US policies throughout the world. A previously defiant CARICOM under Owen Arthur's leadership issued a supportive declaration:

We undertake, as part of our contribution to the international coalition against terrorism, to redouble our efforts

Box 11.4 Nauru's billion-dollar shack and Russia's financial haemorrhage

Nauru is a very small and economically peripheral country atop a coral atoll. It has one road, 11,800 residents, nine square miles of territory, no natural harbour, depleted phosphate mines that make 80 per cent of the island uninhabitable, a long-term drought (perhaps attributable to the ecological devastation) and razor-sharp coral beaches that discourage tourism. It also has at least 400 banks, most of them Russian. Nauru charges a bank start-up fee, but earns most of its offshore income from the US$1000 per year in renewal fees required of each bank (approximately US$34 in per capita income). One air-conditioned shack contains the computer servers that are the only required physical presence on the island for the shell banks to claim Nauru jurisdiction. The Deputy Chairman of Russia's central bank, Viktor Melnikov, alleges that Russian criminals laundered about US$70 billion through this shack in Nauru in 1998 alone. This was a big chunk of the US$200–500 billion siphoned out of Russia during the 1990s, and which crippled its economy (Masters *et al*., 2001). Joe Stiglitz, former Chair of Clinton's Council of Economic Advisors, and World Bank Chief Economist, claims that the US government, the World Bank and the IMF knew this theft of Russian assets was occurring. He argues that they saw it as a necessary cost associated with keeping Yeltsin and his allies in power, and with privatizing Russian state assets (Stiglitz, 2000; Palatz, 2001). Major western banks such as Deutsche Bank and Bankers Trust have recently refused to handle any dollar-denominated transactions that involve Nauru, sending a serious jolt through its offshore banking activity (Hitt, 2000).

to prevent the use and abuse of our financial services sectors by fully cooperating with the United Nations and the international community in the tracing and freezing of the assets of terrorists, their agents and supporters.

(CARICOM, 11 October 2001)

Note, however, that although CARICOM commits to the anti-terrorism effort, it strategically places authority in the hands of the UN rather than the USA.

The Bush administration is now taking aggressive action to identify and cut off international sources of financing for terrorist actions against the United States. A major component of these efforts is directed at disclosing sources of money laundering. This includes blacklisting suspected individuals and organizations, the freezing of assets, and investigating the internal records of US banks and their foreign affiliates. The Bush team is also pressuring OFCs with bank secrecy laws to cooperate with the FBI and other US government agencies by providing information on depositors. Offshore banking centres are shifting their agendas and enhancing their efforts in this regard to avoid being blacklisted.

It is too soon to know the full impacts of this US-led campaign against the international financing of terrorist activities on the efforts of peripheral governments to benefit from offshore banking. Developments so far suggest that the US government is casting a very wide net with its anti-terrorism rhetoric, surveillance and interventions, military or regulatory. The US campaign is likely to serve as a check on the further advancement of the peripheral states' efforts to reach a favourable settlement with the OECD, which is now stronger and more unified in its prosecution of weakly regulated OFCs. Further, the more regulatory the oversight of OFCs by core countries, the fewer advantages OFCs have that can attract mobile capital, criminal or not. It is therefore probable that one longer-term result of all of this will be a reduction of capital flows through, and therefore revenues going to, OFCs, particularly the smaller, poorer and less regulated ones.

THE GLOBAL TOURISM INDUSTRY

The worldwide growth of tourism over recent decades has been spectacular. It has outgrown all other more conventional commercial sectors. Most of tourism's growth occurred in the second half of the last century. At that time, a newly affluent middle class from core countries, endowed with ever increasing amounts of disposable income and leisure time, started to take advantage of relatively cheaper airfares. They propelled tourism to its current status as the world's largest industry. Between 1960 and 1996 world international tourist arrivals per annum grew from 69 million to 593 million. At the beginning of the 1990s, tourism generated about one-tenth of global GDP (Daniels, 1999).

In the light of these facts, we can ask: how much of the tourism spending occurs in core versus non-core regions, and how much do non-core regions benefit

TABLE 11.2 *Tourism's Economic Value and Employment, 1991*

Region	Gross output		Employment	
	US$ (million)	Proportion of world total	Millions	Proportion of region total
Africa	41	1.4	4	11.6
North America	765	26.5	13	10.1
Latin America	68	2.4	13	10.1
Caribbean	25	0.9	1	16.0
Asia and Pacific	558	19.2	106	10.0
Europe	1316	45.4	39	10.6
Total	2773	100.0	176	–

Source: Daniels, (1999: 160)

from hosting international tourism? We find that although tourism is now a globally ubiquitous industry, spending is still concentrated in Europe rather than in any non-core region (Table 11.2). Europe alone accounts for close to half of tourism's contribution to global GDP. Adding in North America and the Asia-Pacific region (which is mostly Japan, although domestic tourism in China has grown spectacularly since the 1990s), the concentration of tourism in core regions is even more pronounced. These three regions receive over 90 per cent of tourism's contribution to global GDP.

Scrutiny of the tourism employment data in Table 11.2 reveals a different point. Tourism contributes significantly to employment in both core and non-core regions, accounting for between 10 and 16 per cent of jobs in every world region. Many peripheral regions have quickly become reliant on tourists mainly from core countries. Local livelihoods and land use practices have shifted dramatically to cater to the interests of these tourists. The disparity in Table 11.2 between tourism's economic value and its employment impact per region reflects two key issues. One is that tourism wage levels are, on average, much higher in core countries. A second is that core countries, through their global tourism network (which includes travel agents, airlines, cruise ships and hotels), are able to capture a huge share of the economic benefits of non-core tourism. Both of these issues mean that tourism's economic multipliers – i.e. its spin-off effects throughout the host economy – are fewer in non-core regions. And, as usual, it is the non-core regions that have fewer economic and employment alternatives, and therefore the greater need for tourism's economic contributions.

These disparities are nowhere greater than in the Caribbean, where a global high of 16 per cent of employment is in tourism. The Caribbean therefore provides a good illustration of a non-core region heavily reliant on tourism. First, consider some of the positive impacts of tourism. The growth of tourism in the Caribbean region has been impressive. Stay-over tourist arrival numbers have grown faster than the global rate, increasing from 4.2 million in 1970 to 14 million in 1994. Cruise ship passenger arrivals rose from 1.2 million in 1970 to 9.8 million in 1994. The proportion of the world's visitors going to the Caribbean increased from 2.6 per cent in 1976 to over 4 per cent in 1996. For most Caribbean countries, tourism is the strongest and fastest-growing economic sector. By 1994 the Caribbean Tourism Organization estimated that its 34 member states grossed US$12 billion from tourism, and in 1995 predicted that the region's tourist industry would grow by 6.3 per cent annually over the next 16 years, twice the expected rate for the world as a whole (Momsen, 1998; Pattullo, 1996). The tourism revenues of CARICOM countries increased from US$3.4 billion in 1990 to US$4.6 billion in 1998. Tourism contributed 18.8 per cent of CARICOM GDP in 1998, and an astounding 36.3 per cent of the GDP of the smaller eastern Caribbean

countries (ACS, 2001). These figures show how global tourism allows peripheral regions with few other economic options to make some substantial economic gains.

A range of negatives must also be taken into account. Caribbean destinations have high leakage rates (defined as the share of tourist spending that does not stay in the tourist destination) averaging about 70 per cent (Pattullo, 1996). This is because, for the Caribbean, the global tourism network extends beyond travel agents, and lodging and transportation providers. It includes agents ranging from the providers of building supplies, furnishings and vehicles, to tour operators and food and beverage services (Prosser, 1983). Further, the growing share of Caribbean tourism that takes the form of all-inclusive hotel packages and cruises is effectively sequestered from most local people seeking income. Electronic telecommunications have only deepened the influence of these external agents by allowing them to better coordinate Caribbean tourism from outside the region. Thus an island's benefits from the growth of tourism on its own soil (and territorial waters) are severely limited. The environmental impacts of such tourism are also great, as large numbers of high-consumption tourists converge on less developed countries with fragile island ecosystems, and as local waste disposal systems are overwhelmed by volume.

External dominance and environmental devastation are not inevitable, however. They are products of the high-growth, high-volume mass tourism most islands have pursued. Hence many have argued over the years for alternative approaches that are more environmentally sustainable, culturally rich, economically integrated and locally run (Pattullo, 1996; Poon, 1993). Many Caribbean venues, however (such as St Croix, St Martin, Antigua, Puerto Rico and Barbados, to mention a few), are so dependent on and transformed by mass tourism that they would find great difficulty in shifting their tourism product towards these alternative approaches.

It is also difficult for peripheral countries to have much control over the fact that their tourism industry is fickle. It can decline precipitously owing to exogenous factors such as weather (e.g. the threat of hurricanes or a mild winter in North America) and the economic conditions in core countries (demand is highly elastic and overseas travel is quickly scaled back with recession). Non-core tourism is especially vulnerable to political events in other world regions. US citizens, who comprise about half of all Caribbean tourists, were afraid to fly overseas after the 1990 Gulf War. The immediate impact of the 11 September 2001 attack on the World Trade Center was worse, with 65 per cent of Caribbean vacations cancelled in September 2001. During the following months, Caribbean tourism revenues were down 20 to 30 per cent from the previous year, despite discounted rates (McDowell, 2002). Local political turbulence, not unrelated to the Caribbean's external dependence, also repels tourists. The growing global inequality outlined in Chapter 2 also places limits on the growth of tourism outside the core regions. Tourists prefer 'friendly natives', but this is hard to achieve with 20 per cent or more unemployed, and widespread poverty and disenfranchisement in the host countries (Meeks, 2000). Poverty breeds desperate and antisocial acts, including street crime, drug trafficking and tourist harassment, all of which are on the increase. Tourists fear and are repelled by violent places, even if actual dangers to tourists themselves are minimal.

CONCLUSION

This has been a wide-ranging chapter devoted to identifying factors behind the recent growth in six types of offshore services. How far has the technology-based reduction in the 'friction of distance' helped offshore service providers overcome global imbalances? Electronic telecommunication has contributed much to time–space compression. We now have a *global* economy, capable of operating as a unit in real time. Economic activities in distant places are integrated electronically as never before. One result is a decentralization of a host of offshore services, from banking and software development to call centres, data processing and tourism.

Much of our evidence suggests that offshore services tend to replicate many of the problems peripheral regions have encountered over recent decades with the New International Division of Labour (NIDL – see Chapter 10). Such problems include low wages and low value added contributions, and TNC control of the commodity chains. Problems also include vulnerability owing to the reliance on technologies, capital and discretionary income from core regions, and to protectionist or capricious policies from core governments.

It is also notable that offshore services are very unevenly distributed outside the core regions. They create ever more complicated geographies of service specialization, inequality, differential access and exclusion. We are therefore led to agree with Warf when he concludes that 'telecommunications ... systems in fact produce new rounds of unevenness, forming new geographies that are imposed upon the rules of the past' (Warf, 1999: 63).

Even for those non-core places and people that are now part of certain global economic networks, greater economic and electronic integration does not necessarily mean that they receive a more equitable share of the financial benefits. Electronic telecommunications and other time–space-compressing technologies make possible greater *participation* by non-core places, but this does not mean they have managed to attain *control over* the associated technologies, legal structures and capital flows. Nor do these roles as offshore service providers necessarily lead to their having a greater voice in discussions of global priorities.

Why do offshore services have so many limitations? The simplest answer is that the limitations emanate from the organization of the capitalist world-system that spawns the demand for offshore services in the first place. Economic, technological and political processes originating and largely controlled in core regions propel offshore services. Despite the global decentralization of a wide range of services, their economic orientation remains firmly core-focused. In this political-economic environment, non-core sites are likely to benefit only marginally from decentralized services.

FURTHER READING AND WEBSITES

Financial Action Task Force on Money Laundering (FATF), http://www1.oecd.org/fatf/ – OECD organization devoted to regulating global capital flows.

Globalization and World Cities Study Group and Network, http://www.lboro.ac.uk/gawc/ – working papers and links related to the global distribution of advanced producer services.

Illeris, S. 1996: *The Service Economy: A Geographical Approach*. Sussex: Wiley. Overview of the various forms of services in the contemporary economy.

International Tax and Investment Organization (ITIO), http://www.itio.org/ – lobbying organization for offshore finance centres created to negotiate more effectively with the OECD and the USA.

Tax-news.com – website devoted to 'international transactions and tax-minimization techniques both on- and offshore'.

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Part 4

POLITICAL DIMENSIONS OF CHANGE

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12

MODERNITY AND NATIONALITY

As a movement demanding national liberty in the form of sovereign, independent states, nationalism at the beginning of the twentieth century was mainly to be found among the world's white peoples. In Central and Eastern Europe, and in various white settler colonies across the globe, people were demanding freedom from imperial domination. Elsewhere in the European empires fewer demands for independence were being made, and where they were being made they were often voiced by a minority of educated people who had been strongly influenced by European values. It was noticeable that such activists tended to view the future development of their countries as being along European lines (Hobsbawm, 1995: 199–204).

By the century's end much had changed. The European empires had collapsed to be replaced by a whole series of independent states, and nationalism had become a much more widespread phenomenon across the globe. But it was by no means clear that the new states were necessarily more stable than the old empires. The forces of globalization seemed in various ways to be challenging the viability of state frontiers, to be making it more difficult for national governments to manage their affairs within their own territories, and to be coercing numerous governments of the periphery and semi-periphery into dependence on the world's wealthier countries and the institutions they dominated. Moreover, perhaps partly as a result of globalization, states frequently found themselves faced by new nationalisms and ethnic revivals as well as by older inter-state rivalries that challenged their borders and territorial integrity (Johnson, 1995). The situation was greatly complicated by demands coming from traditionalists and cultural revivalists who questioned accepted values and trajectories of development along western lines, with some even rejecting modernity altogether. At the same time campaigners for civil rights and similar social movements demanded a revision of prevailing social and political value systems and their supporting hierarchies of power. The newly independent states, like the old imperial ones, seemed to be built on shifting sand.

Such events have helped undermine the naive assumption that modernity is something that originates in western Europe and North America, and then spreads out from there to the rest of the world (Blaut, 1993). Such diffusionist thinking naturally involved the belief that the rest of the world should develop in the same way that the West had developed, including borrowing such institutional features as the nation-state. The more like the West the rest of the world became, it was thought, the better off it would be. Nowadays, many scholars regard such diffusionist concepts as evidence of continuing western inclinations towards imperialism and assumptions of western superiority (Black, 1976). There is a far greater recognition that there may be multiple modernities arising across the globe, and that local cultural, institutional and structural factors may be vitally important in affecting the outcome of modernization processes. There is also a wider recognition of the fact that following western models may be inherently difficult for many peoples, not least because of the aftermath of European colonialism.

This chapter will examine the problems posed by globalization and modernization for state structures and nation building in the EMCs. The argument is that, in today's world, institutions like the state and concepts like the nation seem to be facing an uncertain future, and nowhere more so than in the EMCs

and the world's peripheral regions. At the same time the idea that modernization and globalization necessarily mean the end of movements like nationalism is questioned. The interface between such issues and some others like civil and citizenship rights will also be referred to (to be explored at greater length in Chapter 13).

STATES IN EMERGING REGIONS

The world we all live in today is a world of states. Virtually every territory is claimed by some state so that everyone everywhere lives in one state or another. The major exception is Antarctica, which is international territory – although it only has that status as a result of agreement between states (Watts, 1992).

The definition of a state does give rise to some confusion. A state is not the same as a nation. The United Nations is in fact an organization of states, not nations. A nation is a product of the imagination, an 'imagined community', as argued by Anderson (1983). By contrast, a state is an actual, internationally recognized organization, or set of institutions, which exercises supreme power ('sovereignty') over a defined territory. Of course this is the legal situation. Whether the state really controls what happens in the different parts of its territory is a different matter.

We now live in a world of states but states were not invented by European imperialists, nor did they arise with the advent of the world capitalist economy. States in fact have a history that dates back several thousand years (Dodgshon, 1987; Crone, 1989). As the European empires expanded from the fifteenth century AD onwards, they overran or absorbed many pre-modern states (for example, the Aztec and Inca empires in Central and South America, city-states and kingdoms of various kinds around the fringes of the Indian Ocean, in Africa, Southeast Asia and elsewhere). In other regions Europeans encountered peoples living in pre-state societies (chiefdoms, hunter-gatherer bands, tribes). Many scholars have stressed the significant differences between early states and the modern, capitalist states that are now the universal type (Dodgshon, 1987).

It is generally accepted in the modern world that the legitimacy of any state depends upon international recognition, which usually means acceptance as a member of the United Nations. Thus the states that emerged from the ruins of the USSR in 1991 and the successor states to Yugoslavia asserted their newfound independence by applying to join the UN almost immediately. International recognition implies acceptance that a state has a legitimate existence and a legitimate territory (it has 'sovereignty', although individual UN members may dispute with one another about both sovereignty and territory). All states, then, are theoretically equal in that sense (each state has one vote in the UN General Assembly). But in reality, to use the immortal phrase, 'some are more equal than others'. In Chapter 1's discussion of world-systems theory (WST) it was pointed out that the world's countries can be categorized as core, semi-peripheral and peripheral. These categories imply not only differences between countries in terms of wealth, but also global influence and 'power'. Thus Taylor (1993: 33–40) argues that a 'strong' state is not necessarily a state that has powerful military forces, but one that can bring its influence to bear more effectively because of its structural position within the global economy. In fact Taylor organizes his entire political geography around the concept of WST. WST, he asserts, helps us to understand not only why some states are more 'powerful' than others internationally, but also why they are more successful in ordering society and solving problems within their own borders. The point to be emphasized here is the implication that semi-peripheral (and especially peripheral) states are likely to have greater difficulty in coping with some of the problems deriving from globalization (for example, problems of territorial and border control, the activities of TNCs and international agencies, and many kinds of social problem) than core states.

Core states (for example, those in Western Europe and North America) have appeared to many to be among the world's most 'successful' and stable of states. One reason for this is undoubtedly the wealth they derive from being in the core of the world economy. Another and related reason is the popular legitimacy they derive from their democratic structures. According to Taylor (1993: 38) core states can afford to be liberal in their political structure simply because their power as states derives from their relatively favourable economic position – their populations will tend to be loyal. By contrast, semi-peripheral and peripheral states may face unruly populations and be forced to compensate for their economic misfortunes by adopting illiberal policies. A third reason why core

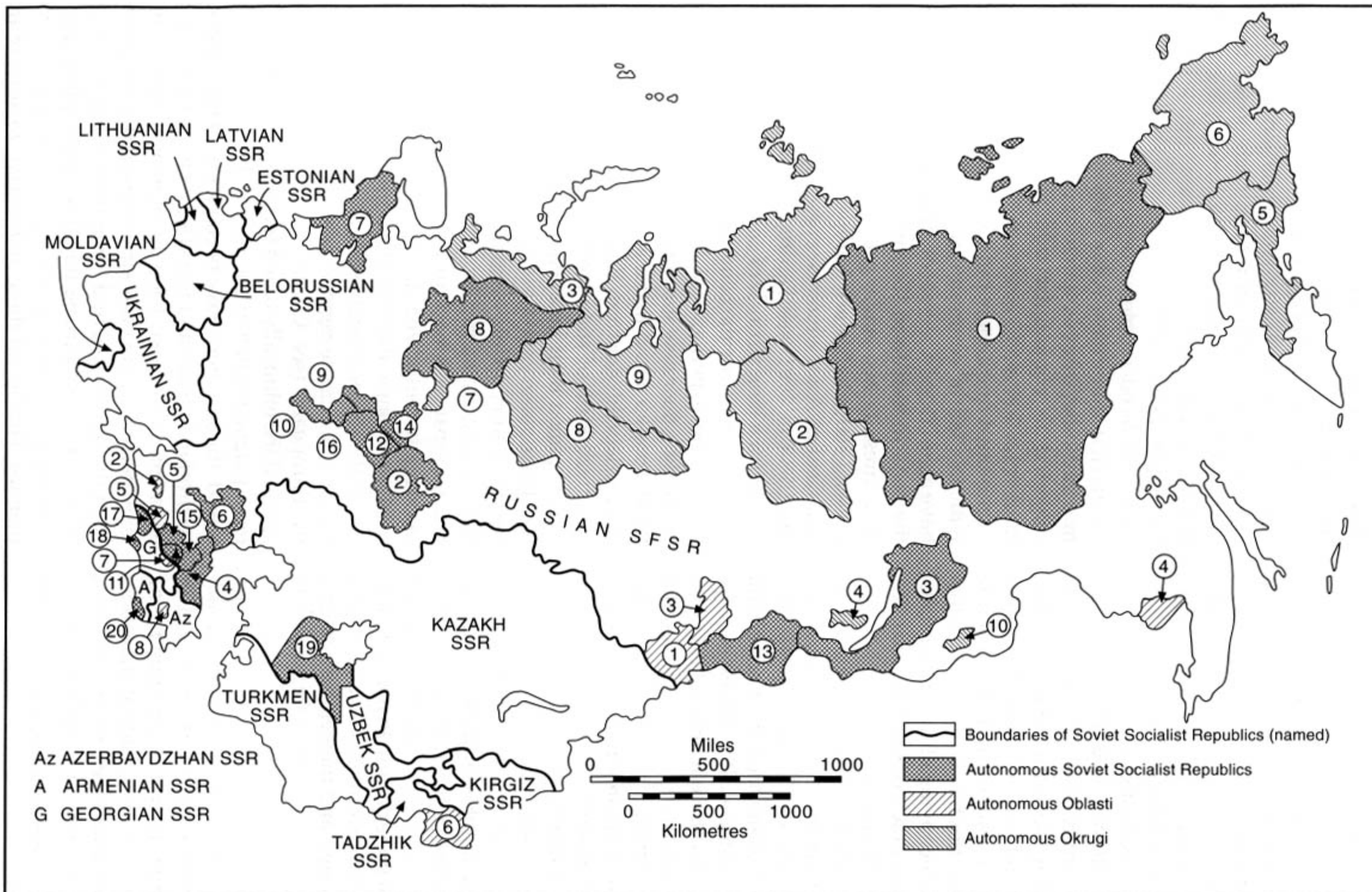
states are among the most stable is the fact that most of them have experienced a long history of state building accompanied by a strong tradition of nation building (see below).

It is therefore hardly surprising that states outside the core have often attempted to copy the 'successful' core states in terms of their basic institutional and political structures. This has been especially true of the post-colonial states. After independence such states were typically ruled, at least at first, by people who had been educated in Europe or by Europeans and who naturally looked to European norms and models to guide their policies. In this they were encouraged by the former imperial states, which saw this as a good way of maintaining their influence in their former colonies and of upholding their economic interests. But this does not mean that the end product of such copying of European states was new states that were exact copies of the old ones. Indeed, one of the problems of much of the post-colonial world has arisen from the very attempt to apply a European model of the state to regions where such a model was entirely alien (Smith, 1983). Thus the problems of non-core states are very much bound up with their varying histories. It is therefore helpful to consider briefly the different kinds of non-core state that exist in the world today with some account of their histories and varying problems. We can in fact identify several kinds of state, although our classification is by no means exhaustive.

First, there are what might be termed 'old' imperial states, located across Eurasia – for example, Russia, China, Iran and several others in southern Asia. As we saw in Chapter 3, a number of these are former empires, some with ancient civilizations and cultures, with a history of partial or even totally successful resistance to European imperialism. In the twentieth century they experienced revolutions that overthrew their old imperial regimes, and then embarked on a process of political and economic transformation. In the cases of Russia, China and a few others, they were ruled for lengthy periods by communist regimes that followed their own distinctive brands of modernization (see Chapters 4 and 6). With the fall or radical reform of communism they are now facing the challenges of economic and political transition. However, as former empires, they must meet such challenges with an ethnically and culturally mixed population, which often greatly complicates the task of state building.

A second kind of state includes those in Central and Eastern Europe that appeared in the nineteenth and early twentieth centuries as a result of the decay or defeat of several European or Eurasian empires that ruled parts of Europe before 1918 – notably the German, Russian, Austro-Hungarian and Ottoman empires. One of the problems such states faced derived from the impossibility of drawing their frontiers to coincide with the complicated ethnic map of the region (Shaw, 1998). Right from the beginning they thus faced problems of frontier disputes and disaffected minorities. After 1945 they largely fell into the Soviet Union's sphere of influence and were subjected to communist rule. This again meant modernization along communist lines (Chapter 4). Communist rule largely put paid to ethnic strife, but with the fall of communism by 1989 these states have again faced a revival of ethnic unrest as well as the need to transform their economic and political structures. Rather similar problems face the 14 non-Russian states in Eastern Europe, the Transcaucasus and Central Asia, which emerged from the ruins of the USSR in 1991 (see Figure 12.1). Many of these had known long periods of colonial dependence on Russia even before the communist era, and had had little or no experience of independent statehood. In building their new states and economies, therefore, these peoples must make a reality of their newly won independence from Russia.

A third kind of state are those in Latin America, which gained their independence from the Spanish and Portuguese empires in the first part of the nineteenth century. While a federal Brazil emerged out of Portuguese America by way of its own imperial regime, Spain's American empire became divided into largely centralized states on the basis of the pre-existing colonial and provincial units; by now these are relatively long-established states. Because of the way in which these regions were originally colonized by Europeans (see Chapter 3) they have largely escaped the ethnically based territorial disputes that have plagued much of the rest of the post-colonial world, though there have been plenty of non-ethnic territorial disputes and wars between the independent states in the past. They do, moreover, face problems deriving from class structures partly inherited from the imperial period, from the various kinds of ethnic and racial mixing that have taken place, and also those to do with relations with indigenous peoples. Finally, all these states have to survive in



Autonomous Republics (in RSFSR and other republics)

1. Yakutsk Autonomous Soviet Socialist Republic
2. Bashkir ASSR
3. Buryat ASSR
4. Dagestan ASSR
5. Kabardino-Balkar ASSR
6. Kalmyk ASSR
7. Karelian ASSR
8. Komi ASSR
9. Mari ASSR
10. Mordvinian ASSR
11. North Osetian ASSR
12. Tartar ASSR
13. Tuva ASSR
14. Udmurt ASSR
15. Chechen-Ingush ASSR
16. Chuvash ASSR
17. Abkhaz ASSR
18. Adzhar ASSR
19. Kara-Kalpak ASSR
20. Nakhichevan ASSR

Autonomous Oblasti (in RSFSR)

1. Gorno-Altay AO
2. Adyge AO
3. Khakass AO
4. Jewish AO
5. Karachay-Cherkess AO
6. Gorno-Badakhashan
7. South Osetian AO
8. Nagorno-Karabakh AO

Autonomous Okrugi (in RSFSR)

1. Tamyr A. Ok
2. Evenki A. Ok
3. Nenets A. Ok
4. Ust-Orda Buryat A. Ok
5. Koryak A. Ok
6. Chukchi A. Ok
7. Komi-Permyak A. Ok
8. Khanty-Mansi A. Ok
9. Yamal-Nenets A. Ok
10. Aga-Buryat A. Ok

FIGURE 12.1 *USSR: major republics and ethnic subdivisions in the late 1970s*

a world that is very much under the influence of the United States.

The fourth kind of state to be considered here is the newer post-colonial state; these are largely located in Africa, Southeast Asia, the West Indies and some other places. In accordance with the geographical scheme adopted in Chapter 3, most of these states derive from the European sea and nationalistic empires, and achieved independence only after the Second World War. Many of them face ethnic and cultural problems deriving from the fact that colonial boundaries were often drawn to suit the convenience of European imperialists rather than that of the native peoples. In consequence ethnically diverse peoples often found themselves living in the same colony, now an independent state, while colonial boundaries frequently divided peoples who were ethnically identical. Problems also derived from the way imperialism encouraged large-scale migrations of peoples from different regions – and even different parts of the world – leading to ethnic and cultural mixing. Such countries may therefore now face difficulties of coping with cultural diversity in addition to the problems of economic development that confront all post-colonial societies.

States in emerging regions therefore face diverse problems deriving partly from their past histories and partly from the positions they now occupy within the global economy. Many face particular difficulties associated with nationalism and ethnicity. It is to these issues we must now turn.

NATIONALISM AND ETHNICITY IN THE EMCs

Modern states have almost always tried to use nationalism as an instrument for securing the loyalty of their populations. The nation is often said to be an instrument that helps legitimize the state. Thus governments have routinely used such devices as national holidays and festivals, acts of remembrance, national exhibitions, architecture planning, sports occasions, education and media propaganda, as well as tokens like flags, national anthems, medallions, stamps and bank notes to instil a sense of history and belonging into their citizens and thus to encourage them to feel part of 'the nation'. It is the ability of nationalism to uphold, challenge and disrupt the territorial basis of the state, as well as the way it tends to imbue its devotees with a strong sense of identity with and love for a particular geographical space or 'homeland', that make nationalism such an important issue for geographers.

Before moving on to consider the significance of nationalism to the EMCs, some thought must be given to questions of theory and definition. What, then, exactly is a 'nation'? Taylor (1993: 332) defines the nation as 'a group of persons who believe that they are a single "people" based upon historical and cultural criteria and therefore should have their own sovereign state'. In other words, a nation is a group of people who feel they have a common history and also a common future together by establishing or supporting their own unique state. 'Nation', as we have seen, is thus quite different from 'state'. Whereas states are concrete entities, nations essentially exist in the mind. They are a matter of belief. Where states and nations coincide – in other words where states are supported by a strong sense of nationhood on the part of the majority of their populations – they can be referred to as nation-states. But in the last analysis this is always a matter of opinion. Thus a state might be a nation-state in the opinion of some, but consist of several nations in that of others. One obvious case is that of Britain, which can be regarded as one nation or alternatively as several (England, Wales, Scotland). Similarly Indonesia might be one nation or many (the many different peoples of the various islands). But, at the present time at least, both Britain and Indonesia are unified states.

Scholars of nationalism have disagreed about its origins. On the one side are those who argue that nations are based on long-existing cultures that emerged out of prehistory and thus have a common sense of ancestry as well as cultural markers like distinct languages. The Irish, the Germans, the Chinese and the Japanese as distinct peoples can thus be traced back into the mists of time. This view of nationalism is often termed the 'primordialist' position (Smith, 1986). Opposed to this is the 'modernist' view according to which, whatever feelings of 'proto-nationalism' might have been felt by some people in pre-modern times, nationalism as a political phenomenon only really arose in the late eighteenth century at the earliest. 'Modernist' scholars tend to point to the English Civil Wars in the seventeenth century, and to the American and French Revolutions in the late eighteenth, as times when peoples began to assert their right to determine their own futures rather

than merely obeying the commands of kings who claimed to rule by divine right. 'Modernists' thus see a strong link between nationalism and the rise of modern notions of democracy. They see nationalism spreading from the West into Latin America and Eastern Europe in the nineteenth century (Bollerup and Christensen, 1997) and eventually to the rest of the world. The upshot was political struggle and the ultimate birth of many new states, particularly in the twentieth century.

The significance of this debate for our purposes is twofold. First, the primordialist view seems particularly appropriate to some of the old-established states of Eurasia (Russia, China, Japan, Iran, Thailand and others) with complex cultures, some of which can be traced way back into history. If the dominant ethnic group in such states – what Hobsbawm (1995: 207) calls the *Staatsvolk* – has indeed had a strong sense of identity for a long time, which seems very probable, this may help explain their successful record of resistance to European imperialism as well as their apparent determination to borrow western ideas only on their own terms. The second point concerns the modernists' emphasis on the way that national identity is not natural or innate but arises in specific circumstances, and has to be continually reconstructed and remoulded. Thus new nations can arise and new states can construct new nations around themselves, just as the old-established states of Western Europe once did. This point has particular relevance to the post-colonial situation.

There is, however, one important caveat to consider with regard to the 'modernist' position in particular. It has been argued that the emphasis on nationalism arising first in North America and Western Europe in relatively recent times is part of the tendency to see modernization as originating in these locations and then diffusing across the globe. In other words, it is part of the already-mentioned European diffusionist position. This view is associated with the tendency to see the West as 'the norm' and other parts of the world, in as far as they fail to follow this norm, as lagging behind and/or inferior. Thus Edward Said is among those scholars who have argued that the western inclination has long been both to denigrate and also to over-romanticize the countries of the East, using inadequate concepts based on western experience to try and analyse them (Said, 1978). He describes such characteristic approaches as 'Orientalism'. With regard to nationalism, the 'modernist' position typically regards western notions of the nation as the norm for the modern world and advocates the adoption of the western form of the nation-state by peoples across the globe. But this is to deny the validity of other concepts of nationhood and of identity, which may be more appropriate to peoples outside the West, and ultimately to question the possibility of multiple modernities.

The issue of modernity – in other words, of what kind of modernity (if any) to pursue – is not an easy one for any of the EMCs. As we have seen, many of these states are attempting to forge their national identities and thus make their independence a reality in the face of the evident economic and political success of the core countries that once dominated them and may threaten to do so again. For what seem like good historically based reasons, all of the semi-peripheral and peripheral states have nationalisms that, to some extent at least, regard the West as 'the Other'. In other words, for them the West is the former and/or threatening imperial master to be treated with considerable respect, but also with suspicion and perhaps fear. How far to emulate the West without at the same time surrendering one's own identity and distinctive values and culture is thus a particularly difficult issue for many of the world's non-core countries.

A further problem for many EMCs is how to build a united nation in the face of ethnic and cultural diversity (Alter, 1989). Here again one must be careful about definitions. Ethnicity is never merely a 'given' or a straightforward fact, neither does it refer only to ethnic minorities. Ethnicity is probably best thought of as referring to groups of people who are recognized by outsiders as distinctive on the basis of particular characteristics such as separate languages or ways of life. Thus this is a social definition rather than one based on some objective and unchanging criterion. An ethnic group that does become self-conscious about its distinctiveness is described by Smith (1991) as an *ethnie*, or ethnic community. One can easily see how an ethnic community, given the right circumstances (and particularly if it occupies a defined space), might begin to advance claims to political independence and thus turn itself into a nation. One of the central purposes of the 'official' (i.e. state-centred) nationalism espoused by state governments is to try and ensure that minority ethnic communities remain just that by embracing the national identity of the state rather than developing

their own. In this way the whole issue of national identity may be highly contentious. Two other definitions are also important here. Like ethnicity, 'race' is probably best defined socially rather than biologically – it is never easy to distinguish clearly between races and the term 'ethnic group' is usually to be preferred to 'race'. 'Culture' should also be defined socially. 'Cultures' are never static, never merely objective and 'given'. 'Culture' is dynamic, is always being reworked and reconstructed and, like 'nation', is always contentious (Mitchell, 2000).

Post-colonial nation building has typically involved the attempt to construct some kind of 'official' national identity that can be embraced by all citizens, irrespective of their ethnic and cultural affiliations. The routes that have been followed have been described by A.D. Smith (see Table 12.1). Smith follows other scholars in distinguishing between 'civic' ('territorial') and 'ethnic' forms of nationalism. 'Civic' or territorial forms of nationalism tend to place emphasis on the idea of the nation as a political community of citizens, of whatever background, who form a community on the basis of living together in the same state. In other words, this form of nationalism tends to identify with the state. It has seemed particularly appropriate to states with ethnically diverse populations, as a means of unifying the populace. Ethnic nationalism, by contrast, has often been associated with the efforts of particular ethnic groups to struggle for national independence. It has thus often (but by no means always) been characteristic of colonial independence movements. Unlike civic nationalism, the ethnic variety tends to emphasize the significance of common ancestry, or the fact that members of a given ethnic group are interrelated by blood and should form a nation on that basis. Newly independent countries with a dominant ethnic group have often felt it necessary to assert their independence and distinctiveness by trying to build a national 'culture' that emphasizes the cultural characteristics (e.g. language, religion, social customs) of that ethnic group. Thus ethnic nationalists tend to wish to turn the state into an instrument of the dominant ethnic group. This obviously runs the risk of alienating ethnic minorities but has the advantage of fostering a distinctive national culture. Where newly independent states have opted for civic forms of nationalism, as in the case of some

TABLE 12.1 *Routes to nation building*

1. Territorial-civic route ('Western' model)

(a) West European/US route: nation and state grow together
(b) Imperial route: creation of e.g. Russian, Chinese, Japanese, Iranian nations out of pre-existing empires by a modernizing elite
(c) Colonial route: creation of new nations out of former colonies – need for a new self-definition, e.g.. Singapore. This requires one of the following:
  i. use of a 'dominant *ethnie*' model, e.g. Javanese culture as a basis for the Indonesian nation
  ii. the attempt to create a 'political culture' with no dominant *ethnie*, e.g. Tanzania, Nigeria, Uganda, Zaire

2. Ethno-nationalist route

(a) Nations developing from the nineteenth century in Eastern Europe and the Middle East as a result of challenges to imperial elites – Romanovs, Habsburgs, Ottomans, e.g. Poland, Romania, Bulgaria, Yugoslavia, Turkey
(b) Anti-colonial movements in Africa and Asia from the early twentieth century (though many subsequently adopted a civic form of nationalism, e.g. South Africa, India)
(c) New wave of ethno-nationalisms in Western Europe, e.g. Catalans, Bretons, Basques, Scots, Welsh; also Quebec, African-Americans etc.

Source: after Smith (1991)

of the post-Soviet states like Ukraine and Kazakhstan, they have sometimes been accused by ethnic nationalists of diluting the national culture, pandering to minorities and even endangering national unity and independence.

The nation-building projects taking place in many of the EMCs can be regarded as forming part of what is sometimes called the 'post-colonial' enterprise (Bhabha, 1994; Young, 2001). Across the former colonial world, and also to some degree in the West, scholars have been striving to foster a post-colonial understanding of the world and to create a post-colonial culture. Essentially what this means is that, just as the former colonies have been politically decolonized, so there is now an intense effort under way to decolonize the mind. Western categories of thought, particularly those that assert or presuppose western superiority and dominance, and Eurocentric scholarship, literatures, media and artistic output of all kinds, are subjected to challenge and reworking. Indeed in the literatures of post-structuralism, multiculturalism, feminism and others there are attempts to challenge not only assumptions of western, male and other kinds of dominance, but to call into question rationalizing, scientific, objectifying, categorizing and other modes of thought, which are considered to be western, patriarchal, hegemonic and disabling to those outside the dominating circles (Sidaway, 2000). Furthermore, such approaches challenge the neoliberal paradigm, which has become so influential among economic policy-makers in EMCs (see Chapter 7), as merely a new form of hegemonic discourse (Corbridge, 1993b). In place of these things 'post-modernism' seeks to celebrate diversity, disunity and the end of 'hegemonic discourses'.

All this has some ironic consequences in the post-colonial world. For just as post-colonialism seeks to challenge assumptions of western dominance and western-inspired imperialisms, so the post-colonial governing elites may find themselves being challenged in their nation-building programmes by ethnic and cultural minorities inside their own countries. In other words, the proponents of post-colonialism may find themselves accused of imperialism! It follows from what was said above about concepts like 'nation' and 'culture' that there cannot be any final answers to such disputes. Just like the West, the EMCs are struggling with (post-?)modernity, and the essence of modernity is uncertainty.

In the opinion of some scholars, the uncertainties of (post-)modernity have been exacerbated by the forces of globalization and threats to the old-established beliefs, institutions and identities that held societies and states together throughout most of the twentieth century. Such threats, in their opinion, are now being posed by a capitalism in precipitate change and are afflicting all parts of the globe. This may be the source of the new forms of 'identity politics' that swept the globe in the 1980s and 1990s (Hobsbawm, 1995: 424–30, 567–8; Norbu, 1992). Thus new nationalist, ethnic or regionalist movements have appeared to challenge the integrity of states, racist movements menace ethnic minorities and foreigners, refugees and migrants are victimized by governments and popular demonstrations of discontent, and new rights and privileges are claimed not only by oppressed minorities of various kinds but also by the well-to-do in an attempt to protect their special positions or escape their responsibilities. None of this can be expected to bypass the EMCs. The remainder of this chapter will ponder the implications of such developments for EMCs, particularly as they impinge upon issues involving state and nation. The wider political and social aspects will be considered in Chapter 13.

STATE AND NATION BUILDING AND THE PROBLEM OF 'BIG BROTHER'

One process that may be said to challenge the state- and nation-building activities of EMCs is control and intervention by the core in the form of international agencies like the IMF and the World Bank. This issue has been raised in earlier chapters (see Chapters 1 and 7) and can be regarded as a problem of 'informal imperialism'. Here we are concerned with a slightly different issue but one that is also related to 'informal imperialism' – the geopolitical problem of direct domination over EMCs by core states. Earlier in this chapter it was argued that states are political organizations that exercise supreme power, or 'sovereignty', over defined territories. The concept of sovereignty, however, is a contentious one (Taylor, 1994a). In the real world a state's power is always constrained. One reason for this is that states sign international agreements and treaties that bind them to certain courses of action. Such agreements are not always easy to reverse. Another reason is globalization: in

an ever more globalized world, state governments find it increasingly difficult to control processes like flows of capital and information, or even flows of people and goods, across and within their borders. As we have seen, non-core states face particular problems in this respect. This section is concerned with those non-core states whose sovereignty has been or is constrained by the dominance of a core state. The focus is on Latin America and the West Indies, with some reference to Central and Eastern Europe and the former Soviet Union.

In Chapter 3 it was noted that most of the states of Latin America gained their independence from the imperial powers of Spain and Portugal during the nineteenth century. The main reason why they were able to keep their independence was because of the power and influence of the United States and Britain (Barton, 1997: 52–62). A most significant event was the promulgation of the so-called 'Monroe Doctrine' by US President James Monroe in 1823. In response to threats by the Spanish and Portuguese to try and reclaim their rebellious Latin American possessions, Monroe declared that the American continents were no longer to be considered sites for colonization by European states. Any attempt by a European state to intervene in North or South America would incur the hostility of the United States. Monroe thus, in effect, declared the USA's right to act as protector of the new Latin American states. His stance was supported by the naval power of Britain, which was anxious not only to curb the pretensions of Portugal and Spain but also to advance its own economic interests in Latin America. As the nineteenth century wore on, the region fell into the economic spheres of influence of the USA and Britain, the former predominating in Central America and the northern part of South America, and the latter in the southern part.

As the United States completed its own internal colonization and settlement towards the end of the nineteenth century, it began to cast around for overseas colonies and dependencies in emulation of the European powers in that 'Age of Imperialism'. In 1898, for example, the USA went to war with Spain, as a result of which it gained possession of the Caribbean island of Puerto Rico and a protectorate over the newly independent state of Cuba. A few years later it annexed a portion of the isthmus of Panama through which it constructed a canal to link the Atlantic and Pacific. In 1904 President Theodore Roosevelt proclaimed the USA's right to intervene militarily in the Latin American states in the event of disorder or, in effect, of any development displeasing to his country. This set the pattern for a series of interventions in the northern part of Latin America and in the West Indies, which have continued to the present day.

American hegemony over Latin America, boosted by its ever more formidable economic power, was further encouraged by the two world wars, which removed the possibility of economic competition by Britain or any other European power. The signing of a pan-American defence agreement in 1947, and the establishment of the Organization of American States the following year, symbolized the idea of pan-Americanism with the USA as the key player. Though detailed American policy towards the other states varied with time and circumstance, the USA was able to use its vast economic and political power to ensure its continuing hegemony. Countries that opposed, or threatened to oppose, that hegemony were subjected to sanctions or even to military intervention. In the context of the Cold War, for example, the USA tended to view any move towards socialism, or sometimes even mild reformism, with deep suspicion, even if such moves enjoyed a popular mandate. Inevitably, Cuba's revolution in 1959 excited US hostility and sanctions, which continue to the present day. This has effectively undermined that revolution, particularly since the collapse of Cuba's main ally, the USSR. Likewise left-leaning political and social experiments in Guatemala (1945–54), Chile (1970–73), Grenada (1979–83) and Nicaragua (1979–90) were put down following covert or overt intervention by the USA. In the post-Cold War era, American policy has changed somewhat, but it still intervened militarily in Panama in 1989 and in Haiti in 1994, and it was implicated in the attempt to overthrow Chavez, the democratically elected president of Venezuela, in 2002.

It can be argued that the moves towards neoliberal economic reforms since the 1990s, which have affected almost all the states of the region (the reforms sometimes being described as the 'Washington consensus' – see Chapter 7) are also in part the product of US influence, applied either directly or indirectly via such international organizations as the World Bank and the IMF. However, in these days of globalization it would be quite unrealistic to try to explain everything by reference to the United States. US influence over the larger states of South America, for example, is limited by their sheer

size and relatively low trade dependencies. Some scholars argue that MERCOSUR, based around the powerful economies of Brazil and Argentina (see Chapter 7), might serve as a counterweight to the hegemony of the USA and NAFTA over the Americas (Gwynne, 1999: 69). It is in the small and vulnerable states of Central America and the West Indies, with their high trade dependencies on the USA, where American economic and geopolitical power reigns supreme (Klak, 1999). Most of the West Indian islands that gained independence from Britain, France and other European states from the 1960s are now overwhelmingly dependent on the USA. The major exceptions are some of the eastern Caribbean states, which have enjoyed privileged access to EU markets for the export of bananas and other products. However, these privileges are now being curtailed, again largely through US influence.

US pretensions to hegemony over Latin America inevitably provoked resistance, as reflected in nationalistic discourses from the 1930s and even to some extent in the already-mentioned socialist experiments in Cuba and elsewhere. Since the end of the Cold War, and the opening up of the continent to the global economy, international influences have multiplied and the role of the United States has become less overt. Yet the latter's economic, political and cultural weight remains formidable and cannot but circumscribe the options open to the peoples and governments of the region. In the wake of the international turbulence abetted by the events of 11 September 2001, and President Bush's 'War Against Terror', the international assertiveness of the United States seems only set to grow.

Another region whose states have faced somewhat similar constraints on their sovereignty is East Central Europe (ECE) and the former Soviet Union (FSU). As explained in Chapter 4, during the Cold War most of this region was dominated by the USSR but since the latter's fall in 1991 that particular problem has passed. This is not to say that a future resurgent Russia might not pose a similar threat in time, but given Russia's present economic difficulties, this eventuality seems remote for now. In the meantime most ECE states are seeking EU membership (exchanging a new form of dependency for the old?), while for FSU states whether their futures entail close relationships with Moscow or some other form of international alignment seems uncertain (see Chapter 7).

POST-COMMUNIST STATE AND NATION BUILDING: THE FSU AND CHINA

As noted earlier in this chapter, Russia and China are former imperial (and thus multi-ethnic) states, which were subjected to communist control for much of the twentieth century. Their recent development has been much affected by the way the communists approached ethnic issues. A distinguishing feature of the communists' ideology was their belief that, with the building of a socially just communist society, ethnic and national differences would gradually be eradicated or at least cease to matter in the way society operated (Carrere d'Encausse, 1992). Thus the communists, following the ideas of Marx, were internationalists rather than nationalists. The problem was that national feeling and ethnic identity did in fact matter to many of the peoples over whom they found themselves ruling in Russia and China after their respective revolutions. The task they faced, therefore, was how to ensure the victory of communist principles without either offending the national and ethnic feelings of subject peoples (for example, through too much centralization) or risking that victory (for example, through allowing subject peoples too much autonomy).

The pattern was in fact set in the early 1920s by the Soviet leader, V.I. Lenin (Shaw, 1999). Lenin argued that the best way to organize the new Soviet state (successor to the old Russian empire) was as a federation of outwardly equal republics, each representing one major nationality or ethnic group of the former empire. In this federation (the USSR) Russia itself would be only one republic (albeit easily the biggest) among the others – for example, of equal status to Ukraine. In this way Lenin hoped to hold the new Soviet state together (which he considered essential to the defence of communism against its capitalist enemies) while escaping the accusation that the USSR was in fact nothing more than the old empire, with Russians dominating the other peoples. Lenin also began the process of granting special status to lesser ethnic groups within the USSR by allowing them to establish ethnic regions (autonomous republics, regions or districts) within the major ('Union') republics. In this way the new Russian republic became a federation (known as the RSFSR or Russian Federation) within the larger federation of the USSR (see Figure 12.1).

Lenin, of course, was a political realist who, while quite prepared to allow the different ethnic groups certain cultural rights within their own territories, ensured that power remained firmly in the hands of the Communist Party, based in Moscow. In practice, therefore, the USSR was very much a Russocentric polity. This fact was soon underlined by the policies of Joseph Stalin, who effectively replaced Lenin as Soviet leader after the latter's death in 1924. In time Stalin (though himself a Georgian) veered away from internationalism towards Soviet and eventually even towards forms of Russian nationalism, ruthlessly persecuting anything that looked to him like anti-Soviet tendencies among the subject nationalities, and trampling upon national and ethnic sensibilities in all kinds of ways (millions of people were sent to forced labour camps and whole peoples were sent into exile). Such draconian policies of internal repression were in part a response to the perceived external threats to the USSR during the 1930s and 1940s in particular. Soviet leaders after Stalin's death in 1953 did much to correct his grosser abuses but continued the policy of Leninist centralization.

Quite apart from the crimes of Stalin, it is worthwhile pondering some other peculiarities of the Soviet experience. For example, ethnic groups were clearly regarded as of varying importance, arranged as they were in a hierarchy of ethnic territories. Some ethnic groups lacked official territories entirely (or had them and then lost them), while others were not even officially recognized (or lost official recognition at some point, as in the case of the exiled peoples). Moreover, ethnic groups were sometimes placed together in one territory, or artificially separated, to suit the needs of communist control and discouragement of nationalist or separatist tendencies. Similarly, much was done to manipulate the teaching and development of languages and other cultural practices, for the same reasons. Some of this had long-term consequences, underlining what was said earlier about national and cultural identity being matters of the mind rather than things that are 'given' and fixed for all time.

In China, where the communists seized power in 1949, somewhat similar policies have been pursued (Mackerras, 1995; Safran, 1998). Here the government has recognized 55 minorities since the late 1970s on the basis of a mixture of criteria (history, language, economic life, territory, culture and others). Spatially, the minorities live mainly in the peripheral regions of the country, particularly in the west and north, and their 156 autonomous regions (regions, prefectures, counties) occupy over half of the national territory (see Figures 12.2 and 12.3). However, since the majority (Han) Chinese constitute about 92 per cent of the total population of the country, China has not been organized as a federal state like the USSR but is officially designated a 'multinational, unitary state'.

As was the case in the USSR, the objective of Chinese communist policy was to ensure the success of communist development policies and national unity in the hope that, eventually, ethnic differences would cease to matter (Gladney, 1994). Before 1976 and the death of Mao, the communist leader, there were sharp fluctuations in policy towards the nationalities. The Tibetans, for example, suffered severely in the wake of their rebellion in 1959, and the Cultural Revolution during the years 1966–76 brought severe repression to all the minority peoples. An important feature of many of the Chinese minorities, especially of the Tibetans (who are Buddhists), the Uyghurs, Kazakhs and Hui (who are all Muslims) is the importance of religion to their identity and culture. In the context of an atheistic Chinese communist state (against the background of a rather secular Confucian culture) this has naturally done little to guarantee harmony among the different ethnic and national senses of identity involved.

The fact that the USSR broke up in 1991 along the borders of the Union republics founded by the communists some 70 years earlier shows that the communist ideology of internationalism failed to produce the desired goal of ethnic harmony and merging. Opinions will vary over whether this was the inevitable result of modernization and globalization (and hence internationalism is a utopian dream) or whether it was the result of such contingent factors as the crimes of Stalin and communist policy mistakes. Whatever the reasons, the former USSR has since become the site for numerous ethnic and national conflicts and disagreements. In the case of Russia, for example, there are problems over maintaining national unity in what is still a multi-ethnic state containing over 100 nationalities (Tolz, 2000). The Chechen War is the most spectacular example to date of an attempt at secession. There are also problems over the status of the 20 or so million Russians living in the 'diaspora' (i.e. one of the other former Union republics). All of the other post-Soviet states also have ethnic minority problems, and these have often been exacerbated by policies of ethnic nationalism.

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FIGURE 12.2 *China: autonomous regions*
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In retrospect, it can be said that many of the present-day ethnic problems are in fact the products of Russian and Soviet empire building, and of the communist failure to address the issue.

In China, where of course the communists remain in power, the post-1976 period has seen a move towards a mixed economy (see Chapter 6) and also the adoption of more liberal policies towards the minorities. Here too, however, there is evidence of ethnic and religious revival in the recent period. How far this is merely a reaction to the excesses of the Cultural Revolution of the 1960s and 1970s, and how far the product of other forces (for example, the spatial inequalities abetted by the new market economy) is hard to say. It remains to be seen whether China can maintain its national unity in the face of the evidently rising expectations of its minority peoples.

POST-COMMUNISM AND ETHNIC CONFLICT: YUGOSLAVIA

Probably nowhere have the stresses and strains associated with the transition from communism produced such bitter ethnic strife than in the former Yugoslavia (Cohen, 1993). Like the other post-communist states we have been discussing, Yugoslavia was a multi-ethnic state, embracing a group of ethnicities that are closely related linguistically and culturally (Serbs, Croats, Slovenes, Montenegrins, Macedonians, Bosnian Muslims) plus various minorities (Albanians, Hungarians, Germans and others). Back in the early nineteenth century the territory had been divided between the Austrian and Turkish empires, from the second of which the various southern Slav peoples gradually began to liberate

Image Not Available

FIGURE 12.3 *China: nationalities*
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themselves. The process culminated in the establishment of a united kingdom of Serbs, Croats and Slovenes after the First World War, renamed Yugoslavia in 1929. Unfortunately, among the many problems that faced the new kingdom was a good deal of suspicion between its different ethnic groups, based partly on cultural differences (for example, the Croats are predominantly Catholic, the Serbs Orthodox), on historical differences (the Slovenes and Croats tend to view themselves as more Central European than the Serbs in view of their long association with Austria-Hungary), and on economic differences (the wealthier and more industrialized north contrasted with the more agrarian south). To counteract any separatist tendencies, the Serb-dominated Yugoslav state was strictly centralized before 1939. Unfortunately this did not prevent the outbreak of the most frightful internecine conflicts during the Second World War, when the country was dismembered and occupied by the Axis powers.

When the communists seized power in 1945, they began to follow policies rather similar to those pursued in the USSR and, later, China. Thus Yugoslavia was administered in a highly centralized fashion (which unfortunately meant that a dominant role tended to be played by Serbs) though on paper the state was organized as a federation of six republics (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, and Macedonia) and two autonomous provinces within Serbia (Vojvodina and Kosovo). Sadly, this neat administrative geography did not reflect the extremely complex ethnic geography of the country, a complexity fostered by its historical development on the fringes of Europe and Asia, and by the multifarious cultural influences to

FIGURE 12.4 *Post-communist Yugoslavia*

which it had been subjected. All the republics and autonomous regions contained a mixture of populations, therefore. The communist government was committed to the principle of internationalism, but in many ways it would be true to say that nationalism and separatist tendencies were suppressed rather than ameliorated. Moreover, while much was done to try and cultivate a sense of Yugoslav nationhood, issues like overcentralization, Serb domination and regional autonomy (despite some experiments in this direction) were avoided rather than resolved.

Space does not permit an examination of the tragic story of internecine warfare, ethnic cleansing, political fragmentation, and the ineffectual intervention by international agencies and foreign powers that followed the dissolution of the Yugoslav federation after 1989 (see Glenny, 1992; 1999). The result has been a degree of political fragmentation undreamt of even by the opponents of a unified Yugoslav state, as well as an instability and ongoing conflict that bodes ill for the future of the entire region (Figure 12.4). The failure of the communist regime to put its principle of internationalism into practice must bear part of the blame for this situation. But equally long-term factors (for example, the complex ethnic geography and the economic, cultural and political differences mentioned above), and perhaps above all the stresses and strains of the transition from communism, have been significant.

POST-COLONIALISM AND ETHNICITY: THE CASE OF SOUTHEAST ASIA

It is not only in the post-communist world where state and nation building face problems posed by multiple ethnicities and ethnic revivals. In the post-colonial world, too, such problems frequently arise. As explained earlier in this chapter, the European imperial powers in many places carved out their colonies to suit their own convenience or by mutual agreement, paying little or no attention to the underlying ethnic geography. Their colonies thus often had ethnically mixed populations, a feature that tended to become more pronounced as a result of subsequent migrations. On gaining their independence, such former colonies were thus faced with the task of building nations out of very mixed populations.

One region of the emerging world where such features are in evidence is Southeast Asia. This region was colonized by the British, Dutch and French from the sixteenth century onwards, and was gradually incorporated into an expanding world economy as its products of spices, plantation crops and minerals were demanded by European and overseas markets (see Figure 3.3). The European powers encouraged influxes of Chinese, Indian and, to a much more limited extent, European settlers to fill the various labour markets created by the expanding commercial economies. Following the Second World War most of the European colonies achieved political independence, but not without considerable turmoil in many cases. The new states were left with the task of rebuilding their economies and forging national unity in the face of considerable cultural diversity. In the case of Malaysia, for example, which was formed from British colonies on the Malay peninsula and northern Borneo, the problem has been one of building national identity in the context of a class- and ethnically divided society of Malay, Chinese, Indian and other populations with a diversity of religions and cultures. Some problems have been caused by perceived tendencies towards Malay (and Islamic) cultural and political dominance. In the nearby island of Singapore, also a former British colony, the situation is somewhat different since the very different colonial economy gave rise to a predominantly Chinese but also multi-ethnic population of mainly immigrant stock. Singapore separated from Malaysia in 1965, partly as a result of the cultural differences, and since then has tried to pursue a largely ethnically neutral policy based around a highly commercial and meritocratic ethos (Brown, 1994).

Perhaps nowhere has the task of post-colonial nation building proved more complex than in the case of Indonesia. The Indonesian archipelago consists of several thousand islands scattered across a region measuring over 3000 miles from west to east. The territory is inhabited by up to 300 ethnic groups (speaking perhaps 250 distinct languages), though the groups were actually categorized and in a sense 'invented' by colonial (Portuguese and then Dutch) map-makers, ethnologists and census takers (Elmhirst, 1999). On attaining independence from the Dutch in 1949 the Indonesian leaders confronted the difficulty of asserting national unity over a region whose only sense of unity had been imposed (and that very imperfectly) by the Dutch. In one way their task was eased by the fact that about 45 per cent of the total population are Javanese, living on the island of Java. Post-independence governments have subscribed to a policy of 'unity in diversity', suggesting a form of civic nationalism that might incorporate all of the many ethnic and cultural groups living within the state. However, such a policy runs the risk of failing sufficiently to foster a sense of Indonesian unity as well as to address such issues as the development gap between Java and the outer islands (Java, for example, has suffered from severe population pressure, while many outer islands have been sparsely populated and underdeveloped). One answer to this problem has been sought in a policy of transmigration whereby Javanese officials, poor farmers and others have been resettled across the archipelago (Elmhirst, 1999). Quite apart from easing such problems as land hunger in Java, this programme has been used to further agricultural development and the spread of capitalism across the islands, drawing local indigenous groups into the new economy. From the point of view of the country's leadership, it has the added virtue of fostering military and administrative control of local populations.

The obvious objection to policies like transmigration is that it is in fact a form of ethnic nation building – of spreading Javanese culture and ways of life across the archipelago to the detriment of local populations and their cultures. Local resentment of such policies has been exacerbated by ruthless policies of repression applied to rebels in East Timor (annexed

from the Portuguese in 1975/76 but achieving independence in 1999) and elsewhere. Whilst it is difficult to generalize about the country as a whole, material as well as cultural and political differences have served to challenge official policies, and the Indonesian state currently faces a number of regional rebellions to its rule as well as a good deal of political and economic turmoil (exacerbated by recent economic difficulties) in the centre. Whether Indonesia will survive as a united nation in the long term remains to be seen.

LATIN AMERICA: ETHNICTY, RACE AND INDIGENOUS PEOPLES

Although also part of the post-colonial world, Latin America's experience of ethnicity and its relationship to nation building has been distinctive. As Chapter 3 made clear, much of Central and South America was colonized by the Spanish in such a way as to allow for a degree of racial mixing between the colonizers and the indigenous peoples. The resulting mixture of races was further complicated, especially in the northern parts of South America and also in the Caribbean, by the import of black African slaves to work on the plantations. It might therefore be imagined that nation building in that region would not have to encounter the ethnic difficulties outlined above but would instead be concerned with problems of a different order.

This, however, would be a superficial view. Although considerable racial mixing did and does take place in Latin America – it has been claimed that 'in no other large region of the world has such extensive ethnic mixing occurred' (Bakewell, 1997: 460) – the result is a far from ethnically homogenous or ethnically blind population. For one thing, the Hispanic heritage of many of these states ensures a certain continuity of the racist attitudes of the colonial period. During that period the white Hispanic population was generally regarded as superior to the mixed population (*mestizos* and *mulattos*) who were, in turn, felt to be superior to the Amerindians and the black population. Political and economic dominance was exercised by the whites, who were indeed frequently spatially segregated from their racial 'inferiors'. Since it was, generally speaking, the wealthy white elite who led the drive for independence, they were able to ensure their continued dominance within the newly independent states and to secure the existing patterns of property rights and economic power. There is thus to this day a certain correlation between colour on the one hand, and social class and wealth on the other. The patterns of land and property ownership inherited from the colonial period, though much modified since, served to exclude much of the indigenous population from the major sources of wealth. Similarly, the black population was from the beginning economically seriously disadvantaged. In Brazil, black slavery was not abolished until 1888.

The situation with regard to the indigenous population in parts of Latin America is in fact reminiscent of that in other regions of the post-colonial world. Just as the white colonizers of Africa, Southeast Asia and other areas ignored native political units, communities and boundaries, the same was true of the Spanish and Portuguese in Latin America. The colonial administrative units of Spain and Portugal, which formed the basis of the future independent states, thus paid little or no heed to the underlying ethnic geography. Today, ethnic groups like the Maya of Central America, the Guarani of Paraguay and Argentina, and numerous others, overlap national boundaries. According to the Treaty of Amazonian Cooperation, the Amazon basin contains 900,000 people from 300 different language groups. Not only are such groups split between the states of Brazil, Peru, Ecuador, Colombia and Bolivia, but until very recently their existence has been granted little political recognition, even within their own countries (Barton, 1997: 159–74). However, indigenous peoples in several Latin American countries (e.g. Panama, Ecuador, Bolivia and, to a lesser degree, Mexico) have in recent years been awarded considerable territorial and administrative autonomy within their national territories. All of these peoples are considered separate 'nations' within Latin American states.

Across Latin America, post-independence state and nation building has in general been constructed on the norms of the European Enlightenment, reflecting the values and prejudices of the white or *mestizo* elites. This has meant regarding the colonial period as the base from which the new nations arose, praising the heroic leaders of the independence movements, and emphasizing the political and cultural achievements of the post-independence period, many of which are also based on European norms. All this says little or nothing of the histories of the indigenous peoples

whose societies generally predated European penetration, who were all too often cruelly treated by the colonizers, and whose cultures and values are allocated little or no say in the national story (exceptions such as Mexico's celebration of its pre-colonial heritage do not invalidate this generalization (Radcliffe and Westwood, 1996: 84)). Similarly the very large numbers of black people living in countries like Brazil and Colombia have frequently been accorded little recognition in the nation's history, their former enslavement being regarded as a matter of shame rather than an important part of the achievement of nationhood (Barton, 1997: 162).

The erasure or marginalization of part of the community from the national history – what some have termed 'geographies of exclusion' (Sibley, 1995) – may in the end provide excuses for actual exploitation or oppression. Given the long history of white marginalization of indigenous peoples on the frontiers of both North and South America, the fact that development policies in the Amazonian basin, for example (often backed by TNCs and international agencies), have frequently ignored the protests and interests of indigenous communities, should occasion little surprise. Only more recently have various resistance movements arisen among black, indigenous and other marginalized groups to challenge such incursions, and hence such conceptions of the nation, and begun to point the way to possible alternatives. Such issues will be examined in the next chapter.

CONCLUSION

Recent history has witnessed the growth or revival of national and ethnic consciousness amongst peoples across the world. Clearly this has taken different forms in different places, and across the EMCs such processes as the problems of the transition from communism, the complexities of post-colonialism, the struggles for material existence and for greater democracy, and 'identity politics' are all implicated. Smith (1983) has argued that the post-colonial world is now suffering from the past imposition of a European-style territorial state in regions to which it was quite unsuited. This, he believes, helps to explain the many problems bequeathed by present-day state and nation building in those areas. But while there may be considerable truth in this assertion, there is also much to be said for the view that state and nation building in the EMCs is being challenged not only by the heritage of the past but increasingly by processes that are operating globally – transnational migrations, economic globalization, new social and political movements, and democratization. In the opinion of some scholars, these processes seem to be calling into question the whole basis on which European-type states and nations have customarily been constructed. It is the political and social aspects of these processes that the next chapter will address.

FURTHER READING

Anderson, B. 1983: *Imagined Communities: Reflections on the Origin and Spread of Nationalism.* London: Verso. A classic discussion of the rise and nature of nationalism, which defines the nation as 'an imagined community'.

Barton, J.R. 1997: *A Political Geography of Latin America.* London: Routledge. A good discussion of the topic with plenty of historical insight.

Glenny, M. 1999: *The Balkans, 1904–1999: Nationalism, War and the Great Powers.* London: Granta. An excellent and informative examination of the complex and turbulent history of the region during the twentieth century.

Hobsbawm, E. 1995: *Age of Extremes: The Short Twentieth Century, 1914–1991.* London: Abacus. A splendid and lucid analysis of global change during the twentieth century by a veteran Marxist historian. Covers an enormous range of material.

Mackerras, C. 1995: *China's Minority Cultures: Identities and Integration Since 1912.* Harlow: Longman. An accessible account of an understudied facet of modern China.

Shaw, D.J.B. 1999: *Russia in the Modern World: A New Geography.* Oxford: Blackwell, Chapters 2, 3, 9 and 10. These chapters deal with the changing political geography and problems arising from local nationalisms and the imposition of new boundaries.

Smith, A.D. 1991: *National Identity.* London: Penguin. An excellent discussion of the issue by one of the leading scholars of nationalism.

Smith, G.E. 1999: *The Post-Soviet States: Mapping the Politics of Transition.* London: Arnold. An analysis of geographical change in the FSU which focuses on aspects of the changing political geographies and political economies of the region.

Yuval-Davis, N. 1997: *Gender and Nation.* London: Sage. An original study of the interlinkages between national and gender identities with many insights.

13

MODERNITY AND DEMOCRACY

> [N]o serious observer in the early 1990s could be as sanguine about liberal democracy as about capitalism. The most that could be predicted with some confidence (except, perhaps, for the more divinely inspired fundamentalist regimes) was that practically all states would continue to declare their profound attachment to democracy, organize elections of some kind, with some toleration for a sometimes notional opposition, while putting their own gloss on the meaning of the term.
>
> (Hobsbawm, 1995: 575)

The new millennium dawned on a world that seemed more democratic than ever before in its history. Indeed, the twentieth century had in many ways been the age of democracy, when, to quote Hobsbawm once more, 'For better or worse – the common people entered history as actors in their own collective right' (1995: 582). By the century's end few indeed were the governments that still claimed to rule by divine right, as many had done 100 years earlier. The twentieth century's numerous authoritarian regimes, like the Fascists and the countless military dictatorships, had made a practice of appealing to the masses, while the communists, ruling in the name of the proletariat, had claimed to offer a more genuine form of democracy than that practised in the West. But by the end of the century even such authoritarian forms of government were in retreat and parliamentary democracies were establishing themselves throughout the former communist and 'Third' worlds. It is the issue of the apparent spread of democracy through the EMCs, and the limitations to that process, that are the subject of the present chapter.

A GEOGRAPHY OF DEMOCRACY

How is the spread of democracy throughout the EMCs to be described and measured? In particular, how is its spatial diffusion to be mapped and accounted for? One significant answer has been provided by a group of geographers in a statistical study of the global spread of democracy over the period 1946–94 (O'Loughlin *et al.*, 1998). They regard the spread of democracy, which they describe as a political system linked to such notions as parliamentary democracy, civil society and free market economies, as a most important development in view of the widespread (if contentious) argument that political democracy fosters the pursuit of peaceful international relations, wealth creation and rising living standards, and numerous other advantages. According to them, by the late 1990s 60 per cent of the world's states had democratic political systems, compared to only 28 per cent in 1950 (there was, of course, a very considerable increase in the number of states over that period) (O'Loughlin *et al.*, 1998: 546).

How, then, is democracy defined in their study? The authors distinguish between what they term 'substantive' and 'procedural' definitions. The former are broader definitions that commonly emphasize what might be regarded as desirable outcomes of democracy, such as 'wealth, power, justice, equality and inclusion' (O'Loughlin *et al.*, 547). The latter are more narrowly concerned with the institutional processes of democracy rather than the outcomes, with an accent on such things as inclusion, participation, open competition and institutionalized constraints. The authors contend that procedural definitions of democracy derive from the liberal political tradition (and hence from the eighteenth-century European Enlightenment), which tended initially to focus on the issue of how to implement constraints on state power and to foster civil society (civic freedom). It is a procedural or institutional definition of democracy upon which their study is based.

The distinction between substantive and procedural democracy is an important point that will be examined later in this chapter.

What the authors attempt to do is to gauge the extent to which the political systems of each of the world's states was democratic and how the degree of democracy varied over the period 1946–94. This is done by gauging different aspects of a country's political system according to a series of scales that measure (i) the degree to which there are constraints on the actions of executive decision-makers, (ii) the extent to which competition for political power is permitted among political forces (parties), (iii) how far political participation is properly regulated, and (iv) the degree to which recruitment into decision-making bodies is open to all. Thus, as regards recruitment into the executive organs of government, this might be by election, partly by election and partly hereditary, partly by appointment and partly hereditary, or purely by appointment. Scores are given to each country in accordance with how it measures on each scale and thus it receives an overall score indicating how 'democratic' it was at a particular point in time. The basic data are derived from a dataset known as Polity III, which is widely used in studies of this kind. However, it is clear that while standardized sets of measures are essential for comparative analysis, gauging where each country falls on the democratic scale is by no means a purely objective exercise.

Accepting for the time being the authors' institutional definition of democracy, we may note that their paper reveals some interesting patterns, showing how democracy has spread across the world in the last half century or so. Thus they publish three maps showing the world distribution of 'democracy scores' for states in the years 1950, 1972 and 1994 (Figure 13.1). In 1950, according to these maps, the most democratic states were mainly to be found in Western Europe and North America with one or two outliers in countries like Australia, New Zealand and India (see Box 6.2). Several partially democratized states were to be found in the northern part of South America, Southern Africa and East Asia. Almost all of Africa was under colonial rule, and therefore undemocratic, whereas the world's most authoritarian regimes were located across Eastern Europe, much of Asia and the Middle East, and also Argentina in South America. The authoritarian states, of course, included the communist ones. By 1972 the world had witnessed a great spread in authoritarianism, with much of Africa (by now independent of colonial rule) and the greater part of South America now adding their weight to the continuing authoritarianism of most of Eurasia. By 1994, however, authoritarianism had experienced an equally dramatic retreat. It was now mainly confined to a wedge embracing southern Asia (excluding the Indian sub-continent), the Middle East and northern Africa. Using statistical methods to show local indicators of spatial association, the authors were able to show the clustering of basically democratic and authoritarian polities in the three years in question. In 1994, they assert, the 157 states of the world were clustered among two definite regions: a democratic zone embracing most of the Americas, Western and Southern Europe and Australasia, and a contiguous authoritarian zone stretching from Southern Africa through the rest of that continent, the Middle East, Central Asia and China.

The main purpose of the study is to analyse the changing spatial and temporal distributions of democratic forms across the world's states. In doing so the authors naturally discuss the processes that facilitate transitions to democracy as well as the forces working in the opposite direction. While their detailed findings need not detain us, one or two are of interest. For example, they show how democratization is by no means a one-way and inevitable process – there are spatial and temporal 'waves' of de-democratization, just as there are 'waves' of democratization. Thus at the global level there were marked democratization waves following the two world wars, and again in the 1980s and 1990s, but waves working in the opposite direction in the 1930s and in the 1960s and 1970s. Regional waves are also noticeable, with Latin America exhibiting a trend towards authoritarianism in the 1960s and in the opposite direction in the 1980s. Similarly Africa, whose newly independent states had finally been equipped with all the outward signs of democracy by their former colonial masters, tended to lapse into authoritarianism by the late 1960s but was moving in the opposite direction by the 1990s. As geographers, the authors are naturally inclined to highlight the geographical character of political change. Thus they note the importance of geographical proximity to the spread of democracy from state to state, and also the existence of particular regional factors that may either facilitate or hinder such spread. One factor that may have facilitated change, they believe, is the existence of particular promoters of

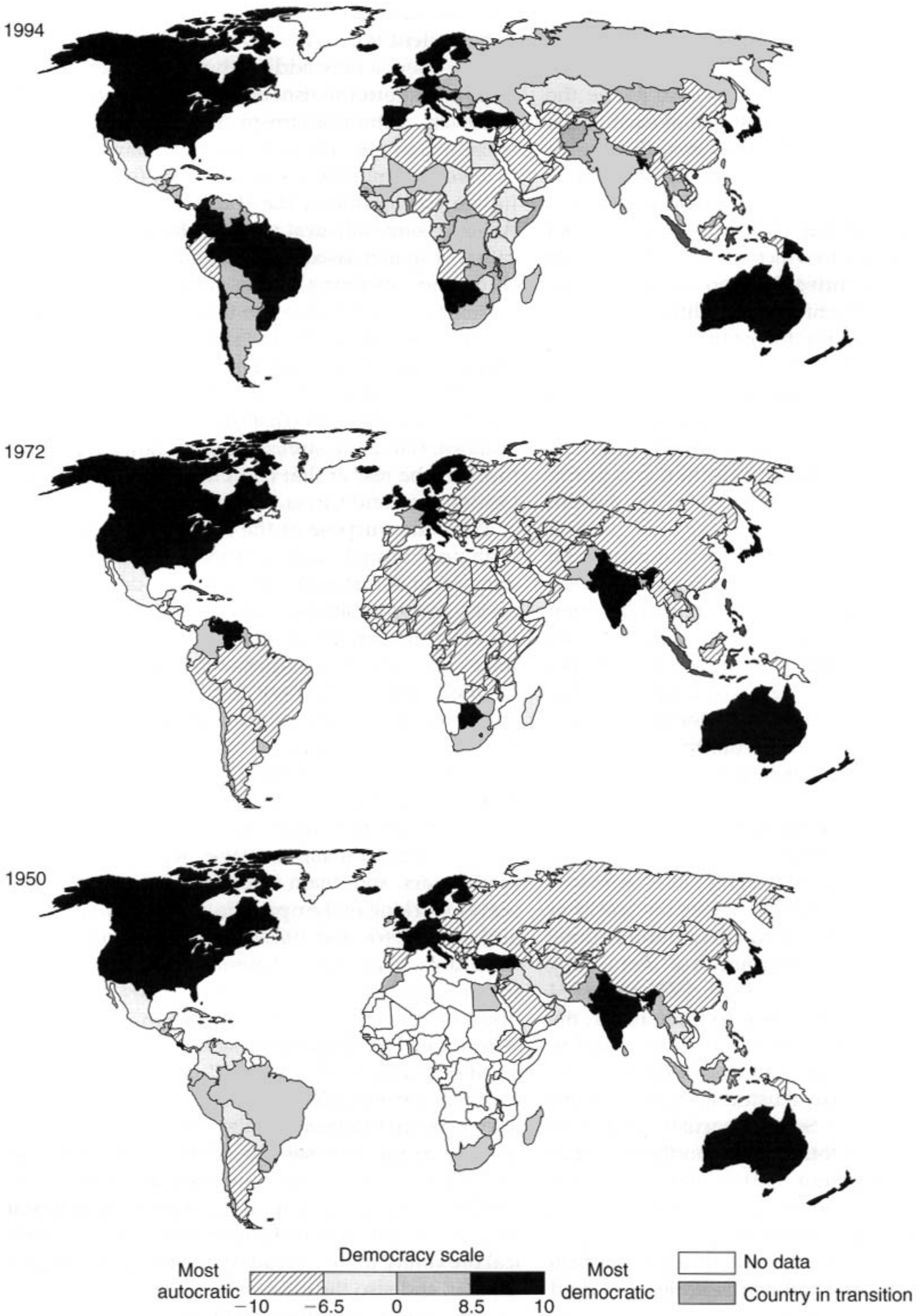

FIGURE 13.1 *Geographic distribution of democracy scores*

democratization (and economic liberalism) – a role taken by the USA in the late 1980s and 1990s in Central and South America.

THEORIZING DEMOCRATIZATION

If democratization is thus such a major force in the world, affecting many emerging countries by the beginning of the twenty-first century, how is its importance to be explained? Eduardo Silva (1999) has contrasted two major theoretical approaches to this issue, focusing in the first instance on Latin America. The first of these is modernization theory. Essentially, these approaches tend to view democratization as part of the whole process whereby societies move from traditional, pre-industrial forms towards the highly marketized, industrialized and urbanized forms familiar today. One version of modernization theory that was very popular in the years after the Second World War was the 'stages' approach, which argued that the developing countries would move along similar trajectories or through similar development stages as those that had characterized the developed world in an earlier period. In other words, democratization was seen as part and parcel of a set of economic, social and political transitions through which the West had already passed and through which other parts of the world would also pass. The end product would presumably be societies like the West. Perhaps the best-known exponent of this view was the American economist W.W. Rostow (1960), but others focused more explicitly on the issue of political transition (Parsons, 1964). However, this rather optimistic (and somewhat Eurocentric) view of the world was severely challenged in the 1960s and 1970s when, as we have seen, many states in the developing world, though undergoing economic development, began to move towards authoritarianism rather than democratizing as modernization theorists expected. In the recent period, and in the light of the democratization 'waves' of the 1980s and 1990s, modernization theories have become more prominent again. But instead of suggesting that democratization is inevitable as earlier work tended to do, proponents of this approach now tend to focus more carefully on the exact conditions that bring it about (E. Silva, 1999: 43ff.; Diamond *et al.*, 1989; Huntington, 1991).

The alternative approaches, according to Eduardo Silva (1999), are those of political economy. These approaches, some of which are inspired by Marxism, tend to see the issue of democratization as of secondary importance relative to the state and its role in society. Thus the state has to be seen in the context of the economic structure of society (which also implies viewing the national economy in relation to the international economy), of the relationships between social classes and of the workings of political institutions and actors. In many interpretations, the state is seen as a manager of society, functioning to make capitalism possible. Whether the state itself is democratic or authoritarian is less important than this primary function, and indeed it might become more or less democratic according to how well or how poorly this function is performed. Thus, according to these views, democratization cannot be seen as some kind of inevitable or even highly probable process that occurs along with capitalist development, but rather as something that may or may not occur as a result of the working of economic processes, how these affect class relationships and other factors. Similarly, the related school of dependency theorists has regarded the nature of political systems as contingently related to the varying ways in which developing countries interact with the international economy (Haggard and Kaufman, 1995).

While many studies have supported the idea that rising wealth is on the whole positively correlated with democratization, the precise nature of the relationship is much disputed. Perhaps the main difference between the two theoretical approaches cited above is the tendency for modernization theorists to be more positive about the link between capitalist development and democracy. This issue will now be further explored by reference to two case studies, on Latin America and the former Soviet Union.

DEMOCRATIZATION IN LATIN AMERICA

Chapter 12 made the point that the independence of most of the Latin American states followed that of the United States. These states were much influenced by the ideologies of freedom that had loomed large in the American War of Independence and in the subsequent French Revolution. The democratic impulse resulted in the adoption by many of the new states of parliaments and other institutions that appeared to confirm their democratically based status. And

yet the social underpinnings to the independence movements were quite different from the case of the United States. The movements were largely led by wealthy white elites derived from the land-owning and commercial classes who made sure it was their power that was to count in the new republics. Those who were not members of these elites were generally excluded from power. An important role was played by local and regional *caudillos*, or bosses, who used their traditional networks of clients and dependants as well as old-established practices like the distribution of favours or the espousal of populist measures, to establish their power. The elites were frequently aided by the military who, perhaps in keeping with a political tradition with origins in Southern Europe, took on a significant political role. The political complexities and vagaries of the Latin American states over nearly two centuries need not detain us, particularly in view of the fact that the detailed story varied from state to state in accordance with conditions in each state. It is enough to note the political instability of many of the states, with frequent periods of military rule or rule by other kinds of authoritarian regime. When democratic systems were installed, they rarely lasted long or put down very deep roots. In the period between the two world wars, for example, only Colombia, Costa Rica and Uruguay had political systems that could be called consistently democratic. The economic depression of the 1930s, which hit the export-based economies of Latin America particularly hard, resulted in the military overthrow of several of the region's governments. As we have seen, there was another marked surge towards authoritarianism across the continent in the 1960s and 1970s. This was then succeeded by a wave of democratization, beginning in the 1980s and lasting until the present.

Authoritarianism in the Latin American context is so routinely associated with right-wing military coups that it is important to remember that on numerous occasions authoritarian regimes have been established as a result of coups by leftward-leaning groups or of successful guerrilla movements, sometimes enjoying popular support. The best-known example of this in the region is the Cuban revolution of 1959, which was the result of a successful guerrilla movement against a corrupt dictatorship led by the populist revolutionary Fidel Castro. After incurring the hostility of the United States as a result of his early economic and social policies, Castro declared himself a communist and introduced the full panoply of a communist dictatorship. His subsequent attempts to export revolution to other parts of Latin America naturally did little to foster political stability in the region, particularly when he encountered a US government committed to ensuring there would be 'no more Cubas'.

Latin America's recent trend towards democracy needs to be seen in the context of the widespread failure by the military dictatorships of the 1960s and 1970s to deal successfully with the region's economic difficulties and the challenges posed by incipient globalization. But other factors are also very important. One is the enormous social changes experienced across Latin America in recent decades including mass migrations from the countryside, urbanization, the spread of education, and rising living standards among wider elements of the population. In such circumstances it often becomes difficult for governments to govern in the absence of at least an appearance of democratic legitimacy and the rule of law. Furthermore, the influence of globalization has been important in as much as international investors and agencies seek stable political conditions to underpin their activities and interests, and in current circumstances these generally seem best assured in democratic conditions.

How stable, then, are the new democracies of Latin America? Undoubtedly such factors as the decline of the Left, the greater unwillingness of the USA to support the forces of the Right following the end of the Cold War (and its commensurate tendency in the 1990s to emphasize the importance of human rights), and also the more relaxed attitude of the military itself, seem to have enhanced democratic stability. However, important questions have been raised about the quality of the democracy being experienced in the region (P. Silva, 1999). Thus Patricio Silva notes the grave disparities in wealth and development that still exist between regions, groups and individuals, and that may threaten democracy in the future. Furthermore he hints at a certain lack of popular legitimacy in Latin American democracy in view of its historical association with neoliberal programmes of modernization, which were closely identified with repressive regimes (most notably, that of Pinochet in Chile between 1973 and 1990), with pressure exercised by foreign governments and international agencies, and with government abandonment of welfare and social priorities. Patricio Silva argues that there

has been a depoliticization of society as a result of past military repressions, the perceived 'top-down' character of the democratization process and the continued refusal by governing elites to bring those guilty of past repressions to justice. Many people, he argues, are disillusioned, seeking an escape from politics in consumerism while politicians hide behind the pronouncements of technocratic advisers. Meanwhile, lack of attention to the rights of indigenous peoples and other groups, political corruption, and the involvement of politicians in drugs, violence and criminality do little for democratic legitimacy. All this seems to suggest a dangerous void in the democratic process.

DEMOCRATIZATION IN THE FORMER SOVIET UNION

Whereas the Latin American states with their Enlightenment heritage have moved slowly and hesitantly in the direction of democracy, the USSR's successor states encountered democracy much more suddenly and have been subjected to even greater challenges in trying to implement it (Smith, 1999; White, 2000; Brown, 2001). Indeed, it would be true to say that the region had no sustained experience of democracy prior to 1991. Before 1917, while some progressive groups did argue for political modernization along European lines, the Russian empire was ruled by a highly autocratic monarchy that made few concessions (except at a local level after 1861) to democratic principles or civil rights. Only after defeat in the Russo-Japanese War of 1904–05, and subsequent revolution, did the regime reluctantly grant a constitution, and even then it was not long before the constitution was being undermined. In 1917, at the height of the First World War, the imperial regime fell to be replaced by a Provisional Government, which attempted to introduce democratic reforms. Before this process could be completed, however, the new government was itself overthrown by the Bolsheviks or communists who claimed to rule in the name of the masses. One of the first acts of the communist regime was to abolish the Constituent Assembly, which had been set up by the Provisional Government to establish the basis for a constitutional political system.

The communists, under the leadership of V.I. Lenin, had their own ideas of democracy. Essentially, they proclaimed themselves to be the 'vanguard', or the most progressive element, of the working class with a mission to transform society into a socialist system that would be run for the benefit of the workers. The communists did have an idea that such a society would be truly democratic, but since this would take a long time to achieve, and since in the meantime the workers would need to be educated into their more democratic role, the leading position in society was to be taken by the Communist Party. In practice this came to mean the abolition of all other political parties, the suppression of all forms of political dissidence and the establishment of a one-party state. Although the new system was characterized by many democratic forms, such as a constitution, elections to a 'parliament' (the Supreme Soviet), laws on freedom of speech, of assembly and so on, such forms were but a shadow of democracy. In reality, for most of the Soviet period, only one party could submit candidates for election, the selection of candidates was strictly controlled by the party, as indeed was the Supreme Soviet itself (it was little more than a rubber stamping body), and there were all kinds of controls on the civic freedoms that existed on paper. The whole of society was under the surveillance of the secret police (latterly the KGB), who ruthlessly suppressed any form of dissidence. The party attempted to spread its tentacles throughout society, so that even the formation of voluntary groups for charitable or other purposes was forbidden without permission. This was indeed a totalitarian society, where every person and activity was subject to official control. And the persons who were in control of that society were subject to no popular mandate at all.

Needless to say, all this provided a very thin basis for the establishment of democracy after the fall of communism in 1991. By this time virtually no one was alive who could remember how even the limited democracy of the pre-revolutionary period had worked, and most people in the USSR had little direct experience of its workings in other countries. Equally, though, there were a number of factors favouring such a transition. The very fact that the communists had claimed to be democratic in some way gave a certain legitimacy to the notion of genuine as against false democracy. Moreover, the communists had been unable in practice to insulate the population against the democratic ideas that inevitably penetrated into the USSR from other countries (indeed, in their last few years of power under Gorbachev much had been

Box 13.1 Russia's new democracy

Russia's transition towards democracy began towards the end of the communist period when Boris Yeltsin was elected Chairman of the Russian Federation Supreme Soviet in May 1990 and President a year later. Once Russia gained its independence in December 1991, Yeltsin felt much freer to pursue his policies of radical economic reform (see Chapter 4). However, he was hampered by the fact that Russia was still saddled with a communist constitution dating from 1977. This allowed the many communist and allied elements in the Russian parliament to veto his policies. In September 1993, therefore, Yeltsin decided to call parliament's bluff by instituting a kind of coup, forcibly dissolving parliament and calling for elections to a new Federal Assembly. Two months later a national referendum for a new constitution was held as well as elections for the new parliament.

The parliamentary elections once again resulted in the entry of many communists and hard-line nationalists, most of whom were opposed to Yeltsin's pro-western policies. However, their ability to frustrate the President, and if necessary remove him from power, was now greatly reduced by the new constitution. On the positive side this meant that Russians might look forward to a more stable form of government. On the negative side, there is a real concern that an overpowerful president, with few constraints on his actions, might feel tempted to resurrect older Russian traditions of autocratic and arbitrary rule. In certain respects, for example, President Putin, who succeeded Yeltsin in 2000, has been markedly more authoritarian.

One of the problems of the present situation in Russia is a lack of transparency in government, where the boundaries between executive, legislative and judicial branches of government, and even between government and business, are by no means always clear, giving rise to the possibility of political and financial corruption on a vast scale. This is partly the result of many years of communist government in which the element of legality was decidedly weak and where much was done on the basis of contacts, favours, forms of bribery and the peddling of influence (to say nothing of plain fear). Naturally, to move from such a system to one requiring the strict observance of laws and rules, involving competitive procedures and so on, is extremely difficult, especially where many of the same individuals are involved (Stenning, 1999). Throughout the Russian system, powerful individuals under the old system (the so-called *Nomenklatura*) have been able to acquire power and wealth under the new one, and to use their power to enhance their wealth. Public cynicism is undoubtedly widespread, reinforced both by the sharp declines in living standards that most people have experienced since the fall of communism (see Chapter 4) and by the sense that the new system is being run for the benefit of the few. There has been a marked reluctance on the part of the majority of Russians to join political parties or to engage in the political process in other ways. And since the media, though far more open than under the communists, are controlled by powerful interests including government ones, there is a sense of public distance from the doings of the state. Thus Russia's new democracy must still be regarded as fragile, even though its actual legislative achievements are by no means negligible (see, for example, Remington *et al.*, 1998).

In summary, then, democratization varies from state to state within the FSU, and in none of them can it be regarded as a straightforward or inevitable political process.

done to encourage them). The many failings and oppressions associated with communist authoritarianism probably helped to discreditauthoritarian government as such in the eyes of many people, leaving the way open to democracy, while the innumerable petty restrictions and the arbitrariness of the totalitarian system abetted a real longing for freedom. Furthermore, as in the case of Latin America, it is important to consider the very real social changes that had taken place in the recent period. Industrialization, urbanization, education and rising living standards had produced a more sophisticated and demanding population, at least in the bigger cities, who were less ready to be convinced by official propaganda, less willing to be told what to do, and more aware of the outside world and of what went on there. In other words, a transition to democracy was widely seen, along with other transitions, as virtually inevitable once communism had fallen.

Most of the 15 states that succeeded the USSR have attempted to construct the basis for a democratic system (see Box 13.1). Thus constitutions have been adopted and approved by popular referenda laying down the legal basis for democratic government and establishing the basic civil rights enjoyed by all the world's democracies. Presidents and parliaments

have been inaugurated with proper provisions governing their regular election and the laws to which they are subjected. The idea of a monopoly of power exercised by one political party has been proscribed; a plurality of political parties is now free to contest elections on a competitive basis. The powers of the secret police have been greatly curtailed and a judicial system established that can exercise its functions on the basis of impartial justice. Procedures for changing the constitution and other fundamental acts of legislation have been specified. On paper, at least, progress towards democracy and away from the repressive apparatus of the communist years has been impressive.

Since each of the USSR's successor states has a rather different history and cultural make-up, it is probably inevitable that each has taken a rather different path towards democracy. It is probably true to say that that path has been least problematic in the three Baltic states of Estonia, Latvia and Lithuania. These three states are culturally close to Northern and Central Europe, and experienced democratic forms of government, at least for a period, in their years of independence between the two world wars. For the Transcaucasian and particularly the Central Asian states, on the other hand, the path has been more difficult. The Central Asian region in particular still has a large rural population with traditional clan-based social structures and an Islamic culture. In Tajikistan in particular democratization has been greatly hindered by the outbreak of civil war between competing political and to some extent regional groupings. There has been a marked tendency in Central Asia for political leaders who were important during the communist period to continue to exercise dictatorial powers, though no longer on the basis of communism. Finally the three Slavic republics of Russia, Ukraine and Belarus share much in the way of cultural and political history, and of experiences of economic and social transformation during the communist era. However, while Belarus is still ruled in an authoritarian way by elements of the old communist hierarchy, Ukraine has tried to democratize, though it has been much hampered by vested interests and regional divisions.

How democratic is democracy?

While the concepts of democracy and capitalism are often regarded as closely related (sometimes indeed as almost synonymous) the past experience of such economically successful states as Singapore and Taiwan in Southeast Asia shows that the two do not always go together. Furthermore both Latin America and Russia, which have progressed towards both greater democracy and free market capitalism since the 1980s, seem to illustrate some of the problems faced by democracy in the EMCs. Everywhere in Latin America except Costa Rica and Uruguay, most citizens have consistently expressed their dissatisfaction with how democracy works in their country (*Economist*, 2001e). The historian Eric Hobsbawm suggests that there are four essential conditions for a viable democracy, conditions that are not entirely fulfilled in either of these two regions (Hobsbawm, 1995: 138–41). The first of these is that the idea of democracy should enjoy general consent and legitimacy. As we have seen, in Latin America this is not entirely the case because of the way democracy was often introduced, in 'top-down' fashion, by military dictatorships, and because of its association with the austerities and injustices of neoliberal economic policies. In Russia, somewhat similarly, democracy is considered suspect amongst many peoplebecause of falling living standards, the destruction of the welfare state and the sense that it has been used by powerful groups to further their own ends. In Russia, unlike Latin America, it is probably true to say that many people simply do not understand the idea of democracy, for purely historical reasons. Hobsbawm's second condition is that there should be a degree of compatibility between the various components of the electorate. In both regions divisions of class (and in Russia's case particularly those of ethnicity) run deep and are possibly worsening, making compatibility problematic and consensus very difficult to achieve. In Russia in particular the sudden collapse of communism and of the country's superpower status has produced the sharpest possible disagreement about what kind of future the country should be pursuing. The third condition is that the expectations placed upon government should not be too great. Unfortunately in both regions, given the severe economic and social problems that have to be confronted, the notion that people will rest content with ineffectual government is somewhat far-fetched. The fourth condition is that democracy is more likely to flourish in conditions of general wealth and prosperity, a problematic prospect for many EMCs. Economic and financial

disasters can still bring crises for democracy as in the Argentine example, where financial collapse at the end of 2001 precipitated four changes of government within the space of two months. In conclusion, given the nature of these conditions, and assuming their validity, it is little wonder that democracy appears to face many difficulties, and not only in the two regions mentioned above.

Thus, although both Russia and the greater part of Latin America in the 1990s appear as democratic or democratizing regions in the study by O'Loughlin *et al.* (1998) (see Figure 13.1), it seems that in neither case can the democracy that supposedly exists there simply be accepted at face value. In both societies, it seems, there are important issues of exclusion and depoliticization that need to be addressed. We recall that the O'Loughlin study defines democracy in a procedural or institutional way. In other words, the focus is on political institutions rather than on the context in which they are placed. We must assume that what that study is showing is that the key political institutions in each case act in a democratic way in accordance with the indicators of democracy that are specified. We have no direct way of assessing how well these indicators work. But the fact that South Africa, for example, appears in the O'Loughlin *et al.* study within the democratizing part of the spectrum in all three mapped years (1950, 1972 and 1994), and this at a time when the vast majority of its population were altogether excluded from the political process on grounds of race (as well as being discriminated against in many other ways), suggests that there is something fundamentally wrong, or at best seriously inadequate, about the indicators being used. It looks as if the O'Loughlin *et al.* study is claiming that South Africa's political institutions were fairly democratic as long as the issue of inclusion and exclusion is ignored. Hardly a satisfactory definition of democracy!

It is in fact around the issue of inclusion and exclusion that many of the objections to the kind of purely procedural or institutional definition of democracy espoused by O'Loughlin *et al.* have been voiced. There is no doubt that a focus on political institutions works best in western countries like the USA where, as Hobsbawm argues, there is a degree of compatibility between different parts of the population. What is in fact being espoused by O'Loughlin *et al.* is a liberal view of democracy that dates back to the seventeenth-century ideas of John Locke. In this version of democracy, which was to have a major impact on both the USA and Western Europe, the 'people' who are represented in parliament are less real groups of persons with their varying interests and differences (of class, gender, ethnicity and so on) than a large number of atomistic individuals whom it seemed possible to represent in parliament by way of majorities and minorities in a fairly consensual way (Hobsbawm, 1995: 138). Indeed the purpose of parliament in this initial liberal vision was not to govern but to constrain those who did. Thus individuals might be permitted to get on with their lives, knowing that their personal liberties and property were safe from arbitrary government. Of course, such individual freedoms are important in any society, but this narrow vision of democracy seems most appropriate to western societies where many of the preconditions that allow democracy to function can be taken for granted. Even there, as the many social movements highlighting issues of gender, race, poverty and so on have made clear, significant elements are excluded from the democratic process. However, the basic inadequacies of such a vision become most apparent in numerous developing countries where fundamental cleavages between town and country, regions, social classes, ethnic groups, genders, religions and so on are too often apparent and where, as Chapter 12 made clear, even the idea of the state (which is basic to most concepts of democracy) is by no means a given. Thus what seems needed is a broader notion of democracy, a 'substantive' notion, which will accent inclusion and participation, emphasize that democracy must be more than merely placing a cross on a ballot paper every few years, and escape from superficial visions derived from western norms.

TOWARDS BROADER VISIONS OF DEMOCRACY

The recent spread of democratic forms across the globe has been widely welcomed, especially in the West, as a wholly positive development. In the view of many, the West is the home of democracy and global democratization is further evidence of the West's historic role as global leader. This cosy view, however, fails to question just how democratic the West itself is. There are issues of exclusion in Western democracies that are routinely overlooked. There

are also issues of participation. The alarmingly high levels of abstentionism in US presidential and British general and local elections, for example, are hardly evidence of vibrant democratic systems that fully satisfy the aspirations of the electorates.

In the EMCs the recent trend towards democratization has elicited a wider variety of responses. There are, of course, many who welcome this development, or who regard it as but an initial step towards some deeper level of democracy. Among the more sceptical attitudes are those that question the applicability of democracy to societies with non-western cultures. A case in point is Singapore where it has been argued that a democratic system based on western-style individualism is inapplicable to a society with a more communal and organic culture, and that a 'consensus-based' system (i.e. one without an official opposition) is more appropriate (Lawson, 2000). However, since this is a view that tends to be advanced by the beneficiaries of the present authoritarian system, and that seems to divest the word 'democracy' of all meaning, it is open to serious challenge. Another sceptical view questions the whole recent experience of democratization in the EMCs as further evidence of western imperialism. This is a point that is less easy to dismiss. Following their doleful record of supporting various authoritarian and military regimes and movements in Latin America and elsewhere throughout the 1970s and 1980s (and displaying a marked indifference to native democratic movements in Asia and other regions), the United States and its allies spent the 1990s encouraging the establishing of democracies in these same regions, using aid and other forms of inducement and pressure to that end. It would, of course, be comforting to believe that this policy change has resulted purely from a more enlightened attitude among the western politicians themselves. Sceptics, however, point to the significance of the end of the Cold War in removing what had been widely regarded in the West as the communist menace to the developing countries. They also point out that western-style democratic systems, in so far as they are able to foster political stability in the countries concerned, seem amenable to the furtherance of a neoliberal economic agenda. The quality of the resulting 'democracies' has been questioned. For example, it has been argued that in several Latin American states what has resulted has been a series of 'neoliberal democracies' whose stability depends upon close alliances between political and business elites, effectively excluding the majority of the population from the political process (Grugel, 2000).

An interesting discussion of how international pressure has tried to foster the process of democratization in Central America has been provided by Pearce (2000). Central America is a region with a long history of political authoritarianism and a recent history of severe political instability. It will be recalled from Chapter 12 that the area has long been dominated by the United States and it was under the influence of that country that a series of fragile democracies was set up in the late 1980s and 1990s. Pearce shows how, under the influence of the United States, various international lending agencies (notably the World Bank, the United Nations Development Program, and the Inter-American Development Bank) have been using their funds to foster the activities of NGOs and other non-state agencies in the countries concerned. According to Pearce, this new emphasis, which has become particularly apparent over the last decade, follows the neoliberal ideology that is suspicious of channelling development funds through the state; but it is also the result of a new appreciation of the serious social consequences of the unmitigated pursuit of neoliberal economic policies. NGOs are regarded as likely to be more effective than state agencies in channelling aid to the poor and excluded who are the chief victims of the economic policies espoused by the international agencies. They are thus regarded as important bolsters of political stability and democracy in the region. However, Pearce (2000) questions whether, in thus encouraging the expectations of the excluded, the international agencies may not unwittingly be fostering groups who are likely to mount a more effective resistance to their neoliberal agenda in the future.

One of the most radical challenges to western-inspired policies of modernization and democratization has come from various forms of fundamentalism (Yuval-Davis, 1997). Whilst it is difficult to generalize about this phenomenon, it can be said that fundamentalist movements are usually religious- or ethnically based political movements that seek forms of identity or self-realization based upon some kind of religious or ethnic purity. Such movements are widespread, including in many EMCs. They have been explained as a result of a crisis of modernity (modernity failing to provide people with the satisfaction and self-fulfilment they require), as a reaction

against globalization, and sometimes even as an outright rejection of modernity, desiring a return to some imagined and purer past. Fundamentalist movements are popular movements, occasionally even revolutionary movements as in the case of the Iranian revolution, demanding total and active commitment on the part of their adherents. In this sense, then, they can be said to be movements involving a high level of democratic participation. This does not mean that they are democratic in the full political sense, however. Often they are highly hierarchical and autocratic, demanding obedience to some charismatic leader. Often, too, they foster forms of inequality and new forms of exclusion. Thus women, who are so often seen as the chief bearers of communal traditions and of family values, are frequently required to resume traditional social and domestic roles, traditional dress and so on. And, in the very nature of fundamentalism, those persons who do not conform to the group's values or beliefs, or who fall outside the ethnic or familial group, may be excluded, ostracized and, in extreme cases, persecuted. Thus populism, or as Hobsbawm (1995) terms it, participation by 'the common people', is no guarantee of tolerance. After all, fascism and Nazism were also populist.

That having been said, it would be a travesty not to recognize the many informal social movements that have proliferated across the globe in the recent period as being of considerable potential significance for the process of democratization. This is perhaps particularly the case in countries with weak democratic traditions, and marked by sharp social inequalities and far-reaching patterns of exclusion. Where the political system for one reason or another fails to reflect or take account of the interests of minority groups or indeed of majorities, or where those organizations that might normally be expected to represent particular interests or concerns fail to do so, then social movements of various kinds can help fill the gap. This phenomenon is a global one, but in order to understand its importance in the EMCs one must take into account the far-reaching social changes that have been occurring there, some of which have been mentioned already. Thus across EMCs, urbanization, industrialization, commercialization, the wider availability of education, mass communications, a greater openness to the outside world, as well as policies of state and nation building, have all helped to undermine traditional religious and communal values, raised horizons and expectations, and encouraged a more active sense of citizenship. Mass migration, which has affected most countries of the world by now, has had much the same effect. Added to all this have been the effects of globalization, the new inequalities and insecurities fostered by the global economy and by global cultural and political change (Castells, 1997). It is therefore hardly surprising that many people are not content to be purely passive observers of change, or merely to acquiesce in changes fostered 'from above'. They want their voices to be heard.

That said, it is necessary to remember the ability of powerful groups and institutions to resist democratic demands for change. One ploy much favoured by the political right, for example, is to try to seize the high ground of political discourse by attempting to conflate the concepts of 'citizen' and 'consumer'. In this view the citizen is in fact a consumer, free to choose between goods and services in the marketplace, and the active citizen is one who has the funds and the time to dispense charity to the less fortunate. Thus the issue of political participation is deflected. A case in point is Hong Kong, which – under both the British and now the Chinese – was conceived of as an economic rather than a political space. In other words, there was a trade-off between economic success and political democracy, allowing for a maximum of wealth creation but a minimum of political participation by the population as a whole (Youngs, 2000).

Across the EMCs so many and varied are the social movements at work that it is very difficult to generalize. Theorists have veered in their study between approaches that emphasize aspects like organization, selection of goals, policy formation and leadership, and those emphasizing issues of identity and culture (Radcliffe, 1999; Smith, 1999: 102–4). But the important point is that social movements vary in their characters and activities across both time and space, and that much depends on the contexts in which they operate. Here we will briefly differentiate between movements according to their major spheres of interest.

In the economic sphere the formation of political parties or the creation of trades unions are well-established practices aimed at the defence or furtherance of the interests of particular groups. However, in conditions of extreme hardship such formal activities may prove inadequate or ineffectual, and people often resort to more informal methods of survival. Thus in Latin America and elsewhere self-help and cooperative groups, organized on an informal basis, are frequently essential to the survival of the urban poor living in shanty towns on the edges of expanding cities. Not only do such groups help provide the

necessities of life (housing, health care, sanitation, security and much else) neglected by the state, they may be significant both to political struggles (for example, disputes over planning in urban areas and over land in the countryside) and to economic activity (organizing crafts, selling labour, trading and so on). In the former Soviet Union, in the wake of the collapse of the command economy, various kinds of informal economic activity, and family and social networks have been vital to the survival of many. Needless to say, across the world the borderline between such activities, and petty and even organized crime, is frequently obscure (Rutland and Kogan, 2001).

It is frequently difficult to distinguish between such economically oriented activities and those that are more directly concerned to challenge existing hierarchies of wealth and political power. Thus movements that aim to help the poor may also be concerned to challenge the vested interests that abet poverty. In the early 1980s in the *favelas* of São Paulo, Brazil, for example, neighbourhood associations marched and challenged the authority of the military government, demanding economic assistance, and building political alliances with popular leaders into the bargain (Radcliffe, 1999: 208). There are many links between such activities and others that seek political as well as economic inclusion. In parts of Latin America, women have been prominent in challenging the economic and political abuses visited upon their male associates but also in attempting to enhance the social status of women. In the Latin American context this means calling into question the widely accepted image of the ideal citizen who is white (if not of mixed race), male and middle class. Here and elsewhere women seek to escape the traditional domestic roles that are forced upon them by the prevailing value system of a patriarchal society (Yuval-Davis, 1997). According to Yuval-Davis, a significant role in encouraging women's movements in many Third World countries has been played by the UN Decade on Women and by the development of numerous NGOs dedicated to women's issues. Whilst many such organizations were initially focused on traditional women's concerns like health, child care and reproduction, some at least have since become involved in more broadly political matters like women's employment rights and political participation. In certain Muslim countries feminist activists have been struggling against the influence of fundamentalism, arguing against practices like the veiling of women and for greater female participation in public affairs (Yuval-Davis, 1997: 120–5). Gay rights movements are also growing in many places. In Russia, where the communists proclaimed equality between the sexes but repressed homosexual practices, the gender situation has been somewhat different. Gays now enjoy new freedoms whilst women, whose paper rights under communism did not extend to equal employment opportunities with men or to an equitable sharing of domestic burdens (see, for example, Seton-Watson, 1986: 13–36), continue to struggle against the remnants of a traditional Russian male chauvinism.

Religion has frequently been regarded as a pillar of the establishment and as an 'opium of the masses', in the words of Karl Marx. All too often, as in the history of Latin America, Russia and other regions, it has bolstered the established order and been no friend to democracy. But this, of course, is by no means the full story. Fundamentalist religious movements favour mass participation, as we have seen, but often serve as an escape from modernity. In Central America radical Catholics played a prominent role in the struggle against military repression and neo-fascism whilst American-backed evangelical movements were sometimes used as agents for right-wing causes. Catholic groups have also been significant in social movements to defend the poor. But in the context of an often hierarchical and traditional Catholicism, widespread conversions to Protestantism across Latin America have also been interpreted as evidence of a desire to escape from the restrictions of traditional society (Radcliffe and Westwood, 1996: 102).

Chapter 12 discussed the issue of ethnicity, and movements to defend and enhance the rights of ethnic groups must also be mentioned in this context, particularly in view of the multicultural character of many EMCs. Chapter 12 noted how ethnic minorities have frequently been ignored by dominant majorities and how, in the post-colonial world, their rights and interests have often been sacrificed to the requirements of state and nation building. Where there is a correlation between ethnicity and social class, as for example in much of Central America and northern South America, it has often been easy to overlook ethnic issues within the framework of an inequitable capitalism. But with the social mixing that has come about as a result of rural–urban migration, industrialization and similar processes, such a stance is now less easy to maintain. In the Andean region, for example, ethnic movements have been pressing for the rights of indigenous peoples, and such groups

are now beginning to play a more prominent role in national affairs. In Ecuador struggles over land between land-owning elites and indigenous peoples have now become struggles over the recognition of key rights for the latter groups within officially designated territories (Radcliffe and Westwood, 1996).

The final type of social movement to be mentioned here is the environmental movement. Throughout the world environmental movements have raised questions about the viability of industrial civilization and present-day patterns of development, and in developing countries – some of which have been subjected to some of the worst excesses of both capitalist and socialist economic development models – their potential for challenging global capitalist supremacy must not be discounted. Plans by the developed countries to use some of the world's poorest countries as dumping grounds for nuclear and other kinds of waste are of course now widely questioned, and not only in the developing world, as is the apparently insatiable appetite of the rich countries for the world's resources. But although the radical wing of the environmental movement has the potential to undermine capitalism altogether, in the final analysis everything probably hangs on the trade-off between economic survival and environmental health. In Russia and the other post-communist states, for example, the disgraceful environmental record of the communists eventually led to the environmental movement becoming one of the chief adversaries of those regimes. Under post-communism, however, despite the continuing crisis in environmental well-being, environmental concerns have been largely displaced by economic worries in the thinking of most people (Smith, 1999: 107–11; Shaw, 1999: 127–51; Turnock, 2001).

Conclusion

This chapter has discussed the recent apparent spread of democratization across the EMCs and commented on the limits to that process in a number of specific cases. It has also challenged simplistic assumptions about democracy having its home in the core countries of the West and then spreading into the periphery. Serious questions need to be asked about the exact nature of democracy in the West, with its many exclusions and limitations, and also about the exact character of the political systems emerging in the 'new democracies'. What is perhaps most important is to see democracy as an open-ended process rather than as a given set of political institutions, implying a once-and-for-all state of affairs, which a state either possesses or does not. Both in the West and in the EMCs, the appearance of social movements suggests the many shortcomings of existing democratic systems, and the growing demands by people in all kinds of circumstances to have more control over their lives and futures. In this situation no country can afford to sit back and simply assume that it is already democratic. It may be that current social movements are in fact a harbinger of deeper levels of democratization than those apparent anywhere in the world at present. And there can be no certainty that such deeper forms would be pioneered, or even welcomed, in the West.

Further reading

Brown, A. (ed.) 2001: *Contemporary Russian Politics: A Reader.* Oxford: Oxford University Press. A wide-ranging collection of essays on different aspects of the Russian political system.

Diamond L., Linz J. and Lipset S.M. (eds) 1989: *Democracy in Developing Countries: Latin America.* Boulder, CO: Lynne Rienner and Adamantine Press. Essays on different aspects of the democratic transition across Latin America.

Gwynne, R. and Kay, C. (eds) 1999: *Latin America Transformed: Globalization and Modernity.* London: Arnold, Chapters 2, 3, 8 and 9. These chapters are particularly useful for an understanding of the nature and problems of democratization in Latin America.

Haggard, S. and Kaufman R.R. 1995: *The Political Economy of Democratic Transitions.* Princeton: Princeton University Press. Useful for discussion of the nature of democratization deriving from those critical of modernization theory.

O'Loughlin, J., Ward, D., Lofdahl, C., Cohen, J., Brown, D., Reilly, D., Gleditsch, K. and Shin, M. 1998: The diffusion of democracy, 1946–1994, *Annals of the Association of American Geographers* 88(4), 545–74. A recent geographical approach to the analysis of democratization, discussed above.

White, S. 2000: *Russia's New Politics: The Management of a Postcommunist Society.* Cambridge: Cambridge University Press. An interesting and frequently amusing account of political change in Russia, with much else besides.

14

CONCLUSION: ALTERNATIVE CAPITALISMS AND GLOBALIZATION

EMERGING REGIONS OR ALTERNATIVE CAPITALISMS?

This book has sought to achieve a better understanding of the nature of economic globalization and its impacts across the world-system. Influenced by world-systems theory (WST), we have examined trends in capitalism over time and in various regional contexts, and particularly in the under-studied and certainly under-compared semi-peripheral countries. We have then examined in greater detail various dimensions of contemporary global capitalism, including strategies pursued by transnational corporations, international divisions of labour, economic liberalization, natural resource issues and the growing significance of offshore services. While the evolving trends in and impacts of global capitalist development have been at the forefront of our presentation, we have tried not to neglect the political dimensions of global change, be they in the policy arena or in the realm of democratization.

Despite the subtitle of the book, the concept of 'emerging regions', with its neoliberal overtones, is problematic. In some ways the term 'emerging' is like 'developing' – that is, optimistic, and redolent of a Eurocentric triumphalism. Our book suggests the need to be cautious. The world that is emerging at present is productive of new levels of inequality and new injustices. Whether these will eventually ameliorate, or only grow worse, is difficult to predict but they are certainly a present cause for concern.

Meanwhile, the concept of 'alternative capitalisms' has the advantage of at least suggesting differentiation and change without necessarily promising a world that is moving in a direction favourable to all. The one problem with the term 'alternative capitalisms' is that it might be regarded as pointing to a world that is splitting into separate parts, thus going entirely against any notion of globalization. We see no real signs of this at the moment, even though we acknowledge below that there are some trends pointing in that direction. Rather we regard 'alternative capitalisms' as pointing towards genuine spatial differentiation in the world economy, differentiation that is all too easily elided by concepts like economic globalization.

Globalization and polarization

Globalization and its impacts are now much in debate. The fundamental question can be reduced to whether globalization causes or cures poverty. Robert Wade (2001) recently attempted to answer this question by compiling evidence from a variety of major studies of changes in the global distribution of income over recent years. All of Wade's evidence suggests rapidly increasing global inequalities (Table 14.1). It appears that a global income polarization has been occurring. Core countries, along with East Asia and urban China, have surged ahead, while most of the rest of the world has stagnated or declined. A recent UN study of the world's poorest 49 countries similarly concludes that 'For many LDCs external trade and finance relationships are an integral part of the poverty trap' (UNCTAD, 2002). Our examination of the trajectory of capitalism in different world regions and economic sectors also suggests various trends towards a global bifurcation into winners and losers.

TABLE 14.1 *More unequal: World income distribution*

Inequality measure	1988	1993	% change
Gini coefficient, world	63.1	66.9	6.0
Poorest decile's % of world income	0.88	0.64	−27.3
Richest decile's % of world income	48	52	8.3
Median as % of poorest decile	327	359	9.8
Richest decile as % of median	728	898	23.4

Source: Wade (2001)

We concur with the conclusions of the UN study, which are that such polarization is not inevitable and can be ameliorated through targeted policies ranging in geographical scale from local to global. Wade (2001) similarly concludes by advocating that 'we should mobilise our governments, the multilateral organisations, and international NGOs to establish as an overarching priority a more equal world income distribution … '.

Economic globalization and growth

In response to views suggesting that economic globalization causes inequality and poverty, many economists argue precisely the opposite: places that have not benefited from globalization actually need more of it. As the World Bank (2002: 152) explains:

> A widespread view of globalization is that it 'makes rich people richer and poor people poorer.' This simply does not seem to be true: poverty is falling rapidly in those poor countries that are integrating into the global economy.

World Bank economists have presented evidence suggesting that 'non-globalizers' have themselves to blame for falling behind. On the other hand, those non-core countries that have more vigorously opened up to and engaged in global trade have been relatively successful in increasing their incomes. They have also reduced their poverty and inequalities, particularly in their urban areas (Dollar and Kraay, 2001; World Bank, 2002).

The problem is, in other words, the isolation of peripheral regions from globalization's benefits. This is precisely how the *Economist* editorialized against Wade's (2001) review article in its own pages: 'It makes better sense to think of extending the scope of globalisation – which means addressing the causes of their isolation – than to think of limiting or somehow re-engineering the processes of global growth' (*Economist*, 2001d). The World Bank further argues that regions that are 'lagging' in terms of the neoliberal transition (i.e. peripheral countries) have themselves to blame, and are only hurting themselves and their people by not fully embracing the reforms. They risk being left further behind (Qureshi, 1996).

It is safe to say that this ongoing debate is not over whether there should be globalization – meaning greater global integration – which is here to stay. The debate is instead over the forms that globalization should take. It is in other words over the priorities, rules and regulations governing globalization. It is also over which bodies should have authority over the processes of globalization. How much authority should be vested in TNCs as opposed to the various political organizations operating at geographical scales from local to global? As noted in Chapter 2, these rules and regulations are now being written for the emerging world-system of the early twenty-first century.

A world-system at the crossroads

Thus, from our perspective, as of August 2002, the world-system seems to be at a crossroads. On the one hand, the forces of economic globalization continue to carry tremendous forward momentum. Economic globalization continues to set most of the terms of debate. This momentum derives from a recent surge in authority transferred to supranational economic organizations, the growing power and influence of TNCs, the time–space-compressing impacts of the telecommunications and information revolution, and the continued role of the United

States as a global economic leader oriented towards *laissez-faire* or free market approaches. The recent rightward shift in leadership among many core countries only reinforces these trends.

On the other hand, there appear to be some early signs of coalescence among heretofore disparate critics and criticisms of economic globalization. As noted above, one criticism points to the large and probably growing **inequities** associated with global capitalism at so many geographical scales (see Chapter 2; Wade, 2001). The system's inherent unfairness has become more prominent in public consciousness thanks to the recent scandals involving 'cooked books' and lucrative stock options, and other rewards for executives at publicly traded US-based TNCs (see Box 7.3).

Another criticism concerns the **vulnerabilities** created by a global economy operating in real time. Since the Asian financial crisis of 1997, and thanks in large part to electronic money (Chapter 11), global capitalism has behaved erratically, with 'herd behaviour' often governing investor decisions. There are now greater uncertainties and vacillations in many dimensions of economic activity, including employment, exports, financial flows, stock markets, currencies and public revenues.

A third criticism stems from the apparent **facelessness** and **undemocratic nature** of global capitalism. The IMF, the WTO, NAFTA and other supranational economic institutions are effectively making decisions about food, the environment, basic services and trade that historically have been under greater national if not local control. As commodity chains extend further and further globally, consumers know less about how, where and by whom their food and other items are produced, and a growing number are turning to local and alternative producers. In Latin America especially, there is growing disenchantment with IMF-orchestrated privatization, costs of living increases and welfare cuts, and growing popular mobilization against neoliberal governments.

Taken together, these and other criticisms of economic globalization have the potential to acquire the moral weight and coalition of interests to mount an effective challenge, and to articulate an alternative. Thus the battle lines are drawn pitting economic globalization against some still ill-defined bottom-up alternative. We hope that this book has provided a platform from which to better observe and participate in what is undoubtedly a major unfolding drama of our times.

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